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Treasury Chambers, Parliament Street, SW1P 3AG

Mr C Powell
No 10 Downing Street
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23 June 1989

Dear Charles,

FRAUD AGAINST THE COMMUNITY BUDGET

After yesterday's brief discussion at Cabinet about raising fraud against the Community Budget at Madrid, we thought it would be useful to set our tactics at the European Council in the context of action taken over recent months.

Excellent progress has been made since the Prime Minister first raised the possibility of discussing fraud at Madrid in the House in February. The March ECOFIN, attended by the Paymaster General, had a very constructive discussion. The Commission has responded well: in particular, they have produced a 45 point work programme on their plans for stepping up the fight against fraud. That programme, and two very important proposals on tightening up controls in export refunds and intervention storage, were welcomed by the June ECOFIN, attended by the Economic Secretary, earlier this week. A copy of the helpful ECOFIN Conclusions (UKREP telno 250) is attached.

The Economic Secretary made it clear on Monday that we wanted a reference to fraud in the Madrid conclusions. The Foreign Secretary told Cabinet yesterday that good progress was being made in getting an appropriate reference into the Conclusions. Sir David Hannay has fed into the Council Secretariat the following suggested text:

"The European Council emphasises the need for firm action to tackle the serious problem of fraud and irregularities

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involving the Community Budget. It welcomes the work the Commission has done to draw up a medium term action programme and urges the Commission and Council to adopt the necessary measures without delay."

The Prime Minister may wish to emphasise at Madrid the need for the Council, helped by the Commission, to keep up the pressure to reduce fraud in the medium term. The brief, which will be sent to you in the usual way, has been drafted accordingly.

Copies of this letter go to members of OD(E), Sir Robin Butler and Sir David Hannay.

*Yours,
James*

S M A JAMES
PRIVATE SECRETARY

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ECOFIN, 19 JUNE 1989: FRAUD
MIPT

FOLLOWING IS TEXT OF COUNCIL CONCLUSIONS ON FRAUD:

1. THE COUNCIL CONSIDERS THAT THE FIGHT AGAINST FRAUD IS OF VITAL IMPORTANCE. IT RECALLS THE VARIOUS REPORTS OF THE COURT OF AUDITORS ON THIS ISSUE, THE HEARINGS OF THE EUROPEAN PARLIAMENT AT THE BEGINNING OF THE YEAR, AND THE DECLARATIONS MADE BY THE COUNCIL AND THE COMMISSION AT THE ECOFIN MEETING ON 13 MARCH.

2. THE COUNCIL HAS RECEIVED A DETAILED AND EXHAUSTIVE NOTE BY THE PRESIDENT OF THE COMMISSION, GIVING INFORMATION ON THE PROGRESS MADE IN THE FIGHT AGAINST FRAUD, NOTABLY ON THE ISSUES COVERED BY THE COMMISSION'S DECLARATION OF 13 MARCH. THE COUNCIL WARMLY THANKS THE PRESIDENT FOR THIS INFORMATION, AND IS PLEASED BY THE BROAD SCOPE OF MEASURES THAT THE COMMISSION HAS PROPOSED OR ALREADY IMPLEMENTED. THE COUNCIL IS PARTICULARLY IMPRESSED BY THE COMMISSION'S 45 POINT WORK PROGRAMME, COVERING FRAUD PREVENTION, CO-OPERATION BETWEEN THE DIFFERENT COMMUNITY AND NATIONAL AGENCIES CONCERNED, AND FRAUD COUNTER ACTION. FOR ITS PART, THE COUNCIL GIVES ITS FULL SUPPORT TO THIS PROGRAMME.

3. IN RESPECT OF LEGISLATIVE MEASURES, THE COUNCIL NOTES THAT CERTAIN COMMISSION PROPOSALS HAVE ALREADY BEEN PUT TO THE COUNCIL, IN PARTICULAR A REVISED PROPOSAL ON THE CONTROL OF PAYMENTS MADE WHEN AGRICULTURAL PRODUCTS ARE EXPORTED AND A PROPOSAL CONCERNING THE PURCHASE, STORAGE AND SALE OF AGRICULTURAL PRODUCTS BY INTERVENTION ORGANISATIONS. THE COUNCIL ASKS THE COMPETENT BODIES TO REACH CONCLUSIONS AS EARLY AS POSSIBLE ON ALL THE PROPOSALS ALREADY TABLED, AND INVITES THE COMMISSION TO PRESENT, AS SOON AS POSSIBLE, OTHER RELEVANT LEGISLATIVE PROPOSALS.

4. THE COUNCIL HAS ALREADY ADOPTED A NEW REGULATION ON OWN RESOURCES, REINFORCING POWERS OF CONTROL, AND IN THE NEW FINANCIAL REGULATION ON WHICH IT HAS REACHED A COMMON ORIENTATION, PROVIDES THAT EACH FINANCIAL STATEMENT, ACCOMPANYING A LEGISLATIVE PROPOSAL, WILL SET OUT THE MEASURES NEEDED TO PREVENT FRAUD.

5. MORE BROADLY, THE COUNCIL NOTES WITH SATISFACTION THE DIFFERENT PROVISIONS MADE BY THE COMMISSION WITH A VIEW TO SIMPLIFYING AGRICULTURAL AND CUSTOMS REGULATIONS, INCLUDING THE DRAFT EUROPEAN CUSTOMS CODE, WHICH IS TO BE SUBMITTED TO THE COUNCIL IN DECEMBER 1989.

6. IN THE AREA OF COOPERATION BETWEEN THE COMMISSION AND MEMBER STATES, THE COMMISSION IS PLEASED WITH THE POSITIVE WORK BY THE COMMISSION'S CO-ORDINATING COMMITTEE ON THE FIGHT AGAINST FRAUD. IT NOTES THE APPROACH OF THE COMMISSION AS A RESULT OF WHICH THE WORK OF THIS BODY HAS PRODUCED A RE-INFORCED SPIRIT OF COOPERATION AND INCREASED ACTIVITY BY NATIONAL ADMINISTRATIONS IN SUPPORT OF THE FIGHT AGAINST FRAUD. THE COUNCIL INVITES MEMBER STATES TO INSTRUCT THEIR COLLEAGUES TO PUT EVERYTHING IN PLACE TO INTENSIFY THE FIGHT AGAINST FRAUD.

7. FINALLY, THE COUNCIL THANKS THE COMMISSION FOR ITS DECISION TO PRESENT TO THE COUNCIL AND THE PARLIAMENT AN ANNUAL REPORT ON ITS ACTIVITIES IN THE FIGHT AGAINST FRAUD. THE COUNCIL PROPOSES TO HAVE A DETAILED DEBATE EACH YEAR ON THIS REPORT.

8. THE CONCLUSIONS OF THE COUNCIL TODAY WILL BE BROUGHT TO THE ATTENTION OF THE PRESIDENT OF THE EUROPEAN PARLIAMENT.

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