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5/9/95

INFORMAL MEETING OF THE EUROPEAN COMMUNITY (EC) ECONOMIC AND FINANCE COUNCIL (ECOFIN), 20-21 SEPTEMBER 1985, LUXEMBOURG

MR. WYNN OWEN

20/9

CX not going

FROM: SIR GEOFFREY LITTLER
DATE: 3 JULY, 1985

cc Mr.Lavelle
Mr.Fitchew
Mr.A.J.C.Edwards o/a
Mr.S.Matthews

INFORMAL ECOFIN

I have just spoken to Mr.Kirsch, Director of the Luxembourg Treasury. He apologised for getting the dates confused when he mentioned the informal ECOFIN at our Monetary Committee meeting yesterday!

2. The position is that they have had enormous difficulty in finding any date in September to suit everybody and have been particularly constrained because - understandably - they were most anxions to secure the presence of Mr.Ruding, who will be chairing the Interim Committee, and his availability is extremely limited.

3. What they have had to settle on is a very short meeting which will consist of:

- dinner on Friday 20 September, with Ministers in a separate room to have informal discussions;

- a meeting round the table from 9 a.m. until noon on Saturday, 21 September;

- some tour for any who are interested on Saturday afternoon and evening.

4. The following weekend - or indeed any other date - has had to be ruled out.

5. The Luxembourg Finance Minister, Mr. Santer, is aware that the Chancellor cannot manage 20 September, regrets it, but has had no choice. I confirmed that the Chancellor cannot break his engagement here and that I would therefore represent him (Mr.Kirsch confirmed that the business will be almost entirely confined to preparation for Seoul). I shall therefore be invited to the Ministerial dinner. X

6. Mr. Kirsch knows that the Governor also cannot be present. The Governor will consider whether to send a representative which would be acceptable.

(J. G. LITTLER)

b/f 18/9 for Tony K's
(Tony - note X on page 2)

FROM: MISS J BARBER
DATE: 9 SEPTEMBER 1985

MR WILMOTT - Customs & Excise
MR SHERIDAN - EF
MR GRAHAM - EF

cc: PS/Chancellor
Sir Geoffrey Littler
Mr Edwards
Mr Fitchew
Mr Mountfield
Mr Kelly
Mr Mortimer
Mr Griffiths
Mr Hannah
Mr Romanski
Miss Wright o/r
Mr Spence - Inland Revenue
Mr Bloomfield - FCO

INFORMAL FINANCE MINISTERS' COUNCIL 20/21 SEPTEMBER

The informal Finance Ministers' Council will be held in Luxembourg on Friday/Saturday 20/21 September. The Chancellor, Sir Geoffrey Littler and Mr Anthony Loehnis (on behalf of the Governor of the Bank of England) will attend.

2. The agenda circulated by the Presidency is as follows:

(a) preparations for the annual meeting of the IMF and the World Bank;
(b) progress of current proceedings concerning the European Monetary system;
(c) the Commission's proposals on tax measures required to achieve the objective of the single market.

In addition, there may be discussion on:

(d) unitary tax (remitted from the July ECOFIN);
(e) the general economic situation.

3. On (a), the Chancellor has already had an extensive brief for the meetings themselves. Perhaps Mr Sheridan could therefore provide a short brief for ECOFIN covering the main points, and cross-referring to the longer brief as necessary. This could perhaps cover, inter alia,

(i) the EC Presidency speech (the proceedings at the Monetary Committee Alternates on 2/3 September and at the Monetary Committee on 13 September will be relevant here);

(ii) the Cartagena Group and the EC (see Mr Fitchew's minute of 1 August to Mr Mountfield);

(iii) any live issues on Commission representation at the meetings.

4. On (b), I may seek briefing from EF1 at a later stage, depending on what happens at the Monetary Committee on 13 September. At the Monetary Alternates on 19 July, it was suggested that Tietmeyer might give Finance Ministers a progress report on the Monetary Committee's work on the ecu (Mr Fitchew's minute of 23 July). It would seem that discussion at the Alternates on 2/3 September did not resolve this.

5. On (c), the Chancellor will require a full brief, and I would be grateful if Mr Wilmott could provide this. Mr Bloomfield in the FCO (ECD(I)) would like a chance to see and comment on this brief before it is finalised.

6. On (d), we will merely include a paragraph in the steering brief. I will be in touch with Mr Spence about this in due course.

7. On (e), I would be grateful if Mr Graham could provide, and, if necessary, update the set of tables giving statistics on the economic situation in the Community, US and Japan which we gave the Chancellor for the July ECOFIN.

8. The standard format we use for formal ECOFIN briefs is attached. This may not always be suitable for informal discussions, but if there are particular objectives or lines to take these should be highlighted.

9. The complete brief will have to reach the Chancellor at the latest by close on Wednesday 18 September. Therefore I would be grateful if contributions could reach me by close on Monday 16 September.

X

Janet Barber

JANET BARBER

ECOFIN BRIEFING: STRUCTURE OF BRIEFS

General note: be as brief as possible, and try to get objectives and line to take/point to make on first page.

UK OBJECTIVES

These should be stated in a short paragraph. It should be made clear whether the Minister is required to intervene, or whether he will just be participating in a general discussion.

POINTS TO MAKE/LINE TO TAKE

(i) Line to take is appropriate when a proposal is being discussed, and when the Minister is asked to intervene.

(ii) Points to make are for discussion documents where no operational decisions will be reached.

(iii) Line to take/points to make should not include editorial comment except where absolutely essential and square bracketed; they should be set out in skeleton speaking note form, so that the Minister can read from them without further editing.

(iv) Points to make should be interesting i.e not only simple restatements of UK policy where that is well known. It should be remembered that a Minister is limited in the number of points he can make e.g three.

(v) Short Q/A defensive material should be included only if necessary e.g where the Minister will have to argue out a particular point.

BACKGROUND NOTE

Where possible, this should be confined to two sides.

BRIEF

ECOFIN, MARCH 12

SUBJECT

Relevant document:

UK objectives
[If any]

Line to take/Points to make

Defensive briefing
[if necessary]

Background.

Roger Lockyer

Jh 18/9

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1. SIR GEOFFREY LITTLER

2. CHANCELLOR

From : MISS J BARBER

DATE : 18 September 1985

INFORMAL ECOFIN 20/21 SEPTEMBER

You are attending the informal ECOFIN in Luxembourg on Friday/ Saturday 20/21 September. Sir Geoffrey Littler and Mr Anthony Loehnis (on behalf of the Governor of the Bank of England) will also be there.

2. A detailed programme is attached to this note. As far as the discussions are concerned, there will be a Ministerial working dinner starting at 8.30pm on Friday evening, and a working session from 9 to 12 am on Saturday morning.

3. The items likely to be discussed are as follows:

During dinner on Friday evening

1. a possible approach to the EC by the Cartagena Group on debt; and the possibility of a joint Foreign Affairs Council/ECOFIN on third world debt;

2. in the context of the Inter-Governmental Conference, ideas for amending the Treaty of Rome in respect of monetary matters and the EMS;

?

3. unitary tax;

4. (possibly) chairmanship of the 1986 IMF/IBRD meetings.

5. see also para 16 (v)

During the Saturday morning discussion

5. the 1985 IMF/IBRD meetings in Seoul;

6. the development of the EMS;

7. tax approximation and the internal market.

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Items you may like to raise in the margins of the meeting

8. VAT small traders exemption limit;

9. (linked to item 5) multilateral investment guarantee agency (MIGA);

Items where timing of discussion is unknown

10. ~~(possibly)~~ member states net balances with respect to the Community budget.

4. There are no plans for a discussion on the general economic situation. But, by way of general background, Brief A contains a set of tables giving statistics on the economic situation in the Community, US and Japan.

The EC and Debt

5. This is covered in Brief B.

6. Following its meeting in July, the Cartagena Group of Latin American debtor countries indicated that it intended to approach the EC on debt. In addition, the German Foreign Minister has raised the idea of a joint FAC/ECOFIN on third world debt, and the Luxembourg Foreign Minister, M. Poos, has written to the Luxembourg Finance Minister, M. Santer, about it.

7. These issues came up at the Monetary Committee on 13 September, when the chairman, Herr Tietmeyer (who may not have known about his Foreign Minister's initiative), set out some broad principles on debt. These principles, which we can support and which were not disputed by other Monetary Committee members, would limit multilateral discussions on debt to the IMF/IBRD fora, thereby precluding EC dialogue with regional groups such as Cartagena. We think also that a joint FAC/ECOFIN on debt would achieve nothing, and, further, might even encourage groups such as Cartagena to seek dialogue with the EC. Accordingly, it is suggested that you support the idea of a rapid Finance Ministers' reply to M. Poos, setting out the Tietmeyer principles, in order to settle the line on Cartagena before an approach is made; and possibly offering a more detailed ECOFIN consideration of the joint Council proposal in October.

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The IGC : Treaty Amendments and the EMS

8. This is covered in Brief C.

9. We anticipate that the discussion on this will be largely procedural, ie whether the Inter-Governmental Conference should be covering EMS and monetary matters at all. It is suggested that you can support the Germans in arguing that Finance Ministers, not the IGC, should have responsibility for offering the European Council advice on Treaty amendments in relation to the EMS and monetary matters. This was implied by the Milan European Council's conclusion that ECOFIN and the Central Bank Governors should continue their work on EMS development.

10. If specific EMS/monetary Treaty amendments are discussed, it is suggested that you take a cautious, questioning line, as set out in Brief C.

Unitary Tax

11. We understand that you wish to have a short discussion on this. Separate briefing will be supplied direct by Mr Spence (Inland Revenue). NO

(below Brief C)

12. You will recall that unitary tax was discussed over lunch at the July ECOFIN, when Finance Ministers agreed on the desirability of co-ordinating Community pressure on the US. The possibility of a further discussion at this ECOFIN was mentioned then.

definitely better

Chairmanship of the 1986 IMF/IBRD Annual Meetings

13. This is covered in an attachment to Brief D.

14. Brief D suggests that the Community should not express a view on the relative merits of the two candidates - from Columbia and Ecuador - who have been offered by the Latin Americans, whose turn it is in 1986 to take the chair. The Latin Americans should themselves settle on one candidate.

The 1985 IMF/IBRD Annual Meetings, Seoul

15. This is covered in Brief D. In addition, you might also like to refer to the full brief on the issues for the Annual Meetings submitted by Mr Matthews on 27 August. (below Brief D)

Brief D covers:

i. points to make on the world economy;

ii. the EC Presidency statement to the meetings. This has been discussed and agreed in the Monetary Committee, and is acceptable to us. A copy is attached to Brief D. We expect that the statement will not be read at the meetings, but will be remitted directly into the record;

iii. the main issues for the annual meetings, taking account of discussion in the Monetary Committee on 13 September. There is particular emphasis on enlarged access, where the Monetary Committee discussions suggested the possibility of a Community consensus and thereby of a Community initiated compromise between the US and the ldcs;

we think [illegible] US pos[illegible]

iv. the issue of French and German hesitancy over the multi-investment guarantee agency (MIGA) - see paragraph 28 below;

v. Commission pressure for representation at the informal meeting of the Development Committee in Seoul;

I guess this will be raised over dinner. [illegible] 18/9

vi. chairmanship of the 1986 annual meetings - see paragraphs 13-14 above.

Development of the EMS

17. There is no separate brief on this item.

18. Following discussion at the last informal ECOFIN, at Palermo in April, the Monetary Committee and Committee of Central Bank Governors were asked to examine the longer term perspectives of the EMS, including the development of the ecu (private and official) and the liberalisation of capital movements. This work is still going on. The chairmen of the two Committees gave progress reports to the June ECOFIN, and the June European Council endorsed the continuation of the work in these fora.

19. Over the last few months, the two Committees have discussed in particular:

i. whether, and in what way, the ecu might be used as a reserve asset;

ii. what contribution the ecu might make to the promotion of financial integration;

iii. whether any action should be taken to promote the private ecu.

In addition, the Monetary Committee has agreed to revive the procedure, laid down in the 1960 Capital Movements Directive, for the annual examination of restrictions on capital movements in member states of the Community, under the derogations allowed in certain circumstances by the Treaty.

