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PRIME MINISTER

INFORMAL ECOFIN COUNCIL AT ANTIBES

As you know, the Governor and I represented the United Kingdom at the Informal ECOFIN at Antibes at the weekend.

2. There was an uncontentious discussion of Stage 1 of Delors. I took the line set out in my minute of 5 September emphasising that formal co-ordination should be kept to a minimum and that the best way of promoting common objectives should be to allow market forces to operate freely throughout the Community. Other Ministers spoke in broadly similar terms though one point of disagreement concerned the attendance of Central Bank Governors at ECOFIN's regular multilateral surveillance discussions. France joined us in arguing for attendance by all Central Bank Governors while Germany, with support from some other member states, argued for attendance by only the Chairman of the Governors' Committee, lest attendance by all should compromise the position of the constitutionally independent Central Banks. No doubt some formula can be devised which reconciles these points of view. The Commission accepted that whatever the legal position, the revisions to the 1964 and 1974 decisions should be agreed by consensus. The Presidency is aiming for Council agreement at the ECOFIN on 13 November which will be tight, but we have no reason for holding back if our concerns are met.

3. Looking beyond Stage 1, I said that the path to EMU should be guided by 3 principles: subsidiarity, competition and stable



prices. The only acceptable form of EMU would be one brought about by the natural forces of the market, not by central planning or bureaucratic vision. The completion of Stage 1 would have very considerable, and presently underestimated, consequences for the European economy and would unleash forces which would increasingly require countries to achieve and sustain lower inflation if they were to maintain the attraction of their own currencies. The logical step for giving a decisive push in this direction after Stage 1 would be to examine the scope for removing all further legal barriers, restrictions and controls so that genuine competition made currencies increasingly interchangeable. This would, in effect, provide for a system of fully competing national currencies, within the framework of the EMS. Such a process would be more likely to lead to stable prices than the single currency option while not requiring new European institutions or the transfer of sovereignty that is implicit in Delors. I undertook to circulate a paper elaborating these ideas.

4. There was little reaction to the proposal in the Council - although clearly the Commission and the French and Italians will oppose it and have briefed the Brussels press corps to that effect. Although our press has been predictably negative the discussion was not discouraging. While most Finance Ministers seemed to favour the broad approach put forward in the Delors Report, many had hesitations and doubts over the timetable and substance. The Danes, Germans, Dutch and Spanish all stressed the need for full and adequate preparation before the calling of an IGC and cautioned against trying to press ahead too fast. A number are now clearly waking up also to the problems of sovereignty and accountability that we have emphasised. (There was a notable intervention by the Portuguese Finance Minister along these lines over lunch.)

5. There was, predictably, a strong wish that Finance Ministers should keep preparations in their hands for as long as possible,

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and it is clearly in our interest to do this. It remains to be seen, however, whether the French and the Germans, in particular, will be able to withstand pressures from their Foreign Ministries for early involvement. It was agreed that the High Level Group should do no more than identify and clarify questions on the basis - if a Dutch suggestion is accepted - of agreed documents from the Committee of Governors and the Monetary Committee. ECOFIN will have a further discussion of EMU on 13 November.

6. As we agreed at our discussion on 6 September, I am now preparing the fuller paper on our approach. ECOFIN is to have its next discussion of this issue on November 13 and that will be the last before the December European Council. I think we need therefore to circulate the paper for that meeting if we are not to miss the boat. I will, of course, send you a draft in good time for discussion before then.

7. On taxation of savings, Commissioner Scrivener accepted that a withholding tax was effectively dead and that we should focus on mutual assistance between tax authorities. She made clear that the Commission were seeking a comprehensive agreement on indirect taxation covering all outstanding issues. There was a general welcome among Ministers for the progress achieved in the ad hoc group (much of it based on earlier UK ideas) and for the flexibility afforded by the Commission's new approach. I emphasised our commitment to the abolition of fiscal frontiers, repeated the UK's opposition to enforced tax approximation and, in a bilateral with the Commissioner, emphasised the importance which we attached to zero rates. Mme. Scrivener was well seized of this last point. Both taxation of savings and indirect taxation will be discussed at the October ECOFIN.

8. The progress we have made on the tax front, incidentally, provides a useful model for our approach to EMU. When I first broached our market approach as an alternative to Cockfield's

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proposals it was written off in the press in very similar terms to the coverage on Tuesday. However by widening the discussion we brought home to other countries the unacceptable aspects of the Commission's approach and the whole issue is now on a better footing.

9. If you agree, I will report on Thursday to Cabinet on the lines of this minute.

10. I am sending a copy of this minute to the Foreign Secretary and to Sir Robin Butler.

NIGEL LAWSON

13 September 1989