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PART A

Part A.

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PART A.

Chancellor's (Lawson) Papers:
European Commission Annual Economic Report.

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PART A.

DD's: 25 Years

[Signature]

24/1/96.

MP

FROM: SUSIE SYMES
DATE: 19 OCTOBER 1988

PS/CHANCELLOR

[Handwritten red scribble]

cc: PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Geoffrey Littler
Mr Byatt
Mr Lankester
Mr H P Evans *Mr RIG Allen*
Mr Peretz
Mr Davies
Mr Gieve
Mr Matthews
Mr Mortimer
Mr Kelly
Mr Bostock-UKREP

EUROPEAN COMMISSION ANNUAL ECONOMIC REPORT

The Commission's Annual Economic Report was published today, and there may be some press comment tomorrow.

2. The theme of this year's report is "Preparing for 1992". A draft report was discussed at the Economic Policy Committee at the end of September, but as yet we have only seen the "Summary and Conclusions" and the UK country Section of the Report as adopted by the Commission.

3. Following the changes that we negotiated with the Commission, the adopted version of the UK section seems satisfactory and is much the same as that attached to Stephen Davies' minute to the Chancellor of 7 October (attached for top copy only). The UK chapter now gives a fairly balanced account of economic developments in the UK. The Commission's main policy recommendation is for a cautious fiscal stance.

4. We have not yet seen the revised version of the main body of the Report. Although the draft was generally acceptable there were some bits with which we were not happy: we will continue to press for changes before the ECOFIN discussion on 12 December and adoption by the Council.

5. I attach a briefing note provided by Chris Kelly in MP, together with the Commission's short press notice.

Susie Symes
SUSIE SYMES

BRIEFING ON EUROPEAN COMMISSION ANNUAL ECONOMIC REPORT

Background

The Commission adopted this year's Report today (19th October) and then as usual immediately released it to the press. The Report is the Commission's own responsibility. It will be submitted for approval to the Council of Finance Ministers meeting in December, but it may be subject to revision in the meantime.

As yet we have only seen the "Summary and Conclusions" and the UK country chapter sections of the Report approved by the Commission, and the following briefing notes relate only to these. We made various requests for changes to the initial draft of the report. As a result the UK chapter now seems satisfactory, but at this stage we do not know what changes the Commission might have made to the main body of the Report. In any case the "Summary and Conclusions" section presents few difficulties.

SUMMARY AND CONCLUSIONS

Factual

This year's theme is "Preparing for 1992". Main points are:

- generally satisfactory current situation and prospects in Community: Community benefited from "unexpected dynamism of its own"; average growth of 3½ per cent expected for 1988 - strongest since end of 1970s; inflation (3½ per cent) about the same as 1960s
- international economic cooperation "needs to be pursued with determination"
- encouraging aspects of Community economic situation are spreading dynamism; investment led growth (reflecting greater profitability and capacity utilisation and spur

of 1992 and favourable international environment); and stability and convergence in inflation unequalled since 1960s.

- areas of concern are risk of renewed inflation; excessive budgetary deficits in some countries; current account imbalances; and high unemployment
- faster growth provides best conditions for realisation of Community's major objectives (single market, strengthening economic and social cohesion, and reducing unemployment)
- significant progress towards 1992 already realised. Completion of internal market needs appropriate structural policies, especially an effective competition policy
- emphasis on need for further supply side improvements, including reducing obstacles to employment creation and greater flexibility of markets
- for budgetary policies primary importance should be attached to medium term objectives (convergence of general government balances, use of budgetary policy to strengthen conditions of supply and demand, resolution of problems concerning tax approximation)
- greater coordination of economic policy between Member States essential. Monetary cohesion could be strengthened by enlargements of membership of ERM, larger role of ECU, and more compatible budgetary policies. Implies need to strengthen consensus on principal economic objectives such as stable prices and convergence of inflation rates
- Community in advantageous position from which to tackle economic policy problems of the coming years.

Positive

Policies advocated by Commission very much in line with UK Government's strategy: Emphasis on market orientated supply side policies within framework of stable medium term approach to monetary and fiscal policies to control inflation is exactly the approach taken by UK Government since 1980.

"Dynamism" of UK economy acknowledged by Commission

Short term budgetary policy: Last year Commission called for coordinated fiscal expansion in some countries, but now there is no mention of any such action. UK Government consistently rejected fine-tuning approach.

Defensive

UK should join ERM?: Report says that "strengthening of monetary cohesion could be realised by an enlargement of the exchange rate mechanism to those countries not yet participating". UK position is that we will join when the time is right. This is not inconsistent with reference in Report to desirability of "stability in exchange rates related to converging underlying economic fundamentals".

Indirect tax approximation a precondition for completion of internal market?: All that "Summary and Conclusions" section of Report says is that "discussions concerning the approximation of indirect taxes.... must be pursued so as to reach rapid agreement." UK Government views are well known: better to follow the market based approach of free competition and deregulation; Commission's August 1987 proposals are misguided and unnecessary.

Brussels, 19 October 1988.

PREPARING FOR 1992

ANNUAL ECONOMIC REPORT 1988-1989

Upon proposal of Mr SCHMIDHUBER, the Commission has adopted today its annual economic report for 1988-89. It will be submitted to the Council for approval after consultations with the European Parliament and the Economic and Social Committee.

The forecasts this year are indeed very positive. In 1988 and 1989, the Community economy will grow at rates of 3 1/2 and nearly 3 % respectively. Growth will therefore be strongest since the end of the 1970s ; the increase of 7 % in investment is the highest for two decades. The inflation rate of 3 1/2 % should be about that of the 1960s. The success in fighting inflation and the convergence of inflationary performances in the Member countries are impressive.

All in all, the Community now reaps the fruits of the efforts undertaken since 1985 as part of the Cooperative Growth Strategy for more Employment. Despite these satisfactory trends, there remain four areas of concern.

An unemployment rate of about 11 %. In order to cope with the employment problems, the direction of the Cooperative Strategy remains valid. It involves the elimination of unnecessary administrative obstacles which hinder employment creation, greater mobility and skill improvements, and moderate increases in wage costs so that capital profitability can rise further.

The risk of renewed inflation. The recent increase in short term interest rates in the Community has dampened inflationary expectation. However, domestic inflationary pressures must continue to be kept under control and credibility of monetary policy must be maintained.

Excessive budgetary deficits in some countries. For 1988 and 1989, only little progress is expected in the convergence of budget balances. Therefore, budgetary policies hardly appear to be contributing to a reduction in the divergent external balances.

Intra-Community disequilibria in internal balances. The gap in the current balances between surplus and deficit countries in the Community has widened. These disequilibria are compensated for by capital movements. In the future, growth in the surplus countries must increasingly be driven by domestic demand.

Exactly one year after the stock market crash, the Community is in an advantageous position from which to tackle the economic policy problems of the coming years.

FAVOURABLE ECONOMIC PROSPECTS FOR THE COMMUNITY AND THE WORLD ECONOMY

1. The economic prospects for the Community have significantly improved in recent months. In 1988 the Community benefited from an unexpected dynamism of its own, in the whole OECD area and from world trade. In the Community, growth (1988: 3 1/2% on average) is likely to be the strongest since the end of the 1970s; the increase in investment (7 %) the highest for over two decades; the inflation rate (3 1/2%) should be about that of the 1960s. Despite a mild deterioration in the international environment, growth is likely to be strong in 1989 (about 2 3/4%). The inflation trend should only increase slightly. The rate of unemployment has started to decrease but it is still at too high a level.
2. The international framework for the conduct of monetary policy in the Community has changed significantly. With an improvement in the US trade deficit early in the year and an increase in interest rates in spring the dollar had by autumn almost reached its level of January 1987, just before the Louvre accord. Partly to control the rise in the dollar and partly in response to the exigencies of internal stability European Central Banks were led, to different degrees, to tighten conditions on their own money markets.

3. *International co-operation allowed significant progress to be made towards greater stability in the world economy. But it needs to be pursued with determination because important risks remain: a) In 1989, the reduction in balances of payments disequilibria is likely to lose some of its vigour at time when the accumulation of United States foreign debt is continuing; b) the persistence of the disequilibria continues to create risks for the stability of the international monetary system; c) the situation in developing countries is not improving and is affected by the recent rise in interest rates.*

ENCOURAGING ELEMENTS AND SOME MATTERS OF CONCERN

4. *Three aspects of the economic situation are encouraging:*

- *The dynamism of the economies of Spain, Portugal, Italy and the United Kingdom is now spreading to their partners whose exports, and also investment, are more buoyant. Thus, for example, in France and Germany growth should be about 3% in 1988 and should only dip slightly in 1989 (compared with 2% in 1987).*
- *Growth is more and more being led by investment. Many factors are contributing to this: greater profitability, a historically high level of capacity utilization, a favourable international environment and preparation by private firms for 1992.*
- *The Community has achieved a degree of stability and convergence of inflation rates unequalled since the 1950s. However, progress is still necessary, especially in Portugal and Greece.*

5. *Despite these satisfactory trends there are four areas of concern: a) the risk of renewed inflation; b) excessive budgetary deficits in some countries; c) an increase in the intra-Community disequilibria in*

external balances; d) an unemployment rate that is still on average in the Community more than 11% of the active population.

6. The strengthening of potential growth must remain a priority for all Member States. However, the consolidation of the current good growth performances may require, over the coming months, different actions in different Member States. As growth in the more dynamic countries is expected to slow down as a result of inflationary pressures and/or a deterioration of external accounts, economic policies in the other countries should accentuate the shift to domestic growth by a strengthening of supply and demand conditions.

REALIZING THE MEDIUM-TERM OBJECTIVES

7. Faster growth is now giving the Community the chance to realize in the best conditions its major objectives: to benefit from the completion of the internal market, strengthen economic and social cohesion and reduce unemployment.
8. The irreversible character of the completion of the internal market in 1992 was confirmed by the Council of Hanover. Significant progress has already been realized. In recent months, public opinion and enterprises have become more and more aware of the opportunities offered by this project. It is essential that these hopes are not disappointed when the decisions implementing the important measures of the White Paper are taken during the coming years.
9. To produce its full effects, the completion of the internal market needs to be accompanied by structural policies, especially an effective competition policy, also necessary in their own right.

- 10. *The success of the internal market will also have significant macro-economic effects. Studies by the Commission services show that the completion of the internal market will in the medium term improve significantly growth, budgetary and external positions and will have favourable effects on inflation. So that the productivity gains which will be realized are rapidly transformed into higher growth and employment, it will be important to fully benefit from the alleviation of constraints by reducing domestic disequilibria and actively strengthening the conditions of supply and demand.*

- 11. *With the reform and the increase of the Structural Funds, already under way, and the increased activity of the Community financial instruments, the Community has acquired the means to strengthen economic and social cohesion. A new model of "partnership" between the Community and the beneficiary countries must be created. Not only is the efficient utilization and additionality of these resources at programme level essential but economic policies in the countries concerned must ensure that the overall supply conditions improve and especially that the efficiency and the share of productive investment relative to GDP are increased.*

- 12. *Even if the completion of the internal market in the last analysis results in significant gains in welfare and employment, the restructuring which it will imply during the transition phase gives rise to certain anxieties. The social dimension of the internal market needs to be given attention, in particular: (i) the implementation of policies to facilitate re-employment; (ii) the convergence towards the higher social standards, for instance, by minimum security and health regulations at the work place (iii) the strengthening of the social dialogue at Community level.*

13. *The reduction in unemployment remains the priority task common to all Member States. Already employment is increasing at a historically high rate. This trend needs to be reinforced. In many countries there are signs of greater labour market adaptability, especially in the form of part-time work. The direction of the Cooperative Growth Strategy for more Employment remains valid: it involves, at the macroeconomic level further improvement in the profitability of capacity increasing and employment creating investment. An increase in wage costs, which should remain moderate, in conjunction with the new favourable demand prospects would contribute to this. It also involves concentrating attention on the elimination of unnecessary administrative obstacles which hinder employment creation and on greater mobility and skill improvements, particularly by sustained training efforts.*

THE NARROW PATH TOWARDS A CONSOLIDATION OF GROWTH

14. *The potential for non-inflationary growth can be strengthened by making European economies even more adaptable. Greater flexibility of markets and their positive effect on the behaviour and initiative of entrepreneurs is in itself a source of progress. In a situation where on the one hand it is necessary to avoid excessive pressures on productive capacity and on the other to further improve employment performances, structural policies are still very important.*
15. *The stabilization, and then the appreciation of the dollar on the foreign exchanges, led the monetary authorities to give more attention to the objectives of domestic stability. Recent increase in money market interest rates in the Community has strengthened the credibility of monetary authorities. To the extent that longer-term expectations of inflation and/or depreciation of the currencies have been reduced, long-term interest rates could be stabilized or decrease on a sound basis; some evidence of this emerged in some countries in early autumn.*

In the countries participating in the Exchange Rate Mechanism domestic inflationary pressures generally remain under control and further tightening of monetary policy does not seem necessary in the immediate future. Yet, the risk and main challenge to monetary policy could arise from renewed instability of the dollar.

