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FM UKREP BRUSSELS 101415Z JUN 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 2184 OF 10 JUNE.

IMMEDIATE

INTERNAL MARKET: COMMISSION WHITE PAPER.

SUMMARY

1. WHITE PAPER LIKELY TO CONTAIN MANY GOOD POINTS FROM OUR POINT OF VIEW: BUT THE EMPHASIS ON THE ABOLITION OF FRONTIERS AND SOME OF THE INDIVIDUAL PROPOSALS WILL CAUSE US DIFFICULTIES.

DETAIL

2. WE HAVE SENT BY BAG (BENDER'S LETTER OF 6 JUNE TO JAY) THE CURRENT DRAFT OF COCKFIELD'S WHITE PAPER ON THE INTERNAL MARKET, WHICH WE OBTAINED IN STRICT CONFIDENCE (PLEASE PROTECT - COCKFIELD APPARENTLY DID NOT WISH US TO HAVE A COPY AT THIS STAGE AND DOES NOT KNOW WE HAVE ONE).

3. IN ITS BROAD THRUST AND ON MANY IMPORTANT POINTS THE DOCUMENT COINCIDES WITH OUR OWN PRIORITIES. IN PARTICULAR, APPROPRIATE STRESS IS LAID ON THE NEED FOR PROGRESS ON:

- (A) PRODUCT STANDARDS (INCLUDING MUTUAL RECOGNITION):
- (B) FREEDOM OF FINANCIAL SERVICES (ALTHOUGH THE MUTUAL RECOGNITION IDEA IS NOT DEVELOPED AS FAR AS WE MIGHT HAVE LIKED):
- (C) CAPITAL MOVEMENTS:
- (D) FREEDOM OF ESTABLISHMENT (THOUGH ACCOUNTANTS ARE NOT SPECIFICALLY MENTIONED):
- (E) TRANSPORT:
- (F) PUBLIC PROCUREMENT:
- (G) INTELLECTUAL PROPERTY: AND,
- (H) RIGOROUS PURSUIT OF BREACHES OF ARTICLES 30-36.

ALL THIS IS TO BE WELCOMED.

4. THERE ARE A COUPLE OF OMISSIONS AS COMPARED WITH OUR OWN ACTION PROGRAMME: THE DRAFT CONTAINS ONLY A PASSING REFERENCE TO STATE AIDS POLICY AND NONE AT ALL TO CUSTOMS COMPUTERISATION. WE HAVE DRAWN THE ATTENTION OF COCKFIELD'S CABINET TO BOTH THESE POINTS.

5. BUT, AS I SEE IT, THE MAIN PROBLEM IS THAT FAR TOO MUCH STRESS IS LAID ON THE ABOLITION OF FRONTIER CONTROLS. THOUGH THE SLOGAN OF A "EUROPE WITHOUT FRONTIERS" IS LIKELY TO BE POLITICALLY ATTRACTIVE IN OTHER MEMBER STATES (AND EVEN PERHAPS TO SOME IN THE U.K), A VAST AMOUNT OF PROGRESS COULD BE MADE TOWARDS COMPLETELY FREE TRADE IN GOODS AND SERVICES WITHOUT ABOLISHING FRONTIER CONTROLS. BUT DELORS AND COCKFIELD HAVE GOT THE BIT BETWEEN THEIR TEETH AND WE ARE NOT GOING TO FIND IT EASY TO SLOW THEM DOWN. IT SEEMS TO ME THAT OUR TACTICS MUST BE:-

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(A) TO STRESS THAT THE FREEDOM OF MOVEMENT OF PERSONS, THOUGH CERTAINLY DESIRABLE, IS NOT ESSENTIAL IN ORDER TO HAVE FREEDOM OF TRADE IN GOODS AND SERVICES: AND THAT THOUGH SOME ASPECTS OF FREE MOVEMENT HAVE TREATY IMPLICATIONS, THE TREATIES CERTAINLY DO NOT SUGGEST THAT MEMBER STATES ARE UNDER AN OBLIGATION TO TAKE RISKS OVER FOR EXAMPLE DRUG-TRAFFICKING, TERRORISM, RABIES OR IMMIGRATION. (WHILE NOTING THAT THESE PROBLEMS WOULD NEED TO BE DEALT WITH BY OTHER MEANS, THE COMMISSION OFFERS NO SUGGESTION ABOUT HOW THIS MIGHT BE DONE).

(B) TO ARGUE THAT INTRA-COMMUNITY CUSTOMS CONTROLS ARE DIFFERENT FROM THE FRONTIER CONTROLS IN (A) ABOVE AND SHOULD BE EXAMINED SEPARATELY. AN IMPORTANT QUESTION FOR THE PURPOSE OF COMPLETING THE INTERNAL MARKET IS HOW FAR IT IS NECESSARY OR DESIRABLE TO GO IN THE CUSTOMS FIELD. THIS SHOULD BE STUDIED IN DEPTH, TOGETHER WITH THE RELATED QUESTION OF HOW FAR TAX APPROXIMATION IS A NECESSARY CONDITION.

