

S
1891

T640/17

STARTS : 13.09-84



PO -CH /NL/0030



PART A

INFORMAL ECOFIN 15/16
SEPTEMBER 1984

DAS 25 years N. Ag. 25/08/94

PO -CH /NL/0030

PART A

14.9.84

Informal Ecoti 15/16 Sept
PTA

C/

You'll see that the briefs
for the Foreign Affairs Council
weren't available for the Pro
longer by the time we left.

They've promised to have
them for you on the ball
table so you'll want to
look for the envelope there
tomorrow morning.

Mons

14/9

P.S. You'll see there's a brief on
the City for discussion with
the Governor. It refers to an earlier
submission by Martin. You have
that separately for an earlier box

T640/17

CONFIDENTIAL

FROM: G INGHAM

DATE: 13 September 1984

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
Sir Peter Middleton
Mr Littler
Mr Unwin
Mr Fitchew
Mr Lavelle
Mr Mortimer
Mr Bottrill
Mr Kelly
PS/Governor
Mr Butt UKREP

INFORMAL ECOFIN, IRELAND, 15-16 SEPTEMBER

You will be accompanied by the Governor and Mr Littler at this meeting which begins with lunch on Saturday at Dromoland Castle and concludes with lunch at Knappogue Castle on Sunday. I attach a copy of Mr Dukes letter of 30 August setting out the programme for the meeting, *together with personality notes (top copy only).*

2. There are to be two working sessions, divided as follows:

- Saturday afternoon: preparation for the Washington meetings; and development of the European monetary system.
- Sunday morning: preliminary discussion of Community economic policies; conclusion of EMS discussion (if necessary); and budget discipline.

3. Mr Littler is arranging for separate briefing to be provided on the Washington meetings.

4. Mr Kelly has provided the attached brief on strengthening the EMS. On the whole, this is likely to be a fairly low key

CONFIDENTIAL

CONFIDENTIAL

when? | discussion although this agenda item is also likely to deal with two other matters on which Ministers need to take decisions. The first of these is on changes to the composition of the ecu on which Mr Littler is providing a separate brief.

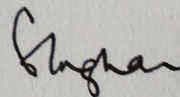
5. The second concerns the Medium Term Financial Assistance facility. You will recall that at the June ECOFIN, Ministers agreed to increase the Community Loan Mechanism by 2 billion ecu, to 8 billion ecu. They also agreed that there should be a corresponding reduction of 2 billion ecu in the MTFA (to a new ceiling of 12.37 billion ecu) and asked the Monetary Committee to consider whether any changes could be made to the MTFA to increase its attractiveness. The Monetary Committee has taken the view that fundamental changes in the MTFA would be best left to the full review of this facility, due at the end of this year. On the procedure for reducing the ceiling, there were some who thought that an entry in the Council minutes would be preferable to a formal amendment of the Regulation: this is not an issue on which we have any strong views and you can maintain a low profile when this is discussed.

Discussion of Community economic policies

6. Mr Graham has prepared the attached brief on the paper circulated by Mr Dukes on 7 September. We understand that the Irish will not want to make too much of a meal of this at this weekend's meeting. They are principally concerned to ensure that the Commission are given a remit to prepare a paper for the Dublin European Council - something they always do anyway.

7. Mr Fitchew is providing separate briefing on budget discipline.

8. A press briefing is scheduled for 12.30 on Sunday. There will obviously be interest in budget discipline but the announcement about the re-weighting of the ecu is likely to attract most attention.



G INGHAM

CONFIDENTIAL



PS/Gov: Chris Deakin 4122

CHWEXCHEQUER	
REG.	31 AUG 1984
ADVN	MR LITTLE
COPIES TO	MR LAWSON
	PS GOVERNOR GIE
	MRS LAWSON

OIFIG AN AIRE AIRGEADAIS
(OFFICE OF THE MINISTER FOR FINANCE)
BAILE ATHA CLIATH 2.
(DUBLIN 2)

30 August 1984

Rt. Hon. Mr. Nigel Lawson M.P.
Chancellor of the Exchequer
HM Treasury
Parliament Street
London S.W. 1 P 3AG

Dear Colleague

Further to my letter of 27 July about the informal Ecofin meeting on 15/16 September at Dromoland Castle I now enclose as promised a more detailed programme for the meeting. A separate programme for spouses is also enclosed. Perhaps you would pass copies to the other members of your delegation.