16. *For budgetary policies, medium-term objectives continue to be of primary importance. In the context of the achievement of the Internal market discussions concerning the approximation of indirect taxes and taxation of capital income must be pursued so as to reach rapid agreement on these subjects. Other medium-term objectives include the convergence of general government balances, still excessive in some Member states, and the need to use budgetary policy to strengthen the conditions of supply and demand.*
17. *The increasing interdependence between Member States makes greater coordination of economic policy essential. Furthermore, an increasingly high degree of stability in exchange rates related to converging underlying economic fundamentals would improve the functioning of the Internal market. The strengthening of monetary cohesion could be realized by an enlargement of the exchange rate mechanism to those countries not yet participating, management of monetary policies in greater cooperation and strengthening the role of the ECU. However monetary cohesion in the Community cannot be permanently ensured unless Member States follow compatible policies in other areas, particularly budgetary policy. In this context it is important to strengthen the consensus on the principal economic policy objectives: a) stable prices and convergence of inflation rates; b) medium-term compatibility of payments balances and c) the contribution of internal and external stability to the growth and employment objectives of the Community and its Member States.*

13.10.1988

- 103 -

UNITED KINGDOMContinued strong growth but signs of overheating

The United Kingdom economy has been growing at an annual rate of over 3% for seven consecutive years. Its recent performance has exceeded expectations, with real GDP growth of almost 4% likely this year. Unemployment, now at a rate close to 8 1/2%, has declined continuously since mid-1986 and labour market conditions have tightened appreciably. The construction sector is booming. Business investment has picked up sharply, in a lagged response to the steep increase in profitability.

However, the pace of growth has caused fears of overheating. Capacity utilization has reached a high level. The fast rate of growth reflects the coincidence of an investment surge with continuing buoyancy of private consumption, which has been fuelled by strong growth in real earnings, a rapid expansion in credit and cuts in personal income tax. The 12-month rate of increase in the retail price index has edged upwards from its 3-4% range in 1987 towards 6% in the latter part of 1988. Demand has outstripped the economy's immediate capacity to respond and has increasingly spilled over into imports, the growth of exports has slowed this year and the deficit on the current account of the balance of payments has widened rapidly.

An improving supply-side performance
but little progress on disinflation

Although growth has been unsustainably fast over the past year or so, the underlying economic performance of the UK in many respects now

compares favourably both with earlier experience and with other member countries. That structural adjustment policies have progressed much further in the UK is evident not only in the rapid catch-up in manufacturing productivity towards best Community levels but also in the job-creating capacity of the economy. Since 1983 employment has increased by over 1 1/2% per year, though appreciable regional disparities still persist. Corporate profitability has steadily improved. Moreover, through effective control of expenditure the public accounts have moved into surplus and a good deal of progress has been made in the field of tax reform. In particular, there has been a considerable simplification of the personal income tax system, with now only two much-reduced tax rates of 25% and 40%.

The fast growth of demand has meant that progress on curbing inflation has been disappointing during the last five years. Annual growth in average earnings, having remained stubbornly close to 7 1/2% since 1983, accelerated to 9% by mid-1988 (explained partly by more overtime working, bonus payments and a catching up in public sector wages). Productivity gains have so far offset the effects of earnings growth, especially in manufacturing; but these gains are partly cyclically related and will thus taper off when output growth slows, so that unless wage increases slow correspondingly they will increasingly spill over into costs and prices. The rigidity of the wage formation process, with its implications for inflation and competitiveness, remains one of the key problems for the UK economy.

Will the present policy mix put sufficient downward
pressure on inflation ?

Over the medium term some of the imbalances in the economy will be self-righting. The sharp pick-up in business investment implies a

considerable increase in the supply potential of the economy. As corporate profits rise less quickly, firms may no longer be prepared to concede such high wage increases. In addition, personal saving can be expected to recover as higher interest rates and a cooling in financial and real asset markets lessen the willingness to take on additional debt. Nevertheless, it remains to be seen how strong an effect these factors will have on inflation and the current account deficit.

This raises the question of how best to use the margin available for fiscal manoeuvre. In particular, caution is desirable in phasing in the further reductions in the basic rate of income tax to which the Government is committed. To avoid too rapid an expansion of private consumption and to contain inflationary pressures it may be necessary to continue a public sector surplus for several years. Part of the fiscal margin could be used in ways which would further improve supply-side potential but with less direct impact on private consumption and imports, for example by reducing the cost to employers of taking on additional labour and increasing the post-tax return on investment.

Although there was some overall tightening of monetary policy in the early part of 1988, interest rates were reduced as sterling was subject to strong upward pressure, partly speculative. Since June, interest rates have risen by 4 1/2 percentage points in total, marking a further substantial tightening of policy. This will help keep inflationary pressures in check. The recent rises in interest rates have been accompanied by relative stability in sterling though at higher rates against other European currencies than at the beginning of the year. Over the medium term, a tight fiscal policy stance

13.10.1988

- 106 -

should enable monetary growth to be restrained without the use of very high interest rates, the persistence of which could damage investment. Monetary policy should also be consistent with the aim of greater exchange rate stability.

.../...

MAIN ECONOMIC AGGREGATES 1961-89 1)

UNITED KINGDOM

ANNUAL PERCENTAGE CHANGE
UNLESS OTHERWISE STATED

	1961- 1973	1974- 1981	1982	1983	1984	1985	1986	1987	1988	1989
1. GROSS DOMESTIC PRODUCT										
-AT CURRENT PRICES	8.4	16.7	8.7	8.9	6.4	9.9	6.6	9.6	9.7	8.4
-AT CONSTANT PRICES	3.1	7	1.1	3.8	2.0	3.7	2.9	4.3	3.8	2.4
-PRICE DEFLATOR	5.3	15.9	7.6	5.2	4.2	6.0	3.8	4.9	5.6	5.7
2. GROSS FIXED CAPITAL FORMATION 2)										
-TOTAL	4.6	-1.8	5.2	5.2	8.2	3.1	3	5.5	9.6	6.3
-CONSTRUCTION	:	-3.2	8.1	5.3	7.0	-2.9	4.4	4.2	9.8	5.8
-EQUIPMENT	:	1.2	1.5	4.9	9.6	9.9	-3.9	6.9	9.3	6.9
3. SHARE OF GROSS FIXED CAPITAL FORMATION IN GDP 3)										
-TOTAL	18.8	18.8	16.2	16.2	17.3	17.2	17.2	17.4	18.4	19.1
-GENERAL GOVERNMENT	:	3.4	1.6	2.0	2.1	2.0	1.8	1.5	1.6	1.6
-OTHER SECTORS	:	15.4	14.6	14.2	15.2	15.3	15.4	15.9	16.8	17.5
4. FINAL NATIONAL USES INCL. STOCKS										
-AT CONSTANT PRICES	3.8	1	2.2	4.5	2.7	2.9	3.8	4.3	5.3	3.5
-RELATIVE AGAINST 19 COMPETITORS	-2.0	-3.9	2.4	2.7	-2.9	2	0	1.5	3.0	2.9
-RELATIVE AGAINST OTHER MEMBER COUNTRIES	-3.9	-2.7	2.0	4.1	2.9	2.9	0	1.7	3.3	2.8
5. INFLATION (PRICE DEFLATOR PRIVATE CONSUMPTION)	4.8	13.1	6.6	5.0	4.8	5.2	3.6	3.8	4.4	4.7
6. COMPENSATION PER EMPLOYEE										
-NOMINAL	8.1	17.1	8.4	8.7	5.3	6.7	7.3	7.0	7.5	7.8
-REAL, DEFLATOR PRIVATE CONSUMPTION	3.3	1.7	-2	3.5	0.5	1.4	3.6	3.0	3.0	2.9
-REAL, DEFLATOR GDP	3.0	1.0	0	3.3	1.1	1.7	3.7	2.0	1.9	2.0
7. PRODUCTIVITY 4)	2.9	1.1	2.9	4.8	1	2.1	2.5	2.6	1.9	1.6
8. REAL UNIT LABOUR COSTS 5)										
-INDEX: 1961-73 = 100	100.0	101.8	97.0	97.6	98.5	97.1	98.2	97.6	97.6	98.0
-ANNUAL PERCENTAGE CHANGE	1.7	1.8	-2.1	-1.6	0.9	-1.4	1.3	-0.6	0	0.4
9. PROFITABILITY (INDEX: 1961-73 = 100)	1	1	1	1	1	1	1	1	1	1
10. RELATIVE UNIT LABOUR COSTS IN COMMON CURRENCY AGAINST 19 COMPETITORS										
-INDEX: 1961-73 = 100	100.0	90.3	105.5	97.5	95.0	95.7	90.8	90.5	98.1	1
-ANNUAL PERCENTAGE CHANGE	-1.9	3.8	-6.5	-7.6	-2.6	0	-4.0	0.5	8.9	1
AGAINST OTHER MEMBER COUNTRIES										
-INDEX: 1961-73 = 100	100.0	83.7	105.5	99.3	100.7	102.0	89.8	84.6	95.8	1
-ANNUAL PERCENTAGE CHANGE	-2.9	6.3	-3.6	-5.7	1.4	1.3	-12.0	-3.6	10.7	1
11. EMPLOYMENT	3	4	1.8	1.2	1.9	1.6	4	1.7	1.9	1.8
12. UNEMPLOYMENT RATE 6)	7.1	5.1	10.4	11.6	11.8	12.0	12.0	10.6	8.6	7.2
13. CURRENT BALANCE 7)	-1	-5	1.5	0	-1	5	-0	-6	-3.1	-3.3
14. NET LENDING OF GENERAL GOVERNMENT 7)	:	-3.7	-2.5	-2.3	-3.9	-2.7	-2.4	-1.4	-3	-1
15. GROSS DEBT OF GENERAL GOVERNMENT 7)	:	53.5	57.4	57.1	58.4	57.2	56.1	53.2	49.1	46.1
16. INTEREST PAYMENTS BY GENERAL GOVERNMENT 7)	:	4.4	5.0	4.7	4.9	4.9	4.6	4.3	3.9	3.6
17. MONEY SUPPLY (END OF YEAR) 8)	9.8	12.1	8.9	10.4	10.8	13.4	18.9	22.5	1	1
18. LONG TERM INTEREST RATE 9)	7.6	13.9	12.7	10.8	10.7	10.6	9.8	9.5	9.5	1

1) 1961-84: EUROSTAT AND COMMISSION SERVICES
1987-89: ECONOMIC FORECASTS SEPTEMBER-OCTOBER 1988

2) AT CONSTANT PRICES

3) AT CURRENT PRICES

4) GDP AT CONSTANT MARKET PRICES PER PERSON EMPLOYED

5) DEFLATOR GDP

6) PERCENT OF CIVILIAN LABOUR FORCE

7) PERCENT OF GDP

8) M3

9) LEVELS

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fypPERSONALITY NOTESBelgium

1. Mr Philippe Maystadt Minister for Economic Affairs
2. Mr Mark Eyskens Minister for Finance

Denmark

3. Mr Knud Enggaard Minister for Economic Affairs
4. Mr Palle Simonsen Minister for Finance

France

5. Mr Édouard Balladur Minister for the Economy, Finance

Germany

6. Dr Gerhard Stoltenberg Minister for Finance
7. Dr Martin Bangemann Minister of the Economy
8. Dr Otto Schlecht State Secretary - Federal Ministry of the Economy
9. Dr Hans Tietmeyer State Secretary - Federal Ministry of Finance

Greece

10. Mr Dimitris Tsouvolas Minister for Finance

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11. Mr Panayotis Roumeliotis Minister of National Economy
12. Mr George Petsos Alternate Minister of Finance

Ireland

13. Mr R MacSharry Minister for Finance
14. Maurice F Doyle Secretary - Department of Finance

Italy

15. Mr Giuliano Amato Minister for the Treasury

Luxembourg

16. Mr Jacques Santer Prime Minister and Minister of Finance
17. Mr Jean Claude Juncker Minister of Labour, Minister Delegate for Finance, responsible for the Budget
18. Mr Jacques Poos Vice-President of the Government
Minister of the Economy
19. Mr Pierre Werner Honorary Minister of State

Netherlands

20. Dr Ruding Minister for Finance

Portugal

21. Dr Miguel Jose Ribeiro Cadilhe Minister of Finance

Spain

22. Mr Carlos Solchaga Catalan Minister of the Economy and Finance

Secretariat

23. Mr Ersbóll Secretary General of the Council Secretariat

Commission of the European Communities

- | | | |
|-----|----------------------|----------------|
| 24. | Mr Jacques Delors | President |
| 25. | Lord Cockfield | Vice President |
| 26. | Mr Christophersen | Vice President |
| 27. | Mr Andriessen | Vice President |
| 28. | Mr Willy De Clercq | Member |
| 29. | Mr Peter Schmidhuber | Member |

MAYSTADT, PHILIPPE

Minister for ^{Economic Affairs} ~~the Budget, Scientific Policy and Planning~~, Former Minister for the Civil Service and Scientific Policy (1980-81). Deputy for Charleroi since 1977.

Born 1948. Spent 2 years in the US where he gained a degree in Public Administration at the University of Los Angeles. He also has a law degree from Louvain University. State Secretary for the Walloon region (October 1979-April 1980).

A young and articulate politician with an important portfolio, who has an enthusiastic following among the younger members of the PSC. One of the few members of his party to improve his standing in the November 1981 elections and a possible future leader.

Married with three young children. Speaks quite good English.

EYSKENS, MARK

Finance

Minister for ~~Economic Affairs~~. Former Prime Minister (April-December 1981) and Minister of Finance (October 1980-April 1981). CVP Deputy for Leuven since April 1977.

Born Leuven 1933.

Son of former Prime Minister, Gaston Eyskens. Doctorate from Leuven University (KUL) and MA from Columbia University. Adviser to Finance Minister 1962-65, Professor of Economics at KUL since 1966. Commissaire-Générale responsible for links between the French and Dutch speaking universities of Leuven (UCL-KUL) since 1972.

Held office in both Tindemans' governments, first as State Secretary for Land Management and then as State Secretary for the Budget and Flemish Regional Economy. Served as Minister for Cooperation and Development under Martens, April 1979-October 1980.

