

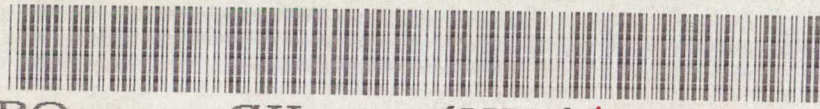
PO-CH/NL/0870

PART A

Chel

PART A

Lawson



PO -CH /NL/ ~~0870~~
0870



PART A

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of MEETING OF THE EUROPEAN
COMMUNITY (EC) ECONOMIC
AND FINANCE COUNCIL,
(ECOFIN), 8 DECEMBER
1986, BRUSSELS

PO -CH /NL/0870
PART A

Begin: ~~18/3/86~~ 30/10/86

DD: 25 years

Ends: ~~8/9/86~~
8/12/86

Lawson

5/9/95

FROM: A J C EDWARDS
30 October 1986

PS/CHANCELLOR (Mr Kuczys)

cc

Sir G Littler
Mr Lavelle
Mr Crabbie
Mr Donnelly
Miss Barber

ATTENDANCE AT ECOFIN LUNCHES

The Chancellor asked us in the aeroplane back from Luxembourg a fortnight ago how Luxembourg had been allowed to have two Ministers at the ECOFIN Ministerial lunch when other non-Presidency Member States, apparently no less important, had made do with one. Could anything be done?

2. UKREP have discussed this with Pini in the Council Secretariat. Mr Pini's reply was that the convention was that all full Ministers who attend a Council are automatically invited to the Ministerial lunch. The Council Secretariat think that if a Member State fields two full Ministers for a Council it would be invidious to limit the invitation to one of them.

3. In the light of Mr Pini's advice there are, I think, two things which could in principle be done. We could either

- (i) reopen the lunching convention in the Council, or
- (ii) arrange for someone to speak quietly to the Luxembourgers.

4. Approach (i) would, I think, be a matter for the General Affairs Council rather than ECOFIN. I think therefore that the Chancellor would have to raise the matter with Sir Geoffrey Howe. I suspect that Sir Geoffrey, while sympathetic, would on balance be disinclined to pursue it. The chances of getting the convention changed seem rather remote, and we would be likely to receive more resentment than congratulations for our efforts.

5. Under approach (ii), the natural way ahead would be to ask Sir David Hannay if he could mention the matter informally to his Luxembourg counterpart. I suspect that he too would probably be reluctant to do this on the grounds that it would be likely to give offence to a delegation which, in the FCO's view, has been noticeably helpful to the UK during both the Luxembourg and our own Presidencies. He would probably also feel that it would be necessary to consult first with a few other delegations. But knowledge of this would itself be likely to reach the Luxembourgers and give offence.

6. The Chancellor will doubtless let us know whether he would like us to pursue either of these possibilities. If he decides that, frustrating as it may be, the better course is to turn a blind eye, there are perhaps two crumbs of comfort:

- First, the Luxembourgers are presumably less likely to field two Ministers for meetings outside their own territory, and particularly in Brussels.
- Second, the FCO tell us that this is only one among a large number of curiosities about Ministerial representation caused by particular distributions of portfolios or particular political problems in the Member State concerned.

AJCE

A J C EDWARDS



FROM: A W KUCZYS
DATE: 3 November 1986

~~Wk 13/11 A~~
412 P
Meera
ECOFIN
6/11/86
RJP

MR A J C EDWARDS

cc Sir G Littler
Mr Lavelle
Mr Crabbie
Mr Donnelly
Miss Barber

ATTENDANCE AT ECOFIN LUNCHES

The Chancellor was grateful for your minute of 30 October. He thinks the best thing would be for him to speak privately to Santer himself.

AWK
A W KUCZYS

Ch
You were going to speak to Santer.
The Secretariat's information — which may not be accurate — is that on this occasion Psos will attend, but not Santer.
If so, perhaps leave it this time? *1/11* *or you?*
AWK
19/11

Qz.05454

MR POWELL (10 DOWNING STREET)

European Community: Danish derogation on travellers'
allowances

When we met Danish officials and the Danish Ambassador today, they handed over the attached letter to the Prime Minister about the derogation which Denmark has from the Community rules on travellers' allowances. This question is being discussed at the Economic and Finance Council on 17 November and a draft reply will be submitted immediately after the results of that discussion are known. The importance which Denmark attaches to this point does have tactical value for the United Kingdom since we are seeking, in relation to the same draft directive, to obtain agreement to the duty free facilities on the Channel Fixed Link.

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury) and Trevor Woolley.

E. M. Griffiths

pp. D F WILLIAMSON

14 November 1986



Mr Knox
Mr Tull
Mrs M. J. King
RSC 12/11/86

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 7256

Qz.05455

17 November 1986

R G Lavelle Esq
H M Treasury
Parliament Street
London SW1

Dear Mr Lavelle,

European Community: Danish derogation on travellers' allowances

We should have a word after the ECOFIN meeting - I am back from Bonn on Tuesday evening - about the reply from the Prime Minister to the letter of 13 November from the Prime Minister of Denmark about which we spoke and which I copied to you on Friday. Our view is that the Prime Minister's reply should simply record what has or has not been achieved at ECOFIN; acknowledge the importance of this issue to Denmark; express the view that this and a number of other problems of particular concern to individual member states on the draft Seventh VAT Directive need to be settled; state that the United Kingdom Presidency will try hard to resolve them; and accept that, if Mr Schluter wishes, he can refer to this issue at the European Council. Since the substance of this issue is within the responsibility of Customs and Excise and the handling of ECOFIN meetings of direct concern to you, you may wish the reply to come from the Chancellor of the Exchequer's office. But we could deal with this point when we speak on the telephone.

I am sending copies of this letter and of Mr Schluter's letter and my minute to Mr Powell of 14 November to Bryce Knox and Paul Kent at Customs and Excise.

Yours sincerely
Liz Giffitts

(Dictated by
Mr Williamson and
signed in his
absence)

pp. D F WILLIAMSON



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

Direct Line - (01) 382 5579

FROM: P B KENT

20 November 1986

Ch
OK for me to write to
No. 10 as at (x)
suggesting the draft reply
at (y)?

AMK
21/11

OK as

cc PS/MST
Mr Lavelle
Mr Williamson, Cab Off
Mr Renwick, FCO

PS/Chancellor of the Exchequer

EUROPEAN COMMUNITY: DANISH DEROGATION ON TRAVELLERS' ALLOWANCES

1. The Prime Minister of Denmark wrote to the Prime Minister on 13 November (copy attached) about maintaining unchanged after 1 January 1987 the derogation which allows Denmark to apply lower levels of intra-Community travellers' allowances. This is an important issue for Denmark which is already losing revenue under the existing arrangements due to cross-border shopping in Germany where indirect taxes are much lower, and which stands to lose up to 1% of GDP if the derogation starts to be phased out in accordance with current EC legislation. The Danish Prime Minister warns that he will be forced to raise this issue in the European Council unless there are signs beforehand that a solution is in prospect.

2. The Economic and Finance Council on 17 November (meeting tel 3945 of 17 November refers) discussed over lunch a possible package on travellers' allowances which besides including legal recognition of purchases made at duty- and tax-free shops at airports, ports and the entrances to the Channel Tunnel, would extend the Danish derogation, permit the German buttership operations to continue, and allow Ireland to restrict imports of beer. The Chancellor concluded that COREPER should be asked to work up a compromise for the next ECOFIN on 8 December.

3. We cannot prevent the Danes from raising their difficulties at the European Council on 5/6 December, but we hope that the progress made at ECOFIN on 17 November and the immediate follow-up in COREPER on 25 November will persuade them that sufficient is being done to meet their problem to remove the need to elevate the issue to the highest level.

4. We suggest the following note for you to send to Mr Powell at No 10.

"Following David Williamson's note to you of 14 November, we suggest the draft reply below for the Prime Minister to send to Mr Schluter.

We cannot stop Mr Schluter raising the problem of the Danish derogation on travellers' allowances at the European Council if he insists. However our hope is that he will have been persuaded by the outcome of the ECOFIN meeting on 17 November and its remit to COREPER to produce a package urgently to deal with all outstanding issues on the 7th Directive, that the Danish problem is being taken seriously and that there is a reasonable chance of an acceptable solution emerging at the next ECOFIN Council on 8 December without his having to intervene at the European Council.

DRAFT LETTER TO THE PRIME MINISTER OF DENMARK

Thank you for your letter of 13 November about an extension of Denmark's derogation from the Community provisions on travellers' allowances.

I think that ^{willingly} there was a general ~~disposition~~ at the Economic and Financial Council meeting on 17 November to work towards a ^{solution} ~~compromise~~ covering all the ~~outstanding difficulties~~ which need to be resolved in the context of the 7th Directive on travellers' allowances. COREPER has been instructed to produce a package for further consideration at the next ECOFIN Council on 8 December, *and this package will clearly have to include a further 3-year prolongation of Denmark's derogation.*

problems of particular concern to individual member states

I fully appreciate the great importance Denmark attaches to securing a prolongation of the derogation for a further three year period. The UK Presidency has already devoted much effort to the 7th Directive and ~~you may rest assured that~~ we will continue to do all we can, to find a solution to your problem, and to the other problems of particular concern to individual member states.

In the light of the ECOFIN Council discussion, and the further work to be done by COREPER on 25 November, ^{I hope} ~~you may feel~~ ^{will agree} that matters are now developing on the right lines and that it ^{is} ~~may~~ not after all ~~be~~ necessary for you to raise the issue at the European Council, but that must, of course, be for you to decide."

P.B.K

P B KENT

Internal Circulation CPS; Mr Hawken; Mr B Knox; Mr Nash; Mr Bolt; Mr Walton UKREP; File.

pusp

[Handwritten signature]

FROM: M A HALL

21 November 1986

CHANCELLOR

- c c Chief Secretary
- Economic Secretary
- Minister of State
- Financial Secretary
- Sir P Middleton
- Sir G Littler
- Mr Lavelle
- Mr Cassell
- Mr A Wilson
- Mr Edwards
- Mrs Lomax
- Mr Peretz
- Mr Kelly
- Mr Walsh
- Mr Mortimer
- Mr Fletcher
- Mr D Board
- Mr D Jones
- Mr Murphy

Mr. Byatt

Mr. Pickford

Ch
 ① OK to general line? *yes*
 (para 10-11)
 ② I speak @ ECOFIN or
 line A para 13? *yes - a b*
 AA *yes - a b*
reciprocals) what with
have achieved on
Mr. Miller June #
8 Nov 1/7/86.

** (Ecofin)*

Mr Croft T.Sol
Mr Bridgeman BSC

general Mr. Byatt

DECEMBER ECOFIN : EC BANKING MATTERS

Rachel Lomax's note on World Wide Competition in Financial Markets of 11 November (not to all) touched on supervisory developments in the EC. This is a fuller note on EC aspects. It is intended to:-

- (a) Bring you up to date on developments in the banking area of the Internal Market programme.
- (b) Place it in the wider context of international co-operation in supervision.
- (c) Seek your approval for our general policy directions in this area, particularly for the next meeting on 2 December of the Banking

Advisory Committee (of which Peter Cooke, Michael Bridgeman and I are the UK members), and

- (d) Invite you to consider what, if anything, you would like to say either to Ecofin colleagues, or publicly, about this area of policy.

The internal market programme

2. We take every opportunity in Council and Commission working groups to press for parallel progress on three fronts - freer markets and services, freer capital movements and approximation of supervisory standards. Member States who oppose freer markets are inclined to argue that progress in one area must await achievements in another; and even that any real progress must depend on greater economic and monetary union. The Commission have now firmly abandoned their earlier policy of detailed harmonization in favour of building on minimum (but not minimal!) common elements of supervisory policy, with a view to achieving:-

(i) Mutual recognition, i.e. authorisation in Member State A to be recognised in Member State B with, in consequence, prime responsibility and power resting with the home country supervisor of the Head Office or parent, and

(ii) Mutual acceptance of techniques, on the model established for physical goods in the Cassis de Dijon case, i.e. if a "technique" or provision of a service is authorised in Member State A, it must be permitted in Member State B, except for "public good" reasons. The Commission hope that the Court of Justice insurance cases will go a long way towards establishing this principle in the services area. The judgments are expected soon,

but not before the December Ecofin. The time they are taking suggests that they will be far from simple.

3. The White Paper timetable, endorsed by Member States, is tight. Unless a political boot is applied to the collective expert behind, in about a year's time, it is most unlikely to be met. Qualified majority voting will apply in this area. Progress on the individual measures is as follows:-

(a) Bank Accounts Directive - target date 1987

Attached

As you know, agreement has been reached on this (see Mr Howard's letter of 11 November to the Economic Secretary) ahead of schedule. Even if the minor procedural hic-cup at the end of Mr Howard's letter is not overcome, you will be able to announce agreement in principle at the December Ecofin. It is more likely that adoption will be possible. In order to reach early agreement, it has been necessary to allow for Member State options on important points of difficulty - e.g. hidden reserves. But it will be open to Member States to implement more stringent requirements than the minima laid down in the directive, which taken as a whole is a major step forward towards better and fairer standards of disclosure by banks. DTI will issue a consultative document next year. This will be a helpful complement to the Banking Bill.

(b) Draft directive on the accounts of foreign branches of banks - target date 1987

The aim is to prevent the branches of Member State banks, or banks from third countries with equivalent accounting standards, from being obliged to provide branch accounts; but Member States will be able to require

the accounts of the whole bank, together with supplementary information, to be provided. DTI are in the lead.

(c) Mortgage Credit Directive - target date 1988

Generally unpopular with member states, except UK. This draft is being used as a test case by the commission for the two principles in paragraph 2 above, ahead of the much more important Second Co-ordination Directive on Credit Institutions (see paragraph 6). I have been chairing the working group during the UK Presidency. The proposal is in fact very complex, because of the interface with housing policy, land law, supervisory and monetary policies. There are also procedural delays. Progress is likely to continue to be slow.

(d) Winding up directive - target date 1987

This is a particularly pointless directive, which seeks to apply complex and contentious winding-up procedures to credit institutions, separately from and ahead of the wider draft Bankruptcy Convention. It includes some other ill-considered provisions, including some on deposit protection which do not fit with (f) and which have incurred the disfavour of the Lords Scrutiny Committee. Progress slow, indeed nil to date.

(e) Draft directive on own funds - target date 1986

It was originally proposed in the White Paper that this should be a Recommendation. As a symbolic act, Lord Cockfield has secured Commission agreement to changing the instrument into a draft directive. This has enraged the Member States. We are not opposed to

a directive in principle, but clearly a legally binding instrument will take much longer to agree than a recommendation. We have one important concern, which is that not all member states share our view that perpetual FRNs, a major element of the large UK banks' capital, can meet the criteria to be classified as primary rather than secondary capital. Likely to take a year or two.

(f) Draft recommendation on deposit protection

This is a fairly innocuous measure, considerably weaker than we could in fact accept; indeed, a directive laying down establishment of minimal deposit-protection facilities would cause us no difficulty. Likely to be opposed by Member States with no deposit protection facilities, but again agreement likely in a year or two.

(g) Draft recommendation on large exposures - target date 1988

This causes no serious difficulties, and agreement could well be reached during 1987.

4. Draft proposals are with Member States on all the above; but (f) and (g) are still at the informal stage.

5. The Commission have in mind two further important proposals.

6. The first of these is mentioned in the White Paper, with a proposal date in 1987 and a target date for adoption of 1989. This is the Second Co-ordination Directive. A preliminary discussion of a note by the Commission on this will take place at the Banking Advisory Committee. Geoffrey Fitchew has had a major hand in its drafting. He and Lord Cockfield would like to see a bold and simple directive which would:-

(a) Further harmonise supervision, perhaps by establishing a minimum threshold for capital

on authorisation; strengthening the definition of "fit and proper"; stipulating the powers which supervisors should have to seek information from controllers of credit institutions; and harmonizing rules concerning the involvement of banks in other types of financial businesses.

- (b) Phasing out the requirement of endowment capital for branches by 1992; and full freedom of establishment and cross-border services.

7. Because of the difficulty of identifying "banking services", a Second Co-ordination Directive is likely to require a re-examination of the concept of "credit institution".

8. The Second Co-ordination Directive would pre-suppose agreement on the second of these two further proposals. This would be a directive harmonizing the calculation of "solvency ratios", i.e. risk asset ratios. Considerable progress has already been made with the groundwork, though there are still gaps, albeit minor, between Community thinking and ideas which have developed in Basle. The Commission recognise the unwisdom of proceeding with a different Community standard, and further discussions are being held to try to hammer out these differences.

How does the Community programme fit into the wider international picture?

9. The EC Central Banks are, of course, involved in the work of the Basle Committee. And Peter Cooke, who regularly attends the BAC, serves as a link between the BAC and the Cooke Committee. The Community's banking supervisors are well seized of the need to stay in line with international developments; but also recognise that an internal market in financial services is impossible without a degree of harmonization within the EEC. Most banking supervisors - including the Bank of England - recognise the logic of this, whilst wishing to continue to supervise in the way they themselves believe to be right. The Commission's more flexible

approach offers a reasonable chance that progress can be made on harmonization whilst recognising a difference of style and content in supervisory systems.

General UK line

10. Discussion at the BAC on 2 December of the Commission's note on the proposed Second Co-ordination Directive will be a very preliminary kind. We should like to give a general welcome to the Commission's paper, as pointing a way forward to freedom of establishment and provision of services throughout the Community, and support the long term principles set out in paragraph 2 of this submission. Other Member States, with more protection for their financial services sector, and more bureaucratic regulation, will apply the brakes to the Commission. At the same time, I am sure we would be wrong to underestimate the task, or suggest that we think that 1992 is a realistic target. There are formidable difficulties to be overcome. The purely mechanical process of the Commission consulting, producing a draft, and seeking the necessary Opinions from the Parliament, BAC, etc, will take well into 1988, at least. It is possible that the insurance judgments will greatly strengthen the Commission's hand - but they could well introduce further complications. There are major difficulties of agreeing the respective roles of home and host supervisor, and in defining precisely the services the directive should catch. A good deal more harmonization of supervision will be necessary before we will feel at all comfortable about full mutual recognition - though the provision in the Banking Bill for the authorisation of EC banks already go a good way down this road.

11. It would be helpful to know that you are content for us to take a broadly positive and constructive position on the idea of a draft Co-ordination Directive in particular, and the general thrust of the Commission's programme as set out in the White Paper. Qualified majority voting will enable some measures to be pushed through which might never have obtained unanimity; but excessive haste in this area seems unlikely to be a problem for the UK. We can afford to be Communautaire.

The December Ecofin

12. You will obviously wish to make as much as possible of the Bank Accounts Directive, both with your colleagues and with the press. We did consider suggesting that you stimulate a general discussion of international co-operation on supervisory matters, concentrating on the EC White Paper programme. We discussed this idea with Geoffrey Fitchew, who thought it unwise to tackle the subject ahead of the insurance judgments. In particular, an ill-prepared discussion might produce over-defensive reactions on the record from your colleagues, from which they will find it hard to retreat. We are persuaded by this. Although there would be attractions in stimulating the interest of your colleagues in the need for greater co-operation in this area, there is too much downside risk.

13. You may nevertheless, in closing any discussion on the Bank Accounts Directive, or indeed in your closing remarks at the end of your last Ecofin as President, underline the importance of giving full political backing to the Internal Market programme, laying particular emphasis on the need for three-fold parallel progress on opening markets, harmonizing supervision, and liberalising capital movements. The detailed ground work - e.g. on own funds, large exposures, deposit-protection and later on solvency ratios is necessary in order to achieve the real prize - a genuinely free market on freely competitive terms. At the same time, the EC must keep in step with international developments, to make sure that EC institutions and markets remain fully competitive.

14. If you are attracted by this, we can prepare a speaking note. You might in any case want to speak along these lines to the press.

MJ

M A HALL

c c Mr P Cooke)
 Mr Beverly) BoE
 Mr Bostock UKREP (Personal)

12 NOV 1986



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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GTN 215)

(Switchboard) 01-215 7877

From the Parliamentary Under Secretary of State
for Corporate and Consumer Affairs

Michael Howard QC MP

Ian Stewart Esq RD MP
Economic Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

ECONOMIC SECRETARY	
REC'D	12 NOV 1986
APPROVED	MR. BOARD
DISPATCHED	PSKH PS/CST PS/IST PS/MS
TO	SIR P. MIDDLETON
	SIR G. LITTLE
	MR. CASSELL
	MRS. LOMAX
6-	MR. M. HALL
	MR. M. TAYLOR

11a November 1986

Dear Ian

AMENDED PROPOSAL FOR A COUNCIL DIRECTIVE ON THE ANNUAL AND
CONSOLIDATED ACCOUNTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

We corresponded in September and October about the negotiations on the above Directive, in the Ad Hoc Group of Counsellors in Brussels.

You will be glad to know that at the final meeting of the Ad Hoc Group on 3-4 November, the remaining issues referred to the Group, principally those relating to undisclosed reserves and foreign currency translation, were resolved. On the former agreement was reached on a Presidency compromise package which included a text of Article 37 which allowed as a Member State's option undisclosed reserves on certain points of the balance sheet (namely loans and advances to credit institutions and customers, and certain debt securities and shares and other variable yield assets) up to a certain percentage (to be agreed in COREPER, and probably in the range of between 3 and 5 per cent). It is moreover agreed that banks that maintain undisclosed reserves should also be allowed to create a (disclosed) fund for general banking risks, which should enable banks to change gradually to a system of full disclosure. Even the most vocal opponents of undisclosed reserves (Spain, Italy) can accept this compromise. The position is moreover to be reviewed 7 years after the Directive has been implemented in the Member States.

On foreign currency translations, the matter was resolved on the basis of a UK - inspired draft very similar to the one mentioned in my letter to you of 16 October - which is designed to be compatible with our Statement of Standard Accounting Practice 20, but which also has sufficient Member State options to accommodate variations in national accounting practice.

RH3ANH



The main issue which COREPER will have to decide will be the deadline for implementation. A majority including the UK delegation argued for 31 December 1990, but the Commission and four Member States want a shorter deadline of 31 December 1989, which we think is too short.

There is one loose end which we are having to tie up during the period in which the Directive is finalised in Brussels. Sub-Committee A of the Lords Scrutiny Committee has yet to complete its consideration of the Explanatory Memorandum submitted to Parliament in February 1986 giving information on changes to the Directive put forward by the Commission to take account of the Seventh Directive on consolidated accounts. This means unfortunately that we are having to put a scrutiny reserve on the measure for the time-being, although work will continue to proceed rapidly throughout November on the Directive. The Department's officials have been in touch with the Clerk of Sub-Committee A who is hoping that the Sub-Committee will be in a position to clear the measure at the end of November. Our officials will keep yours in touch.

Y- eve

Michael

MICHAEL HOWARD

RH3ANH



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

CHANCELLOR

Ch
 This arrived too late
 to seek Roger Lavelle's
 views. I will check
 on Monday that Roger
 agrees with this
 Customs' request.

FROM: B H KNOX

DATE: 21 November 1986

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

*John Shuttleworth
 of the 1st sub-law
 21/11/86
 of this
 factor.*

DECEMBER ECOFIN: FUEL IN STANDARD TANKS

Existing EC provisions exempt from tax and duty the fuel carried in the standard tanks of commercial vehicles crossing internal Community frontiers. Member States are permitted to limit this exemption, however, to as little as 200 litres for lorries (600 litres for buses), and France and Germany do so. A Commission proposal, last discussed at COREPER (Deputies) on 14 November, would make exemption of at least 600 litres mandatory. This would effectively abolish the need for the time-consuming and burdensome formality of fuel checks at certain Community frontiers. This note seeks your authority to include the proposal in the agenda of the 8 December ECOFIN.

2. This proposal is number 2 in the current Presidency Rolling Action Programme and constitutes a high-priority step towards completion of the Internal Market. It would eliminate a direct hindrance to intra-Community trade and remove any disadvantage suffered by UK commercial vehicles travelling to France and Germany as compared with French and German vehicles coming here.

/3. In recent

Internal distribution:

Mr Jefferson Smith Mr Wilmott Mr McGuigan Mr Boardman
 Mr Walton (UKREP) Miss French

3. In recent discussions, Germany alone refuses to accept any increase; while France is prepared to accept 300 litres; all other Member States have agreed to accept a 600 litre minimum. German opposition to an increase is based on fear of distortions of competition between German, Belgian and Dutch ports. They have also linked their agreement to prior harmonisation of indirect taxes on road transport (fuel duty, VED and road tolls): receipt of a Commission study on road transport taxation, due by 1 January 1987 would not be sufficient. There is little sympathy for Germany's refusal to accept even a small increase and a Presidency compromise for phased increases to 600 litres by 1992 will be presented to COREPER on 25 November, with a fallback proposal for an increase to 300 litres with a review thereafter.

4. We think there is merit in taking the discussion the last step to ECOFIN, even if Germany shows no signs of conceding on 25 November. This would at worst make clear the UK Presidency's commitment and demonstrate where the responsibility for any lack of progress lies; at best it might induce Germany to give some ground. Realistically, we would hope for a compromise agreement to 300 litres as a first step.

5. We therefore seek your agreement to including this proposal in the agenda for ECOFIN on 8 December, independent of the German response at COREPER on 25 November. As the ECOFIN agenda will need to be announced at that meeting, UKREP ask that we inform them of your decision by 25 November.

Bryce Knox

B H KNOX



cc PS/MST
Mr Lavelle
Mr Kent (C&E)
PS/C&E
Mr Walton (UKREP)

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

24 November 1986

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

**EUROPEAN COMMUNITY:
DANISH DEROGATION ON TRAVELLERS' ALLOWANCES**

Following David Williamson's note to you of 14 November, we suggest the draft reply below for the Prime Minister to send to Mr Schluter.

We cannot stop Mr Schluter raising the problem of the Danish derogation on travellers' allowances at the European Council if he insists. However our hope is that he will have been persuaded, by the outcome of the ECOFIN meeting on 17 November and its remit to COREPER to produce a package urgently to deal with all outstanding issues on the 7th Directive, that the Danish problem is being taken seriously and that there is a reasonable chance of an acceptable solution emerging at the next ECOFIN Council on 8 December without his having to intervene at the European Council.

I am copying this letter to Colin Budd (FCO) and David Williamson (Cabinet Office).

*Yours ever,
Tony Kuczys*

A W KUCZYS
Private Secretary

DRAFT LETTER TO THE PRIME MINISTER OF DENMARK

Thank you for your letter of 13 November about an extension of Denmark's derogation from the Community provisions on travellers' allowances.

There was a general willingness at the Economic and Financial Council meeting on 17 November to work towards a solution covering all the problems of particular concern to individual member states which need to be resolved in the context of the 7th Directive on travellers' allowances. COREPER has been instructed to produce a package for further consideration at the next ECOFIN Council on 8 December, and this package would clearly have to include a further 3 year prolongation of Denmark's derogation.

In the light of the ECOFIN Council discussion, and the further work to be done by COREPER on 25 November, I hope you will agree that matters are now developing on the right lines and that it is not after all necessary for you to raise the issue at the European Council. But that must, of course, be for you to decide.

CH/EXCHEQUER	
REC.	25 NOV 1986 ✓ 25/11
ACTION	CST MST SIR P MIDDLETON
COPIES TO	SIR G LITTLE
	MR LAVELLE
	MR MONCK
	MR A. EDWARDS
	MR BURLINER
	MR SCHAC
	MR MORTIMER
	MR CRABBE



10 DOWNING STREET

LONDON SW1A 2AA

24 November 1986

From the Private Secretary

MR BONNEY
MR CROPPER
MR TYRRE

Dear Colin,

PRIME MINISTER'S MEETING WITH LORD COCKFIELD

The Prime Minister had a talk with Lord Cockfield this evening.

Lord Cockfield said that the Commission was approaching the half-way mark in its period of office. It was the nature of institutions to lose momentum. He wondered what objectives the Prime Minister had for the Community over the next two years. The Prime Minister replied that completion of the Internal Market remained a high priority. But the biggest single problem which would confront us would be the future of the CAP.

Internal Market

Lord Cockfield asked whether officials had told the Prime Minister quite how badly progress on the Internal Market was lagging. The British Presidency's record was disappointing in this respect. The Commission by contrast had done everything asked of it. To keep up to the programme set out in the Commission's White Paper the Council should have adopted 133 measures by December this year. It had so far adopted only 40 (4 under the Italian Presidency, 21 under Luxembourg, 6 under the Netherlands and 9 under the UK). In his view, it would take a major drive by the Council if there was to be any chance of meeting the time-table. The Prime Minister's recent initiative to unblock a further 13 measures was helpful but not on its own sufficient. The Prime Minister said that the figures given by Lord Cockfield did not correspond with those in her brief. But she accepted that a major effort by the Council was called for. She would do her best to give an impetus to progress at the European Council.

The Prime Minister said that we welcomed the Commission's proposal raising the VAT threshold for small firms. We wished to see the Traveller's Allowances Directive make rapid progress and would want to see duty free facilities at Channel Fixed Link terminals included in it.

CAP

Lord Cockfield agreed with the Prime Minister that agricultural spending was the most serious problem facing the Community. A collision between the CAP and the Community Budget was unavoidable. The crisis would probably strike in October next year, when the Community would run out of funds to pay farmers, but might come earlier if the European Parliament were to reject the budget as patently inadequate to cover the Community's expenditure needs for the whole year. The Community's present accounting system was suitable only for a village cricket club. Payments were delayed and problems swept under the carpet. Applying proper accountancy procedures revealed that the 1.4% ceiling had been exhausted virtually before it had come into force.

The Prime Minister asked how Lord Cockfield thought that the problems of the CAP should be tackled. Lord Cockfield said that there were two priorities: to get rid of existing stocks: and to stop stocks rising again to unacceptable levels. Without limits on the quantities taken into intervention, we should constantly face the same problem. He had in the past pointed out that intervention stocks were the legal property of member states and should be disposed of as such. An additional problem was that some countries, notably Germany, made a profit out of holding stocks because they could get a higher return from the interest payable on them than on their financial markets. The Prime Minister said that she was pessimistic about the prospects of pushing through any fundamental reform until after the French elections in 1988. In the end it would take a major financial crisis to bring about reform. She was absolutely determined not to exceed the 1.4% VAT limit simply in order to finance higher agricultural spending.

European Parliament

Lord Cockfield mentioned his concern that the European Parliament would use the new powers which it had been granted by the Single European Act to enlarge its influence still further. He referred to a recent report by Mr. Prout. He expected the Parliament to cause a lot of trouble. The Prime Minister commented that the additional powers which the Council had given the Parliament were insignificant.

I am copying this letter to Alex Allan (HM Treasury), Timothy Walker (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to David Williamson (Cabinet Office).

*your friend,
Charles Powell*

(CHARLES POWELL)

C. R. Budd, Esq.,
Foreign and Commonwealth Office.



b/f 4/12 A
Meena
ECOFIN
RJ

FROM: A W KUCZYS
DATE: 24 November 1986

MR KNOX - Customs

cc PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr Lavelle
Mr Edwards
Mr Mortimer
Miss Sinclair
Mr Romanski
PS/Customs
Mr Walton - (UKREP)

DECEMBER ECOFIN: FUEL IN STANDARD TANKS

The Chancellor has seen your note of 21 November. He is content for this item to be added to the ECOFIN agenda. However, he would have found it helpful to have been made aware of this point earlier.

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

A W KUCZYS



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	25 NOV 1986 ✓ 26/11
ACTION	FAST SIR P MIDDLETON
COPIES TO	SIR G LITTLE
	MR LAVELLE
	MR A EDWARDS
	MR MORTIMER
	MR CRABBE
	MR CROPPER
	PS/c+E

THE PRIME MINISTER

25 November 1986

Dear Prime Minister,

*b/f 4/1/2
(Ecofin b/gd pl)
RF*

Thank you for your letter of 13 November about an extension of Denmark's derogation from the Community provisions on travellers' allowances.

There was a general willingness at the Economic and Financial Council meeting on 17 November to work towards a solution covering all the problems of particular concern to individual member states which need to be resolved in the context of the 7th Directive on travellers' allowances. COREPER has been instructed to produce a package for further consideration at the next ECOFIN Council on 8 December, and this package would clearly have to include a further 3 year prolongation of Denmark's derogation.

In the light of the ECOFIN Council discussion, and the further work to be done by COREPER on 25 November, I hope you will agree that matters are now developing on the right lines and that it is not after all necessary for you to raise the issue at the European Council. But that must, of course, be for you to decide.

I look forward to seeing you next week.

*Yours sincerely
Margaret Thatcher*

His Excellency Mr. Poul Schlüter

FROM: R G LAVELLE
 DATE: 25 NOVEMBER 1986

CHANCELLOR

cc Economic Secretary
 Sir G Littler
 Mr A Edwards
 Mrs Lomax
 Mr Mortimer
 Mr Hall
 Miss Barber

Handwritten notes in red ink:
 [Signature]
 Cont...

DECEMBER ECOFIN

Perhaps I could let you know how the agenda for the December Ecofin is shaping up.

2. There look like being seven items. But many of these ought to be brief and straightforward. The list is:

- i. NIC IV. (Stop press: this is now agreed, so could be relegated to an "A" point if you wish) *AWK*
- ii. Medium Term Financial assistance: renewal. *you per*
- iii. Greece.
- iv. Bank Accounts Directive.
- v. Fuel in standard tanks.
- vi. Travel allowances.
- vii. Annual Report.

3. As usual at this stage we can't make a very firm prediction about how long individual items may take. The ordering of the items set out above may be sensible for the following reasons. The items would be grouped in a way reflecting Commissioner responsibilities (Delors, Cockfield, Pfeiffer). There would be one meaty item in the morning (Greece) and one in the afternoon (Travellers' allowances). The Annual Report, which ought not to be a substantial item this time would wind up the rear.

4. At the November Ecofin you were able to make use of the lunch discussion to despatch a lot of business. On this occasion the ordering above would enable you to take the Bank Accounts Directive, which ought to be a formal item, at lunch: as Mr Hall has suggested it would be possible in so doing to make some general remarks about this area to be picked up later in the Press Conference. (It might also make sense to weave in a sentence or two about progress on insurance services in the light of the judgements which will have been issued on 4 December.) It seems possible that fuel in standard tanks could be a further suitable lunch-time item if one is looking for political backing for an initial increase in the exemption limit. But the optimum ordering could be reconsidered in the light of developments in COREPER.

5. There will need, given that this is the last meeting of the UK Presidency, to be a little more attention this time to the Any Other Business item. We will have to give the Belgians a slot to make kind remarks and indicate any priorities for the future. I believe that you have already envisaged some round-up of UK achievements in the Press Conference. We will be giving further thought to the presentation of a checklist.

