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PART A

Chex
Lawson

PART A

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PO -CH /NL/0109



PART A

MEETING OF THE EUROPEAN
COMMUNITY (EC) ECONOMIC
AND FINANCE COUNCIL
(ECOFIN), 11 FEBRUARY
1985, BRUSSELS

ud

Brussels

Begin: 25/1/85

DD: 25 years

Ends: 8/2/85

5/9/85

PO -CH /NL/0109

PART A

642/1

C. To see. Feb 11 ECOFIN
in your diary. FEOGA (and EMS)
probably make it worth your going.
Shall I ask Mr Fitchew to ensure
that agenda is such we can go in
and out on the day?

From : G E Fitchew 5138
Date : 25 January 1985

1. MR UNWIN
2. CHANCELLOR

cc
PS/CST
PS/FST
PS/EST
Sir P Middleton
Mr Littler
Mr Monger
Mr Battishill
Mr Mortimer
Mr R I G Allen
Mr Hopkinson
Mr Butt
Mr Donnelly
Miss Barber
Mr Cropper

The most important immediate item is the FEOGA guidance, which will be a test of Ecofin's role in the new budgetary discipline arrangements. We are in the process of trying to line up the Dutch, Germans & French on an acceptable set of conclusions.

Puro 28/1

PS/Inland Revenue

FEBRUARY ECOFIN COUNCIL : PROBABLE AGENDA 27/1/85

As you know, it appeared that the only item likely to be on the agenda of the February ECOFIN Council was the FEOGA Guidance ceiling and there had been suggestions in Brussels that the Council should be cancelled. I have spoken to Mr Bostock again about this. He has heard from the Council Secretariat in strict confidence (please protect) that M. Delors is now pressing for the Council to take place, in particular so that he can outline his ideas on the future development of the EMS over lunch.

2. The Commission is also suggesting two further items (in addition to FEOGA Guidance) to be added to the agenda :-

(a) Innovation Loans. (M. Delors apparently wishes to revive the proposal which was rejected at the UK's insistence last year);

(b) the package of tax measures discussed at the March, June and July Councils last year under the heading "Tax Measures to Encourage Co-operation between undertakings in different Member States" (see paragraph 4 below).

3. This suggested agenda is likely to be discussed at next week's COREPER Meeting. We cannot, of course, stop the Presidency putting innovation loans on the agenda again, if they insist. But I suggest we instruct UKREP to make it clear to the Commission both bilaterally and in COREPER that we will continue to reject any element of subsidisation. (You will recall that Commissioner Narjes has recently written to the Chancellor about this; a reply will be submitted shortly).

4. UKREP's understanding is that the tax package would comprise three proposals :-

(i) taxation of mergers;

(ii) taxation treatment of parents and subsidiaries;

(iii) arbitration arrangements in double taxation cases involving more than one Member State.

As I understand it only the third of these proposals (which have been under discussion in the Community on and off since 1959) causes us any great difficulty. But Inland Revenue will no doubt be considering whether a discussion in the pre-Budget season would cause any particular problems and will brief for COREPER.

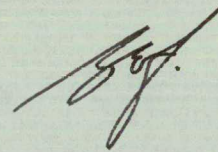
5. UKREP are reasonably confident that the Directive on prior information will not be on the February agenda. This has now been remitted to a Working Group. It is, however, possible that the tax treatment of European Interest Groupings (EIG) could be added to the three items listed above. As I recollect, this causes us problems because of potential revenue losses through San Marino.

6. Lord Cockfield will presumably mention the proposal to put this package to the February ECOFIN Council at his

meeting with the Financial Secretary on Monday. As noted above, it would be helpful if the Financial Secretary does not reveal prior knowledge of this.

Attendance at the Finance Council

7. Assuming that M. Delors does plan to attend the lunch and that the question of the FEOGA Guidance ceiling is on the agenda, it would be helpful if the Chancellor could spare the time to attend this Council at least for those two items.



G E FITCHEW

b/f 8/2 pl
for folder



FROM: P WYNN OWEN
DATE: 30 January 1985

MR FITCHEW

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Littler
Mr Unwin
Mr Monger
Mr Battishill
Mr Mortimer
Mr RIG Allen
Mr Hopkinson
Mr Butt
Mr Donnelly
Miss Barber
Mr Cropper
PS/IR

FEBRUARY ECOFIN COUNCIL: PROBABLE AGENDA

The Chancellor has seen your minute of 25 January. The 11 February ECOFIN is currently in his diary, but he has commented that it is essential that he goes in and out on the day.

P.
W.O.

P WYNN OWEN



FROM: H C GOODMAN
DATE: 4 February 1985

PS/CHANCELLOR

cc

- PS/EST
- PS/MST
- Sir P Middleton
- Mr Cassell
- Mr Unwin
- Mr Monger
- Mr Fitchew
- Mr Lankester
- Mr Lovell
- Mr Allen
- Mr Hopkinson
- Mr Griffiths
- Ms Seammes
- Miss Simpson
- Mr Salveson
- Miss Barber
- Mr Haigh
- Mr Cropper
- Mr Lord
- PS/IR
- Sir L Airey - IR
- Mr Cayley - IR
- PS/C&E
- Mr Fraser - C&E
- Mr Wilmott - C&E
- Mr Elliott - UKREP
- Mr Bostock - UKREP
- Mr Walton - UKREP

This is a longy development. We have a number of important aspects on the nature of the tax system - we are looking for a C. Tax system with regard to the note on the harmonisation of taxes. It is a focus on the EC Commission. PS/EST has already given a report of this conversation. [Signature]

EC COMMISSION TAX PROPOSALS

Attached is a note of the meeting between the Financial Secretary and Lord Cockfield in Brussels.

2. The Financial Secretary originally intended to discuss the proposals on tax harmonisation which the Commission has been circulating recently. However, he was struck by the fact that Lord Cockfield recognised the incoherent nature of current items under discussion and is clearly intending to embark on a fundamental review of european tax systems with a view to full-scale harmonisation of the direct and capital taxes. The first sight of this can be expected in Delors' announcement later in the Spring of the Commissions' work programme. The Financial Secretary also found the importance which Lord Cockfield

evidently attached to his relationship with Delors significant. In the light of this, the Financial Secretary hopes that it will be possible to take a reasonably positive stance on the tax measures discussed at the next ECOFIN.

TP Bogdan

H H C GOODMAN



EC COMMISSION TAX PROPOSALS

NOTE OF A MEETING HELD AT 5.30 PM ON TUESDAY, 29 JANUARY 1985
IN BRUSSELS

Those Present

Lord Cockfield
Mr Birch
Mr Parry
Financial Secretary

Liaison

The Financial Secretary explained that he was pleased to have this opportunity for a private conversation with Lord Cockfield about tax proposals emanating from the Commission recently. Because he was committed to Europe he was concerned that the Commission took initiatives which would lead to genuine progress and did not simply antagonise those opposed to Europe. He explained that he was obliged to provide an Explanatory Memorandum to the British Parliament on each tax proposal and some of them were so clearly inconsistent with Government policy and the UK interest that they would provide a focus for criticism of Europe in general. He asked whether the Commission could consult more fully at the working stage on proposals.

2. Lord Cockfield replied that all proposals were preceeded by informal discussions. He understood that the Commission's relations with Customs and Excise were good and he hoped that the Treasury and Inland Revenue would get in touch with his cabinet to improve liaison on the direct tax side. Lord Cockfield was pleased to hear that Customs and Excise had an official suitable to be in his Cabinet. He stressed that relations with UKREP at official level remained very good.

Tax Harmonisation

3. The Financial Secretary understood that the recent spate of tax proposals were the final surge of the last Commission,

but he could see no coherent pattern or theoretical underpinning to them. On the principal of tax harmonisation, Lord Cockfield said he thought the British Government had accepted this when they entered the Community. He had always understood that VAT harmonisation would be followed by harmonisation of direct taxes and capital taxes. He instanced the introduction of the imputation system for corporation tax as a preparatory step towards direct tax harmonisation. Admittedly, in the 1970s progress on harmonisation had faltered as the Community focused on its budgetary problems. However, he thought that there was now wide agreement on the need for new initiatives to be taken on harmonisation measures. This had been the theme of Delors' recent speech to the European Parliament. Lord Cockfield understood that the UK supported progress on the Internal Market. In his view the proper working of the internal market was not simply a question of dealing with border problems. Free movement and the removal of fiscal frontiers would also require harmonisation of the rates and coverage of taxes. So increasing pressure for harmonisation could be expected. Lord Cockfield thought the fiscal climate on the direct tax side affected economic activity and its location. He understood that member states would always resist harmonisation if they thought others had advantages. In his view the difficulty of making major changes had led to the proliferation of minor proposals. He thought the work programme of the Commission needed a clearer definition of objectives and that actions needed to be related to these overall objectives. Otherwise he agreed there would be the rather incoherent impression which the Financial Secretary had mentioned. He explained that Delors would be announcing his first programme in March. He expected this to be a rather broad-brush affair, since at any rate on the internal market six months' work was being crammed into six weeks. The Financial Secretary hoped that the UK could be involved in the debate on the concepts underlying the proposals. Lord Cockfield would be interested to have any ideas from the Inland Revenue on fiscal neutrality between countries. He understood the need for national Revenue Departments to take defensive action to prevent avoidance but was interested in some more positive ideas as well.

[REDACTED]

Current Proposals

4. While he was concerned to see a new impetus in the work Lord Cockfield felt it was too late for him to stop the advance of some existing proposals, in particular he mentioned the carry-over of losses (on which he, personally, had reservations) and capital duty (which he thought was sensible). The Financial Secretary also promised to send to Lord Cockfield the UK's comments on the Commission's tax proposals noting those which would create real problems. On Husband and Wife Lord Cockfield thought that the Inland Revenue were being unduly protective given that the British Government had published Green Papers on the subject and the Commission discussion document had a similar status.

ECOFIN

5. He noted that Delors was expected to put onto the February ECOFIN agenda a package of tax measures which he regarded as important. It would be helpful if the British would support these, unless they had particular difficulties. He had been surprised at the antipathy to the British "negativism" and would be grateful for any support possible on items which we were neutral about. The Financial Secretary agreed that a fair wind should be given to those proposals (mergers and parents and subsidiaries) where the UK did not have particular difficulties.

HCG
H C GOODMAN

CONFIDENTIAL



FROM: P WYNN OWEN
 DATE: 5 February 1985

PS/FINANCIAL SECRETARY

cc PS/Economic Secretary
 PS/Minister of State
 Sir P Middleton
 Mr Cassell
 Mr Unwin
 Mr Monger
 Mr Fitchew
 Mr Lankester
 Mr Lovell
 Mr Cropper
 Mr Lord
 PS/IR
 PS/C&E

C.
 In case you
 talk to Lord Cockfield.

P
 PWO
 8/2

PWO

EC COMMISSION TAX PROPOSALS

The Chancellor has seen your minute of 4 February covering the note of a meeting between Lord Cockfield and the Financial Secretary. He thinks this is a worrying development. The Government has a number of important objectives on the internal market front - which is why that portfolio was sought for Lord Cockfield. Direct tax harmonisation is not one of those objectives - yet it seems that Lord Cockfield intends to direct all his energies there. It is most important that Lord Cockfield is encouraged to focus on these other issues as soon as possible.

PWO.

P WYNN OWEN

From : G E Fitchew

Date : 7 February 1985

CHANCELLOR

cc

CST

FST

EST

MST

Sir P Middleton

Mr Littler

Mr Unwin

Mr Lavelle

Mr Hopkinson

Mr Mortimer

Mr Culpin

Mr Butt

Mr Donnelly

Miss Simpson

Miss Barber

Mr Cropper

Mr Bostock (UKREP)

ECOFIN : ISSUES FOR POSSIBLE BILATERAL DISCUSSION

(a) DOOGE COMMITTEE

(b) OWN RESOURCES DECISION AND 1000 MECU ABATEMENT

(a) Dooge Committee

It would be helpful if you could find time to have a word with Herr Stoltenberg in the margins of Monday's meeting about the budgetary and monetary sections in the report the Dooge Committee is now drafting.

2. The propositions under discussion which are of concern to us are :-

(i) that the European Parliament should be given a greater say in determining Community revenues including the VAT ceiling; and (a Commission suggestion) that a VAT ceiling in excess not only of 1.4% but of 1.6% will be needed soon;

(ii) the suggested commitment to a common currency and an independent European Monetary Fund.

So far Herr Ruhfus, the German member of the Dooge Committee, has been unreliable on the question of Parliament's powers over own resources. And he was himself the originator of

the common currency/EMF proposal; and Mr Rifkind has been a lone voice in questioning the text. There are signs that this may change. Herr Poehl has heavily criticised the proposals and Herr Tietmeyer, as Chairman of the Monetary Committee, will be addressing the Dooge Committee on 14 February and apparently intends to warn them off monetary issues. But Stoltenberg needs to be encouraged to resist Kohl/Genscher's enthusiasms.

Points to Make

3. (i) Desirable that UK and German representatives on Dooge Committee should work closely together and (as members of Governments) instil sense of realism;

(ii) Concerned by Commission representatives' proposals that European Parliament should be given greater powers over Community revenues and that the VAT ceiling should be increased beyond what Fontainebleau agreed. Need to make it clear that this quite unrealistic and that the Committee must not seek to re-open Fontainebleau;

(iii) On EMS would be a mistake for Dooge Committee to repeat the mistakes of early 1970's by proposing unrealistic objectives such as common currency or independent EMF. Present text of interim report is far too ambitious and should be watered down. Do you agree? Hope Herr Tietmeyer, as Chairman of Monetary Committee, can persuade Dooge Committee that this is not their business.

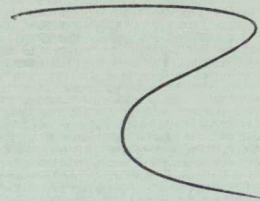
(b) Own Resources Decision (ORD) and UK Abatement

4. The stalemate continues. Germany will not at present accept bringing forward own resources or the UK "mixed solution" of providing for our abatement through the ORD and the agricultural overrun through an IGA. France and others will not agree to provide for our abatement through an IGA. If the opportunity arises, you should urge the

"mixed solution" on Herr Stoltenberg.