An eminent economist and influential adviser to his party on economic matters, on which he generally takes a conservative line. As State Secretary for the Flemish Regional Economy he was active in seeking new investments for Flanders, especially from the United States, whose diminished confidence in Belgian economic prospects he tried hard to revive. He brought a change of style to the Cooperation and Development Ministry where he attempted to alter the pattern of Belgian aid, hitherto directed almost exclusively to francophone countries.

He is married. Both he and his charming wife speak excellent English, are very sociable, and are seen about more than any other Belgian Minister.

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3

New Minister for Economic Affairs

ENGGAARD, KNUD

Minister for the Interior since March 1986 (Venstre).

Born June 1929. Degree in Engineering Science 1954. Civil Engineer with Danish Air Force from 1955-62. Active in local politics and Venstre Youth organisation (Deputy Chairman 1957-59, Chairman 1959-62). Member of Venstre Party board 1957-62 and since 1965; Party Vice Chairman 1978-82. Member of the Folketing since 1964. A respected Chairman of the party's group in the Folketing 1970-71 and 1973-77. (Vice Chairman 1971-73). Minister for the Interior during short Social Democratic/Venstre coalition 1978-79. Minister for Energy from September 1982-March 1986.

Intelligent and influential in his party. His political future came into question after the dispute with Jens Christensen (qv) which led to the latter's being sacked from DONG in November 1983. The Social Democrats (who had appointed Christensen and given him free rein) insisted that Enggaard had acted for purely political reasons. With full support from Schluter he weathered this storm but it did not help his reputation for touchiness.

Married. A compulsive talker. Speaks reasonably good English.

SIMONSEN, PALLE
MINISTER OF FINANCE SINCE JULY 1984.

Minister for Social Affairs (Conservative) ^{FROM} since September 1982. UNTIL JULY 1984

Born 1933. After training at a business school in Jutland, worked in industry. Member of the Folketing 1968-75 and since 1977. Chairman of the Defence Committee for several years. Deputy Chairman of the Conservative Party since 1975. Member of the Radio Council and the Civil Defence Council. Would have preferred Defence portfolio, but was pressed to take what was seen as the more difficult Social post, where he seems to be doing well. Met Mr Norman Fowler briefly in March 1983. Visited Britain as guest of Government to study defence early 1982. Some tip him for high office. Helpful over visit by House of Commons Select Committee on Social Affairs 25-26 April 1983, when they studied Danish policy on children in care.

Married: both speak English. Very approachable and ready to accept invitations. Active in local charities in Gentofte.

CONFIDENTIAL

BALLADUR, EDOUARD

Minister of the Economy, Finance and Privatisation.

As the only Minister of State in the Government, clearly the most important figure after Chirac. He will supervise Junior Ministers for the Budget, Privatisation and Foreign Trade. Born 1929. ENA. 1963-74 worked for Pompidou, first as Social Affairs Adviser (alongside Chirac) when Pompidou was Prime Minister, later Assistant Secretary-General of the Elysee in 1969 and Secretary-General in 1973. After Pompidou's death in 1974, Head of a Subsidiary of the CGE Electronics Group before moving back into the political world in the late 1970s as an increasingly influential adviser to Chirac.

Although largely unknown to the French public (he had not stood for elected office before last Sunday), he is intelligent, calm and discreet and has a high reputation for efficiency and good sense. He has little direct experience of the Ministry he now directs or of financial affairs and, while open-minded, is generally seen as prudent rather than particularly liberal in his approach to economic affairs. This is in contrast to the more obviously liberal approach of other ministers in the economic field, notably Juppé (Budget), Noir (Foreign Trade) and Madelin (Industry).

STOLTENBERG, DR GERHARD, HON GCMG

Federal Minister of Finance.

Born 1928 in Kiel, the son of a clergyman. War Service 1944-45. Studied history, social science and philosophy at Kiel University, taking his doctorate in 1954 with a thesis on the work of the First Reichstag. Thereafter worked as an assistant at Kiel University. Appointed Lecturer in Modern History in 1960, his special topic being Tirpitz and his naval policy. 1965 and again 1969-70, a Director of Friedrich Krupp, and Head of the company's Economic Policy Department.

He entered politics through the Young CDU, of which he was Federal Chairman from 1955-61. A member of the Schleswig-Holstein Land Parliament from 1954-57, and again since 1971. A member of the Bundestag from 1957-71. 1965-69 Federal Minister for Scientific Research. Elected a Vice-Chairman of the CDU in 1969 and from 1969-71 was Vice-Chairman of the CDU-CSU Parliamentary Party. He resigned from the Bundestag in 1971 to lead the CDU campaign in the Schleswig-Holstein Land elections, as a result of which he became Minister-President. Re-elected in 1979 after a hard and close-fought contest. Returned to Bonn as Finance Minister on the formation of the CDU/CSU/FDP Government in October 1982.

Stoltenberg was the first of the younger generation of CDU politicians from North Germany to reach the top rank. He appeared to be Dr Kohl's main rival within the CDU for the nomination in 1975 as CDU/CSU Chancellor-Candidate. But in the event Kohl's control of the party machinery allowed him to out-manoeuvre Stoltenberg completely, and the latter's candidature never got off the ground. This has reportedly left a legacy of some bitterness between them. His age and abilities should ensure him an important future in the CDU. The CDU's unimpressive showing in Schleswig-Holstein in the 1976 and 1980 Federal elections slightly tarnished his image but in the latter contest his loyal support for Herr Strauss' cause (he stood as Vice-Chancellor candidate) earned him much credit with the Union as a whole, particularly in Bavaria. The obvious choice as Finance Minister in Chancellor Kohl's Cabinet.

Stoltenberg is tall, well-built and good-looking. Reserved, even a little cool, but an effective speaker. He is normally courteous and friendly, but occasionally shows signs of impatience or a touch of arrogance. As Minister for Scientific Research, he favoured European cooperation in the scientific field and showed himself well-disposed to the UK. He often refers to the fact that the Angles came to Britain from his Land. Visited the UK as the guest of HMG in 1974.

Protestant. Married. One daughter and son. His wife is quiet and takes little part in her husband's public life. He speaks good English.

MARTIN BANGEMANN

Born in 1934. A lawyer by profession, he joined the Liberal Free Democrat Party (FDP) in 1963 and rose quickly to become Chairman of the Baden-Wuerttemberg party (the FDP's most important region) in 1974. He was elected to the Bundestag in 1969 and became a Member of the Foreign Affairs Committee.

Genscher (Vice Chancellor and Foreign Minister) made him FDP Secretary-General in September 1974. Bangemann never settled in the job. He stands well to the right in the FDP and was out of tune with the party at a time when it was committed to a coalition with the Social Democratic Party (SDP). He felt strongly that the FDP should keep open the option of future coalition with the Christian Democrats (CDU/CSU). His reluctance to lead his party in to the Baden-Wuerttemberg Regional (land) election in 1976 with a commitment to the SPD caused Genscher to engineer his resignation as Secretary-General. Bangemann was subsequently rejected by the Baden-Wuerttemberg party and resigned as regional Chairman in 1978.

He has spent the last four years as leader of the FDP Parliamentary Group in the European Parliament. As a result he has been out of touch with Federal politics and out of the public eye. He re-emerged with his energetic campaign as the FDP's leading candidate in this year's European election. Although the FDP failed to clear the 5 per cent hurdle necessary for representation at Strasbourg, the blame for this has been laid on Genscher, and Bangemann has managed to emerge relatively unscathed.

Bangemann was an effective member of the European Parliament and leader of the FDP group there. He is a genuinely dedicated European. A strong character and a man brimming with bright ideas. He played a leading role in forming the Federation of European Liberal Parties.

In so far as Bangemann has taken an interest in Economics, his views are Liberal. But in a typical German way he also has a strong social conscience. He is a strong believer in détente.

Bangemann is stout, bespectacled, friendly and a keen traveller. He speaks English and French.

Official State Secretary in the Federal Ministry of the Economy.

Born 1926 in Biberach (Swabia). The son of a butcher. War service; American POW. From 1947-52 studied economics at Freiburg University. Joined the Federal Ministry of the Economy in 1953 and has risen rapidly by sheer ability. A non party figure who has served Ministers of different parties with equal success, impressing each in turn. The right hand man of the Economics Minister, Graf Lambsdorff.

In 1967 Professor Schiller made him Head of the Department dealing with economic policy. Following the General Election in 1972 and the resignation of Dr Mommsen he was promoted to his present position where he is responsible for general domestic economic policy and European Community policy.

Schlecht has consistently held the line against attempts to erode the social market economy from within, and although pragmatic in his private view of the policies of others can be relied upon to voice opposition of what he regards as protectionist trends.

A tall, bulky human man, who retains a strong Swabian accent and simple tastes. His Bonhomie and sometimes coarse humour do not mask his ability. Friendly and well disposed towards Britain, but a firm defender of German interests.

Married, no children. Understands English quite well, although prefers to speak through an interpreter. His wife speaks English quite well. Both are keen, not very good, golfers.

CONFIDENTIAL

TIETMEYER, DR HANS
State Secretary - Federal Ministry of Finance

Born 1931 in Metelen (Westphalia). Studied economics at Münster, Bonn and Cologne. 1959-62 Secretary of Catholic Church organisation. Joined Federal Ministry of the Economy in 1962. 1970 Head of the department dealing with the European Communities and relations with third countries. 1972 Head of the department dealing with economic and growth policy. 1973 promoted to present position.

A South German, friendly and easy in manner if a bit professorial (he spends quite a bit of the time lecturing to professional bodies on behalf of his Minister). Has SPD sympathies, though not a Party man, and has in the past taken a relatively less restrictionist view than some of his economic colleagues. Has a good academic reputation, is highly articulate, and outspoken on his own subject. His views are widely respected. As Chairman of the EC Economic Policy Committee was deeply involved in the EMS and Concurrent Studies and reportedly played fair.

A good contact with an enquiring and objective mind. Married with two children by a first wife who died in 1978. Catholic. Good English.

TSOVOLAS, DIMITRIS

Minister of Finance. Deputy for Arta

Born 1942 near Arta. Studied law at Salonica University then practiced in Arta until 1977 when he was elected as PASOK Deputy.

As a Deputy he has been active in promoting PASOK's interests and before his ministerial appointment he was a lively parliamentarian. Since his appointment as Under Secretary of Finance in 1981 he has kept a low profile. But his promotion in 1984 to Alternate Minister following the resignation of Pottakis, and then to Minister of Finance in July 1985, suggest that he is well regarded.

Married with a son and a daughter.

ROUMELIOTIS PANAYOTIS

Minister of Commerce. Not a Deputy. *New Minister of National Economy*

Born 1949 in Egypt. Studied economics at the Universities of Geneva and Paris. Active in student politics. Initially worked at the National Institute of Scientific Research in Paris.

Arrived in Greece in 1974 and worked at the Planning and Economic Research Centre. Simultaneously an adviser to the Ministry of Coordination on EC and multinational company issues. A member of Greece's EC entry negotiating team until 1977 when he resigned to become a financial adviser to Andreas Papandreou.

Appointed Secretary General of the Ministry of Coordination when PASOK came to power in 1981. Subsequently promoted to Under Secretary in the Ministry of Finance but resigned in mid-1983 after a dispute with his Minister concerning responsibilities for EC matters and returned to teaching at the Faculty of Industrial Studies in Piraeus. Appointed Under Secretary for National Economy in 1984. Appointed to his present position in February 1987.

A technocratic EC specialist. Sensible and effective. Married. Speaks English and French.

PETSOS George

Alternate Minister of Finance. PASOK Deputy for Pella

Born in Athens in 1947. Studied economics in Athens and law in Salonika. A member of the Union of Democratic Youth (EDIN) in the mid-60s. Active in student politics and was a member of the International Relations Bureau of the National Union of Greek Students. Involved in student demonstrations in 1963-65 (George Papandreou's "unrelenting struggle"). Arrested and imprisoned during the dictatorship in 1968. Elected PASOK MP for Pella in 1977. Rapporteur in Parliament for financial bills in 1978-81. In 1978 became Vice-President of the Parliamentary Committee on Greek/Arab relations. Appointed Under Secretary for Defence in 1981 but was sacked overnight in July 1982. No reason was given but it was rumoured that he had accepted bribes. He then became an independent MP until April 1985 when he returned to PASOK. Was re-elected in June 1985. In February 1987 was appointed Under Secretary for Industry and in September 1987 Alternate Minister for Finance.

Energetic and ambitious, he seems to owe his success entirely to a close relationship with Papandreou's family. He has written on various economic subjects. His only foreign language is French (during his time in the Defence Ministry he seems to have been close to the French).

Married twice (Papandreou was best man at the second marriage).
One son.

MACSHARRY, RAYMOND TD MEP

Fianna Fail Deputy and Honorary Treasurer.

Born Sligo 1948. Educated Summerhill College, Sligo. Member of Sligo County Council since 1967 and of Northern Western Health board since 1971. Deputy since 1969 for Sligo/Leitrim. Opposition front bench spokesman on the Office of Public Works 1973-75. Member, Committee of Public Accounts 1969-77. He was nominated as a Minister of State at the Department of the Public Service in December 1977, in recognition of his outstanding poll in the general election of June 1977. A loyal supporter of Mr Haughey, he was Minister for Agriculture from 1979-81 where he proved his ability.

A relatively competent Minister of Finance in 1982, he came unstuck when he was found to have bugged a meeting with an anti-Haughey deputy. Resigned from the front-bench. Mr Haughey's most loyal supporter in the leadership contests of 1982 and 1983, he is now regarded as a rising candidate for the succession to Mr Haughey. A hawk on Anglo-Irish relations, but argued for abstention on the Anglo-Irish Agreement, 1985.