20. We anticipate that the chairmen of the two Committees, Tietmeyer and Duisenberg, will simply give progress reports on this work, and that there will be little substantive discussion. We understand that the objective of the Committees will be to reach conclusions on the ecu and on capital movements, to present to Ministers by the end of the year.

21. We can support the continuation of this work. We are particularly keen on the liberalisation of capital movements. On the private ecu, we support its natural development free from official hindrance or artificial stimulation. On the official ecu, we are prepared to consider proposals for further improvements in its usability. And on the reserve asset aspect of the ecu, the Committees will need to consider whether the private and/or the official ecu meet the necessary criteria for a reserve asset.

Tax approximation

22. This is covered in Brief E.

23. The Commission's proposals on indirect tax approximation were part of their programme on the internal market, presented to the June European Council. At its June meeting, however,

the European Council did not endorse tax approximation as a priority, but remitted the issue to Finance Ministers, who were to examine what measures were necessary in this area to achieve the internal market. Tax approximation was discussed briefly at the July ECOFIN, where Lord Cockfield said that a political commitment was needed. He suggested a discussion at this ECOFIN to clarify matters and to allow technical points to be pursued, and an in-depth discussion at the October ECOFIN.

24. The UK's objective is to avoid commitment to tax approximation, and to prevent substantive and significant progress on it, without appearing too negative and therefore prejudicing progress on the more important aspects of the internal market.

25. Therefore it is suggested that you do not take the lead in arguing against the principle of tax approximation, but argue for a two-stage practical approach to the problem:

i. identifying to what extent present tax differences hinder the internal market;

ii. comparing the possible options for getting round any internal market problems, looking at the costs and benefits not only of the Commission's proposals but also of adaptations/improvements to the structure of the present system.

Depending on how the discussion goes, you might suggest the idea of a study along these lines.

VAT Small Traders Exemption Limit

26. This is covered in Brief F.

27. As part of the deregulation initiative, we would like member states to have flexibility to set higher exemption limits than are currently allowed by Community law. To keep up the pressure on this, it is suggested that you raise the issue in the margins of the meeting, especially with the French, to try to keep Delors sympathetic to our line.

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Multilateral Investment Guarantee Agency (MIGA)

28. This is covered in Brief D.

29. It is suggested that, in the margins of the meeting, you might like to sound out the French and Germans on the reasons for their abstentions in the recent World Bank discussions on putting forward the MIGA documentation to the Annual Meetings in Seoul, and to encourage them to acept the final text of the Convention.

The Community budget : Member States Net Balances

30. This is covered in Brief G.

31. On the basis of events at this week's Budget Council, we think that the Germans may raise this issue. Since 1983, the Commission has refused to provide figures on member states' net balances in respect of the Community budget, no doubt for fear of the arguments on fairness/unfairness that they would provoke. However the Germans and ourselves would like to have these figures made available. Therefore you should support any move to overturn the Commission on this.

Other matters

32. Personality notes on Finance Ministers are attached - top copy only. You might like to note that the Spanish and Portuguese have been invited to attend this ECOFIN. At the time of writing, it is thought that the Spanish Minister of Finance, the Finance State Secretary and the Central Bank Governor are planning to attend, but there is no corresponding information on the Portuguese.

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

Janet Barber

JANET BARBER
EC1

Réunion informelle des Ministres de
l'Economie et des Finances
les 20 et 21 Septembre à Luxembourg

Annexe 1

Programme de la réunion informelle à Luxembourg le 20 et 21 Septembre

Vendredi, le 20 Septembre

15.30 - 19.00 h	:	Acceuil à l'aéroport ou à l'hôtel et check-in à l'hôtel *
19.30 - 20.15 h	:	Cocktail dans la suite Ducale
20.30 h	:	Dîner de travail des Ministres
		salons à part pour Gouverneurs, Directeurs du Trésor, collaborateurs. Les épouses sont invitées par Mme SANTER.

Ch/ You have your G5 pre-meeting with the French & Germans at 5.30 in the hotel AWK

Samedi, le 21 Septembre

	7.00 - 9.00 h	:	Petit-déjeuner
	9.00 - 12.00 h	:	Séance de travail
	12.15 - 13.00 h	:	Transport à Echternach en bus
	13.00 - 15.30 h	:	Déjeuner informel dans l'ancienne Abbaye d'Echternach
	15.30 - 16.00 h	:	Visite d'Echternach
option a	16.00 - 18.30 h	:	Visite de la Moselle en bus Visite de la station Vini-Viticole à Remich (dégustation) Dîner au Musée du Vin à Ehnen (pour ceux qui restent)
option b	16.00	:	Retour à l'aéroport (pour ceux qui souhaitent partir tôt)

Ch/ You will leave for the airport straight after lunch AWK

* Hôtel INTERCONTINENTAL, 7, rue Jean-Engling, Luxembourg-Dommeldange
Tel.: 43781 Telex: 3754

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Ladies Programme

Samedi matin 9.15 - 11.45 h : Visite guidée de la Ville de Luxembourg

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INFORMAL ECOFIN 20/21 SEPTEMBER BRIEF A

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN

List of tables

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN

(Commission's latest forecasts, June 1985, unless stated otherwise)

1. **Gross domestic product (per cent changes)**

	1984	1985	1986
Belgium	2	1 ½	1 ¾
Denmark	4	3	3
Germany	2 ½	2 ½	2 ¾
Greece	2 ½	2	2
France	1 ½	1	1 ¾
Ireland	3 ½	3	2 ¾
Italy	2 ½	2 ½	2 ¼
Luxembourg	2 ½	1 ¼	1 ½
Netherlands	2	2	2
UK	1 ½ 2½	3 ½	2 ½
EC	2	2 ¼	2 ¼
USA	6 ¾	2 ¾	2 ½
Japan	6	5	4 ¾

2. **Prices- consumers' expenditure deflator (per cent changes)**

	1984	1985	1986
Belgium	6 ¼	5 ¼	4
Denmark	6 ½	4 ¼	2 ½
Germany	2 ½	2 ½	1 ¾
Greece	18	17 ½	17
France	7 ¼	6	5
Ireland	8 ¼	5 ¾	5 ¾
Italy	11	8 ¾	6 ½
Luxembourg	6 ¾	4 ½	4
Netherlands	3	2 ¼	1 ¼
UK	5	5 ½	5
EC	6 ¼	5 ½	4 ½
USA	3 ¼	3 ½	4
Japan	2 ¼	1 ¾	1 ½

3. **Unemployment rate (per cent of civilian labour force)**

	1984	1985	1986
Belgium	14½	14½	14¾
Denmark	10	9	8¾
Germany	8½	8½	8¼
Greece	8	8½	9
France	10	10¾	11
Ireland	16½	17	17
Italy	12	12½	12¾
Luxembourg	1¾	1¾	1½
Netherlands	14¼	13½	13½
UK	11¾	12	11¾
EC	11	11¼	11
USA	7½	7¼	7¾
Japan	2¾	2½	2½

4. **Three-month interest rates (per cent per annum)**

	1984				1985		
	Q1	Q2	Q3	Q4	Q1	Q2	Latest
Germany	6	6	6	6	6¼	6	4¾
France	12½	12½	11½	10¾	10½	10¼	9¾
Italy	17¾	17¼	17	17½	16¼	15½	14
Netherlands	6	6	6¼	6	6¾	6¾	5¾
UK	9¼	9¼	11	10¼	13	12¾	11¾
Major EC average	10	10	10	9¾	10¼	10	9
USA	9½	11	11½	9½	8¾	8	8
Japan	6¾	6¼	6¼	6¼	6¼	6¼	6¼

Source: Bank of England

5. **Long term government bond yields (per cent per annum)**

	1984				1985		
	Q1	Q2	Q3	Q4	Q1	Q2	Latest
Germany	8¼	8¼	8	7½	7½	7¼	5½
France	13	13	12½	11¼	11¼	11	11
Italy	16¾	15½	15	15	13½	13¾	14
Netherlands	8¼	8¼	8¼	7½	7½	7½	7
UK	10¾	11½	11¾	11	11½	11¼	10¾
Major EC average	11¼	11¼	11	10¼	10¼	10	9¼
USA	12	13¼	13	11¾	11½	11¼	10½
Japan	7¼	7¼	7½	6¾	6¾	6¼	6¼

Source: Bank of England

6. Current account balances ($bn)

	1984	1985	1986
Belgium	-½	½	1½
Denmark	-2	-1½	-1
Germany	6	9½	13
Greece	-1½	-1½	-1½
France	-3½	-1½	-½
Ireland	-1	-½	-½
Italy	-3	-4½	-3½
Luxembourg	1	1	1
Netherlands	5	5½	7
UK	0	3	3½
EC	1	9½	19
USA	-101	-132	-157
Japan	35	41	50

7. Effective exchange rates (1975 = 100)

	1984				1985		
	Q1	Q2	Q3	Q4	Q1	Q2	Latest
Belgium	89.7	90.1	89.7	88.7	88.2	89.2	90.6
Germany	125.6	125.8	123.1	121.3	119.5	121.7	124.7
France	66.3	66.4	65.0	64.1	63.3	64.9	66.8
Italy	48.6	48.4	47.6	46.7	45.9	45.3	44.0
Netherlands	114.8	115.2	112.8	111.2	109.5	112.1	115.4
UK	81.7	79.8	78.0	75.1	72.1	78.9	81.0
US	129.0	130.2	138.0	141.7	150.0	145.8	141.0
Japan	157.2	158.7	154.9	156.5	154.5	155.3	156.7

Source: HMT

8. Relative wholesale prices for manufacturing (1980=100)[1]

	1975-1980	1983	1984	1985
		Q1	Q1	Q1
Belgium	112.0	96.4	94.9	94.3
Denmark	100.8	110.3	113.7	114.6
Germany	113.5	94.9	92.4	91.2
France	93.0	112.6	117.6	121.6
Italy	84.8	122.7	131.2	137.7
Netherlands	107.8	99.0	99.0	96.9
UK	88.2	103.4	105.1	107.8
US	96.6	94.8	93.1	90.2
Japan	108.4	84.7	80.2	78.1

1 These indices are not a measure of real exchange rates. They are only relative prices and are not adjusted for exchange rate changes. Calculated relative to the thirteen largest industrial countries.

Source: IMF

9. **General Government fiscal deficits (per cent of GNP)**

	1984	1985	1986
Belgium	-10 ¾	-9 ½	-8
Denmark	-4 ½	-3	-1 ¾
Germany	-2 ¼	-1 ¾	-1 ¾
Greece	-9 ½	-10 ¾	-9 ¾
France	-2 ¾	-3 ¼	-3 ¼
Ireland	-10 ¼	-11 ½	-10 ½
Italy	-13 ½	-13	-12 ½
Luxembourg	1 ½	2	2 ¼
Netherlands	-5 ¾	-5 ¼	-5
UK	-3 ¾	-3 ¼	-2 ¾
EC	-5 ½	-5 ¼	-5
USA	-3 ¼	-3 ½	-2 ¾
Japan	-2 ½	-1 ½	- ½

10. **Money supply (change over previous period at annual rates)**

	1983		1984			
	H1	H2	H1	H2	Latest over[1] target base	Target range
Germany (CBM)	9 ½	5	4 ½	5	3 (July)	3-5
France (M2R)	9	10	9	8	7 ½ (May)[2]	4-6
UK (MO)	7	6	5	6	4 ½ (Aug)[2]	3-7
US (M1)	14	8	7 ½	4 ½	16 ½ (Aug)	3-8
Japan (M2)	7	7 ½	8 ½	7 ½	8 ½ (July)[2]	-

1 Target base varies. US M1 rebased in July to Q2 average and range widened.

2 Year on year

Source: OECD

September 1985

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INFORMAL ECOFIN 20/21 SEPTEMBER

BRIEF B

SUBJECT : DEBT; DIALOGUE WITH OTHER GROUPS AND PROPOSAL FOR JOINT FINANCE COUNCIL - FOREIGN AFFAIRS COUNCIL

UK Objectives

- To endorse view that multilateral discussion of debt issues best conducted under IMF/IBRD auspices; in particular to resist feelers for an EC dialogue with the Cartagena group of Latin American debtors, or separately with Mexico.