There is no formal agenda for the working sessions which will commence after the luncheon on Saturday, 15 September. However, it is likely that during the first session we will wish to discuss the preparations for the IMF meetings and the development of the EMS. During the second session, on Sunday morning, I would like us to have a preliminary discussion on the review of our economic policies which, as agreed at our July meeting, should be embarked upon in the Autumn: we can also continue if necessary with the discussion on the development of the EMS and deal with EC Budgetary discipline and any other issues.

I should like to assure you that the staff of my Department are available to assist you with your arrangements for the meeting. If you have any queries on practical arrangements please do not hesitate to have your Office contact my Private Secretary (telephone No. 767571, extension 2435).

With best wishes

Yours sincerely

Alan M. Dukes

Alan M. Dukes

Mr Graham cc Mr Vinn
Neither I nor UKRTP have been
able to track down the agreement
referred to at X. Unless Mr Vinn
recalls anything, I suggest you
simply brief on the basis that it
will be a general review of the
economic situation.

Graham 10/9

Programme for Informal Eco/Fin at Dromoland Castle

on 15/16 September, 1984

PROGRAMME

Saturday, 15 September

- | | |
|-----------------|--|
| Up to 12.30 hrs | - Arrival of delegations by private plane.
Transfer to Dromoland Castle * |
| 12.15 hrs | - Arrival of BA Flight 832 from London
(Heathrow). Transfer of participants
to Dromoland Castle* |
| Up to 13.00 hrs | - Check in at Dromoland Castle |
| 13.15 hrs | - Pre-lunch drinks |
| 13.30 hrs | - Lunch at Dromoland Castle |
| 15.00 hrs | - Working Session No. 1 |
| 20.00 hrs | - Pre-dinner drinks |
| 20.30 hrs | - Dinner at Dromoland Castle |
| 21.45 hrs | - After-Dinner Entertainment |

* Telephone Number: 353- 61-71144

Telex Number: 26854

Sunday, 16 September

Religious Services at local churches are as follows:-

Catholic: Masses at 08.00 hrs and 11.00 hrs

Church of Ireland: Service at 11.30 hrs

Transport will be available for participants wishing to attend these Services.

- | | |
|--------------------|---|
| 09.30 to 12.30 hrs | - Working Session No. 2 |
| 12.30 hrs | - Press Briefing |
| 13.15 hrs | - Lunch at Knappogue Castle |
| 17.00 hrs | - Arrive at Shannon Airport |
| 18.15 hrs | - Departure from Shannon of scheduled
Aer Lingus Flight to Heathrow (EI 146) |

Private planes may depart any time
from 17.00 hrs onwards

Note: There is a nine-hole golf course in the grounds of the hotel.

Spouses' Programme

Saturday, 15 September

- 13.30 hrs - Lunch at Dromoland Castle
- 15.00 hrs - Visit to Bunratty Castle and Folk Park¹
- 18.30 hrs - Arrive back at Dromoland Castle

Sunday, 16 September

Church Services (see previous page)

- 10.30 hrs - Depart Dromoland Castle for visit to Craggaunowen Project¹
- 13.15 hrs - Lunch at Knappogue Castle

¹ It would be advisable to have comfortable walking shoes

27 August 1984

8259

SPOUSES
PROGRAMME

PERSONALITY NOTESBelgium

1. Mr Willy de Clercq Deputy Prime Minister and Minister for Finance and Foreign Trade
2. Mr Mark Eyskens Minister for Economic Affairs

Denmark

3. Mr Anders Andersen Minister for Economic Affairs
4. Mr Palle Simonsen Minister for Finance

France

5. Mr Pierre Bérégovoy Minister for the Economy, Finance and Budget

Germany

6. Dr Gerhard Stoltenberg Minister for Finance
7. Dr Martin Bangemann Minister of the Economy
8. Dr Otto Schlecht State Secretary - Federal Ministry of the Economy
9. Dr Hans Tietmeyer State Secretary - Federal Ministry of Finance