Married Elaine Neilan. Three sons, three daughters.

MAURICE F DOYLE

Secretary, Department of Finance

Born in Dublin, 1932. Educated at the O'Connell Christian Brothers School; University College Dublin (BA in Economics), and Kings Inns Dublin (Barrister at Law).

Mr Doyle entered the Irish Civil Service as an Administrative Officer and, apart from two years in the Office of the Revenue Commissioners, has worked exclusively in the Department of Finance. He was involved in the preparation of Dr Whitaker's paper "Economic Development" which laid the foundation for Irish industrialisation and rapid economic growth. For a time he was Assistant Secretary to the National Industrial and Economic Council. He led the official Irish negotiating team on the establishment of the EC Regional Development Fund and was elected the Vice Chairman of the EC Regional Policy Committee. In 1976 he was appointed Second Secretary in charge of economic policy and in 1977 assumed responsibility for control of public expenditure. He was appointed Secretary of the Department on 1 November 1981.

He is an impressive official, frank and friendly. He has not been linked to either political party and has a civil servant's somewhat cynical view of the motives of his political masters.

He is married with two children.

AMATO, ONOREVOLE GIULIANO

Under-Secretary in Prime Minister's Office (Socialist).

Born at Turin in 1938, but lives in Rome. Professor of Constitutional Law at Rome University. Joined the PSI in 1958 and became a member of the Party Central Committee in 1978. Author of a number of books on constitutional questions. President of the Commission for the Review of the Office of the Prime Minister in 1979 and President of the Commission for the Reform of State Holdings in 1980. Has held university teaching posts in the USA.

Elected Deputy for Turin-Novara-Vercelli in June 1983. Diminutive, intelligent and very hard-working: known as "the subtle doctor". His big chance came after the 1983 elections when Craxi took him to Palazzo Chigi to be Secretary to the Council of Ministers (Cabinet). A follower of Giolitti (qv) and bitter critic of Craxi during the 1970's, he has now burnt his boats with the PSI left and become Craxi's right-hand man. In the absence of any formal structure for interministerial coordination, Amato has built up an active rôle for himself as Prime Ministerial "Chief of Staff". Respected for his skills in negotiation and public presentation of policy, he has played a central rôle at times of crisis (such as the Achille Lauro hijacking in 1985), and has general oversight under Craxi of coordination of action against terrorism.

Speaks English well.

SANTER, JACQUES

Prime Minister since July 1984

Minister of State, President of the Government, Minister of Finance, of National Development, and of Posts, Telecommunications and Information Technology. Leader of the Christian Social Party.

Born 1937. Education in Luxembourg, Strasbourg and Paris, where he obtained a doctorate in law. 1961-65 Lawyer at the Luxembourg Court of Appeal. 1963-65 worked as a Civil Servant in the Private Office of the (Socialist) Minister of Labour and Social Affairs. Government Attaché to the Ministry 1965. 1966 Secretary to the Christian Social Party's parliamentary group. 1970 Assistant General Secretary of the Party. 1972 State Secretary for Labour, Social Services and Culture. The same year became General Secretary of the Christian Social Party, and its President from 1974-84. Member of the Luxembourg Chamber of Deputies since 1974. Member of the European Parliament from 1974-79, when he was re-elected but appointed Minister of Labour, Social Security and Finance. Elected leader of the Christian Social Party in December 1983 in succession to Pierre Werner.

A strong performer on EC matters, he is now the doyen of EC finance ministers. He is able and friendly. Although in the past he was accused of lack of substance, he has shown himself a competent administrator and is growing in assurance. His public bonhomie conceals a good brain.

Speaks English but prefers French. COI visitor (1973).

Has an attractive and vivacious French wife who teaches biology, but is something of a liability for her husband's political prospects (eg in speaking not a word of Luxembourgish).

Minister of Labour. Minister Delegate for Finance, responsible for the Budget.

He is a lawyer. In 1979 he became Secretary of the Christian-Social parliamentary group and National President of the Christian-Social Youth Organisation. Appointed State Secretary for Labour and Social Security in December 1982 at the age of 28, the youngest ever member of a Luxembourg government.

A capable and forthright young man.

CONFIDENTIAL

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POOS, JACQUES

Vice-President of the Government, Minister of Foreign Affairs, Foreign Trade and Cooperation, of the Economy, of the Middle Classes and of the Treasury. (Socialist).

Born 1937. Educated Lausanne University where he obtained a Doctorate in Economic and Commercial Science. 1959-62 Attaché at Ministry of Economic Affairs; 1962-64 Head of Research at the Government Statistical Service. In 1964 appointed Director of the Socialist daily, 'Tageblatt', though he relinquished day-to-day editorial responsibility when elected to the Chamber of Deputies in 1974. He became Leader of the Parliamentary Group of the POSL in 1975 and in June 1976 was elected to the party's Executive Committee. Minister of Finance 1976, at the same time becoming a director of the World Bank, IMF and the EIB and of the Banque Continentale de Luxembourg and Paribas. Re-elected to the Chamber of Deputies in 1979, and appointed one of two Vice-Presidents of the Socialist Parliamentary Group. Led the POSL in the 1984 elections, gained the highest personal vote of all the candidates, and played a large part in the formation of the coalition with the PCS.

He is a clever, though rather vain man and an ambitious politician. As editor of the 'Tageblatt' he occasionally advocated extreme policies, but he mellowed after entering the Chamber of Deputies and proved an uncontroversial Minister of Finance.

His chief interests at the MFA are economic and financial matters. He leaves political affairs outside the EC largely to his State Secretary, but he has the reputation of always reading and commenting on his briefs and being willing to learn.

Has written several books on economic and financial matters. Married for the second time. His wife devotes herself to her family and seldom accompanies her husband to official functions. 3 children, one of them by the first marriage.

Speaks good English. His wife prefers French.

Honorary Minister of State (Christian Social).

Born near Lille in 1913. Educated in Paris. Doctor of Law (1938), but soon left the Bar for the Banque Generale. 1945 appointed Banking Control Commissioner. 1953 appointed Minister of Finance and (1954) of the Armed Forces. Prime Minister from 1959 of successive coalition governments; with the Democrats (1959-64 and 1969-74); and with the Socialists (1964-69).

A very impressive public servant who has commanded widespread respect and esteem during his long years of office, not least for the patience he showed in allowing decisions to emerge by consensus. An excellent speaker. In the 1974 elections his party lost a number of seats and though it was still the largest party, he decided to resign, devoting a year to the organisation of the party. The considerable success of his Party in the 1979 elections was largely due to his efforts. Following M Thorn's departure from Luxembourg politics at the end of 1980, M Werner's commanding political position increased and there was general regret when he left politics after the 1984 elections. He is extremely well-informed on Luxembourg affairs but since his retirement he seems to have lost some of his interest in politics, and tires more easily.

He is well-known internationally as a speaker and writer, especially on financial matters. Much of the credit for the growth of Luxembourg as a financial centre belongs to him. Paid an official visit to the UK with his wife in October 1982.

M Werner has a relaxed, friendly, open and attractive personality. He inspires confidence with his peasant shrewdness and sophisticated intelligence. From 1979 to 1984 he was Prime Minister and Minister of Culture, Religious Affairs, Information and the Press, Development and the Treasury. He speaks fluent English and listens to the BBC every morning. He understands better than most the British way of doing things. He is a devoted family man, fond also of music (he is a good pianist) and gardening. His wife died in January 1984 after a long illness. 5 children.



DR H O C R RUDING (CDA)

Minister of Finance (since November 1982) *for the Netherlands*

Born in Breda in August 1939. Grew up in a Catholic family. Studied at the Rotterdam School of Economics (later Erasmus University). 1965 to 1970 Head of the International Monetary Affairs Division of the Ministry of Finance. 1971 to 1977 Managing Director of the AMRO Bank in Amsterdam. 1977 to 1980 Executive Director of the IMF in Washington. 1980 to 1982 member of the Board of Management of the AMRO Bank.

A friend of the new Prime Minister, Lubbers, from University days. Ruding was first offered the Finance Ministry in 1980 when Andriessen resigned, but on that occasion he turned it down.

CONFIDENTIAL

Dr Miguel Jose Ribeiro Cadilhe

Minister for Finance

Born 10 November 1944 in Barcelos. Graduated in Economics at the University of Porto and did research at the London School of Economics. Has pursued a career teaching and writing about economics before serving as Secretary of State for Planning between 1981 and 1983, and subsequently headed the Department of Economic and Financial Studies of Banco Portugues Do Atlanttico in Oporto. Friendly and intelligent, though his approach can seem more academic than practical. Speaks fair English.

Married (Antonia) with one son.

SOLCHAGA CATALAN, CARLOS

Economy and Finance Minister since 4/7/85
Minister for Industry and Energy since 1982; PSOE Deputy for Alava since 1979.

Born 1944 in Navarre. After reading Economics at Madrid University entered the research department of the Bank of Spain. While in the Bank spent two years at the MIT in Cambridge, Massachusetts, doing further research. With the Bank of Spain until 1974, when he joined the Research Department of the State industrial holding, INI, for a brief spell. Began to take an active interest in politics in early 1975, when he joined both the PSOE and the UGT. Head of the Research Department of the Banco de Vizcaya in Bilbao in 1975-77. Joined the Basque Socialist Party in 1978, and elected to the Executive.

An intelligent and fluent speaker, he was one of the leading lights of the PSOE in Congress debates on the economy. He made his name during the debates on the vote of censure motion against Suarez (q.v.) in May 1980. He was influential in drafting the PSOE's economic programme before the 1982 elections.

As Industry Minister he has borne the brunt of criticism arising from the government's programme of industrial restructuring in the steel and shipbuilding sectors. Gonzalez (q.v.) refused his offer to resign in 1983, when criticism reached a peak. Solchaga's talent is unquestioned and in the event of a government reshuffle he would expect another job.

Married with two children. Speaks English and French.

ERSBØLL, NIELS (DANISH)

Secretary-General of the Council since October 1980.

Born 1926. Graduated in Law. Joined MFA 1955, served Paris (Mission to NATO) 1958-60, EFTA Secretariat, Geneva 1960-63 MFA 1964-73. Permanent Representative to EC 1973-77. Second Permanent Secretary for Foreign Economic Affairs in the Ministry of Foreign Affairs 1977-80, responsible for economic and Community affairs. Chairman of the International Energy Agency in Paris 1979-80.

A charming man, who speaks excellent English. Always calm, courteous and intelligent. He had much to do to clear up the staff troubles which his predecessor bequeathed to him.

Married; his wife is an economic journalist.

Confidential
 President of the Commission since January 1985.
 Responsible for monetary affairs

DELORS, JACQUES

Minister for the Economy and Finance. (Ministre de l'Economie et des Finances).

Born 1925. Worked for the Banque de France and later the Economic and Social Council. Counsellor for Social Affairs in the Commissariat-Général of the Plan, 1962-68. A member of the French equivalent of the Consumers' Association (a Government body) 1968-70. Secretary-General of the Inter-ministerial committee for Industrial Training and Social Affairs 1969-73. Appointed adviser to the Prime Minister on Social and Cultural Affairs, June 1969 and from 1971-72 Chargé de Mission in the Cabinet of M. Chaban-Delmas when he played an important part in the development of Chaban's 'new society' policy. M. Delors is in particular credited with the idea of long term progressive wage contracts (contrats de progrès) in the public sector. He left the Inter-Ministerial Committee in 1973 to take a position at the University of Paris-Dauphine where he lectured on social policy and became an Associate Professor. Founded the 'Association 1973-80' to study economic, social and environmental planning in 1973. Member of the Board of the Bank of France, 1973-79. Joined the PS at the time of the Presidential election in 1974. 1976-81 he was the Party's National Delegate for international economic affairs. Elected an MEP in 1979, he was President of Economic and Monetary Commission of the European Parliament. During the 1981 Presidential election campaign, he acted as one of M. Mitterrand's principal advisers on economic affairs. Member of Management Committee of the PS since 1981. Appointed to present post May 1981.

Although a member of the Mitterrand faction, M. Delors is on the social-democratic wing of the PS. He is therefore suspect to his colleagues on the Left. But he retains M. Mitterrand's ear.

Delors is intelligent, hard-working and pleasant to deal with. His background is modest (he is of Christian trade union stock).

Married with 2 children. Has a slight knowledge of English.

Vice President of the Commission - responsible for Internal market, taxation, financial institutions

Lord COCKFIELD

Francis Arthur Cockfield. Born 28 September 1916.
Married Aileen Monica Mudie, choreographer. Created Life Peer 1978.

Graduate London School of Economics (LLB, BSc (Econ)). Called to the Bar (i.e. qualified as Barrister) 1942. Cabinet Minister since 1982.

Previous appointments: Home Civil Service, Inland Revenue 1938; Assistant Secretary to Board of Inland Revenue 1945; Director of Statistics and Intelligence to Board of Inland Revenue 1945-1952; Commission of Inland Revenue 1951-1952; Financial Director, then Managing Director and Chairman of Executive Management Committee, Boots Pure Drug Co 1953-1967; Member National Economic Development Council 1962-1964 and 1982-1984; Member, Court of Governors of University of Nottingham 1963-1967; President, Royal Statistical Society 1968-1969; Adviser on Taxation Policy to Chancellor of Exchequer 1970-1973; appointed Honorary Fellow, London School of Economics 1972; Chairman, Price Commission 1973-1977; Minister of State, HM Treasury 1979-1982; Secretary of State for Trade 1982-1983.



