

CONFIDENTIAL



Mr Powell

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CABINET OFFICE

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From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A087/1395

18 May 1987

Dear Geoffrey,

During the meeting of Personal Representatives over the weekend, the Personal Representative of the President of the European Commission was very busy inviting comments from his European colleagues on a "non-paper" about European Community participation in meetings of the Group of Seven Finance Ministers.

--- I attach a copy of this "non-paper" in its final form. Pascal Lamy told me that he had given copies of it to the non-European Personal Representatives.

I fear that this may be a harbinger of trouble from Monsieur Delors at the Venice Economic Summit itself.

I am sending a copy of this letter and of the "non-paper" to Rodric Braithwaite at the Foreign and Commonwealth Office and to Charles Powell at 10 Downing Street.

*Yours are
Robert*

Sir Geoffrey Littler KCB

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15.05.1987

MEMORANDUM

on the participation of representatives of the European Communities in the Group of the G-7 Finance Ministers created at the occasion of the Tokyo Summit

1. The Presidents of both the Council of the European Communities and the Commission of the European Communities were first invited to participate in the Summits of industrialized countries at the London Summit, in 1977. The invitation was made at the request of the European Council. This decision to enlarge the group of participants was an acknowledgment of the fact that matters of Community competence or interest, in particular trade and economic issues on which no individual Member State can speak on behalf of the Community, are dealt with at the Summits. The Community representation takes account of the Commission's role as the executive organ of the Communities, and its responsibility for ensuring that the provisions of the EEC Treaty are respected (Art. 155).
2. However, considering objections from the United States of America, the Tokyo Summit decided to create a group including all participants in Summit except the Representatives of the European Community.
3. The non-participation of the European Community in the new G-7 Finance Ministers has two implications: the Community is excluded from this process of coordination and surveillance of economic policies; it is also excluded from discussions in this group on the improvement of the international monetary system and on the management of international monetary cooperation. This situation is anomalous for the following reasons:
 - first as regards the coordination of economic policies: the Community has adopted a procedure for surveillance and coordination. The Commission has primary responsibility (cf art. 103 of the Treaty and Council Decision of 1974 "on the attainment of a high degree of convergence of the economic policies of the Member States") for the implementation and management of this procedure;

- secondly, as regards monetary cooperation and the improvement of the international monetary system: The Community has a legitimate interest in participating in the work of the G-7 on the agreed objectives in this field. The adoption, in 1971, of the "Resolution of the Council and of the Representatives of the Governments of the Member States on the attainment by stages of economic and monetary union in the Community" established the basis for the Commission's participation, as a permanent observer, in the meetings of the G-10. The Commission has since been an active member of this group. Furthermore, in 1982-83, representatives of the Community participated actively and without opposition in the preparation of the report of the G-7 Working Group on exchange market intervention.

Moreover, the Member States have incurred Community obligations in the area of monetary cooperation both under the EEC Treaty (in particular art. 107) and in the context of the European Monetary System, the legal basis of which is constituted both by Community acts and by decisions of the Central Banks of the Member States. Finally, the 1978 Resolution of the European Council on the establishment of the EMS underlines the necessity of coordinating exchange-rate policies vis-à-vis third countries.

4. Since the Tokyo Summit, the arguments for Community participation in the G-7 have been reinforced:

- the text of the Louvre Agreement builds on declarations on economic policy of previous Summits at which the Community participate actively. These Summits, on the basis of an appreciation of the world economy, deal with international trade, relations with LDCs, etc. Such issues have been recognized to be of Community competence and interest by the Heads of State and of Governments. They should also clearly be the case at the level of Finance Ministers.

- the implementation of a new procedure of multilateral surveillance based on macroeconomic indicators could lead Member States participating in the G-7 to enter into individual commitments concerning their economic or exchange rate policies which relate to their obligations within the Community framework.

- finally, a revision of the EEC Treaty, "the European Single Act", which is expected to come into force in

the coming weeks, explicitly recognizes a monetary capacity for the Community. The extent of this capacity can be differently interpreted but its very existence cannot be disputed.

5. The participation of representatives of the European Community in the G-7 would enlarge and the scope of its commitments and their credibility at a time when trade matters are of an overriding importance and are tightly linked with monetary and financial questions. The success of international adjustment depends upon the orientations decided at the Summit having as wide an influence as possible on the global economy and being supported by other industrial countries. The linkage with the Community framework would increase their potential effectiveness.