5. We are also increasingly concerned that, if provision for our abatement is put into a new 1985 Budget before the Own Resources decision is ratified, the European Parliament will throw it out. No need to raise this point in detail. But in any discussion you should make it clear that we will need a cast-iron assurance that the Parliament will not be allowed to block the 1000 mecu before we could either agree to a second IGA or ratify the Own Resources Decision.

Y. Engledow (RS)
p.p. G E FITCHEW





C.

We leave No 11 at 7.45 am
- Robert Culpin, you and me. Brian will
join us at the airport.

Take-off 9 am

land 10.55 am (Brussels time)

M. Delors 11.45 am

Lunch 13.00

ECOFIN 15.00

Take-off 19.00

Land 19.00 (UK time)

Full set of briefs below, but nothing specific
for Delors meeting - just brief (d) for the lunch
discussion of EMS.

Cindy is off, but we will have another
reliable Gov't pool driver.

I have the tickets.

Remember your passport.

PS I will have your recent EMS folder with me.

Puro 8/2

Covering RESTRICTED

FROM: MISS JANET BARBER

DATE: 8 FEBRUARY 1985

1. MR UNWIN *8/2/85*
2. CHANCELLOR OF THE EXCHEQUER

ECOFIN 11 FEBRUARY

You are due to attend ECOFIN on 11 February. Mr Unwin and Mr Culpin will be in support. Mr Byatt will attend as Chairman of the Economic Policy Committee. The Council begins at 15.00 in the Charlemagne Building, 170 Rue de la Loi, Brussels. *after 13.00 lunch!*

2. There are 3 substantive items on the agenda:
- (a) financing of the agricultural structures policy;
 - (b) fiscal measures to encourage cooperation between undertakings of different member states;
 - (c) (possibly) european economic interest groupings; ?

Detailed brief on all these are attached.

3. We are also expecting lunchtime discussions on the following:
- (d) strengthening the European Monetary System;
 - (e) the international economic and monetary situation.

(8) Briefs on these are also attached. A brief is also attached on finance for innovation loans; this has been taken off the formal agenda, but it might be mentioned at lunch.

- (9) 4. There is also a defensive brief on agricultural price fixing.

5. Mr Fitchew suggests (minute attached to this brief) that it might be helpful if you were to speak to Herr Stoltenberg in the margins of the meeting about the Dooge Committee, and about own resources decision and 1000 mecu abatement.

Covering RESTRICTED

6. If the opportunity arises, you might also like to speak to Lord Cockfield on EC Commission tax harmonisation proposals. You will recall that following the report of the Financial Secretary's meeting with Lord Cockfield, you found Lord Cockfield's attitude on this rather worrying.

Financing of agricultural structures policy - Brief A

7. This is an important issue, concerning the application of budget discipline, and you will need to play a leading role in the discussion.

8. The UK objectives are:

- (i) to secure an effective multi-annual financial limit on FEOGA Guidance expenditure;
- (ii) if (i) is not possible, to seek support for preventing the Agricultural Council from settling the details until a financial framework has first been agreed.

9. Brief A contains a section on tactics. This suggests that you should try over lunch to persuade the German or Dutch Minister to open the discussion. Otherwise it is recommended that you open the discussion yourself. It might also be helpful to have a lunchtime word with M. Beregovoy on wine structures - see Brief A.

10. The brief also sets out negotiating limits, and a line to take in the form of an opening speaking note and defensive and fallback material.

11. Annexed to the brief is a set of draft ECOFIN conclusions consistent with our objectives. These are referred to in your speaking note. They have already been circulated to delegates via UKREP.

Fiscal measures to encourage cooperation between undertakings of different member states - Brief B

12. This concerns progress on directives on three issues:

- (i) a common system of taxation on mergers between companies of different member states;

- (ii) a common system, of taxation applicable to parent companies and subsidiaries;
- (iii) elimination of double taxation in connection with the adjustments of transfers of profits between associated enterprises (arbitration).

13. The proposed directives are not nearing finalisation. There are still points in them which need further consideration, and indeed some points which have not yet been considered at all. Detailed consideration therefore will have to continue at working group level, and there is no question of this ECOFIN adopting the directives.

14. The package to be presented at this ECOFIN will be on the basis of the compromise proposals on the main outstanding issues put forward by the French Presidency in June 1984, but with one change in relation to parents and subsidiaries: instead of a maximum withholding tax of 15 per cent, a German withholding tax of 10 per cent and 5 per cent for other member states.

15. In general, we are willing to go along with the French Presidency compromise, and with the amendment to it described above. It is not clear whether there will be much substantive discussion at ECOFIN. It is described on the agenda as a "Commission statement", and the likely outcome may well be a decision to refer back to COREPER and the working group. However the Commission may be hoping to make some progress on the proposed directives.

16. If there is any substantive discussion, you might like to indicate our broad agreement that progress can be made on the basis of the compromise proposals. (At his meeting with Lord Cockfield the Financial Secretary agreed that a fair wind should be given to these proposals where the UK did not have particular difficulties). If there are detailed discussions of the three individual items, you can draw on the line to take in brief B.

17. Brief B is a summary brief covering all three issues. More detailed briefs, covering each issue individually, and copies of the relevant documents, are with Mr Unwin should you need them.

Now below
brief B in
your folder.

18. Brief B also contains material on a draft decision on prior information. However this is unlikely to be discussed. We are completely opposed to this proposal.

European economic interest grouping (EEIGs) - Brief C

19. This is a "possible" agenda item only. We understand that EEIGs are being discussed at the internal market council, also on Monday 11 February, so we expect no more than a passing reference to it by M. Delors.

20. Our line, as set out in Brief C, is that ECOFIN should not consider the tax aspects until after further working level consideration.

Strengthening the European Monetary System - Brief D

21. It seems that M Delors would like to have an exchange of views on his ideas for strengthening the EMS. M Delors made a statement to the European Parliament on 14 January, in which he covered strengthening of the EMS (the relevant extract is attached to Brief D). He may wish to propound his views on this occasion, and may express the hope that the confused situation which arose in December 1984 (in which a rather too far reaching Commission proposal was referred by ECOFIN back to the Monetary Committee and Committee of Central Bank Governors) can be avoided in future.

22. UKREP contacts with the Delors Cabinet have not produced any clear idea of how Delors intends to proceed on the EMS. UKREP were left with the impression that he would not be coming forward with any new proposals during the next couple of months.

23. Brief D gives material to draw on for the exchange of views.

The international economic and monetary situation - Brief E

24. This too is a lunchtime item effecting M Delors' wish for a general exchange of views.

Innovation Loans - Brief F

25. This item was taken off the formal agenda at the last minute. You will recall that you wrote recently to Vice President Narjes,

reaffirming your opposition to the Innovation Loans scheme which was discussed at ECOFIN last June.

26. It is still possible that M. Delors might mention this matter over lunch. If so, you will want to make it clear that we are opposed to any scheme involving subsidies or guarantees. However, it is unlikely that you will need to deploy the fallback given in Brief F.

The 1985 agricultural price fixing - Brief G

27. This brief should be drawn on as necessary. DEFENSIVE.

Other matters

Leave No 11 at 7.45 am.

28. You are flying out from Heathrow at 9.00 am on 11 February.

29. Some "A" items (ie items not requiring discussion) will be taken at the beginning of the meeting - the list we have so far is attached.

30. Mr Wynn-Owen has a full set of personality notes. You might like to note one Ministerial change: the Belgian Finance Minister is now Mr Frans Grootjans, who has replaced Mr Le Clercq.

31. The Commission representatives at ECOFIN have, of course, also changed. We expect M Delors to attend. We also expect Lord Cockfield to attend for the fiscal package, and either Mr Andriessen or Mr Christophersen to attend for agricultural structures.

32. Copies of this briefing go to those on the attached list.

Janet Barber

MISS JANET BARBER

CIRCULATION

PPS

Economic Secretary

Mr Unwin

Mr Byatt

Mr Fitchew

Mr Culpin

Miss S Lambert - Cabinet office

Mr Fairweather - FCO

Mr Bostock - UKREP (6 copies)

Steering brief only

PS/Chief Secretary

PS/Financial Secretary

Sir P Middleton

Mr Littler

Mr P Cropper

Mr Battishill

Mr Hopkinson

Mr Mortimer

Mr Butt

Mr Shields

Mr Hannah

Mr Andren

Mr Balfour B/E

Mr Garside - Paris

Mr Beamish - Bonn

Mr N L Wicks - Washington

Mr Richardson - Rome

Mr Alpe - I/R

From : G E Fitchew

Date : 8 February 1985

MR UNWIN

cc PS/Chancellor
PS/Economic Secretary
Mr Littler
Mr Hopkinson
Mr Mortimer
Mr Butt
Mr Bonney
Mr Donnelly
Miss Barber

ECOFIN COUNCIL, 11 FEBRUARY : FEOGA GUIDANCE EXPENDITURE :
FRENCH POSITION

M. Aube-Martin rang me this afternoon. (I tried without success to speak to him earlier during the week). I outlined the draft conclusions on FEOGA Guidance which we had circulated for Monday's ECOFIN Council and asked what M. Beregovoy's position was likely to be.

Five Year Total

2. I said I understood that the French could accept a global limited on FEOGA Guidance, but one which would exclude both IMPs and wine. M. Aube-Martin said that IMPs should definitely be excluded at this stage, but that the French could accept a ceiling which covered wine, within a range of 5.2-5.5 becu. 5.5 becu was a maximum for the Finance Ministry.

3. He argued that it would be better to exclude provision for IMPs at this stage, because the Greeks would not accept it. But, if the ECOFIN Council did not agree on a ceiling excluding IMPs, the Agriculture Ministers would go ahead and adopt the regulations anyway.

3. (Comment : it is welcome news if the French can accept a ceiling which covers wine. But M. Aube-Martin was a little vague when I asked whether M. Beregovoy would be able to agree this on Monday. It would be useful if the Chancellor can have a word with him before discussion in the Council starts).

Annual Decision on FEOGA Guidance Expenditure as Part of the Reference Framework

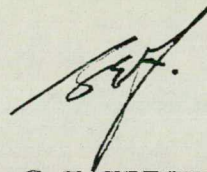
4. M. Aube-Martin said the Finance Ministry could go along with this.

Flexibility in Reimbursement Rates

5. M. Aube-Martin said the Finance Ministry agreed with this idea, but had not yet got final agreement from the Ministry of Agriculture. M. Beregovoy might therefore not be able to commit himself to it fully on Monday. He suggested that it could be a useful element to throw in if there was any bargaining over the level of the "global envelope".

CAP Price-Fixing

6. M. Aube-Martin said there was as yet no inter-departmental agreement on the French line for the price-fixing. He said he thought the Finance Ministry would be pressing for a tougher line than that proposed by the Commission on cereals prices (ie a full 5% reduction in nominal prices); and that they would want to be sure that the second stage reduction in the milk quota was agreed as a pre-condition for accepting the proposed reduction in the milk co-responsibility levy.



G E FITCHEW

ECOFIN COUNCIL ON 11 FEBRUARY 1985

- 2 VFA/10
(1000 X)*
- low Frank
with ME
Gard*
- A: Background Note
 - B: Position of other Member States
 - C: UK draft of Ecofin Conclusions
 - D: Netherland's Comments on UK draft

FEOGA GUIDANCE EXPENDITURE

Objectives

- a. to secure an effective multi-annual financial limit on FEOGA Guidance expenditure;
- b. if agreement impossible, to seek support for preventing the Agriculture Council from settling the details until a financial framework has first been agreed;

*W's OD (5):
a diff
W's*

Tactics

We must prevent others setting an unhelpful tone for the discussion, especially as the Italian Presidency is unsympathetic to budget discipline. It would be helpful therefore if before or over lunch you could persuade the German or Dutch Minister to lead off the discussion. Otherwise you will need to do so.

AA

The Ecofin Council's role is essentially advisory, though based now on the Council conclusions on budget discipline. We will not therefore be able to block a conclusion on our own and must work in alliance with the Germans, Dutch etc. If Discussions in Ecofin was wholly inconclusive or left us isolated Mr Jopling could try to prevent decisions being taken in the Agriculture Council but only qualified majorities are required and this is not a Luxembourg Compromise issue.

UK negotiating limits for 11 February:

- a) nothing weaker than a "montant estime necessaire" to which Commission subscribes in some appropriate way;
- b) a limit of not more than 5.6 or 5.7 billion ecu for every-thing including IMPs;
- c) a limit of not more than 5.2 - 5.3 billion ecu with IMPs (and only IMPs) excluded.

DefensiveBudget Discipline not applicable

Not so. Article 8 of the budget discipline conclusions applies to "an act which has considerable financial implications for several years". FEOGA Guidance has major expenditure consequences for the years 1985 to 1989 and Article 10 says that budget discipline will apply to Council decisions "in 1985 concerning expenditure in the financial year 1986".

Form of Limit

If ceiling not acceptable, could agree to a "montant estime necessaire" provided that the Commission agrees in some appropriate way to comply with it and that the regulations provide for reimbursement rates to be varied if necessary.

Netherland's amendment to UK formula

[Netherlands may propose an amendment to point (ii) of UK draft conclusions - sidelined in Annex D] Agree with Netherlands delegation that each year Council should review expenditure on FEOGA Guidance to date and fix a figure for the year ahead. Covered this in point (ii) of our conclusions. However we have misgivings about details of their scheme, viz:

(i) it appears to give the annual decisions primacy over the 5-year limit since the limit is made subject to "exceptional circumstances", and could be exceeded;

(ii) its effect is to apply the maximum rate to a programme of which some 70% is obligatory expenditure. Could encourage Parliament to argue that it should all be non-obligatory;

(iii) odd to base the calculation on the maximum rate "in the most recent year" rather than on the maximum rate for the year ahead.