CHRISTOPHERSEN, HENNING

Since January 1985 Vice President of the Commission
Responsible for -Budget- Financial control

Finance and Deputy Prime Minister
September 1982 - 1984

Personnel and administration

Born 1939. Graduated in political science 1965. Head of the Industrial Economy Division of the Artisans Council 1965-70. Principal of a liberal 'high school' 1971-72. Subsequently an economic consultant for various organisations and an economic and political journalist for the leading weekly 'Weekendavisen'. Member of the Folketing since 1971. Deputy chairman of the Venstre (Liberal) Party Organisation from 1972-77, when he became provisional chairman on Mr Poul Hartling's departure. He was confirmed in office at the Party Congress in September 1978. Visited Britain as a FCO sponsored visitor 1975. Minister of Foreign Affairs 1978-80.

Although his previous experience was more with internal than external affairs he took the Foreign Ministry as the senior post offered to Venstre in the coalition Government formed in August 1978. Although not formally appointed Deputy Prime Minister, he deputises for the Prime Minister in the latter's absence. During the difficult early stages of the coalition, he had to give much of his attention to party and government business centering on domestic economic and financial issues. But his senior officials soon spoke admiringly of his rapid grasp of foreign affairs briefs. Venstre is the most pro-European of Danish political parties and Mr Christophersen takes a keen personal interest in work in Brussels as well as in political cooperation.

He displayed courage and political skill in bringing about a major realignment in policy within his party, and grew in public esteem during the negotiations for the formation of the coalition. The odds must be that he will be prominent on the Danish political scene for many years to come.

Personally friendly, with more than passable English. Married. His wife's sister is the widow of Sir Donald Hopson.

*Vice President of the Commission
responsible for agriculture and forestry*

ANDRIESSEN Frans H.J.J.

born on 2 April 1929 at Utrecht - Married: 4 children

- 1951 Degree in law at the State University of Utrecht;
- 1954 to 1972 Discharged various duties at the Catholic Institute for Housing (last position held: Director)
- 1958 to 1967 Member of the Utrecht Provincial States
- 1967 to 1977 Member of the Second Chamber of the States-General (specializing initially in matters relating to low-cost housing)
- 1971 to 1977 President of the KVP Group of the Second Chamber
- 1977 to 1979 Minister for Finance
- 1980 Member of the First Chamber of the States-General (Senate)
- 6.1.81 Member of the Commission of the European Communities with responsibility for relations with the European Parliament and for the competition sector

Mr Andriesen is a knight of the Order du Lion Néerlandias and an officer of the Order of Orange-Nassau.

28
responsible for external relations
and trade policy

DE CLERCQ, WILLY

Member of the European Commission since Jan 1985

Former Deputy Prime Minister, Minister of Finance and Foreign Trade. Former President of the PVV. Former Minister of Finance in the 1974-77 Tindemans government. President of the Liberal group to European Parliament since 1981. Chairman of IMF's Interim Committee. He is to be the next Belgian member of the European Commission.

Born 1927.

A brilliant student, and Doctor of Law summa cum laude. Studied at Syracuse, USA (MA in Social Sciences). He is a lawyer. He entered politics when he was very young, and became a town councillor of Ghent in 1952. He entered Parliament in 1958 and was elected leader of the PLP Parliamentary group after the elections of May 1965. In 1960 he was an Under-Secretary in charge of the Budget in the Eyskens government. He was Deputy Prime Minister in charge of the Budget under Vanden Boeynants and established a reputation as an able economist. In 1973 Leburton re-appointed him Deputy Prime Minister and Minister of Finance and he continued to hold the latter post during the Tindemans government (1974-77). During the Belgian EC Presidency in 1977 his handling of the Finance Ministers' meetings was much superior to the performance of his colleague, Foreign Minister Van Elsende. He enjoys considerable popular support in Ghent and was largely responsible for the PVV's gains in the communal elections of 1976. However, in the April 1977 national elections, De Clercq unexpectedly failed to be re-elected, partly because of the unpopular economic measures he had had to take as Minister of Finance, but, more importantly, because of his long-standing friendship with a local judge, who had shortly before the elections, been arraigned on corruption charges. He is considered to be a moderate Fleming and tolerant in his general outlook.

Friendly, speaks good English. His intelligent wife (also a lawyer) helped to run his chambers when he was a Minister, and is involved in PVV activities in the Ghent area.

CONFIDENTIAL

PETER SCHMIDHUBER

EC Commissioner since 1987

Responsible for economic affairs

Born 1931 in Munich. Studied jurisprudence and economics. Civil Servant in Bavaria from 1961. CSU member of Bundestag from 1965-69 and 1972-78. Member of the Bavarian Land Parliament and Bavarian Minister for Federal issues since 1979. In this capacity he represented Bavaria in Bonn and presided over the Bavarian EC Information Bureau in Brussels.

Although he carried out his representational duties in Bonn fully, he began to look as if he no longer enjoyed the full confidence of Franz Josef Strauß, the Bavarian Prime Minister and Chairman of the CSU, who took to using other channels for his dealings with Kohl. Schmidhuber's career in FRG politics thus seemed blocked, and he was probably not sad to succeed Alois Pfeiffer in September 1987.

An intelligent, thoughtful and rather introspective man with an interest in art and a small private picture collection. Married.

CURRICULUM VITAE

OF

Mr Peter M. SCHMIDHUBER

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Born: 15 December 1931 in Munich, Roman Catholic, widower, one daughter

1951: School-leaving examination

Studies in Law and Economics at the University of Munich

1955 Bachelor of Economic Science Examination

1958 First State examination in law

1960 Second State examination in law

1961-1972 Worked in the Bavarian Ministries of State for Finance (Legal Department), Economics and Transport (Fiscal Law and Competition Law); finally, head of sub-division for competition

1969-1971 Head of Department in an industrial federation

Since 1972 Lawyer in Munich

Since 1952 Member of the CSU (Christian Social Union)

Various party offices, including member of the executive federal board of the CDU (Christian Democratic Union)/CSU Association of the Middle Classes, Member of the CSU "Land" executive board

From 1960-1966 honorary councillor of the "Land" capital, Munich

From 1965-1969 and from 1972-1978 Member of the "Bundestag" (Federal Lower House of Parliament)

Member of, inter alia, the Economic Committee (responsible for competition law and Middle Classes issues) and of the Fiscal Law Reform Committee and the Economic Criminality Prevention Committee; member of the Council of Europe and of the WEU (Western European Union) Assembly

Since 1978, Member of the Bavarian Parliament

Since 9 November 1978, Bavarian Minister of State for Federal Affairs and Federal Government representative of the Bavarian Free State

Since 1978 Member of the "Bundesrat" (Federal Upper House of Parliament), of the Mediation Committee of the Federal Lower and Upper House and of the North Atlantic Assembly.

Telno
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CONFIDENTIAL

064123
MDHIAN 9242

CONFIDENTIAL
FM THE HAGUE
TO IMMEDIATE FCO
TELNO 438
OF 271700Z OCTOBER 88
INFO SAVING BRUSSELS, COPENHAGEN, BONN, PARIS, DUBLIN

What do we think of the value of this package? Attraction of works. (Read on original with telis below, it looks on p 12)

YOUR TELNO 602 TO BONN : STRUCTURAL FUNDS ADDITIONALITY

SUMMARY

1. ACTION TAKEN WITH FINANCE MINISTRY WHO REVEALED THAT THEY HAD SIGNIFICANT RESERVATIONS ABOUT THE PRESIDENCY'S TEXT FOR ARTICLE 9(2) (AS SET OUT IN TUR). BUT THE VIEW OF OTHER DEPARTMENTS HAD BEEN THAT IT WAS JUST ACCEPTABLE, AND THE FINANCE MINISTRY HAD RELUCTANTLY ACQUIESCED. THE FINANCE MINISTRY WOULD BE GRATEFUL TO BE KEPT IN TOUCH WITH OUR THINKING.

2. WE SPOKE TO VAN BALLEKOM, OVERSEAS FINANCIAL RELATIONS DEPARTMENT IN THE FINANCE MINISTRY WHO SAID THAT THE MINISTRY THOUGHT THE TEXT AN IMPROVEMENT ON ITS PREDECESSORS. IT WAS, HOWEVER, STILL FAR FROM WHAT THE FINANCE MINISTRY WOULD HAVE WISHED AND THEY HAD ACCEPTED IT ONLY AS A RESULT OF PRESSURE FROM OTHER GOVERNMENT DEPARTMENTS. THE FINANCE MINISTRY BELIEVED THAT THEY COULD, IN THE FINAL ANALYSIS, LIVE WITH THE PRESENT TEXT BY USING THE PHRASE 'TAKING INTO ACCOUNT THE MACRO-ECONOMIC CIRCUMSTANCES IN WHICH THE FUNDING TAKES PLACE' AS A LOOP-HOLE. VAN BALLEKOM SAID THAT THE AMOUNT OF MONEY THE NETHERLANDS WILL RECEIVE (ABOUT 100M ECU) IS NOT SUCH AS TO REPRESENT A MAJOR PROBLEM IN TERMS OF CONTROLLING PUBLIC EXPENDITURE.

3. HOWEVER, CONTINUING IN CONFIDENCE (PLEASE PROTECT), VAN BALLEKOM MADE IT CLEAR THAT THE FINANCE MINISTRY THEMSELVES WOULD SEEK TO USE ANY MONEY OBTAINED FROM BRUSSELS TO REDUCE THEIR OWN PUBLIC EXPENDITURE COMMITMENTS. HE WAS CYNICAL ABOUT HOW THE COMMISSION WOULD ACTUALLY VERIFY THE ADDITIONAL EXPENDITURE PROVISIONS. HE SAID THE DUTCH DID NOT INTEND TO CHANGE THEIR EXISTING PUBLIC EXPENDITURE CONTROLS AND WOULD PROBABLY RESORT TO A FORM OF CREATIVE ACCOUNTANCY IF THIS WAS NECESSARY TO SATISFY BRUSSELS. THE MINISTRY WERE IN ANY EVENT NOT CONVINCED OF THE VALUE OF REGIONAL AIDS IN GENERAL AND SUSPECTED THAT THE SOUTHERN MEMBER STATES WOULD BE AS ADEPT AS THEMSELVES IN USING

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THE ADDITIONAL MONEY TO REDUCE CURRENT EXPENDITURE RATHER THAN INCREASE INVESTMENT, SO THAT BY 1992 THEIR RELATIVE DISADVANTAGES WOULD NOT IN FACT HAVE BEEN REDUCED.

4. THE DUTCH GOVERNMENT ARE AT PRESENT PREPARED TO ACQUIESCE IN THE PRESIDENCY TEXT. HOWEVER, VAN BALLEKOM SAID THAT THE MINISTRY OF FINANCE THEMSELVES WOULD BE OPEN TO CONSIDER ANY ALTERNATIVE WORDING WE MIGHT PROPOSE WHICH STRENGTHENED THE LOOP HOLE REFERRED TO IN PARA 2. ABOVE.

JENKINS

YYYY

DISTRIBUTION 162

MAIN 156

.FRAME STRUCTURAL ECD (I) [-]

ADDITIONAL 1

FRAME

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EXPENDITURE PLANS TO TAKE ACCOUNT OF LIKELY RECEIPTS FROM THE
STRUCTURAL FUNDS.

FERGUSSON

YYYY

DISTRIBUTION 157

MAIN 156

.FRAME STRUCTURAL ECD (I) [-]

ADDITIONAL 1

FRAME

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Mr Law

- 1. MR R I G ALLEN
- 2. CHANCELLOR

FROM: M C MERCER
 DATE: 4 NOVEMBER 1988

*Marks.
 John's work
 done fine
 work, we shall
 have to act
 a la Francisco.*

- cc: Chief Secretary
 Paymaster General
 Sir G Littler
 Mr Lankester
 Mr Turnbull
 Mr Edwards
 Mr Burgner
 Mr MacAuslan
 Mr Evans
 Mr Towers
 Mrs Phillips

STRUCTURAL FUNDS: ADDITIONALITY

This note reports the current state of play on the additionality clause in the draft structural fund regulation, and replies to Mr Taylor's minute of 31 October on whether the reference to "taking account of macro-economic circumstances" is a potential loophole. A copy of the latest version of the relevant clause is attached.

2. Sir David Hannay and I discussed the matter yesterday with the Secretary-General of the Commission (UKREP telno 3200 attached). We tried in particular to persuade him to accept an alternative form of words in place of the phrase "at least equivalent". He was not disposed to accept an amendment in this area, emphasising (a) that the UK was isolated and (b) that the Commission were determined to guard against structural fund money being used to reduce public expenditure or to provide balance of payments support.

3. As regards "macro-economic circumstances", Williamson said that the Commission did not believe this was a let-out in relation to the concept of "equivalent" additionality. The phrase related solely to the words "at least": ie member states would be able to take account of their economic circumstances only in deciding whether to increase spending by more than an equivalent amount. It remains to be seen whether the Irish and others share this view, or indeed whether it corresponds with the negotiating history. The text is clearly open to more than one interpretation, but we clearly cannot put much, if any, weight on it.

4. Finally, Williamson promised to send us a letter explaining the arithmetic of the clause. He said that the required increase in member states' public expenditure would be equivalent to their additional receipts, year-by-year, from the incremental structural fund appropriations agreed at the Brussels European Council. This would be measured from a base year, probably 1988: if receipts in 1989 grew by, say, £10 million then, other things being equal, the growth would be assumed to have stemmed from the increase in structural fund appropriations and an extra £10 million of public expenditure would be required. The same principle would apply in each year up to and including 1992. The Commission have declined to go into detail about the operation of this mechanistic formula. We shall need to study their letter closely when it arrives.