6. Subject to any further developments, I see no reason why you should not adopt the same logistic pattern as last time, with a Council start at about 11.30am.* It is difficult to predict where the IMF Managing Director issue will stand. But there are usually requirements for bilaterals on one or two questions. Quite apart from Community business, there is also the question of a meeting with Secretary Baker who will be in Brussels. Presumably this would have to be at the beginning or end of the day.

7. Would you be content with an 11.30am start and an ordering of events on roughly the lines above?* Should we explore the practicability of a Baker bilateral?

*Including using an RAF plane, with an 8 o'clock take-off?

R G LAVELLE

CONFIDENTIAL



1 Toog
2 Allin
5/12 4/12

FROM: A C S ALLAN
DATE: 25 November 1986

MR M A HALL

cc Chief Secretary
Economic Secretary
Minister of State
Financial Secretary
Sir P Middleton
Sir G Littler
Mr A Wilson
Mr Byatt
Mr Cassell
Mr Lavelle
Mr Edwards
Mrs Lomax
Mr Peretz
Mr Culpin
Mr Kelly
Mr Walsh
Mr Pickford
Mr Mortimer
Mr Fletcher
Mr D Board
Mr D Jones
Mr Murphy
Mr Croft T.Sol
Mr Bridgeman RFS

DECEMBER ECOFIN: EC BANKING MATTERS

The Chancellor was grateful for your note of 21 November. He is content with the general approach in your paragraphs 10 to 11, and to speak at ECOFIN on the lines of your paragraph 13. He would also want to speak to the press on these lines, including a re-capitulation of what ECOFIN have achieved on the international market front (giving that a generous interpretation) since 1st July 1986. I should be grateful if you could supply the speaking notes you offered.

ACSA

A C S ALLAN

ps3/1K



FROM: A W KUCZYS

DATE: 26 November 1986

b/f 27/n A

MR LAVELLE

cc PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mrs Lomax
Mr Mortimer
Mr M A Hall
Miss Barber

DECEMBER ECOFIN

The Chancellor was grateful for your note of 25 November. He is content with the provisional agenda you suggest, although as you say the ordering can be reconsidered in the light of developments in COREPER. You mentioned last night that it should now be possible to take NIC IV as an "A point", and the Chancellor would prefer to do this.

2. He is also content with the suggested logistics, including an 11.30 am start; and he would be grateful if you could explore the possibility of a bilateral with Secretary Baker.

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

A W KUCZYS

FCO

MR RENWICK
MR BRAITHWAITE

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

PLUS FCO

N Bloomfield: ECDs

<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY</p>	<p><u>DTI</u></p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">IMMEDIATE</div>	<p><u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE N KNOX HMC N GARRETT HMC N FRENCH HMC N LAMBSON D/T</p>
<p><u>H M TREASURY</u> PS1 Chancellor SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE I MR R G LAVELLE N SINCLAIR N BARBER</p>	<p><u>MAFF</u> PERMANENT SECRETARY</p>	

Outgoing from Williamson - LSC sd with v. NPM when the 27th Nov. 1986

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TO IMMEDIATE FCO
TELNO 4175
OF 271945Z NOVEMBER 86
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC
COREPER (DEPUTIES) : 27 NOVEMBER 1986
7TH AND 8TH TRAVELLERS ALLOWANCES DIRECTIVES (DUTY FREE SHOPS,
INCLUDING CHANNEL FIXED LINK)

SUMMARY

1. COMMISSION ANNOUNCE WITHOUT WARNING THEIR INTENTION TO WITHDRAW THE PROPOSAL FOR A 7TH DIRECTIVE, MENTIONING THE CFL AS ONE OF THE REASONS. COMMISSION WILL MAKE NEW PROPOSAL TO COVER THE DANISH DEROGATION, AND OTHER PROBLEMS WILL BE 'DEALT WITH'. ONLY BELGIUM AND LUXEMBOURG INDICATE SERIOUS PROBLEMS WITH THE SUBSTANCE OF THE PRESIDENCY COMPROMISE PACKAGE. REPORT WILL BE MADE TO THE ECOFIN COUNCIL ON 8 DECEMBER.

DETAIL

2. KNUDSON (COMMISSION) SAID THE THE COMMISSION HAD FUNDAMENTAL OBJECTIONS BOTH OF FORM AND OF SUBSTANCE TO THE PRESIDENCY'S PACKAGE. HE COULD NOT ACCEPT THE DELETION OF VENDOR CONTROL: THREE ELEMENTS OF THE PACKAGE FELL OUTSIDE THE COUNCIL'S POWER TO AMEND THE DIRECTIVE AND REQUIRED PROPOSALS FROM THE COMMISSION: BUTTERSHIPS, THE IRISH DEOROGATION FOR BEER IMPORTS, AND THE DEROGATION FOR DANISH TRAVELLERS: PROVISION FOR DUTY FREE SHOPS FOR THE CFL WAS ALSO OBJECTIONABLE SINCE IT WOULD NOT COME INTO OPERATION UNTIL AFTER 1992: AND THE LINK BETWEEN THE THIRD COUNTRY ALLOWANCE AND THE INTRA-COMMUNITY ALLOWANCE SHOULD NOT BE CUT.

3. THE COMMISSION HAD THEREFORE COMPLETELY REVIEWED ITS POSITION. THEY WERE TREATING SERIOUSLY THE CONCERNS OF PARTICULAR MEMBER STATES, AND A PROPOSAL TO COVER THE DANISH DEROGATION WOULD BE PUT FORWARD IN THE NEXT FEW DAYS, ALTHOUGH IT WOULD NOT NECESSARILY MATCH WHAT WAS IN THE PRESIDENCY'S PACKAGE. THE COMMISSION WAS ALSO DEALING WITH THE OTHER ITEMS OF CONCERN TO MEMBER STATES. BECAUSE OF ALL THE DIFFICULTIES THE COMMISSION HAD DECIDED THAT IT WOULD WITHDRAW ITS PROPOSAL FOR A 7TH DIRECTIVE (BUT NOT THE 8TH DIRECTIVE) AND OFFICIAL CONFIRMATION WOULD ARRIVE THROUGH THE USUAL CHANNELS WITHOUT DELAY.

DIRECTIVE) AND OFFICIAL CONFIRMATION WOULD ARRIVE THROUGH THE USUAL CHANNELS WITHOUT DELAY.

4. IN REPLY TO A QUESTION FROM ELLIOTT (PRESIDENCY), KNUDSON SAID HE WAS UNABLE TO SAY WHAT OTHER ELEMENTS OF THE PACKAGE THE COMMISSION WAS DEALING WITH, OR WHAT THE RESULTS OF THEIR CONSIDERATIONS WOULD BE.

5. ELLIOT COMMENTED THAT THE COMMISSION'S REMARKS WERE NOT HELPFUL, AND THAT ALTHOUGH THEY HAD PARTICIPATED IN THE ECOFIN COUNCIL LUNCH AT WHICH THE CONCLUSIONS HAD BEEN TO PRODUCE A PACKAGE, THEY NOW SEEMED TO BE DISAVOWING THAT DISCUSSION. THE PRESIDENCY HAD ATTEMPTED TO CARRY OUT THE MANDATE OF FINANCE MINISTERS, AND THE COMPROMISE PACKAGE OFFERED A PROSPECT OF SOLVING INDIVIDUAL PROBLEMS AND MAKING PROGRESS. THE PRESIDENCY HAD HOPED THE COMMISSION WOULD FIND IT POSSIBLE TO ASSIST THE COUNCIL WITH CERTAIN ELEMENTS OF THE PACKAGE, AND ELLIOTT RESERVED THE POSITION OF THE COUNCIL ON THE FORMAL WITHDRAWAL OF THE PROPOSAL FOR A 7TH DIRECTIVE.

6. LEPOIVRE (BELGIUM) SUGGESTED THAT IT WAS NOW POINTLESS TO DISCUSS THE PRESIDENCY'S PACKAGE IN SUBSTANCE, BUT DENMARK, IRELAND AND THE NETHERLANDS DISAGREED, AND REMINDED THE COMMISSION OF MINISTERS' DECISION THAT A PACKAGE SHOULD BE PREPARED.

7. FORNASIER (COUNCIL LEGAL SERVICE) SAID THAT IT WAS OPEN TO COREPER TO TRY TO REACH A COMPROMISE AGREEMENT BUT ON THE UNDERSTANDING THAT THE FORMAL POSITION REMAINED OPEN DEPENDING ON THE DECISION OF THE COMMISSION ON WITHDRAWAL OF THE PROPOSAL.

8. IN A TABLE ROUND ONLY LUXEMBOURG AND BELGIUM EXPRESSED RESERVES ON THE WHOLE PACKAGE. OTHER DELEGATIONS HAD HESITATIONS ON ONLY ONE OR TWO ASPECTS OF THE COMPROMISE, AND GENERALLY EXPRESSED A WILLINGNESS TO SEEK AN OVERALL SOLUTION IF ALL MEMBER STATES COULD GO ALONG WITH IT. BOSTOCK (UK) SAID THAT THE COMPROMISE RESPONDED TO PRACTICAL PROBLEMS IN THE REAL WORLD AND WOULD ALSO ASSIST ONE OF THE MAJOR PROJECTS FOR THE COMMUNITY OVER THE NEXT FEW YEARS (THE CFL). HE DEEPLY REGRETTED THAT THE COMMISSION SEEMED TO BE SEEKING TO FRUSTRATE EVEN THE SMALL MEASURE OF ASSISTANCE WHICH THE 7TH DIRECTIVE COULD GIVE TO THE CFL PROJECT.

9. ELLIOTT CONCLUDED THAT MOST DELEGATIONS' REACTIONS PRESENTED A REASONABLE PROSPECT FOR THE PRESIDENCY'S COMPROMISE PROPOSAL. IT WAS ODD THAT THERE WAS A DISCREPANCY BETWEEN THE VIEWS EXPRESSED BY MINISTERS AT THE ECOFIN LUNCH IN NOVEMBER AND THE COMMENTS WHICH WERE NOW BEING MADE BY CERTAIN DELEGATIONS. HE CONFIRMED THAT THERE WOULD BE A REPORT TO THE DECEMBER ECOFIN COUNCIL, BUT RESERVED THE POSSIBILITY FOR A FURTHER COREPER DISCUSSION NEXT WEEK AFTER CONSULTATION WITH THE COUNCIL LEGAL SERVICE AND THE COMMISSION.

COMMENT

10. THE COMMISSION'S ANNOUNCEMENT WAS AS MUCH OF A SHOCK TO THE PRESIDENCY AS TO OTHER DELEGATIONS : IN CONTACTS ONLY A FEW HOURS EARLIER THE COCKFIELD CABINET HAD GIVEN NO HINT THAT SUCH AN ANNOUNCEMENT WOULD BE MADE TODAY.

11. WE NEED NOW TO DECIDE HOW TO REACT TO THE COMMISSION'S ANNOUNCEMENT. IT IS CLEAR THAT WE SHOULD KEEP TRAVELLERS' ALLOWANCES ON THE AGENDA OF THE 8 DECEMBER ECOFIN COUNCIL. THIS WAS WHAT WAS AGREED AT THE NOVEMBER COUNCIL. AS A MATTER OF PRINCIPLE THE COMMISSION SHOULD BE OBLIGED TO EXPLAIN, AT A POLITICAL LEVEL, WHAT LIES BEHIND THEIR DECISION. AND SO FAR AS THE CFL IS CONCERNED WE SHALL ALSO WANT TO EXTRACT THE BEST POSSIBLE UNDERTAKING FROM THE COMMISSION THAT THEY WILL, IF NECESSARY, PROPOSE LEGISLATION IN DUE COURSE TO ENSURE THAT THERE IS EQUAL COMPETITION BETWEEN THE CFL AND OTHER MEANS OF CROSSING THE CHANNEL SO FAR AS DUTY FREE SALES ARE CONCERNED.

CHANCELLOR

FROM : R G LAVELLE
27 November 1986cc Economic Secretary
Sir G Littler
Mr A Edwards
Mrs Lomax
Mr Peretz
Mr Mortimer
Mr M A Hall
Mr Dolphin
Miss BarberDECEMBER ECOFIN

Perhaps I could report the latest developments on the agenda for the December ECOFIN. It looks as if we will not be able to reach a final view on the optimum management of the meeting until the middle of next week.

2. The main development is on Greece. The Greeks were given a rough ride at the Monetary Committee, not least because they themselves behaved unco-operatively. The upshot is that Tietmeyer gave them a choice between two options. Either the proposed discussion at the December ECOFIN would go ahead, but on the basis of a very unflattering opinion from the Monetary Committee: or discussions would continue at the Monetary Committee meeting on 16 December and the outcome be referred to a later ECOFIN. The Greeks were given until early next week to make up their mind and discussions are continuing between them and the Commission.

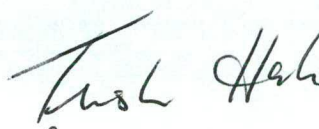
3. From the Greek point of view, one might expect them to be prepared to put up with quite a bit of stick in December if they thought at the end they could get the money: their economic prospects are unlikely to improve over the next month or two. But of course they could not count on ECOFIN, whose views the Commission will scarcely ignore, coming through with approval of the second tranche of the loan. The position on the agenda therefore looks rather open at present. If a full discussion is postponed, there is a question whether some informal Ministerial exchanges should nevertheless take place: my feeling would be against.

4. If the Greek item were to drop out, this might permit a later start, ie at lunchtime. Proceedings might begin with the review of progress in the internal market generally. On this, Hannay has had the thought that one might use the discussion to establish a firm commitment from member states to make progress on financial services dossiers next year. It is expected that the European Council will refer to the judgments expected in the insurance services areas on 4 December. Building on this, Cockfield might be invited to present a reasonable programme of action concluding with the suggestion that ECOFIN should review progress at a specified date. Agreement on an action programme following up the insurance decisions could be rather a useful addition to the press conference. We will give further thought to how the different elements, (this and the ideas floated by Mr Hall) can best be welded together.

5. It is still difficult to see how it will be possible to resolve the travellers' allowance complex. Discussion on the several items in the package is still proceeding in COREPER. So far the Commission have been especially unhelpful on butterships. The Danes have suggested that it might prove sensible to take this item earlier rather than later in the proceedings if there was need for some drafting by technicians in the light of the first Ministerial exchange. That thought sounds sensible in itself. But again we will have to take stock in the light of progress at working level. There is talk of some emerging compromise on fuel in tanks so that item might be left until later.

6. It is still not possible to see how these different elements will work out. The most pleasing scenario would be one in which Greece was postponed and Christmas lunch began with a review of progress. This could be followed by discussion of travellers' allowances, picked up in formal session immediately after lunch. The ending of the proceedings would be, as before, the Annual Report and pleasantries with the Belgians. However we shall need to prepare for less tidy possibilities.

7. I will report again when the prospects look rather clearer.


for R G LAVELLE

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(1) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

MR Bloomfield ECD(1)
MR ARON ECD(1)

Handwritten: b/f 1/2
61

<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY</p>	<p><u>DTI</u> Mr Mogg Mr WYTHEAD</p>	<p><u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE MR KNOX HMCE MR FREYTT "</p>
<p><u>H M TREASURY</u> PS/CHANCELLOR SIR GEOFFREY LITTLER MR J E MORTIMER <i>MR BARBER</i> MR C D CRABBIE <i>MR SINCLAIR</i> MR R G LAVELLE PS/MS MR EDWARDS</p>	<p><u>M A P F</u> PERMANENT SECRETARY</p>	<p>MR KIRBY, B/ENGLAND. M</p>

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TO DESKBY 280915Z FCO
TELNO 4169
OF 271745Z NOVEMBER 86
INFO IMMEDIATE ATHENS
INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS
INFO PRIORITY BONN, LUXEMBOURG, LISBON, MADRID

FRAME ECONOMIC
COREPER (AMBASSADORS) : 27 NOVEMBER 1986
PREPARATION FOR 8 DECEMBER ECOFIN COUNCIL

SUMMARY
1. DRAFT AGENDA EXPLAINED. FRENCH REQUEST TO INCLUDE TAX TREATMENT OF OVERSEAS RUM. GERMANS THREATENED WITH COUNCIL DISCUSSION OF 289L/77.

DETAIL
2. FROM THE CHAIR, I EXPLAINED THAT THE COUNCIL WAS PROVISIONALLY SCHEDULED TO COMMENCE AT 1130 HOURS, BUT CHANGES IN THE AGENDA MIGHT ALLOW IT TO COMMENCE WITH LUNCH.

3. THE PROVISIONAL AGENDA WAS AS FOLLOWS:
- NIC IV
ALL OUTSTANDING RESERVATIONS HAD BEEN LIFTED AT GROUP LEVEL. NIC IV COULD THUS BE A FALSE 'B' POINT.
- RENEWAL OF MFA MECHANISM
THE COMMISSION CIRCULATED THEIR TEXT (BY FAX TO BARBER, HM TREASURY). FOR DISCUSSION AT NEXT WEEK'S COREPER (2 DECEMBER).
- GREEK ECONOMIC SITUATION AND LOAN
I EXPLAINED THAT FOLLOWING THE MONETARY COMMITTEE'S DISCUSSION,

I EXPLAINED THAT FOLLOWING THE MONETARY COMMITTEE'S DISCUSSION, THE COMMISSION AND GREECE WERE HAVING FURTHER CONSULTATIONS. WE WOULD MAINTAIN THE ITEM ON THE AGENDA FOR THE TIME BEING BUT WOULD HAVE TO WAIT UNTIL NEXT WEEK BEFORE THIS COULD BE CONFIRMED BY THE COMMISSION. A LUNCHTIME DISCUSSION AT ECOFIN WAS POSSIBLE. IN ANY CASE, ANY SUBSTANTIVE DISCUSSION BY COREPER WAS INAPPROPRIATE. RUSSO (COMMISSION) SAID THAT THEY WOULD NOT BE TAKING A FINAL VIEW ON THE OUTCOME OF THEIR DISCUSSIONS WITH THE GREEKS UNTIL THE COMMISSION MEETING ON 3 DECEMBER. AT THIS STAGE, THE COMMISSION'S PRESUMPTION WAS THAT A DISCUSSION ON 8 DECEMBER WAS STILL POSSIBLE. I URGED HIM TO ENSURE THAT COREPER SHOULD BE INFORMED ON 2 DECEMBER OF THE COMMISSION'S PROCEDURAL INTENTIONS: IF THERE WAS TO BE A DISCUSSION AT THE DECEMBER ECOFIN THEN PERMANENT REPRESENTATIONS SHOULD BE BRIEFED ABOUT THE CONTENTS OF THE COMMISSION'S COMMUNICATION NEXT THURSDAY OR FRIDAY.

- PROPOSAL FOR A DIRECTIVE ON BANK ACCOUNTS

- DUTY-FREE ADMISSION OF FUEL CONTAINED IN TANKS OF GOODS TRANSPORT VEHICLES

- TRAVELLERS ALLOWANCES

PREPARATION FOR THESE THREE ITEMS WAS BEING UNDERTAKEN IN COREPER I. ESPER LARSEN (DENMARK) ASKED THAT TRAVELLERS ALLOWANCES BE TAKEN EARLY ON THE AGENDA. I SAID THAT WE WOULD CONSIDER THIS.

- ANNUAL ECONOMIC REPORT

I EXPLAINED THAT THIS DECISION WAS LIKELY TO BE SUBSTANTIVELY AGREED AT THE COUNCIL, WITH FORMAL ADOPTION AT A LATER COUNCIL IN DECEMBER, AS AN 'A' POINT.

- FISCAL REGIME APPLIED TO RUM FROM OVERSEAS DEPARTMENTS

SCHEER (FRANCE) REQUESTED THAT THIS BE INCLUDED ON THE AGENDA. (THE FRENCH HAVE SUBSEQUENTLY INFORMED US THAT THEY WANT AN OPPORTUNITY FOR A MINISTERIAL STATEMENT FOR DOM/TOM CONSUMPTION).

- REGULATION 2891/77

I SAID THAT THE PRESIDENCY RESERVED THE RIGHT TO INCLUDE ON THE AGENDA THE DRAFT REGULATION AMENDING 2891/77 IF THE GERMAN DELEGATION FAILED TO LIFT ITS RESERVE NEXT WEEK. (THIS IS A THREAT WHICH WILL PROBABLY DO THE TRICK.)

COMMENT

4. WE SHOULD CONSIDER SERIOUSLY ESPER LARSEN'S REQUEST FOR ALTERING THE AGENDA IN ORDER TO TAKE TRAVEL ALLOWANCES EARLY: IF

COMMENT

4. WE SHOULD CONSIDER SERIOUSLY ESPER LARSEN'S REQUEST FOR ALTERING THE AGENDA IN ORDER TO TAKE TRAVEL ALLOWANCES EARLY: IF PROGRESS IS MADE IT MAY BE NECESSARY TO PREPARE REVISED COMPROMISES TO BE WORKED OUT DURING THE COUNCIL AND GIVE THE COUNCIL A CHANCE TO COME BACK TO THE SUBJECT LATER DURING THE DAY.

HANNAY

YYYY

ADVANCE

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

ARON FCO

JAY CAE

MERCER CAE

KNOX C/E

FRENCH C/E

MOGG DTI

LOUGHEAD DTI

PS/CHANCELLOR TSY

PS/MST TSY

LAVELLE TSY

EDWARDS TSY

MORTIMER TSY

BARBER TSY

SINCLAIR TSY

KIRBY BANK

MAIN

FRAME ECONOMIC

UCLNAN 5505

NNNN



Ch

What Roger's note (below) does not bring out fully is what a late finish it implies.

With two difficult items (Greece, and travellers' allowances) UKREP's view is that the Council wd go on 'til 7.00pm or later.

David Bostock suggests the following alternative:

Start at 11.30am as originally planned, taking subjects which do not involve Monetary Office people. (Broadly, these are the Cockfield subjects - fuel in tanks, bank accounts, travellers' allowances)

We wd then need a gap after lunch, before the Council resumed, so that Ministers cd be briefed

following the Monetary
Ctee discussion.

If you prefer this,
Geoff* will instruct Tietmeyer
accordingly.

(Roger is out of the office
all day. We will fix a
discussion with him on
the rest of the agenda
early next week. However,
Geoff Little and Andrew
Edwards are in today, if
you want a word.)

AWK
287
||

* Sir GL agrees that the
Bostock plan is practicable

CHANCELLOR

FROM : R G LVELLE

27 November 1986

cc Economic Secretary
 Sir G Littler
 Mr A Edwards
 Mrs Lomax
 Mr Peretz
 Mr Mortimer
 Mr M A Hall
 Mr Dolphin
 Miss Barber

DECEMBER ECOFIN

Further to my minute today about the state of flux on the agenda, Tietmeyer telephoned Sir G Littler at home late this evening with a new proposition on Greece. The new proposition is that the Monetary Committee meet on the morning of 8 December to conclude their consideration of Greece.

2. More precisely, the Monetary Committee would meet at 10.00 am (for say two hours) and then report to Ministers in the remaining period before lunch. The Council itself would then start with lunch.

3. This is rather tiresome, largely because there may also be a difficult discussion on travellers' allowances to be fitted in during the day. It is not really on for the Council to meet in parallel with the Monetary Committee because in a number of cases the same officials are needed at both. Sir G Littler also judges that (although he himself would anyway go over the night before) it would be counter-productive - though practicable - to require the Monetary Committee to meet earlier on the Monday in the hope of permitting an earlier Council start.

4. On present evidence, the best plan may be to proceed initially as in paragraphs 4-5 of my earlier note: viz take over lunch a review of progress on financial services, and start the discussion of allowances then. After lunch one could hopefully conclude on allowances and it would now be necessary thereafter to move on to Greece. However we will think more about ordering.

5. Meanwhile I understand that it would be very helpful if we could give Presidential approval to the Tietmeyer proposal tomorrow morning.

R
 R G LVELLE

RESTRICTED



Meana
For mty Alder
17

FROM: A W KUCZYS
DATE: 28 NOVEMBER 1986

MR LAVELLE

cc PS/Economic Secretary
Sir G Littler
Mr Mortimer
Mr Crabbie
Miss Sinclair
Miss Barber
Mr Powell - No.10
Sir D Hannay - UKREP
Mr Bostock - UKREP
PS/C&E

COREPER (DEPUTIES): TRAVELLERS ALLOWANCES DIRECTIVES

The Chancellor has seen the attached telegraph from Sir D Hannay. He has commented that this is outrageous behaviour by the Commission. Lord Cockfield said nothing to the Prime Minister when she raised it, either.

AWK
A W KUCZYS

Mr Lavelle

cc PS/EST

Mr A Edwards

Mr Martiner

Miss Sinclair

Miss Barber

Mr Romanski

PS/Customs

UNCLASSIFIED MUFAX

PLEASE COMPLETE THIS FORM. IT WILL ALWAYS PRECEDE THE MESSAGE/DOCUMENT BEING TRANSMITTED.

FOLLOWING MUFAX FROM UKREP BRUSSELS. (ENQUIRIES: 230-6205 X 309)
MUFAX NUMBERS: VIA GTN: 2415. VIA PSTN: 230-8379

CIRCUIT NUMBER... 12/1... NUMBER OF SIDES... 1+ 2

FLASH/DESKBY/IMMEDIATE/PRIORITY/ROUTINE... (DELETE AS APPROPRIATE)...

DESKBY TIME.....

ORIGINATING OFFICER... DJ Bostock
A Kucyys PS/chancellor

ACTION FOR... R Lavelle... DEPT. HM Treasury

Copy
David Bostock's office rang. They say we're trying to fix a meeting on all the tomorrow (?). Telegram from Hamay but line to take will be pushed across this morning
(rec'd this afternoon)
Aloss

The Right Honourable
Lord Cockfield
Vice-President of the Commission
of the European Communities

Place de la Loi 200
B-1049 Brussels
Tel. 235.25.14 - 235.26.10

28 November 1986

Dear Nigel,

As you know, I have written to the President of the Council of Ministers informing him formally of the Commission's decision to withdraw with effect from 28 November 1986 its proposal for a Seventh Council Directive amending Directive 69/169/EEC on the harmonisation of provisions laid down by law, regulation or administrative action relating to exemption from turnover tax and excise duty on imports in international travel (COM(83) 166).

In my letter to the President I stated that the Commission would be taking initiatives which should meet any legitimate concerns of the Member States. One such concern is that of the United Kingdom over tax-free shops and the Cross-Channel Fixed Link.

On this point I would assure you first that the Commission's policy, as evidenced by its proposal for amendment of the 6th VAT Directive to provide by derogation for exemption from VAT of tolls, remains that the principles of non-discrimination and equal fiscal treatment between competing operators across the Channel should apply to the fixed link as to the existing operators; and second that should the need arise at some time in the future the Commission will not hesitate to take further appropriate action consistent with the principles of the Single European Act.

The Right Hon. Nigel Lawson MP
Treasury
Parliament Street
LONDON
SW1P 3AG
UK

*Yours,
Arthur*

The Right Honourable
Lord Cockfield
Vice-President of the Commission
of the European Communities

Rue de la Loi 200
B-1049 Brussels
Tel. 215 25 14 - 215 26 11

Amused to Mr Wall (ECDA) a. 1920.
28 November 1986

Copy: S. G. Hannay.

Mr Elliott

Mr Connolly.

Mr Bosnich

Mr Walter

Mr Chamberlain

L. 1986

Dear President,

The purpose of this letter is to inform you formally that the Commission has decided to withdraw as from the date of this letter its proposal for a Seventh Council Directive amending Directive 69/169/EEC. This concerns the harmonisation of provisions laid down by law, regulation, or administrative action relating to exemption from turnover tax and excise duty on imports in international travel (COM(83)166) which it submitted to the Council on 11 April 1983.

I should perhaps explain the reasons which led to the Commission's decision.

At its meeting on 27 November 1986, the Committee of Permanent Representatives engaged for the first time in discussion of a text put forward by the Presidency as an alternative to the proposal submitted by the Commission. The Presidency's text is unacceptable to the Commission for a number of reasons.

First, it would have deleted the Commission's proposed requirement that operators of tax-free shops should issue sales invoices indicating the origin, quantity and value of goods sold. The deletion of this requirement resulted in the loss of a primary objective of the Commission's proposal, namely to simplify checks at internal Community frontiers.

Second, the Presidency's text introduced various new provisions in Articles 5(a), 5(b), 7(b), 7(c)1(b) and 7(d), whose substance the Commission cannot accept. In any event, some of these provisions fall outside the scope of the Commission's proposal and others change its nature.

Finally, I should add that the new provisions of the Presidency's text are unnecessary, since the Commission will shortly be taking separate initiatives to meet any legitimate concerns of the Member States.

For these reasons, the Commission is left with no alternative but to withdraw its proposal.

Yours sincerely,
Cockfield

The Right Hon. Sir Geoffrey Howe, MP
President of the Council of the European Communities
170 rue de la Loi
1048 Brussels

2

b/c 1/12 A



FROM: A W KUCZYS
DATE: 28 November 1986

MR LAVELLE

cc PS/Economic Secretary
- Sir G Littler
- Mr A Edwards
Mrs Lomax
Mr Peretz
- Mr Mortimer
Mr M A Hall
Mr Dolphin
- Miss Barber
Mr Bostock - UKREP
Mr Beales - UKREP

DECEMBER ECOFIN

The Chancellor was grateful for your two minutes of 27 November (not copied to UKREP). This morning, however, Mr Bostock pointed out that a lunch-time start could involve a very late finish for ECOFIN. He suggested the following alternative:

- (i) An 11.30 start for ECOFIN;
- (ii) taking before lunch those items which do not involve people involved in the Monetary Committee (broadly, these are the subjects for which Lord Cockfield takes responsibility in the Commission: fuel in standard tanks bank accounts and travellers' allowances).
- (iii) There would need to be a break after lunch during which Ministers could be briefed on the conclusions of the Monetary Committee.

2. The Chancellor has agreed to this, and I understand Sir G Littler has passed the message to Tietmeyer, and that Mr Bostock has told the Secretary of the Monetary Committee.

3. The Chancellor would like a brief discussion of the agenda. He is disappointed with the lack of progress on travellers'



allowances. (This was even before he saw this morning's telegram reporting the Commission's bombshell at COREPER Deputies yesterday). His diary for Monday is already very full: it looks as if this discussion will have to be first thing on Tuesday morning.

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

A W KUCZYS

FROM: JANET BARBER
DATE: 28 NOVEMBER 1986

MISS SIMPSON
MR DOLPHIN
MR J H L WALKER
MR TULLBERG - C&E
MR KNOX - C&E
MRS HELPS - DTI

cc PS/Chancellor
PS/Economic Secretary
Sir Geoffrey Littler
Mr Lavelle
Mr Byatt
Mr Edwards
Mr Mortimer
Miss Sinclair
Mr Hall
Mr Riley
Mr Kelly
Mr Culpin
Ms Evans
Mr Bostock - UKREP
Mr Marshall - DTI

ECOFIN 8 DECEMBER

The next EC Economic and Finance Council will be on 8 December. The Chancellor will chair the meeting, and the Economic Secretary will represent the UK.

2. At the moment, the agenda looks as follows (the order has been agreed with UKREP on a provisional basis):

- (a) annual accounts of banks;
- (b) French DOM rum;
- (c) duty-free admission of fuel in tanks;
- (d) travellers' allowances (7th and 8th Directives);
- (e) (possibly) amendment of Regulation 2891/77;
- (f) second tranche of the Community loan to Greece;
- (g) medium term financial assistance;
- (h) NCI IV;
- (i) Annual Economic Report.

There will also be some sort of discussion over lunch on financial services, covering insurance, in the light of the judgements expected on 4 December. And there will probably be a meeting of the Monetary Committee on the morning of 8 December, to prepare the ECOFIN discussion on Greece.

3. We would be grateful for help with briefing, as follows:

- (a) bank accounts (a false B point) - Mr Walker.
- (b) DOM rum - Mr Tullberg
- (c) fuel in tanks - Mr Knox
- (d) travellers' allowances - Mr Knox
- (e) Regulation 2891/77 - Miss Simpson (we will have a better idea after Coreper on Tuesday whether this will be on the agenda)
- (i) Annual Economic Report - Mr Dolphin

I will cover Greece (in consultation with Mr Dolphin and Mr Marshall), NCI IV (a false B point) and the MTFAs (which might be

an A point). Mrs Helps is providing some briefing on insurance, and I will liaise with Mrs Helps, Mr Hall and UKREP to put together a speaking note for the Chancellor for the lunchtime discussion on financial services. A speaking note covering similar ground will also be needed for the press conference after the Council.

4. The standard form of briefing is as attached. During the Presidency, where there are separate UK/Presidency inputs, we need:

- (1) an objective and speaking note for the Chancellor on the handling of the item;
- (2) an objective and speaking note for the Economic Secretary representing the UK;
- (3) a common background;
- (4) (as usual) relevant documents.

Mr Pini of the Council Secretariat will provide a version of (1) for some items. However, we are never sure when or if these will arrive, or whether they will be what we want. We will distribute any as we get them. However, unless the handling of the item is very straightforward, it is important that we prepare our own version of (1), for use if necessary, or as a basis for assessing whatever we get from the Council Secretariat.

5. I would be grateful if briefing could reach me by close on Wednesday 3 December, or as soon as possible after that.

Janet Barber

JANET BARBER
EC1
HM TREASURY

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.



Ch

You will be discussing
this tomorrow morning
with Sir GL, Roger
Lavelle & Mr Knox
(not Bryce) from Customs.

I have also invited
EST (he will be
representing the UK
at next week's ECOFIN).

Laffer with
Smith
advice

AWK
1/12

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECO(I) (3)
HD/NEWS DEPT
HD/ERD
HD/ECO (P)
HD/
HD/

PLUS FCO

<u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR MH JAY	<u>DTI</u>	<u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE Mr Knox -h- Mr GARRETT Mr FRENCH
<u>HM TREASURY</u> PS/CHANCELLOR SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE I MR R G LAVELLE Mr SINCLAIR.	<u>MAFF</u> PERMANENT SECRETARY	Mr LAMBERT D/TPT.

UNCLASSIFIED
FM UKREP BRUSSELS

TO DESKBY 011400Z FCO

TELNO 4221

OF 011235Z DECEMBER 1986

AND TO DESKBY 011400Z CABINET OFFICE, HM CUSTOMS AND EXCISE

AND TO DESKBY 011400Z HM TREASURY, DEPT OF TRANSPORT

INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

MY TELNO 4175

DUTY FREE ALLOWANCES: 7TH TRAVELLERS ALLOWANCE DIRECTIVE

SUMMARY

I RECOMMEND THAT OUR PRIORITY SHOULD NOW BE TO GET THE FIRMEST POSSIBLE PUBLIC ASSURANCES FROM THE COMMISSION OF THEIR READINESS TO INTRODUCE LEGISLATION IF NECESSARY TO ENSURE EQUALITY OF TREATMENT BETWEEN CFL AND ITS COMPETITORS.