- To support need to restrain M. Cheysson from further initiatives that would prejudice above strategy.

- To encourage consensus view that a Joint Finance Council - Foreign Affairs Council on debt would not be helpful in present circumstances.

- To encourage agreement that Santer should write to Poos, setting out the three principles which should governs EC's attitude to discussions of debt matters (see below) and setting aside idea of Joint Council, at least for the time being.

LINE TO TAKE

On Debt Dialogue

(a) Understand that in Monetary Committee Herr Tietmeyer set out three broad principles on debt matters [Tietmeyer may report this]

(i) multilateral discussions on debt already adequately handled, and best conducted under Fund/Bank auspices;

(ii) Community should not engage in dialogue on debt issues with regional groups;

(iii) any generalised dialogue on debt should focus on economic and financial aspects and not slide into political field.

(b) UK strongly endorses these principles, which should guide EC's response to any approach from debtor countries - in particular the Cartagena Group - for a dialogue with Community.

(c) Mexicans have separately floated idea with our Embassy of "shirt sleeves" meeting with creditors in margins at Seoul. Follows from principles we have discussed that while bilateral contacts acceptable - indeed welcome - any multilateral gathering, however informal, would give wrong signals.

(d) In this context UK regrets M. Cheysson's encouragement of Latin American debtors to believe that EC willing to enter into political dialogue on these matters. The Commission should avoid any further similar initiatives.

On Joint Council

(e) Given approach endorsed above, Joint Finance Council - Foreign Affairs Council on Third World Debt unhelpful and unproductive.

(f) Best way forward might be for Santer to reply to Poos (i) noting that ECOFIN discussed his letter and debt generally, (ii) recording the principles agreed by ECOFIN ((a) above), and (iii) expressing the judgement that a Joint Council would not seem helpful in these circumstances, although ECOFIN would review the matter at their October meeting when account could be taken of the outcome of the Annual Meeting of IMF/IBRD.

BACKGROUND NOTE

There are 2 debt points on the informal agenda:

(i) the prospect of an approach to the EC by the Cartagena group of debtors, proposing some form of dialogue;

(ii) a letter from Poos (Political Co-operation Committee) to Santer proposing a Joint Finance Council - Foreign Affairs Council on debt.

While these points arose separately, it is likely they will be discussed together; hence the merging of them into one brief.

Dialogue with Cartagena Group

2. The Cartagena Group of debtors* met in July in the margins of the inauguration of Peru's new President. The declaration that emerged (attached) indicated that the Cartagena Group intended to approach the EC as their best chance of forcing a political dialogue on debt.

3. They had been encouraged in this, at least in part, by the activities of M. Cheysson who (having earlier received a group of Latin American Ministers and discussed debt issues with them) sent his own personal response (translation attached) to the letter the Cartagena Group addressed to the Bonn Summit. [Please note Cheysson's letter was a personal one and passed to us in confidence, so it should not be circulated openly.]

4. A Cartagena "experts" Group is currently meeting in Montevideo to work up proposals for an approach to the EC later in the year (November has been rumoured but a further political level Cartagena group meeting is likely to precede any formal approach). The UK therefore arranged for the Monetary Committee to discuss the issue on 13 September. At this, Tietmeyer's admirable principles (Line to take (i) above) went unchallenged. It would clearly be helpful if ECOFIN endorsed them.

5. Separately, the Mexican Finance Minister indicated to our Ambassador that informal "shirt sleeves" talks with a group of their major creditors should be set up in the margins at Seoul. A multilateral gathering, however informal, would encourage pressure for further multilateral dialogue, and go against the principles set out above. The Germans have apparently been approached by the Mexicans for a bilateral talk at Seoul. So it may be that the Post misinterpreted the Mexican idea. Nevertheless for safety's sake it would be useful if ECOFIN could agree that while the Mexicans could, indeed should, be engaged bilaterally, a multilateral occasion is "unacceptable".

* Established in June 1984; consisting of Argentina, Bolivia, Brazil Chile, Colombia, Ecuador, Mexico, Peru, Dominican Republic, Uruguay and Venezuela.

Joint Council Proposal

6. At last week's Political Co-operation meeting, the Presidency raised the idea of a joint Finance Council - Foreign Affairs Council on third world debt. (We understand the idea originated with Herr Genscher but we suspect that the German Finance Ministry were unaware of the initiative.) Poos has now written formally to Santer to propose this. It is difficult to see how it could be helpful. Knowledge of it would further encourage those, like the Cartagena Group, seeking a political multi-lateral dialogue.

7. We understand the Luxembourgers may try to solve this proceedurally by postponing discussion until the formal ECOFIN in October. But the Cartagena group may have made their approach by then. So it will be important to get Tietmeyer's points on the record now, as the basis for any response to a Cartagena approach.

8. If ECOFIN endorses Tietmeyer's principles, Santer (as Chairman) could write to Poos; (i) noting that the informal ECOFIN discussed his letter, and debt issues more generally, and endorsed the 3 points ((a) above); (ii) expressing the view that any response to the Cartagena Group should be guided by those principles; and (iii) noting that a Joint Council would not seem helpful at present, but indicating that ECOFIN expected to review the question at its formal October session, in the light of the outcome of the Annual Meetings.

9. If this plan fails for any reason, and irresistible pressure emerges for a Council on debt, then the UK's minimum position must be that Finance Ministers must be involved. But the aim should be to avoid such a Council altogether.

AEF2 Division
18 September 1985

... "If, as I think, such a Jt Council [illegible] helpful, [illegible] approach [illegible] But [illegible] to me."

UNCLASSIFIED
FM LIMA 302130Z JUL 85

TO PRIORITY F C O
TELEGRAM NUMBER 237 OF 30 JULY

AND TO PRIORITY UKREP BRUSSELS, BOGOTA, BRASILIA, LA PAZ, MONTEVIDEO, SANTIAGO, QUITO, MEXICO CITY, WASHINGTON, PARIS

FROM THORP
MIPT: MEETING OF CARTAGENA GROUP IN LIMA, 29 JULY 1985

1. FOLLOWING IS THE TEXT OF THE COMMUNIQUE:

2. FOREIGN AFFAIRS MINISTERS AND HEADS OF SPECIAL DELEGATIONS OF THE MEMBER COUNTRIES OF THE CARTAGENA GROUP HELD AN INFORMAL MEETING ON THE OCCASION OF THEIR PRESENCE IN LIMA TO ATTEND THE CEREMONIES FOR THE PRESIDENTIAL INAUGURATION.

3. IN RESPECT OF THE PAST AND FUTURE WORK OF THE GROUP, AND ON WELCOMING THE PERUVIAN MINISTER OF FOREIGN AFFAIRS, THEY EXPRESSED THEIR RECOGNITION OF THE SUPPORT FOR THE GROUP GIVEN BY THE PRESENT OF PERU, DR ALAN GARCIA PEREZ, IN HIS PROPOSALS FOR THE PERUVIAN EXTERNAL DEBT.

4. IN THE COURSE OF THEIR DELIBERATIONS, THE PARTICIPANTS EXPRESSED ANXIETY ABOUT THE DETERIORATION OF CERTAIN FACTORS IN THE WORLD ECONOMY WHICH CREATE SERIOUS OBSTACLES TO CURRENT PROGRAMMES OF ADJUSTMENT, AND IN PARTICULAR AGGRAVATE THEIR ALREADY HIGH ECONOMIC, SOCIAL AND INTERNAL POLITICAL COSTS. IN PARTICULAR, THEY UNDERLINED THE DRAMATIC AND PERSISTENT FALL IN PRICES AND TERMS OF TRADE IN THE REGION OVER THE LAST FEW MONTHS, THE INCREASE IN PROTECTIONIST POLICIES OF INDUSTRIALISED COUNTRIES AND THE REDUCED INFLOWS OF NEW CAPITAL THAT MAINTAINS THE HIGH FLOW OF RESOURCES FROM LATIN AMERICA TOWARDS THE FINANCIAL CENTRES OF THE WORLD, WITH ITS CONSEQUENT RECESSIVE EFFECTS ON THE REGION'S ECONOMY.

5. THEY EVALUATED THE RESULTS OF THE CARTAGENA GROUP'S DIALOGUE WITH INDUSTRIALISED COUNTRIES AND WITH THE INTERIM AND DEVELOPMENT COMMITTEES OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK.

6. THEY UNDERLINED THEIR SATISFACTION WITH THE WILLINGNESS FOR CONSTRUCTIVE DIALOGUE INITIATED WITH THE EEC, AS WELL AS FOR THE CLEAR RECOGNITION OF THE CONCERNS AND POINTS OF VIEW OF THE CARTAGENA GROUP EXPRESSED BY GOVERNMENTS LIKE THAT OF THE PRESIDENT OF FRANCE, FRANCOIS MITTERRAND, AND OTHER PROMINENT INTERNATIONAL PERSONALITIES, SUCH AS DR HENRY KISSINGER.

7. THEY REQUESTED THE SECRETARY PRO TEMPORE:

(-A) TO AGREE WITH THE EEC A PROCEDURE TO CONTINUE AND DEEPEN THE DIALOGUE ALREADY BEGUN,

(B) TO CONVENE IN AUGUST A MEETING OF EXPERTS OF THE MEMBER COUNTRIES OF THE GROUP IN ORDER TO PREPARE CONCRETE TECHNICAL PROPOSALS FOR APPROVAL AT THE GROUP'S POLITICAL LEVEL AND TO PREPARE THE TECHNICAL BASIS FOR THE DIALOGUE WITH THE EEC,

/(C)

(C) IN CONNECTION WITH THE ABOVE, TO CONVENE A MEETING WITH FOREIGN AND ECONOMIC AND FINANCE MINISTERS AT A DATE TO BE AGREED WITH THE SECRETARY PRO TEMPORE IN CONSULTATION WITH THE RESPECTIVE FOREIGN AFFAIRS MINISTRIES OF MEMBER COUNTRIES,

(D) TO CONTINUE, ON THE BASIS OF INFORMATION AVAILABLE, WITH THE ANALYSIS OF RECENT TRENDS IN THE WORLD ECONOMY AND ITS EFFECTS ON THE REGIONAL ECONOMY.

3. THE PARTICIPANTS AGREED, MOREOVER, TO INSTRUCT THEIR RESPECTIVE DIPLOMATIC REPRESENTATIVES AT THE UNIED NATIONS IN NEW YORK AND GENEVA TO CONSULT AMONG THEMSELVES IN ORDER TO CONCILIATE THE CURRENT INITIATIVES OF THE ORGANISATION WITH THE OBJECTIVES AND PROPOSALS OF THE CARTAGENA GROUP.

SHAKESPEARE

FCO PLEASE PASS

LIMITED.

SAMD
MCAD.
ERD
ECONOMIC ADVISERS.
NEWS.D.
SIR.W.HARDING.
MR.DAVID THOMAS.
MR.MAUD.

Mr SALLNOW-SMITH

STS 455/85 file Summit

CLAUDE CHEYSSON

30 May 1985

Dear President,

I was very impressed with the content of the message which you sent on behalf of the members of the Cartagena Group to those taking part in the Bonn meeting. As I have already said in a telegram to your Foreign Minister, my friend Enrique Iglesias, the clarity , elevated views and sense of national and international responsibilities evident in the message are worthy of consideration and respect.

Need I add that this message has in general been viewed carefully and positively in Europe, especially in certain capitals and in the European Commission? With regard to most of the opinions expressed, your analysis entirely concurs with our own on the subject of the situation in Latin America and other developing countries which also find themselves constrained by the current economic disarray throughout the world.

Like you and the Cartagena Group, we think that the remarkable efforts made in 1984 to balance the external accounts of those countries most heavily in debt do not point to any let-up in the search for a more exhaustive solution to the problem. Initial results, obtained at the price of sacrifices whose impact is not everywhere apparent, have avoided the worst: a profound destabilisation of the world's banking and hence economic and financial system - something which would seriously have affected all industrialised and developing countries and especially the more fragile economies.