Amount of Limit

[Fallback if all other UK conditions met] Could agree to very slight increase in 5.5 billion ecu if all delegations (including Greece) agree that this limit applies to all expenditure including IMPs.

IMPs

Agricultural aspects of IMPs should be found from within the limit on FEOGA Guidance. Consistent with Fontainebleau conclusions. * 5.5 billion ecu leaves adequate room for realistic expenditure on IMPs. Fixing a limit on FEOGA Guidance need not pre-judge how much should be allocated to agricultural aspects of IMPs.

[Fallback] Could accept that Council fixes a limit today subject to a Greek reserve pending separate Council decisions on IMPs [i.e. FEOGA Guidance ceiling could then be looked at again.]

[Further fallback] In order to permit a decision to be taken setting a limit for all other expenditure, I would be prepared to agree very reluctantly to the exclusion of IMPs from the limit. Cannot agree to exclusion of any other items. [Resist exclusion of wine measures etc.] But the limit should be lowered as a result to 5.2 or 5.3 billion ecu.

French position on wine measures

[French favour 5 billion excluding wine and IMPs. Their line is very damaging because, apart from leaving wine unconstrained, it will greatly reinforce Greek's in their opposition to inclusion of IMPs. Following points would be best deployed with Beregevoy before the Council.]

Limit of 5.5 billion is sufficient both for IMPs and wine restructuring measures. In our view there will be well over 1 billion mecu available for these 2 sets of measures and anything that may be agreed on either regional measures or other proposals which may come forward over the next five years.

[Following figures best used only in bilaterals with French.]

*"The financial resources allocated to aid from the structural funds having regard to the IMPs, will be significantly increased in real terms within the limits of the financing possibilities."

See 'Explains' in Annex A - discuss

	UK position	<u>mecu</u> Commission estimate
Continuation of existing schemes	1.600	1.600
Sociostructural measures	1.500	1.500
Marketing and processing	1.000	1.400
	<u>4.100</u>	<u>4.500</u>
IMPs (60% of 600 say)	400	
Wine structures	<u>600</u>	740
Other decisions including regional measures	500	700
	<u>5.200</u>	<u>5.940 +</u>

1000 Imps

5.2 - 5.9

French position on wine measures is not yet very clear but in working groups they have shown some sympathy for limiting scope of Commission proposals, from which Italy would be a major beneficiary. MAFF do not think French would regard our maximum of 500 mecu as unreasonable. There is anyway some scope for varying this figure within the limit of 5.5 billion.]

Enlargement

[If suggested that cost of any structural measures associated with enlargement should be excluded.] No grounds for thinking there would be significant expenditure in Spain and Portugal in early years after their accession. Premature, and potentially damaging, to consider an exception.

Reimbursement Rates

Do not accept that provision for varying reimbursement rates would impose great financial uncertainty on Member States. Would expect any change in the rates to be made during the budgetary procedure preceeding the year in question. Would need to be done equitably across the board. [This meets French worry.] Nor do we envisage regular changes in reimbursement rates. The provision is a safety valve to be used only if demand-led expenditure looks like coming into conflict with the limit.

MAFF?

[Fallback] Could accept that reimbursement rates to be agreed upon by Agriculture Council should be fixed for the first two years and subject to review only thereafter.

If agreement cannot be reached

UK wants this issue settled quickly. But as several Member States, including the UK, favour settling a financial limit not reasonable to expect us to agree to let the Agriculture Council proceed without one. If we cannot agree today, discussion will have to resume in March. Meanwhile existing ceiling will apply.

[If Joint Agriculture/Financial Council proposed]. Will not oppose if a joint meeting is the general wish since these are envisaged in budget discipline conclusions. But in light of today's discussions I am rather sceptical whether the addition of Agriculture Ministers will promote a break through. Hope no one is under the illusion that our resolve on this matter will suddenly crumble.

Line to take

Opening statement

We agreed in December that we wished to consider a financial framework for FEOGA Guidance further before the Agriculture Council took decisions. The Agriculture Council accepted our request, which is in accordance with Article 8 of the Council conclusions on budget discipline. Our aim now must be to try to reach conclusions today so that Agriculture Ministers in turn can complete their work.

If there is no agreement, the previous ceiling - 3,755 m. ecu - will automatically apply to 1985/89.

Recall UK position. FEOGA Guidance is a substantial multi-annual programme of expenditure; it has been subject to a ceiling in the past; and over two-thirds of the expenditure is obligatory and thus within the Council's control. We therefore favour a ^{an all-inclusive} limit of not more than ~~3,755~~ ^{5,500} million ecu for the next five years. The ceiling for the previous quinquennium was 3,755 billion ecu. Revaluing

The Commission's proposal for

this for inflation over the next 5 years gives a figure of some 5,000 million ecu, leaving 500 m. ecu for real growth. ~~This is a reasonable margin.~~

or 10% p.a. real growth. This is a reasonable margin at final year.

All existing and prospective actions in this field, including the agricultural aspects of IMPs, should be contained within the limit. ~~proposed adjustment limit much less than 5.5 billion~~

Best way forward now would be to concentrate on agreeing upon some Ecofin Council conclusions to guide the Agriculture Council. UK has circulated a draft. Main points in it are:

- a. the first point is self-explanatory: we have to decide the precise form of the limit and the amount;
- b. second point builds on the very constructive approach suggested by the Netherlands delegation. In order to guarantee effective implementation of a multi-annual limit on FEOGA Guidance the Council should each year take a view about the allocation for the following year in the light of expenditure to date and the sum remaining within the overall five-year ^{total} limit;

follows the German proposal in providing

- c. point three provides the possibility of varying the reimbursement rates. ~~Without this provision it could be difficult to keep this mainly demand-led expenditure within the ceiling.~~

I see the provision as a safety-valve to be used only if demand-led expenditure looks like coming this close to the overall total. Any change will need to be decided well in advance, & on an equitable across-M-land basis.

BACKGROUND

The Germans first raised question of the financial framework for EEOGA Guidance at the November ECOFIN. The December ECOFIN reached no agreement on substance but expressed the wish to discuss the question further before the Agriculture Council was asked to adopt the Commission's specific proposals. This wish has so far been respected and no decisions on Guidance measures were taken by the Agriculture Council in December or January.

Following discussions at official level with the German, Dutch and French Finance Ministries UKREP have circulated some draft conclusions for ECOFIN [Annex A]. These suggest that ECOFIN should form a view on the financial framework for Guidance measures over the next 5 years (1985-89) leaving the formal adoption of the various Commission proposals (amended as necessary to reflect ECOFIN's conclusions) to the Agriculture Council.

Legal Position

The legal background is complicated. The financing Regulation for EEOGA (Regulation 729/70 as amended by Regulation 929/79) provides for a ceiling on commitment appropriations from the EEOGA Guidance Section of 3755 mecu for the five years ending 31 December 1984. It further provides that that ceiling will be repeated for the next five year period unless the Council, acting by a qualified majority on a proposal from the Commission, fixes a different figure. The Commission is therefore obliged to make a proposal to amend Regulation 729/70 in some respect: its current proposal is simply to repeal the provision for a ceiling. If the Commission refuse to amend their current unacceptable proposal, it is possible for two large Member States (e.g. UK and Germany) to block its adoption, thus ensuring that the current 3755 mecu ceiling continues in force.

Details of new agricultural structural measures

It is most unlikely that ECOFIN will get into the details of the structures package. The Commission's estimate of their cost over

JMS/T UNIBOLUSTAWA

5 years (excluding IMPs) is nearly 6 becu. It would be for the Agriculture Council to consider detailed consequences of any ECOFIN agreement on a lower figure.

The main items to be financed from the Guidance Section apart from agricultural IMPs are:

- (i) new socio-structural (or "efficiency") Regulation
(Investment grants, Hill livestock allowances, etc) The Commission estimate of 1.4 becu is on the low side and could probably only be achieved by effective budget discipline. (Some measures e.g. assistance to young farmers and farm forestry should in our view be dropped);
- (ii) continuing expenditure on existing schemes
Commission estimate of 1.6 becu appears reasonable;
- (iii) marketing and processing
(Regulation 355/77). This expenditure is non-obligatory (unlike the rest of FEOGA Guidance). As such it is reasonable to allow it to grow at the "maximum rate". Starting from the 1934 provision of 164 mecu this would give a 5 year figure of 1 becu instead of the Commission's 1.4 becu.
- (iv) wine structures:
The Commission propose 940 mecu over 7 years at a reimbursement rate of 60 per cent. We believe reimbursement should not exceed 40% (current rate) which reduces 5 year cost to 500 mecu.
- (v) regional measures: these are unspecified measures costing 700 mecu for regions which cannot benefit from IMPs. We see no justification for this.

134/77
6/7/2

IMPs

Under the old Commission's proposal IMPs expenditure of 6.6 becu over 5 years was to have been split in the ratio 38: 45: 17 between Greece, Italy and France. ~~Some~~ 60% of the IMPs would have been agricultural measures which in our view should be financed from the Guidance Section.

A revised proposal from the new Commission is expected imminently. The UK position is that the IMPs should be considerably reduced in scope and aimed mainly as a response to the Greek memorandum. The terms being offered in the Enlargement negotiation already give large measure of protection to Mediterranean producers. And Greece is already substantial beneficiary from Structural Funds. Our current view is that 500-600 mecu over 5 years should be sufficient for IMPs overall which implies 300-350 mecu from FEOGA Guidance.

Reimbursement rates

The standard reimbursement rate for "indirect measures" (i.e. those financed initially by the Member States) is 25%. A 40% rate is already available for vine grubbing and for certain measures in less favoured regions (including Northern Ireland and the Western Isles). The Commission's current proposals provide for 60% for vine grubbing and 50% for young farmers, farm forestry and compensatory allowances in the French Overseas Departments.

The UK position is that all the ^{new} higher reimbursement rates should be reduced at the outset as an economy measure. The suggested provision for varying (i.e. reducing) reimbursement rates should then be used as a longstop to prevent expenditure in any one year exceeding the budgetary provision.

Views of other Member States

There is a reasonable prospect of getting support at ECOFIN

for a 5 year figure not too far from 5.5 becu including IMPs from the Northern Member States (i.e. Germany, Netherlands, Denmark and, more equivocally, France and Belgium). The French have said they could support an envelope (not a ceiling) of 5.5 becu, but exclusive of IMPs. Greece, Italy and Ireland that the Commission figures should be regarded as minima. There could be a similar line up on the form of budget discipline. Positions in the Agriculture Council could be considerably less favourable to our objectives.

POSITIONS TAKEN BY DELEGATIONS IN WORKING GROUP AND COREPER

Mecu

Commission	Proposals on table (excl. IMPs) at 5997. Opposed to ceiling. Amount should be decided each year.
Belgium	
Denmark	5500 incl IMPs
Germany	5500 incl IMPs
Greece	Agree with Commission
France	5000 excluding wine and IMPs
Ireland	Agree with Commission
Italy	Agree with Commission
Luxembourg	
Netherlands	4500 to be increased in due course (? to 5000) to cover IMPs
UK	5000 - 5500 including IMPs

*if France can be
bought in,
is there a
chance for a vote?*

4693

(Incorporating MAFF amendments -
underlined)DRAFT ECOFIN CONCLUSIONS

The Council composed of Economic and Finance Ministers taking account of

- the Council's conclusions on the effective operation of budget discipline;
- the European Council's conclusions on the future financing of the Structural Funds;
- the Commission's proposals for measures to be financed out of the EAGGF Guidance Section and in particular the proposal to amend Regulation 729/70

has concluded as follows:

- (i) the total amount available for financing EAGGF Guidance Section measures (including agricultural measures within the integrated Mediterranean Programmes) for the five year period 1985-89 shall not exceed [] mecu in terms of commitment appropriations;
- (ii) each year at the beginning of the budgetary procedures in the context of its decision on the reference framework for the following year the Council shall determine the annual amount provided for EAGGF Guidance Section expenditure in the light of a report by the Commission on outturn in the previous year, the provision in the budget for the present year, and the amount available for the 5 year period 1985-89.
- (iii) the relevant Regulations shall be amended to provide that reimbursement rates for indirect measures shall be regarded as maxima; and that the actual rates of reimbursement from the Fund shall be determined in the light of the provision foreseen in the Budget for that year and the proportion of the total amount referred

to in (i) still to be committed.

● The Council composed of Economic and Finance Ministers invites the Commission to take the necessary steps to adapt the scope of its current proposals (including its proposal to amend Regulation (EEC) No. 729/40) to conform with these conclusions so that revised texts can be adopted by the Council composed of Agriculture Ministers without delay.



FEOGA GUIDANCE

AIM

- 5.5 bn ceiling including IMPs.

FALL BACKS

- (i) 'Montant estimé nécessaire' instead of ceiling;
- (ii) Up to 5.7 bn including IMPs;
- (iii) Up to 5.3 bn excluding IMPs (or even 5.5 bn to clinch a deal).

STICKING POINTS

- (i) Exclusion of wine (thin end) or anything except IMPs;
- (ii) Any formula weaker than "montant estimé".

TACTICS

- Try to get Stoltenberg to speak first in support of UK proposals;
- Seek Ruding's support in advance too (say we have incorporated his annual review proposal, but doubt wisdom of linking maximum rate procedure with it);
- confirm with Bérégovoy that, even if he wants to exclude IMPs (contrary to Mitterand's statement!) he can agree to include wine.

IF IMPASSE

- Insist on further discussion at March ECOFIN and no decision by Agriculture Ministers in meantime.

NETHERLAND'S COMMENTS ON UK'S DRAFT CONCLUSIONS

SUBJECT: DRAFT ECOFIN CONCLUSIONS

Replace point (ii) by:

" Each year at the beginning of the budgetary procedures in the context of its decisions of the reference framework for the following year the Council determines the maximum annual amount provided for FEOGA Guidance expenditure by applying to the previous amount a growth rate percentage not higher than the maximum rate of increase for non obligatory expenditure in the most recent year. This determination shall be made in the light of the Council's consideration of a report by the Commission of the experience with FEOGA Guidance in the past year and the progress of the 5 year programme.