DETAIL

2. LORD COCKFIELD'S LETTER OF 26 NOVEMBER CONFIRMS THE COMMISSION'S DECISION TO WITHDRAW THE DRAFT 7TH TRAVELLERS ALLOWANCES DIRECTIVE. LORD COCKFIELD HAS ALSO WRITTEN TO THE CHANCELLOR OF THE EXCHEQUER REPEATING THAT IT IS THE COMMISSION'S POLICY THAT THERE SHOULD BE EQUAL FISCAL TREATMENT FOR THE CFL AND ITS COMPETITORS, AND STATING 'THAT SHOULD THE NEED ARISE AT SOME TIME IN THE FUTURE THE COMMISSION WILL NOT HESITATE TO TAKE FURTHER APPROPRIATE ACTION CONSISTENT WITH THE PRINCIPLES OF THE SINGLE EUROPEAN ACT'. A SIMILAR MESSAGE IS BEING SENT TO THE FRENCH GOVERNMENT. (BOTH LETTERS MUFAXED TO WALL (FCO), KENT (CUSTOMS), KUCZYS AND LAVELLE (TREASURY)).

3. WE ARE MAKING CLEAR IN BRUSSELS THAT TRAVELLERS ALLOWANCES WILL REMAIN ON THE AGENDA OF ECOFIN ON 8 DECEMBER, AS WAS AGREED AT THE LAST COUNCIL. BUT WE NEED TO CONSIDER HOW WE NOW HANDLE THIS DOSSIER, BOTH AT THE COUNCIL AND, IN PREPARATION, IN COREPER (DEPUTIES) TOMORROW.

4. IT IS IN PRINCIPLE POSSIBLE FOR THE COUNCIL TO CHALLENGE THE LEGALITY OF THE COMMISSION'S DECISION TO WITHDRAW ITS PROPOSAL, ON THE GROUNDS THAT THE COMMISSION IS FRUSTRATING THE COUNCIL'S EXERCISE OF ITS LEGISLATIVE COMPETENCES.



THE GROUNDS THAT THE COMMISSION IS FRUSTRATING THE COUNCIL'S EXERCISE OF ITS LEGISLATIVE RESPONSIBILITIES AND THUS UPSETTING THE EQUILIBRIUM BETWEEN INSTITUTIONS PROVIDED FOR IN THE TREATY. AND IT WOULD BE DAMAGING, IN TERMS OF THE COUNCIL'S GENERAL RELATIONSHIP WITH THE COMMISSION, FOR THE COUNCIL TO MAKE NO RESPONSE TO LORD COCKFIELDS'S LETTER OF WITHDRAWAL.

5. THERE MUST HOWEVER BE CONSIDERABLE DOUBT AS TO WHETHER SUFFICIENT POLITICAL AGREEMENT EXISTS WITHIN THE COUNCIL TO SUSTAIN ON THIS ISSUE A FULL-BLOODED INTER-INSTITUTIONAL CONFLICT, WHICH IN THE LAST RESORT COULD ONLY BE SETTLED BY THE ECJ. ON THE QUESTION OF PRINCIPLE THE REALISTIC OBJECTIVE MAY WELL BE TO END UP WITH A PRESIDENCY LETTER FORMALLY RESERVING THE COUNCIL'S POSITION ON THE COMMISSION'S LEGAL RIGHT TO WITHDRAW THIS PROPOSAL AT THIS STAGE. SUCH A LETTER CAN BE AGREED AFTER ECOFIN.

6. AT ECOFIN, AND IN THE PREPARATORY DISCUSSION TOMORROW, WE SHALL NEED TO KEEP IN MIND SIGHT OF THE DESIRABILITY OF EXTRACTING FROM THE COMMISSION, IN THE COUNCIL, WHERE THEIR COMMENTS CAN BE NOTED, THE CLEAREST POSSIBLE EXPLANATION OF THE STATEMENT AT THE END OF LORD COCKFIELD'S LETTER OF WITHDRAWAL THAT 'THE COMMISSION WILL SHORTLY BE TAKING SEPARATE INITIATIVES TO MEET ANY LEGITIMATE CONCERNS OF THE MEMBER STATES'. SO FAR AS THE CFL IS CONCERNED, WE SHALL, FOR EXAMPLE, WANT LORD COCKFIELD TO REPEAT PUBLICLY AND, IF POSSIBLE SHARPEN UP, WHAT HE HAS ALREADY SAID IN HIS LETTER TO THE CHANCELLOR.

7. A NUMBER OF DELEGATIONS MAY WISH TO JOIN THE UNITED KINGDOM IN EXPRESSING JUSTIFIED INDIGNATION AT THE COMMISSION'S WITHDRAWAL OF ITS PROPOSAL. BUT ANGER AT THE COMMISSION'S ACTION WILL BE MOST PRODUCTIVE IF IT IS USED TO INCREASE THE PRESSURE ON THE COMMISSION TO MEET MEMBER STATES' LEGITIMATE DEMANDS ON TRAVELLERS' ALLOWANCES.

HANNAY

YYYY

ADVANCE

FCO WALL

FCO BLOOMFIELD

FCO RICHARDSON (ECD(P))

CAB JAY

C/E KNOX

C/E GARRETT

C/E FRENCH

TSY PS/CHANCELLOR

TSY SINCLAIR

TSY BARBER

TSY LAVELLE

D/TP LAMBERT

MAIN

FRAME ECONOMIC

UCLNAN 5574

NNNN



C

ECOFIN, MONDAY 8 DECEMBER

You should be aware that the MST is unable to attend Ecofin on Monday 8 December as he has to be in Strasbourg then. The EST will attend in his place.

D

1/12

FROM: R G LAVELLE
1 December 1986

CHANCELLOR

cc Sir G Littler
Mr Edwards
Mr Mortimer
Miss Barber

ECOFIN, 8 DECEMBER

You have asked for a run over the agenda. The following annotations may be helpful in preparation for tomorrow's meeting.

2. At the moment the agenda looks as follows:

- 5 (a) Annual accounts of banks;
- 3 (b) French DOM rum;
- 4 (c) Duty free admission of fuel in tanks;
- 6 (d) Travellers' allowances;
- (e) [POSSIBLY] Amendment of Regulation 2891/77
Lunch (review of financial aspects of internal market)
- PP (f) A second tranche of Community loan to Greece;
- 1 (g) Medium term financial assistance;
- 2 (h) NCI IV;
- lunch (i) Annual economic report;
- (j) Any other business: concluding exchanges.

3. The ordering of the agenda essentially reflects the need to accommodate a morning meeting of the Monetary Committee on Greece. Travellers' allowances and other Cockfield items will therefore be taken in the morning. The most meaty items in the agenda are clearly travellers' allowances and Greece. But some notes on each item may be helpful.

4. The bank accounts item (which provides for standardised accounting) is still subject to a German reserve on the application of the Directives to partnership banks. With luck this will be withdrawn but if necessary the Germans could be voted down. A short item.

5. On rum, the French apparently wish to make a statement reminding the Council of a proposal to authorise France to have a special derogation for the tax treatment of rum from the overseas departments. Essentially a take note point.

6. On duty free admission of fuel in tanks, the problem is again a German reserve. Proposals have been put forward for a staged increase over four years beginning with a step to 300 litres. We will take further advice on the best tactical procedure in the light of German behaviour at COREPER this week. (on Tuesday, this week, because of the European Council) AWK

7. On travellers' allowances you will have been following the recent telegraphic exchanges. The intention of the 7th Directive is to give legal backing to duty free allowances. Lord Cockfield seems to have taken umbrage at the process of amending it to meet particular problems of Member countries. UKREP's advice is to control our irritation about the withdrawal of the Directive and as far as the UK is concerned seek a positive outcome of the kind hinted at by Lord Cockfield in a recent letter to you. Before this letter was received it had been suggested that the Prime Minister might write to Cockfield. It may now be preferable for you to do so. The briefing for the European Council is in any case being appropriately warmed up. A provisional arrangement has been made for you to see Lord Cockfield in Brussels before the meeting. — Ch content to see him?
 Yrs AWK

8. More generally it is probably the case that the Commission will find ways of meeting Member countries needs, at least in some degree. We need some sort of public declaration on CFLs. The Danes will be given some offer on derogations for tobacco and spirits. Ditto something will be offered the Irish on their beer derogation. The Germans will be given a letter saying that the Commission would not proceed with infraction proceedings in relation to butterships until such time as fiscal frontiers are abolished. Offers on these lines (and Mr Knox will bring us up to date) ought still with luck to permit a positive outcome after the display of Commission grumpiness.

9. The amendment of Regulation 2891 is a technical issue which has been threatened to be placed on the agenda as a tactical matter to secure, again, removal of a German reserve. (The Regulation deals in some way with the situation when overdrafts can be permitted.)

10. The Monetary Committee were unable to reach a recommendation on the release of a second tranche of the loan to Greece. The matter will now be the subject of a special meeting after which Sir Geoffrey Littler will report to you. The Monetary Committee's interests are in particular related to the likelihood or otherwise of Greek achievement^{of} macro-targets. The Commission's proposals in relation to import deposits and export subsidies are still awaited. On the former the Greeks are ready to dismantle by mid-1987. On export subsidies a programme for dismantlement has still to be agreed - the subsidies will formally come to an end in December. We need to preserve particular interests (cement) as well as hopefully securing a reasonable general timetable. No doubt most countries by now are finding Greek behaviour fairly tedious and your role may be to preserve good order and discipline.

11. The renewal of the MTF and the approval of agreed NCI IV texts should be largely formal items. (? 'A' point)

12. On the Annual Economic Report, there was quite a long exchange last time. We have sent in some amendments. The Commission have agreed to make still clearer that their ideas on financial engineering have not been endorsed by anyone. It may not be worth having more than declarations for the minutes disavowing these ideas.

13. Given the other pressures on the agenda it is for consideration how much theatre we can afford time for at lunch. As you may recall, Hannay had the idea of some arranged exchanges with Cockfield about the programme for pursuing the insurance services area. UKREP are pursuing these thoughts with Fitchew. It may be a matter for judgement at the time how much to surround these exchanges with some more general ones to be picked up in the press conference. If travellers' allowances have been settled more or less amicably before lunch, this could provide a reasonable run in. At the end of the meeting there will need to be some exchange of pleasantaries.

M

R G LAVELLE



FROM: A W KUCZYS

DATE: 2 December 1986

MR LAVELLE

cc PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mr Mortimer
Miss Barber

Mr Knox - C&E
PS/Customs
Sir D Hannay - UKREP
Mr Bostock - UKREP
Mr Beales - UKREP

ECOFIN, 8 DECEMBER

The Chancellor and Economic Secretary this morning discussed the agenda for the December ECOFIN with you, Sir G Littler and Mr Knox.

Insurance cases

2. You mentioned that judgements were expected this week. It might be possible to say something after ECOFIN; on the other hand this would not rank as a triumph of the UK Presidency.

Travellers' allowances

3. It was agreed that the Chancellor (rather than the Prime Minister) should reply quickly to Lord Cockfield, noting his firm commitment, etc. You and Mr Knox would produce a draft today. You would also find out (either via Sir D Hannay, or via Mr Fitchew) what we thought Lord Cockfield would be prepared to say in the Council. The Chancellor would rather nothing was said, than that Lord Cockfield should say something unhelpful (either in the context of the Channel Tunnel, or by implication for BAA privatisation). If there were no helpful Commission statement at the Council, an alternative would be to release the Chancellor's



letter to the press. It was agreed that it would be no bad thing if the Danish PM raised the subject at the European Council.

4. On handling the subject at ECOFIN, it was important to avoid the story: "Commission slap down Council". The Chancellor would want to allow the States most affected to have their say (Germany, Denmark, Ireland, the UK and France); invite Lord Cockfield to speak; and then bring discussion to a close as quickly as possible. If other States were very unhappy with the Commission response, the Chancellor would sum up by asking the Commission to reflect on this. He would need procedural advice (from UKREP) on how this subject should be handled after ECOFIN - should it be remitted to COREPER? Or put on the agenda for the next ECOFIN?

Lunchtime discussion

5. The Chancellor would prefer not to discuss the financial aspects of capital markets over lunch: he thought it should be possible to find a better use of the time. One possibility was the Annual Economic Report, where we would want to avoid another "tour de table". But a number of countries would want to make minutes statements (eg the UK and others disassociating themselves from the section on financial engineering), so a way would have to be found of doing this.

Greece

6. The UK would want to speak in strong terms on this subject. Sir G Littler said that following discussion in the Monetary Committee on Monday morning, the choice for ECOFIN would probably be either to defer a decision until February, or reluctantly to agree to the proposal. The Chancellor asked for alternative forms of words for use in either case: both should include a suitable rebuke to the Greeks.

Medium term financial assistance

7. The Chancellor hoped that this could be taken as an "A point". You would check on whether this was possible.

NIC IV

8. The Council have to agree letters to the Parliament and the EIB, and approve regulations. But we would not want a discussion, just a vote. So this was a "false B point".

Agenda

9. In the light of this discussion, the Chancellor proposed the following agenda:*

- (i) Medium term financial assistance - as an "A point" if possible.
- (ii) NIC IV - as a "false B point".
- (iii) French DOM rum.
- (iv) Fuel in tanks.
- (v) Annual accounts of banks.
- (vi) Travellers' allowances.
- (vii) Lunchtime: Annual Economic Report. There would be a break after lunch for debriefing from Monetary Committee, followed by:
- (viii) Community loan to Greece.
- (ix) Closing remarks - hand-over to Belgian Presidency.

10. The Chancellor agreed to holding a bilateral with Lord Cockfield (Mr Beales has suggested that this should be at 11.00 am). He would also want a brief word with Delors.

AWK

A W KUCZYS

*PS

You have subsequently discussed this with Mr Beales and proposed some minor changes.

AWK

UNCLASSIFIED



FROM: A W KUCZYS

DATE: 2 December 1986

MR LAVELLE

cc Sir G Littler
Mr Mortimer
Mr Crabbie
Miss Sinclair
Mr Knox (Customs)
PS/Customs
Sir D Hannay (UKREP)
Mr Bostock (UKREP)

DUTY FREE ALLOWANCES: 7th TRAVELLERS ALLOWANCE DIRECTIVE

The Chancellor has seen Sir D Hannay's telegram Number 4221 of 1 December, with advice on how to react to Lord Cockfield's letter of 28 November. He agrees with Sir David's advice.

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

A W KUCZYS

CHANCELLOR

FROM : R G LAVELLE
2 December 1986

Ch
3 drafts to choose
from! Which to issue?

Lavelle as
answer (p. 50)
check
for short
account.

ASK
2/12

cc Economic Secretary
Sir G Littler
Mr Edwards
Mr Mortimer
Mr Romanski
Miss BarberMr M Knox-
CustomsTRAVELLERS' ALLOWANCES

At your meeting this morning, you concluded that the right course was to respond yourself to the letter you had received from Lord Cockfield setting out how the Commission proposed to proceed following the withdrawal of the 7th Directive. In the circumstances, this seemed a preferable tactic to the earlier proposal of a Prime Ministerial letter to Lord Cockfield. This whole area would however be aired at the European Council and the momentum maintained in that way.

2. On the substance, you accepted Sir David Hannay's judgment that the right course was not to make a fuss about the withdrawal of the 7th Directive but to undertake a positive salvaging operation. On that basis, your preference was to acknowledge the assurances contained in Lord Cockfield's letter and build on them as far as possible. In particular, you thought it would be useful to inquire whether Lord Cockfield could be expected to make a positive statement at the ECOFIN meeting. If so, your reply might make some suitable reference to that possibility.

3. Mr Knox has established with UKREP and Lord Cockfield's office that there is a reasonable expectation that Lord Cockfield will make a statement on the several problem areas at ECOFIN. In particular this can be expected to include something at least as positive as the assurance we have already had in his letter. On that basis, it seems right therefore to include some anticipatory sentiments in your response.

4. On the substance of other countries' problems, the Commission were apparently quite guarded at today's COREPER. This may well be because as far as the Germans are concerned there are discussions to be held this evening between Delors and Chancellor Kohl. Discussions with the Irish are still also not resolved. However, when the position in these areas has been clarified further, no doubt they will be prepared to make some statement about them.

5. You asked this morning how it would be possible to carry matters forward procedurally if the offer made to various countries was not fully satisfactory to them. As for this, UKREP's advice is that a distinction has to be made between the Danish problems, where the Commission have put forward proposals, and the others. In general, where a satisfactory offer is made this can be reflected in the conclusions of the meeting. If the Danes are unhappy about the offer made to them, the procedure would vary according to the nature of discussion. But if all present wished the Danes to be given something better, the conclusion could be that there was a political agreement to that effect and COREPER could be asked to examine the text against that background. If the political will was less manifest, the conclusion might be varied to say something on the lines that the Council was willing to consider some better offer and the matter was remitted to COREPER and a future ECOFIN on that basis.

6. As regards the Irish and Germans, where there is no formal proposal at present, the formulation might be somewhat different. You would in this case be taking notice of a wish, assuming that was the position, to see if some further movement could be made and contacts should be maintained to see if a satisfactory outcome could be achieved. Obviously we will think more about how best to formulate conclusions with this sort of flavour.

7. As regards the text of the reply to Lord Cockfield, Mr Knox has sent across the attached two possible drafts: the first more dovelike than the second. I accept responsibility

for the idea of a dovelike draft since this seemed to me more in tune with your view of the right strategy in relation to withdrawal of the 7th Directive.

8. I wonder indeed if it might not be preferable to make no reference at all to the Prime Minister's exchanges with Lord Cockfield on what is now a lost cause and concentrate solely on the positive aspects. On this basis, you may like to consider the further draft attached immediately below.


R G LAVELLE

DRAFT LETTER TO LORD COCKFIELD

Thank you for your letter of 28 November about the 7th travellers' allowance Directive. Your letter makes clear the Commission's intention to take initiatives to meet the concerns of member states in a different way. In this context, I welcome the Commission's acceptance of the principle that equality of treatment for cross-channel operators should also apply to the fixed link and you have reassured me that its competitive position will be protected.

As you are negotiating individually with members states and I do not know the full content of your proposals, it would be helpful if you would make a clear statement of the Commission's intentions, *including reaffirmation of your undertaking to ensure,* during discussion of this item at the ECOFIN Council on 8 December.

*that the Cross-channel
fixed link will enjoy
the same fiscal treatment
as other cross-channel
operators,*

PLEASE PASS THE FOLLOWING MESSAGE FROM THE CHANCELLOR TO
LORD COCKFIELD

BEGINS:

1. Thank you for your letter of 28 November informing me of the Commission's withdrawal of the 7th Travellers Allowance Directive.
2. When you met the Prime Minister last week she mentioned to you our concern to see this Directive make rapid progress and the importance we attached to including in it duty-free facilities at the terminals of the Channel fixed link. I am therefore rather surprised at the Commission's decision.
3. Nevertheless I recognise the goodwill behind the Commission's intention to meet the legitimate concerns of member states in a different way. In particular, as far as the United Kingdom is concerned, I welcome the Commission's acceptance of the principle that equality of treatment for cross-Channel operators should also apply to the fixed link and you have reassured me that its competitive position will be protected.
4. As you are negotiating individually with member states and I do not know the full content of your proposals, it would be extremely helpful if you would make a clear statement of the Commission's intentions during discussion of the item at the ECOFIN Council on 8 December.

LORD COCKFIELD**BEGINS:**

1. Thank you for your letter of 28 November informing me of the Commission's withdrawal of the 7th Travellers Allowance Directive.
2. This action was unexpected. When you met the Prime Minister last week she mentioned to you our concern to see this Directive make rapid progress and the importance we attached to including in it duty-free facilities at the terminals of the Channel fixed link. You gave no indication then of the possibility of its withdrawal.
3. The Commission's decision is disappointing. We had, as Presidency, made considerable efforts with your co-operation to work for an agreement which took account of all the legitimate concerns of member states. In my view we were close to achieving a suitable compromise package before your intervention.
4. Nevertheless I recognise the goodwill behind the Commission's intention to meet these concerns in a different way. In particular, as far as the United Kingdom is concerned, I welcome the Commission's acceptance of the principle that equality of treatment for cross-Channel operators should also apply to the fixed link. You have reassured me that its competitive position will be protected by the Commission, by the introduction of legislation to cover duty-free facilities at the terminals if this becomes necessary in the light of progress on the abolition of fiscal frontiers.
5. As you are negotiating individually with member states and I do not know the full content of your proposals, it would be extremely helpful if you would make a clear statement of the Commission's intentions during discussion of the item at the ECOFIN Council on 8 December.



FROM: A W KUCZYS

DATE: 2 December 1986

MR LAVELLE

cc PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mr Mortimer
Miss Barber

Mr Knox - C&E
PS/Customs
Sir D Hannay - UKREP
Mr Bostock - UKREP
Mr Beales - UKREP

ECOFIN, 8 DECEMBER

The Chancellor and Economic Secretary this morning discussed the agenda for the December ECOFIN with you, Sir G Littler and Mr Knox.

Insurance cases

2. You mentioned that judgements were expected this week. It might be possible to say something after ECOFIN; on the other hand this would not rank as a triumph of the UK Presidency.

Travellers' allowances

3. It was agreed that the Chancellor (rather than the Prime Minister) should reply quickly to Lord Cockfield, noting his firm commitment, etc. You and Mr Knox would produce a draft today. You would also find out (either via Sir D Hannay, or via Mr Fitchew) what we thought Lord Cockfield would be prepared to say in the Council. The Chancellor would rather nothing was said, than that Lord Cockfield should say something unhelpful (either in the context of the Channel Tunnel, or by implication for BAA privatisation). If there were no helpful Commission statement at the Council, an alternative would be to release the Chancellor's



letter to the press. It was agreed that it would be no bad thing if the Danish PM raised the subject at the European Council.

4. On handling the subject at ECOFIN, it was important to avoid the story: "Commission slap down Council". The Chancellor would want to allow the States most affected to have their say (Germany, Denmark, Ireland, the UK and France); invite Lord Cockfield to speak; and then bring discussion to a close as quickly as possible. If other States were very unhappy with the Commission response, the Chancellor would sum up by asking the Commission to reflect on this. He would need procedural advice (from UKREP) on how this subject should be handled after ECOFIN - should it be remitted to COREPER? Or put on the agenda for the next ECOFIN?

Lunchtime discussion

5. The Chancellor would prefer not to discuss the financial aspects of capital markets over lunch: he thought it should be possible to find a better use of the time. One possibility was the Annual Economic Report, where we would want to avoid another "tour de table". But a number of countries would want to make minutes statements (eg the UK and others disassociating themselves from the section on financial engineering), so a way would have to be found of doing this.

Greece

6. The UK would want to speak in strong terms on this subject. Sir G Littler said that following discussion in the Monetary Committee on Monday morning, the choice for ECOFIN would probably be either to defer a decision until February, or reluctantly to agree to the proposal. The Chancellor asked for alternative forms of words for use in either case: both should include a suitable rebuke to the Greeks.

Medium term financial assistance

7. The Chancellor hoped that this could be taken as an "A point". You would check on whether this was possible.

NIC IV

8. The Council have to agree letters to the Parliament and the EIB, and approve regulations. But we would not want a discussion, just a vote. So this was a "false B point".

Agenda

9. In the light of this discussion, the Chancellor proposed the following agenda:*

- (i) Medium term financial assistance - as an "A point" if possible.
- (ii) NIC IV - as a "false B point".
- (iii) French DOM rum.
- (iv) Fuel in tanks.
- (v) Annual accounts of banks.
- (vi) Travellers' allowances.
- (vii) Lunchtime: Annual Economic Report. There would be a break after lunch for debriefing from Monetary Committee, followed by:
- (viii) Community loan to Greece.
- (ix) Closing remarks - hand-over to Belgian Presidency.

10. The Chancellor agreed to holding a bilateral with Lord Cockfield (Mr Beales has suggested that this should be at 11.00 am). He would also want a brief word with Delors.

AWK

A W KUCZYS

*PS

You have subsequently discussed this with Mr Beales and proposed some minor changes.

AWK

CHANCELLOR

Ch
 Content with these minor
 changes suggested by
 UKREP (which I think
 are within the spirit of
 what you decided this
 morning)?
 DWK
 2/12

FROM : R G LAVELLE

Date : 2 December 1986

cc Economic Secretary
 Sir G Littler
 Mr Edwards
 Mr Mortimer
 Miss Barber

ECOFIN 8 DECEMBER

While you were running over the ECOFIN agenda with us this morning, a parallel meeting was taking place in COREPER. The latter has clarified one or two points. For example, the obscure German reservation on the obscure Regulation 2891/77 has been lifted so that this can now become an 'A' point.

with UKREP

2. We have gone over/the re-ordering of the agenda items which you suggested. Following your approach of taking the most formal items first, we came out with the following very slightly revised list:

a. NCI IV

(Apparently not quite an 'A' point but a formal statement from the Chair.)

b. Medium Term Financial Assistance

(There is just a German reserve which will no doubt be restated and can be noted.)

c. Annual accounts of banks

(Another one minute item. Either the Germans will drop their reserve or can be voted down.)

d. French DOM rum

(A French statement, conceivably followed by a reference to COREPER.)

e. Duty free admission of fuel in tanks

(The Germans are not now expected to lift their reserve so the item simply waggles a Presidential finger at them.)

Content ✓

(see telegram below)

f. Travellers' allowances

Lunch

- i. Possibly a reference to insurances services.
- ii. Annual Economic Report.

g. A second tranche of Community loan to Greece.

h. Any other business.

3. A couple of points on the lunchtime items as stated above. On insurance, my impression was that you did not wish to make a meal of the Commission's proposals for a future timetable, not least since we did not yet know the ECJ judgment. I have suggested to UKREP that assuming the judgments suggest a positive programme, they let Cockfield's office know that it is likely that you will take an opportunity to ask him how he proposes to proceed: and one opportunity might be at lunch. On the annual report item, UKREP thought it was just possible that there might need to be some formal exchanges as well, as a clearing up operation. I said that if so no doubt a minute of two could be devoted to that on the return from lunch.

4. If you are content with these minor refinements, UKREP will send round a revised agenda order to delegations accordingly.


R G LAVELLE



FROM: A W KUCZYS

DATE: 3 December 1986

MR LAVELLE

cc: PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mr Mortimer
Mr Romanski
Miss Barber
Mr M Knox - C&E
Mr Bostock - UKREP

TRAVELLERS' ALLOWANCES

The Chancellor has seen your minute of 2 December (not copied to Mr Bostock) and the three possible draft letters to Lord Cockfield. He would prefer to send your draft - the one with no reference to the Prime Minister - with an amendment in the second paragraph. He would be grateful if this could be checked for strict accuracy: ... I attach a copy (with the amendment sidelined).

I have also sent a copy by fax to Mr Bostock, and I understand that he and Sir D Hannay are content with it.

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

A W KUCZYS

The Rt. Hon. Lord Cockfield
Vice-President of the
Commission of the European Communities
Rue de la Loi 200

(A type in
final form

DRAFT LETTER TO LORD COCKFIELD

B-1049 BRUSSELS

Thank you for your letter of 28 November about the 7th travellers' allowance Directive. Your letter makes clear the Commission's intention to take initiatives to meet the concerns of member states in a different way. In this context, I welcome the Commission's acceptance of the principle that equality of treatment for cross-channel operators should also apply to the fixed link and you have reassured me that its competitive position will be protected.

x As you are negotiating individually with members' states
x and I do not know the full content of your proposals, it
x would be helpful if you would make a clear statement of
the Commission's intentions, including reaffirmation of
your undertaking to ensure that the cross-channel fixed
link will enjoy the same fiscal treatment as other cross-
channel operators, during discussion of this item at the
ECOFIN Council on 8 December.

SECRET



Meaning
 PWP
 [unclear]

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

D Norgrove Esq
 10 Downing Street
 LONDON
 SW1

3 December 1986

Dear David

We spoke briefly yesterday about the Chancellor's intention to speak to Delors in the margins of ECOFIN on Monday about Leyland Trucks. For this, he would find it helpful to know the outcome of any discussion between the Prime Minister and Delors at the European Council this week. The Chancellor leaves for Brussels at 7.30 am on Monday, but I would be very happy to take a message by phone from Charles Powell over the weekend; alternatively, Alex Allan or Cathy Ryding could relay a message to us in Brussels on Monday morning.

Yours ever,

Tony

A W KUCZYS

Cathy/Alex

If I have not heard over the weekend, I'll have to ask you to chase this on Monday

AWK
 3/12



Meena
EcoFIN (A)

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

D Bostock Esq
UKREP
Brussels

3 December 1986

Dear David

TRAVELLERS' ALLOWANCES

I enclose the top copy of the Chancellor's letter to Lord Cockfield. You have already conveyed the text of this to Lord Cockfield's Cabinet.

Yours ever,
Tony

A W KUCZYS



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

The Rt Hon Lord Cockfield
Vice-President of the
Commission of the European Communities
Rue de la Loi 200
B-1049 BRUSSELS

3 December 1986

A handwritten signature in cursive script, appearing to read 'Lord Cockfield'.

Thank you for your letter of 28 November about the 7th travellers' allowance Directive. Your letter makes clear the Commission's intention to take initiatives to meet the concerns of member states in a different way. In this context, I welcome the Commission's acceptance of the principle that equality of treatment for cross-channel operators should also apply to the fixed link and you have reassured me that its competitive position will be protected.

As you are negotiating individually with member states and I do not know the full content of your proposals, it would be helpful if you would make a clear statement of the Commission's intentions, including reaffirmation of your undertaking to ensure that the cross-channel fixed link will enjoy the same fiscal treatment as other cross-channel operators, during discussion of this item at the ECOFIN Council on 8 December.

NIGEL LAWSON

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.



FROM: A W KUCZYS
DATE: 3 December 1986

MR LAVELLE

PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mr Mortimer
Miss Barber

ECOFIN 8 DECEMBER

The Chancellor was content with the minor refinements proposed in your note of 2 December.

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

A W KUCZYS

CHANCELLOR

FROM : R G LAVELLE
3 December 1986cc Economic Secretary
Sir G Littler
Mr Edwards
Mr Mortimer
Miss BarberECOFIN 8 DECEMBER

A couple of, I trust, final developments on this agenda.

2. The German reserves on the medium term financial assistance item and the annual accounts of banks item have now both been lifted. These topics can therefore now be regarded as false 'B' points and will take even less time.

3. Less welcome news is that Pfeiffer is said to be very unhappy about the suggestion that the Annual Economic Report should be discussed over lunch. The suggestion is that the 1974 convergence decision requires the Council formally to discuss the report after it has received the EP and Economic and Social Committee opinions. Since Pfeiffer speaks and understands only German, he would have difficulty in participating fully in a lunchtime discussion.

4. It is genuinely difficult to know precisely how it will prove best to occupy lunch. It is conceivable that the travellers' allowance item could spill over into it. However, given the news about the shortening of the earlier items, there seems a reasonable chance that we would be able to conclude travellers' allowances just ahead of lunch. My guess is that Pfeiffer simply needs an opportunity to deliver a five-minute spiel responding to points made at the last meeting in full Council.

5. In the circumstances, I have told UKREP that I think the best solution is to leave the agenda as it is and to tell Pfeiffer that we will hope to take his item in the latter part of the morning. I doubt if he could complain if some subsequent discursive remarks occurred at lunch.

You could make some formally concluding comments after lunch in any event. No doubt Pfeiffer can have an interpreter near him at lunch. We can also make the point that it is important to provide proper time for a full discussion of Greece in the afternoon.

6. This is all essentially stringing them along. Essentially my thought is simply that if we can, we should buy off Pfeiffer with a few minutes in full Council before lunch. May we so proceed?



R G LAVELLE



cc: PS/EST
 Mr Lavelle
 Mr Culpin
 Mr M Knox - Customs
 Mr Beales - UKREP
 Miss Lothian - UKREP (by fax)
 Mrs Lester

Meena
~~ECOFIN~~ bldg
A

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

RS

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

3 December 1986

Dear Sylvia

I am writing to confirm the arrangements we discussed yesterday for the Chancellor's and Economic Secretary's attendance at ECOFIN in Brussels on Monday, 8 December. The party will be as follows:

- Chancellor (Rt Hon Nigel Lawson MP)
- Economic Secretary (Ian Stewart RD MP)
- Mr Roger Lavelle
- Mr Robert Culpin
- Mr Mike Knox (HM Customs & Excise)
- PS/Chancellor (Tony Kuczys)
- PS/Economic Secretary (Guy Westhead)

You are providing a 7-seater HS125 (Flight No. ASCOT 1510), departing Northolt at 0800 GMT, arriving Brussels National Airport Abelay Area at 10.00 am local time. Coffee and continental breakfast will be available on the outward flight.

The plane will be standing by to return to Northolt from 18.00 Brussels time (17.00 GMT). Drinks and snacks will be available. Mr Lavelle will be making his own way back, separately from the rest of the party.

Yours ever,
Tony

A W KUCZYS



Meera
ECOFIN
RJ

FROM: A W KUCYS

DATE: 4 December 1986

MR LAVELLE

cc PS/Economic Secretary
Sir G Littler
Mr A Edwards
Mr Mortimer
Miss Barber

ECOFIN, 8 DECEMBER

The Chancellor is content with the further suggestions in your note of 3 December. He has commented that Pfeiffer can have his opening say before lunch, and we can discuss the Annual Report during lunch.

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

A W KUCZYS

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INFO ROUTINE TO OTHER EC POSTS

FRAME ECONOMIC

UKREP TELNO 4221 TO FCO: DUTY FREE ALLOWANCES - 7TH TRAVELLERS'
ALLOWANCE DIRECTIVE

1. DENMARK HAS NOW BEEN OFFERED A DEROGATION ON TRAVELLERS' ALLOWANCES SOMEWHAT LESS GENEROUS THAN THAT INCLUDED IN OUR PRESIDENCY COMPROMISE PACKAGE ON THE 7TH DIRECTIVE. IT IS UNCLEAR WHETHER SCHLUTER WILL NOW RAISE THIS AT THE EUROPEAN COUNCIL.
2. WE AND THE FRENCH HAVE RECEIVED LETTERS FROM LORD COCKFIELD ASSURING US OF EQUAL TREATMENT ON DUTY-FREE AS BETWEEN THE CFL AND CROSS-CHANNEL FERRIES, AND PROMISING (QUOTE) FURTHER APPROPRIATE ACTION (UNQUOTE) SHOULD THIS BE NECESSARY IN FUTURE. WE DO NOT YET KNOW WHAT (IF ANYTHING) THE COMMISSION WILL OFFER THE GERMANS (ON BUTTERSHIPS) AND THE IRISH (ON THE LEVEL OF DUTY-FREE BEER IMPORTS).
3. ALTHOUGH THE 7TH DIRECTIVE ITSELF IS PROBABLY BEYOND RECALL,

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THE CHANCELLOR IS SEEKING CONFIRMATION FROM LORD COCKFIELD THAT THE COMMISSION WILL MAKE A CLEAR STATEMENT OF THEIR INTENTIONS AT THE ECOFIN COUNCIL ON 8 DECEMBER. OUR AIM WILL BE TO GET ECOFIN CONCLUSIONS ENDORSING THE PRINCIPLE OF EQUAL FISCAL TREATMENT.