Greece

10. Mr Gerasimos (Gerry) Arsenis { Minister for Finance
Minister of National Economy
11. Mr Dimitrios Tsovolas Alternate Minister of Finance

Ireland

12. Mr Alan Dukes Minister for Finance
13. Maurice F Doyle Secretary - Department of Finance

PERSON-
ALITY
NOTES

COVERING CONFIDENTIAL

Italy

14. Mr Giovanni Gorla

Minister for the Treasury

Luxembourg

15. Mr Jacques Santer

Prime Minister and Minister
of Finance

16. Mr Jean Claude Juncker

Minister of Labour, Minister
Delegate for Finance, responsible
for the Budget

Netherlands

17. Dr Ruding

Minister for Finance

Secretariat

18. Mr Ersbøll

Secretary General of the Council
Secretariat

Commission of the European Communities

19. Mr Gaston Thorn

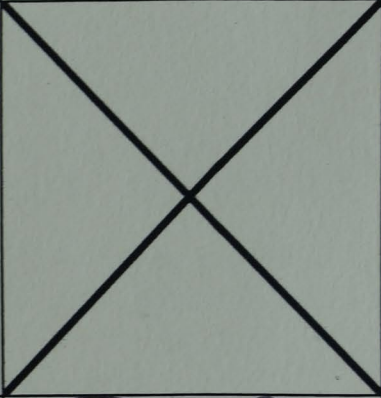
President

20. Mr Francois-Xavier Ortoli

Vice President

21. Mr Christopher Tugendhat

Vice President

DEPARTMENT/SERIES <u>T640</u> PIECE/ITEM <u>1711</u> (one piece/item number)	Date and sign
Extract details: <u>22 PAGES</u>	
CLOSED UNDER FOI EXEMPTION <u>S40(2)</u>	<u>DenA</u> <u>17/8/18</u>
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.

This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.

Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

DEVELOPMENT OF THE EMSRelevant Documents

Probably none. Oral reports are likely from the Chairman of the Monetary Committee and from central bank governors.

UK objectives

2. There is little here to excite, with the partial exception of the revised composition of the ecu (on which there is a separate brief). A number of minor and mainly procedural proposals have been made to strengthen the EMS, none of which cause us any problem. Some are of mainly academic interest unless and until we join the exchange rate mechanism. It might be possible to use the occasion to continue gently to chide other member states on their continued reliance on exchange controls, which is an area where we are among the virtuous. The abolition of controls on capital movements would be a much more significant strengthening^{of} European financial integration than would our joining the exchange rate mechanism.

DEVELOP-
MENT
OF THE
EMS

Defensive: Why not join the ERM now?

3. For the reasons we have given before. We intend to join when the time is right. But in the interests of the system as a whole as well as our own domestic policy we have to be cautious. The main difficulties are well known - the differential impact of oil price changes on sterling and on the other EMS currencies, uncertainty about the dollar and the implication of both for flows between sterling and the deutschemark.

Background

4. The last informal ECOFIN under the chairmanship of Delors on 12/13 May gave a remit to the Monetary Committee to review work on possible ways of strengthening the EMS. Work was to be done in parallel by central bank governors and their alternates.

5. Subsequent discussion has been laboured and diffuse. To the disappointment of the French, all that has come out of it so far are a few modest and largely procedural points. There are four main strands:

(i) Convergence and surveillance. The Commission would have liked some form of formal mechanism to "rehabilitate" the divergence indicator. This did not arouse much enthusiasm. The Monetary Committee settled for some slight sharpening of the procedures for surveillance when economic developments in member states look like getting out of line together with some pious hopes about greater political commitment to the contents of the annual economic report.

(ii) Financial integration (ie exchange controls). Greater liberalisation of capital movements is, of course, desirable in its own right. The Commission also see it as a way of increasing pressures for convergence by making the effects of divergent policies more keenly felt. Progress, not surprisingly, has been very slow. Despite pressures from the Germans and ourselves, France, Ireland and Italy have been dragging their feet because of their strong commitments to the maintenance of exchange controls. Some very minor procedural changes are proposed, principally a tightening of surveillance procedures for the "safe-guard clauses" under which member states can derogate from the Treaty of Rome's obligations to liberalise capital movements. This is unlikely to have any teeth. But it is probably better than nothing.