His Excellency Julio SANGUINETTI
President of the Oriental Republic of Uruguay

Whatever the difficulties, as confirmed by the recent Bonn Summit after the IMF-IBRD meetings in Washington, the effort must continue. Economic readjustment and urgent rescheduling must go hand in hand with a restoration of the conditions under which economic and social progress can be made; we must be able to forecast and achieve growth once again. This is essential both for you and for us; the recent meeting in Brussels of your eleven countries and the European Commission has once more, clearly acknowledged this fact. Ok!

The international community has been able to take stock of the courage and sense of responsibility shown by the leaders of the Cartagena countries and thus appreciate in due measure their essential contribution to world stability. It must now undertake the necessary measures to be able to deal with these problems on a world scale. This is in the interest of us all.

In this respect, clearly, the two recent international meetings have not come up to expectations. The Interim and Development Committees have certainly witnessed some interesting exchanges of views in Washington. At the recent Summit of industrialised countries in Bonn, a detailed discussion was held on the problems of debt; the final declaration sets forth a series of objectives and commitments whose scope should not be underestimated: I am thinking in particular of the declarations made by each Head of State or Government and especially of the one made by the President of the United States on "the substantial reduction in the American budget deficit"; I am also thinking of the joint commitment to willingness "to negotiate, if necessary, new pluri-annual rescheduling of debts owed to Governments or government bodies"; you are aware of the role played by the President, M. Delors, in the discussions which led to this initial outcome. However, let us admit it, the overall results are tentative and inadequate. It would have been helpful to give a much more definite commitment as to the resources to be given to the international financial institutions, in particular the World Bank group and the regional development banks, which, in this phase of rebuilding a healthy economic structure, are calle upon to play a decisive role in mobilising the financial market; there needed to be a clearer indication of willingness to restore a suitable monetary order.

I would particularly have liked to see recognition of the need for the global dialogue to which you invite us between your Group and other similarly threatened countries on the one hand and all the industrialised countries on the other. This dialogue is necessary in order later to be able to apply a case by case treatment to specific national situations. This alone will make it possible to link and ensure comparable progress on various fronts such as trade, monetary stability and mobilisation of financial resources, ie. in terms of progress, respecting the principle of a true market economy. This alone will make it possible to ensure the same rate of progress for all the Latin American countries, the other developing countries equally affected by the crisis and our European countries on the road towards economic recovery and renewed growth.

The stake is high - the combined interests of democratic countries in Latin America, Asia, the Mediterranean and Europe. With so much at stake our resolve cannot weaken, nor our determination diminish.

Rest assured, Mr President, that the European Commission, which has pronounced itself firmly in favour of this dialogue, will continue resolutely to use its influence to promote the dialogue and the collective effort being made towards a more ordered and equitable international system.

Courtesy close.

signed: Claude CHEYSSON

RESTRICTED

INFORMAL ECOFIN 20/21 SEPTEMBER

Monetary matters & EMS

BRIEF C

SUBJECT : THE IGC - TREATY AMENDMENTS AND THE EMS

UK Objective

To support any move to reserve for Finance Ministers' the role of advising on the desirability of Treaty amendments on EMS and monetary matters; and to discourage proposals to write into the Treaty of Rome any specific references to monetary union, a common currency, or the exchange rate mechanism of the EMS.

LINE TO TAKE

On IGC procedure

- [agree that] IGC should remit EMS/monetary affairs to ECOFIN and the Monetary Committee, in accordance with European Council conclusions. Risk that discussion in the IGC could cut across current work on longer term EMS perspectives, and distract attention from substantive issues, ie the role of the ECU and liberalisation of capital movements, which should be given priority.

If any specific Treaty amendments discussed

- what is intention behind proposal, and what are its legal implications? Risk that Treaty amendments could prejudice or constrain options for future development of EMS.

- (if others propose a Treaty reference to the EMS in general terms). Surely more logical to refer in the Treaty to the aim of the EMS, ie the creation of monetary stability in Europe, rather than to the EMS itself. This could be done at the end of Article 104, for example. But doubt if even this is necessary.

- any specific proposals must be considered in detail by ECOFIN, the Monetary Committee, and, if appropriate, Central Bank Governors Committee.

BACKGROUND

The Inter-Governmental Conference on Treaty amendment was set up by the Milan European Council by majority vote (the UK, Denmark and Greece voting against). The proceedings of the IGC began on 9 September, when Foreign Ministers discussed the timetable and the submission of papers on specific proposals.

It is thought that discussion at the informal ECOFIN will cover, not the substance of specific proposals (which have yet to be made), but the procedural point on whether the IGC should be covering monetary matters/EMS at all. It transpired at the 13 September Monetary Committee meeting that the Germans in particular hold the view that the EMS should not be covered by the IGC, given that the Milan European Council had invited Finance Ministers and Central Bank Governors to continue work on the development of the EMS. The German State Secretary, Herr Tietmeyer, is currently chairman of the Monetary Committee, and as such is likely to express this view at the informal ECOFIN. It is a view which we can support.

On the substance of what other member states have in mind by way of Treaty amendments relating to the EMS, there is little concrete to go on:

i. At the IGC meeting on 9 September, only one member state, Belgium, expressed the intention of including the EMS in their Treaty amendment proposals (although the Dutch mentioned economic/monetary cooperation in their list of proposals). This was confirmed at the Monetary Committee on 13 September where (in response to Dutch questioning) Belgium was again the only member state prepared to admit that it was going to submit an EMS Treaty proposal to the IGC. This appears to be an initiative of the Foreign Ministry rather than the Belgian Finance Minister. What the Belgians seem to have in mind is to give the EMS a legal base in the Treaty, in order to allow for its further development. In our view, this is not necessary, nor is it desirable, as it could raise questions on voting procedures concerning the EMS (ie unanimity versus majority voting) which could be difficult to handle. (Currently, EMS matters require unanimity in the Council.)

ii. Also at the IGC meeting on 9 September, the Commission (represented by M. Delors) promised proposals on monetary matters. Specifically, Delors referred to a "certain monetary capacity" which would include some approximation of economic policies and a stronger European role in the world, and said that the Community needed separate article(s) on monetary matters.

no doubt he will tell us what he means

iii. We have heard informally that the French may raise the possibility of amending Article 107(1) of the Treaty (which currently says that each member state shall treat its policy with regard to rates of exchange as a matter of common concern) to make it clear that member states concert their exchange rate policies within the framework of the EMS. We are not clear what the intention behind this is, but it could imply compulsory membership of the exchange rate mechanism. The most we could contemplate in this direction would be a reference in the Treaty to the aim of the EMS, ie the achievement of a zone of monetary stability in the Community, perhaps at the end of Article 104 (which is on economic policy). However, the French seem to be in some disarray on this, with the Quai in favour of the IGC covering monetary affairs and the Ministry of Finance having serious reservations about it.

What about Spain + Portugal?

OMG

FROM: I R SPENCE
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

19 September 1985

PS/CHANCELLOR

UNITARY TAX: BRIEFING FOR INFORMAL ECOFIN

... We will be discussing the attached briefing note with the Financial Secretary at his stocktaking meeting on Unitary Tax (postponed to this afternoon) and it may require amendment in the light of his comments. The only difficulty is how much should be said at Ecofin - if anything - about our pursuing the "treaty route" solution with US Treasury. We do not want initial discussion with US Treasury on this to be complicated by the question of how and when they give the same treatment to other countries. This points to saying as little as possible at Ecofin until we have made some progress bilaterally with US. On the other hand, we do not want other countries (eg the Dutch) to learn of the initiative from US Treasury before they hear of it from us - which might cause ill-feeling.

Agreed by FST now

Your "message" to Secretary Baker is "Why not the treaty route?" dwk

I have written the briefing on the basis:

a) we say nothing at Ecofin about the treaty option unless someone raises it;

b) if they do raise it, we say it is well worth pursuit, that we will raise it with US Treasury and report back to our colleagues.

(I R SPENCE)

CC PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr Lavelle
Mr Fitchew
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Graham
Miss J Barber
Mr Evans (IDT)
Mr Snoxell (FCO)
Mr Healey (DTI)
Mr R I G Allen (Washington)
Mr Beaven (HMCG San Francisco)
Mr Walton (Brussels)
Mr Davies (OECD)
Mr Loehnis (B of E)
Mr Hayden (B of E)
Sir L Airey
Mr Battishill
Mr Taylor Thompson
Mr Cleave
Mr J Hall
Mr Linford
Miss Hill
Mr Spence
PS/IR

INFORMAL ECOFIN: 20/21 SEPTEMBER 1985: UNITARY TAXATION

1. July Ecofin agreed EC should co-ordinate action to press US Administration and states to produce a solution. The result of this was

   i) an EC note to Secretary Baker (24 July) urging an early solution by state or federal action;

   ii) EC note (24 July) to California and other unitary states urging state legislation;

   iii) EC note (30 August) urging improvements in the spreadsheet legislation (Federal Support Package).

2. UK Objectives

   a. maintain EC support for UK pressure;

   b. if we pursue the treaty route solution get EC countries to agree that UK should be first in the queue. Requires careful handling (see 3b and 4 below).

   c. on retaliation, we want to avoid EC criticism that our stance has been, or will be, counter-productive. Retaliatory threats from other countries would be useful, but unlikely.

3. Points to make

   a. co-ordinated action after last Ecofin has been useful. Important to continue it and focus on need for Federal action, now that California Bill has failed;

   [b. - if treaty route solution is raised. Amendment of treaties (on lines of Article 9(4) of original US/UK treaty) well worth pursuit if US Administration regard it as political starter. UK will float possibility with US Treasury and report back on US response]

   c. UK retaliatory pressure. Has been effective, and has not provoked US criticism. UK will not trigger reserve powers prematurely. Threats of counter-action from other countries would increase pressure on US.

4. Background

a. Treaty solutions. There should be no difficulty in getting most EC countries to accept that UK should be first in the field and that the others should follow - on the initial break through. But the Dutch, who have treaty negotiations running, may jostle for first place in the queue.

b. Retaliation. So far there has been no EC criticism of UK line, and the EC 24 July note to US Treasury endorsed it:

> "The delay in the attainment of a solution is producing growing pressure for counter-action on the part of individual Governments of EEC member states. The action taken by the UK Parliament in giving the UK Government enabling powers is the most recent example of such pressures."

But while we succeeded in getting the other countries in signing up on this wording, they are as yet all averse to any retaliatory action of their own. France is the least unlikely candidate for action.

INFORMAL ECOFIN: 20-21 SEPTEMBER BRIEF D

1985 IMF/IBRD ANNUAL MEETINGS, SEOUL

Objectives

(a) To support statement on behalf of the Community Presidency.

(b) To support moves for a Community consensus which will help promote a compromise between US and ldcs on enlarged access.

(c) To urge Franco-German support for MIGA.

Points to make

(1) World economy. Continuing growth in world economy, no inflationary upsurge and improvements in position of some debtors. Reflects firm policies. Economic outlook cause for guarded optimism. But uncertainties and risks have increased, eg protectionism.

(2) World economy entering third year of steady growth but expect some slowdown after hectic pace in 1984. Reflects decline in US activity as growth weakens. US policy imbalances not yet resolved. US 1986 budget resolution a small step but considerably tougher measures needed to achieve sustainable budget position and remove major source of uncertainty. Therefore see stronger domestic activity in Japan as important contribution to world growth prospects and to reducing trade frictions. Also solid case, accepted by Japanese, for stronger yen. Believe lopsided financial liberalization playing a major part in yen weakness.

(3) Need for continuing adjustment by debtor countries if debt problems are to be solved. Case by case approach remains correct. But prospective large net flows back from ldcs to creditors and reluctance of banks to provide new money is a worrying prospect and we will need to look at the implications.

(4) Enlarged access. Positions taken on enlarged access not too far apart. This offers chance for a Community consensus which will put us in a good position to produce a compromise between US and ldcs. Although UK in Fund Board accepted that there might be marginal reductions in annual access, this does not necessarily represent our final position. Willing to go along with no reduction in annual limits to help reach agreement.

(5) Trust Fund. Welcome consensus that Trust Fund monies should be concentrated on poorest. Not necessary now to define precise eligibility list. Also welcome consensus that there should be a greater element of conditionality in Trust Fund.