4. WE INTEND TO TREAT THESE VARIOUS PROBLEMS IN TANDEM EVEN IF OUR LEGISLATION PACKAGE UNDER THE 7TH CUSTOMS DIRECTIVE IS NO LONGER A RUNNER. IF SCHLUTER DOES RAISE DANISH TRAVELLERS' ALLOWANCES AT THE EUROPEAN COUNCIL, WE WOULD AIM AT CONCLUSIONS WHICH REMITTED TO ECOFIN ALL THE CONCERNS EXPRESSED BY INDIVIDUAL MEMBER STATES WITH A REQUEST TO REFLECT THOSE CONCERNS IN ITS OWN CONCLUSIONS.

5. PLEASE THEREFORE EXPLAIN TO YOUR HOST GOVERNMENTS THAT IF THIS ITEM IS RAISED AT THE EUROPEAN COUNCIL WE SHALL AIM TO SUM UP ON THE LINES OF PARA 4. WE HOPE THEIR HEAD OF GOVERNMENT WILL BE BRIEFED TO SUPPORT THIS APPROACH. (FOR PARIS) PLEASE EMPHASISE OUR COMMON INTEREST IN CONCLUSIONS ON THESE LINES. YOU MAY HAND OVER A COPY OF THE CHANCELLOR'S MESSAGE TO LORD COCKFIELD (TEXT IN MIFT).

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INFO ROUTINE TO OTHER EC POSTS

MIPT - CHANCELLOR'S LETTER TO LORD COCKFIELD

1. BEGINS: THANK YOU FOR YOUR LETTER OF 28 NOVEMBER ABOUT THE 7TH TRAVELLERS' ALLOWANCE DIRECTIVE. YOUR LETTER MAKES CLEAR THE COMMISSION'S INTENTION TO TAKE INITIATIVES TO MEET THE CONCERNS OF MEMBER STATES IN A DIFFERENT WAY. IN THIS CONTEXT, I WELCOME THE COMMISSION'S ACCEPTANCE OF THE PRINCIPLE THAT EQUALITY OF TREATMENT FOR CROSS-CHANNEL OPERATORS SHOULD ALSO APPLY TO THE FIXED LINK AND YOU HAVE REASSURED ME THAT ITS COMPETITIVE POSITION WILL BE PROTECTED.

2. AS YOU ARE NEGOTIATING INDIVIDUALLY WITH MEMBER STATES AND I DO NOT KNOW THE FULL CONTENT OF YOUR PROPOSALS, IT WOULD BE HELPFUL IF YOU WOULD MAKE A CLEAR STATEMENT OF THE COMMISSION'S INTENTIONS, INCLUDING REAFFIRMATION OF YOUR UNDERTAKING TO ENSURE THAT THE CROSS-CHANNEL FIXED LINK WILL ENJOY THE SAME FISCAL TREATMENT AS OTHER CROSS-CHANNEL OPERATORS, DURING DISCUSSION OF THIS ITEM AT THE ECOFIN COUNCIL ON 8 DECEMBER. ENDS

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FROM: A W KUCZYS

DATE: 4 December 1986

MISS BARBER

cc Mr Lavelle

LORD COCKFIELD: TRAVELLERS ALLOWANCES: ECOFIN 8 DECEMBER

The Chancellor has seen David Bostock's note for the record of Sir D Hannay's meeting this morning with Lord Cockfield. According to that note, Lord Cockfield will also wish to discuss with the Chancellor on Monday morning what if anything he should say on financial services in the light of the European Council's conclusion; and he would like to give a progress report on the IDIS project. The Chancellor would be grateful for a note on these points in his briefing for ECOFIN

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

A W KUCZYS



Ch

A massive brief I'm afraid
— 2 volumes. Volume 1
covers items (a) to (g); and
Volume 2 items (h) to (k).

There are also separate blue
folders containing:

1. subjects to raise with
Balladur
2. subjects to raise with
Delors
3. the Annual Economic
Report.
4. text of Bank Accounts Directive.

The secretariat have not managed
to come up with a list of
Ministers present. We think:
Stoltenberg will not be there
Ruding & Balladur will
Andersen will represent Denmark
Bruton & Cadilhe will be present.

AWK

FROM: JANET BARBER
DATE: 5 DECEMBER 1986

1. MR LAVELLE - seen in draft

cc ECONOMIC SECRETARY

2. CHANCELLOR

draft

ECOFIN 8 DECEMBER

ECOFIN on 8 December is in the Charlemagne in Brussels. You are meeting Lord Cockfield at 11.00, and the Council begins at 11.30.

2. The agenda is as follows:

At meeting with Lord Cockfield

- (a) travellers' allowances, financial services and insurance, IDIS.

In morning session of the Council

- (b) Community lending to SMEs - NCI IV;
- (c) Medium Term Financial Assistance;
- (d) Annual accounts of banks;
- (e) French DOM rum;
- (f) duty free admission of fuel in tanks of goods vehicles;
- (g) travellers' allowances;
- (h) Annual Economic Report.

Over lunch

Annual Economic Report continued

- (i) ~~insurance~~ (possibly) *Follow up from Euro Council for S. 1000*

In the afternoon session of the Council

- (j) Community loan to Greece;
- (k) (under any other business) the Banking Advisory Committee.

This is new. You may want to avoid a substantive item under A.O.B. In which case, switch to lunchtime? DWK

Briefs on all of these items are attached.

3. You might like to check that your colleagues know at the beginning of the meeting the precise order of the agenda, since we have changed it since the Coreper discussion. In particular, we hope at least to start the Annual Economic Report before lunch (as Pfeiffer is unhappy about a lunchtime discussion).

4. You are also planning to speak to your ministerial colleagues on fisheries structures, to Delors on exchange control, and to Balladur on a G5 matter. You have been briefed separately on these items - *in separate blue folders for Delors and Balladur* DWK

5. In general, the briefs for the Council are arranged as follows:

IN THIS FOLDER

IN VOLUME 2

- Presidency handling brief, with Presidency objective and speaking note
- UK objective and speaking note for the Economic Secretary
- background
- relevant documents

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

Meeting with Lord Cockfield

6. This is covered in Brief A.

7. Lord Cockfield wants to discuss:

- (a) travellers' allowances (Brief G)
- (b) insurance, in the light of the ECJ judgements (Brief I)
- (c) IDIS

Community lending to SMEs

8. This is covered in Brief B, which makes use of the Council Secretariat Presidency handling brief.

9. There should be no substantive discussion, as the Council is merely being asked to approve the texts (already agreed in Coreper) necessary to take forward the agreement reached in November. There will be no need for the Economic Secretary to say anything, so there is no separate UK speaking note in Brief B.

Medium Term Financial Assistance

10. This is covered in Brief C, which makes use of the Council Secretariat Presidency handling brief.

11. Again, there should be no need for much discussion, as the Decision, which extends the life of the MTFA for two years and reduces the ceiling of credits under it by 2 billion ecus, has already been agreed in Coreper.

12. The important point for the UK is that we have a Parliamentary scrutiny reserve on the Decision, and the Economic Secretary should ensure that this is maintained. We hope to be able to lift it fairly soon.

Annual Accounts of Banks

13. This is covered in Brief D. For this we have used DTI's Presidency handling brief, but the Council Secretariat brief is attached for information.

14. Again, there should not be much discussion. The Directive, which is part of the internal market programme, has been agreed more quickly than expected. There is no separate speaking note for the Economic Secretary, as there should be nothing for him to say.

French DOM Rum

15. This is covered in Brief E, which makes use of the Council

Secretariat Presidency handling brief (with slight amendments).

16. The French will make a statement asking for urgent consideration of a proposal to allow them to have a lower rate of duty on rum from their overseas departments for 5 years. ECOFIN will have to decide whether to refer the matter to Coreper. The UK would prefer this not to happen.

Duty free admission of fuel in tanks of goods vehicles

*Latvia
Greece
port?*

17. This is covered in Brief F. We have not used the Council Secretariat's handling brief for this item, because it does not include a fallback positions we would wish to explore if necessary. But it is attached for information.

18. The issue is the amount of fuel in lorry tanks which can cross internal Community frontiers without payment of duty or tax. Every member states, except Germany, is willing to agree a staged increase from the present limit of 200 litres to 600 litres by 1992. The item is on the agenda to give Germany a chance to lift its reserve. A possible fallback is an increase to 300 litres with a review thereafter. If Germany will not move, the UK Presidency will at least have demonstrated clearly where the responsibility for failure to make progress lies.

Travellers' allowances

19. This is covered in Brief G. This makes use of the Council Secretariat Presidency handling brief (with suitable amendments).

20. ECOFIN on 17 November asked Coreper to produce a compromise package on member states' various problems (Danish derogation, CFL, German butterships, Irish beer), so that the 7th and 8th travellers allowances Directives could be adopted at this ECOFIN. The UK Presidency produced a package. However, the Commission's reaction was to withdraw the 7th Directive (which was to give a legal base to tax and duty free shopping in intra-Community travel), while offering separate initiatives to meet member states concerns. So we are now trying to get agreement on these initiatives, and to get the 8th Directive (which increases allowances for travellers from third countries) considered by Coreper, in order to make progress as quickly as possible.

Annual Economic Report

21. This is covered in Brief H, which makes use of the Council Secretariat Presidency handling brief.

22. The report, plus the circulated amendments (attached to the brief), should be adopted in principle at this Council. (Formal adoption awaits jurists/linguists, and will be done by means of an "A" point later in the month. We understand that adoption requires a simple majority.

23. There are two small problems to note:

- (a) we are not happy with the Commission amendments to page 7 (paragraph 1.7), page 99 (last paragraph, 5th and 6th sentences), and page 157 (second sentence) of the Report. As explained in the UK brief, we want to use the same

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The report is in a separate blue folder
ch

wording as in the UK chapter (page 223), which suggests rather less certainty about the UK's room for manoeuvre next year. We have told the Commission about this, and they will probably agree. They will circulate a note to this effect in the Council.

- (b) we understand that Spain is unhappy with a (French inspired) amendment (on page 136, 3rd and 4th paragraph), and may make a unilateral minutes statement, and perhaps abstain on the adoption of the report. But if they get support from others, the Presidency may feel it necessary to put forward a compromise text. UKREP will advise at the time.

24. If others are making minutes statements, we would like a UK one on financial engineering.

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

Insurance

26. This is covered in Brief I.

27. Over lunch, you are going to ask Lord Cockfield what the Commission's plans are in the light of the ECJ judgement. You will also be discussing insurance in your bilateral meeting with Lord Cockfield. In the circumstance, we have not included a separate speaking note for the Economic Secretary.

Community loan to Greece

28. This is covered in Brief J. We have used our own Presidency handling brief, but the Council Secretariat one is attached for information.

29. The issue is the release of the second half of the 1.75 billion ecu loan to Greece, agreed by ECOFIN in November 1985, under the Community Loan Mechanism. Although this is technically for the Commission to decide, they have undertaken to take account of the views of the Council. Together with this, the Commission has to take decisions on the trade derogations which Greece obtained as part of the loan package, eg the import deposit scheme and the export subsidy scheme. We attach great importance to removing these or substantially reducing their effect.

30. The Monetary Committee will be meeting in the morning before the Council, and Sir Geoffrey Littler will report before the ECOFIN discussion.

* The Banking Advisory Committee and comitology *

31. This is covered in Brief K.

32. We have made strenuous efforts to get the Dutch, Irish, or Italians to raise this, but we are not confident that any of them will. This is not because of lack of enthusiasm, but because their officials have had little time to brief them. They can be relied upon to support. It would be greatly preferable if one of them could be persuaded to intervene on this, but rather than let the point drop - to which we attach great importance - we would be

Handwritten notes:
 A?
 * Ch/NB You have not seen this on agenda previously
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grateful if the Economic Secretary would do so.

Press Statement

33. A speaking note and background is attached at Brief L.

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

Janet Barber

JANET BARBER
EC1

Member States Votes

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

Germany	10)
France	10) (large)
Italy	10)
United Kingdom	10)
Spain	8	
Belgium	5)
Greece	5)
Netherlands	5) (intermediate)
Portugal	5)
Denmark	3)
Ireland	3) (small)
Luxembourg	2	

Qualified Majority

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

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AND TO IMMEDIATE SCOTTISH OFFICE LONDON, TREASURY, ODA, DOE
AND TO IMMEDIATE INLAND REVENUE, CUSTOMS AND EXCISE, BANK OF ENGLAND
AND TO IMMEDIATE COI, WELSH OFFICE CARDIFF

FRAME FORECAST

TELEX 3652

SUBJECT : **FIRST LIST OF 'A' ITEMS** FOR 1128TH MEETING OF COUNCIL OF
EUROPEAN COMMUNITIES (ECONOMIC AND FINANCIAL QUESTIONS)
ON 8 DECEMBER 1986

- ORAL QUESTION NO O-181/85, WITH DEBATE, PUT TO THE COUNCIL BY MRS LEHIDEUX, MEMBER OF THE EUROPEAN PARLIAMENT - A POLICY FOR THE FAMILY AND A HIGHER BIRTH-RATE IN THE COMMUNITY (10639/86 ASSQUE 489)
(APPROVED BY COREPER (PART 1) ON 2.12.1986)
- WRITTEN QUESTIONS PUT TO THE COUNCIL BY MEMBERS OF THE EUROPEAN PARLIAMENT
 - A) NO 1734/86 PUT BY MR PERINAT ELIO - POSSIBLE TRADE AGREEMENT BETWEEN SPAIN AND ISRAEL (10634/86 ASSQUE 484)
 - B) NO 1554/86 PUT BY MR VAN DER WAAL - DEREGULATION
NO 1632/86 PUT BY MR KUIJPERS - REGULATION ESTABLISHING GENERAL RULES APPLYING TO PRODUCTION REFUNDS IN THE CEREALS AND RICE SECTOR
NO 1644/86 PUT BY MR ANTONIOZZI - COMMUNITY TOURISM
NO 1671/86 PUT BY MR VAN AERSSSEN - CO-OPERATION AGREEMENTS WITH ALL THE ARAB AND MEDITERRANEAN COUNTRIES
NO 1674/86 PUT BY MR RAMIREZ HEREDIA - INTERNATIONAL CONVENTIONS ON MEASURES TO COMBAT RACISM AND XENOPHOBIA (10638/86 ASSQUE 488)
(APPROVED BY COREPER (PART 1) ON 2.12.1986)
- TEXTILES
 - ADJUSTMENT OF THE BILATERAL AGREEMENT FOLLOWING ENLARGEMENT (10982/86 TEXT 96, 6978/1/86 TEXT 30 REV 1, 7150/1/86 TEXT 42 REV 1, 7149/1/86 TEXT 41 REV 1, 7151/1/86 TEXT 43 REV 1, 7225/1/86 TEXT 46 REV 1, 7217/1/86 TEXT 45 REV 1, 7147/1/86 TEXT 39 REV 1, 7148/1/86 TEXT 40 REV 1)
(APPROVED BY COREPER (PART 1) ON 26.6.1986 AND FINALIZED BY WORKING PARTY OF LEGAL/LINGUISTIC EXPERTS)
 - ADVISORY COMMITTEE OF THE EURATOM SUPPLY AGENCY - REPLACEMENT OF MR M.G. STEVENS (10891/86 ATO 85)
(APPROVED BY COREPER (PART 1) ON 2.12.1986)

/HANNAY.

HANNAY

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AND TO IMMEDIATE SCOTTISH OFFICE LONDON, TREASURY, ODA, DOE

AND TO IMMEDIATE INLAND REVENUE, CUSTOMS AND EXCISE, BANK OF ENGLAND

AND TO IMMEDIATE COI, WELSH OFFICE CARDIFF

FRAME FORECAST

SUBJECT : SUPPLEMENT TO LIST OF 'A' ITEMS FOR 1128TH MEETING OF
----- COUNCIL OF EUROPEAN COMMUNITIES (ECONOMIC AND FINANCIAL
QUESTIONS) ON 8 DECEMBER 1986
REF. TELEX NO 3652

- PROPOSAL FOR A COUNCIL REGULATION AMENDING REGULAION (EEC, EURATOM, ECSC) NO 2891/77 IMPLEMENTING THE DECISION OF 21 APRIL 1970 ON THE REPLACEMENT OF FINANCIAL CONTRIBUTIONS FROM MEMBER STATES BY THE COMMUNITY'S OWN RESOURCES
 - APPROVAL OF THE COMMON POSITION (10593/86 ECOFIN 79 RESPR 8, 10594/86 ECOFIN 80 RESPR 9)
(APPROVED BY PERMANENT REPRESENTATIVES COMMITTEE (PART 1) ON 2.12.86)
- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE COUNCIL REGULATION CONCERNING THE CUSTOMS DUTY TO BE APPLIED TO IMPORTS INTO THE COMMUNITY AS CONSTITUTED ON 31 DECEMBER 1985 FROM SPAIN OR PORTUGAL OF HYBRID SORGHUM FOR SOWING FALLING WITHIN COMMON CUSTOMS TARIFF SUBHEADING 10.07 C I (10898/86 UD 311)
(APPROVED BY PERMANENT REPRESENTATIVES COMMITTEE (PART 1) ON 2.12.86)
(9309/1/86 UD 231 REV 1) (FINALIZED BY WORKING PARTY OF LEGAL/LINGUISTIC EXPERTS)
- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE COUNCIL REGULATION TEMPORARILY SUSPENDING THE AUTONOMOUS COMMON CUSTOMS TARIFF DUTIES ON A NUMBER OF INDUSTRIAL PRODUCTS (10676/86 UD 294,
10028/1/86 UD 261 REV 1)
(APPROVED BY PERMANENT REPRESENTATIVES COMMITTEE (PART 1) ON 25.11.86)
- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE COUNCIL REGULATION OPENING, ALLOCATING AND PROVIDING FOR THE ADMINISTRATION OF A COMMUNITY TARIFF QUOTA FOR FROZEN PEAS, FALLING WITHIN SUBHEADING EX 07.02.B OF THE COMMON CUSTOMS TARIFF, ORIGINATING IN SWEDEN (9425/1/86 UD 241 REV 1)

(APPROVED)

(APPROVED BY PERMANENT REPRESENTATIVES COMMITTEE (PART 1) ON
12.11. 86)
- IRON AND STEEL : EXTERNAL ASPECTS 1987
(11060/86 SID 554)
(AMENDED BY PERMANENT REPRESENTATIVES COMMITTEE (PART 2) ON 2.12.
86)

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(ADVANCED AS REQUESTED)

*Whom to see?
Sp. & Gen.?*

BILATERAL WITH LORD COCKFIELD

You are seeing Lord Cockfield immediately before the Council at 11.00. You will both want to discuss:

- (a) travellers' allowances; *— has Shaker?*
- (b) financial services, particularly insurance.

We understand that Lord Cockfield wants to give you a progress report on:

- (c) IDIS (Interbourse Data Information System).

2. The briefing on travellers' allowances and insurance for ECOFIN proper will be relevant for this meeting. On insurance, you are planning to ask Lord Cockfield to tell ECOFIN (probably over lunch) how the Commission intends to proceed in the light of the ECJ judgements and any references in the European Council conclusions. On financial services or the internal market more generally, you can refer to the brief on your press statement.

3. The rest of this brief is devoted to IDIS.

4. The Interbourse Data Information System is a project that links up the different stock exchanges in the Community. It has been developed by the European Committee of Stock Exchanges in conjunction with the Commission (DGXV). The project involves the installation of a teleprocessing network, based on the system of packet switching developed by the postal services, which is designed to link up on a computerised basis the Community stock exchanges.

5. The Commission seem to be very keen on IDIS. They have managed to get a small provision (2 mecu) included in the 1987 Community budget (as it stands at the moment), for financial aid to the IDIS project, to help with setting-up costs. In the text of the budget, the Commission expresses the view that "IDIS would make for a marked improvement in the depth and liquidity of European stock exchanges and hence contribute to the creation of a real European capital market".

6. The UK's reaction to IDIS has two strands:

- (a) We do not agree on the need for budgetary provision to help IDIS. If the stock exchanges want this system, they should pay for it themselves.
- (b) On the scheme itself, given the position of London as an important financial centre, it could help to increase business for London in the future.

7. It is suggested that you merely take note of Lord Cockfield's progress report.

BACKGROUND

Relevant documents (attached):

- (1) 10899/86 - report of the 27 November discussion in Coreper
- (2) 10772/86 - revised text of NCI IV Decision;
- (3) 10773/86 - draft letters from the President of the Council to the President of the European Parliament and the President of the EIB;
- (4) 10774/86 - declaration for the Council minutes;
- (5) 9979/85 - Opinion of the European Parliament.

Agreement at November ECOFIN

1. At the November ECOFIN, the Council reached a political agreement on Community lending to small and medium sized enterprises (SMEs) as follows:

- (a) a total of 1500 mecu Community lending to SMEs, made up of:
- (b) a traditional NCI (NCI IV) of 750 mecu, ie with the Commission doing the necessary borrowing and the EIB managing the loans; and
- (c) a further 750 mecu from EIB own resources, ie with the EIB responsible for both borrowing and lending.

This ECOFIN

2. This ECOFIN should agree without discussion the texts to implement the substance of the November agreement. There are three texts:

- (1) the revised text of the NCI IV Decision, incorporating the 750 mecu, and a number of other detailed changes (Document 10772/86);

(2) a draft letter from the President of the Council to the President of the European Parliament, Mr Pflimlin, informing him of the Council's agreement (Annex I of Document 10773/86):

(3) a draft letter from the President of the Council to the Chairman of the Board of Governors of the EIB, Mr Simonsen (Annex II of Document 10773/86).

All of these have already been agreed at official level in Coreper, so no discussion should be required. In particular, the Germans are content.

3. In respect of the NCI IV text, all that is possible at this ECOFIN is for the Council to reach a common position on the text. NCI IV cannot be adopted until the process of consulting the European Parliament is complete (see paragraph 4 below).

4. The need for the letter to the European Parliament arises out of the Parliament's Opinion on the original NCI IV proposal of 1500 mecu. The Opinion said that the Parliament would request conciliation if the 1500 mecu were reduced. (Given the precedents set in respect of previous NCIs, it is clear that NCI IV is subject to conciliation.) The draft letter to the Parliament argues that the Council has accepted the substance of the Commission's proposal, but has split the 1500 mecu into two elements. It asks the Parliament whether or not, in these circumstances, it wishes to invoke conciliation. If the Parliament insists on conciliation, the normal procedure would be for this to take place in the margins of a future ECOFIN (ie very likely under the Belgian Presidency).

5. The EIB have now said that the letter to them should be sent to the Bank's President, Dr Broder, rather than Mr Simonsen. (There is no need for this detail to be mentioned in the Council.) The EIB's Board of Directors is meeting on 9 December, the day after ECOFIN, and will discuss the matter. If (as seems very likely) they can agree on the issue, the EIB will instigate a

written procedure to obtain the approval of the Board of Governors, including, presumably, the formal Board of Governors Decision under Article 9(2) of the EIB's Statute giving the necessary authority for the Bank to undertake global lending to SMEs in non-assisted areas. If the EIB Board of Directors have any problems, these would probably have to be discussed in full at their January meeting. To prevent any procedural problems, UKREP are contacting the EIB to ask that no irrecoverable steps are taken in advance of agreement with the European Parliament.

6. If they are agreed, the letters to the Parliament and to the EIB will be dispatched immediately after ECOFIN.

Council minutes' statements

7. These are shown in Document 10774/86. The UK (with the Germans, Dutch and Danes) has subscribed to a statement to the effect that the EIB should not be prevented from expanding its financing for SMEs beyond the 750 mecu in the ECOFIN agreement. This reflects our belief that the EIB is the most appropriate instrument for project financing in the Community, and that there is really no need for a separate NCI. In addition, we attach importance to the EIB and Commission statements (requested by us) on Articles 4 and 6 of the NCI IV Decision, covering guarantees, risk to the Community budget, deferment of interest and principal repayments, and Commission/EIB consultation on borrowing under NCI IV.

UK interest

8. The UK wants to push forward the implementation of the November agreement as quickly as possible. We are content with all three texts as they stand. If all goes as expected, there should be no need for a UK intervention at this ECOFIN.

MEDIUM TERM FINANCIAL ASSISTANCE (MTFA): UK BRIEF FOR ECONOMIC SECRETARY

UK OBJECTIVE

- (1) to register agreement to the proposed Decision, subject to a Parliamentary scrutiny reserve;
- (2) to go along with the proposed minutes statement on assumption that this is a Council statement ie subscribed to by all member states.)

LINE TO TAKE

- UK must maintain Parliamentary scrutiny reserve on the Council Decision. Otherwise content.

BACKGROUND

Relevant document (attached):

COM(86)663 final - proposal for a Council Decision amending Decision 71/143/EEC setting up machinery for medium term financial assistance.

The Commission's proposal

1. The MTFA is one of two medium term Community instruments for assisting member states which have balance of payments problems:

(a) under the MTFA, assistance is provided in the form of loans, on a quota basis, direct from other member states. The current facility has a ceiling of 15.925 billion ecu, the UK quota share being 3.105 billion ecu.

(b) under the Community Loan Mechanism (CLM), the Commission borrows on the capital markets, and on-lends to the recipient member state. The current ceiling for loans outstanding under this facility is 8 billion ecu.

Both facilities make loans conditional upon the implementation of economic policies aimed at a sustainable balance of payments position.

2. Of the two, the CLM has been the preferred instrument in recent years. France borrowed 4 billion ecu under the CLM in 1981 (of which some 0.8 billion ecu has been repaid), and a loan of 1.75 billion ecu for Greece was agreed in 1985. The MTFA is regarded by us, and by several other member states, as unusable, because contributions under it would count as public expenditure and would be a drain on the reserves. There is provision for a contributor to claim exemption, on grounds of its own balance of payments or reserves position, but this requires justification

to the Council and involves surveillance by the Monetary Committee. By contrast, the CLM creates only an indirect public expenditure contingent liability, being guaranteed by the Community budget.

3. The MTFA was set up in 1971, and is renewed periodically, pending the "definitive phase of the European Monetary System" ie the creation of a European Monetary Fund, and full utilisation of the ecu as a reserve asset and means of settlement. This definitive phase is currently not in prospect. The last renewal in December 1984, was for two years from 1 January 1985 to 31 December 1986. When the MTFA was last renewed, ECOFIN agreed in addition to switch 2 billion ecu of available support from the MTFA to the CLM. However, no formal reduction was made in the MTFA, because the corresponding formal increase in the CLM could not be made until a later date (because an opinion from the European Parliament was required). The CLM was in fact increased in April 1985. Therefore the Commission have proposed that the 2 billion ecu reduction in the MTFA be made now. The new ceiling would be 13.925 billion ecu, and the UK quota 2.715 billion ecu.

4. The Commission have also proposed repeating the December 1984 Council minutes statement, which says that:

- (a) the Council will in future exploit the possibility of combining use of the MTFA with use of the CLM;
- (b) the Council will consider using the CLM in conjunction with the MTFA if any member states opt out of the MTFA contributions (under the arrangements described in paragraph 2 above);
- (c) in a particular case, the Commission may recommend either the CLM or the MTFA depending on the circumstances.

5. The proposal has been considered by the EC Monetary Committee, which, under the Treaty of Rome, advises the Commission and the

Council on monetary and financial matters.

UK position

6. We see no need to object to a further two year extension of the MTFFA although in specific cases we would almost certainly argue that use of the CLM was preferable because of the public expenditure implications. We welcome the proposed two billion ecu reduction, which we pressed for in the ECOFIN discussion in December 1984.

7. The proposed Council minutes statement, although probably harmless, is a little less welcome. It does not reflect our problems with the MTFFA, which were aired in a Monetary Committee discussion earlier this year. We made it clear to the Commission that we preferred the CLM to the MTFFA (for the reason given in paragraph 2 above), and that if any changes were to be made, the MTFFA should be treated as a safety-net for when the CLM could not be used, or MTFFA contributions should be made capable of being mobilised quickly so that they could count as part of member states' reserves. Several other member states supported this. By contrast, the proposed minutes statement seems more in keeping with making more use of the existing form of the MTFFA (which may remain a Commission ambition).

Discussion at this ECOFIN

8. We expect that the Decision on the extension and reduction of the MTFFA will be approved with little discussion. It cannot be formally adopted, because we have a Parliamentary Scrutiny reserve on it. Formal adoption will therefore take place as an "A" point at a later Council.

9. The Germans said in Coreper that they could not agree to the repetition of the 1984 Council minutes statement. However they have now lifted their reserve. Despite our misgivings we would not want to hold up matters by objecting to the minutes

statement ourselves. Therefore the Decision and the minutes statement should be approved without substantive discussion.

[10. We understand that approval of the Council Decision requires.]

European Parliament

11. The MTFA is based on Articles 103 and 108 of the Treaty of Rome, so the European Parliament does not have to be consulted about it. However, in the Resolution on the 1985 CLM increase, the Parliament expressed its unhappiness with the idea of reducing the MTFA. So they may complain, once the Council Decision is agreed.

ECOFIN 8 DECEMBERANNUAL ACCOUNTS OF BANKS : PRESIDENCY BRIEF

Relevant Documents:

1. 11078/86 : Note to the Council (attached)
2. 10872/86 : Text of the Directive (~~attached to selected~~
(in separate blue copies)
folder)

PRESIDENCY SPEAKING NOTE

The German delegation having indicated that it is able to lift its reservation regarding private bankers, I am in a position to invite you to confirm formal adoption of this Directive.

I warmly welcome the adoption of this Directive. This Directive is an important further step towards the Community becoming a single common market in goods and services. Not only does it cover a very complex technical subject but it also has had to tackle important and fundamental differences between the approaches adopted in the member states on accounting and banking matters. Negotiations have taken almost eight years to bear fruit. I pay tribute to all concerned at the way in which important differences have been resolved, involving as it has done a great deal of sensible "give and take" all round.

(Ch)

You agreed to Martin Hall's suggestion of signing something on these lines in ECOFIN — and to the press afterwards (AWK)



BACKGROUND NOTE

PROPOSAL FOR A DIRECTIVE ON THE ANNUAL AND CONSOLIDATED ACCOUNTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

This Directive provides for a standardised accounting regime for banks and other financial institutions throughout the Community; and complements both the Fourth Directive on the preparation content and publication of accounts of companies (which Member States were not obliged to apply to the accounts of banks and other financial institutions) and the Seventh Directive on the preparation content, and publication of consolidated accounts. The present Directive lays down a single format for the balance sheet based on the layouts prescribed by the Fourth Directive, taking account of the special features of the banking sector and based on the principle of classification of assets and liabilities in order of decreasing liquidity. The Directive also provides for a vertical or a horizontal layout of the profit and loss account based on the principle of the separate disclosure of income and expenditure. The Directive provides valuation rules which govern how assets and liabilities are to be included in the balance sheet, and how income, expenditure or value adjustments arising thereon are to be included in the profit or loss account. Much of the Directive therefore (and most of the issues tackled in the negotiations in the Council Working Party since they began in March 1984) is technical.

2. The most contentious issue was that of whether to permit hidden reserves (with Spain and Italy very much opposed, and Germans, Luxembourg and the Netherlands in favour of retaining them). The outcome has been a compromise under which the hidden reserves Article (Article 37) contains a Member State option to allow hidden reserves calculated by reference to certain defined balance sheet asset items, and such reserves shall not exceed 4% of the total amount of those assets. Finally, the Council Minutes will contain a specific commitment that when the Member State options in the Directive are reviewed (after 1998) "particular attention shall be paid to the desirability of the progressive elimination of undisclosed reserves".

3. The Germans may press for the exemption of partnership banks from the Directive (they have a number, we have only one). They are isolated and no doubt expect defeat if pressed to a vote.

General Secretariat
of the Council

Brussels, 2 December 1986

ECOFIN Council - PRESIDENCY BRIEF

BRIEF E

Brussels, 8 December 1986

BRIEF E : Rum régime applicable to the DOM (French départements outre mer)

→ Communication from the French delegation

REFERENCE DOCUMENTS

None.

OBJECTIVE

- Take note of a declaration to be made by the French delegation (draft attached)
- Establish whether or not a mandate should be given to Coreper to further examine this item.

.../...

- 2 -

SUGGESTED OPENING STATEMENT

This item has been included on the Agenda at the request of the French delegation. So I would like to give the floor immediately to Mr. BALLADUR.

.../...

SUGGESTED PROCEDURE

1. Give the floor to Mr. BALLADUR.

Then Commission.

2. Avoid general discussion.

The French statement will draw the attention of the ECOFIN Council to the importance which that delegation attaches to the proposed Decision on rum, blocked for several years, and to its wish that this proposal rapidly be adopted.

POSSIBLE CONCLUSIONS

The Council :

- takes note on the statement by the French delegation, (if majority wishes)
- instructs COREPER to continue its consideration of this question and report back in due course.

.../...

ECOFIN, 8 DECEMBER

FRENCH DOM RUM - UK BRIEF

Relevant documents

None.

Presidency objective

~~To establish whether or not there is a majority in favour of referring this item to COREPER for examination.~~

~~Points to make~~

~~This item has been put on the agenda at the request of the French who should be invited to introduce the subject.~~

UK objective

To resist the French request for COREPER to be instructed to examine this subject.

OR (if unsuccessful)

To state UK reservation about any proposal authorising France to apply a lower rate of duty to rum from the overseas departments unless this is part of a balanced package of measures on structural harmonisation of alcoholic drink duties.

Points to make

It is no purpose of the Council to relieve individual member states of their treaty obligations in the circumstances requested by France. There are serious doubts about the legal basis for the decision.

Remind the Commission that the European Parliament asked them to examine "non-fiscal" means of supporting the economies of the French overseas departments. What conclusions did they reach?

The proper time to consider this question would be as part of the package of measures on harmonisation of alcoholic drink duties.

Background note

The Italian Presidency put forward a "compromise package" of harmonisation measures for alcoholic drinks taxation during the first half of 1985. One item in this package was a proposal for a Council decision authorising France to apply for a period of 5 years a lower rate of duty to rum from the overseas departments. The original proposal for a Council decision was made in 1982.

In the light of the slow progress being made on harmonisation of the alcoholic drinks duties we understand that the French will ask the Council to decouple the FOD rum proposal from the package and refer it to COREPER for urgent consideration. The French are probably motivated to make this request because they are vulnerable to action in the European Court. The Commission has not pursued the case but we understand that an individual company may initiate independent action through the French courts.