Taking into account exceptional circumstances the Council will see to it that the total amount for the 5-year period will not exceed (fixed amount to be determined) mecu.

The amount for the year 1985 is hereby established at 750 mecu."

ECOFIN 11 FEBRUARY

*Under discussion**Tax measures*TAX MEASURES TO ENCOURAGE CO-OPERATION BETWEEN UNDERTAKINGS IN DIFFERENT MEMBER STATES*Apply your mind to this with a bit of thought?*

Relevant documents 7444/84 7445/84 7676/84

UK objectiveTo reach acceptable compromises on the three main issues.Line to takeMergers

- (i) Content to make progress on basis of French Presidency compromise (document 7676).
- (ii) (If Germans press reservation on safeguards to protect worker participation rights in Germany).
No strong views. But prefer safeguard provided in Article 14 as drafted by Commission.
- (iii) (If Germans raise issue of participation levels in content of exchange of shares mergers).

Prefer any acquisitions of 51% or more of ordinary share capital to count as mergers within scope of proposed directive. However, could accept Commission compromise whereby merger occurs when a majority of voting rights are acquired following an exchange of shares. Other suggestions would require further consideration.

Parents and subsidiaries

- (i) Broadly content with compromise proposal, but would prefer not to have formal reviews to set withholding tax rates. Perhaps an informal review system could be considered if others want it. Can support further detailed work.

- W.H.K.*
- (ii) (if, as seems likely, Commission propose 10% minimum rate for Germany and 5% for others for withholding tax).

Can go along with this.

- (iii) (if Germans (eg) suggest reduction in ACT on dividends from UK to other EC countries).

Explain

Cannot agree to this. UK ACT is not a withholding tax. It is genuinely an advance payment of corporation tax to be set off against the company's final liability at the end of the year.

Arbitration

- (i) Content to proceed on basis of French presidency compromise (document 7676).
- (ii) (If necessary) Cannot agree to accept any changes to the compromise without further consideration.

Background

This item concerns proposals for directives on three issues

- (i) a common system of taxation on mergers between companies of different member states.
- (ii) a common system of taxation applicable to parent companies and subsidiaries.
- (iii) elimination of double taxation in connection with the adjustments of transfers of profits between associated enterprises ("arbitration procedure").

In the UK's view, all these proposals are fairly peripheral to greater business co-operation within the Community. The UK is not enthusiastic to any of the proposals, which have been around for a number of years.

At ECOFIN on 4 June 1984, the French Presidency put forward proposals for compromise on the main outstanding issues on the three items (document 7676/84). We understand that it is this compromise, plus one change in respect of parents and subsidiaries, which is likely to form the basis of the ECOFIN discussion.

On mergers, we are content with the French Presidency compromise. However, the Germans have two reservations on this, on

- (i) worker participation rights
- (ii) exchange of shares

and have made alternative suggestions, which we do not favour.

On parents and subsidiaries, we understand that the French Presidency compromise is changed in one respect; instead of a maximum withholding tax of 15 per cent, the Commission are suggesting a German maximum withholding tax of 10% and 5% for other member states. We can accept this package readily, with one reservation: we are not enthusiastic about formal reviews to set the appropriate rate, because the UK does not have the necessary data. If isolated we could probably in the end accept the formal review, but we would much prefer a more informal review system.

The Germans are unlikely to accept the new Commission amendment. ^{new paragraph} // One point on parents and subsidiaries, however, must be watched. Now that the Commission are suggesting a somewhat lower maximum withholding rate, it is possible that the Germans may press for a corresponding reduction in ACT on dividends flowing from the UK to other EC countries: currently, under tax treaties with our EC partners, the ACT rate on subsidiary to parent dividends is generally set at 15%. If raised, this must be resisted, on the grounds that ACT is advance corporation tax, not a withholding tax.

On arbitration, we are not convinced that an international arbitration procedure is really necessary, but, provided the details are got right, we are not opposed. We can accept the French Presidency compromise, and that discussion should continue at Working Group level. However we cannot accept any departure from the compromise.

SUBJECT:

DRAFT DECISION ESTABLISHING A PRIOR
INFORMATION AND CONSULTATION PROCEDURE FOR
TAX MATTERS

RELEVANT DOCUMENT:

7676/84 but unlikely to be discussed.

UK OBJECTIVES:

The present version of the proposal is much watered-down. It would require member States to notify the Commission of tax proposals 2 months ahead of their implementation, except where they were urgent. The Commission would be able to issue a formal Opinion. There are some minor technical details which may need to be tidied up, but more generally the UK dislikes giving the Commission a formal part in the domestic tax policy process.

LINE TO TAKE:

Treasury Ministers have said that they will block the proposal.

BACKGROUND:

The original proposal was tabled in December 1981 in a form which had very wide-ranging implications. The present watered-down version emerged after a working group meeting on 13 December 1984.

Full version of I.R. brief X

SUBJECT:

TAX MEASURES TO ENCOURAGE COOPERATION
BETWEEN UNDERTAKINGS IN DIFFERENT MEMBER
STATES

RELEVANT DOCUMENTS:

7444/84 7445/84 7676/84

UK OBJECTIVE:

To reach acceptable compromises on the
three main issues.

LINE TO TAKE:

The documents mention three proposals
- mergers, parents & subsidiaries and
arbitration. Notes on all three are
attached, plus notes on prior information
and economic groupings which may possibly
be discussed. All these proposals are
fairly peripheral to greater business
cooperation within the Community. The UK
is not enthusiastic about any of these
proposals which have been around for
several years at least.

At the ECOFIN on 4 June 1984 the French
presidency put forward proposals for
compromise on the main outstanding issues
on the three proposals mentioned. We
understand that it is this compromise
which is likely to form the basis of the
ECOFIN discussion. The UK can go along
with the French proposals on mergers and
on arbitration. As regards parents and
subsidiaries, the French have proposed
that withholding taxes on dividends flowing
from a subsidiary to a parent in another
should be limited to 15% or less. The
UK can accept: it would not affect ACT,
which is not a withholding tax.

Further details are given in the papers
below.

SUBJECT: PROPOSED COUNCIL DIRECTIVE ON
A COMMON SYSTEM OF TAXATION APPLICABLE TO
MERGERS ETC BETWEEN COMPANIES OF DIFFERENT
MEMBER STATES

RELEVANT DOCUMENTS: 7444/84
7445/84
7676/84

UK OBJECTIVE: To ensure the terms of the Directive do not place UK companies at a disadvantage with their competitors in the community.

LINE TO TAKE: The UK would be pleased to make progress on the Directive if the major reservations of Germany can be resolved within the terms of our objective. The two German reservations are likely to be discussed at the ECOFIN meeting. These are:-

- (i) What safeguards should be included within the Directive to protect worker participation rights in Germany ("Mitbestimmungsrecht").

The UK has no strong views on this German reservation but we prefer the safeguard provided in Article 14 as drafted by the Commission.

- (ii) What conditions need to be fulfilled for an exchange of shares to be a merger within the scope of the Directive.

We would prefer all exchanges of shares resulting in a participation level of 51% of the ordinary share capital to be a merger within the scope of the Directive. However, we could accept the compromise suggested by the Commission that a merger occurs when a majority of voting rights are acquired following an exchange of shares.

BACKGROUND NOTE

OBJECTIVE OF THE DIRECTIVE

1. The Directive aims to remove tax barriers to mergers and divisions of companies within the Community. Payment of capital gains tax would be deferred until gains were actually realised. However, there would be consequential changes in the treatment of mergers within the UK and some legislation may be needed.

HISTORY

2. The proposal was tabled in 1969 and revised in 1980. It has been discussed many times in the Working Party on Financial Questions and in COREPER especially under the recent French Presidency.

3. Progress has been held up because -

a. the Dutch fear that their industry may be taken over by the Germans; and

b. German fears that their special arrangements for worker participation rights would be put at risk.

UK ATTITUDE

4. The Directive would be of little practical value to the UK and was greeted with no enthusiasm by the CBI etc. Also, international mergers are not occurring as frequently as when the proposal was first tabled.

WORKER PARTICIPATION RIGHTS: DETAILS

5. The Commission have provided a safeguard to Worker Participation rights in Germany in Article 14 whereby the tax advantages of a merger can be withheld when the principal aim is to remove the participation rights of workers in the new enterprise or new parent company. The Germans want this safeguard worded so that the tax advantages are withheld when the effect of the merger is to remove those worker participation rights.

We do not favour the German suggestion because -

- a. Companies would need to be fully acquainted with German domestic law; and
- b. the benefits of the Directive will, to some extent, be dependent upon the scope of German legislation on participation rights; and
- c. it would place UK companies at a disadvantage as they would have to fulfill a further condition under the Directive not present when a German company takes over one resident in the UK.

EXCHANGES OF SHARES: DETAILS

6. It has been agreed to include exchanges of shares (the most common form of UK merger) within the scope of the Directive provided it results in a participation level of 51% of the ordinary share capital. Germany has wanted a participation level of not less than 90% which we have strongly resisted as it would exclude virtually all mergers involving UK companies. Indeed, the 51% level is higher than our domestic legislation which provides for a deferment of tax following a participation level of 25%. The Commission has proposed a compromise solution whereby exchanges of shares fall within the Directive when the exchange results in the acquisition of the majority of voting rights.

7. We have not had the time to discuss the implication of the Commission's proposal with the CBI and it may have undesirable implications compared with the 51% participation level. However, we believe that takeovers by joint ventures and consortia will still be possible if the Commission's proposal is included within the Directive.

SUBJECT:

PROPOSALS FOR A DIRECTIVE ON THE COMMON SYSTEM OF TAXATION APPLICABLE TO PARENT COMPANIES AND SUBSIDIARIES

RELEVANT DOCUMENT:

7676/84 7444/84

UK OBJECTIVE:

The UK's original objectives have been achieved. The only matters remaining are fairly minor. The aim is to settle these as straightforwardly as possible.

LINE TO TAKE:

The main purpose of the original proposal was to scrap withholding taxes on dividends paid by a subsidiary in one country to a parent in another. The Germans had difficulties with this and the French, at the June 1984 ECOFIN, proposed a compromise under which withholding tax rates would be limited to a maximum of 15%, with formal reviews to set the appropriate rate. We can go along with the proposed limit, but are unenthusiastic about formal reviews because the UK does not have the data that would be required. We have no objection to some more informal review system if the majority of member states want it.

The Commission may suggest that the Directive should set a lower maximum withholding rate than 15%. If they do, it is conceivable that the Germans will press for a corresponding reduction in ACT on dividends flowing from the UK to other EC countries: currently under tax treaties with our EC partners the ACT rate on subsidiary-to-parent dividends is generally set at 15%. The UK should resist this on the grounds that ACT is advance corporation tax and not a withholding tax. The French are likely to adopt a similar stance to the UK on their ACT - equivalent, the "precompte" (see also defensive briefing below).

DEFENSIVE

- [If the French raise the point] it is neither necessary nor desirable for Member States to commit themselves now to a particular method for relieving double taxation under a system of full harmonisation. That will depend on the form which harmonisation eventually takes.

- [If the point arises] UK ACT is not a withholding tax. It is genuinely an advance payment of corporation tax to be set off against the company's final liability at the end of the year. It is not an additional tax and applies to the company, not as a tax on the shareholders. As a separate matter, we do in some cases pay a tax credit equal to one-half of the ACT deducted from UK dividends paid overseas, but that is done in the context of individual double taxation agreements.

/BACKGROUND NOTE

BACKGROUND NOTE

PURPOSE OF THE DIRECTIVE

1. The Directive aims to remove tax obstacles to the formation of groups of companies within the Community. It does so by proposing a common system to deal with dividends paid from a subsidiary in one member state to a parent in another. The main proposals are:-

- a. dividends paid by a subsidiary would be exempt from any withholding taxes;
- b. dividends received by a parent would be exempt from corporation tax in its hands.

UK OBJECTIVE

2. The UK is not enthusiastic about this proposal (we believe it is fairly peripheral to greater business co-operation with the Community).

3. There were two potentially very difficult points under consideration for the UK, but these have been successfully resolved:

- i. A compromise has now been proposed which allows countries to use either the credit or exemption method of double taxation relief. Originally it was proposed that only the exemption method should be allowed. This was important to UK because we use the credit method.
- ii. That UK Advance Corporation Tax (ACT) should not be treated as a withholding tax. This issue has been successfully avoided. The French are likely to have a similar concern about their ACT-equivalent.

MAINPOINT OUTSTANDING

4. All member states accept that because Germany has a two-tier company tax regime (with a higher rate for retained profits than for distributed profits) it is right in principle that the Germans should be allowed to retain some part of their withholding tax to compensate for the difference between the two rates of tax. The question is, how much. The German position is that they are prepared to go as low as 15 per cent (the rate offered in their double taxation agreements), but no lower - and with no refund where the foreign parent distributes the dividend it has received. The German argument is that to go any further would mean putting a foreign parent of a German subsidiary at a competitive advantage compared to a German parent.

5. Matters rest with suggestions that the rate of withholding tax should be set at 15 per cent as a temporary measure; it would then be reconsidered within five years of the Directive's implementation. Alternatively other countries should in turn withhold tax from dividends paid to German parents.

UK ATTITUDE

6. We can accept a figure of 15 per cent or less (if one can be agreed). We have no objection to the matter being reviewed after a few years, provided we do not need to provide details of the proportion of dividends received from German subsidiaries which are redistributed by the parent. This is because the information obtained is not likely to be very accurate and so does not seem to warrant the amount of work involved in obtaining it.

7. The variations which allow a Member State to maintain a withholding tax on dividends paid to German parents appear to defeat the purpose of the Directive. They also seem an unnecessary complexity. However, provided the figure of withholding tax retained by the Germans does not exceed 15 per cent we have no objection to either of these if agreement cannot otherwise be reached.