(6) SDR allocations. See no case for resumption of allocations since case on grounds of long term global need not made out. Endorse consensus that case for allocations should be considered in context of studies on SDR which form part of the follow up to G10 report.

(7) G10/G24 Reports. Welcome agreement that after Seoul Reports should be remitted to Executive Board for study. EB and Interim Committee are appropriate bodies to consider these issues (not new fora).

(8) Welcome consensus in favour of paving way for General Capital Increase. Recognise that it will take time for US to move. No need to take view now since IBRD also need to prepare positive case. Possibility here for Community compromise.

(9) Welcome agreement on exchange of views on IDA8 negotiations on basis of fair burden sharing among donors.

(10) Support agreement to remit Task Force on Concessional Flows to Development Committee.

(11) Welcome clarification of attitudes of French and Germany to MIGA. Would encourage them to accept final text of the

Convention and to support resolution adopting MIGA as the basis for consideration by Governments and, in due course, for the membership of this who wish to join. Industrials have argued in favour of direct investment as a contribution to solution of debt problem. As ldcs have now accepted MIGA, looks inconsistent for France and Germany to hold back. Moreover, developed countries have also stressed need to keep financial and economic issues in context of IFIs. MIGA assists in this and it looks wrong therefore not to support the initiative.

(12) Willing to support consensus that Commission should be represented at informal Development Committee session.

Accn

Trust Fund
Pomment (with chair)
Consensus
US proposal

Background

1. Tietmeyer will report on the outcome of the Monetary Committee on 13 September. The Presidency speech (copy attached) is acceptable although some of the language is rather strained because of the need to reach agreed positions. The line to take covers all the principal issues, although there is a need to intervene at length probably only on enlarged access and MIGA. MIGA

2. The basic line on the issues for Annual Meetings (contained (below) in Mr Matthew's brief of 27 August) has already been agreed by the Chancellor. The Monetary Committee seems to have reached a wide measure of agreement on the issues before it. On the Trust Fund, there is general agreement that the new facility should be more conditional and restricted in eligibility while on SDR allocations (although there is agreement to differ) there is a consensus that the question of allocations should now be seen in the context of the continuing SDR studies. There is also agreement that the G10/G24 Reports should be handled procedurally at Seoul and thereafter remitted to the Fund (rather than new ad hoc bodies).

3. On enlarged access, there is sufficient common ground and willingness to reach a consensus which will assist the Community in working for a compromise between the US and the ldcs. Fund staff have concluded that cumulative limits should be scaled down from a range of 408% to 450% to a range of 375% to 400% but that there should be no change in the annual limits. The Germans want a reduction in both the annual and cumulative limits while others in the Community would favour no change in either limit. The UK has been prepared to support the staff on reducing the cumulative limits and in the Board expressed a view that any reductions in the annual limits should be no more than marginal. This was to some extent a tactical view to offer support to the US in the Board. We expect them to be more flexible on enlarged access in Seoul than in the past. We would certainly be able to join a Community consensus, eg some shading down on the cumulative limit but keeping the annual limits.

4. On World Bank issues of the General Capital Increase, IDA and Task Force on Non-Concessional flows agreed positions have been reached by the Community. Only on MIGA is there a divergence of view. It would be helpful (a) to sound out the French and Germans on their attitude to the MIGA and the reasons for their abstentions in the recent World Bank Board discussions, and (b) to encourage them to accept the final text of the Convention.

5. At a World Bank Board meeting on 12 September, it was agreed that the MIGA documentation should be put forward to the Annual Meetings in Seoul. The French and German Executive Directors were among those who abstained. The Germans were concerned about the adequacy of investment standards and abstained pending further consideration. They hope to have a final view in time for Seoul. On this point, the text of the Convention involved a particularly difficult balance between the interests of the developed countries and the LDC's. The French objections seem to be procedural. They would have preferred a progress report at this stage to allow a broad policy discussion at Seoul. At the Monetary Committee, Luxembourg and Denmark also expressed scepticism.

6. There are still aspects of the Convention not fully satisfactory to us (eg voting structure, investment standards, the denomination of capital) but on balance we are willing to accept the final text to secure progress of the MIGA initiative. In due course, decisions on UK membership will need to take account of the terms of the convention, the costs and the attitude of other countries including the developing countries.

7. At Spring meetings Commission unsuccessfully pressed for admission to informal sessions of Interim and Development Committees. There will be an informal session of the Development Committee in Seoul and Delors is pressing for admission again. We believe that it is unnecessary for the Commission to be separately represented but are willing to go along with Community consensus.

8. A short note on the 1986 Annual Meetings Chairmanship is also attached.

Chairmanship of 1986 Annual Meetings

Line to take

Not for Community to take a view on two candidates. Latin American constituencies in Washington should settle on a single candidate who can then be endorsed by Fund.

Background

There is a need to choose a chairman for the 1986 Annual Meetings. This year it falls to the Latin Americans and two candidates have offered themselves - Colombia and Ecuador. The usual procedure is that the relevant geographical region offers just one candidate. However, because of personality clashes in the IBRD, the system has not worked this time and both candidates have lobbied the UK. This is not a matter for the UK nor the Community. It is for the Latin Americans to settle in Washington. Accordingly we should decline to be drawn.

TO ALL MEMBERS AND ALTERNATES OF THE MONETARY COMMITTEE

PLEASE FIND BELOW THE DRAFT IMF DECLARATION AS FINALIZED BY THE MONETARY COMMITTEE ON 13 SEPTEMBER 1985, WHEN CHANGES TO PARAGRAPHS 2, 3, 5 AND 12 OF THE PREVIOUS TEXT WERE AGREED.

A. KEES
COMEUR B

1. SINCE LUXEMBOURG IS AT PRESENT EXERCISING THE PRESIDENCY OF THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY, I HAVE THE HONOUR TO ADDRESS THIS MEETING ON BEHALF OF THE COUNTRIES OF THE EUROPEAN ECONOMIC COMMUNITY.

2. AFTER ALMOST TWO YEARS OF STRONG EXPANSION, WORLD ECONOMIC GROWTH AS A WHOLE HAS SLOWED DOWN, OWING TO THE WEAKENING OF THE STIMULUS PROVIDED BY THE EXPANSION OF DEMAND IN THE UNITED STATES. BUT AT THE SAME TIME THIS GROWTH IS GEOGRAPHICALLY MQRE BALANCED. WHILE INFLATION HAS BEEN BROUGHT DOWN, THE UNEMPLOYMENT PROBLEM REMAINS VERY SEVERE IN A NUMBER OF COUNTRIES. IN ADDITION, LARGE IMBALANCES HAVE EMERGED IN INTERNATIONAL PAYMENTS, WHICH MAY NOT BE SUSTAINABLE IN THE MEDIUM TERM AND MAY POSE A THREAT TO GROWTH AND FINANCIAL STABILITY. FINALLY, HIGH LEVELS OF REAL INTEREST RATES MAY STILL HAMPER INVESTMENT, ALTHOUGH THEY HAVE COME DOWN SOMEWHAT, AND EXCHANGE RATES BETWEEN THE MAJOR CURRENCIES MAY STILL NOT BE CONSISTENT WITH AN ORDERLY REABSORPTION OF TRADE IMBALANCES.

3. MORE RECENTLY THE BUSINESS SECTOR AND FINANCIAL MARKETS HAVE DEVELOPED A MORE SCEPTICAL APPRAISAL OF FURTHER GROWTH PROSPECTS IN THE US ALONG THE LINES WHICH PREVAILED IN 1983-84. PROJECTIONS FOR THE US ECONOMY HAVE BEEN REVISED DOWNWARDS., HOWEVER THE EXCHANGE RATE FOR THE DOLLAR HAS BEEN COMING DOWN IN AN ORDERLY FASHION. A CONTINUATION OF THESE TRENDS COULD IMPROVE THE COMPETITIVENESS OF THE US ECONOMY AND IN TIME BRING ABOUT A REDUCTION IN THE VERY LARGE TRADE DEFICIT OF THE US. AS GROWTH IN THE US ECONOMY SLOWS DOWN TO A MORE SUSTAINABLE RATE, IT IS ESSENTIAL THAT OTHER INDUSTRIAL COUNTRIES CONSIDER HOW BEST THEY COULD SUPPORT GLOBAL ECONOMIC GROWTH.

4. ALTHOUGH THE RESTORATION OF A BETTER EXTERNAL AND INTERNAL BALANCE IN THE US ECONOMY WILL TAKE TIME, STRONGER EFFORTS TO MOVE IN THAT DIRECTION MAY HAVE IMPORTANT CONSEQUENCES FOR THE REST OF THE WORLD. GIVEN TH KEY ROLE OF THE DOLLAR, THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM AND IN PARTICULAR THE PROSPECTS FOR EXCHANGE RATE STABILITY IN THE LONGER TERM WOULD BE ENHANCED CONSIDERABLY. FINANCIAL FLOWS COULD REVERT TO MORE SUSTAINABLE PATTERNS AND INTEREST RATES COULD COME DOWN.

5. THE MEMBER COUNTRIES OF THE COMMUNITY HAVE TAKEN A NUMBER OF STEPS TO REMEDY THE STRUCTURAL WEAKNESSES OF THEIR ECONOMIES. WHILE PROGRESS MAY VARY, THE TREND OF ACTION IS CLEAR. EXCESSIVE BUDGET DEFICITS ARE BEING BROUGHT UNDER BETTER CONTROL IN MOST MEMBER COUNTRIES AND THEY HAVE BEEN REDUCED SIGNIFICANTLY IN SOME INSTANCES. INFLATION AND INFLATION DIFFERENTIALS HAVE COME DOWN. THERE HAS BEEN A CONSIDERABLE IMPROVEMENT IN THE CURRENT ACCOUNT POSITION OF MOST MEMBER STATES OF THE EEC AND SOME PROGRESS IN REDUCING WAGE AND LABOUR MARKET RIGIDITIES.

6. MORE REMAINS TO BE DONE IN REDUCING STRUCTURAL RIGIDITIES AND RESTORING OR IMPROVING THE PROFITABILITY AND COMPETITIVENESS OF COMPANIES. THROUGH THE IMPLEMENTATION OF EXPENDITURE RESTRAINT AND INCREASED EFFICIENCY IN PUBLIC SECTOR SPENDING AND TAX COLLECTION FURTHER PROGRESS CAN BE MADE IN ALLEVIATING THE BURDEN OF TAXES AND LEVIES AND THUS INCREASING THE SCOPE FOR PRIVATE SECTOR ACTIVITY. THE COMMUNITY FIRMLY TAKES THE VIEW THAT THIS FISCAL STANCE, COMBINED WITH APPROPRIATE MONETARY POLICIES, IS A BASIC CONDITION FOR SUSTAINABLE, NON-INFLATIONARY GROWTH AND FOR BRINGING DOWN THE INTOLERABLY HIGH RATES OF UNEMPLOYMENT.

7. WHILE THE GROWTH PROSPECTS FOR THE WORLD ECONOMY MAY IN OUR VIEW WARRANT MODERATE OPTIMISM FOR THE SHORTER TERM AND GREATER CONFIDENCE IN THE MEDIUM TERM, WE HAVE TO ADD HOWEVER TWO IMPORTANT ELEMENTS OF CAUTION ABOUT POTENTIAL HANDICAPS WHICH MAY ARISE IN CONNECTION WITH THE DEBT SITUATION, ON THE ONE SIDE, AND WITH THE DANGERS OF PROTECTIONISM, ON THE OTHER SIDE.