In informal contacts the French have hinted that their request is linked in some way to separate discussions currently going on about the definition of spirits, and they have implied that unless they receive satisfaction on the tax side they would block agreement on the definition. MAFF are keen to make progress on the definition of spirits, which includes not only rum but also whisky, but it is doubtful whether the proposal will be ready for adoption for some months yet and they are content for the French threat to be ignored for the time being.

In reply to a debate in the House of Commons on 20 July 1982 on a motion "that this House takes note of European Community document number 6168/82 concerning French overseas departments' rum and supports the Government's efforts to seek a reduction in the discriminatory taxation of spirit drinks which at present obtains in France", Mrs Fenner reaffirmed "the Government's commitment to securing the full and effective implementation of article 95 of the Treaty as our primary objective". We remain opposed to the proposal, although we might be prepared to accept a derogation for a strictly limited period as part of an overall compromise on the structural harmonisation of alcoholic drink duties.

The Scotch Whisky Association are strongly opposed to the proposal with support from UK rum and other spirits interests.

Draft of what the French Minister will say at Ecofin

COMMUNICATION DE LA FRANCE
AU CONSEIL ECOFIN DU 8.12.1986

Objet : Régime fiscal du rhum en provenance des Départements d'Outre-Mer.

La France souhaite attirer l'attention de la Commission et du Conseil sur l'importance que revêt à ses yeux la solution rapide du problème posé par le régime fiscal applicable au rhum des Départements d'Outre-Mer.

La Commission avait proposé dès 1982 au Conseil de décider de l'application d'un taux fiscal réduit au rhum dit "traditionnel" produit dans ces départements. Je rappelle que cette proposition de décision était et reste parfaitement fondée en droit, puisque la Cour de Justice elle-même a reconnu la possibilité pour le Conseil de décider en la matière de mesures adaptées "aux exigences spécifiques de cette partie du territoire français".

A ce jour, aucune décision n'a été prise, si bien que le régime dérogatoire accordé par la France à ce produit dans le cadre, je le rappelle, d'un contingent annuel limité, n'est toujours pas officiellement reconnu par la Communauté, alors même que le Gouvernement français est en accord complet avec la Commission sur les termes de sa proposition de décision de 1982.

Cette situation est très préoccupante. Les débouchés du rhum traditionnel de nos départements d'Outre-Mer seraient en effet irrémédiablement compromis si la France, qui en est le principal consommateur, devait lui appliquer le taux appliqué aux autres alcools. La situation économique et sociale de ces départements, qui demeure extrêmement fragile, ne peut qu'être de plus en plus perturbée par cette incertitude qui pèse sur l'un des éléments clés de leur développement.

Je rappelle à cet égard que la filière canne-sucre-rhum représente une des données de base de l'activité économique de ces départements et l'importance des emplois qu'elle procure permet d'en mesurer tout l'impact social :

- 20.000 exploitations agricoles des DOM dépendent de la canne, soit environ 35 % des exploitations des DOM.

./...

- Elle constitue le premier bassin d'emploi des DOM, employant de nombreux effectifs d'exploitants agricoles, de salariés, d'industriels.

Il serait enfin paradoxal de retarder à l'extrême une décision sur ce point particulier, au moment même où la Commission, conformément à l'article 227 du Traité, multiplie les initiatives pour manifester l'intérêt qu'elle porte à ces territoires qui font partie intégrante du marché commun.

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Le gouvernement français réitère donc avec insistance sa demande d'une décision communautaire par laquelle il soit autorisé à maintenir durant quelques années le régime fiscal dérogatoire accordé au rhum traditionnel des DOM.

Ceci ne compromet nullement aux yeux du gouvernement français les négociations en cours sur la définition de ces produits et l'harmonisation des accises qui leur sont applicables. La France a toujours soutenu dans leur principe les initiatives prises par la Commission dans ces deux domaines; le gouvernement français persiste à penser que le problème du rhum doit être traité dans le cadre de la négociation sur l'harmonisation des accises, et qu'une définition communautaire du rhum est nécessaire, même si les discussions actuelles du groupe d'experts n'ont pas encore abouti à un résultat satisfaisant.

La dérogation demandée est donc bien une mesure conjoncturelle; elle est limitée dans le temps, de même que dans son étendue. Elle paraît néanmoins urgente et essentielle en l'état actuel des choses à la stabilité économique et sociale des départements d'Outre-Mer.

TOILE DE FOND

1. La France applique un taux réduit de droit fiscal au Rhum dit "traditionnel", produit dans les départements d'outre-mer.

2. La Commission, estimant que ce régime fiscal de faveur est contraire à l'article 95 du Traité, a saisi le 1er avril 1982 le Conseil d'une proposition de décision en la matière.

Cette proposition a pour but d'autoriser la République française à appliquer dans les DOM et en France métropolitaine - dans ce dernier cas limité à un contingent annuel de 120.500 hl d'alcool pur - un taux réduit du droit fiscal au rhum dit "traditionnel" produit dans les DOM. Cette autorisation serait valable pour un délai de cinq ans avec reconduction automatique.

3. Les travaux sur cette proposition sont bloqués au COREPER depuis novembre 1983, car

- neuf délégations ne pouvaient accepter qu'une autorisation limitée à trois ans sans reconduction automatique ;

- la délégation française pouvait accepter la proposition de la Commission et aussi une solution temporaire, mais à condition qu'elle ne vienne à échéance que si d'autres mesures de remplacement étaient mises en place pour soutenir l'économie des DOM.

7

- 5 -

4. Le problème a été à nouveau repris dans le cadre du compromis global sur l'harmonisation des accises concernant les boissons alcoolisées présenté en 1985 par les Présidences italienne et luxembourgeoise.

Ce projet de compromis comporte une autorisation à la France d'appliquer, dans le cadre d'un contingent annuel, un taux d'accise réduit au Rhum DOM pour une période limitée.

5. Les travaux sur ce compromis sont bloqués au COREPER depuis octobre 1985, en raison d'une divergence entre les délégations sur de multiples points. Néanmoins le Rhum DOM ne paraît plus poser aucune difficulté. Mais la question est restée liée jusqu'à maintenant à l'adoption de l'ensemble de compromis.
6. L'initiative de la délégation française a pour but de rappeler au Conseil ECOFIN l'importance qu'elle attache à la proposition de décision, présentée en 1982, et d'exprimer le souhait de voir cette proposition rapidement adoptée.
-

FUEL IN STANDARD TANKS: PRESIDENCY BRIEF

from 200 l. bus

PRESIDENCY OBJECTIVE : (1) To obtain German agreement to the Presidency compromise for phased increases to 600 litres in the mandatory minimum allowance for fuel permitted to cross internal frontiers in the standard tanks of commercial vehicles without payment of duty or tax. (2) To make it clear that under the UK Presidency of the Council, substantial efforts and real progress have been made, and that a German refusal to agree would therefore be acutely disappointing.

*? Invite Coochfeld to open or Gov?*LINE TO TAKE

- Note the great practical importance of this measure. Highly visible to traders and hauliers. Necessary to the credibility of the internal market.
- Welcome the constructive approach adopted by the eleven Member States who now support the compromise. Especially welcome France's willingness to give up earlier reservations for the sake of wider objectives.
- Understand German fears. Must also accept benefits - facilitation of trade, elimination of many border checks which are costly to traders and customs alike.
- Harmonisation always involves risks of loss for some; if individual risks never taken, the great general benefits unattainable.
- Phased increases designed to help with German problem. Allow progressively larger vehicles to be exempted from checks, thereby also helping smaller businesses first.
- [If Germany refuses to agree] seek acceptance of fallback proposal for an increase to 300 litres with a review thereafter.
- [If Germany still refuses to agree] remit issue to next Presidency, which will have benefit of Commission study on road transport taxation, due by 1 January 1987.

FUEL IN STANDARD TANKS : UK DELEGATE'S BRIEF

UK OBJECTIVE: To support pressure on Germany from the Presidency and other Member States.

LINE TO TAKE:

- Member States have come a long way on the proposal - now within a stone's throw of agreement on the Presidency compromise. Sad commentary on our commitment to dismantling barriers if cannot now travel final yard.
- Failure a blow to EC credibility in eyes of traders. If comprehensive checks on commercial vehicles at frontiers continue, they see no benefit from talk about completing the internal market.
- Germany wishes to wait for full harmonisation of taxes affecting road traffic. German fears on distortion of competition understood, but have to begin practical process of dismantling barriers to trade somewhere - present proposal is one of few measures of really substantial benefit within immediate striking range.

BACKGROUND

The Directive on fuel in standard tanks (68/297/EEC as amended) lays down that Member States must exempt from excise duty at least 200 litres of fuel in the standard tanks of commercial vehicles crossing internal frontiers (600 litres in the case of buses). Directive 83/181/EEC makes similar provision for VAT relief. Only two Member States actually restrict exemption to the 200 litre minimum (France and Germany); others, like the UK, rely on the limitation to standard tanks to prevent abuse of the exemption.

The present proposed Directives would amend the minimum exemption to 600 litres for all commercial vehicles. This would greatly facilitate cross-border traffic, eliminating the need to check the quantity of fuel in every vehicle, and is welcome to most Member States.

Following discussions at COREPER on 14 and 27 November, at which the UK Presidency suggested that the new minimum could be phased in gradual stages (Document 10561), the French agreed to withdraw their objection, and the Portuguese, who had earlier supported the Germans, also changed their position. Discussion now focuses on the UK Presidency compromise.

Germany, however remains obdurate. The Germans fear that if they implement the proposal, lorries destined for Germany will travel via Dutch and Belgian ports, not German ones, and will fill up with cheaper Dutch or Belgian derv with consequent damage to German business and tax revenue. They insist, therefore, that they can contemplate higher exemptions only when duties and taxes which affect road transport are harmonised throughout the EC. Germany's stand has evoked little sympathy from other Member States and some have actively pressed the Germans to give way, notably Belgium and the Netherlands, who presumably stand to gain as much as Germany expects to lose. The consequences for the UK either way are smaller, but our exporters would benefit from higher exemption. Agreement would also be a substantial

achievement for the UK Presidency; we should in any case not let our work on this matter go unnoticed. A Commission study on road transport taxation is due by 1 January 1987, and this will allow the next Presidency to keep up pressure on the Germans.

RELEVANT DOCUMENTS (all attached except *)

Proposal for a Council Directive amending Directives 68/297/EEC and 83/181/EEC (8419/86, COM(86) 383 Final). Opinion of the ESC (CES 759/86)*. Resolution of the European Parliament (9660/86). Financial Counsellors meeting (9520/86), Presidency compromise proposal (Doc 10561/86). Report of Coreper 27 November (10994/86).

General Secretariat
of the Council

Brussels, 4 December 1986

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ECOFIN Council

Brussels, 8 December 1986

p. 4/12

Item 7 : Duty-free admission of fuel contained in the fuel tanks of goods transport vehicles

REFERENCE DOCUMENTS

- 10561/86 FISC 95 TRANS 123 : Compromise of the Presidency
- 10994/86 FISC 102 TRANS 134 : Results of works of COREPER on 27 November 1986

OBJECTIVE

Obtain agreement of the German delegation to the Presidency compromise.

.../...

SUGGESTED OPENING STATEMENT

On this item, the Presidency has presented a compromise proposal in COREPER, circulated as document 10561/86.

COREPER's discussion of this proposal is summarized in document 10994/86.

It is apparent from this document that only the German delegation was unable to accept this compromise. May I therefore invite Mr. STOLTENBERG to state his position on this item.

.../...

SUGGESTED PROCEDURE

1. Invite Mr. STOLTENBERG to state his position.
2. If he maintains his reserve (likely), give the floor to Lord COCKFIELD and to those Ministers who ask for it.

POSSIBLE CONCLUSIONS

1. If the German delegation maintains its reservation (likely) :

"the Council requests COREPER

- to consider further the Commission proposal, once the Commission has presented the study asked of it by the Transport Council on 30 June 1986 concerning motor vehicle taxation, excise duty on fuel and road tolls and the correlation between them ;
- to report back in due course so that the ECOFIN Council may re-examine the question at its May-session."

2. If the German delegation lifts its reservation :

" the Council requests COREPER to finalise the texts of the Council Directives covered by the compromise, with a view to their final adoption as an 'A' item at a future Council meeting before the end of the year."

BACKGROUND

On 30 June 1986, the Transport Council adopted conclusions on road haulage. In the paragraph dealing with conditions of competition, the Council stated :

"Now that agreement has been reached on the revision of social legislation and that the Directives on the harmonization of the weights and dimensions of certain road vehicles, including the load on the driving axle, have been adopted, the fiscal aspects remain to be settled. Fiscal harmonization will be studied further in co-operation with the Finance Ministers on the basis of a comprehensive note on motor vehicle taxation, excise duty on fuel and road tolls to be submitted by the Commission."

Therefore, the Council invited the Commission

"to submit, as soon as possible and by 1 January 1987 at the latest, a study on motor vehicle taxation, excise duty on fuel and road tolls and the correlation between them."

ECOFIN Council - PRESIDENCY BRIEF P. 4/12
Brussels, 8 December 1986

BRIEF G

DISCUS

BRIEF G: Travellers' Allowances

REFERENCE DOCUMENTS

- 10952/86 FISC 100 : 'Summary of Proceedings' of COREPER on 27 November 1986
- 10604/86 FISC 97 : Compromise Proposal from the
+ COR 1(f) Presidency
- 10967/86 FISC 101 : Withdrawal of the draft 7th Directive on tax free allowances for travellers
- 11016/86 FISC 103 : Draft Directive for the extension of the derogation accorded to Denmark
- 6279/83 FISC 43 : Original and revised drafts of the
- 5530/84 FISC 19 7th Directive
- 6247/84 FISC 34 : Original and revised drafts of the
- 5450/85 FISC 30 8th Directive

OBJECTIVE

- Agreement on the general lines of a global solution to the various problems raised by the individual Member States ;
- agreement on an extension of the exemption for Denmark.

.../...

SUGGESTED OPENING STATEMENT

On 17 November we asked COREPER to prepare a global compromise solution to the various outstanding problems concerning travellers' allowances.

The Presidency brought forward such a compromise in COREPER, and the different delegations made known their views on its various elements. Their positions are summarised in document 10952/86.

In the meantime, the Commission has withdrawn the draft 7th Directive (cf. doc. 10967/86). In doing so, it announced that it "will shortly be taking separate initiatives to meet any legitimate concerns of the Member States."

Point @ Europe Council who have asked us to give a soln today

~~Following this,~~ The Commission has presented us with a draft directive concerning the 'Danish problem'. Before we take a view on this new proposal, I would like to ask Lord COCKFIELD to tell us what other "separate initiatives" the Commission envisages with a view to meeting the "legitimate concerns of the Member States".

At the end of our discussion I would like to come back to the handling of the 8th Directive, which is still on the table.

At end of discussion

Since withdrawal of 7th Directive, no opportunity to consider 8th Directive on its own. Suggest we refer back to COREPER for agreement.

.../...

SUGGESTED PROCEDURE

1. Invite Lord COCKFIELD to specify what other "separate initiatives" the Commission "will shortly be taking to meet any legitimate concerns of the Member States".
2. Then deal one by one with the various initiatives announced by the Commission, with a view to reaching agreement on the general lines of a global solution to the various problems.
3. Then try to reach specific agreement on a solution to the 'Danish problem'.
4. Then refer 8th Directive back to COREPER.

.../...

POSSIBLE CONCLUSIONS

Open.

Perhaps :

1. Problem of the Channel Tunnel

"The Council agrees to the approach put forward by the Commission to deal with the problem of 'duty-free' shops at the terminals of the future Channel Tunnel, namely their statement ... [quote statement in full]."

2. Problem of "Mini-cruises" *Butterfly's*

First possibility :

"The Council agrees to the approach put forward by the Commission to deal with the problem of ~~'mini-cruises'~~." *Butterfly's*

Second possibility :

"The Council reached agreement in principle that the Federal Republic of Germany should be authorised to temporarily maintain in force its current legislation concerning ~~'mini-cruises'~~." *Butterfly's*

3. The "Danish problem"

"The Council

- reached agreement on an extension of [x] years in the exemption currently granted to Denmark
[to be put into effect in the following way :]

- instructs COREPER to finalise the text of the directive with a view to its formal adoption as an 'A' item before the end of the year."

4. The "Irish Problem"First possibility

"The Council agreed with the approach put forward by the Commission to deal with problem of Irish beer importations."

Second possibility

"The Council requests the Commission to reconsider its proposals on Irish beer importations and to reach agreement in discussion with Ireland."

5. 8th Directive

"The Council agreed to refer the 8th Directive back to COREPER for agreement."

BACKGROUND

1. The ECOFIN Council of 17 November 1986 discussed a number of problems, raised by various delegations, concerning travellers' allowances in the context of the 7th Directive. These discussions suggested that the necessary will existed to find a global compromise solution to the outstanding problems. COREPER was mandated to translate this will into a concrete compromise proposal with a view to its adoption by the ECOFIN Council on 8 December 1986.

2. Following on this mandate from the Council, the Presidency presented a global compromise on the 7th and 8th Directives concerning travellers' allowances. The text of this compromise was circulated as document 10604/86.

3. The Committee of Permanent Representatives discussed this compromise proposal on 27 November 1986. The positions taken by the various delegations during this discussion are summarised in document 10952/86.

The representative of the Commission, having expressed certain fundamental objections to the compromise, announced the Commission's intention to withdraw the draft 7th Directive.

4. The Council was informed of the withdrawal of the draft Directive by means of a letter from the Commission dated 28 November 1986 (cf. doc. 10967/86). In this letter, the Commission states that the new provisions which the Presidency would have inserted in the text (Articles 5(a), 5(b), 7(b), 7(c)1(b) and 7(d)) were unacceptable, and that the Commission would in any case "shortly be taking separate initiatives to meet any legitimate concerns of the Member States."

5. The Chairman of COREPER reserved the Council's position concerning the withdrawal of the 7th Directive when this matter was discussed on 27 November and 2 December 1986.

The representative of the Commission, when invited to provide further information on the initiatives his institution was planning to take on this subject, confined himself to mentioning a proposal concerning Denmark.

6. Since then, the Commission has sent the Council a draft Directive concerning the 'Danish problem'. This proposal, together with the solution previously envisaged by the Presidency, are summarised in the Annex to this note.

7. In addition, Lord COCKFIELD has written a letter (dated 28 November 1986) to the Chancellor of the Exchequer on the subject of UK concerns about the 'duty-free' shops at the terminals of the future Channel Tunnel.

Up till now, no information has been given to any of the other Member States about this letter from the Commission.

8. The 8th Directive has not been withdrawn.

Summary of the two solutions proposed to the "Danish problem"

A. Presidency compromise

The present exemption granted to Danmark concerning

- the minimum stay in another country necessary for Danish residents to benefit from travellers' allowances,
- the progressive raising of the quantitative limits on certain products

would be extended for three years.

To this end, the Presidency suggested the following text :

"In Article 7(c), paragraph 1(b), the first and second indents and the table are replaced by the following :

- until 31 December 1990, following a stay of less than 48 hours
- from 1 January 1991 to 31 December 1992, following a stay of less than 24 hours :

	From 1.1.87 to 31.12.89	From 1.1.90 to 31.12.90	From 1.1.91 to 31.12.91	From 1.1.92 to 31.12.92
Cigarettes or smoking tobacco where the tobacco particles have a width of less than 1.5 mm (fine cut)	60 100 g	140 200 g	200 250 g	240 300 g
Distilled beverages and spirits of an alcoholic strength exceeding 22 % vol	Nil	0.35	0.35	0.7

B. Commission proposal

The Commission is proposing that the exemptions for Denmark be extended for one year.

At the same time, the Commission is proposing a revised time-table for the raising of the quantitative limits on certain products.

To this end the Commission has proposed the following text :

"Article 7(c) of Directive 69/169/EEC is replaced by the following :

a) ...

b) to apply the following quantitative limits as regards exemption for imports of goods hereinafter mentioned, where such goods are imported by travellers resident in Denmark after a stay in another country

- until 31 December 1987, of less than 48 hours,

- from 1 January 1988 to 31 December 1990, of less than 24 hours.

	From 1.1.1987 to 31.12.1987	From 1.1.1988 to 31.12.1988	From 1.1.1989 to 31.12.1989	From 1.1.1990 to 31.12.1990
Cigarettes	60	100	140	200
or smoking tobacco where the tobacco particles have a width of less than 1.5 mm (fine cut)	100 g	150 g	200 g	300 g
Distilled beverages and spirits of an alcoholic strength exceeding 22% vol.	nil	nil	0.35 l	0.7 l

General Secretariat
of the Council

Brussels, 3 December 1986

ECOFIN Council - PRESIDENCY BRIEF

f. 4/12

BRIEF H

Brussels, 8 December 1986

BRIEF H : Annual Economic Report 1986-1987

REFERENCE DOCUMENTS

- 10155/86 : Draft Annual Economic Report 1986-1987
(in separate blue folder)
(attached where necessary)
- 11061/86 : Amendments to this Draft Report,
presented by the Commission (attached)
- 10683/86 : Opinion delivered by the European
Parliament (attached)
- CES 969/86 : Opinion delivered by the Economic
and Social Committee (draft attached)
- 10463/86 : Joint Opinion delivered by the
'Social Partners' (attached)
- 11025/86 : Note from the Danish delegation (attached)
- (unnumbered) : Report by the Chairman of Economic
Policy Committee (attached)

OBJECTIVE

Approval of the Annual Economic Report.

.../...

SUGGESTED OPENING STATEMENT

At our last Council meeting, on 17 November 1986, we had a wide-ranging and very useful discussion on the Commission's draft Annual Economic Report. I sensed on that occasion that there was a very broad measure of agreement on the document presented to us. You will see from your papers that the Report has also received strong support from the European Parliament and the Economic and Social Committee.

Since our last meeting, the Commission has come forward with some detailed modifications to the text, which are set out in document 11061/86.

I would like to invite Mr. PFEIFFER to introduce those amendments which he thinks will be of interest to Ministers.

ECOFIN, 8 DECEMBER 1986

ANNUAL ECONOMIC REPORT - UK BRIEF

Handwritten notes in red ink:
~~Handwritten~~
 for
 the UK
 UK → June 4?
 May/June
 Before AS?

Relevant documents: Annual Economic Report
 Commission's list of amendments to Report
 Report by the Chairman of the Economic Policy Committee
 European Parliament Opinion on the AER
 ECOSOC Opinion on the AER
 Opinion of Social Partners
 Note from Danish delegation

UK Objectives

To comment briefly on the Annual Economic Report, to make clear our continuing objections to the Commission's proposals on financial engineering and not to hold up the adoption procedure.

Points to make

- (i) Report generally on right lines. UK already pursuing policies recommended in Report.
- (ii) Welcome in particular continued emphasis on need for monetary policy to provide framework for stability and for fiscal policy to be directed at medium-term consolidation. Also call for moderation of real wages and increased labour market flexibility to promote sustained reduction in unemployment.
- (iii) One of priorities of UK Presidency has been to give new direction to Council's work on employment. Have put forward, in conjunction with Irish and Italian colleagues, resolution to Social Affairs Council designed to promote enterprise and employment and to encourage training. Hope resolution will be adopted at Council meeting later this week.
- (iv) Remain convinced that section of AER on financial engineering inappropriate. Commission has not justified use of budgetary funds. (If others are making statements for minutes) Would like minutes to record that UK notes that Annual Economic

Report makes it clear that section on financial engineering contains Commission proposals and no Council Decision has been taken to implement any part of these proposals.

(v) Glad that Commission have been able to take on board views of Member States when proposing amendments to Report.

(i) **If Commission have accepted our changes to their amendments:** Subject to small changes agreed with Commission their proposals cause us no problems.

(ii) **If Commission not happy with our change:** Must ask that proposed amendments on page 7 and page 99 of Report use same language as UK Chapter - first paragraph on page 223. Requires insertion after "In the United Kingdom" of "the outlook at present for fiscal developments in 1987 suggests that". Too early for certainty implied by Commission's draft amendments. (If Commission still refuse to accept change, insist that UK views recorded in Minutes).

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Background

Contents of Report

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

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

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

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

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

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

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

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

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

10. The proposals on pages 138-139 of the Report, on financial engineering, involve the use of budgetary funds or guarantees to provide capital for high technology projects, small firms and major infrastructure. The small print of the Report makes it clear that at this stage these are Commission proposals only, but their inclusion in the Report will give them some status prior to any Council consideration. The budget provision mentioned in the text has now been reduced to a "pour memoire" entry in the draft budget. Our list of amendments requests the deletion of this section.

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

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

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

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

Procedure

15. The Economic Policy Committee discussed an early draft of the Annual Economic Report on 1 October. This draft was strongly criticised, but many of the Committee's concerns were reflected in changes to the published version. The Report of the Chairman of the EPC (a copy of which is attached) is, therefore, less critical than it might otherwise have been.

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

17. ECOFIN had a preliminary discussion of the Report on 17 November. There was general support for its policy guidelines and most Ministers expressed the belief that their governments were already pursuing the recommended policies.

18. The Report could not be formally adopted at the November ECOFIN because the opinions of the European Parliament and the Economic and Social Committee had not been received. These have now been finalised and copies are attached. Both simply pick out the main points of the Commission's Report without offering any new insights.

19. Since the November ECOFIN some Member States have proposed amendments to the Report. The Commission have circulated a list of those they are prepared to accept. They should not cause too many problems. We have been quite successful in getting the Commission to accept a number of our suggestions, and do not feel strongly enough about those they felt unable to take on board to pursue them further. However, two of the Commission proposed amendments state with certainty that the Government will have room to cut taxes or increase expenditure in 1987-

88. We prefer the looser wording of the UK chapter of the Report, which suggests that the Government will probably have some room for manoeuvre. UKREP are taking up with the Commission the possibility of changing the amendments. The points to make offer two alternative lines to use depending on whether or not UKREP are successful.

20. At this meeting the Council should approve the Decision adopting the Annual Report as amended and should instruct COREPER to finalise the text of the Decision in each of the Community languages with a view to its formal adoption as an 'A' point before the end of the year.

Employment Initiative

21. The Paymaster-General has used the opportunity provided by the UK Presidency to seek to redirect Community thinking on employment. He has put forward in conjunction with his Irish and Italian colleagues, to the Social Affairs Council, which meets on 11 December, a resolution to give effect to an earlier employment initiative. The resolution emphasises the importance of promoting enterprise, e.g. through measures to help small firms and enterprise, increased labour market flexibility and improved training in order to improve employment growth. The resolution also refers to the Commission's cooperative growth strategy. It would, therefore, be appropriate to mention the resolution in approving terms at ECOFIN.



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BACKGROUND NOTE

Introduction

1. Insurers in one member state can establish freely throughout the Community under Non-Life and Life Insurance Establishment Directives which lay down a financial insurance supervisory regime. But in most other member states the placing of insurance (except for reinsurance) with insurers not established there is either forbidden or severely restricted. This means that it is not possible to write insurance on a cross-frontier or "services" basis. The effect of this is, for example, that an industrial company with factories in a number of Community countries cannot take out one insurance policy for them all, but has to buy separate policies in each country.

2. Freedom of non-life insurance services has long been a UK, and a Commission, priority, and is important to the completion of the internal market. But the only other Community country in favour is the Netherlands. A directive to lay down rules for non-life insurance services has been under discussion for over ten years but is far from being agreed. Most other member states want a restrictive directive which would be unacceptable to us.

The European Court Insurance cases

3. The Commission brought cases in the European Court against Denmark, France, Germany, and Ireland in connection with these countries' legislation implementing a 1978 Non-Life Co-Insurance Directive. The 1978 Directive is intended as a step to freedom of non-life insurance services. The Commission claimed that a requirement in these countries' legislation requiring the lead insurer in a Community co-insurance of a risk situated in their territories to be established or authorised there contravened the freedom of services provisions of the EEC Treaty. They also claimed that the thresholds laid down in the legislation to define the risks which can be the subject of a Community co-insurance were too high.

4. The case against Germany also dealt with a complaint by a Mr Schleicher, a German broker, who had placed insurance for German risks in the London market in contravention of German law, which does not permit intermediaries to place insurance for German risks with insurers not established there. He was prosecuted by the German authorities and fined by a German court.

5. The UK and the Netherlands intervened in the European Court cases in support of the Commission, and most of the other member states supported the defendants.

6. The European Court handed down its judgments in the cases on 4 December. They are not as liberal as we had hoped. The Court upheld the Commission in its claim that an establishment or authorisation requirement for the lead insurer in a Community co-insurance contravened the Treaty. The Court's reasons were that co-insurance did not justify the imposition of establishment or authorisation requirements for the purpose of policyholder protection since co-insurance is commercial

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insurance taken out by large undertakings who can look after themselves.

7. The Court also upheld the Commission on the "Schleicher" case to the extent that it said that the German requirement that intermediaries must place insurance only with insurers established in Germany contravened the Treaty, except in special circumstances e.g. for compulsory insurance.

8. But the Court did not uphold the Commission on co-insurance thresholds (which means that illiberal member states are free to set them as high as they like). The Court also held that at the present stage of Community harmonisation on insurance, an authorisation requirement was generally justified for insurance transactions other than co-insurance in order to ensure services insurers' compliance with national rules for the purpose of protecting policyholders, although there might be sectors of insurance where the nature of the risk insured and the type of policyholder make such protection unnecessary.

9. By emphasising in its judgments that services insurers must comply with the national rules of the "host" country, the Court has really adopted a "maximum harmonisation" approach and not the "mutual recognition" approach advocated in the Commission's White Paper and supported by the UK. This points to a difficult negotiation for the UK on the non-life insurance services directive, because detailed harmonisation is likely to result in a restrictive directive which would not only be of no benefit to the UK, but could adversely affect UK insurers' entire business.

10. There is a reference to the judgments in the draft conclusions for the European Council, which call for "decisions next year.... to open up the market in financial services; including insurance in the light of the judgments just given by the European Court of Justice".

DTI
Insurance Division
5 December 1986

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News

ECOFIN 8 DECEMBER

BRIEF J

COMMUNITY LOAN TO GREECE: PRESIDENCY BRIEF

(To be updated by Sir Geoffrey Littler, following Monetary Committee's special meeting).

PRESIDENCY OBJECTIVE

In light of Monetary Committee discussion just before ECOFIN, and of Commission proposals on protective measures, to reach a reasonable measure of agreement on either:

(1) release of the second tranche of the loan, and on the Commission's plans for protective measures, as a package;

or:

(2) referral back to the Commission and the Monetary Committee, for further Council consideration and agreement in January or February (Belgian Presidency to decide which).

If no agreement on (1) or (2), to seek to ensure that the Commission do not unilaterally approve a package unacceptable to the Council, by securing a minutes statement (preferably a Commission one but failing that a Council one) to the effect that the Commission will take account of Council's views in releasing the second tranche of the loan and authorising protective measures.

PRESIDENCY SPEAKING NOTE**Introduction**

- agreed last November on 1.75 becu loan to Greece under Community Loan Mechanism, to be released in two equal tranches.
- agreed then that Council would discuss Greek economic recovery programme at end of this year, and give its

SUGGESTED PROCEDURE

1. Invite M. PFEIFFER to introduce those amendments likely to be of interest to ministers.
2. Give the floor to colleagues wishing to speak.

∟ The modifications to Part II of the Report (guidelines for each Member State) should not raise objections from any delegations. However, it is possible that one or other delegation may wish to comment on Part I, the general analysis. If difficulties arise, these delegations should be invited to make unilateral declarations for the Minutes setting out their positions. This could well be the case with Denmark, who have already presented written remarks on point 4.5) (doc. 11025/86). ∟

POSSIBLE CONCLUSIONS

The Council :

- approves the Decision adopting the Annual Report, as set out in the Annex of document 10155/86 with the amendments set out in document 11061/86 and the amendments agreed today;
- instructs COREPER to finalise the text of the Decision in each of the Community languages with a view to its formal adoption as an 'A' point before the end of the year.

*Other than
those in
Annex
will have
withdrawn*

views to the Commission on release of the second tranche due to take place by March at the latest.

- Commission agreed to take into account Council's assessment of Greece's progress when deciding whether to release second tranche.
- Council will also want to discuss protective measures authorised by the Commission under Article 108(3) of EEC Treaty, as part of last November's package, and proposals for their removal or continuation. Has been particular concern this year about import deposit scheme and export subsidy scheme.

(Invite:

- (1) Delors to present Commission report;
- (2) Tietmeyer to report Monetary Committee's views;
- (3) Simitis to give Greek comments;
- (4) other colleagues to give their views.)

Following discussion

(Summarise Council's views, and ~~whether~~ in the circumstances there is agreement on the release of the second tranche of the loan and the accompanying protective measures, ~~or whether issue should be referred back to Monetary Committee for further consideration at ECOFIN early next year, or whether, failing either of these, there is scope for a Commission or Council minutes statement binding or encouraging the Commission to take account of the Council's views in reaching its decisions.)~~

NOTE: The Monetary Committee will be asked to monitor progress and, in the event of any problems, will report to the Council

COMMUNITY LOAN TO GREECE: UK BRIEF

(To be updated by Sir Geoffrey Littler, following Monetary Committee's special meeting).

UK OBJECTIVE

To ensure that if the Council recommends the release of the second tranche of the loan, this is dependent on the phasing out of all the protective measures on schedule or as near as possible. In particular:

- (1) ending the export subsidy scheme, or, failing that, provision in the scheme for preventing risk of disruption to UK industry.
- (2) firm commitment to ending the import deposit scheme on schedule and to an immediate drop in the 80% rate.

(If appropriate) To support any suggestion that the second half of the loan should be released in two stages.

SPEAKING NOTE FOR ECONOMIC SECRETARY

- welcome improvement in Greek economy over last year as reflected by fact that objectives of economic recovery programme for 1986 likely to be met or targets only marginally missed. But fall in oil price made major contribution to improvement in public finances and current account position. Regret that "non-oil PSBR" and non-oil current account both performed less well than hoped. Greek authorities should have taken full advantage of fall in oil prices to make faster adjustment than required by recovery programme.
- UK very concerned about Greek reliance on protective trade measures. Although authorised under the Treaty, are completely against the spirit and rationale of Community. Therefore welcome Greek commitment to end import deposit scheme by end April. Scheme should be phased out between now and then, beginning with immediate

end to 80% rate.

- on export subsidy scheme, shocked at way Greece has exploited this in respect of exports of cement to UK. Great potential disruption to UK cement market, and potential job losses in cement and coal sectors. Sure that Commission never intended derogation to have this effect. UK attaches great importance to ending of export subsidy scheme on schedule at end of year.
- must also be firm commitment by Greece not to introduce new measures designed to impede trade.

(If others raise the point, and it seems to be gaining ground):

- sympathetic to idea of releasing second tranche in two stages. Must remain a doubt that Greece can meet its targets in 1987 and beyond.