(iii) The private ecu. The Commission tend to see greater

use of the ecu as a cure for all ills, including sensitivity to the dollar. Discussion in the Monetary Committee has been much more balanced. The consensus view is in line with our own, that the private ecu market should be allowed to develop in its own way without artificial intervention or hindrance. There are some unexceptional proposals for improvements in the collection of statistics on long-term ecu issues by the Commission and in surveillance of developments in the private ecu market. All countries will also be urged recognise the ecu as a foreign currency and to permit adequate forward covering operations. These are aimed at the Germans and Greeks respectively. They cause no problems for us.

(iv) The official ecu. Work on this has been carried forward mainly by central bank governors. They have not yet finalised their proposals and will therefore only be making a progress report. What at present seems likely to emerge is an improvement in the interest rate paid on net ecu positions and an arrangement which would allow greater mobilisation of ecus on reserve assets. The French and Italians are looking for an ambitious scheme (and may take this up at the meeting). The Germans are equivocal. We and the Dutch have argued broadly in favour of the status quo and against any arrangement which would leave central banks participating in the mechanism with large open-ended commitments to provide scarce dollar reserves in exchange for some one else's ecus. As far as we are concerned this is mainly academic unless and until we join the exchange rate mechanism. But we ought not^{to} go along with proposals which would make joining the mechanism even more difficult.

FROM : J G LITTLER

DATE : 14 September 1984

CHANCELLOR

cc Economic Secretary
Mr Unwin
Mr Fitchew
Mr Kelly
Mr Hopkinson
Governor - Bank of England

INFORMAL ECOFIN : COMPOSITION OF THE ECU

COMPOSITION
OF
THE
ECU

Ministers will be invited to endorse an agreement reached unanimously last week by the Monetary Committee, on a revision of the composition of the ECU. If they are ready to do so, it will be suggested that they convene briefly as a formal ECOFIN and adopt a declaration implementing the agreement.

2. I recommend you to agree. It could well be that there will be minimal discussion. But you may like to have the following background and comment.

3. The ECU is a basket unit of account used in some official community transactions and increasingly in recent years in a private market (denomination of bonds, some trading and holding accounts, etc). The basket consists of stated amounts of each community currency (except at present the Greek drachma). It was originally established in 1974, after a great deal of calculation of various measures of relative importance, and on the basis of some horse-trading, with the amounts then fixed reflecting agreed proportionate shares in the total.

4. When the EMS in its present form was relaunched in 1979, the basket weights were not changed, but provision was made for reconsideration after 5 years. On the accession of Greece, provision was also made for consideration to be given to the inclusion of the drachma in the basket, either in the event of a general revision, or by the end of 1985.

5. With the evolution of exchange rates over the last 10 years, the relative shares of the component currencies have varied a good deal. Notably the DM has risen from about 27% to about 37%; the Lira has dropped sharply. Sterling dropped sharply in the first 5 years, from 17% to 13%, but has since recovered to around 15%.

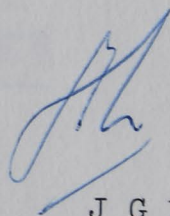
6. Several countries have been eager for a revision, notably Italy to restore the share of the Lira to something more "respectable" and in particular to resume a position above the Netherlands, and they and France and Belgium, anxious to reduce a little the growing dominance of the DM. Nobody was able to find any version of the economic criteria originally used which would give acceptable answers; the Commission produced a set of proposals conceived as a partial updating and based essentially on 1979 relative weights. This satisfied most of the others, but left sterling at only just over 13% - by the accident of choosing a period when sterling was around its low point, which I simply refused to accept. I was able to win support of Germany (their representative told me privately they welcomed a rather higher share for sterling as another strong currency) and from the Dutch, the Danes and the Belgian banker. I settled for 15% and the others wrangled until they eventually agreed on the weights to be proposed. (See attached Annex.)