8. WITH REGARD TO THE DEBT PROBLEMS THE COMMUNITY EXPRESSES FULL CONFIDENCE IN THE WAY THE INTERNATIONAL COMMUNITY, TOGETHER WITH THE IMF, IS HANDLING THE SITUATION, TAKING ACCOUNT OF THE SPECIFIC NATURE OF EACH INDIVIDUAL CASE AND PROVIDING A FRAMEWORK OF TRUST FOR ALL PARTIES INVOLVED. STRONG AND VALUABLE ADJUSTMENT EFFORTS HAVE BEEN ACHIEVED BY

MANY DEVELOPING COUNTRIES, WITH SUBSTANTIAL RESULTS. THESE EFFORTS HAVE BEEN SUSTAINED BY THE CREDITORS WHO MANAGED TO ADDRESS DEBT PROBLEMS WITH FLEXIBILITY, BUT RESULTS, THOUGH UNQUESTIONABLE, ARE FRAGILE. EFFORTS ALREADY UNDERTAKEN MUST BE PURSUED AND DEEPENED. CONTINUATION OF COOPERATION AND DIALOGUE BETWEEN DEBTORS, CREDITORS AND INTERNATIONAL ORGANIZATIONS IS OF THE UTMOST IMPORTANCE FOR THERE ARE NOT EVEN SHORT TERM ADVANTAGES TO BE GAINED THROUGH UNILATERAL ACTION. THE ORDERLY REABSORPTION OF EXCESSIVE FOREIGN DEBT WILL BE FACILITATED BY CONTINUED GROWTH AND THE MAINTENANCE OF RECENT TRENDS IN EXCHANGE RATES AND INTEREST RATES, AS WELL AS BY THE ROLL-BACK OF PROTECTIONIST TENDENCIES.

9. PROTECTIONISM IN ITS VARIOUS FORMS AND A LACK OF WILLINGNESS TO OPT FOR OPEN MARKETS HAVE LED TO AN EVER MORE COMPLICATED MAZE OF OUTRIGHT BARRIERS, ADMINISTRATIVE HURDLES, AGREED QUOTAS, VOLUNTARY RESTRAINTS AND AN INCREASING PORTION OF WORLD TRADE IN THE FORM OF BILATERAL OR MULTILATERAL BARTERING.

IN A WORLD WHERE ECONOMIES ARE MORE AND MORE INTERDEPENDENT IN BOTH REAL AND FINANCIAL TERMS, GOVERNMENTS MUST MAKE IT A PRIORITY TO RESIST AND REDUCE PROTECTIONIST PRESSURES AND TO CONVINCE THEIR PUBLIC OPINIONS OF THE SHORTSIGHTEDNESS OF THE PROTECTIONIST APPROACH.

THE COMMUNITY THEREFORE RECONFIRMS ITS VIEW THAT THE PREPARATION OF A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS IN THE FRAMEWORK OF THE GATT SHOULD BE CONCLUDED AS SOON AS POSSIBLE. THE PROSPECTS FOR THESE NEGOTIATIONS TO BE SUCCESSFUL, PRIMARILY DEPEND ON THE READINESS TO EFFECTIVELY HOLD AND ROLL BACK PROTECTIONISM. IN THIS CONTEXT PROGRESS IS ALSO REQUIRED IN THE ACHIEVEMENT OF MORE STABLE MONETARY AND FINANCIAL CONDITIONS WHICH UNDERPIN THE FUNCTIONING OF INTERNATIONAL TRADE. THEREFORE RESULTS SHOULD BE SOUGHT IN PARALLEL IN THE TRADE AND MONETARY FIELDS

10. ON THIS OCCASION THE MEMBER STATES OF THE COMMUNITY WELCOME THE WORK WHICH HAS ALREADY BEEN DONE BY THE G.10 ON THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM AND CONSIDER THAT THE RECOMMENDATIONS OF ITS REPORT SHOULD BE GIVEN PRIORITY ATTENTION. THE CONTRIBUTION RECENTLY PRESENTED ON THESE MATTERS BY THE G.24 ALSO CALLS FOR CAREFUL CONSIDERATION. THE COMMUNITY COUNTRIES EMPHASIZE THE NEED TO CONTINUE TO EXAMINE THOROUGHLY ALL THE ISSUES RELEVANT TO THE ORDERLY FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM.

11. ON THE ISSUE OF AN ALLOCATION OF SDR'S THE MEMBER STATES OF THE COMMUNITY WELCOME THE COMPREHENSIVE REVIEW OF THE FUTURE ROLE OF THE SDR IN THE INTERNATIONAL MONETARY SYSTEM, WHICH IS TO BE UNDERTAKEN BY THE EXECUTIVE BOARD OF TH IMF AND WE HOPE THAT THIS STUDY WILL HELP CLARIFY THE ISSUES AND THUS DELINEATE THE SCOPE FOR ANY ACTION IN THIS FIELD.

12. IN VIEW OF THE REMAINING STRAINS AND UNCERTAINTIES IN THE INTERNATIONAL ECONOMY AND IN ORDER TO ALLOW THE FUND TO FULFIL ITS ROLE AS AGENT OF INTERNATIONAL ADJUSTMENT IN A FLEXIBLE WAY, THE POLICY OF ENLARGED ACCESS SHOULD BE CONTINUED FOR ANOTHER YEAR. TO STRESS THE TEMPORARY CHARACTER OF THIS POLICY THE MEMBER COUNTRIES OF THE EUROPEAN COMMUNITY REAFFIRM HOWEVER THE NEED TO CONTINUE IN THE FUTURE THE GRADUAL PHASING OUT OF ENLARGED ACCESS, AND TO MAINTAIN THE CAUTIOUS APPLICATION OF LENDING GUIDELINES.

13. THE DIFFICULT PROSPECTS THAT REMAIN FOR MANY LOW-INCOME DEVELOPING COUNTRIES PROMPT THE MEMBER COUNTRIES OF THE COMMUNITY TO VIEW THE REMAINDER OF TRUST FUND LOAN REPAYMENTS AS A WAY OF PROVIDING CONCESSIONAL ASSISTANCE IN A FLEXIBLE MANNER THROUGH THE SPECIAL DISBURSEMENT ACCOUNT TO ELIGIBLE COUNTRIES EMBARKING ON FUND ADJUSTMENT PROGRAMS.

14. THE MEMBER STATES OF THE COMMUNITY ARE ALSO SUPPORTIVE OF THE STRENGTHENING OF BANK-FUND COLLABORATION, WITHOUT JEOPARDIZING THE UNIQUE PURPOSES OF EACH INSTITUTION. WE ENCOURAGE THE BANK, THROUGH POLICY DIALOGUE WITH BORROWERS, TO DESIGN BANK PROGRAMMES WHICH COMPLEMENT THE SHORT-TERM MORE FINANCIALLY ORIENTED FUND PROGRAMMES. THE BANK SHOULD IN A FLEXIBLE WAY PLAY A LARGE AND CONTINUOUS ROLE IN FINANCING STRUCTURAL ADJUSTMENT USING ITS VARIOUS INSTRUMENTS WHILE PRESERVING LOAN QUALITY AND PRUDENT FINANCIAL POLICIES.

15. WE EXPECT THAT AGREEMENT WILL BE REACHED SOON ON THE EXPANSION IN THE BANK'S LENDING PROGRAMME AND ON LENDING CONDITIONS AND THEIR IMPLICATIONS IN TERMS OF RESOURCES AND ARE READY TO SUPPORT ANY CONSEQUENT INCREASES IN THE BANK'S CAPITAL.

16. THE MEMBER STATES OF THE EUROPEAN COMMUNITY REAFFIRM THEIR SUPPORT OF IDA AS AN UNRIVALLED INTERNATIONAL INSTRUMENT FOR TRANSFERRING CONCESSIONAL ASSISTANCE TO LOW-INCOME COUNTRIES. THEY WELCOME THE CURRENT MID-TERM REVIEW OF IDA 7 AND ITS EMPHASIS ON THE ROLE AND STRUCTURE OF IDA., THIS REVIEW MIGHT BE USEFUL IN RESTORING AN ADEQUATE RESOURCE BASE, BUT FRESH FINANCING MEANS ARE ALSO NEEDED TO MEET INCREASING REQUIREMENTS. IT SHOULD ALSO LEAD TO TIMELY NEGOTIATIONS FOR IDA 8.

17. TO SUSTAIN THE RESTORATION OF SOUND ECONOMIC POLICIES IN DEVELOPING COUNTRIES, WE ARE AWARE OF THE NECESSITY OF ENHANCED FLOWS OF OFFICIAL DEVELOPMENT ASSISTANCE. OTHER BILATERAL AND MULTILATERAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES NEED TO BE UPHELD AND IF POSSIBLE INCREASED. IN THIS REGARD THE MEMBER STATES OF THE COMMUNITY ARE PLEASED WITH THE ENTRY INTO FORCE OF THE SPECIAL FACILITY FOR AFRICA., THEY HOPE FOR A RAPID ENTRY INTO EFFECT OF THE IFC CAPITAL INCREASE., AND, IN RECOGNITION OF THE VITAL ROLE PRIVATE DIRECT INVESTMENT HAS TO PLAY IN THE DEVELOPMENT PROCESS, THEY HOPE THAT RAPID PROGRESS CAN BE MADE IN FINDING SATISFACTORY SOLUTIONS IN THE DISCUSSIONS TO SET UP A MIGA. IN THIS RESPECT THE MEMBER STATES OF THE COMMUNITY WELCOME THE REPORT OF THE TASK FORCE ON CONCESSIONAL FLOWS AND ENDORSE ITS CONCLUSIONS
NNNN

16 September, 1985

INFORMAL FINANCE COUNCIL, 20/21 SEPTEMBER BRIEF E

TAX HARMONISATION

UK objectives

- Avoid commitment to tax harmonisation, or to individual proposals and timetable in White Paper; let other Member States make running if possible

- If appropriate, encourage Council to commission studies on extent to which tax approximation necessary, and on implications and effects of various alternative approaches to tax aspects of internal market

- Avoid prejudicing UK's aims on higher priority parts of White Paper

Line to take

- UK endorses many of Commission's plans for completing internal market; looks forward to rapid progress on high priority matters identified at Milan; ready to study practical ways of cutting trade obstacles

- To fulfil European Council's remit on tax harmonisation, UK thinks Finance Council might look closely at range of possible approaches to tax problems associated with internal market. UK remains unconvinced that tax approximation necessary for completion of internal market. Measures must meet requirements of economy and practicality. Nobody wants cure worse than disease

X UK could agree to study a) necessity for approximation of tax rates, b) other possible means of minimising trade distortions and frontier delays. Adopt rigorous cost/benefit approach - eg costs of Commission's approach, (complicated clearing house/warehousing procedures etc) must be quantified. And in considering other approaches, separate trade from movement of persons, and VAT from excises, to get clearest possible picture

- (if pressed on abolition of tax frontiers) Too early to say if abolition essential - study problem first, weigh costs/benefits, and only then take decisions of principle

- (if pressed on movement of individuals) Important, of course, to make travel easier. But not central to concept of internal market, which is about trade. Wrong to let problems of personal movement decide procedures applicable to trade

- (procedural) Could support establishment of ad hoc group of officials reporting to Council. Settle terms of reference at October ECOFIN, on basis of COREPER recommendation

Background

- General background in Mr Knox's submission of 13 September (Annex A)

- Some facts and figures on impact of tax harmonisation on other Member States (Annex B)

INFORMAL FINANCE COUNCIL, 20/21 SEPTEMBER

TAX HARMONISATION

Further background

UKRep reports other Member States as likely to take following lines:

France — Similar to UK : lots of questions about implications of Commission's proposals and a preference for practical improvements in present position rather than radical new departure.

Germany — As France. A Bundesfinanzministerium working party is looking at practical alternatives to tax approximation.

Both countries likely to have difficulty accepting 14th VAT directive (on cost grounds, plus - in Germany - constitutional problems with the Länder)

[Although more probable in practice than agreement to tax approximation, this line cuts across the French/German/Benelux agreement in June this year - the "Moselle Treaty" - to support EC moves on tax harmonisation.]

Benelux — Generally in favour of Commission's White Paper approach, but can be expected to discover difficulties as discussions proceed. Not keen on timetable (too rushed) or VAT clearing house. Netherlands keen to see some concrete outcome from September/October ECOFINs, if only to give their Presidency something to work on next year.

Ireland — Generally pro-integration, in spite of massive revenue problems implied by tax approximation. Very low profile approach.

Greece	Line not yet sorted out in Athens. Not prepared openly to oppose harmonisation, but serious doubts about economic consequences and timetable. Would agree to discussions of possible alternatives.
Denmark	Danes do not accept principle of harmonisation (major revenue and constitutional problems). Hope to avoid too much discussion.
Italy	No news.