(If general agreement in Council on release of second tranche of loan together with continuation of export subsidy scheme):

- extension should be for 1 year at most, cement should be excluded, and a safeguard mechanism introduced for use if an industry in a member state faces risk of severe disruption. Otherwise other member states may face the same problems as UK.

(If necessary):

- find it difficult to accept that more than 1 year necessary to phase out export subsidy scheme. Must be a binding assurance that UK cement market will not be disrupted. Must also be a workable safeguard system which would enable rapid action to be taken if threat of disruption to industries in member states.

BACKGROUND

Relevant documents (attached):

- (1) Council Decision of 9 December 1985 concerning a Community loan in favour of the Hellenic Republic
- (2) Council Regulation on the Community Loan Mechanism
- (3) Articles 104-109 of the Treaty of Rome, on balance of payments.
- (4) "main issues" section of the Commission paper on the Greek economic recovery programme for 25 November Monetary Committee.
- (5) Note on Greek measures given by the Foreign Secretary to M. Delors.
- (6) November 1985 ECOFIN minutes. (Doc. 10445/85).
- (7) Note to the Monetary Committee from its Commission members.

November 1985 ECOFIN decision

1. In November 1985, ECOFIN agreed on a loan for Greece, under the Community loan mechanism to help with its balance of payments problems. The loan, 1.75 becu, was to be in two equal tranches, the second to be released within one year of the first but not before January 1987. The Council Decision on the loan, incorporating the targets for economic recovery in Greece, is attached to this brief.

2. After some haggling in ECOFIN over the legal position, it was agreed that the release of the second tranche of the loan was the responsibility of the Commission (see Article 2 of the Council Decision and Article 3 of the CLM Regulation). However, the Council minutes recorded that the Commission undertook:

- (1) before deciding to release the second instalment of the loan, to inform the Council of the outcome of the examination provided for in Article 2, second indent, of the Decision;
- (2) when deciding to release the second instalment of the loan, to take account of any discussions the Council may have had on the subject.

Associated Commission Decision on protective measures

3. The Greek loan package included, as well as economic recovery targets, some derogations under the Treaty of Rome. The main ones were as follows:

- (a) postponement of the introduction of VAT from January 1986 to January 1987;
- (b) an import deposit scheme for certain goods, with two rates, 40% and 80%;
- (c) continuation beyond 1985 (the end of Greece's transitional accession period) of some capital movements and tourist exchange controls (valid for 3 years from November 1985);
- (d) continuation of an existing export subsidy scheme.

(b), (c) and (d) were authorised by a Commission Decision, under Article 108(3) of the Treaty of Rome, in November 1985.

Timing of second tranche of loan

4. The first tranche of the loan was paid to Greece in January-March this year, so the second tranche must be paid by March 1987. The Commission reckon that a decision on the release of the second tranche could, if necessary, be made as late as ECOFIN on 9 February, although this would leave the Commission relatively little time to raise the money. (There is an ECOFIN scheduled for 19 January, but January ECOFINs are quite often cancelled.)

Monetary Committee discussion on Greeks recovery programme

5. As required under the CLM Regulation, Article 2 of the Council Decision says that the Commission shall consult the Monetary Committee on the results of Greek economic recovery programme before releasing the second tranche of the loan.

6. The Monetary Committee discussed the Greek recovery programme on 25 November, on the basis of a Commission paper. The "main issues" of the Commission paper is attached to this brief. The

recovery programme contained five objectives. Progress has been mixed:

- (a) Inflation. The target of an annual rate of inflation of 15% in December will not be met despite a price freeze implemented in early November. The Commission estimate underlying inflation to be about 18%.
- (b) Labour costs. There has been a marked deceleration ~~of wages as required by the recovery programme~~. In 1986 after-tax wage and salary incomes are estimated to have fallen by more than 8% in real terms.
- (c) Fiscal policy. The PSBR in 1986 is likely to be more than 4 percentage points of GDP lower than in 1985, so the objective of the recovery programme will be exceeded, though largely through an exceptional tax on oil made possible by the fall in oil prices.
- (d) Monetary policy. The Commission believe the DCE target for 1986 will be marginally exceeded, with an outturn of 17.4% compared to a target of 17%.
- (e) Balance of payments. In dollar terms the current account deficit for 1986 is likely to exceed the target set last year, but the dollar has depreciated faster than expected. As a percentage of GDP the deficit will be below target. However, this improvement only reflects terms of trade gains from lower oil prices and the general weakness of commodity prices.

7. For the UK, Sir Geoffrey Littler, while welcoming the Greek adjustment programme and its achievements so far, said that:

- (a) despite favourable external factors (such as the oil price fall), targets in 1986 were only just being met;
- (b) there were still worries that the recovery programme was too dependent on the protective measures, detrimental to other member states, such as the import deposit scheme and the export subsidy scheme;
- (c) the Committee ought to be sure that the recovery programme was firmly in place before recommending to the Council the release of the rest of the loan.

Several member states appeared to share this view, and one suggestion was that the rest of the loan be released in two halves. The Committee did not come to a conclusion, however, and will discuss the matter again at a special meeting on the morning of 8 December.

Protective measures - UK concerns

8. The Greeks have now said that the import deposit scheme will end on schedule by end-April 1987. We welcome this, but must see a firm timetable for its dismantling, and an immediate reduction in the higher (80%) rate.

9. The main UK concern is the export deposit scheme, and, in particular, cement, with the arrival of Greek floating cement terminals at UK ports. At the informal ECOFIN in September, Simitis half-promised the Chancellor action on this, but very little has come of the subsequent bilateral contacts. Although only modest quantities of subsidised Greek cement have so far been landed in the UK, the potential for disruption of the industry remains. The export subsidy scheme is due to expire at the end of this year, but the Greeks are known to be pressing the Commission for a 3/4 year extension. We would like the export subsidy scheme to end on schedule. If there has to be a further extension, cement should be excluded, and a safeguard mechanism introduced for use if an industry in a member state faces risk of severe disruption.

10. We would also wish to see a firm commitment from Greece that they will not introduce other measures to impede trade (like the import ban on Scotch whisky during the summer).

11. On VAT, Greece will introduce this on 1 January 1987 as agreed. (Greece has this year been paying own resources on a VAT basis.) The UK's concern is that the rates should not discriminate between competing products from other member states. In this respect the proposed rates for alcoholic drinks discriminate against imported spirits.

Commission proposals

12. The Commission met on 3 December to decide on their position

on the Greek loan, economy and protective measures. No final decisions were made, and negotiations with the Greeks were continuing. However, on the export subsidy scheme, we understand that the Commission may propose dealing with the subsidy in two parts. The interest rate subsidy (5%) may be reduced by 2 or 3 percentage points from 1 January 1987, and removed when the European Court has ruled on its compatibility with the common market. The remaining subsidies (13% on cement) may be removed in four equal steps, starting on 1 January 1987 and ending on 1 January 1990. There would be a safeguard clause which could be triggered if market disruption can be demonstrated. At the end of the day, we could probably accept this, on condition that the safeguard clause could be invoked on threat, rather than proof, of market disruption.

Discussion at this ECOFIN

13. ECOFIN will first hear from the Commission, the Chairman of the Monetary Committee (Tietmeyer), and the Greeks (presumably Simitis), before general discussion. Two possible outcomes are:

- (1) agreement on release of the second tranche of the loan, and on the Commission's plans for extending any derogations, as a package;
- (2) referral back to the Commission and the Monetary Committee, for further Council consideration and agreement in January or February.

If the Council cannot agree to the Commission's package, but do not want to discuss again, the Commission could be asked to make a statement for the minutes to the effect that it will take account of Council's views in releasing the second tranche of the loan and authorising protective measures. Failing a Commission statement, the Council could make a statement to this effect.

Much will depend on:

- (a) the report from the Monetary Committee on whether it has sufficient faith in the Greek recovery programme;

- (b) whether the Commission's plans on protective derogations meet the legitimate concerns of member states, including our own.

The Council's powers

14. As indicated in paragraph 2, the Council's powers are very limited.

15. In respect of the loan, it is for the Commission to examine the recovery programme (in consultation with the Monetary Committee), and to decide on the release of the second tranche of the loan. In this case the Commission has undertaken to inform the Council of the outcome of its examination, and to take account of the Council's discussions. But this does not affect the Commission's power of decision.

16. In respect of authorisation of the accompanying protective measures, again it is for the Commission to authorise these under Article 108(3) of the Treaty. The only power which the Council would appear to have under Article 108(3) is the power to revoke or amend (by qualified majority) the authorisation once it is formally given by the Commission. This would be quite drastic action for ECOFIN to take, and to force a vote would be regarded as a hostile act by the Greeks.

17. Nevertheless, we would hope that the Commission would find it difficult to justify proceeding with a package if a majority of member states spoke against it.

PRESIDENCY BRIEF - THE BANKING ADVISORY COMMITTEE
AND COMITOLGY - *an?***Objectives**

- (a) To preserve the authority of the BAC - and hence of Member States - in policy-making in the banking area, and
- (b) In practice, to secure the most effective procedures for making rapid progress towards the internal market in banking.

In formal terms, to elicit from any discussion of the role of the Banking Advisory Committee an agreement by Finance Ministers to convey to their Foreign Minister colleagues the need to recognise the special position of the Banking Advisory Committee as the appropriate group to take responsibility for advising the Commission in the proposed Council Decision on the Commission's implementing powers.

Background

A full background note is attached. This is unfortunately a highly complex subject, but, in the view of all the supervisory authorities and Finance Ministries, an important point to win. Unless Finance Ministers can demonstrate solidarity and concern at this meeting, it will almost certainly be lost.

The Governor strongly supports these arguments. He intends to raise them with Central Bank colleagues in Basle. If they agree, he will convey their concern to you in Brussels on Monday.

Procedure

Unfortunately the BAC, which meets only twice annually at the moment, met only on 2 December - too late to get this on the ECOFIN agenda. The Dutch, Irish and Italians are briefing their Ministers to raise it. It would be preferable if one of them did, because the UK has made the running in COREPER. But they cannot be relied upon. It is important that the UK raise it as a last resort rather than let the point go by default. Support would certainly be forthcoming from other Member States.

UK BRIEF

OBJECTIVE

Line to take

- (a) To preserve the authority of the BAC - and hence of Member States - in policy making in the banking area, and
- (b) in practice, to secure the most effective procedures for making rapid progress towards the internal market in banking.

In formal terms, to elicit from any discussion of the role of the Banking Advisory Committee an agreement by Finance Ministers to convey to their Foreign Minister colleagues the need to recognise the special position of the Banking Advisory Committee as the appropriate group to take responsibility for advising the Commission in the proposed Council Decision on the Commission's implementing powers.

1. [Colleagues' support sought.] [Strongly support Irish/Dutch/Italian view.] For intervening with Foreign Ministers to establish a central role for Banking Advisory Committee in new proposals on Commission's implementing powers under Single Act. Very urgent matter as decisions imminent.

2. BAC highly effective body. Parallels with Monetary Committee and Basle Supervisory Committee. Central importance of banking system. Special treatment justified. Commission need not therefore fear a damaging precedent to implementation proposals.

3. Banking area must remain responsibility of national supervisors, working together. Co-operation depends on mutual trust between supervisors - essential to have a practitioner

You may also like to draw on the BAC's own conclusions, text below - just received.

(nb = Member State) as chairman. Most efficient way of making progress in this area of Internal Market.

4. Therefore BAC itself should take on the new implementing powers, in its present form, in context of proposed Decision on Commission's implementing powers. This must be explicitly recognised on the face of the draft Council Decision on implementing powers.

5. This represents unanimous view of BAC, [and strongly supported by a number of Central Bank Governors.]

6. Hope colleagues agree that Presidency on behalf of all should convey concern to President of Council of Ministers (Sir G Howe).

FOLLOWING THE AGREEMENT DURING THE MEETING YESTERDAY I HAVE THE PLEASURE TO TRANSMIT TO YOU, ON BEHALF OF THE CHAIRMAN, MR. O'GRADY WALSH, THE ENCLOSED NOTE AND DRAFT TEXT FOR THE MINUTES. ANY OBSERVATION ON THE TEXTS SHOULD BE SENT TO THE SECRETARIAT BY 8.12.1986 :

NOTE TO THE MEMBERS

IT WAS RECOGNISED IN OUR DISCUSSION THAT REPRESENTATIONS BY MEMBERS TO THEIR RESPECTIVE REPRESENTATIVES IN THE COUNCIL OF FOREIGN MINISTERS COULD BE OPEN TO THE CRITICISM THAT OUR COMMITTEE WAS RESORTING TO ILL-FOUNDED SPECIAL PLEADING AND THAT A POSITIVE RESPONSE TO OUR REQUEST FOR SPECIAL TREATMENT MIGHT ESTABLISH A PRECEDENT FOR SIMILAR TREATMENT OF OTHER COMMITTEES.

ACCORDINGLY WE AGREED THAT WE SHOULD SEEK TO ALIGN THE PRINCIPAL ARGUMENTS WHICH WE WOULD ADVANCE TO SUPPORT OUR REQUEST. THE ARGUMENTS AT OUR MEETING IN THIS REGARD MAY BE SUMMARIZED AS FOLLOWS :

- 1) THE COMMITTEE IS ENGAGED IN THE UNIQUELY COMPLEX TASK OF TRYING TO PROMOTE THE ESTABLISHMENT OF A FULLY INTEGRATED MARKET IN A RAPIDLY CHANGING FINANCIAL SERVICES ENVIRONMENT.
- 2) THE COMMITTEE BELIEVES THAT DEVELOPING A FULLY INTEGRATED INTERNAL MARKET IN FINANCIAL SERVICES IS CRUCIAL TO THE SUCCESSFUL EVOLUTION OF THE EUROPEAN MONETARY SYSTEM AND THE OVERALL ECONOMIC INTEGRATION OF THE COMMUNITY. ACCORDINGLY THE SIGNIFICANCE OF THE BANKING ADVISORY COMMITTEE'S ROLE IS TO BE COMPARED WITH THAT OF THE MONETARY COMMITTEE.
- 3) PRUDENTIAL SUPERVISION IS A MATTER OF TRUST BETWEEN SUPERVISORS. IF WE ARE TO HAVE AN INTEGRATED BANKING SYSTEM IN THE COMMUNITY, WE MUST HAVE NOT ONLY MUTUAL RECOGNITION, BUT MUTUAL TRUST AND CONFIDENCE AMONGST AND BETWEEN SUPERVISORS. THE COMMITTEE, AS PRESENTLY CONSTITUTED, IS THE BEST FORUM IN WHICH TO ACHIEVE THIS OBJECTIVE. THE VARIOUS COMMITTEE PROCEDURES PROVIDED FOR IN DOCUMENT COM(86) 35, WOULD IMPAIR THE MUTUAL TRUST AND CONFIDENCE DEVELOPED IN THE PRESENT FORUM.
- 4) AS A PRACTICAL MATTER, IF THE BANKING ADVISORY COMMITTEE IS OBLIGED TO ADOPT ONE OR OTHER OF THE COMMITTEE PROCEDURES PROVIDED FOR IN DOCUMENT COM(86) 35, THE MEMBERS IN THEIR TRADITIONAL ROLE WOULD FEEL IMPELLED TO ADVISE THAT A CONSIDERABLE DEGREE OF DETAIL BE INCLUDED IN FUTURE LEGISLATIVE PROPOSALS. THIS DEVELOPMENT WOULD BE INIMICAL TO THE EMERGENCE OF BROADLY DEFINED LEGISLATION, WHICH WOULD ACCORD MORE WITH THE COMMUNITY'S DESIRE TO SPEED-UP THE COMPLETION OF THE INTERNAL BANKING MARKET.
- 5) THE COMMITTEE CONSIDERS THAT THE CHAIRMANSHIP SHOULD ALWAYS BE IN THE HANDS OF A SUPERVISORY PRACTITIONER.
- 6) THE OPERATION OF THE TWO TYPES OF COMMITTEE (THE BANKING ADVISORY COMMITTEE AND A 'COM(86) 35 COMMITTEE') WOULD IN PRACTICE BE LIKELY TO GIVE RISE TO AN OVERLAP OF FUNCTIONS AND CONSEQUENTLY TO CONFUSION OF THEIR RESPECTIVE COMPETENCES. IN ADDITION, THE NEED TO CHANGE THE CHAIRMAN WITHIN THE SAME MEETING IS SEEN AS DISRUPTIVE OF GOOD ORDER.

DRAFT MINUTE

HAVING REGARD TO THE REPORT FROM THE COMMISSION'S MEMBERS ON THE LATEST DEVELOPMENTS REGARDING COM(86) 35 FINAL, THE COMMITTEE WISHED TO CONFIRM ITS DECISION OF 4.6.86, NAMELY THAT

- 'THE COMMISSION SHOULD TRY TO MAINTAIN THE ROLE OF THE COMMITTEE IN ITS PRESENT FORM. THE COUNCIL SHOULD BE PERSUADED AS TO THE VALUE OF HAVING THE CAPACITY OF THIS PARTICULAR COMMITTEE. IT WAS THOUGHT THAT THE ROLE OF THE COMMITTEE MIGHT BE EXTENDED TO EMBRACE, WITHIN ITS PRESENT CONSTITUTION, SUCH ADDITIONAL FUNCTIONS AS MIGHT BE REQUIRED TO ATTAIN MORE EFFECTIVELY AND MORE EXPEDITIOUSLY THE GOAL OF THE INTERNAL MARKET. '

IN EFFECT THIS MEANS THAT THE COMMITTEE URGES THAT SPECIAL PROVISIONS BE MADE FOR THE CONTINUANCE OF ITS PRESENT CONSTITUTION AND FUNCTIONS IN ADVISING AND ASSISTING THE COMMISSION IN THE IMPLEMENTING POWERS TO BE CONFERRED ON THE COMMISSION PURSUANT TO NEW LEGISLATIVE MEASURES OF THE COMMUNITY.

THE COMMITTEE REQUESTS ITS COMMISSION MEMBERS TO USE THEIR BEST ENDEAVOURS TO SECURE THIS OBJECTIVE. THE COMMISSION REPRESENTATIVES TOOK NOTE OF THIS REQUEST AND UNDERTOOK TO CONVEY THE VIEW OF THE COMMITTEE TO THE RESPONSIBLE COMMISSIONERS. THEY DREW ATTENTION, HOWEVER, TO THE FIRM POLITICAL COMMITMENT TO THE COMMISSIONS'S PRESENT PROPOSAL.

THE SECRETARY.

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ANY OTHER BUSINESS - BANKING ADVISORY COMMITTEE**Background****The BAC itself**

The BAC was established under the 1977 First Co-ordination Directive on credit institutions. Article 11 states that "An Advisory Committee of the Competent Authorities of the Member states... shall be set up alongside the Commission." Its tasks are:-

"To assist the Commission in ensuring the proper implementation of this Directive. Further it shall carry out the other tasks prescribed by this Directive and shall assist the Commission in the preparation of new proposals to the Council concerning further coordination in the sphere of credit institutions."

It comprises representatives of supervisory authorities, in practice the Heads of Banking Supervision and Finance Ministers. It must be chaired by a Member State representative, currently O'Grady Walshe (Ireland). The UK members are Peter Cooke (who also acts as a crucial contact point with Basle), Michael Bridgeman and Martin Hall. Voting is by QM - but has never occurred so far.

"Comitology"

The attached table sets out the state of play on the Commission's "comitology" proposals, establishing three strict models for committees to assist them in implementing their follow-up powers in any new Directives following adoption of the Single Act. All will be Commission-chaired. The balance between Commission and Member States varies considerably. The second column represents British Presidency proposals to strengthen the Member States' locus vis à vis the Commission. The FCO want to establish a broad measure of agreement, and possibly adoption, this year. The Foreign Ministers meet later this month to discuss it.

Effects on the BAC

The BAC in its original role is unaffected. The Commission will continue to have to seek its Opinion before submitting new proposals deriving from the 1977 Directive or from modifications of it.

But, as envisaged by the Commission follow-up action under new directives will fall to a new committee, falling under one of the new models. The Commission have in mind the Advisory model, which gives Member States least say. It is at best doubtful that the role of the BAC could survive into a Second Co-ordination Directive, establishing freedom of services and establishment, or consequential.

We believe the effect of this would be a steady fossilization and final demise of the old BAC, with a gradual decline of the influence of Member States over banking supervisory decisions. We also think a Commission-chaired committee would not continue to engage the attention of senior supervisors.

In practical terms, the Commission propose meetings of the same membership on the BAC, reconstituted under Commission chairmanship, under Advisory Committee model rules, to discuss "implementing" agenda items.

In practice, progress towards approximation of supervision is a seamless web, and the process is one of tiny steps within an overview. Implementation, say, of an "Own Funds" directive might establish new agreed elements of the capital base of banks. Such decisions are inextricably linked to any Opinion the BAC might give on, say, a Second Coordination Directive. It would be impossible to avoid overlapping discussion in the two compositions of the Committee.

The effect overall would be a tendency towards detailed, hard-to-negotiate directives, which left little discretion to the

Commission. This would slow down the harmonisation process, and hence the internal market.

The BAC's view

The BAC agreed unanimously on 2 December that it was willing to take on the new "implementing" work in its present form, and that it should itself be the "implementing" committee in the context of the "Comitology" proposals. This requires special treatment, acknowledged on the face of the "Comitology" regulation. Each Finance Ministry and Central Bank representative agreed to brief their respective Finance Ministers and Governors accordingly.

This exceptional treatment could take the form either of:-

- (a) establishing that the BAC - like the Monetary Committee - is sui generis, and that the Commission should take its advice, by QM, on "implementation" in this area, as well as being required to solicit its Opinion before introducing proposals or
- (b) (very much a fall back) Establishing an explicit organic link in the face of the regulation placing any new committee - preferably of the regulatory model/NOT advisory) - under the overall direction of the BAC.

COMMISSION PROPOSAL	COUNCIL "NON-PAPER"	REVISED COMMISSION PROPOSAL (25 NOVEMBER)
1. Advisory Committee (no power of decision)	Advisory Committee with provisions to establish Committee's opinion with option of a vote. Commission to take greatest account of Committee's opinion	No provision for voting. No provision for Commission to take account of Committee's opinion
2. Management Committee (may by qualified majority refer Commission measures to Council but Commission does not have to suspend its measures while Council deliberates)	Management Committee as on left. Extra variant under which Commission has to suspend measures referred to Council (for a maximum of three months)	No extra variant
3. Regulatory Committee (Commission proposal goes to Council unless qualified majority in favour; but Council has to muster unanimity to change proposal within a time limit)	Regulatory Committee as on left. Extra variant under which Council can block a Commission measure by simple majority	No extra variant
4. No provision for appeals to Council	Safeguard (appeals) procedures enabling individual member state to appeal to Council about a Commission measure. Two variants: either the measure goes through if Council has not acted after a given time-limit or the measure is revoked after such a time-limit	No safeguard (appeals) procedure
5. No protection for Existing Committees	Existing Committees - protected when new rules enter into force - can be retained when Council renews or amends instruments providing for them	Council shall within a reasonable period adopt a regulation bringing Existing Committees into line with the three new formulae
6. No review	Review of arrangements after 3 years	No review
—	—	Council shall give a predominant place to the Advisory Committee for Article 100A (see SEA Declaration)

- Agreed agricultural guidelines. Principles to follow, in relation to prices, operation of intervention system, and sharing of risk. Sign of the times/change in climate that could be agreed.

Some loose ends, of course.

Tax approximation

- Relatively fallow period on tax, because waiting for Commission proposals on tax approximation. Glad
- But even here pressed on with work on structural VAT and excise duty reforms.
- Glad to have adopted 13th VAT Directive.

IMF Managing Director

- And not yet decided which of two excellent Community candidates to succeed Larosiere. ~~Embarrassment of riches. One thing certain: successor will be one or other of these Community paragons.~~

BACKGROUND

The following is a list of items covered by ECOFIN discussions during the UK Presidency. We do not usually report (to the press, Parliament etc) lunchtime discussions or events at the informal ECOFIN.

July

Decisions:

- economic situation in Community - agreement not to change policy guidelines in 1985-86 Annual Economic Report.
- 1986 Community budget and reference framework - agreement by qualified majority on conclusions on establishing new 1986 budget following European Court's judgement, including guidance for Budget Council on revising the 1986 reference framework.

Also discussed (all over lunch):

- implications for ECOFIN of European Council conclusions
- NCI IV

September (informal ECOFIN)

Discussed:

- international economic situation - subsequent statement that dollar fallen far enough.
- preparation for IMF/IBRD Annual Meetings.
- strengthening of EMS.
- (over lunch) NCI IV.

October

Discussed:

- (over lunch) liberalisation of capital movement (Spain and Portugal)
- NCI IV
- budgetary discipline and Community spending on agriculture. (UK Presidency conclusions on principles for future policy decisions to bring spending under better control received a good deal of support.)

November

Decisions:

- liberalisation of capital movements - adoption of Directive extending liberalisation obligations for long term commercial credits, transactions in securities, and admission of securities to the capital market.

- NCI IV - agreement on substance of 1500 mecu Community lending to SMEs, made up of a traditional NCI IV of 750 mecu and EIB own resources of 750 mecu.
- ("A" point) 13th VAT Directive - harmonises the system for refunding VAT to traders established in third countries.
- budgetary discipline - Community spending on R&D (framework programme), and on fisheries structures. Conclusions agreed in each case, stressing need for cost-effective measures, and for consideration in context of annual budget procedure in light of resources available for all Community programmes.

Also discussed:

- 1986-87 Annual Economic Report. Broad agreement, though several member states had worries about financial engineering.
- internal market and indirect tax matters. Council took note of Presidency report on progress during UK Presidency, which (inter alia) stressed importance of progress on small firms VAT Directive.
- (over lunch) travellers allowances - member states problems (Danish derogation, German butterships, Irish beer, CFL).

December

Likely decisions:

- adoption of Directive on a standardised accounting regime for banks and other financial institutions in the Community.
- agreement in principle to renewal of Medium Term Financial Assistance, and reduction of 2 becu in ceiling for credits under it.
- adoption of 1986-87 Annual Economic Report.
- NCI IV - establishment of common position on texts.

Also to be discussed:

- French DOM Rum - statement by French
- duty-free fuel in lorry tanks - German reserve likely to be maintained.
- travellers allowances - Commission's withdrawal of 7th Directive undermining Presidency proposed package on member states' problems.
- Greece - release of 2nd tranche of Community loan, review of recovery programme, future of restrictive Greek trade measures (including cement).

ECOFIN 8 DECEMBER : PRESS SPEAKING NOTE

[Report as appropriate on decisions of day notably on:

- Annual Report → agreed
- Renewal of medium term financial assistance
- Greece → agreed 2^o trade of 10m → *mandate other parties*
- Travellers' allowances → *proposed* *EC* *remot* *to* *for* *solvent*
Insurance →

All important matters. But if criterion is changes of past practice and outlook, rank differently. In that sense, arguably of particular importance is adoption today of Bank Accounts Directive.

- Common accounting and disclosure standards
- Ahead of target date
- Solid progress on other issues such as further harmonisation of supervision : work started on a second Coordination Directive.

Caps what has been a *worthwhile* rewarding six months for me. *UK President* →

On monetary side,

- Began with agreement on strengthening of operation of EMS and further progress on removing barriers to private use of the ecu (at Gleneagles).
- Last month, first breakthrough since 1962 on freeing capital movements.

On small firms

- New lending instrument finalised today. *(SME)*
- Well ahead with new VAT threshold proposals.
- Important element in European Council's conclusions on employment at weekend.

On budget

- Work began with establishing new reference framework. Hard on heels of successful action against European Parliament: re-establishing budgetary discipline.

TRAVELLERS' ALLOWANCES: BRIEF FOR ECONOMIC SECRETARY

UK OBJECTIVES

1. To obtain a clear statement from the Commission that the principle of equality of treatment for cross-Channel operators also applies to the fixed link.
2. If necessary, to ensure that the discussion does not cast doubt on the general agreement of member states and the Commission, as expressed at working group meetings and COREPER, that the present duty- and tax-free trade should be allowed to continue at least until the completion of the internal market.
3. To seek reference back to COREPER of the 8th Directive increasing the third country "other goods" allowance to 100 ECU, with a view to its later adoption.

POINTS TO MAKE

- If the Commission statement on the CFL accords with the statement of Commission policy set out in Lord Cockfield's letter to the Chancellor you should say:

We are grateful for the attention the Commission have given to this matter. We all recognise the importance of the development of this major project and that is why there should be a public statement now that the Commission's policy is to grant the same treatment, as far as duty-free facilities are concerned, as the other cross-Channel services. The Commission's statement has been helpful in this respect.

If the Commission statement is deficient in any way you should say:

I have listened very carefully to what Lord Cockfield has said and I wonder if he could clarify the Commission's policy on (the following points)

- support Danish request for 3 year extension of their derogation (or any compromise acceptable to Denmark) by expressing sympathy for their problem and urge the Commission to meet their request.

(If necessary) - express sympathy for German and Irish problems and hope they can reach an accommodation with the Commission. Germany should have no major problem if the Commission stays its hand (as Lord Cockfield has said today). It should be possible for Ireland and the Commission to arrive at a mutually agreed figure.

- agree to refer the 8th Directive back to COREPER.

(ONLY IF NEEDED)

- the 7th Directive was proposed in order to provide a clear legal base for existing duty- and tax-free shops. At recent Council meetings there has been general acceptance by the Commission and other member states that the trade exists and should therefore not be disturbed until at least the completion of the internal market.

(IF CHALLENGED):

The UK considers it essential nothing be done to increase operator's uncertainty for the immediate future.

BACKGROUND NOTE

7TH & 8TH DIRECTIVES

1. The 7th Directive was intended, before its withdrawal by the Commission on 28 November, to provide a firm legal basis for duty- and tax-free shopping in intra-Community travel following the uncertainty created by the European Court judgments outlawing the German buttership operations. The wish of the duty-free trade to have its legal basis made certain, coupled with the desirability for the British Airports Authority privatisation prospectus to contain some positive statement on the future of the duty-free trade and the need to put the Channel Fixed Link (CFL) on the same competitive footing as the cross-channel ferries, had led to assurances being given that the UK would give this proposal and the 8th Directive, which increases the third country "other goods" allowance to 100 ECU priority during our Presidency.

Danish problem

2. For many years, Denmark has had a derogation deferring implementation of Community rules on travellers' tax-free allowances because their high level of excise duties and VAT, particularly vis a vis Germany, would have meant a serious loss of revenue through abuse. Under the present rules, their lower allowances would be progressively raised starting on 1.1.87 as in the table below. They are authorised to exclude from exemption goods the unit value of which exceeds 280 ECU (350 ECU for all except Greece and Ireland), also to apply a limit of 4 litres (6 litres for other member states) to still wines acquired duty- and tax-paid in a member state. In addition, Denmark is authorised to apply the following reduced limits, where the goods concerned are imported by travellers resident in Denmark, after a stay in another Member State:

- until 31 December 1987, when the stay is less than 48 hours, and
- from 1 January 1988 to 31 December 1989, when the stay is less than 24 hours;

INTRA-COMMUNITY TRAVELLERS' ALLOWANCES

	DENMARK				OMS
	— Present levels to 31.12.86	From 1.1.87 to 31.12.87	From 1.1.88 to 31.12.88	From 1.1.89 to 31.12.89	
Cigarettes or smoking tobacco where the tobacco particles have a width of less than 1.5mm (fine cut)	60	140	200	240	300
Distilled beverages and spirits of an alcoholic strength exceeding 22% vol	100 g	200 g	250 g	300 g	400g
	Nil	0.35	0.35	0.7	1.5

Danish request

3. Denmark has asked for the reduced allowances for short stay travellers to be frozen for three years from 1 January 1987 thus postponing the staged increases until 1 January 1990.

4. Although tax levels in the two countries have moved closer together since 1978, there is still a substantial price gap in excise goods. Germany, for example, has no duty at all on wine. This has led to a growth in the number of shopping excursions by bus from Denmark to large supermarkets built specially for the purpose just over the German border.

5. The Danish Minister of Taxation (Foighel) met the Minister of State on 24 September when UK support was promised in return for Danish support for duty-free shops on the CFL.

Buttership problem

6. "Butter-boats", or "butterships" as we call them, is the name given to 'round the bay' cruises from German ports, usually lasting several hours. Their name originated from the on-board sales of large quantities of butter at export subsidised prices although tax-free alcoholic drinks and tobacco goods are also on sale. At their peak over 100 ships attracted more than 10 million day-trippers a year.

7. The scale of the trade adversely affected North German retailers and led to three cases in the European Court in 1980 and 1982, in which the position of the German Customs in allowing the re-importation into Germany of goods bought free of duty, tax and CAP charges on board these boats was challenged. The Court ruled that export subsidies were not available for such sales, that customs duty would have to be paid upon third country goods and that boats must actually dock in another member state for sales free of excise duty and VAT to be permitted.

8. Germany then modified its practices but has not fully enforced the Court rulings: most buttership cruises still do not call at a port in another member state. This has led to the Commission threatening infraction proceedings and put serious pressure on the Germans to find a legal solution. Although most of the shorter cruises have ceased, the remaining significant passenger trade provides jobs in regions of high unemployment and the element of a "day's outing", particularly for pensioners, is important. Hence the German wish for a derogation permitting tax-free shopping facilities for voyages lasting over two hours.


Irish derogation on Beer

9. Ireland wants to continue its arrangement to restrict intra-Community travellers entering the Republic to importations of 12 litres of beer and travellers coming from third countries to 6 litres.

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

11. The Irish have not yet received any offer from the Commission to resolve the problem. We can agree to any compromise proposed for the Irish between 12 and 50 litres.


POSITION OF 8TH DIRECTIVE

12. The proposed increase of the ECU allowance for travellers coming from third countries automatically increases, to the same level, the intra-Community duty-free shop allowance. This will be the first time the 8th Directive is discussed on its own and not as part of a package and therefore the positions of member states is not known. 

13. In earlier discussions the Greeks requested a derogation of 45 ECU - the present level of the allowance. The Belgians have always been opposed but mellowed under political pressure. They might well revert to their original position and cause difficulties.

14. The Germans, Danes and Irish tied their acceptance of the 8th Directive to satisfactory resolution of their own problems.

COMMISSION LETTERS

15. On 28 November Lord Cockfield wrote to the Foreign Secretary formally withdrawing the 7th Directive explaining the reasons which led to the Commission's decision. He also wrote to the Chancellor at the same time with a statement of the Commission's policy that the principle of non-discrimination and equal fiscal treatment between competing operators across the Channel would apply to the Channel Fixed Link as well as to existing operators. 

16. The Chancellor replied to Lord Cockfield on 3 December to secure the position seeking an oral statement by the Commission to that effect at ECOFIN on 8 December.

17. Our objective is to ensure that the Commission's position does not weaken at ECOFIN recognising that it is unrealistic to expect anything more.