5. Meanwhile, we are asking Departments to provide estimates of the likely increase in UK receipts over the period to 1992 and will let you have details as soon as possible. We and the FCO think that further discussions between you and the Foreign Secretary (as foreshadowed at Cabinet on 27 October) might be delayed until the estimates are available. Discussions will, however, almost certainly have to take place before the 21 November FAC, at which the Presidency are likely to try to establish a common position on the regulation.

This is disappointing, but not surprising.

Recent wording of new Member States indicates that we are likely to remain isolated. However, his letter from W. C. ...

Williamson (supra 4) may provide the basis for a damage limitation exercise.

M C MERCER

RA. 4/11

LATEST
VERSION OF
CLAUDE

IN ESTABLISHING AND IMPLEMENTING THE COMMUNITY SUPPORT FRAMEWORKS, THE COMMISSION AND THE MEMBER STATES SHALL ENSURE THAT THE INCREASE IN THE APPROPRIATIONS FOR THE FUNDS PROVIDED FOR IN ARTICLE 12(2) OF REGULATION (EEC) NO 2052/88 HAS A GENUINE ADDITIONAL ECONOMIC IMPACT IN THE REGIONS CONCERNED AND RESULTS IN AT LEAST AN EQUIVALENT INCREASE IN THE TOTAL VOLUME OF OFFICIAL OR ASSIMILABLE (COMMUNITY AND NATIONAL) STRUCTURAL AID IN THE MEMBER STATE CONCERNED, TAKING INTO ACCOUNT THE MACRO-ECONOMIC CIRCUMSTANCES IN WHICH THE FUNDING TAKES PLACE.

Tel no
3200

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RESTRICTED

FM UKREP BRUSSELS

TO DESKBY 040900Z FCO

TELNO 3200

OF 031855Z NOVEMBER 88

INFO PRIORITY EUROPEAN COMMUNITY POSTS, STRASBOURG

FRAME STRUCTURAL

STRUCTURAL FUNDS: ADDITIONALITY: YOUR TELNO 367

1. I CALLED ON MR WILLIAMSON (SECRETARY GENERAL COMMISSION) THIS AFTERNOON ACCOMPANIED BY MR MERCER (HMT) AND MR PLOWMAN (UKREP). MR WILLIAMSON HAD WITH HIM MR RENCKI (DGXVI) AND MR MITSOS (DGXXII)

2. THE PURPOSE OF THE MEETING WAS TO TRY TO NEGOTIATE AN IMPROVEMENT TO THE TEXT IN THE HORIZONTAL REGULATION (ARTICLE 9.2) ON ADDITIONALITY WHICH CURRENTLY READS:

'IN ESTABLISHING AND IMPLEMENTING THE COMMUNITY SUPPORT FRAMEWORKS, THE COMMISSION AND THE MEMBER STATES SHALL ENSURE THAT THE INCREASE IN THE APPROPRIATIONS FOR THE FUNDS PROVIDED FOR IN ARTICLE 12(2) OF REGULATION (EEC) NO 2052/88 HAS A GENUINE ADDITIONAL ECONOMIC IMPACT IN THE REGIONS CONCERNED AND RESULTS IN AT LEAST AN EQUIVALENT INCREASE IN THE TOTAL VOLUME OF OFFICIAL OR ASSIMILABLE (COMMUNITY AND NATIONAL) STRUCTURAL AID IN THE MEMBER STATE CONCERNED, TAKING INTO ACCOUNT THE MACRO-ECONOMIC CIRCUMSTANCES IN WHICH THE FUNDING TAKES PLACE''.

3. I WENT OVER THE GROUND COVERED IN COREPER EXPLAINING THAT, WHILE WE HAD NO DIFFICULTY WITH THE PROPOSITION THAT THE INCREASE IN THE FUNDS SHOULD HAVE A GENUINE ECONOMIC IMPACT, THE REQUIREMENT TO SHOW AT LEAST AN EQUIVALENT INCREASE IN STRUCTURAL AID RISKED CUTTING ACROSS THE OBJECTIVE OF PUBLIC EXPENDITURE CONTROL WHICH WAS OF PARTICULAR IMPORTANCE TO THE UNITED KINGDOM AND WHICH WAS ALSO IN KEEPING WITH BUDGETARY CONTROL IN THE COMMUNITY. I NOTED THAT THE REFERENCE TO ANNUALITY HAD BEEN REMOVED, BUT THE TEXT IN THE HORIZONTAL REGULATION (ARTICLE 9(2)) REMAINED AMBIGUOUS. A REFERENCE TO THE 'OVER THE PERIOD' WOULD HELP REMOVE THAT AMBIGUITY. AS TO THE CONCEPT OF 'AT LEAST EQUIVALENT', I SUGGESTED IT WOULD BE BETTER TO EXPRESS THE POINT THE OTHER WAY AROUND, NAMELY THAT THE EFFECT SHOULD BE THAT THERE SHOULD NOT BE A DECREASE IN TOTAL STRUCTURAL AID.

4. WILLIAMSON DREW ATTENTION TO THE LATEST PRESIDENCY DOCUMENT (SN/3874/88 OF 27 OCTOBER) WHICH CONTAINED TEXTS RESULTING FROM DISCUSSION AT THE FOREIGN AFFAIRS COUNCIL ON 24 OCTOBER. THE TEXT ADDITIONALITY WAS ACCEPTABLE TO 11 DELEGATIONS. IT WAS NOT THE COMMISSION'S PREFERRED TEXT BUT WAS A RESULT OF A COMPROMISE. THE COMMISSION'S AIMS WERE MODEST. IF THE COMMISSION PUT IN SAY 60 UNITS AND THE MEMBER STATE AN EQUIVALENT AMOUNT IN YEAR 1 AND SUBSEQUENTLY IN YEAR 2 THE COMMISSION INCREASED THEIR CONTRIBUTION TO 90 UNITS THEY WOULD EXPECT TO SEE THE TOTAL RISING BY THE AMOUNT OF THE COMMISSION'S EXTRA CONTRIBUTION. THEIR AIM WAS MERELY TO ENSURE THAT THERE WAS NO OFFSETTING REDUCTION BY THE MEMBER STATE.

5. WILLIAMSON CONTINUED THAT THE PHRASE ''AT LEAST EQUIVALENT'' WAS AN IMPORTANT COUNTER-WEIGHT TO THE FINAL PART OF ARTICLE 9.2 WHICH REFERRED TO ''TAKING INTO ACCOUNT THE MACRO-ECONOMIC CIRCUMSTANCES IN WHICH THE FUNDING TAKES PLACE.'' MITSOS SUBSEQUENTLY EXPLAINED THAT THE MACRO-ECONOMIC CIRCUMSTANCES REFERENCE WAS CONSIDERED BY THE COMMISSION TO BE A MAJOR LET-OUT WHICH HAD TO BE BALANCED BY THE COMMITMENT TO AN AT LEAST EQUIVALENT INCREASE IN STRUCTURAL AID. WILLIAMSON ADDED THE COMMISSION HAD NOT WANTED THE REFERENCE TO MACRO-ECONOMIC CIRCUMSTANCES AND WOULD BE HAPPY TO SEE IT GO.

6. THE COMMISSION SAID THAT SOME MEMBER STATES, ESPECIALLY IN THE SOUTH OF THE COMMUNITY MIGHT USE THE STRUCTURAL FUNDS TO REDUCE PUBLIC EXPENDITURE OR HELP THEIR BALANCE OF PAYMENTS. THE COMMISSION'S EXPERIENCE OF INTEGRATED MEDITERRANEAN PROGRAMMES HAD SHOWED THAT STRUCTURAL FUND MONEY HAD BEEN USED FOR THE WRONG PURPOSES AND THE COMMISSION WERE ANXIOUS TO GUARD AGAINST THAT. IT WAS A MAJOR STEP FORWARD FOR THE PRESENT TEXT TO BE ACCEPTED BY THE SOUTHERN MEMBER STATES.

7. WE EXPLAINED THAT THE UNITED KINGDOM HAD AN IMPORTANT PRESENTATIONAL PROBLEM. WE MADE A SUBSTANTIAL CONTRIBUTION TO COMMUNITY RESOURCES, SOME OF WHICH WAS RETURNED THROUGH THE STRUCTURAL FUNDS. EUROPEAN COMMUNITY EXPENDITURE WAS TAKEN INTO ACCOUNT BUT WAS ONLY ONE OF A NUMBER OF FACTORS WHICH DETERMINED THE OVERALL LEVEL OF PUBLIC EXPENDITURE.

8. I ADDED THAT THE PRESENT TEXT OF ARTICLE 9.2 WITH ITS CROSS-REFERENCE TO ARTICLE 12(2) OF THE FRAMEWORK REGULATION (NUMBER 2052/88) WAS AMBIGUOUS. IT WAS NOT CLEAR WHETHER THE COMMISSION WERE TALKING ABOUT THE INCREASE ALONE OR THE TOTAL AMOUNT INCLUDING THE

INCREASE. IT WOULD BE CLEARER THEREFORE TO REFER TO ANNUAL INCREASES, ALTHOUGH THIS IN TURN WOULD RAISE THE QUESTION OF THE OVERALL EFFECT OVER THE PERIOD IN QUESTION (1988-1992). THERE WOULD THEREFORE NEED TO BE A REFERENCE TO 'OVER THE PERIOD' AS WELL.

9. WILLIAMSON SHOWED SOME INTEREST IN THIS, SAYING THAT THE COMMISSION TALKED ORIGINALLY OF A CORRESPONDING INCREASE BUT THAT THE REFERENCE TO MACRO-ECONOMIC CIRCUMSTANCES HAD PERSUADED THEM THAT THERE NEEDED TO BE A REFERENCE TO AT LEAST AN EQUIVALENT INCREASE AS WELL. I SAID THAT THE REFERENCE TO MACRO-ECONOMIC CIRCUMSTANCES DID NOT AUTOMATICALLY IMPLY AN INCREASE OR DECREASE. WILLIAMSON WAS CLEARLY UNHAPPY WITH IT BUT SAID THAT THE REFERENCE HAD BEEN INSERTED FOLLOWING DISCUSSIONS BETWEEN THE COMMISSION AND THE PRESIDENCY AND COULD NOT BE TAKEN OUT.

10. IN FURTHER DISCUSSION OF CHANGES ALREADY MADE TO THE TEXT COMMISSION POINTED OUT THAT THEY HAD HAD TO ADD THE WORDS 'ASSIMILABLE' AID TO MEET THE NEEDS OF MEMBER STATES. I POINTED THAT THE PURPOSE OF THIS ADDITION WAS TO INSURE EQUITY OF TREATMENT. THE UK HAD PRIVATISED AND WOULD BE PRIVATISING A NUMBER OF PUBLIC UTILITIES, WHICH IN OTHER MEMBER STATES WOULD REMAIN IN THE PUBLIC SECTOR.

11. IN FURTHER DISCUSSION WILLIAMSON UNDERLINED THE POINT THE COMMISSION WISHED TO ENSURE THAT ONLY THE INCREASES IN STRUCTURAL FUND AID WERE REFLECTED IN PUBLIC EXPENDITURE. THEIR AIMS WERE MODEST BEARING IN MIND THE REFERENCE TO MACRO-ECONOMIC CIRCUMSTANCES WHICH COULD BE TAKEN INTO ACCOUNT. HE WAS ALSO PREPARED TO RECOMMEND TO HIS AUTHORITIES THE RE-INSERTION OF THE WORD ANNUAL AND THE ADDITION OF THE WORDS 'OVER THE PERIOD' IN THE TEXT. THE COMMISSION'S INTERPRETATION OF THE TEXT COULD BE SET OUT IN A LETTER TO THE UK.

12. I SAID THAT I WOULD REFLECT ON HIS COMMENTS AND REPORT THEM TO MY AUTHORITIES. I COULD NOT HOWEVER REACT IMMEDIATELY AND I HOPED THEREFORE THE COMMISSION WOULD ENSURE THAT THE MATTER WAS NOT DISCUSSED AT COREPER TOMORROW.

HANNAY

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Telno
3262

*Answer April Subject
Advised (M) new
a way*

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FM UKREP BRUSSELS
TO DESKBY 090900Z FCO
TELNO 3262
OF 081845Z NOVEMBER 88
INFO PRIORITY EUROPEAN COMMUNITY POSTS

This Text of Williamson letter (referred to in Mr Menar's earlier note) attached. Williamson has now written precisely in more terms. (Mr Menar tells me that, although the Commission are clear that they will measure "additions" in cash, rather than in e.g. percentage shares of the S.F., they do not know whether they will measure in constant or current prices, or how they will do the measuring.)

FRAME STRUCTURAL

STRUCTURAL FUNDS : ADDITIONALITY

1. WE RECEIVED THIS EVENING A DRAFT OF THE LETTER WHICH WILLIAMSON (SECRETARY GENERAL OF THE COMMISSION) HOPES TO SEND ME TOMORROW MORNING. THE DRAFT HAS BEEN CLEARED WITH DGS XVI AND XXII. IT HAS NOT YET BEEN CLEARED WITH THE DELORS CABINET, BUT WILLIAMSON DOES NOT EXPECT THEM TO RAISE ANY OBJECTION.

*SV
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of room
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fudging)
2/9/11*

2. TEXT OF LETTER IN MIFT.

3. THE TEXT FOLLOWS VERY CLOSELY THAT OF THE DRAFT WHICH WE GAVE TO WILLIAMSON ON 4 NOVEMBER (TEXT FAXED TO KERR AND OTHERS). THE ONLY CHANGE WORTHY OF NOTE IS THE OMISSION OF THE WORD "ONLY" AFTER "APPLIES" IN THE OPENING SENTENCE OF THE SECOND PARAGRAPH WHICH NOW READS "THIS ARTICLE APPLIES TO THE INCREASE IN STRUCTURAL FUND APPROPRIATIONS..." THIS APPEARS TO BE A LARGELY PRESENTATIONAL CHANGE WHICH IS DESIGNED TO MAKE THE TEXT MORE PALATABLE WITHIN THE COMMISSION.