8. There are a number of more detailed points which have been touched on in the Working Group, but which may not yet have been resolved to the satisfaction of all Member States. If any other Member States were to suggest that it would be helpful to look more carefully at technical points of this kind, we would support them.

SUBJECT: (IV) PROPOSAL FOR A DIRECTIVE ON THE
ELIMINATION OF DOUBLE TAXATION IN
CONNECTION WITH THE ADJUSTMENT OF TRANSFERS
OF PROFITS BETWEEN ASSOCIATED ENTERPRISES
(ARBITRATION PROCEDURE)

RELEVANT DOCUMENT: 7444/84, 7676/84

UK OBJECTIVES: The UK, in common with other Member States, is not enthusiastic about this proposal, and is unconvinced that an international arbitration procedure is really necessary: but, provided the details are got right, the UK is not opposed to the idea. Detailed discussions are continuing at Working Party level and we are prepared to work for a practical solution.

LINE TO TAKE: We can accept the compromise proposal in 7676/84 on:-

(i) Should the procedure be established by a Directive or by a multilateral convention signed by all Member States?

The UK and some other States doubt that the Commission has power to propose a Directive (there are worries about the precedent for extending the Commission's powers); and anyway questions whether a Directive is an appropriate instrument to set up and regulate a supranational body arbitrating between member States, since a Directive has to be implemented by member States individually and the arbitrating body has to be regulated by international agreement. For these reasons the UK is opposed to a Directive and favours a convention as is proposed in the compromise.

(ii) Should the European Court be able to review procedures and decisions of the arbitrating body?

The compromise is that the convention will not make any provision for jurisdiction by the European Court of Justice. This will avoid the European Court getting involved in the factual details of particular tax cases - which are a matter appropriate for national courts - and reduces the potential cumbersomeness and time delays which the arbitration procedure might create.

BACKGROUND:

This proposal was tabled in November 1976. There have been a number of meetings in Brussels to discuss the terms of a multilateral convention but it is difficult to get agreement between all Member States. The UK is willing to continue these discussions in the hope of producing an acceptable alternative to the draft Directive.

ECOFIN 11 FEBRUARY

PROPOSAL FOR A COUNCIL REGULATION ON THE EUROPEAN ECONOMIC INTEREST GROUPING (EEIG)

UK objective

On the tax aspects, to ensure

- (i) adequate provision for recovery of tax and social security debts of the EEIG;
- (ii) protection against use of the Regulation for tax avoidance.

Line to take

Useful progress has been made on this issue but details need to be got right. ECOFIN should postpone consideration of the tax aspects of the Regulation until after the working group meeting later this month.

Background

The draft Regulation would create a new form of international business organisation, intended mainly to enable smaller enterprises in different member states to co-operate in eg marketing or purchasing. M Delors attaches high importance to it; the general UK line is agnostic, while other member states are keen. The tax aspects of the proposal are due to be discussed at a working group meeting on 21 February.

In his minute to the Financial Secretary of 31 January, Mr Cayley (Inland Revenue) reported that some of ^{our} ~~the~~ ^{worries} ~~monies~~ on the tax avoidance potential of EEIGs (our main reservation about the proposal) had disappeared, although some remained. He proposed a line to take on this and other tax aspects of the proposal for the 21 February working group.



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: M F CAYLEY

DATE: 31 JANUARY 1985

1. MR TAYLOR THOMPSON
2. FINANCIAL SECRETARY

EUROPEAN ECONOMIC INTEREST GROUPINGS

1. There is to be a working party meeting at Brussels on 21 February to discuss the tax aspects of a proposed European Community Regulation creating a new form of international business organisation called a European Economic Interest Grouping. The background is set out in paragraphs 2 to 5 of Mr Draper's minute to you of 12 December 1983 (below). DTI are taking the general lead for the UK on the Regulation. This minute seeks your agreement to the line we propose to adopt in the February meeting.

2. There is now a lot of political pressure to push the Regulation through this year. All member States except the UK are keen on it (the general UK line is agnostic: neither DTI officials nor the UK business community see any need for this new type of business set-up). Jacques Delors,

→ Chancellor.
c Chief Secretary
~~Financial~~ Financial Secretary
Economic Secretary
Minister of State
Mr R I G Allen
Mr Fitchew
Mr Lord
Mr D Steel (DTI)

Mr Green
Mr Taylor Thompson
Mr Cayley
Mr Fawcett
Mr Hinson
Mr Campbell
Mr J F Hall
Mr Colmer
Mr Sadler
Mr Alpe
PS/IR

the new President of the Commission, attaches high importance to the Regulation. There is a general feeling that, if Brussels discussions spill over into 1986, the advent of Spain and Portugal to the arena will result in serious delays. Other member States are, DTI tell me, rapidly dropping detailed objections to particular aspects of the Regulation in the interests of fast progress. DTI tell me that there are a fair number of minor UK reservations on some of the details of the Regulations, but they are not sticking-points and, because of the political pressure, the UK is unlikely to press them to the end.

3. The tax issues relate to:-

(i) recovery of tax

(ii) who should be liable on grouping profits

(iii) tax avoidance.

(i) Recovery of Tax

4. Mr Draper's minute below sought your approval to our pressing for adequate provision for recovery of tax and social security contribution debts of a grouping. After consulting the Economic Secretary, you endorsed the line Mr Draper proposed - relevant papers are attached. We intend to stick to the agreed line.

(ii) Who should be liable on grouping profits?

5. In the absence of special provision, it is uncertain whether in UK tax law it would be the grouping itself or its members which were liable to tax on any profits made by the grouping. This is because there is no exact parallel in the UK to a grouping.

6. Clearly it is sensible for member States to have a common approach on this. The draft Regulation envisages that liability should fall on the members, not the grouping itself. We can go along with this. Indeed, taxing the members rather than the grouping is helpful: it gives some protection against some of the ways in which groupings could be used for tax avoidance.

(iii) Tax Avoidance

7. A major anxiety for us has been whether the grouping would turn out largely to be (from the UK viewpoint) a tax avoidance vehicle. We know that there is scarcely any commercial interest in the UK in setting up groupings; some representative bodies have said openly that the only possible value they see in groupings is for tax avoidance; and we have been warned by contacts in the City that tax planners have had their eye on the Regulation for off-the-peg avoidance schemes.

8. One of the provisions in the Regulation is that, if a grouping makes a profit, that profit is to be attributed to the members in the proportion stipulated in the deed setting up the grouping. If this rule applies for taxation, it will be an open invitation to tax avoidance, with artificial arrangements for profit allocation being used for a tax advantage. So the Regulation must be amended to make it clear that normal tax rules apply when determining each member's share of taxable profits. Earlier discussions with officials of the Commission and other member States suggest that they recognise the dangers and will agree to this.

9. A second point which has bothered us is the tax haven angle. Until recently we had thought that the territorial scope of the Regulation would include Gibraltar, Andorra, Monaco and San Marino - all of them tax havens - and we feared that this could give scope for the use of groupings

to place income out of reach of the tax authorities. We have ~~first~~^{just} been advised by European Commission and FCO lawyers that in fact only Gibraltar of the four tax havens will be within the scope of the Regulation. This significantly lessens the dangers.

10. There would generally be difficulties in cutting Gibraltar out of the Regulation:-

(i) there would be clear embarrassment at a time when Spanish accession to the Community is being negotiated;

(ii) once Spain joins, it would look silly to cut Gibraltar out but allow Gibraltarians^{to} walk a few hundred yards over the Spanish border to join a grouping; and

(iii) the UK is pressing Gibraltar to fulfil some of its obligations to implement a number of existing Community Directives: to exclude Gibraltar from the Regulation would be embarrassing in this context too.

11. We have therefore concluded that we should accept that the Regulation will extend to Gibraltar.

12. There remains the question of whether the nature of the grouping set-up would open up major and worrying avenues for tax avoidance. We have no doubt that some people will use groupings for tax avoidance - to divert income and profits out of our reach - but in principle much the same opportunities are now available with eg international partnership. In due course we shall need domestic legislation to spell out some details of the tax regime for groupings, and in this we shall have to ensure that existing defences against avoidance apply to groupings and their members. There is nothing in the Regulation to stop us doing this.

13. In short - assuming the rules on allocating grouping profits are sorted out - the Regulation will offer opportunities to tax planners; but they will be opportunities of a kind which we already face with existing types of business arrangement. There may be a case for suggesting that the Community should not be creating a new type of business organisation that can be exploited in this way: but, with other member States keen on the idea of groupings, we cannot, I think, claim that the Regulation would create any new risks to the Exchequer which would justify the UK blocking its passage.

Summary

14. At the 21 February meeting in Brussels we propose:-

- (i) to follow the previously agreed line of attempting to ensure adequate provision for tax recovery;
- (ii) to endorse the proposal that any tax liability on grouping profits should fall on the members rather than the grouping itself; and
- (iii) to ensure that the provision that grouping profits are to be allocated to members according to the grouping deed does not run for taxation.

15. I would be grateful to know if you are content for us to proceed on this basis.

Michael Cayley

M F CAYLEY

Scc



FROM: A P HUDSON

DATE: 23 December 1983

MR DRAPER - IR
 CC Mr Isaac
 Mr O'Leary
 Mr Cayley
 Mr Hodgson
 Mr Wilson



cc Chancellor
 Chief Secretary
 Economic Secretary
 Mr Allen
 Mr Lord
 PS/C&E
 PS/IR

COLLECTION OF TAX: EUROPEAN ECONOMIC INTEREST GROUPING

1. The Financial Secretary has seen your 12 December minute, on which he asked for the Economic Secretary's comments, now recorded in Mr Kwiecinski's 21 December submission.

2. In the light of the Economic Secretary's view that we should not try to block the Regulation, he agrees with the line you propose. He is grateful to you for keeping him in touch with this.

A P HUDSON

→ Mr Aep

5cc.



FROM: E KWIECINSKI
DATE: 21 December 1983

PS/FINANCIAL SECRETARY

cc Mr Isaac

Mr O'Leary

~~Mr Cayley~~

Mr Hodgson

Mr Wilson

cc PS/Chancellor

PS/Chief Secretary

Mr Allen

Mr Lord

PS/C&E

~~PS/IR~~

Mr Draper - IR

COLLECTION OF TAX: EUROPEAN ECONOMIC INTEREST GROUPING

The Economic Secretary has seen your minute of 15 December and Mr Draper's submission of 12 December.

He doubts whether we should go as far as to consider trying to block the Regulation.

UK
E KWIECINSKI

10 wags
T. O'Leary
A. H. H. H.
G. Hodgson
H. Wilson



FROM: A P HUDSON
DATE: 15 December 1983

PS/ECONOMIC SECRETARY

cc Chancellor
Chief Secretary

Mr Allen
Mr Lord
PS/C&E
PS/IR
Mr Draper - IR

COLLECTION OF TAX: EUROPEAN ECONOMIC INTEREST GROUPING

1. The Financial Secretary has seen Mr Draper's 12 December submission.
2. The Financial Secretary thinks we cannot let this EC idea pass. It is clearly right that we should try to prevent the introduction of new Regulations which have the potential to stop us gathering taxes which are properly due. Indeed, he wonders if we should go further than ^{Mr} Draper's minute contemplates and, if unsuccessful in negotiation, consider trying to block the Regulation.
3. The Financial Secretary will be grateful for the Economic Secretary's views in the light of his EEC responsibilities.

A handwritten signature consisting of several vertical strokes and a horizontal line at the bottom.

A. P. HUDSON



Mr Allen
To file please
12/12

From: D G Draper

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

12 December 1983

- For 12.12.83*
1. MR O'LEARY
 2. FINANCIAL SECRETARY

COLLECTION OF TAX : EUROPEAN ECONOMIC INTEREST GROUPINGS

1. We would be grateful for guidance on the line to be taken in Brussels on the provisions of a draft EC Regulation which once passed would govern the recovery of tax from the members of a "European Economic Interest Grouping" (EEIG). The taxation aspects of the Regulation are due to be discussed by a Working Party of the Council of Ministers in January.

Background

2. A Commission proposal to create a new form of business organisation to be known as an European Economic Interest Grouping has been around for some 10 years. A Council Working Party began detailed consideration of the proposal in 1981 and under the Greek Presidency the work has been pushed ahead. The French, who also support the proposal, have said that their Presidency would aim to complete work on the Regulation by June 1984. The

cc Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Mr Allen
Mr Lord
PS Customs & Excise

Mr Isaac
Mr O'Leary
Mr Draper
~~Mr Cayley~~
Mr Hodgson
Mr Wilson
PS/IR

proposal would then go to the full Council. This timetable is almost certainly unrealistic but the Regulation is likely to reach the Council within the next 12/18 months.

3. An EC Regulation, unlike a Directive, is directly applicable law in all Member States. The precise wording is thus particularly important. It may be possible to supplement the Regulation by domestic legislation but this right has not yet been secured. DTI say that supplementary legislation would be essential in their field and some Finance Bill legislation also seems necessary.

4. Prima facie this proposal is only of minor importance. The basic idea is that 2 or more persons (companies or individuals) in different Community countries should be able to club together to form a non-profit making body to provide ancillary services such as packaging or marketing for its members. The proposal is based on the French "Groupement d'Intérêt Economique", a form of partnership introduced in France in 1967. DTI have put out 2 Consultative Documents on the proposed Regulation. There is very little positive interest on the part of the UK business community although there is said to be some interest in the professions.

5. There appears to be no compelling need to create another new type of business organisation. The case for the proposal is that it provides a way round restrictions placed on companies under the laws of some continental countries. Because other Member States say they see a need for EEIGs (or perhaps do not feel strongly enough about the proposal to oppose it) the draft Regulation is likely to be adopted as community law at the end of the day. The UK delegation from the DTI more often than not find themselves on their own in seeking to modify the Regulation and have been attacked by the Commission for dragging their feet. The House of Lords Select Committee on European Community proposals is currently examining the text of the proposed Regulation. The Committee has expressed concern that the draft Regulation appears to be defective in a number of respects. Their legal adviser has in particular mentioned the possibility of tax evasion.