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ANNEX A

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: B H KNOX

Date: 13 September 1985

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Monger
Mr Edwards
Mr Griffiths
Mr Cropper
Mr Davies
Mr Lord
PS/IR
Mr Cayley (IR)

INDIRECT TAX HARMONISATION

Introduction

1. With the onset of autumn, activity will resume on this subject, both domestically and in the Community. At home, the House of Lords scrutiny committee will start its examination of the tax chapter of Lord Cockfield's White Paper, and has asked us to provide a background paper before giving evidence on 23 October (as reported in my minute of 23 July). In Community circles Finance Ministers will take a first look at the subject at their informal meeting on 20/21 September, in preparation for a more thorough and formal discussion at ECOFIN in October. This submission seeks approval of the line to be taken in these two areas.

Internal circulation: CPS, Mr Jefferson Smith, Mr Howard, Mr Wilmott, Mr Cockerell, Mr Kent, Mr Bone, Mr Walton (UKRep)

Objectives

2. We recommend a line of attack that avoids any commitment to the principle of harmonisation while leaving scope for practical and constructive interventions, where appropriate, on the facilitation of trade in the internal market. Our immediate aim would be to engage the Council in a series of studies to establish the relative costs and benefits of different approaches to the tax aspects of the internal market.

Basic assumptions

3. We start from the premise that the Commission's initiative on tax harmonisation will fail, but that it is not in the UK's interest to allow others in the Community to blame us for its failure, since this could prejudice our chances of achieving worthwhile gains on other aspects of the internal market initiative. This is consistent with the approach agreed at your meeting on 7 June. The conclusions of the European Council at Milan were satisfactory, in that it did not include tax harmonisation among the fields and measures considered to be of high priority, but rather invited the ECOFIN Council "to examine on the basis of the White Paper any measures which might be necessary for the achievement of the objective of a single market and the possible timetable for the application of those measures". We think the Commission may try to interpret the outcome of the European Council as already committing Member States to tax harmonisation; for them discussion would therefore need to concentrate on how best to achieve harmonisation. A wrangle over the precise meaning of the remit would be unlikely to be profitable. But equally, we would wish to avoid any specific commitment to harmonisation, as this could lead all too easily to half-baked acceptance of some of the Commission's less practical ideas. Tactically we think our interests would be best served by avoiding discussions of theory and principle wherever possible, and by focussing rather on the practical reality of the internal market and on concrete and workable ways of cutting the burdens associated with tax controls on trade.

A practical approach

4. Our first objective would be to separate consideration of controls on trade in goods from those on the movement of persons. The internal market is primarily about

trade, and, however desirable an aim it might be for the Community to ease constraints on the movement of individuals, the special problems in this field could all too easily exert disproportionate influence on the measures needed to create an internal market (much of the weight of the Commission's arguments in favour of harmonisation rests on the effects of taxes on consumption by individuals rather than on their effects on trade).

5. In looking at the issues surrounding trade, we would then aim to separate VAT and excise duties. On VAT, our basic approach would be to argue that the overall economic costs of harmonising rates and coverage, together with those of the associated revenue clearing house operation, could well exceed those of the present system of border tax adjustments and controls. Instead of committing itself blind to VAT harmonisation, the Community should therefore take a hard look at the relative costs and benefits for traders and governments alike of a streamlined version of the present system, based for example on simplified import and export procedures. (This would of course raise the prospect of the reintroduction of postponed accounting for VAT, with its attendant cash flow loss of roughly £1.5 billion to the UK.) We would see no practical need, on this approach, for harmonising rates and coverage, and we would aim to discredit the Commission's thesis that without harmonisation intolerable distortions would arise. On excise duties, where the Commission envisage (probably costly) warehousing and bonding procedures coupled with tight regulation of trade down to and including the wholesale stage, we would advocate a realistic appraisal of the comparative costs and benefits of retention of the current system (possibly streamlined) of border tax adjustments and controls. Again, this could obviate the need for harmonisation of duty rates.

6. If discussion were necessary of measures affecting the movement of individuals - and we would see this as a lower priority than trade - we would recommend a pragmatic approach. No two Community frontiers are identical, and we see little point in applying universally measures necessitated by the particular problems of internal land frontiers. As far as VAT is concerned, existing travellers' allowances are already high enough to permit considerable cross-border shopping in parts of continental Europe (and between Northern Ireland and the Republic); it is possible they could be raised further

without leading to gross distortions, although special arrangements might be needed to control purchases of motor vehicles. The situation on excise goods is different. The choice here seems to lie between maintaining the allowances at roughly their present levels and raising them and letting market forces exert pressure in relative duty rates across individual borders (the pressures would vary with the relative tax levels and the various geographical factors involved). The second approach is unattractive from the UK's standpoint, since the proximity of France and Belgium, with their generally lower duties, could adversely affect retailers in southern England (conversely, though, traders in Northern Ireland could do very well). But we would be insulated to some extent from the full effects of tax-induced price differences by the comparatively high cost of crossing the Channel.

Chances of success

7. Success, in this context, would be defined as persuading a majority of the Council that the Commission's whole-hog approach to harmonisation was excessively costly and impractical, and that worthwhile gains could be achieved by practical improvements based mainly on retention of existing systems. Although we think all or most Member States dislike the idea of tax harmonisation as much as we do, it will still not be easy to persuade them publicly to accept the abandonment of the White Paper's ambitious objectives - the continental attachment to lofty statements of unattainable aims is a potent force. It is possible therefore that our down-to-earth interpretation of the remit from Milan stands little more than, say, a fifty-fifty chance of success in these terms. But if we could keep our approach in play, there would be no harm in studying other options - the main aim would be to bog things down in studies, and the more that were running in parallel the better. If discussion turned to tax harmonisation itself, we could of course argue for a thorough-going examination of its economic, industrial, social and other effects.

The line on 20/21 September

8. We see no need to go into all this detail at this meeting. Our main objective -

securing agreement to thorough studies of a range of options, possibly by an ad hoc group of officials - could be stated succinctly. Indeed, it is always possible (and it would be preferable) that others would make the running in this direction.

Summary

9. We seek approval of an approach to the White paper based on

a. a low profile

b. an assumption that tax harmonisation is not a prerequisite of worthwhile gains in the establishment of the internal market.

c. separate consideration of VAT and excise duties, and of their impact on trade and the movement of persons, respectively, the latter being afforded a lower priority

d. an evaluation of the relative costs and benefits of the White Paper's proposals and of possible improvements in existing procedures and controls

e. the assumption that this line of attack would help to keep tax harmonisation as a low priority item on the Community's agenda, and possibly to remove it altogether.

This line would form the basis both of briefing for the September and October meeting of ECOFIN and of our appearance before the Lords, on which we shall put up a separate submission very shortly.

Bryce Knox

B H KNOX

~~SECRET~~
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ANNEX B

EFFECT OF HARMONISATION ON EXCISE DUTIES IN MEMBER STATES

A BY DUTY

1. Beer
2. Wine
3. Spirits
4. Tobacco
5. Petrol and Diesel

B BY COUNTRY

1. Belgium
2. Denmark
3. France
4. Germany
5. Greece
6. Ireland
7. Italy
8. Luxembourg
9. Netherlands

<u>Notes</u>

1. This analysis is based on figures contained in the Commission working paper "Suppression des Frontieres Fiscales", Feb 1985. These figures were based on 1982 data.

2. The figures for changes in revenue as a percentage of GNP assume zero price elasticities. In practice, the effects would be smaller, the higher the price elasticities.

A1 BEER

	% change in duty	Change in revenue as % GNP
France	+445	+0.07
Germany	+223	+0.18
Luxembourg	+125	+0.15
Belgium	+117	+0.16
Italy	+ 68	+0.03
Netherlands	+ 22	+0.03
Greece	- 12	-0.02
Denmark	- 48	-0.20
UK	- 56	-0.30
Ireland	- 76	-1.34

A2 WINE

	% change in duty	Change in revenue as % GNP
Greece	*1	+0.15
Italy	*1	+0.19
France	+299	+0.09
Germany*2	- 24	-0.01
Luxembourg	- 33	-0.03
Belgium	- 48	-0.03
Netherlands	- 66	-0.04
Denmark	- 86	-0.13
Ireland	- 94	-0.18
UK	- 94	-0.20

*1 Greece and Italy do not have duties on wine

*2 Germany does not charge duty on table wines but does make a relatively high charge on fortified wines

A3 <u>SPIRITS</u>

	% change in duty	Change in revenue as % GNP
Greece	+2578	+0.60
Luxembourg	+ 825	+0.96
Italy	+ 384	+0.29
Belgium	+ 51	+0.10
Netherlands	+ 14	+0.04
Germany	+ 5	+0.01
France	- 7	-0.02
Denmark	- 47	-0.16
UK	- 53	-0.25
Ireland	- 63	-0.65

A4 TOBACCO

	% change in duty	Change in revenue as % GNP
Greece	+135	+1.35
France	+ 87	+0.27
Luxembourg	+ 82	+1.86
Italy	+ 52	+0.36
Belgium	+ 29	+0.18
Netherlands	+ 21	+0.12
Germany	- 20	-0.15
Ireland	- 20	-0.35
UK	- 36	-0.46
Denmark	- 52	-0.59

A5 PETROL AND DIESEL

	% change in duty	Change in revenue as % GNP
Netherlands	+31	+0.26
Luxembourg	+30	+0.81
Denmark	+18	+0.16
Belgium	+17	+0.19
Germany	+ 5	+0.07
France	- 1	-0.01
Italy	- 1	-0.02
Ireland	- 8	-0.18
UK	-10	-0.16
Greece	-19	-0.39

B1 BELGIUM

	% change in duty	Change in revenue as % GNP
Beer	+117	+0.16
Wine	- 48	-0.03
Spirits	+ 51	+0.10
Tobacco	+ 29	+0.18
Petrol	+ 9	) +0.19
Derv	+ 51	)
Total		+0.60

Belgium would have to increase all its main duties except for wine. However, the reduction in wine duties would have only a small effect on revenue. Duty increases of over 50% will be required for beer and spirits and derv. Beer is as popular in Belgium as in the UK.

B2 DENMARK

	% change in duty	Change in revenue as % GNP
Beer	- 48	-0.20
Wine	- 86	-0.13
Spirits	- 47	-0.16
Tobacco	- 52	-0.59
Petrol	+ 2	) +0.16
Derv	+176	)
Total		-0.92

Denmark would be affected similarly to us as far as duties are concerned, except in the case of derv, which Denmark would have to increase substantially. Duties on alcoholic drinks, especially spirits, and tobacco, would have to be reduced. The reduction in tobacco duty appears to have serious revenue consequences.

B3 FRANCE

	% change in duty	Change in revenue as % GNP
Beer	+445	+0.07
Wine	+229	+0.09
Spirits	- 7	-0.02
Tobacco	+ 87	+0.27
Petrol	+ 1	) -0.01
Derv	- 10	)
Total		+0.40

France would have to make major increases in beer, wine and tobacco duties. The increase in wine duty would not be popular with the producers and the increase in tobacco duty could also prove difficult in view of the amount of revenue it will raise [and of the close links between the state and the industry].

B4 GERMANY

	% change in duty	Change in revenue as % GNP
Beer	+223	+0.18
Wine	- 24	-0.01
Spirits	+ 5	+0.01
Tobacco	- 20	-0.15
Petrol	+ 18	+0.07
Derv	- 34	
Total		+0.10

The only major change required by Germany would be a massive increase in beer duty, which could cause difficulties, given the German taste for beer. (Germany is reported to have the highest per caput beer consumption in the world). Germany does not charge duty on table wine but has a relatively high charge on fortified wine - hence the apparently modest change required for harmonisation shown in the table in fact disguises much more dramatic changes in the duty structure.

B5 GREECE

	% change in duty	Change in revenue as % GNP
Beer	- 12	-0.02
Wine		+0.15
Spirits	+2578	+0.60
Tobacco	+ 135	+1.35
Petrol	- 35	) -0.39
Derv	+ 299	)
Total		+1.69

The required increases in duty on <u>wine</u> and <u>spirits</u> would be enormous: Greece currently has no duty on wine. The increase in <u>tobacco</u> duty could also prove difficult given the revenue implications.