BACKGROUND NOTE

1. You have been closely involved with recent developments in particular the withdrawal of the 7th Directive by the Commission. This note therefore focuses on the latest position and possible conclusions.

DANISH DEROGATION

2. The Commission have now submitted a proposal for an extension of the Danish derogation, delaying the phased increases by one year for tobacco goods and 2 years for spirits. Predictably the Danes are not prepared to accept this offer and intend to raise the matter at the European Council. They are grateful to us for keeping the various problems in tandem and will seek the agreement of all member states to a solution based on separate Directives covering individual concerns. For their part they will accept nothing less than the Presidency compromise for a 3 year stay of execution.

3. On the understanding that all the measures under discussion are temporary until there are no longer any fiscal frontiers, the Commission should explain their objections. [The 3 year freeze in the first phase would delay final assimilation beyond 1992 but it could be argued that this does not really matter if, by any remote chance, the full internal market was completed by then.]

GERMAN BUTTERSHPIS

4. We do not have any clear information of the Kohl/Delors meeting on 1 December but the indications are that the Germans have been told to relax because the Commission intends to suspend the present infraction proceedings. We do not know the German reaction but they are likely to raise the issue at the European Council if the Danes do. While the Commission may stay their hand, it is far from certain that there will be no more challenges from aggrieved retail traders in the European Court.

IRISH BEER DEROGATION

5. To follow.

*What happened
@ summit??*

down

UK POSITION

6. The withdrawal of the 7th Directive, with a written assurance from the Commission, followed by an oral statement in ECOFIN, that there will be no discrimination against the CFL and that it will be allowed to compete on equal terms with other cross-Channel operations, represents our fall-back position. However in the light of repeated Ministerial assurances to duty-free trade interests that we would promote adoption of the 7th Directive, it would be helpful if there was some reference during discussion, however vague, to the acceptance by the Commission of the status quo, which could be built on in the ECOFIN conclusions.

CONCLUSIONS

7. To a large extent the handling and outcome of the ECOFIN discussion will depend on how successful the Danes have been in achieving their objectives at the European Council. Assuming that the whole subject is remitted to ECOFIN for substantive discussion with a recommendation to find an acceptable solution to all outstanding problems, a number of possible conclusions is listed at Annex A.

NOTE

From: Presidency

To: Council

SUBJECT: TRAVELLERS ALLOWANCES

In the light of particular problems experienced by member states in the operation of existing travellers allowances for intra-Community travel governed by Council Directive 69/169/EEC (as amended), the Council discussed this subject at its meeting on 8 December and came to the following conclusions:

1. The Council agrees to note

- the Commission statement to the effect that a decision should be taken on the [revised] proposal for a Directive amending Directive 69/169/EEC as regards a derogation granted to Denmark relating to the rules governing turnover tax and excise duty on imports in international travel.
- the Commission statement to the effect that it remains the Commission's policy that the principles of non-discrimination and equal fiscal treatment between competing operators across the Channel should apply to the fixed link as to existing operators; and that should the need arise at some time in the future the Commission will not hesitate to take further appropriate action, consistent with the principles of the Single European Act.
- the Commission statement to the effect that the Commission will suspend proceedings against Germany in respect of duty- and tax-free allowances granted on existing special cruises operating from German ports, and will refrain from taking any further legal action until the abolition of fiscal frontiers.

- the Commission statement to the effect that the Commission and the Republic of Ireland have agreed that quantities in excess of [25] litres of beer may be regarded as commercial importations which fall outside of the scope of the duty- and tax-free allowances granted in Council Directive 69/169/EEC as amended to all travellers entering Ireland.

- the conclusions of the Presidency to the effect that:

- the Commission is requested to reconsider its proposals on [CFL, German cruises, Irish beer, Danish derogation] in an effort to reach [an] agreement[s] with the member states concerned.

- the Presidency will ensure Council discussions on any proposals for Directives to cover specific problems.

- the Presidency will report to the next ECOFIN on [] on progress.

2. [So that the proposed Directive(s) should be adopted without delay, the Commission put forward the following suggestion:

The Council should adopt:

- the draft 8th Directive

[- the draft Directive for a derogation granted to Denmark.]

INTERNATIONAL STATISTICS: EUROPEAN COMMUNITY, US AND JAPAN**List of tables****Activity, Inflation and Current Balances**

1. GNP growth rates
2. Inflation rates
3. Unemployment rates
4. Current Account Balances

Budget Deficits and Money Supply

5. General government fiscal deficits
6. Monetary growth and targets

Interest Rates and Exchange Rates

7. Short term - 3 month interbank
8. Long-term - 10 year bond yields
9. Effective exchange rates
10. Relative unit labour costs

Reserves

11. Foreign exchange reserves
12. Total reserves.

INTERNATIONAL STATISTICS: EUROPEAN COMMUNITY, US AND JAPAN

1. Gross domestic product (per cent changes)

	1985	1986	1987
Belgium	1½	2	1½
Denmark	3¾	2	1¾
France	1½	2¼	2¾
Germany	2½	3	3¼
Greece	2	½	-¼
Ireland	2	2¼	3¼
Italy	2¼	2½	3½
Luxembourg	2¼	2½	2½
Netherlands	1¾	1½	1¾
Portugal	3¾	4	3½
Spain	2	3	3
UK	3¼	2½	2¾
EC	2½	2½	2¾
USA	2¾	2¾	2¼
Japan	4½	2	2½

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

	1985	1986	1987
Belgium	4¾	1¼	1½
Denmark	5	3¼	2¾
France	5½	2½	2¼
Germany	2	-	1
Greece	18½	22½	12½
Ireland	4¼	3½	3¼
Italy	9½	6	3¾
Luxembourg	4	½	1¼
Netherlands	2½	-	-1
Portugal	19¼	11¾	9
Spain	8½	8¾	5¼
UK	5¼	4¼	4
EC	5¾	3¾	3
USA	3	2	3½
Japan	2¼	¾	¼

Source: EC Economic Forecasts, September 1986.

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

	1985	1986	1987
Belgium	13 $\frac{3}{4}$	13	13 $\frac{1}{2}$
Denmark	9	7 $\frac{3}{4}$	7 $\frac{3}{4}$
France	10 $\frac{1}{4}$	10 $\frac{1}{2}$	10 $\frac{3}{4}$
Germany	8 $\frac{1}{2}$	8	7 $\frac{3}{4}$
Greece	7 $\frac{3}{4}$	8	8 $\frac{3}{4}$
Ireland	17 $\frac{3}{4}$	18	17 $\frac{3}{4}$
Italy	13	13	12 $\frac{1}{4}$
Luxembourg	1 $\frac{1}{2}$	1 $\frac{1}{4}$	1 $\frac{1}{4}$
Netherlands	13	12	11
Portugal	8 $\frac{3}{4}$	8 $\frac{1}{2}$	8 $\frac{1}{4}$
Spain	22	21 $\frac{1}{4}$	21
UK	12	12	12
EC	12	11 $\frac{3}{4}$	11 $\frac{1}{2}$
USA	7 $\frac{1}{4}$	7	7
Japan	2 $\frac{1}{2}$	2 $\frac{3}{4}$	3

4. Current account balances (% of GDP)

	1985	1986	1987
Belgium	$\frac{1}{2}$	2 $\frac{1}{4}$	2 $\frac{3}{4}$
Denmark	-4 $\frac{1}{2}$	-4 $\frac{1}{4}$	-3 $\frac{3}{4}$
France	- $\frac{3}{4}$	-	$\frac{1}{2}$
Germany	2 $\frac{1}{4}$	3 $\frac{1}{4}$	2
Greece	-8 $\frac{3}{4}$	-7	-5
Ireland	-3 $\frac{1}{4}$	-1 $\frac{1}{4}$	-1 $\frac{1}{2}$
Italy	-1	1 $\frac{1}{2}$	1
Luxembourg	29 $\frac{1}{2}$	31 $\frac{1}{2}$	30 $\frac{3}{4}$
Netherlands	4 $\frac{1}{4}$	4	2 $\frac{3}{4}$
Portugal	1 $\frac{3}{4}$	6	5 $\frac{3}{4}$
Spain	1 $\frac{3}{4}$	4 $\frac{3}{4}$	5
UK	1	-	- $\frac{1}{2}$
EC	$\frac{1}{2}$	1 $\frac{1}{4}$	1
USA	-3	3 $\frac{1}{2}$	3 $\frac{1}{4}$
Japan	3 $\frac{3}{4}$	4 $\frac{1}{4}$	3 $\frac{1}{2}$

Source: EC Economic Forecasts, September 1986

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

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

Source: EC Economic Forecasts, September 1986

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

	1984	1985	latest annual growth rate	1986 latest over target base	Target range
Germany (CBM)	4.8	4.6	7.2	7.8	3 $\frac{1}{2}$ - 5 $\frac{1}{2}$
France (M3) ¹	9.8	8.0	5.8	6.0	3 - 5
UK (M0)	5.6	4.6	4.9	4.9	2 - 6
US (M1)	6.1	12.2	14.2	14.3	3 - 8
Japan (M2+CDs)	7.8	9.3	8.5	8.5	8 - 9

1. M3 replaced M2R as target measure in 1986.
2. Year on year 3. Projection.
3. Projection

Source: OECD

7. Three-month interest rates (per cent)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	1 Dec
Germany	6 $\frac{1}{4}$	5 $\frac{3}{4}$	5	4 $\frac{3}{4}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	4 $\frac{3}{4}$
France	10 $\frac{1}{2}$	10 $\frac{1}{4}$	9 $\frac{3}{4}$	9	8 $\frac{3}{4}$	7 $\frac{1}{2}$	7 $\frac{1}{4}$	7 $\frac{1}{2}$
Italy	16 $\frac{1}{4}$	15 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	15 $\frac{3}{4}$	12 $\frac{3}{4}$	11 $\frac{1}{2}$	11
Netherlands	6 $\frac{3}{4}$	6 $\frac{3}{4}$	6 $\frac{1}{4}$	6	5 $\frac{3}{4}$	5 $\frac{1}{2}$	5 $\frac{1}{2}$	5 $\frac{3}{4}$
UK	13	12 $\frac{3}{4}$	11 $\frac{3}{4}$	11 $\frac{3}{4}$	12 $\frac{1}{2}$	10 $\frac{1}{4}$	10	11 $\frac{1}{4}$
Major EC average	10 $\frac{1}{4}$	10	9 $\frac{1}{4}$	8 $\frac{3}{4}$	9	7 $\frac{1}{2}$	7 $\frac{1}{2}$	7 $\frac{3}{4}$
USA	8 $\frac{3}{4}$	8	8	7 $\frac{3}{4}$	7 $\frac{3}{4}$	6 $\frac{3}{4}$	6	5 $\frac{3}{4}$
Japan	6 $\frac{1}{4}$	6 $\frac{1}{4}$	6 $\frac{1}{4}$	7	6 $\frac{1}{4}$	4 $\frac{3}{4}$	4 $\frac{3}{4}$	4 $\frac{1}{2}$

8. Long term government bond yields (per cent)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	1 Dec
Germany	7 $\frac{1}{2}$	7 $\frac{1}{4}$	6 $\frac{3}{4}$	6 $\frac{3}{4}$	6 $\frac{1}{2}$	6 $\frac{1}{4}$	6 $\frac{1}{4}$	6 $\frac{1}{4}$
France	11 $\frac{1}{4}$	11	10 $\frac{3}{4}$	10 $\frac{1}{2}$	9 $\frac{3}{4}$	8	7 $\frac{3}{4}$	8 $\frac{1}{2}$
Italy	13 $\frac{1}{2}$	13 $\frac{3}{4}$	14	13 $\frac{3}{4}$	13 $\frac{3}{4}$	11 $\frac{3}{4}$	11	10 $\frac{1}{2}$
Netherlands	7 $\frac{1}{2}$	7 $\frac{1}{2}$	7	7	6 $\frac{3}{4}$	6 $\frac{1}{4}$	6	6 $\frac{1}{4}$
UK	11 $\frac{1}{2}$	11 $\frac{1}{4}$	10 $\frac{3}{4}$	10 $\frac{3}{4}$	10 $\frac{3}{4}$	9	9 $\frac{3}{4}$	11 $\frac{1}{4}$
Major EC average	10 $\frac{1}{4}$	10	9 $\frac{1}{2}$	9 $\frac{1}{2}$	9 $\frac{1}{4}$	8	8 $\frac{1}{4}$	8 $\frac{1}{2}$
USA	11 $\frac{1}{2}$	11 $\frac{1}{4}$	10 $\frac{1}{4}$	9 $\frac{3}{4}$	8 $\frac{3}{4}$	7 $\frac{1}{2}$	7 $\frac{1}{4}$	7 $\frac{1}{4}$
Japan	6 $\frac{3}{4}$	6 $\frac{1}{4}$	6 $\frac{1}{4}$	6	5 $\frac{1}{2}$	4 $\frac{3}{4}$	4 $\frac{3}{4}$	5 $\frac{1}{2}$

9. Effective exchange rates (1975 = 100)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	4 Dec
Belgium	88.2	89.2	90.8	92.3	93.8	95.2	96.2	97.9
Germany	119.5	121.7	125.3	128.7	133.1	134.7	138.6	143.8
France	63.3	64.9	67.0	69.0	71.0	69.0	69.5	71.3
Italy	54.9	45.3	44.5	44.7	45.9	46.1	47.3	48.5
Netherlands	109.5	112.1	115.5	118.9	122.6	124.4	129.0	131.6
UK	72.1	78.9	82.1	79.8	75.1	76.0	71.9	68.0
US	150.0	145.8	138.4	128.8	121.2	116.0	111.4	110.1
Japan	154.5	155.3	157.8	175.1	186.7	202.8	214.8	204.2

Source: Bank of England

10. Relative unit labour costs in manufacturing (1980=100)

	1985				1986	
	Q1	Q2	Q3	Q4	Q1	Q2
Belgium	93.8	93.4	93.0	92.6	92.3	91.5
Denmark	113.6	113.8	112.9	112.0	111.4	110.6
Germany	90.9	90.3	90.5	90.2	89.8	89.2
Spain	132.8	133.5	134.8	135.9	136.2	137.6
France	119.0	120.1	121.0	121.4	121.2	123.3
Italy	132.7	134.5	134.5	135.8	136.0	134.6
Netherlands	95.4	95.2	94.7	93.8	92.9	93.6
Portugal						
UK	106.9	108.3	109.1	110.1	112.7	115.9
US	90.4	90.0	89.8	90.4	89.6	88.5
Japan	79.2	78.0	77.3	75.6	74.9	73.9

Source: IMF

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

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	6.6	3.6	4.1	4.0	4.0	4.8
Denmark	3.1	2.6	4.2	5.0	4.2	3.8
Germany	44.5	35.0	34.4	39.0	39.9	38.9
Greece	1.3	0.9	0.9	0.8	1.1	1.0
Spain	11.3	11.4	10.2	10.5	11.4	11.5
France	25.3	19.1	21.7	24.3	24.1	32.1
Ireland	2.7	2.1	3.2	2.7	7.8	3.0
Italy	21.7	19.1	18.7	14.0	13.4	18.3
Netherlands	10.4	7.8	7.5	9.2	9.3	9.3
Portugal	0.8	0.5	0.8	1.3	1.1	1.2
UK	18.7	7.0	7.8	9.7	10.7	11.5e
US	10.1	6.7	7.4	12.9	14.0	15.2
Japan	21.6	22.3	23.4	22.3	23.5	29.5

Source: IMF

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

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	9.3	5.7	6.1	6.2	6.2	7.1
Denmark	3.5	3.1	4.6	5.5	4.7	4.4
Germany	52.8	43.4	42.8	48.0	49.3	48.6
Greece	1.5	1.1	1.1	1.0	1.3	1.2
Spain	12.5	12.5	11.3	11.7	12.7	12.9
France	31.0	23.7	26.5	29.7	29.8	38.0
Ireland	2.9	2.4	3.5	3.0	3.1	3.3
Italy	26.1	23.1	22.9	18.1	17.6	22.6
Netherlands	13.6	10.7	10.5	12.5	12.7	12.8
Portugal	1.8	1.2	1.6	2.2	2.0	1.7
UK	21.5	10.1	11.0	13.6	14.7	15.6
US	27.4	32.9	34.2	42.2	44.3	46.3
Japan	25.7	27.3	28.5	27.7	29.1	35.0

Source: IMF

December 1986
IF2
HM TREASURY

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FROM: B G Bender
DATE; 5 December 1986
cc: Mr Elliott
Mr Bostock
Mr Beales *
Mr Savill

Sir D Hannay

ECOFIN COUNCIL: 8 DECEMBER

Greek Trade Measures

- A 1. By Friday evening, Sutherland had completed negotiations on export subsidies; but talks on the import deposit scheme were continuing. The position as at 1800Z is set out in the attached telegram which I have issued (Flag A).
- B 2. I also attach (Flag B) a reminder of the institutional position: ie the Council's rights as regards the loan and the Article 108 decision.
3. It seems to me that there are two possible outcomes to the Council (and therefore two bases for the Chancellor's summing up), unless there is back-sliding over the weekend and therefore the Commission have to report a failure to reach any agreement.
- i The Council (albeit reluctantly) is satisfied with the Commission's report on their discussions with the Greeks. In that case, all the Chancellor needs do is simply take note.
- ii Various members of the Council grumble about certain aspects of the deal. Since the Commission's responsibility is simply "to take account of" the Council's discussion (see Flag B), our objective should be for the Chancellor to draw clear conclusions, possibly in writing, so that there can be no ambiguity about the matter.
4. Option ii seems to me to be the most likely one. In that event, it may be possible to include the following elements in any summing up (depending of course on the actual discussion):

* Please arrange for copies to be given to visiting Whitehall officials.

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- the need to keep the Greeks to their commitments, eg by releasing the second tranche of the loan in more than one step.
- the importance of ensuring that the new Article 108 decision contains a workable safeguard clause that can be applied in the event of market disruption or threat of disruption as a result of export subsidies.
- the need for the phased abolition of the import deposit scheme, starting with items which have caused the greatest difficulties for industry in other Member States.



B G Bender

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GREEK TRADE MEASURES

MY TELNO 4283

Summary

1. Commission have completed negotiations with Greeks on export subsidies; talks still continuing on import deposit scheme.

Detail

2. We have been told in strict confidence that the position reached in the negotiations with the Greeks by 1800Z on 5 December is as follows.

Export Subsidies

3. Sutherland has reached agreement with Simitis on the phasing out of the 13% subsidies that will remain after the introduction of VAT, over 3 years, as follows:

- i the 8% subsidies under decision 1574 will be abolished in 4 equal steps, zxxzxxzxxzxxzxxzxxz 1.1.87, 1.1.88, 1.1.89 and 1.1.90.
- ii the 5% interest rebate subsidies would be phased out during 1987, with 2% disappearing on 1 April and the remaining 3% on 31 December.

(Comment: this means that, although the subsidy authorisation would extend for another 3 years, only 4% subsidies would remain after the first year.)

4. Sutherland made clear to Simitis that the new Article 108 Decision would contain a strict safeguard clause to guard against undue distortion of trade. ON cement, Simitis apparently indicated a willingness to give a commitment to the UK authorities on the amount to be exported. (Comment: this information has not yet been transmitted officially to us.)

Import Deposit Scheme (IDS)

5. Cockfield had expressed serious concern to Simitis that such relaxation as had taken place so far had affected raw materials or other products for manufacture in Greece, and had therefore been in the interests of Greek industry. He had ~~therefore~~ insisted that a real effort must be made on 1 January. His Cabinet had then proposed an immediate across the board cut in the 80% rate; but the Greeks had rejected this as being administratively too complicated. Discussions were therefore taking place on a ~~package~~ balanced package of products to be taken completely out of the system from 1 January. The outcome is not yet known. ~~There will also be further~~ Discussion on whether there should be a second phase of relaxation before the IDS is abolished, or whether its date of abolition should simply be brought forward by, eg, 1 month, to 31 March.

is also continuing

(Comment: as discussed in telecon Bender/Marshall (DTI), grateful for indication of particular products of importance to us by 09.00Z on 28 December.)

B.L.R. 5/12

ECOFIN COUNCIL: 8 DECEMBER

GREEK TRADE MEASURES

Institutional Position

1. The conclusions of the 18 November 1985 EcoFin Council contain the following Commission statement;

"The Commission undertakes

- before deciding to release the second instalment of the loan, to inform the Council of the outcome of the examination provided for in Article 2, second indent, of the Decision;
- when deciding to release the second instalment of the loan, to take account of any discussions the Council may have had on the subject."

2. The trade measures themselves are authorised by the Commission decision under Article 108(3). This specifies that certain export subsidies may be paid until 31.12.86. It contains no cut-off date for the import deposit system (the 30 April 1987 deadline was agreed privately); but the detail of the system is contained in an Annex to the Decision. Thus, a fresh Article 108(3) Decision will be needed for any continued authorisation of export subsidies; and for any changes to the import deposit scheme. Such a Decision can be changed by the Council, acting by a qualified majority.



The Chancellor

FROM: SIR G LITTLER

DATE: 8 December 1986

Copies to: Economic Secretary
Sir David Hannay
Mr Bostock
Mr Lavelle
Mr Culpin

*Delors
Hannay
Simitis*

GREECE

1. The conclusion of the Monetary Committee this morning was to recommend that Greece should be allowed the second tranche without further ado, but on the basis that the Monetary Committee will, with the Commission, undertake especially close monitoring quarterly during the coming year - "in the interests of helping Greece, as well as the Community".
2. The basis of this was that, since our previous meeting, the Greece/Commission negotiations have elicited some valuable improvements and commitments in both removal of offensive external measures (see attached list) and the general programme of economic and financial policy.
3. Some of this is apparently embodied in a recent letter from Simitis to Delors of which a copy ought to be circulated. It includes important contingent commitments in case events threaten failure to meet agreed targets.
4. Presidency Brief - I think it would be appropriate if you first invited the Commission to expound the latest developments and the basis of the agreement they propose. You could then call on Tietmeyer to report (attached are my notes of his summing up). After hearing the Greek Minister you may then want to sound out views, but all officials at the Monetary Committee felt that their Ministers would follow the line we had all agreed.
5. UK Brief - I suggest the Economic Secretary can follow the brief already submitted except that:
 - he will want to welcome the proposed early reduction of the import deposit scheme;
 - he will want to express regret that it takes more than one year to phase out all export subsidies and register continuing UK concern over cement;
 - I hope he would support the need for continuing close monitoring.

AL
SIR G LITTLER



PROPOSED REDUCTION OF EXTERNAL MEASURES

Import Deposit Scheme

A firm decision has been taken to abolish the scheme entirely by end April 1987. Meanwhile the Greek Cabinet has proposed to the Commission a further step on 1 February 1987 to halve the existing 80/40% rates currently imposed.

Export Subsidies

The interest rate subsidy of 5% across the board will be reduced by (probably) 2% on 1 January 1987 and the remaining 3% not later than the end of 1987.

The other export subsidies currently average 13½%. 5½% of this will disappear when VAT is introduced at the beginning of 1987. The remainder will be phased out in four roughly equal instalments on 1 January 1987 and the three subsequent years.

The overall effect is that the totality of export subsidies will be reduced by more than half by the end of 1987.



TIETMEYER REPORT FROM MONETARY COMMITTEE

- Have examined progress in Greek economy several times this year. Important new information today about intentions. Progress in 1986 on targets set has been fairly good but:
 - a little out on inflation target in spite of recourse to emergency price freeze
 - budget target achieved only with aid of special oil taxLooking to 1987 targets set are acceptable and measures proposed go in the right direction but uncertainties remain.
- Vitally important that 1987 targets achieved because 1988 will present problems also
- Particularly welcome agreements recently and prospectively reached with Commission on external measures:
 - import deposit scheme to be abolished by end April 1987 and (subject to confirmation) reduction from 80/40 to 40/20 on 1 February
 - general export subsidies to be reduced by 2% end April and remaining 3% by end 1987
 - other export subsidies (averaging 13½% of which 5½% removed when VAT introduced) to be phased out by about one-quarter on each 1 January from 1987 to 1990
 - new luxury tax is not discriminatory against imports (in spite of title)

Conclusion

- The programme is such that the Monetary Committee makes a positive recommendation on the second tranche of the loan. But given the fragility of the situation, the risks, and reliance on contingent commitments, there should be a close quarterly review by the Monetary Committee which would - only if they saw grounds for special concerns - report to the Ecofin.



8 DECEMBER ECOFIN: CHANCELLOR'S CLOSING REMARKS

1. Thank you Mr Eyskens for those kind words; before closing today's meeting I should emphasise my thanks to the Council Secretariat, to the Interpreters and to the Commission for all their ~~good work~~ ^{help} over the last six months. I would also like to thank you all for your constructive contributions to our discussions and I look forward to attending EcoFin meetings under the Belgian Presidency. ~~I hope you all have a good journey home.~~

We have a lot to thank the Council Secretariat Commission Interpreters for the work done on the papers. The papers are in the Council Secretariat. Look forward to Belg Presidency work you all a happy Christmas



TRAVELLERS ALLOWANCES

~~CHANCELLOR'S CONCLUDING REMARKS~~

We have discussed the problems of individual Member Countries over travellers' allowances. The general background to our discussion is of course that duty free facilities are a fact of life and will remain so until we can agree to abolish fiscal frontiers.

On the problem of the Channel tunnel.....



BANKING ADVISORY COMMITTEE: LUNCH

1. Question has been raised in context of discussions of draft Council Decision on Commission's implementation powers ("comitology") of the position of the Banking Advisory Committee.
2. This is a matter of considerable concern to the BAC itself. I have received today a message from the Chairman of the Committee of Bank Governors, who has discussed this with a number of his colleagues, expressing the same concerns.
3. The short point is the Committee, and Bank Governors, take the view that banking area must remain responsibility of national supervisors working together. The BAC itself should take on the new implementing powers. [Speaking for myself I think that this proposal is understandable and makes a lot of sense, and I would like to commend it to those who will have to make decisions in this whole comitology area]. What do colleagues think?

Formalities If Agreed

- (i) remit to Coreper having responsibility for preparing General Affairs Council on basis agreed;
- (ii) Presidential letter to Sir Geoffrey Howe.

FCO

MR RENVICK
MR BRAITHWAITE

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HD/NEWS DEPT
HD/ERD
HD/ECO (P)
HD/
HD/

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Mr ALON ECO(I)

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<p><u>H M TREASURY</u> PS CHANCELLOR SIR GEOFFREY LITTLE MR J E MORTIMER MR O B CRABBE I MR R G LAYELLE PS ES Ms BARBER Mr SINCLAIR</p>	<p><u>M A P F</u> PERMANENT SECRETARY</p>	<p>Mr LAMBERT D/TPT PS GOVERNOR B/GUANO. Mr MAULETT B/GUANO.</p>

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FRAME ECONOMIC

ECOFIN COUNCIL 8 DECEMBER 1986

SUMMARY REPORT

(X DENOTES ITEM NOT REPORTED ELSEWHERE)

1. A SUCCESSFUL AND BUSINESSLIKE COUNCIL, NOTABLY FOR A SATISFACTORY SETTLEMENT ON THE GREEK ECONOMY; FORMAL AGREEMENT ON A SUBSTANTIAL CONTRIBUTION TO THE COMPLETION OF THE INTERNAL MARKET, IN THE SHAPE OF THE BANK ACCOUNTS DIRECTIVE; AND A SOLUTION TO THE TRAVELLERS ALLOWANCE PROBLEMS REUNITED TO ECOFIN BY THE EUROPEAN COUNCIL.

2. THE CHANCELLOR OF THE EXCHEQUER CHAIRED THE COUNCIL; MR STEWART, ECONOMIC SECRETARY, REPRESENTED THE UK.

'A' POINTS (X)

3. 'A' POINTS LISTED IN DOCUMENT 10948/86 APPROVED.

NIC IV (X)

4. COUNCIL CONFIRMED COMMON POSITION ON DOCUMENTS 10772-74/86. CADILHE (PORTUGAL) MADE AN ADDITIONAL (UNILATERAL) MINUTES STATEMENT STRESSING THE ROLE OF NIC LENDING IN CONTRIBUTING TO STRUCTURAL ADJUSTMENT.

RENEWAL OF MTFM MECHANISM (X)

5. THE COUNCIL AGREED THE TEXT AND MINUTES STATEMENT SUBJECT TO UK PARLIAMENTARY SCRUTINY RESERVE. FORMAL ADOPTION AS AN A POINT LATER THIS MONTH.

DIRECTIVE ON BANK ACCOUNTS (X)

6. ADOPTED BY UNANIMITY. THE CHANCELLOR NOTED THAT THIS DIRECTIVE MARKED AN IMPORTANT STEP IN ACHIEVING THE INTERNAL MARKET, AND CONGRATULATED THOSE CONCERNED.

FISCAL TREATMENT APPLICABLE TO RUM IMPORTED FROM THE FRENCH OVERSEAS

FISCAL TREATMENT APPLICABLE TO RUM IMPORTED FROM THE FRENCH OVERSEAS DEPARTMENTS (X)

7. SCHEER FRANCE) SPOKE TO THE PAPER WHICH HAD BEEN CIRCULATED (DOCUMENT 11156/86), AND URGED THE COUNCIL TO REMIT THE MATTER TO COREPER SO THAT IT COULD PERHAPS BE PLACED ON THE NEXT ECOFIN COUNCIL AGENDA. THE CHANCELLOR OF THE EXCHEQUER AGREED THAT COREPER SHOULD EXAMINE THE ISSUE, WITHOUT GIVING ANY INDICATION OF WHAT THE OUTCOME SHOULD BE.

TAX AND DUTY FREE ALLOWANCES FOR FUEL IN THE STANDARD TANKS OF LORRIES

8. GERMANY BLOCKED THE PRESIDENCY COMPROMISE AND REFUSED EVEN TO TAKE A FIRST STEP TO 300 LITRES.

TRAVELLERS' ALLOWANCES

9. COMMISSION CONFIRMS HELPFUL STATEMENT ON EQUAL FISCAL TREATMENT FOR CFL. SOLUTION IN PRINCIPLE AGREED FOR IRISH AND GERMAN PROBLEMS ON BEER IMPORTS AND BUTTERSHIPS. PROPOSAL FOR 2 YEAR EXTENSION OF DANISH DEROGATION RECOMMENDED FOR URGENT CONSIDERATION IN CAPITALS. DRAFT 8TH TRAVELLERS ALLOWANCES DIRECTIVE REMITTED TO COREPER.

ANNUAL ECONOMIC REPORT

10. REPORT AS AMENDED BY COM(86)530, AND AS FURTHER AMENDED DURING LUNCHTIME DISCUSSION, AGREED. ALL UK CONCERNS DEALT WITH. FORMAL ADOPTION AS AN 'A' POINT LATER THIS MONTH.

GREEK ECONOMY AND LOAN

11. COUNCIL AGREEMENT THAT COMMISSION SHOULD RELEASE SECOND TRANCHE OF LOAN. SATISFACTORY TIMETABLE AGREED FOR DISMANTLING TRADE MEASURES. BILATERAL DEAL ON CEMENT.

LUNCH ITEMS

BANKING ADVISORY COMMITTEE

12. IRELAND AND NETHERLANDS JOIN UK IN SPEAKING IN FAVOUR OF SPECIAL TREATMENT FOR THE BAC UNDER THE COMITOLGY PROPOSALS, BUT COMMISSION ARE HOSTILE. COREPER TO CONSIDER BAC'S FUTURE POSITION IN CONTEXT OF COMITOLGY DECISION.

FOLLOW-UP TO EUROPEAN COUNCIL

13. COMMISSION OUTLINE THEIR PRIORITIES IN FINANCIAL SERVICES, PARTICULARLY INSURANCE, AND TAKE OPPORTUNITY TO FLAG FUTURE WORK ON MACRO-ECONOMIC ISSUES INCLUDING CAPITAL MOVEMENTS.

14. DETAILS OF ITEMS IN PARAGRAPHS 8-13 IN MY 6 IFT'S.

HANNAY

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

RICHARDSON ECD(P) FCO

ARON FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

SHEARER CAB

M F KNOX C/E

MOGG DTI

LOUGHEAD DTI

HEALEY DTI

- J WALKER DTI

PS/CHANCELLOR TSY

PS/ES TSY

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MR MERCER
MR M H JAYDTI

MR LONGHEAD.

HM CUSTOMS & EXCISEMR F KENT
MR KNOX
MR BOARDMANHM TREASURYPS/ CHANCELLOR
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MR J E MORTIMER
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MR R G LAVELLE
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NS BARBERMAFF

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D/TPT.

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FRAME ECONOMIC

ECOFIN COUNCIL: 8 DECEMBER 1986

TAX AND DUTY FREE ALLOWANCE FOR FUEL IN THE STANDARD TANKS OF
LORRIES

SUMMARY

1. GERMANY BLOCKS THE PRESIDENCY COMPROMISE AND REFUSES EVEN TO
TAKE A FIRST STEP TO 300 LITRES.

DETAIL

2. TIETMEYER (GERMANY) REJECTED THE PRESEIDENCY COMPROMISE
(STAGED INCREASES TO 600 LITRES BY 1992) ALONG PREDICTABLE LINES,
STRESSING THE DAMAGE WHICH AN INCREASE IN ALLOWANCE WOULD DO TO
GERMAN TRANSPORT INDUSTRIES, PORTS AND FUEL STATIONS. HARMONISATION
OF TAXES ON ROAD TRANSPORT SHOULD BE ACHIEVED FIRST RATHER THAN
DEALING PIECEMEAL WITH SMALL POINTS.3. LORD COCKFIELD (COMMISSION) REGRETTED THE GERMAN POSITION, AND
WAS PREPARED TO SUPPORT THE COMPROMISE IN ORDER TO GET SOME VISIBLE
MOVEMENT. RUDING (NETHERLANDS) ALSO SUPPORTED THE COMPROMISE, AND
INDICATED THAT THE NETHERLANDS HAD RECENTLY TRIED TO MOVE TOWARDS
MEETING GERMANY'S CONCERNS BY PROPOSING AN INCREASE IN DERV
TAXATION

MEETING GERMANY'S CONCERNS BY PROPOSING AN INCREASE IN DERY
TAXATION.

4. SPEAKING FROM THE CHAIR, THE CHANCELLOR OF THE EXCHEQUER ASKED WHETHER GERMANY COULD ACCEPT A FIRST INCREASE TO 300 LITRES NEXT YEAR WITHOUT PREJUDICE TO FURTHER INCREASES. THIS WOULD PARTICULARLY HELP SMALLER BUSINESSES FIRST. TIETMEYER REFUSED, AND STRESSED AGAIN THAT THE COUNCIL SHOULD WAIT FOR THE REPORT ON TAXATION OF ROAD TRANSPORT WHICH HAD BEEN REQUESTED FROM THE COMMISSION BY TRANSPORT MINISTERS.