Taxation Aspects

6. The draft Regulation does not include any detailed rules on taxation. The normal rules in each Member State for the computation of profits and double taxation relief will therefore apply. The one tax provision in the draft is that the tax liability on any profits of an EEIG should fall on the members individually, who would be subject to income tax and corporation tax on their share of the profits; in effect an EEIG would be a partnership. This would, we understand, be the position in most other Member States. Under UK law however an EEIG would probably be taxed as an unincorporated association. It seems sensible to have a common Community wide rule on who should be liable to tax. Provided that in other respects the normal tax rules apply there are unlikely to be major problems for the UK in treating EEIGs as partnerships for tax purposes. For non tax purposes DTI may want to treat EEIGs as unincorporated associations.

7. Our main worry is on the collection front. Although EEIGs are unlikely to have significant taxable profits, their PAYE/NIC liabilities could be quite large. An EEIG can have up to 500 employees. As the Regulation stands any tax and NIC debts incurred by an EEIG here would be recoverable only against assets in the United Kingdom. This is because our Courts have ruled that a fiscal debt is not enforceable outside the country in which it arises. This rule does not however apply to VAT. VAT debts can be recovered in other Member States under the terms of a VAT Directive. Provision for this here was made by the 1977 and 1980 Finance Acts.

8. The recovery risk we and DHSS would run if the Regulation is adopted in its present form is no greater than the risk run with any business controlled from abroad. On the other hand it seems wrong that the Community should create a new type of business organisation without ensuring that Member States' tax debts are recoverable. Other Member States have so far shown no enthusiasm for amending the Regulation to provide for the recovery of tax and NIC. The view that most of them seem to take is that the recovery of tax is best left to domestic law or to bilateral or

multilateral arrangements. A number of Member States already have bilateral arrangements for recovery of each others' taxes; the United Kingdom does not.

9. There are two proposals afoot which if they come to fruition would reduce the risk of tax loss from EEIGs. The draft EC Bankruptcy Convention provides, in insolvency proceedings, for tax debts to be recovered throughout the Community on an equal footing with other unsecured debts. Also, the Council of Europe have under consideration a draft Multilateral Convention on Mutual Assistance which inter alia provides for tax authorities in one country to recover the debts of authorities in other signatory States. It may however be many years before either of these proposals takes effect. Quite a lot of work still remains to be done on the drafting of the Bankruptcy Convention and all Member States would have to ratify the Convention before it became community law. The Germans are in any case not keen on the proposal. As far as the Council of Europe Multilateral Convention is concerned a decision has yet to be taken on whether the United Kingdom will adhere to it and if so whether it will give assistance in recovery of tax (signatory States can opt out of this) - we shall be consulting Ministers on this Convention in due course. It would therefore be unsafe to rely too much on either of these proposals to safeguard EEIG tax and NIC.

Conclusion

10. It seems a pity that the EC are contemplating legislation which presents problems for us and for which the business community here apparently sees no real need. Given however that this is the case, it seems only reasonable that if the Community proposes to change the laws of Member States to facilitate cross-frontier business activity it should safeguard their tax liabilities. When VAT was imposed on Member States by the Community steps were taken to protect revenue which could have been lost by the rule which prevents the enforcement of foreign fiscal debts. Although for Inland Revenue taxes and NIC this

rule still applies the principle of cross-frontier tax collection is being accepted in the context of the Bankruptcy Convention. We think we should make a further effort to persuade other Member States to amend the EEIG Regulation to provide for tax recoveries. DHSS at official level share this view. Doing this would not mean that we had to accept the principle of cross-frontier tax collection in the Multilateral Convention. Different considerations apply to that Convention. If we cannot get the point accepted it does not however seem worthwhile putting up a major fight. The amounts at risk are unlikely to be large and the FCO are unlikely to allow us to block progress of the Regulation even if we wanted to do so. We should be glad to know whether or not you agree with the line proposed.



D G DRAPER

ECOFIN, 11 FEBRUARY

Subject: STRENGTHENING THE EUROPEAN MONETARY SYSTEM

Relevant documents: Communication from the Commission to the Council and draft Council Resolution on developing the EMS (11074/84). Attached for Mr Unwin only,

UK objective: Ministers to confirm decision taken at 10 December 1984 ECOFIN to refer Commission's draft resolution back to the Monetary Committee and the Committee of Central Bank Governors. In any exchange of views over lunch, you may wish to draw on the following points.

Points to make:

- (i) welcome measures to strengthen EMS.
- (ii) particularly important to get real progress in liberalising capital movements.
- (iii) Commission's proposals on convergence, financial integration and ECU broadly sound. BUT important to ensure we adopt best possible options, so welcome referral back to experts on Monetary and Central Bank Governors' Committees for further careful study.
- (iv) content with proposal to explore combined use of medium term financial assistance and community loan mechanism; but our view that in general community loan mechanism will be best option.
- (v) guidelines for the future raise important questions but need for further study. IF PRESSED on UK participation in ERM : have always said matter is kept under review. We will join when we judge that the balance of economic and political argument favours it. 7

BACKGROUND NOTE

This item will consist of an exchange of views over lunch led by Delors, who wants to explain his own ideas for strengthening the EMS. Delors also envisages a lunch time discussion about the international economic and financial situation (separate briefing provided).

2. This topic came up at the 10 December 1984 ECOFIN, in the form of the Commission's draft Council Resolution on strengthening the EMS, which contains proposals closely related to the package of measures which the Committee of Central Bank Governors and the Monetary Committee had been working on following the Delors initiative at Rambouillet in May 1984. The Commission tabled it in an attempt to pre-empt that work and force the pace. But the Finance Ministers in turn reasonably concluded that many of the proposals, while in general sound, required further careful study. They agreed that ECOFIN should discuss the proposals again in due course, when the Monetary and Central Bank Governors Committees had reconsidered them.

3. Since the ECOFIN meeting, only the Central Bank Governor's Committee has met* - the next Monetary Committee Meeting is fixed for 21 February. Although it is far from clear when the matter will be referred back to ECOFIN, it is likely that the Commission will want to make fairly swift progress.

4. The Commission's Resolution had four substantive sections:-

(i) Strengthening convergence, through more rigorous surveillance of Member States' macro-economic policies.

(ii) Financial integration, entailing some further liberalisation of capital movements.

(iii) The public and private ECU.

*The meeting did not discuss strengthening the EMS, and it is not on the agenda for the 12 February Meeting.

(iv) Guidelines for the continued development of the EMS, including sterling's participation in the ERM and extension of the MTF for specific convergence purposes.

Delors gave some clues to the line he will want to take in his statement to the European Parliament on 14 January 1985, as follows:- (copy of relevant extract attached)

(a) He mentioned the importance of economic convergence, or "consistency", but stressed the need to keep sight of the Community's "diversity". He saw convergence involving each member using "its margin for manoeuvre to stimulate growth for all".

(b) He favours a "controlled extension" of the public and private ECU, but sees a "real Community currency" as too ambitious a goal for his four-year term. A growing private ECU market would need shielding from "dangerous speculation". Central banks should be enabled to diversify their reserves from dollars into the "official ECU".

(c) His only statement on the ERM was that it had been an area of "relative calm" surrounded by wide and sudden exchange rate fluctuations.

5. Statement by President of the Council: You may wish to be aware that Andreotti made a statement on the EMS to the European Parliament on 16 January 1985 (copy attached). It constitutes a very uncritical summary of the Commission's proposals.

Extract from Delors
statement to E' Parliament

14/1/85

The job of the Community is to sustain those activities which are essential to meet needs and maintain human and natural balances. It intends to remain a leading agricultural power: this is essential for its autonomy, the strength of its trading position and its political standing.

The same is true of the future of the ECU and the European Monetary System. Nobody would now deny that in five years the EMS has proved its worth. Nobody would now deny that, for all its members, advantages have outweighed any drawbacks and constraints. ...The EMS has been an area of relative calm in a sea agitated by the wide and sudden fluctuations of currencies. It has helped trade to develop and permitted growth in the private use of the ECU.

A real Community currency will not be one of the objectives of my four-year term. I am too well aware of the fundamental problems and technical complexities of monetary questions to make any promises on this. However, I do believe that a substantial strengthening of monetary cooperation and a controlled extension of the roles of the official and the private ECU are both possible. The Commission will propose a method to make progress in this in the light of the lessons learnt from the two abortive attempts of recent years, in which I, for one, was closely involved.

For the moment, I will confine myself to asking a number of questions, which I would like all of you - even the least enthusiastic - to consider.

1. Suppose the growing interest in the private ECU takes on even vaster proportions, as happened with the Eurodollar. Do you not think that this would impose responsibilities on the countries which set up the EMS? Would they not have to take steps to shield the private ECU from unfair and dangerous speculation and to ensure healthy conditions for its growth, in the interests of

How?

monetary policy and sound management of the banking system?

2. If you consider, as I do, that the burden placed on the dollar is too great, should not the Community introduce a currency, the official ECU, which would enable the central banks to diversify their reserves? This is no doubt a technical point but it is one which calls for political will. Is Europe prepared, by supporting a reserve currency, to share the global burden of monetary management with the United States? If it were to do this, would it not be in a stronger position to ask Japan to take its share of the load and persuade the United States to introduce the internal discipline which would make for relative stability on foreign exchanges and a more balanced distribution of savings and financial flows?

NO!

3. A strengthened EMS, seen as one of the keys to progress past and of progress still to come, could re-open the path to economic and monetary union mapped out by the Werner Report almost fifteen years ago. In this way the monetary approach, regarded by many as dangerous or sophisticated, would stimulate growth and create jobs. What a triumph if the Community could demonstrate that monetary stringency and the fight against unemployment go hand-in-hand.

clear

This brings me back to the fight against unemployment. I have spoken at length about its structural aspects and the need to adapt available production capacity through the larger market and industrial cooperation. This does not mean, however, that we should neglect short-term factors. Once again, Europe's credibility depends to a large extent on turning the tide of unemployment.

Here, too, consensus must be sought. Economic convergence is a positive factor, greatly assisted by the existence of the EMS. But it is no less true that convergence has contributed to the success of the EMS, and this is a way forward which should be pursued. But to what purpose? And by what means? We have to agree on what we mean by convergence. If I were not afraid of spreading confusion, I would happily substitute the idea of consistency. If inflation is to be beaten, if external imbalances are to be corrected and if efforts in this direction are to be maintained, we must not lose sight of the reality and diversity of the Community.

Any attempt to harmonize models of growth and regional development in northern and southern Europe would be an affront to consistency. Development must be planned and carried out using the human and natural resources of each of the Member States. This, to take but one example, is what lends the integrated Mediterranean programmes their importance, since they are designed to make the most of existing resources and skills. In our joint striving for stringency and fresh approaches, let us seek to profit from our diversity, in which lie our riches.

Similarly, it would be an affront to consistency if, speaking in cost-benefit terms, we disregarded the prospects which the common market opens up to countries which have traditionally lived by exporting. It must be said frankly that this is where looking at the Community in purely budgetary terms will lead us. We have to take all factors into account when seeking to find the balance of advantage. As Roy Jenkins said: "The Community ... can create and give more than it receives, but only if the Member States, peoples and governments alike, have the

vision to ask what they can contribute, and not just what they can get."

We shall keep these considerations at the front of our minds when the problem of adapting the Community's budgetary and financial resources to its desired objectives has to be posed in realistic and balanced terms. This deadline is closer than some people think because, as the outgoing Commission constantly stressed, a balanced and efficient Community cannot be built on a VAT rate limited to 1.6%. I construe this as meaning that we must strike a balance between our ambitions and our resources, applying the principles of sound management to all types of expenditure. But we must also answer the following question: in certain cases would not an extra ten ECU in the Community budget have a greater multiplier effect than an extra ECU in the budgets of each of the ten Member States? Indeed, this seems to be one of the key ideas underlying the approach adopted by Parliament to justify the draft Treaty on European Union: what is known as the subsidiarity principle.

Finally, it would also be an affront to consistency if each country took financial and monetary austerity to the extreme and expected to secure its salvation, that is a return to a higher growth rate, solely from increased sales to its partners. You cannot escape drowning by climbing onto the back of a drowning man. We will all sink or swim together.

That is why the real contract which the Community offers is for each member to use its margin for manoeuvre to stimulate the growth of all. This will offer benefits in return because a positive synergic effect

ugh!

Statement by Mr. G. ANDREOTTI,
President of the Council of the Communities,
before the European Parliament on 16/1/85

(Extracts)

.....

In the framework of action designed to ensure a coherent and coordinated economic strategy for Europe, the Italian Presidency will be paying particular attention to the revival of monetary and financial cooperation.

This means, first and foremost, strengthening the convergence of the Member States' economic policies - along the lines set out in a recent Commission report - through, among other things, a reinforcement of Community surveillance procedures.

It also means proceeding gradually towards a greater liberalization of capital movements, so as to achieve a more closely integrated European capital market - without ignoring the obstacles still existing in certain Member States.

Finally, it means promoting the expansion of both the public and the private use of the ECU.

These three lines of action are part of a wider strategy for the development of the European Monetary System and the process of financial integration.

We are, indeed, aware that we shall very soon have to deal with some of the crucial problems still impeding progress in this direction : the inclusion of sterling and, at some stage, the drachma in the EMS exchange rate mechanism; the harmonization of fluctuation margins; the elimination of barriers to the free movement of ECUs on private markets, and the recognition of the ECU in all Member States as a foreign currency.

.....

US
UK

ECOFIN, FEBRUARY II

Subject: International Economic and Monetary Situation

Points to make

(i) Economic growth likely to slow this year as growth in US and Japan lessens with no acceleration in European activity. Prospects for world activity uncertain and threatened by possibilities of renewed rises in US interest rates.

(ii) Disappointing US budget proposals for fiscal 1986, fail to tackle problem convincingly. Threat from unsustainable deficits and pressure on dollar undiminished. Concerned that major opportunity missed. Remains important to maintain pressure on US Administration and Congress, to take firmer action, including raising taxes if necessary.