7. Implementation requires the percentage weights to be converted in to specified amounts of each currency. The Commission will carry out the calculations, checking them with Central banks, in the light of market rates this afternoon (Friday). In doing so, they will ensure that the value of the new ECU will be exactly equal on those market rates to the value of the old ECU. In order to reconcile this with the maintenance of the grid of parities, they will almost certainly need some marginal manipulation (because the market rates will not, of course, reflect exact central parities). In order to avoid touching ERM parities, the Commission want to make the adjustments on the drachma and (because that has so small a weight that a large adjustment might be needed) also on sterling. I have confirmed that what would be involved would have no effect whatsoever on green rates or on any other transactions, and that it would be a question of a very tiny adjustment (perhaps

$\frac{1}{4}\%$) of the sterling central rate upwards and towards its actual market position, I have agreed that this could be done.

8. One point to which much importance has been attached, I think probably rightly, is the impact on the private market. A revision of the ECU has in fact been widely expected. The market has worked out that the effect is bound to be to give a little more weight to currencies which have a higher than average interest rate, and has in recent months gradually developed an interest rate on instruments denominated in ECU of around $\frac{1}{2}\%$ higher than the weighted average of interest rates on the current weights of currencies. The proposed revised composition would accord closely in its effect on interest rates with what the market has anticipated.

9. A final point is that, since the private market tends to cover ECU exposure by matching holdings of constituent currencies, it has been necessary to press the Greek authorities to open their market more generously to transactions in drachma by foreign banks, particularly in forward dealings. The Greek Finance Minister should confirm that measures have been taken.



J G LITTLER

ANNEX

The draft declaration, which will specify the initial percentage weights of the new composition, is not yet available. The text should not cause any problem for the UK: it will state with minimal explanation what the new percentages are and go on to a passage about the intentions of the Greek authorities.

2. The following table gives the percentage weights agreed by the Monetary Committee; for comparison it gives also the weights originally agreed in 1974, and the approximate points to which these had drifted after 10 years of currency movements.

<u>%</u>	<u>1974</u>	<u>Approx Current</u>	<u>Agreed Proposal</u>	
DM	27.3	36.9	32.0	-4.9
FF	19.5	16.7	19.0	+2.3
£	17.5	15.1	15.0	
HFL	9.0	11.3	10.1	
B/LF	8.2	8.4	8.5	
LIT	14.0	7.9	10.2	+2.3
DKR	3.0	2.7	2.7	
IRL	1.5	1.0	1.2	
DR	-	-	1.3	
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

INFORMAL ECOFIN: 15-16 SEPTEMBER

REVIEW OF ECONOMIC POLICIES

Line to Take

1. Recovery in industrial countries proving stronger than expected but underlying trend in European activity obscured by industrial disputes. Important that growth in Europe and Japan is sustained next year especially if US activity weakens.
2. Important that European domestic economy contributes to maintaining pace of recovery. Domestic demand growth in UK already helping. Hope others can also contribute.
3. Community should enjoy faster growth this year and lower inflation. This should encourage greater employment. Jobs prospects worst where adjustment so far either insufficient or delayed.
4. Share Presidency's concern but not prescription for high unemployment problem. Should build on output recovery already under way. Prospects better than for some time. Reflationary strategy not the answer - would only be dissipated in higher inflation. Constraints on policy remain.
5. Broad agreement that counter-inflation policies and structural adjustment offers best longer employment prospects. Promoting more flexible operation of labour markets key to reducing unemployment, particularly in Europe.
6. Higher US interest rates this year created extra difficulties for developed and developing countries alike. Financial discipline best way to shield Community. Continuing efforts here still required in many countries.

REVIEW
OF
ECONOMIC
POLICIES

Background

7. The paper circulated by the Irish President notes that the modest European recovery so far has had little impact on unemployment. It argues for a shift to more expansionary policies. This proposal is inconsistent with the broad thrust of the economic policy guidelines agreed by Ministers last December. But it can be seen as following up the Commission's paper for the July Ecofin which clearly identified reducing unemployment as the main policy objective facing the Community. The Irish initiative needs to be deflected sharply otherwise it could hamper the autumn discussion of policy guidelines.