5. THE CHANCELLOR CONCLUDED THAT THE SOLUTION OF A LIMITED INCREASE REMAINED ON THE TABLE AND CALLED ON GERMANY TO REFLECT, IN PREPARATION FOR FUTHER DISCUSSION AT A FUTURE DATE.

HANNAY

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RICHARDSON ECD P FCO
JAY CAB
M F KNOX C/E
BOARDMAN C/E
LOUGHEAD DTI
PS/CHANCELLOR TSY
PS/EST TSY
LAVELLE TSY
MISS SINCLAIR TSY
MISS BARBER TSY
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<p><u>H M TREASURY</u> PS CHANCELLOR SIR GEOFFREY LITTLE MR J E MORTIMER MR G B CHARLIE I MR R G LAYELL PS (ECT) Mr SINGAR Ms BARBER</p>	<p><u>H A F F</u> PERMANENT SECRETARY</p>	<p>Ms LAMBERT D/TPT</p>

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 ECOFIN COUNCIL : 8 DECEMBER 1986
 TRAVELLERS' ALLOWANCES

IMMEDIATE

SUMMARY

1. COMMISSION CONFIRMS HELPFUL STATEMENT ON EQUAL FISCAL TREATMENT FOR CFL. SOLUTION IN PRINCIPLE AGREED FOR IRISH AND GERMAN PROBLEMS ON BEER IMPORTS AND BUTTERSHIPS. PROPOSAL FOR 2 YEAR EXTENSION OF DANISH DEROGATION RECOMMENDED FOR URGENT CONSIDERATION IN CAPITALS. DRAFT 8TH TRAVELLERS ALLOWANCES DIRECTIVE REMITTED TO COREPER.

DETAIL

2. FROM THE CHAIR, THE CHANCELLOR RECALLED THE BACKGROUND, INCLUDING THE CONCLUSIONS OF THE LONDON EUROPEAN COUNCIL THAT SOLUTIONS SHOULD BE FOUND TO PARTICULAR PROBLEMS, AND ASKED THE COMMISSION FOR DETAILS ABOUT THE MEASURES WHICH THEY ENVISAGED TAKING IN THE FUTURE.

3. LORD COCKFIELD (COMMISSION) REPEATED THE REASONS WHY THE COMMISSION HAD WITHDRAWN ITS PROPOSAL FOR A 7TH TRAVELLERS ALLOWANCES DIRECTIVE. HE DREW ATTENTION TO THE PROPOSAL MADE ON 1 DECEMBER TO COVER THE DANISH DEROGATION. HE CONFIRMED THAT THE PRINCIPLE OF NON-DISCRIMINATION AND EQUAL FISCAL TREATMENT WOULD APPLY TO THE OPERATORS OF THE CFL, AND THAT THE COMMISSION WOULD TAKE FURTHER APPROPRIATE MEASURES CONSISTENT WITH THE SEA, SHOULD THE NEED ARISE. DISCUSSIONS WERE CONTINUING WITH GERMANY AND IRELAND ABOUT BUTTERSHIPS AND BEER IMPORTS RESPECTIVELY.

4. THE CHANCELLOR SUGGESTED THAT THE SENSITIVE INSTITUTIONAL CONSIDERATIONS RAISED BY THE COMMISSION WITHDRAWING ITS PROPOSAL WHEN THE LEGISLATIVE PROCESS WAS WELL ADVANCED DID NOT NEED TO BE DISCUSSED, BUT THAT THE EXISTING PRACTICAL PROBLEMS NEEDED TO BE ADDRESSED.

CHANNEL FIXED LINK

5. MR STEWART AND SCHEER (FRANCE) WELCOMED THE COMMISSION'S

ADDRESSED.

CHANNEL FIXED LINK

5. MR STEWART AND SCHEER (FRANCE) WELCOMED THE COMMISSION'S STATEMENT. EYSKENS (BELGIUM) COMMENTED THAT THE CONTINUED EXISTENCE OF DUTY-FREE SHOPS WAS INCONSISTENT WITH ABOLITION OF FISCAL FRONTIERS. HE ACCEPTED THAT THERE SHOULD BE NO DISCRIMINATION AGAINST THE CFL, AND THAT A SOLUTION SHOULD BE FOUND FOR THE DANISH PROBLEM, BUT DUTY-FREE ALLOWANCES SHOULD NOT BE INCREASED.

BUTTERSHIPS

6. TIETMEYER (GERMANY) SAID THAT UNLESS A SOLUTION WAS FOUND GERMANY COULD NOT GO ALONG WITH SOLUTIONS FOR OTHER MEMBER STATES' PROBLEMS. PROMISES WERE NOT ENOUGH; RESULTS WERE WHAT COUNTED. DUTY-FREE ALLOWANCES WERE PROBABLY ONLY A TRANSITIONAL PHENOMENON, AND THE COUNCIL COULD UNDERTAKE TO REVIEW THEM, AND BUTTERSHIPS, BEFORE 1992.

7. CALAMIA (ITALY), WHILE ACCEPTING THAT THE EUROPEAN COUNCIL HAD CALLED FOR SOLUTIONS TO BE FOUND, MAINTAINED A RESERVE ON ANY COUNCIL AGREEMENT ON BUTTERSHIPS.

DANISH DEROGATION

8. ANDERSEN (DENMARK) REPEATED DENMARK'S WELL-KNOWN CONCERNS ABOUT THE ECONOMIC CONSEQUENCES WHICH WOULD FOLLOW IF THEIR DEROGATION WAS NOT EXTENDED. HE COULD NOT ACCEPT LESS THAN A 3 YEAR EXTENSION.

9. THE CHANCELLOR SUGGESTED THAT THERE SHOULD BE A ONE YEAR EXTENSION OF THE EXISTING DEROGATION, WITHOUT ANY COMMITMENT ABOUT WHAT WOULD HAPPEN AT THE END OF THAT PERIOD.

IRISH BEER IMPORTS

10. CAMPBELL (IRELAND) SAID THAT SO FAR HE HAD DERIVED NO SATISFACTION FROM THE LINES ALONG WHICH HE BELIEVED THE COMMISSION'S MIND WAS WORKING. THERE WOULD BE AN ENORMOUS REVENUE LOSS AND CONSIDERABLE ABUSE UNLESS A QUANTITATIVE LIMIT COULD BE IMPOSED.

BILATERAL DISCUSSIONS

11. IN ORDER TO REACH AGREEMENT ON THE OUTSTANDING PROBLEMS, THE CHANCELLOR THEN HELD A SERIES OF BILATERAL DISCUSSIONS WITH THE COMMISSION, IRELAND, GERMANY AND DENMARK.

12. THE IRISH PROBLEM WAS SETTLED WITH RELATIVE EASE ON THE BASIS THAT THE COMMISSION AND IRELAND WOULD COME TO AN AGREEMENT ON THE LIMIT FOR DUTY-FREE IMPORTS OF BEER (POSSIBLY 18 LITRES).

13. GERMANY AND DENMARK WERE MORE DIFFICULT. LORD COCKFIELD MADE CLEAR THAT THE COMMISSION WERE PREPARED TO WITHDRAW INFRACTION PROCEEDINGS AGAINST BUTTERSHIPS UNTIL 1992, IN RETURN FOR AN UNDERTAKING BY THE GERMAN GOVERNMENT (WHICH COULD TAKE THE FORM OF AN UNPUBLISHED EXCHANGE OF LETTERS) TO PHASE OUT BUTTERSHIPS BY THE SAME DATE. TIETMEYER WAS CLEARLY TEMPTED TO SETTLE ON THIS BASIS, BUT WAS OBLIGED TO RESERVE THE GERMAN POSITION PENDING FURTHER CONSIDERATION IN BONN: IF THIS FORMULA WAS ACCEPTABLE, THE GERMAN GOVERNMENT COULD IN ITS TURN AGREE TO A 2 YEAR ROLL-OVER OF THE SPECIAL DEROGATION FOR DANISH 48-HOUR TRIPPERS.

14. THE CHANCELLOR THEN TRIED OUT THIS SOLUTION ON ANDERSEN, EMPHASISING THAT A FURTHER 2 YEAR FREEZE MARKED A SUBSTANTIAL IMPROVEMENT IN THE TRAVELLERS ALLOWANCES REGIME FOR DENMARK. ANDERSEN (NOT THE DANISH MINISTER PRINCIPALLY RESPONSIBLE) WAS RELUCTANT TO TAKE THE RESPONSIBILITY FOR AGREEING EVEN IN PRINCIPLE TO A SOLUTION LESS GENEROUS THAN THE 3 YEAR FREEZE WHICH THE

IMPROVEMENT IN THE TRAVELLERS ALLOWANCES REGIME FOR DENMARK. ANDERSEN (NOT THE DANISH MINISTER PRINCIPALLY RESPONSIBLE) WAS RELUCTANT TO TAKE THE RESPONSIBILITY FOR AGREEING EVEN IN PRINCIPLE TO A SOLUTION LESS GENEROUS THAN THE 3 YEAR FREEZE WHICH THE PRESIDENCY HAD SUGGESTED AND THE FOLKETING APPROVED.

15. BOTH TIETMEYER AND ANDERSEN EVENTUALLY SETTLED FOR THE FORMULA THAT THE COUNCIL AGREED TO RECOMMEND FOR URGENT CONSIDERATION IN CAPITALS AN AMENDED DRAFT DIRECTIVE ON TRAVELLERS ALLOWANCES MAINTAINING THE EXISTING DEROGATION FOR DENMARK FOR 1987 AND 1988; 6 MONTHS BEFORE THE END OF THIS 2 YEAR PERIOD THE COUNCIL WOULD, WITHOUT PREJUDICE, TAKE UP THIS MATTER AGAIN ON THE BASIS OF A REPORT ON BORDER TRADE BY THE COMMISSION AND OF SUCH PROPOSALS AS THE COMMISSION MAY MAKE FOR THE SUBSEQUENT PERIOD.

16. ON RESUMPTION OF THE COUNCIL, THE CHANCELLOR CONCLUDED THAT DUTY-FREE FACILITIES ARE A FACT OF LIFE AND WILL REMAIN SO UNTIL THE COUNCIL CAN AGREE TO ABOLISH FISCAL FRONTIERS. HE REMINDED THE COUNCIL OF THE COMMISSION'S STATEMENT ON THE CHANNEL FIXED LINK AND REPORTED ON THE CONCLUSIONS REACHED IN HIS BILATERAL DISCUSSIONS. THESE WERE ACCEPTED BY THE COUNCIL.

8TH TRAVELLERS ALLOWANCES DIRECTIVE

17. THERE WAS NO DISSENT TO THE CHANCELLOR'S CONCLUSION THAT COREPER SHOULD RE-EXAMINE THE PROPOSAL.

COMMENT

18. LORD COCKFIELD WAS NOTABLY HELPFUL DURING THE BILATERAL DISCUSSIONS, REPEATEDLY DEFENDING TO THE COMPLAINANT MEMBER STATES THE ADVANTAGES OF THE DEAL WHICH THE PRESIDENCY WAS PROMOTING.

HANNAY

YYYY
ADVANCE
WALL FCO
RICHARDSON ECD(P) FCO
JAY CAB
KNOX C/E
GARRETT C/E
LOUGHEAD DTI
PS/CHANCELLOR TSY
PS/EST TSY
LAVELLE TSY
SINCLAIR TSY
BARBER TSY
LAMBERT D/TP
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FRAME ECONOMIC

UCLNAN 5753

NNNN

FCOMR RENWICK
MR BRAITHWAITERESIDENT CLERK
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HD/NEWS DEPT
HD/ERD
HD/ECO(P)
HD/
HD/PLUS FCOMr Bloomfield
ECO(1)

<u>CABINET OFFICE</u> MR D WILLIAMSON MR JE HOLROYD MR MERCER MR M H JAY	<u>D T I</u>	<u>HM CUSTOMS & EXC</u> MR F KENT Mr Kirby BLENKARD.
<u>H M TREASURY</u> PS/Chancellor PS/ES SIR GEOFFREY LITTLE MR J E MORTIMER MR G B CRABBE I MR R G LAVELLE NS BARBER.	<u>M A P F</u> PERMANENT SECRETARY	

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OF 082048Z DECEMBER 86

INFO ROUTINE EUROPEAN COMMUNITY POSTS

IMMEDIATE

FRAME ECONOMIC

ECOFIN : 8 DECEMBER 1986

ANNUAL ECONOMIC REPORT

SUMMARY

1. REPORT AS AMENDED BY COM(86)530, AND AS FURTHER AMENDED DURING LUNCHTIME DISCUSSION, AGREED. ALL UK CONCERNS DEALT WITH. FORMAL ADOPTION AS AN 'A' POINT LATER THIS MONTH.

DETAIL

2. PFEIFFER (COMMISSION) SUMMARISED THE MAIN THEMES OF THE ANNUAL REPORT, IN AN INTERVENTION NOTABLE ONLY FOR THE STRESS HE LAID ON THE COMMISSION'S DETERMINATION TO REPORT TO ECOFIN ON MEMBER STATES' RECORD IN IMPLEMENTING THE CO-OPERATIVE GROWTH STRATEGY.

3. ON TEXTUAL AMENDMENTS, THE UK IN THE MARGINS OF THE COUNCIL PERSUADED THE COMMISSION TO ACCEPT CHANGES TO PAGES 7, 99, 157 AND 223 REMOVING ANY SUGGESTION THAT THE GOVERNMENT STILL HAD ROOM FOR EXPANSION IN 1987-88 (TEXTS BY HAND OF LAVELLE, HMT).

4. DURING LUNCH, BOTH SIMITIS (GREECE) AND DE LA DEHESA (SPAIN) CRITICISED THE CHANGES AGREED BY THE COMMISSION AT FRANCO-DANISH BEHEST TO PAGE 136 OF THE REPORT, WHICH NOW REFERRED PEJORATIVELY TO THE STRUCTURAL FUNDS AND IMPLIED THAT THEY WERE A PRIME CAUSE OF COMMUNITY BUDGETARY PROBLEMS. THE CHANCELLOR, POINTING OUT THAT NO DELEGATION COULD EXPECT TO AGREE EVERY WORD. INVITED THEM TO MAKE

COMMUNITY BUDGETARY PROBLEMS. THE CHANCELLOR, POINTING OUT THAT NO DELEGATION COULD EXPECT TO AGREE EVERY WORD, INVITED THEM TO MAKE UNILATERAL DECLARATIONS ON THESE POINTS. THIS THEY DID LATER IN FULL COUNCIL.

5. CALAMIA (ITALY) SUGGESTED THE DELETION OF THE LAST THREE LINES OF THE PARAGRAPH DEALING WITH THE 1986 BUDGET ON PAGES 136-7 OF THE REPORT. THIS WAS AGREED.

6. TIETMEYER (GERMANY) WAS UNHAPPY WITH THE REFERENCE TO 'SUSTAINING DEMAND' ON PAGES 99-100 OF THE REPORT. IT WAS AGREED THAT THIS SHOULD BE CHANGED TO 'SUSTAINING DEMAND CONDITIONS'.

HANNAY

YYYY
ADVANCE
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RICHARDSON ECD(P) FCO
MERCER CAB
PS/CHANCELLOR TSY
PS/ES TSY
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
BARBER TSY
KIRBY BANK
MAIN
FRAME ECONOMIC

UCLNAN 5749

NNNN

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MR BRAITHWAITE

RESIDENT CLERK
HD/EC(D) (3)
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HD/EC(D)(P)
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HD/

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Mr Bloomfield EC(D)

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MR MERCER
MR M H JAY

DTI

Mr MOGG
Mr MARSHALL
Mr REES

HM CUSTOMS & EXCISE

MR F KENT

Mr HOPE DOE

Mr KIRBY

B. GUYARD.

H M TREASURY

PS CHANCELLOR
SIR GEOFFREY LITTLE
MR J E MORTIMER
MR C B CHARRIE
MR R G LAVELLE
PS EST
Mr EDWARDS
Ms BARBER

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OF 082049Z DECEMBER 86

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IMMEDIATE

FRAME ECONOMIC

ECONFIN: 8 DECEMBER 1986

GREEK ECONOMY

SUMMARY

1. COUNCIL AGREEMENT THAT COMMISSION SHOULD RELEASE SECOND TRANCHE OF LOAN. SATISFACTORY TIMETABLE AGREED FOR DISMANTLING TRADE MEASURES. BILATERAL DEAL ON CEMENT.

DETAIL

2. THE COMMISSION REPORTED THIS MORNING TO THE MONETARY COMMITTEE ON THEIR NEGOTIATIONS WITH THE GREEK GOVERNMENT ABOUT TRADE MEASURES AND ON FURTHER STEPS WHICH THE GREEK GOVERNMENT HAD TAKEN TO SECURE THE SUCCESS OF ITS ECONOMIC STABILISATION PROGRAMME SINCE THE COMMITTEE'S LAST DISCUSSION ON 25 NOVEMBER. A FIRM DECISION HAD BEEN TAKEN TO ABOLISH THE IMPORT DEPOSIT SCHEME ENTIRELY BY THE END OF APRIL 1987, AS AN INTERIM MEASURE THE GREEK GOVERNMENT HAD INDICATED ITS WILLINGNESS TO HALVE THE 80 PER CENT AND 40 PER CENT RATES ON 1 FEBRUARY. AS FOR EXPORT SUBSIDIES, THE 5 PER CENT INTEREST RATE SUBSIDY WOULD BE REMOVED BY THE END OF 1987 WITH A FIRST INSTALMENT (PROBABLY 2 PER CENT) DISAPPEARING ON 1 JANUARY 1987. OF THE OTHER EXPORT SUBSIDIES (CURRENTLY AVERAGING 13 1/2 PER CENT), 5 PER CENT WOULD DISAPPEAR WHEN VAT WAS INTRODUCED AT THE TURN OF THE YEAR, THE REMAINDER WOULD BE PHASED OUT IN FOUR ROUGHLY EQUAL INSTALMENTS ON 1 JANUARY 1987 AND THE THREE SUBSEQUENT YEARS. IN TOTAL EXPORT SUBSIDIES WOULD THUS BE REDUCED BY MORE THAN HALF BY THE END OF 1987.

3. AS FOR THE ECONOMIC STABILISATION PROGRAMME, THE MONETARY COMMITTEE TOOK THE VIEW THAT PROGRESS IN MEETING TARGETS FOR 1986 HAD BEEN FAIRLY GOOD, THOUGH THE RESULTS ACHIEVED ON INFLATION WERE HEAVILY INFLUENCED BY AN EMERGENCY PRICE FREEZE AND THE TARGET FOR THE BUDGET HAD ONLY BEEN ACHIEVED WITH THE AID OF A SPECIAL OIL TAX. THE GOVERNMENT'S TARGETS FOR 1987 WERE ACCEPTABLE AS WERE THE MEASURES WHICH THE GOVERNMENT PROPOSED

SPECIAL OIL TAX. THE GOVERNMENT'S TARGETS FOR 1987 WERE ACCEPTABLE, AS WERE THE MEASURES WHICH THE GOVERNMENT PROPOSED TO ACHIEVE THEM. BUT A CLOSE WATCH MUST BE KEPT ON THE GREEK ECONOMY'S PROGRESS. THE 1987 TARGETS MUST BE KEPT, THERE WILL BE PROBLEMS IN 1988 ALSO.

4. THE MONETARY COMMITTEE'S CONCLUSION, TAKING INTO ACCOUNT IN PARTICULAR NEW INFORMATION ABOUT THE GOVERNMENT'S INTENTIONS, WAS THAT THE SECOND TRANCHE OF THE LOAN SHOULD BE RELEASED. BUT GIVEN THE FRAGILITY OF THE SITUATION, THE RISKS, AND RELIANCE ON CONTINGENT COMMITMENTS, THERE SHOULD BE A CLOSE QUARTERLY REVIEW BY THE MONETARY COMMITTEE, WHICH IF IT SAW GROUNDS FOR SPECIAL CONCERN, WOULD REPORT TO ECOFIN.

5. MEANWHILE, A SERIES OF BILATERAL NEGOTIATIONS WERE TAKING PLACE WITH THE GREEKS ABOUT CEMENT, WHICH LED TO AGREEMENT THAT DELIVERIES TO THE UK WOULD BE LIMITED TO 2.75 PER CENT OF UK CEMENT MARKET IN 1987, 2.85 PER CENT IN 1988 AND 3 PER CENT IN 1989. (DETAILS IN MY TELNO 4360.)

6. DISCUSSION IN THE COUNCIL LATER IN THE DAY WAS BRIEF. DELORS (COMMISSION) SAID THAT IT WOULD BE APPROPRIATE TO RELEASE THE SECOND TRANCHE OF THE LOAN, REFERRING TO THE STRUCTURAL CHANGES IN THE GREEK ECONOMY WHICH ACCESSION TO THE COMMUNITY HAD BROUGHT, THE PROGRESS OF THE STABILISATION PROGRAMME, AND THE GREEK GOVERNMENT'S COMMITMENT TO COMPLY FULLY WITH COMMUNITY LAW. TIETMEYER REPORTED THE MONETARY COMMITTEE'S VIEW AS IN PARAGRAPHS 3 AND 4 ABOVE, ADDING THAT DIVIDING COMMUNITY LOAN SUPPORT INTO TRANCHES HAD BEEN SHOWN TO EXERT USEFUL DISCIPLINE ON THE ECONOMIC POLICY OF A RECIPIENT MEMBER STATE. MR STEWART ASKED FOR AN ASSURANCE THAT THE NEW ARTICLE 108 DECISION AUTHORISING EXPORT SUBSIDIES WOULD CONTAIN A SAFEGUARD CLAUSE WHICH COULD BE ACTIVATED IF MARKET DISRUPTION WAS THREATENED AND THAT ANY APPLICATIONS MADE BY MEMBER STATES FOR SAFEGUARD ACTION WOULD BE DEALT WITH AS A MATTER OF URGENCY. DELORS PUNNINGLY CONFIRMED THAT THE SAFEGUARD CLAUSE IN THE COMMISSION'S DECISION TOOK FULL ACCOUNT OF MEMBER STATES'S CONCRETE PROBLEMS. THE PORTUGUESE DELEGATE PUT IN A PLUG FOR COMMUNITY SUPPORT FOR ECONOMIC RESTRUCTURING PROGRAMMES.

7. SUMMING UP, THE CHANCELLOR SAID THAT THE COUNCIL WAS IN FAVOUR OF THE RELEASE OF THE SECOND TRANCHE OF THE LOAN. THERE HAD BEEN SOME CONCERN IN THE COUNCIL THAT MEASURES SUCH AS THOSE WHICH THE GREEK GOVERNMENT HAD HAD TO TAKE SHOULD EVER HAVE BEEN NECESSARY, BUT THE COUNCIL RECOGNISED THE EFFORTS NOW BEING MADE BY THE GREEK GOVERNMENT. THE COUNCIL NOTED THAT THE MONETARY COMMITTEE WOULD MONITOR PROGRESS, AND IF NECESSARY, REPORT TO ECOFIN FOR FURTHER DISCUSSION.

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MARSHALL DTI
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PS/ES TSY
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MR J K MORTIMER
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TELNO 4369

OF 082050Z DECEMBER 86

INFO ROUTINE EUROPEAN COMMUNITY POSTS

IMMEDIATE

FRAME ECONOMIC

ECOFIN : 8 DECEMBER 1986

BANKING ADVISORY COMMITTEE (BAC)

SUMMARY

1. IRELAND AND NETHERLANDS JOIN UK IN SPEAKING IN FAVOUR OF SPECIAL TREATMENT FOR THE BAC UNDER THE COMITOLGY PROPOSALS, BUT COMMISSION ARE HOSTILE. COREPER TO CONSIDER BAC'S FUTURE POSITION IN CONTEXT OF COMITOLGY DECISION.

DETAIL

2. OVER LUNCH, THE CHANCELLOR RAISED WITH HIS COLLEAGUES THE FUTURE OF THE BANKING ADVISORY COMMITTEE. THIS ISSUE HAD ARISEN IN THE CONTEXT OF THE COMMISSION'S INITIATIVE TO SIMPLIFY COMMITTEE STRUCTURES, BUT RECENTLY BOTH THE BAC AND THE EC CENTRAL BANK GOVERNORS HAD SAID THAT THE INFLUENCE OF BANK SUPERVISORS, WORKING TOGETHER, WAS OF PARAMOUNT IMPORTANCE - SO THAT THE BAC ITSELF SHOULD TAKE ON ANY NEW IMPLEMENTATION POWERS THAT MIGHT ARISE IN THE FUTURE. A DECISION ON THIS WAS NOT FOR ECOFIN BUT IT WOULD BE HELPFUL TO HEAR COLLEAGUES' VIEWS.

3. RUDING (NETHERLANDS) AGREED THAT THIS WAS AN IMPORTANT ISSUE FOR THE BANKING SECTOR. THERE WERE TWO APPROACHES: EITHER TO RESTRICT THE COMITOLGY DECISION TO TAKE ACCOUNT OF THE BAC'S CHARACTERISTICS OR, MORE SIMPLY, TO PROVIDE THE BAC WITH A SPECIAL STATUS. THE LATTER WAS A PRAGMATIC SOLUTION WHICH WOULD NOT DISTORT THE COMITOLGY DISCUSSION.

4. MR STEWART (UK) AGREED: THE DIRECT INVOLVEMENT OF SUPERVISORS WAS ESSENTIAL AND IF THE BAC STRUCTURE WORKED WELL THEN IT SHOULD BE BUILT UPON. CAMPBELL (IRELAND) ALSO SPOKE IN SUPPORT OF SPECIAL TREATMENT FOR THE BAC: A DUAL COMMITTEE STRUCTURE INVITED FRAGMENTED DECISION-MAKING.

TREATMENT FOR THE BAC: A DUAL COMMITTEE STRUCTURE INVITED FRAGMENTED
DECISION-MAKING.

5. LORD COCKFIELD (COMMISSION) REGARDED THE COMITOLGY ISSUE AS
BEING LARGELY IRRELEVANT; THE KEY POINT WAS TO MOVE TOWARDS
COMMUNITY LAW IN BANKING OTHERWISE THE EUROPEAN INDUSTRY WOULD
REMAIN FRAGMENTED. THE COMMISSION HAD A CLEAR RESPONSIBILITY FOR
MAKING PROPOSALS AND WOULD KEEP COMMUNITY LEGISLATION UP-TO-DATE. IT
WAS IMPORTANT TO NOTE THAT THE COMMISSION IN THEIR BANKING PROPOSALS
DID NOT AIM FOR FULL HARMONISATION BUT BUILT UPON EXISTING
STRUCTURES. THE BAC WOULD CONTINUE TO HAVE AN IMPORTANT ADVISORY
ROLE BUT THE COMMISSION'S COMPETENCE COULD NOT BE QUESTIONED; THE
CHANCELLOR RESPONDED THAT NO ONE INTENDED TO DO SO.

6. IN THE FORMAL COUNCIL SESSION, THE CHANCELLOR SUMMARISED THE
LUNCH DISCUSSION AS FOLLOWS:

- (A) THE COUNCIL HAD CONSIDERED THE PROBLEM BROUGHT TO ITS ATTENTION
BY THE BANKING ADVISORY COMMITTEE AND BY THE COMMITTEE OF
CENTRAL BANK GOVERNORS ABOUT THE IMPLICATIONS FOR THE FUTURE
WORK OF THE BAC OF THE PROPOSALS FOR SIMPLIFYING THE COMMUNITY'S
COMMITTEE STRUCTURES.
- (B) THE COUNCIL HAD AGREED TO ASK THE COMMITTEE OF PERMANENT
REPRESENTATIVES TO LOOK INTO THE PROBLEM TAKING ACCOUNT OF THE
VIEWS EXPRESSED BY ECOFIN MINISTERS AND THE COMMISSION.

HANNAY

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SHEPHERD FCO
ROBBINS FCO
RICHARDSON ECD(P) FCO
JAY CAB
PS/CHANCELLOR TSY
PS/ES TSY
LAVELLE TSY
EDWARDS TSY
HALL TSY
BARBER TSY
PS/GOVERNOR BANK
COOKE BANK
BEVERLY BANK
KIRBY BANK
MAIN
FRAME ECONOMIC

UCLNAN 5751

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HD/NEWS DEPT
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PLUS FCO

Mr Bloomfield (COI)

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MR MERCER
MR M H JAY

DTI

Mr NUIK
Mr HELINGS
Mr LOWRY

HM CUSTOMS & EXCISE

MR F KENT

Mr KIRBY BLENKARD
Mr BEVERLY

HM TREASURY

CHANCELLOR
PS/ES
SIR GEOFFREY LITTLE
MR J E MORTIMER
MR G B CRABBE
MR R G LAVELLE
MR EDWARDS
MR HALL
MS BARBER

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IMMEDIATE

OF 082051Z DECEMBER 86
INFO IMMEDIATE BRUSSELS
INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN
INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID

FRAME ECONOMIC

ECOFIN: 8 DECEMBER 1986

FOLLOW-UP TO EUROPEAN COUNCIL

SUMMARY

1. COMMISSION OUTLINE THEIR PRIORITIES IN FINANCIAL SERVICES, PARTICULARLY INSURANCE, AND TAKE OPPORTUNITY TO FLAG FUTURE WORK ON MACRO-ECONOMIC ISSUES INCLUDING CAPITAL MOVEMENTS.

DETAIL

2. OVER LUNCH THE CHANCELLOR REFERRED HIS COLLEAGUES TO THE EUROPEAN COUNCIL CONCLUSIONS AND, IN PARTICULAR, THOSE RELATING TO FINANCIAL SERVICES.

3. LORD COCKFIELD (COMMISSION) STRESSED THE IMPORTANCE OF THE ECJ JUDGEMENTS IN THE INSURANCE CASES. THESE HAD CLARIFIED ISSUES AND, IN PARTICULAR, HAD CONFIRMED THAT MEMBER STATES WERE NOT ENTITLED TO INSIST ON PHYSICAL ESTABLISHMENT OF INSURERS WISHING TO DO BUSINESS IN THEIR TERRITORY. OTHER ASPECTS WERE MORE COMPLICATED AND REQUIRED FURTHER EXAMINATION, FOR EXAMPLE THE AUTHORISATION RULES WHICH MOST STATES WERE ENTITLED TO IMPOSE. THE COMMISSION INTENDED TO HAVE COMPLETED ITS WORK ON REVISING THE PROPOSAL IN TIME FOR THE MARCH ECOFIN. HE HOPED THE BELGIANS WOULD MAKE INSURANCE SERVICES A HIGH PRIORITY DURING THEIR PRESIDENCY. IT WAS IMPORTANT TO RECALL THAT INDUSTRY WOULD BENEFIT FROM COMPETITIVE FINANCIAL SERVICES. IN ADDITION, THE COMMISSION HOPED FOR PROGRESS ON THE DIRECTIVES ON PUBLIC OFFER PROSPECTUSES AND BANKS' OWN FUNDS AND WOULD BE BRINGING FORWARD A DIRECTIVE ON INSIDER DEALING EARLY NEXT YEAR.

4. THE CHANCELLOR AND RUDING (NETHERLANDS) WELCOMED THE PROGRAMME

4. THE CHANCELLOR AND RUDING (NETHERLANDS) WELCOMED THE PROGRAMME SUGGESTED BY LORD COCKFIELD. EYSKENS (BELGIUM) AGREED, BUT CONSIDERED THAT FINANCIAL LIBERALISATION NEEDED TO BE LINKED TO PROGRESS ON CAPITAL MOVEMENTS. DELORS (COMMISSION) RECALLED THE SUGGESTION UNDER THE FRENCH PRESIDENCY THAT RAPID PROGRESS ON INSURANCE SERVICES COULD BE MADE THROUGH A DIRECTIVE CONCENTRATING ON LARGE INDUSTRIAL RISKS.

5. DELORS ADDED THAT THE EUROPEAN COUNCIL HAD TOUCHED UPON A WIDE RANGE OF ECONOMIC AND FINANCIAL QUESTIONS. FIRST, THERE WAS THE COMMITMENT TO QUARTERLY REPORTS ON THE CO-OPERATIVE GROWTH STRATEGY. AN IMPORTANT MATTER WOULD BE THE WILLINGNESS OF MEMBER STATES TO MAKE USE OF THEIR SPARE CAPACITY. SECONDLY, ON THE EMS, THE COMMISSION WOULD BE PREPARING A REPORT. THIRDLY, THE COMMISSION HAD MADE CLEAR THAT THERE WOULD NEED TO BE FURTHER PROGRESS ON CAPITAL MOVEMENTS AND ON THE NEED FOR BUDGETARY RESTRAINT IN RELATION TO THE CAP AND STRUCTURAL FUNDS. THE COMMISSION WOULD ASSIST ANY ECOFIN DISCUSSIONS.

6. EYSKENS RECALLED HIS VIEW THAT MEASURES ON FINANCIAL LIBERALISATION HAD TO BE LINKED TO PROGRESS ON CAPITAL MOVEMENTS. THE LATTER IN TURN WAS LINKED TO THE NEED TO REINFORCE THE EMS AND ACHIEVE GREATER CONVERGENCE OF POLICIES. CLEARLY SUCH A PROGRAMME COULD NOT BE COMPLETED IN 1987 BUT IT WAS VITAL TO MAKE A START AND CAPITAL MOVEMENTS WOULD NEED TO BE A HIGH PRIORITY.

7. AFTER LUNCH, THE CHANCELLOR SUMMED UP THAT THE COUNCIL HAD NOTED THAT

- THE COMMISSION WOULD EXAMINE URGENTLY THE IMPLICATIONS OF THE EUROPEAN COURT'S RECENT RULING ON NON-LIFE INSURANCE, AND INTENDED TO SUBMIT ITS OPINION AND ANY CONSEQUENT PROPOSALS TO THE COUNCIL IN MARCH 1987.

- THE COMMISSION ALSO INTENDED TO SUBMIT PROPOSALS FOR EARLY ACTION ON A NUMBER OF OTHER FINANCIAL SERVICES OF PARTICULAR IMPORTANCE FOR THE EFFECTIVE FUNCTIONING BOTH OF THE INTERNAL MARKET AND OF MANUFACTURING INDUSTRY.

- IN ADDITION, THE COMMISSION INTENDED TO BRING FORWARD PROPOSALS FOR THE NEXT PHASE OF FREEING CAPITAL MOVEMENTS.

- THE INCOMING PRESIDENCY ASKED THAT THESE MATTERS BE HIGH PRIORITIES FOR THE ECOFIN COUNCIL IN 1987.

HANNAY

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

RICHARDSON ECD(P) FCO

WILLIAMSON CAB

JAY CAB

MUIR DTI

HELLINGS DTI

LOWRY DTI

PS/CHANCELLOR TSY

PS/ES TSY

LAVELLE TSY

EDWARDS TSY

HALL TSY

BARBER TSY