(iii) With uncertain economic prospects, particularly important for Europe to maintain counter-inflationary policies. Best defence against higher US interest rates. Further efforts needed to improve supply side performance by reducing structural impediments to growth particularly in labour markets.

Background

Output growth in the major countries is expected to slow from 5 per cent in 1984 to 3½ per cent this year. US growth picked up a little at the end of last year and most forecasts see output rising by 3½ per cent in 1985 though European growth is still put around 2½ per cent, broadly the same rate as last year. European unemployment is set to rise further to perhaps 20 million this year. Consumer price inflation might decline a little further with oil and commodity prices remain weak.

Growth and Inflation

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
G7 GNP growth	2½	5	3½	3
US	3½	7	3½	3½
Europe	1	2¼	2½	2½
G7 consumer prices inflation	4½	4½	4	4
US	3½	4½	4½	4
Europe	7¼	6¼	5½	5
Growth in world trade in manufactures (UK wghts)	1½	10½	5¼	4½

2. The dollar has continued to strengthen to record levels. Recent perceptions that the Fed may be tightening policy - together with the US Treasury's large funding programme and the fact that the Budget proposals were even weaker than expected - have added to the upward pressure. Most expect US interest rates to rise again this year.

3. Current account imbalances are expected to worsen despite more moderate growth in the US. This reflects in part the strong dollar and the relative weakness of the yen (helped by sizeable capital outflows) and continuing weak growth

in Europe. The improvement in debtor countries' external position is likely to be maintained but some areas are still at risk.

Current account balances (\$bn)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
US	-42	-107	-128	-138
Japan	21	30	40	50
Germany	4	4	17	31
NODCs	-41	- 21	- 27	- 29

4. President Reagan's fiscal 1986 budget asks for a one year selective freeze which would yield expenditure cuts of \$50bn in fiscal 1986 rising to \$195bn in 1988. He reportedly refers to it as the most exhaustive effort ever made to rein in the Government's chronic overspending.

5. The cuts proposed in planned defence expenditure leave real growth of 6 per cent next year (twice the UK figure). Most other programmes are either frozen or cut in real terms. Particular examples include; reduced farm price support, reduced subsidies to Amtrak, ending the small business loan programme, curtailing the Ex-im bank's activities, raising Medicare and Medicaid spending by less than inflation, cutting Federal pay by 5 per cent and general Administrative non-defence costs by 10 per cent. In keeping with the election pledge social security is exempt from the cost of living freeze. No major tax changes are planned though user fees will be raised. Contrary to early indications, the President has not given any medium term deficit reduction commitment.

6. The deficits, now projected up to 1990, are slightly higher than previous official forecasts partly because of slower than expected growth in the second half of 1984. Off-budget items have also been included in the main total for the first time. Underlying economic forecasts of 4 per cent a year growth, declining inflation and interest rates

are much too optimistic. They lead the Administration to forecast that without cuts the deficit would stay around \$220bn in 1990 in contrast to the CBO's more realistic economic assumptions which yield a figure of \$300bn. For the current 1985 fiscal year, the budget deficit is put at around \$222bn, 5½ per cent of GNP. The Administration's estimates are:

<u>Federal Deficits</u> (\$bn)	<u>Fiscal (starts 1 October of previous year)</u>			
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1990</u>
On current services	230	246	248	224
Per cent of GNP	5½	5¼	4¾	4e
After budget cuts	180	165	144	82
Per cent of GNP	4¼	3½	2¾	1½e

7. Congress is most unlikely to accept the President's proposals in their current form. Larger reductions in the defence program (and possibly greater revenue - which Volcker has recently supported) will be needed if Congress is to consider seriously both the coverage and scale of the proposed non-defence cuts. Senate Republicans and House Democrats are producing their own budget measures. Some expenditure reductions may eventually be agreed for next year but probably a good deal less than the President's \$50bn and with a different composition. Even with this agreement deficits would still remain in the \$200bn or so range over the medium term.

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SUBJECT: EUROPEAN INNOVATION LOANS

UK Objectives

To discourage any further discussion of any form of European Innovation Loans scheme involving subsidies and/or guarantees.

Fall-back [If necessary]

To suggest that the EIB should be invited to consider whether it could do more lending at market rates of interest in support of venture capital companies.

Points to Make

(i) There was exhaustive discussion of possibilities in this area last year. Further work unlikely to be fruitful.

(ii) All agreed on importance of innovation in promoting the Community's economic recovery and in ensuring that artificial obstacles to the financing of innovation are removed.

(iii) But question is how best to make progress on this. UK view is that, if there are hindrances to the financing of venture capital projects, solution lies in the individual Member States ^{to liberalise} to liberalise and so improve the functioning of national capital markets, eg by removal of exchange controls. If that is done, there will be nothing to prevent trans-national syndication financing of venture capital operations. Every reason to suppose the private sector will be ready to respond, eg recent setting up of European Venture Capital Association.

(iv) But UK view remains, as in June, that subsidising or guaranteeing risky venture capital projects is neither necessary or appropriate at the Community level. This does not mean the Community has no role to play in encouraging innovation. Community support for R & D projects at the

pre-competitive stage (eg ESPRIT and the programmes agreed at the December Research Council) is appropriate and justified. But any subsidised scheme along the lines we discussed in June will either ~~be~~ put ^{money} into projects which would have taken place anyway or expose the Community to an open-ended guarantee ~~of~~ ^{on} highly risky projects which the market has rejected. Could not therefore agree to a scheme along those lines.

BACKGROUND

Vice-President Narjes wrote to you on 21 December in effect inviting you to reconsider your position on the question of European Innovation Loans (EILs). A copy of his letter and your reply are attached at Annex A. Annex B briefly summarises last year's Commission proposals and the position reached in last June's ECOFIN Council.

2. Our objective is to dissuade the Commission from putting forward a new set of proposals which we would once again have to veto. As well as the objections of principle there is a public expenditure aspect to all this. DTI, understandably, are most reluctant to consider any new proposals from the Commission unless you could give them an advance assurance that, in the event of a scheme being agreed by ECOFIN, you would agree to a corresponding increase in their Euro-PES provision. With this in mind Mr Tebbit continues to argue that any scheme of this kind would be totally inappropriate.

Fall-back Position

3. We have again considered whether there is any reasonable fall-back position. Our judgement is that any scheme put forward by the Commission is unlikely to be acceptable to us, since as Mr Narjes made clear in his letter it is likely to involve some element of subsidy or guarantee.

4. However, if you wish to strike a more positive note in the ECOFIN discussion, we have two suggestions. First, you could go along with any suggestion that the Commission should make a comparison of the arrangements for financing venture capital/high technology projects in the different Member States to see what obstacles exist and what measures of liberalisation at the Member State level might be appropriate.

5. Second, if there is strong support in the ECOFIN Council for the Community to be seen to make some contribution to

financing venture capital projects, you might suggest that the Council should invite the EIB to consider whether it could do more lending at market rates of interest to support advance technology projects and/or venture capital companies. (It already lends on a small scale for advance technology projects). We are not particularly enthusiastic about the EIB lending to venture capital companies, except as a last resort. You would need to make it clear such lending would be in substitution for, not in addition to, any Commission proposal; that the EIB would have to lend at market rates of interest without any form of subsidy and with the guarantee being provided (as is usual with EIB operations) either by a commercial bank or by the Member State or States on whose territory the projects were sited. You could argue that, if guarantees are to be given at all, then a guarantee at the Member State level seems more appropriate in the case of lending to high-risk projects of this character. You would need to make it clear that any final decision on whether to proceed would have to rest with the EIB itself.

KOMMISSION
DER EUROPÄISCHEN GEMEINSCHAFTEN

RUE DE LA LOI 200

1049 BRÜSSEL, DEN

21 December 1984

KARL-HEINZ NARJES
MITGLIED DER KOMMISSION

CHEQUE
- 8 JAN 1985
MR FITCHEW
CST, FST, MST, EST
SIR P MIDDLETON
MR LITTLEP
MR LINWIN
MR MORTIMER
MR HOPKINSON
MISS BARBER

MISS EDWARD
MR ANDREN
MR LOVELL

Crix Registry

Dear Mr Lawson,

When the proposal "Towards Community financing of innovation in small and medium-sized enterprises" was discussed by the "ECOFIN" Council on 4 June, you did not feel able to abstain from a negative vote and so allow a unanimous decision. In explaining your position, you put weight - if I understood correctly - on four arguments.

The first was that of "subsidiarity": the Community should not do what the Member States individually can. However, the Member States' capacity to act is not by any means complete or uniform. There may be financial, technical or political reasons for inaction; and, in the interests of sufficient economic convergence, a Community action then becomes necessary to advance the weaker or lagging Members relative to the strong. In any event, Member States, taken individually, cannot tackle the transnational element of the problem.

The second was that ordinary market forces should bring about the needed result; if they cannot, something is wrong; and a subvention through the Community budget is not the way to put it right.

The Rt. Hon. N. Lawson MP,
Chancellor of the Exchequer,
Her Majesty's Treasury,
Parliament Street
London SN1P 3AG

I put aside the considerable subventions currently available in this precise area from the American government and Member States of the Community including your own, without pronouncing on the legitimacy of these last in a Community devoted to fair competition. Even then, the basic argument would require that the collective and all too short term private interests which determine the market correspond to the overall and long term public and Community interest. Neither hypothesis is true, particularly as concerns transnationally syndicated venture finance. This shortcoming is particularly important because, if we are ever to have a satisfactory venture finance situation for new technology and innovation addressing a European market, it will have to involve transnational syndication to provide optimal back-up for the new ventures. This will also put the powerful thrust of common financial interest behind the opening of markets.

As a third argument, you, yourself, at the Council, recognised the transnational dimension of the problem by calling for action to free the flow of capital across national boundaries. Of course, the Commission does and will continue to do everything possible to free capital movement; and the adhesion of the UK to the EMS would help. But it will take time for which innovation cannot wait. Meanwhile, given today's range of problems involved in combining efforts across borders, the Community as a "neutral" partner could very obviously help in an increasing number of cases to bring such syndication about.

Moreover, if Community-backed, such syndicated venture funding could preferentially act in cases where a new technology development was requested and co-funded by a transnational group of customers or alternatively was to be developed by a transnational group of enterprises or other institutes, thereby further contributing to the opening of the technology market.

A fourth argument put forward from the British side was derived from your early experience with your Loan Guarantee Scheme and its cost. Let me make it clear that we have never contemplated simply

another guarantee scheme for loans but were targeting cost- and risk-sharing with capable and responsible national venture finance partners; both American and burgeoning British experience has shown that well-managed and, especially, well-syndicated venture capital operations should be highly profitable as a rule, even though individual projects be "high risk".

The situation in the Community, both of venture finance and of technology partnership, has evolved since June. As a result, I feel that a revised Commission proposal, addressing itself specifically to the problems of

- convergence between Member States in the availability of venture finance structures,
- the advancement of transnational syndication in venture finance,
- the financing of new technologies in a Community market context,

and without significant subventional content would now be appropriate and I suppose would correspond to the UK's acceptance of Community solidarity and its interest in opening up the market for exporting both its venture finance expertise and other technologies.

I would not, for my part, wish to see the United Kingdom again isolated on an issue which, clearly, the other nine partners feel is appropriate for common action and with which they might wish to go ahead outside the Community framework.

Because the question bears upon several sectors - industry, technology, internal market - I am addressing copy of the present letter to Sir Geoffrey Howe.

Yours sincerely,

W. G. Young



cc CST
FST
MST
EST
Sir P Middleton
Mr Littler
Mr Unwin
Mr Monck
Mr Mortimer
Mr Hopkinson
Mr Shaw
Miss Barber o/a
Mr Andren
Mr Donnelly
Miss Edwards
Mr Fitchew

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4 February 1985

Vice-President Karl-Heinz Narjes
European Commission
Rue de la Loi 200
1040
Brussels

Karl-Heinz Narjes

Thank you for your letter of 21 December. I am sorry not to have replied sooner (though your letter was not in fact received until 7 January). The delay does, however, give me the opportunity to offer my heartiest congratulations on your appointment as Vice-President of the Commission and my best wishes to you in your new responsibilities.

We are both agreed on the important of innovation by small and medium-sized enterprises for the Community's economic recovery and of ensuring that any artificial obstacles to the financing of innovation projects, are removed.

There is, I think, a good deal of common ground between us on the conditions necessary for encouraging innovation; but also some points of difference.

We are agreed on the desirability of liberalising capital markets and removing barriers to capital movements throughout the Community. I welcome your assurance that the Commission will do all it can to achieve progress in this respect. But this need not take a long time to achieve. British and, I believe, Danish experience suggest that there is much to be said for rapid and decisive action to remove exchange controls. Nor do I see how UK participation in the Exchange Rate Mechanism in addition to the other aspects of the EMS, in which we play a full part, is relevant to the obligations placed on Member States by the Treaty, to allow freedom of capital movement within the Community.

I accept that there may also be a case for greater convergence between Member States on the availability of venture finance from national capital markets. A Commission study of this question would, I am sure, be valuable - though I hope that harmonisation for harmonisation's sake would be avoided.

Both of us would like to see the development of trans-national syndication in the venture capital markets, as an element in flows of private capital within the Community. In this connection I very much welcome the establishment of the European Venture Capital Association.

Where I suspect we may part company is over the question of Community budgetary funding or guarantees for venture capital projects. Subject to the constraints of budgetary discipline, the Community Budget certainly has a part to play in encouraging new technologies at the R & D stage and agreement has been reached to provide substantial Community finance over the next few years



towards ESPRIT and the other R & D programmes adopted at last December's Research Council. But, as I made clear in the ECOFIN Council last June, I am not persuaded that there is a case for subsidies and guarantees for venture capital projects at the Community level as envisaged in the Innovation Loans Scheme under discussion last year. As you rightly say in your letter, experience shows that well-managed venture capital operations should be highly profitable. That being the case, the probability is that Community Budget participation would either go to finance projects which would have taken place anyway or will lead to the Community being exposed to a costly and open-ended guarantee commitment on projects which the market has found too risky.