8. The recent economic background to the discussion is mixed. After rising since the start of 1983 industrial production in the major Community countries fell in the second quarter. This mainly reflects the temporary effects of industrial disputes in Germany and the UK though activity in France and Italy has also been sluggish. The Commission estimate that EC unemployment levelled out earlier this year at around 11 per cent though more recent figures show a further rise. Inflation has continued its hesitant decline to around 6 per cent in July compared to over 12 per cent in 1980.

9. Most forecasts see European output rising by 2-2½ per cent this year and next though the UK contribution will depend at least partly on when the strikes are resolved. This remains below the slower growth rates of 3-4 per cent expected for the US and Japan next year. With European growth below the increase in productive potential, little progress against EC unemployment can be expected. Rates could fall in Germany and the UK though the number of jobless in France and Italy is likely to increase further.

10. The President's paper fails to identify the causes of the increase in unemployment though it correctly lists some of the constraints on policy. We have argued that UK unemployment is not the result of demand deficiency

- indeed over the last 2 years domestic demand has risen by over 6 per cent, a faster rate than in other major Community countries. As the comparison with the US suggests Europe's poor employment record is largely the result of distortions and structural rigidities in labour markets and particularly excessively high real wages.

11. The Irish argument that policies should stimulate demand only marginally without 'unduly aggravating inflationary expectations' (p2, para 2) ignores the effects on expectations. The French example could be quoted. Any co-ordinated expansion would also suffer the same fate.

12. The paper's recommendations that certain countries have room for manoeuvre to relax their fiscal stance is aimed at the UK and Germany. The Kohl Government has already announced plans to cut incomes taxes starting in 1986 but the Irish may be expecting rather more. Others will be aware that the UK's FSBR 1984-85 shows there could be scope to lower taxes or raise expenditure after 1986. The scope, if any, will need to be reviewed in the light of economic developments nearer the time.

13. The reference to the inflation/unemployment ^{trade off} is unclear (p3, para 2). There is no obvious theoretical or empirical basis for believing the trade off is better when starting from low rates of inflation. The Irish may also be suggesting that in view of the progress already made, reducing inflation should be given a lower priority and reducing unemployment a higher one. But European inflation remains significantly higher than in the US and Japan (Irish inflation is currently running at 9¾ per cent) and further progress is still required. This is particularly important now as cyclical inflationary pressures build up.

14. Most governments are agreed that curbing inflation and promoting structural adjustment offers the best long

term prospects for job creation. The Commission recognise the need for greater labour market and real wage flexibility but have argued for policies to accelerate investment with a high employment potential. Investment incentives are unlikely to achieve much in the longer term if they depend on additional expenditure.

15. Concern over the still fragile recovery has so far led most continental European authorities to avoid following the 2 point or so increase in US interest rates this year (though Italian rates have been increased recently). As a result of widening interest differentials EMS currencies have fallen sharply against a rising dollar which has achieved new peaks. The inflationary risks to Europe from this are reduced if all EMS currencies depreciate together.

16. The need for fiscal consolidation and monetary discipline to avoid the adverse effects of US interest and exchange rate disturbances is generally recognised. In most cases the latest budget announcements as in France, Germany, Italy and Belgium continue fiscal restraint but with the exception of Germany, progress has been slow and further efforts are still required.

EF2

12 September 1984

FROM : J G LITTLER

DATE : 14 September 1984

CHANCELLOR

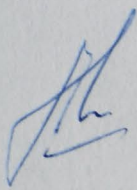
cc Mr Lavelle

INFORMAL ECOFIN : CHAIRMANSHIP OF IMF INTERIM COMMITTEE

I had a short talk this morning with Hans Tietmeyer. I asked whether Stoltenberg was likely to be interested. He responded immediately that he thought Stoltenberg would regard it as an agreeable compliment, but that basically he would not want it now, and would be likely to support Ruding, whom they thought an excellent candidate.

2. I said that I personally agreed that Ruding would be an excellent candidate, but thought that you would be reluctant to commit yourself to him if there was any chance of Stoltenberg being interested.

3. Tietmeyer then suggested that Stoltenberg would receive it very well if you were to ask privately whether he was interested and, when he confirmed that he was not, perhaps agree with him that you might jointly support Ruding. I recommend you do so.


J G LITTLER

CHAIRMAN
SHIP OF
IMF
INTERIM
COMMITTEE