6. THE CHAPTER ON FISCAL BARRIERS IS, AS EXPECTED, GOING TO CAUSE US PARTICULAR PROBLEMS. DESPITE CAUTIOUS INTRODUCTORY WORDING, THE COMMISSION STILL INSIST THAT THE APPROXIMATION OF VAT AND EXCISE DUTY RATES IS ESSENTIAL BUT THEY BASE THIS MAINLY ON THEIR ASSUMPTION THAT THE AIM IS THE ABOLITION OF FRONTIER CONTROLS. EVEN THE FIRST STAGE, ENTAILING COMPLETION OF THE COMMON VAT BASE AND HARMONISING EXCISE DUTY STRUCTURES, PRESENTS CONSIDERABLE DIFFICULTIES: BUT IT IS AT LEAST SOMETHING TOWARDS WHICH WE COULD CONTINUE TO WORK, SUBJECT TO CERTAIN OVERRIDING CONDITIONS, E.G MAINTAINING VAT ZERO RATES. THE ESTABLISHMENT OF A 'CLEARING HOUSE' MECHANISM FOR VAT IN RESPECT OF SALES AND PURCHASES BETWEEN MEMBER STATES COULD ALSO BE EXAMINED, AND COULD FIT WITH THE TACTIC I HAVE PROPOSED OF ARGUING THAT A STUDY SHOULD BE UNDERTAKEN OF THE EXTENT TO WHICH APPROXIMATION OF TAX RATES IS NECESSARY FOR THE COMPLETION OF THE INTERNAL MARKET.

7. DIRECT TAX FIGURES ONLY BRIEFLY. THE COMMISSION PROMISE A WHITE PAPER ON TAXATION OF BUSINESS, AND URGE THE COUNCIL TO GIVE HIGH PRIORITY TO PROPOSALS ALREADY ON THE TABLE. SEVERAL OF THESE PRESENT PROBLEMS FOR US.

8. THE SECTION IN THE CHAPTER ON PHYSICAL BARRIERS DEALING WITH CONTROL OF INDIVIDUALS WILL ALSO CAUSE US PROBLEMS. THE STATED OBJECTIVE IS TO ABOLISH COMPLETELY BY 1992 ALL CHECKS ON E.C CITIZENS MOVING BETWEEN MEMBER STATES. TO THIS END, IN ADDITION TO THE FAMILIAR COMMISSION VIEWS ON FRONTIER FACILITATION, IT IS STATED THAT DIRECTIVES WILL BE PROPOSED ON (INTER ALIA) APPROXIMATION OF ARMS AND DRUGS LEGISLATION: AND ACTION TO CO-ORDINATE VISA POLICY AND RULES OF RESIDENCE ETC APPLICABLE TO NON-E.C CITIZENS.

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9. ANOTHER POTENTIALLY PROBLEMATIC AREA COMES UNDER THE ENCOURAGING HEADING 'CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COLLABORATION': EMPHASIS, DISAPPOINTINGLY, IS PLACED ON APPROXIMATION OF THE LEGISLATIVE FRAMEWORK, E.G. IN THE COMPANY LAW FIELD.

10. ALL THE ELEMENTS WHICH ARE DIFFICULT FOR US ARE LIKELY TO RAISE OBJECTIONS IN A NUMBER OF OTHER MEMBER STATES. WE SHOULD TRY TO ARRANGE THINGS SO THAT OTHERS TAKE THEIR SHARE OF RESPONSIBILITY IN RESISTING THE UNACCEPTABLE PARTS OF THE COMMISSION'S PAPER INSTEAD OF SHELTERING BEHIND US (WHICH WILL BE, FOR MANY, THE NATURAL COURSE). THIS POINTS TO OUR AVOIDING ANY EARLY REJECTION OF THE COMMISSION'S IDEAS BY H.M.G. TACTICALLY, OUR BEST COURSE MIGHT BE TO GIVE AN EARLY AND POSITIVE WELCOME TO THE MAIN BODY OF THE REPORT ON THE ELEMENTS WHICH ARE IN LINE WITH OUR OWN PRIORITIES, WHILE ASKING A LOT OF QUESTIONS OF THE COMMISSION AND OTHER GOVERNMENTS ABOUT HOW TO DEAL WITH THE REAL DIFFICULTIES IN PARAS 6-9 ABOVE. AT MILAN WE SHOULD AIM TO SHUNT THE DIFFICULT PARTS INTO A SIDING BY COMMISSIONING SERIOUS STUDIES ON THEM.

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