I would, of course, consider most carefully any new proposals if the Commission decide to put them forward. But I could not encourage you to promote any scheme involving budgetary subsidies or guarantees along the lines of last year's proposal and I do not think that there is much to be gained by a further round of discussion on these lines in ECOFIN.

I am sending a copy of this letter to Geoffrey Howe.

NIGEL LAWSON

in formal
Nigel Lawson

COMMISSION PROPOSALS JUNE 1984

This annex briefly summarises the position reached in discussions prior to the June 1984 ECOFIN Council.

2. The main features of the Commission proposals at that time were as follows:

- (i) loans up to a ceiling of 100 MECUS;
- (ii) EIB ~~to~~ manage the scheme
- (iii) loans to be made to intermediaries who would have choice either of passing them through as loans to the ultimate borrower matched by loans on similar terms and equivalent amounts on intermediaries own account (transmission) or passed on in the form equity again matched by a similar subscription by the intermediary (transformation);
- (iv) all loans to be subject to a guarantee premium of 1 % (as compared with 5% for UK Loan Guarantee Scheme premium);
- (v) in successful transformation cases, the intermediary would repay to the Commission one third of the profit made on the Community tranche of the equity provided, and the Commission would repay the relevant guarantee premium to the intermediary;
- (vi) there would be a moratorium of up to three years on the payment of interest and repayment of principal recoverable over the life of the loan;

(vii) the Community would make available a sum of up to 12 MECUS to fund any guarantees called, supplementing premium income;

(viii) there would be recourse to the Community budget if the funds available to meet all guarantees were inadequate at any time.

3. Vice-President's ^{Notes} letter speaks of "trans-syndication" which was not a feature of the earlier proposals. From discussion with Commission officials we think this is meant to imply that two or more venture capital bodies in two or more member states would get together and make a syndicated loan to a borrower in a third country. Thus, ICFC might join with, say, a German venture capital institution to lend to a borrower in Greece. Almost certainly other member states would insist that all venture capital bodies should in principle qualify, irrespective of whether or not they were in the public or private sector.

ECOFIN COUNCIL ON 11 FEBRUARY 1985

1985 CAP PRICE PROPOSALS

Points for use as necessary/opportune

a. Financial guideline calculations

[Commission have prepared calculations but not released them. They are said to be ready to do so if the Council asks for them. A request from the Ecofin Council would be ideal but there could be disadvantages in your asking ^{for them} Monday. If you do so before FEOGA Guidance is discussed you may stir up unhelpful controversy on the general subject of budget discipline and use up negotiating capital; whilst the situation after FEOGA Guidance has been discussed may not be very propitious to a further UK demand concerning budget discipline. However, if others raise the issue of the CAP price proposals or if you judge it to be opportune you could address a request to the Commission].

Note Commission's claim that expenditure in 1986, including effects of their price proposals, will be within financial guideline. However, they have not published calculations of the guideline with their price proposals, as required by the conclusion on budget discipline (para 5 (a) of Commission's communication annexed to the Council conclusions.) Understand French delegation asked in working group for Commission to make calculations available quickly. Grateful if Commission would now do this.

b. UK position on price proposals

Still considering. First impression is that, whilst in certain respects [eg milk and cereals prices] Commission has not been as rigorous as circumstance require, it is a generally prudent package. UK will want to prevent any weakening of it during the negotiations.

c. Budget discipline not applicable in 1985

The budgetary discipline text was agreed unanimously by Member States in December. Article 10 states that its conclusions "shall first apply to the exercise of the Council's powers in 1985 concerning expenditure in the Financial year 1986". Financial consequences of 1985 Agricultural price fixing costs fall predominately in 1986. So Council has clear duty to apply budgetary discipline agreement conclusions to 1985 price fixing.

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AUTOMATIC MESSAGE 000354 07 FEB 12.01

FROM
297711 PRDRME G

GR 650

UNCLASSIFIED
FRAME FORECAST
FM UKREP BRUSSELS 071029Z FEB 85
TO IMMEDIATE F C O
TELEGRAM NUMBER 430 OF 7 FEBRUARY.

SUBJECT : ADDITIONAL LIST OF "A" ITEMS FOR 985TH MEETING OF
----- COUNCIL OF EUROPEAN COMMUNITIES (ECONOMIC AND FINANCIAL
AFFAIRS
ON MONDAY 11 FEBRUARY 1985
REF. TELEX NR 354

- SPAIN : CHEESE
 - EXTENSION OF THE TEMPORARY AGREEMENT ON CONCERTED DISCIPLINES
4235/85 GATT 7 AGRIOG 9,4425/85 GATT 11 AGRIOG 19
- ARABIC TRANSLATION OF SHIPPING DOCUMENTS FOR THE LIBYAN
AUTHORITIES
4046/85 MAR 2
- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE
COUNCIL DECISION ADOPTING THE 1985 WORK PROGRAMME FOR THE
EUROPEAN STRATEGIC PROGRAMME FOR RESEARCH AND DEVELOPMENT IN
INFORMATION TECHNOLOGIES : ESPRIT
4599/85 REC 15, 4124/85 RECH 4 + COR1 (F) + COR 1 REV 1 (F)
- WRITTEN QUESTIONS PUT THE COUNCIL BY MEMBERS OF THE EUROPEAN
PARLIAMENT : 4379/85 ASSQUE 73
 - A) NR 1553/84 BY MRSCASANMAGNAGO CERRETTI -
CONCILIATION PROCEDURE BETWEEN PARLIAMENT AND THE COUNCIL
4372/85 ASSQUE 66
 - 3) NR 1021/84 BY MR HUME - MEASURES TAKEN BY THE MEMBER STATES
TO IMPLEMENT THE SUPERLEVY ON MILK PRODUCTION
NR 1359/84 BY MR DEPRez - CLOSURE OF FACTORIES IN WALLONIA
NR 1562/85 ASSQUE 68
- COUNCIL ASSENT UNDER ARTICLE 54, SECOND PARAGRAPH, OF THE ECSC
TREATY TO THE GRANTING OF GLOBAL LOANS TO :
 - WESTFALEN BANK AG, BOCHUM
 - INDUSTRIEKREDITBANK AG, DEUTSCHE INDUSTRIEBANK, DUESSELDORF
 - COMMERZBANK AG, DUESSELDORF
 - SAARLAENDISCHE INVESTITIONSKREDITBANK AG, SAARBRUECKEN
 - WESTDEUTSCHE GENOSSENSCHAFTS-ZENTRALBANK, MUENSTER
 - SOCIETE GENERALE DE BANQUE
 - DRESDNER BANK AG
4650/85 SID 21

- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE COUNCIL REGULATION DEFINITELY COLLECTING THE PROVISIONAL ANTI-DUMPING DUTY IMPOSED ON IMPORTS OF COPPER SULPHATE ORIGINATING IN POLAND
4648/85 COMER 20, 4508/1/85 COMER 16 REV 1
- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF THE COUNCIL DECISION AUTHORIZING THE EXTENSION OR TACIT RENEWAL OF CERTAIN TRADE AGREEMENTS CONCLUDED BETWEEN THE MEMBER STATES AND THIRD COUNTRIES
4649/85 COMER 21, 4434/1/85 COMER 14 REV 1
- APPOINTMENT OF THE COUNCIL'S AGENT IN CASE 13/85
(KENNETH NORMAN ADAMS ET AL. V. COMMISSION AND COUNCIL)
4515/85 JUR 16
- REQUEST BY THE COMMISSION TO PRODUCE COUNCIL DOCUMENTS BEFORE THE COURT OF JUSTICE ;
 - CASES 220/83 (COMMISSION OF THE EUROPEAN COMMUNITIES V. THE FRENCH REPUBLIC)

AND

- 252/83 (COMMISSION OF THE EUROAN COMMUNITIES V. THE KINGDOM OF DENMARK)
4651/85 JUR 24
- CASE 69/84 - REQUEST FOR A PRELIMINARY RULING IN THE CASE OF PADOVANI REMO AND OTHERS V. AMMINISTRAZIONE DELLE FINANZE DELLO STATO
4652/85 JUR 25
- COUNCIL ASSENT UNDER ARTICLE 54, SECOND PARAGRAPH, OF THE ECSC TREATY
 - FOR THE FINANCING OF A COAL HANDLING TERMINAL WITH AN INDUSTRIAL LOAN AT A REDUCED RATE OF INTEREST
4653/85 CHAR 23
 - TO THE GRANT OF A LOAN FOR CO-FINANCING THE CONVERSION FROM OIL OR GAS TO COAL FIRING OF BOILERS AT TATE AND LYLE REFINERIES
4657/85 CHAR 25

ENDS

FCO ADVANCE TO:-

FCO - BURNIE ECD(1).

ELLIOTT

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252405 TRSY G

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UNCLASSIFIED
NAME FORECAST
FROM UKREP BRUSSELS 311336Z JAN 85
TO ROUTINE FCO
TELEGRAM NUMBER 323 OF 31 JANUARY

SUBJECT : INITIAL LIST OF "A" ITEMS FOR 985TH MEETING OF COUNCIL
OF EUROPEAN COMMUNITIES (ECONOMIC AND FINANCIAL AFFAIRS)
ON MONDAY 11 FEBRUARY 1985

- WRITTEN QUESTIONS PUT TO THE COUNCIL BY MEMBERS OF THE EUROPEAN PARLIAMENT

4379/85 ASSQUE 73

A) NR. 1203/84 BY MR KUIJPERS - SLAUGHTER OF FROGS - IMPORT BAN
4085/85 ASSQUE 36

B) NR 1115/84 PUT BY MR FLANAGAN - INTEGRATION OF HANDICAPPED CHILDREN INTO ORDINARY SCHOOLS

NR 1159/84 PUT BY MR GRIFFITHS - CITIZEN BAND RADIO

NR 1206/84 BY MR BEYER DE RYKE - EEC POLICY FOR CENTRAL AMERICA

NR 1263/84 BY MR VAN MIERT - STORAGE OF NUCLEAR WASTE IN SPACE OR ON THE SEABED

NR 1278/84 BY MR BEYER DE RYKE - WRECK OF THE MONT-LOUIS - RECOVERY OF THE CARGO - LEGAL ARRANGEMENTS BETWEEN FRANCE AND BELGIUM

NR 1450/84 BY MR PRICE - POLITICAL APPOINTMENTS TO THE EUROPEAN COURT OF JUSTICE

NR 1464/84 BY LORD O'HAGAN - URGENCY OF COMMISSION PROPOSALS

NR 1467/84 BY MRS DURY - DUBLIN AGREEMENT ON THE SUPPRESSION OF TERRORISM

NR 1468/84 BY MRS VAYSSADE - VALUE OF THE LAISSEZ-PASSER ISSUED BY THE EUROPEAN PARLIAMENT
4368/85 ASSQUE 62

- ADVISORY COMMITTEE ON FREEDOM OF MOVEMENT FOR WORKERS :
REPLACEMENT OF MR P. HAYDEN, ALTERNATE MEMBER, WHO HAS RESIGNED
4446/85 SOC 29

- COUNCIL ASSENTS PURSUANT TO ARTICLE 56 (2) (A) OF THE ECSC TREATY

- MAGNET JOINERY LTD. (UNITED KINGDOM)

- MECAN ARBED (LUXEMBOURG)

4514/85 SOC 34 SID 16 CHAR 22

- APPOINTMENT AT THE GENERAL SECRETARIAT OF THE ECONOMIC AND SOCIAL COMMITTEE OF A HEAD OF THE PRIVATE OFFICE OF THE CHAIRMAN AT GRADE A/3

4516/85 CES 7

FCO COPY TO:
FCO - BURNIE ECD(1)

BUTLER

GRS 210

UNCLASSIFIED

FRAME FORECAST

M UKREP BRUSSELS 082103Z FEB 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 451 OF 8 FEBRUARY.

OBJET : COMPLEMENT A LA LISTE DES POINTS "A" DE LA 986EME SESSION
----- DU CONSEIL DES COMMUNAUTES EUROPEENNES (QUESTIONS ECONOMIQUES
ET FINANCIERES) DU LUNDI 11 FEVRIER 1985
REF. TELEX NOS 354 - 451

1) POINTS "A" SOUMIS AU CONSEIL

-
- ADOPTION DANS LES LANGUES DES COMMUNAUTES DES REGLEMENTS DU
CONSEIL RELATIFS
 - = A LA SIMPLIFICATION DES FORMALITES DANS LES ECHANGES DE
MARCHANDISES A L'INTERIEUR DE LA COMMUNAUTE
 - = A LA MISE EN PLACE DU MODELE DE FORMULAIRE DE DECLARATION A
UTILISER DANS LES ECHANGES DE MARCHANDISES A L'INTERIEUR DE LA
COMMUNAUTE
- DOCS 4653/85 UD 11
4052/85 UD 1
4053/85 UD 2
- PROCES-VERBAUX DU CONSEIL
 - = DE LA 953EME SESSION DES 1ER/2/3 OCTOBRE 1984
DOC. 9525/84 PV/CONS 52
 - = DE LA 951EME SESSION DU 6 NOVEMBRE 1984
DOCS 10293/84 PV/CONS 30 RECH 105 + AMD 1
 - = DE LA 954EME SESSION DU 12 NOVEMBRE 1984
DOCS 10491/84 PV/CONS 53 ECOFIN 108

- 2 -

2) POINT "A" SOUMIS AU CONSEIL ET A LA CONFERENCE DES REPRESENTANTS
----- DES GOUVERNEMENTS DES ETATS MEMBRES

-
- PROCES-VERBAL DE LA CONFERENCE DES REPRESENTANTS DES
GOUVERNEMENTS DES ETATS MEMBRES DU 4 DECEMBRE 1984
- DOCS 11320/84 PV/RGEM 7
11321/84 PV/RGEM 8

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ENDS

FCO ADVANCE TO:-

FCO - BURNIE ECD(1).

ELLIOTT

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