HANNAY

YYYY

DISTRIBUTION

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MAIN 156

.FRAME STRUCTURAL

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ADDITIONAL 1

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Fix a note that. Review with head of the public, Mr. Jones. Discuss & I agree with the general conclusion on tactics. But further work is needed on the detailed implications of the regulation.

FROM: M C MERCER
DATE: 9 NOVEMBER 1988

- 1. MR R I G ALLEN
- 2. CHANCELLOR

work is needed on the detailed implications of the regulation.

- Chief Secretary *
- Paymaster General *
- Sir G Littler *
- Mr Lankester *
- Mr Anson *
- Mr Turnbull *
- Mr Edwards *
- Mr Burgner *
- Mr MacAuslan *
- Mr Burr *
- Mr Waller *
- Mr A White *
- Mr C B Evans *
- Mr Towers *
- Mrs Phillips *

Ch

I'm pretty dubious - this really is to thin end of the wedge, which the Commission will hammer in as vigorously as possible. (So will spending Depts)

*Mr Irvine *
Mr Call **

STRUCTURAL FUNDS: ADDITIONALITY

We understand that the question of additionality and the structural funds is likely to come up at your meeting with the Foreign Secretary later today. This note provides briefing.

The Commission's position

2. My minute of 4 November reported that the Secretary General of the Commission had promised us a letter confirming that the additionality clause in the draft horizontal regulation (attached at Annex A) related only to member states' increased receipts from the extra structural fund appropriations agreed at the Brussels European Council. Williamson subsequently asked us (at Sir D Hannay's prompting) for the draft of such a letter. The draft which we provided is at Annex B. Williamson has apparently accepted it, subject to some relatively minor editorial points. The main advantages of such a letter are (a) that it confirms that additionality is required only at the margin, and (b) that 1988 is cited as the base year, thereby allowing us to pray-in-aid any planned increase in structural expenditure over the 1988 level. When the Williamson letter arrives we shall consider how best to nail the points down in any reply.

(if we do have to accept it, I'd strongly favour a real squeeze on departments' baselines in the next survey so as to limit the damage).*

Possible public expenditure cost

3. We have had an urgent meeting with interested departments to try to agree estimates of the increased receipts which the UK is likely to get between 1989 and 1992 from the incremental provision for the structural funds (which totals some £9 billion at 1988 prices). The forecasts are as follows:

*Under JES reg. 2
not effect of fund to*

	£million (1988 prices)			
	1989	1990	1991	1992
Increase in UK receipts compared with 1988.	10-15	25-35	40-60	80-100
Of which Northern Ireland	10	25	40	65

4. These estimates assume that the UK allows full additionality, ie that, in strict compliance with the horizontal regulation, expenditure on structural aid grows (compared with 1988) by the same amount as the increased receipts. The figures therefore represent the gross public expenditure cost of the UK being forced to accept the regulation. We must emphasise that the estimates have been hurriedly compiled against a background of considerable uncertainty about, eg, the precise eligibility criteria for the expanded funds. The margins of error are therefore inevitably rather wide. But we can be reasonably confident that the great bulk of the UK's extra receipts will go to Northern Ireland.

5. The net public expenditure cost of the regulation could well be rather lower than the gross cost. As mentioned in paragraph 2 above, we could claim - and may even be able to demonstrate - that our public expenditure plans already take account of the expected increase in structural fund receipts (the traditional "global additionality" argument).

Options

6. The Foreign Secretary will be briefed to argue that further amendment of the text of the regulation is not possible; and that

we should therefore acquiesce in the semi-privacy of COREPER, rather than make a public fuss and be out-voted at the Foreign Affairs Council on 21 November.

7. On the basis of our discussions with Williamson and with the German, French and Dutch Finance Ministries we share the view that substantive amendment of the text is not on. And we doubt whether further lobbying, at whatever level, would convert any of the 11 other member states who are prepared to accept the text as it stands. It therefore seems that our only hope of preventing the Council from adopting a common position on the text would be to invoke the Luxembourg Compromise. We would not however, recommend this course:

- There is a paragraph here*
- we could not rely on getting the necessary support. It is arguable that other member states would reject the notion that a rather marginal increase in the UK's structural spending represented "a vital national interest";
 - the publicity surrounding invocation would be loud and, probably, damaging;
 - even if invocation did work, we would only have bought time. We could not be sure of getting the necessary changes to the text before the Presidency pressed for a vote at some later stage.

8. If you agree with this advice, the main outstanding question is the essentially tactical one of whether the UK should go down quietly at COREPER, or noisily at the FAC. We see no reason to challenge the Foreign Secretary's strong preference for the former.

Conclusions

9. The Williamson letter is likely to be helpful. The gross public expenditure cost of implementing the regulation on the basis outlined by Williamson is difficult to estimate at this stage, but could be of the order of £160-210 million over the period 1989-92. All but a small part of this is likely to be

associated with receipts in Northern Ireland. The net public expenditure cost could be rather less than the gross cost. These factors, together with broader tactical and political considerations, suggest that the least damaging course for the UK would be to acquiesce in the text at COREPER.

10. If you agree, you may wish to discuss with the Foreign Secretary how best to report your conclusions to colleagues. A low-key presentation would seem preferable, in order to avoid stirring up the spending ministers.

11. Mr Turnbull is content with the terms of this note. We shall give further thought, in consultation with GEP and expenditure divisions, to the detailed implications of the regulation. We do not, however, think that it will be necessary to promulgate new domestic rules. Nor do we think that the regulation will set a precedent for other forms of EC receipts.

?? ||

M.C. Mercer

M C MERCER

Handwritten red scribble

Additionality (Article 9(2))

"In establishing and implementing the Community support frameworks, the Commission and the member states shall ensure that the increase in the appropriations for the Funds provided for in Article 12(2) of Regulation (EEC) No 2052/88 has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official or assimilable (Community and national) structural aid in the member state concerned, taking into account the macro-economic circumstances in which the funding takes place."

(A)

②

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: David Williamson

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: David Hannay

Copies to:

PRIVACY MARKING

..... In Confidence

SUBJECT:

STRUCTURAL FUNDS REGULATIONS

1. This letter confirms my explanation of the basis on which the Commission, in consultation with member states, intends to implement the provisions of Article 9(2) of the Horizontal Regulation on the Structural Funds.

2. It should be noted:

i. that the Article applies only to the increase in structural fund appropriations provided for in Article 12 of Regulation 2052/88. That increase amounts cumulatively to 13 billion ecu (1988 prices) over the period between 1989 and 1992;

CAVEAT

1. cc. Mr. Nemes: HMT.
Mr. Lavelle: C.O.

Final version, as conveyed to Mr Williamson.

J.D.L.
4 2 xi

Enclosures flag(s)

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....
In Confidence

ii. that the requirement for the Commission and Member States to ensure at least an equivalent increase in structural aid relates to additional receipts by the member state in question arising directly from the increased appropriations at (i) above.

3. For the purpose of calculating any such additional receipts as at (ii) above, the base year will be 1988. By way of illustration, if receipts in that year were 100 units and in 1989 rose to 110 units as a result of the increase in the structural fund appropriation^s, the Commission and the member state concerned would need to ensure that official structural aid in the member state had also been higher than in 1988 by 10 units.



FROM: A C S ALLAN

DATE: 14 November 1988

CHANCELLOR

1 Tonalt
2 pg

STRUCTURAL FUNDS ADDITIONALITY

It is Katie's birthday and I am taking her out to lunch, so I shall miss this afternoon's meeting. But perhaps I could set out some comments as someone who worked on this in the Treasury in 1981 and 1982.

2. I find it appalling and arguably unconstitutionally for the Commission to dictate what our total public expenditure on regional policy should be - ie we set it at the level we think is desirable and they top it up. I believe strongly in the present line that we take account of an expected level of EC receipts in setting our public expenditure plans (there is a little scope for flexibility in saying that the programmes may be a little higher or a little lower depending on whether actual receipts are higher than lower than expected).

3. One major problem the Treasury faces is that the other departments are not at all interested in helping us. They want to run their own schemes and if the EC want to finance something, they believe that should ^{be} additional: the last thing they want is some of their pet projects being squeezed out because the EC have different priorities. And - at least in Scotland, Wales and Northern Ireland - they are sympathetic to more public expenditure in total. So we have great difficulty in operating "à la française".

4. Official advice seems to be that this is not too serious because all we are talking about is additional receipts measured against the base-line of cash spending in 1988. This is seductive but very dangerous. It is the thin end of the wedge. First, I am not convinced the Commission will stop at looking at increases in total receipts and total spending: they will want to see new projects/programmes, not just a natural expansion of existing plans. And second, we are conceding our basic line that all existing receipts do generate additional expenditure in that we take account of them in setting our plans (and would have a lower level of spending without the receipts). So this virus will spread throughout our structural fund receipts. I am sure we will see the wedge being driven home as far and as fast as possible.



5. The analytical work that has been done seems to me to be very thin. What is the expected trend of our receipts and of the public expenditure programmes they help to finance? What would be the net effect, after rebates, of taking a much smaller share of receipts rather than concede anything on additionality?

6. My inclination would be to appose this root and branch, on the basis that it does not fit in with our constitutional/parliamentary framework.

A C S ALLAN

RA - 15/11

FROM: M C MERCER
DATE: 15 NOVEMBER 1988

1. MR R I G ALLEN

2. CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Turnbull
Mr A J C Edwards
Mr Burgner
Mr MacAuslan
Mr Towers
Mr Evans o.r
Mrs Phillips

STRUCTURAL FUNDS: ADDITIONALITY

In the light of your meeting yesterday, I attach a draft minute for you to send to the Prime Minister.

2. The minute:

- i) gives our best estimate of the potential gross public expenditure cost of the offending article in the horizontal regulation;
- ii) indicates that the net cost could be rather lower than the gross figure if we were able to take account of planned increases in expenditure on structural aid; and
- ii) discusses the option of invoking the Luxembourg Compromise.

3. The attached note ^(A) by Mr Burgner reports on the work which we have managed to do in the time available to estimate the path of national expenditure (official and similar) on structural aid. The estimates must be treated with considerable caution since (a) there is no agreed definition of structural aid, (b) much of the expenditure in question is likely to be undertaken by local authorities and public corporations, and (c) we do not know whether the Commission's point of reference will be regional or national expenditure. The forecasts of UK receipts in the note do not precisely correspond with those in the draft minute to the Prime Minister, largely because the latter were drawn up on a calendar year basis and are at 1988 prices.

4. As regards the Luxembourg Compromise, we understand that Sir David Hannay is sending a telegram (on a highly restrictive basis) in which he advises that invocation is unlikely to be of much use in terms of our main objective. FCO take the rather more basic view that we are most unlikely to get enough support from other member states to ensure a successful invocation: their reasoning is summarised in the note at annex B.

Tel. now sent; + attached.

H

M. C. Mercer

M C MERCER

Effect of the Regulation in Practice

Expenditure on programmes covered by the three Funds needs to be considered separately, though in applying the additionality test the Commission are likely to consider the aggregate picture. The figures below have been compiled from information available in the Treasury and not in all cases checked by Departments. They must be treated with considerable caution.

European Regional Development Fund (ERDF)

The ERDF provides financial support for a wide range of projects and programmes. Most expenditure is for infrastructure projects associated with job creation eg roads, water supply, sewerage, industrial estates and aid to company investment projects. The bulk of UK "regional assistance" is unaffected by ERDF, although there are sometimes contributions to individual RSA cases. The areas eligible at present are the Assisted Areas, although the UK is bidding to include some other inner city areas.

UK ERDF receipts are currently forecast as follows:

				£m
1988-89	1989-90	1990-91	1991-92	
400	430	450	480	

The receipts mainly go to local authorities (50%) water boards (25%) and nationalised industries (15%). Among Government departments DTp get the largest share with DTI and DEN obtaining relatively small amounts.

It is particularly difficult to judge how the Commission will interpret the Regulation in respect of ERDF expenditure, given the wide diversity of projects covered and the range of spending authorities. Forecasts of relevant regional expenditure are not available. However on a national basis central Government

expenditure on types of infrastructure eligible for ERDF is expected to be relatively static (around £2.5 billion a year), while local authority expenditure is expected to increase slowly (from £2.9 billion to £3.1 billion). Expenditure by public corporations increases substantially (from £6 billion to £7 billion), but privatised utilities are likely in the longer term to become ineligible for ERDF assistance.

It is therefore difficult therefore to draw a firm conclusion. But given the size of infrastructure expenditure (and increases agreed in the Survey) in comparison with the incremental increase in receipts, it should by one means or another be possible to demonstrate additionality to an extent that would satisfy the Commission.

EC Agricultural Structural Fund (EAGGF Guidance Section)

Guidance section reimburses national expenditure on agricultural and fisheries structural policies, including Capital Grants, livestock subsidies in the Less Favoured Areas and management payments in environmentally sensitive areas. There are also payments for individual projects under the Marketing and Processing Regulation and for Agricultural Development Programmes (ADPs), including one in Northern Ireland and one for the Scottish Islands.

Expenditure and receipts under Guidance are forecast to be as follows:

	£m			
	1988-89	1989-90	1990-91	1991-92
Expenditure	238	256	257	262
Receipts	63	68	74	76

These figures are not likely to change significantly over the Survey period. Changes to individual components (including set aside, Farm Woodlands, "Extensification" and Capital Grants) should be broadly offsetting.

On the basis of these figures it would appear that, except possibly in 1990-91, there should be no difficulty in meeting the Commission's interpretation of additionality.

European Social Fund (ESF)

The ESF provides financial support for organised schemes of vocational training, retraining and job creation. Organisations which have been funded by the ESF include Government Departments, Local Authorities, private sector companies and a wide range of voluntary and charitable organisations, universities and colleges.

DE programmes eligible for ESF support are YTS, ET and EAS. The pattern of expected ESF receipts and national expenditure on these schemes is expected to be as follows:

	£m			
	1988-89	1989-90	1990-91	1991-92
Expenditure	2649	2541	2434	2401
Receipts	365	375	390	394

Given the sharp fall forecast for Government expenditure on these schemes over the period it appears that there may well be real difficulty in demonstrating additionality, as required by the Regulation, in this area. However in the time available there has not been an opportunity to discuss this with DE.

'B'

FCO View of Support for UK if we Invoked Compromise

To succeed with an invocation of the Luxembourg Compromise, we would require a blocking minority of 23 votes, ie 13 other than our own. The argument that we were, in blocking the horizontal regulation, protecting a key national interest would be hard to sustain with such normal supporters of the Compromise as Greece (5 votes) and Portugal (5 votes), both of whom will be major beneficiaries from the Structural Funds increase. Nor could we expect support from France (10 votes) or Ireland (3 votes), who both deserted us in our last (unsuccessful) Compromise invocation in 1982: Ireland will gain substantially from the increase in the Funds, and the French have told us that they are content with the additionality provision. The Danes (3 votes) are strong supporters of the additionality provision, but would be likely to attach greater weight to their support for the Luxembourg Compromise. The odds, however, are that they would be our only ally, and that invocation would therefore fail.

DRAFT
MINUTE
P.M.

MINUTE

Pse type (no draft)

DRAFT LETTER TO THE PRIME MINISTER

STRUCTURAL FUNDS: ADDITIONALITY

We need to decide before the FAC on 21 November how to handle the article on additionality in the draft regulations implementing the reform of the structural funds agreed at the February European Council.

The text of the relevant article is attached at Annex A. At Cabinet on 27 October the Foreign Secretary and I were asked to seek to negotiate amendments to the text to protect the UK's position on the (non) additionality of EC receipts. We have not been successful. The Commission have declined to accept any substantial changes and all other member states are prepared to agree the text as it stands. The Germans, French and Dutch, ^{whom} ~~who~~ we would normally expect to support us on such issues, receive little from the structural funds themselves and see think that their best interests lie in ensuring that structural fund resources have a genuinely incremental effect in southern member states.

CHECK & APPROVE IF NECESSARY

David Williamson

The Secretary General of the Commission has, however, written to Sir David Hannay (Annex B) confirming that the article in question applies only to the increase in structural fund appropriations agreed at the February Council (some 13 billion ecu, or £9 billion, cumulatively between 1989 and 1992); and that the requirement for the Commission and member states to ensure at least an equivalent increase in structural aid relates to additional receipts (by comparison

with 1988) arising directly from these increased appropriations. Broad-brush estimates suggest that the additional receipts, and hence the gross public expenditure cost, might amount to around £80-100 million a year by 1992. The great bulk of the additional receipts are likely to go to Northern Ireland.

The net expenditure cost could be rather lower than the gross cost if we were able to take account of any planned increase in expenditure on structural aid. It is difficult to be certain about this since there is no agreed definition of structural aid, much of the relevant spending is undertaken by local authorities and public corporations, and it is not clear whether the Commission plan to apply regional or national criteria. However at first sight it seems that we should be able to demonstrate additionality to an extent which would satisfy the Commission in respect of expenditure on programmes covered by the regional fund and the agricultural guidance fund. But national expenditure on programmes covered by the social fund is planned to fall sharply over the next few years. Taking the three funds together (as the Commission are likely to do) it should be possible for us to demonstrate some underlying additionality, but we cannot be sure how much.

Even so, the gross cost could be expected to grow further after 1992. And, more fundamentally, the regulation ~~could~~ ^{would} ~~weaken~~ ^{undermine} our ability to control the ~~underlying~~ ^{total} level of expenditure on structural aid. If we ~~wanted~~ ^{ever} to reduce such

UK

expenditure, ~~below the 1988 level~~, we would ~~presumably~~ disqualify ourselves from getting any ^{justly} receipts from the extra structural fund appropriations, ^{of course} This would ~~have~~ both ^{involvement} political and public expenditure costs (though the operation of the Fontainebleau mechanism would limit the latter to 34% of the receipts foregone); So although David Williamson's letter indicates that the article would apply only at the margin, the ~~actual impact~~ ^{full consequences} could go wider. And we ~~should not~~ ^{cannot} rule out the possibility that, having established a precedent, the Commission might propose further legislation after 1992 to extend explicit additionality to all structural fund receipts.

^{these} In view of that factors I think we need to consider carefully whether there is anything we can do to prevent the Council from adopting a common position on the regulation at next Monday's FAC. It is doubtful whether further lobbying would help, in which case the only real alternative would seem to be to invoke the Luxembourg Compromise. This is not of course a step to be taken lightly:

- it would be portrayed as an indication that we were opposed to structural spending and/or that we intended to cut back our regional aid;

~~- we could not rely on getting the necessary support to prevent a vote if the Presidency were determined to take one (we failed to do so the last time we invoked the compromise, in 1982). Others might not~~

and may even be passed to submit memos ~~about~~ ^{to} present ~~them~~.

but perhaps even more important is the fact that the Commission would have a vote on the ~~text~~ ^{totality of the structural spending}.

~~The Presidency might ignore no vote~~
~~insist on taking a vote (this is what happened)~~
~~in very difficult circumstances -~~

be convinced that the UK's "important interests" were at stake;

although there is clearly an important principle at stake here;

- it is not certain that successful invocation would enable us to get the necessary changes to the text. The Commission might refuse to budge and claim that, given the legal void, they had a duty to implement the new structural funds regime;

- local authorities and others could seek to benefit from the UK's public discomfiture by challenging the basis of our whole policy on the treatment of EC receipts.

But against these risks must be weighed the fact that the additionality article is offensive in principle, potentially costly in practice, and would set a disturbing precedent.

It may well be that there is ~~nothing~~ we can do to ~~prevent this~~. But in the circumstances, I believe you may therefore like to consider the balance of arguments and perhaps have a word on your return from Washington.

I am copying this only to Geoffrey Howe.

At all events, I should like to see you, Geoff Howe & I should reach a conclusion on this on your return from Wash DC.



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London SW1A 2AH

CH/EXCHEQUER	
REC.	16 NOV 1988
ACTION	Mr MERCER
COPIES TO	PS/EST, PS/PAG, SIC P. MIDDLETON, Sir G. LITTLE, Mr ANSON, Mr LANKESTER, Mr TURNBULL, Mr A. J. C. EDWARDS, Mr BURCHNER, Mr R. I. G. ALLEN

✓ 16/11

16 November 1988

See Alex

Ch. The Foreign Secretary's "drafting changes" amount to the letter, turning its conclusions upside down.

He will no doubt seek a meeting tomorrow. 16/11

Structural Funds: Additionality

The Foreign Secretary has now seen the draft of the Chancellor's minute, and plans to talk to the Chancellor about it. He feels that the first 3 pages slightly exaggerate the risks inherent in the new additionality provision, while the last 2 pages considerably underestimate the risk - in his view the certainty - that an attempt to use the Luxembourg Compromise to block it would fail. He has asked that I send you now the attached revised version of the text so that the Chancellor can see drafting changes which would meet his concerns. These are marked in manuscript on the first three pages. The last two pages are retyped.

in, if I am not mistaken, Mr Kerr's handwriting.

Yours,
Stephe Wall
(J S Wall)
Private Secretary

Alex Allan Esq
PA/Chancellor of the Exchequer

There is no point in your drafting. My understanding is that you are not to give us a reply to your letter for 1988. It appears to follow that you should submit a baseline to the post-1988 in the autumn.

ESTABLISH THE TRUTH LIBS

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DRAFT

PRIME MINISTER

STRUCTURAL FUNDS: ADDITIONALITY

We need to decide before the FAC on 21 November how to handle the article on additionality in the draft regulations implementing the reform of the structural funds agreed at the February European Council.

The text of the relevant article is attached at Annex A. At Cabinet on 27 October the Foreign Secretary and I were asked to seek to negotiate amendments to the text to protect the UK's

position on the (non) additionality of EC receipts. We have ~~not~~

achieved only partial success
~~been successful.~~

The Commission have declined to accept any substantial changes and all other member states are prepared to

agree the text as it stands. The Germans, French and Dutch, whom

we would normally expect to support us on such issues, will

receive little additional benefit from the increase in the

structural funds themselves and see their interests in ensuring

that structural fund resources have a genuinely incremental effect

in southern member states. *We have however succeeded in securing from*

x The Secretary General of the Commission, David Williamson, has, however, ^{a letter} written to Sir David Hannay (Annex B) confirming that the article in question applies only to the increase in structural fund appropriations agreed at the February Council (some 13 billion ecu, or £9 billion, cumulatively between 1989 and 1992); and that the requirement for the Commission and member states to ensure at least an equivalent increase in structural aid relates to additional receipts (by comparison with 1988) arising directly from these increased appropriations. Broad-brush estimates suggest that the additional receipts, and hence the gross public expenditure cost, might amount to around £80-100 million a year by 1992. The great bulk of the additional receipts are likely to go to Northern Ireland.

x The net expenditure cost could be rather lower than the gross cost ^{since we would be} ~~if we were~~ able to take account of any planned increase in expenditure on structural aid. It is difficult to be certain ^{that there will be such an increase} ~~about this~~ since there is no agreed definition of structural aid, ~~and~~ much of the relevant spending is undertaken by local authorities and public corporations, ~~[and it is not clear whether the~~ ~~Commission plan to apply regional or national criteria.]~~ However at first sight it seems that we should be able to demonstrate additionality to an extent which would satisfy the Commission, ~~[in~~ ~~respect of expenditure on programmes covered by the regional fund~~ ~~and the agricultural guidance fund. But national expenditure on~~ ~~programmes covered by the social fund is planned to fall sharply~~

Put x

over the next few years. Taking the three funds together (as the Commission are likely to do) it should be possible for us to demonstrate some underlying additionality, ^{through} but we cannot be sure ₂ how much.

got

not my interest

Even so, the gross cost could be expected to grow further after 1992. And, more fundamentally, the regulation ^s would undermine our ability to control the total level of UK expenditure on structural aid. If we ever wanted to reduce such expenditure _L we would disqualify ourselves from getting any further receipts from the extra structural fund appropriations, [~~and we might jeopardise some part of our potential receipts from the underlying non-incremental structural fund appropriations.~~]

MB

below 1988 levels

This would of course involve public expenditure costs (though the operation of the Fontainebleau mechanism would limit the latter to 34% of the receipts foregone); but perhaps even more important is the fact that the Commission would have a lever on the totality of UK "structural" spending. So although David Williamson's letter indicates that the article would apply only at the margin, the full consequences ^{could} go wider. And we cannot rule out the possibility that, having established a precedent, the Commission might propose further legislation after 1992 to extend explicit additionality to all structural fund receipts. ~~Through we could be confident that in that situation we would again have sufficient German, French and Dutch support to defeat such a threat.~~

x

x

[Why - since they haven't supported all this time]

In view of these factors I think we ~~need to consider~~ carefully whether there is anything we can do to prevent the Council from ^{Geoffrey Howe and I have considered}

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adopting a common position on the regulation at next Monday's FAC. We are clear that further lobbying in capitals would not help. Nor do we see any virtue in attempting to invoke the Luxembourg Compromise. To succeed we would require a blocking minority of 23 votes, ie 13 other than our own. We should be unlikely to secure them because this regulation will be seen by other member states to be subordinate legislation. We accepted the decision to increase the structural funds and have approved the main framework regulation where unanimity was required. The argument that we were, in blocking the horizontal regulation, protecting a key national interest would be hard to sustain with such normal supporters of the Compromise as Greece (5 votes) and Portugal (5 votes), both of whom will be major beneficiaries from the Structural Funds increase. Nor could we expect support from France (10 votes) or Ireland (3 votes), who both deserted us in our last (unsuccessful) Compromise invocation in 1982: Ireland will gain substantially from the increase in Funds, and the French have told us that they are content with the additionality provision. The Danes (3 votes) are strong supporters of the additionality provision, but would be likely to attach greater weight to their support for the Luxembourg Compromise. The odds, however, are that they would be our only ally: invocation would therefore fail.

Moreover, it is not certain that successful invocation of the Luxembourg Compromise would enable us to get the necessary changes to the text: the Commission might refuse to budge and claim that, given the legal void, they had a duty to implement the new Structural Funds regime (for which the Council has approved Budget funding), including the proposed provisions on

Handwritten notes in red ink:
M. J. ...
St ...
M2 ...

additionality. It would be very difficult to challenge such action successfully. Indeed we recognised the Commission's right to proceed in this way when they moved to implement the price cuts in the 1985 price fixing despite the German invocation of the Luxembourg Compromise. To have made the attempt to involve the Compromise would be portrayed as an indication that we were opposed to structural spending and/or that we intended to cut back our regional aid; and would attract considerable publicity. Moreover, local authorities and others could seek to benefit from the UK's public discomfiture by challenging the basis of our whole policy on the treatment of EC receipts.

Thus, although we find the article offensive in principle, our judgement is that there is in practice nothing more we can do to block it. The right course in the circumstances is to settle the matter without publicity in the FAC on Monday, replying separately to the Williamson letter in terms which make clear the absolute priority we shall continue to attach to firm control of UK public expenditure. ↓

I am copying this only to Geoffrey Howe, who agrees.