B6 IRELAND

	% change in duty	Change in revenue as % GNP
Beer	-76	-1.34
Wine	-94	-0.18
Spirits	-63	-0.65
Tobacco	-20	-0.35
Petrol	- 2	) -0.18
Derv	-36	)
Total		-2.70

The effect on Ireland will be similar to that on us, larger reductions being required in the duties on alcoholic drinks, and lesser, but still significant reductions in duties on tobacco and derv.

B7 ITALY

	% change in duty	Change in revenue as % GNP
Beer	+ 68	+0.03
Wine		+0.19
Spirits	+384	+0.29
Tobacco	+ 52	+0.36
Petrol	- 25	) -0.02
Derv	+886	)
Total		+0.85

Italy would have to increase duties on all except <u>petrol</u>. The massive increase in <u>derv</u> duty seems to be balanced out in revenue terms against the reduction in petrol. Therefore, the main problem for Italy would probably be on the <u>alcoholic drinks</u>. Italy has no duty on <u>wine</u> and the increases in duty on <u>spirits</u> is particularly high. The increase in <u>tobacco</u> duty could also prove difficult given the apparently high amount of revenue it will yield.

B8 LUXEMBOURG

	% change in duty	Change in revenue as % GNP
Beer	+125	+0.15
Wine	- 33	-0.03
Spirits	+825	+0.96
Tobacco	+ 82	+1.86
Petrol	+ 21	) +0.81
Derv	+131	)
Total		+3.75

Luxembourg would have to increase all the duties except wine. The increases in spirits, beer and tobacco duties look likely to prove the most difficult, but as Luxembourg-produced wine is not currently taxed, the wine changes could also lead to serious political difficulties.

B9 NETHERLANDS

	% change in duty	Change in revenue as % GNP
Beer	+22	+0.03
Wine	-66	-0.04
Spirits	+14	+0.04
Tobacco	+21	+0.12
Petrol	+24	) +0.26
Derv	+76	)
Total		+0.41

The increases in petrol and derv seem to be the only likely source of difficulty for the Netherlands.

RATES OF VALUE ADDED TAX IN FORCE IN MEMBER STATES ON 1 MARCH 1985

	Standard rate	Increased luxury or higher rate	Reduced rate	Coverage of zero rating
United Kingdom	15%	-	-	Wide variety of goods and services
Belgium	19%	25%, 33%	6%, 17%	Minimal
Denmark	22%	-	-	Minimal
Germany	14%	-	7%	-
France	18.6%	$33^{1}/_{3}$%	5.5%, 7%	-
Ireland	23%	-	10%	Wide variety of goods and services
Italy	18%	38%	2%, 9%	Minimal
Luxembourg	12%	-	3%, 6%	-
Netherlands	19%	-	5%	-

Notes

1. Exports from all the above countries are generally zero-rated.

2. Greece at present has no VAT.

INFORMAL FINANCE COUNCIL, 20/21 SEPTEMBER BRIEF F

VAT: SMALL TRADERS EXEMPTION LIMIT

UK Objective

Not a formal agenda item. But possible advantages in raising matter informally in margins, with objective of maintaining momentum behind UK campaign for higher limit. Particularly useful to talk to French representative (to try to keep Delors favourable to UK line).

Points to make

- UK government policy is to ease administration burdens on smalll businesses and so to encourage enterprise.

- VAT can be real burden. Level of VAT threshold singled out for action both by PM at March European Council and domestically (White Paper, "Lifting the Burden").

- UK convinced current threshold too low. But it can't be raised because illegal to do so under 6th VAT Directive.

- UK aim is to seek greater flexibility in EC law, to enable Member States to determine threshold best suited to economic conditions. Hope for colleagues' support in achieving this.

- (if pressed on level of threshold)
  No firm figure in mind. To give decent headroom, 6th Directive could allow flexibility up to, say £50 000.

- (if UK line criticised as encouraging fraud/distorting EC competition)
  No evidence of serious fraud in UK with present limit. Small traders affected by rise in limit (generally in service sector) don't compete across EC frontiers.

Background

Current UK threshold

- raised to £19 500 in 1985 Budget

- equivalent in real terms of £5000 limit set when VAT introduced in 1973

- this revalorisation is consistent with UK interpretation of 6th Directive, now disputed by Commission

Threatened infraction proceedings

- Commission maintain we can revalorise only from May 1977 (when 6th Directive was adopted)

- this would reduce current threshold to £14 815

- Commission considering whether to issue Reasoned Opinion, as preliminary to case before European Court

- Law Officers advise we would be likely to lose

Harmonisation of thresholds

- independently of infraction Proceedings, Commission favour harmonisation of threshold in all Member States

- likely to propose 10 000 ECU (about £5 800) later this year (para 207 of white paper 'Completing The Internal Market')

Prime Minister's Initiative

- Prime Minister launched 'deregulation' initiative at March European Council to relieve small businesses from burdens of EC legislation

- considerable pressure in UK to increase VAT threshold; part of Prime Minister's initiative

- aim, on VAT, is to achieve flexibility to set UK limit in light of economic circumstances

INFORMAL ECOFIN 20/21 SEPTEMBER **BRIEF G**

SUBJECT: MEMBER STATES' NET BALANCES

What are the facts w/ our return on press for that?

Objective

To get the Commission to provide on a regular basis information on member states' net balances starting with the figures for 1984.

Points to make

- most important that member states have information on their net balances (ie. their net contribution to the Community's allocated budget) - and VAT expenditure gaps - for 1984. Commission should also undertake to provide this information for future years as soon as it is available;

- this information is not available to member states from their own national statistics. It is essential that it should be supplied by the Commission so each member state can monitor its transactions with the Community;

- the Commission has supplied the information in the past. But the last year for which figures are available is 1983. Since the information was supplied before, there can be no reason why it should not be supplied now;

- the Commission are thought to be reluctant to provide the information because it could lead to disputes over whether member states' budget contributions are too large. However, member states are bound to take an interest in this question, and it is essential that opinions on it should be based on the best available information.

Background note

2. The Commission provided information on member states' net balances upto 1983. This information was very valuable, and used extensively

in the recent Budget negotiations. The Prime Minister took considerable interest in the figures, and is thought to be most concerned that the Commission have not supplied the figures for 1984.

3. Over recent months the Germans have made repeated requests - both in COREPER and bilaterally to the Commission - for this information. They have been supported by the French. The Commission, however, have obviously taken a high level decision not to provide the figures for fear of fuelling complaints about budget imbalances. They are concerned that not only Germany will want some sort of correction for its large budget contribution, but similar demands may be made by France and Spain as well.

4. This subject is on the ECOFIN agenda as a result of a request made by the Germans at this week's Budget Council. They argued that the Bundestag could cause difficulties on the new Own Resources Decision if they were not given the figures. The Commission confirmed that Delors himself had endorsed the decision not to publish the data in order not to "complicate discussions on the Budget", but added that he would be willing to discuss the matter at the informal ECOFIN.

1493/043

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From : G E Fitchew

Date : 20 September 1985

CHANCELLOR

cc Sir G Littler
Mr Lavelle
Mr Mountfield
Mr Sallnow-Smith
Miss Barber

INFORMAL ECOFIN : DEBT QUESTIONS

I am attaching below three telegrams (Montevideo Nos. 699 and 701 and UKREP No. 3001), which are relevant to any discussion of the Cartagena Group at this evening's Informal ECOFIN.

2. The Montevideo telegrams (in particular paragraph 2 of 701) report that Cartagena officials will be recommending their Ministers to seek discussions with EC member countries, possibly on 14 November in Luxembourg. The UKREP telegram reports that Commission officials are unaware of plans for such a meeting, but confirm the intention of Delors and Cheysson to renew their dialogue with the Cartagena Group.

3. You may wish to draw the attention of ECOFIN to this latest evidence of the Cartagena Group's intentions. This development strengthens the case set out in the earlier brief for M. Santer to send an early letter to M. Poos, as President of the Foreign Affairs Council, warning against any Community dialogue with regional groupings such as Cartagena. It would also be useful to warn off the Commission from promising any dialogue at Council level and in general against raising expectations in the Cartagena Group which cannot be fulfilled. (We know that the Brazilians in particular regard the EEC as the "back door" into a wider political dialogue with the industrialised countries).

GEF

G E FITCHEW

Mr Fitchew. HM TSY

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TO IMMEDIATE F C O
TELNO 3001
OF 171030Z SEPTEMBER 85
INFO PRIORITY MONTEVIDEO, BRASILIA

MONTEVIDEO TELNO.699: CARTAGENA GROUP AND THE COMMUNITY

1. WE HAVE ASKED BOTH DG I AND CHEYSSON'S CABINET ABOUT THE MEETING BETWEEN THE CARTAGENA GROUP AND THE COMMUNITY WHICH IS REPORTED IN TEL UNDER UNDER TO BE DUE TO TAKE PLACE IN LUXEMBOURG ON 14 NOVEMBER. BOTH WERE UNAWARE OF PLANS FOR SUCH A MEETING, BUT BOTH WERE ALSO EMPHATIC THAT THE COMMISSION INTEND TO CONTINUE THEIR DIALOGUE WITH THE CARTAGENA GROUP AND WERE EXPECTING A FURTHER MEETING TO FOLLOW UP THE ONE BETWEEN THE GROUP AND DELORS AND CHEYSSON IN BRUSSELS IN APRIL.

2. THE LUXEMBOURG PRESIDENCY ARE ALSO UNAWARE OF ANY PLANS FOR THIS MEETING.

BUTLER

SENT
19 SEP 1985

YYYY
FCO ADVANCE TO:
FCO - RICHMOND, TAIT.

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ERD
ECONOMIC ADVISERS
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MR MAUD
MR DAVID THOMAS.

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FM MONTEVIDEO

TO IMMEDIATE FCO

TELNO 699

OF 131955Z SEPTEMBER 85

INFO PRIORITY BRASILIA

XOUR TELNO 312 TO BRASILIA: PARAGRAPH 4

1. THE TECHNICAL LEVEL MEETING OF THE CARTAGENA GROUP WAS INAUGURATED ON 11 SEPTEMBER AND WILL CONCLUDE THIS EVENING. THIS MEETING IS IN PREPARATION FOR A FURTHER MEETING TO TAKE PLACE AT POLITICAL LEVEL (NOT NECESSARILY IN MONTEVIDEO) PRIOR TO THE GROUP'S MEETING WITH THE COMMUNITY IN LUXEMBOURG ON 14 NOVEMBER. ACCORDING TO LOCAL PRESS REPORTS, THE DELEGATES ARE PREPARING CONCRETE TECHNICAL PROPOSALS WHICH ARE TO BE APPROVED BY THE POLITICAL MEETING OF THE CAGTAGENA GROUP AS A BASIS FOR A DIALOGUE WITH THE INTERNATIONAL COMMUNITY.

2. AT LUNCH YESTERDAY THE URUGUAYAN FOREIGN MINISTER TOLD US THAT HE HAD ATTENDED THE INAUGURAL SESSION OF THE MEETING AT WHICH HE HAD DRAWN ATTENTION TO SOME OF THE POSITIVE ASPECTS OF THE RENEGOTIATIONS RECENTLY UNDERTAKEN BY INDIVIDUAL MEMBER COUNTRIES (DELAYS IN MATURITY PAYMENTS, REDUCTION OF INTEREST RATES, ETC). BUT HE THOUGHT THAT THIS WOULD STILL RESULT IN A GENERAL SLOWING DOWN OF THE PROCESS OF DEVELOPMENT CAUSED BY THE TRANSFER OF RESOURCES WHICH THE COUNTRIES OF LATIN AMERICA WILL BE OBLIGED TO MAKE IN THE COMING YEARS IN ORDER TO MAKE THEIR DEBT REPAYMENTS.

HE

HE ALSO REFERRED TO THE LOWER RATE OF GROWTH OF THE DEVELOPED COUNTRIES AND TO THE REDUCTION IN THE GENERAL LEVELS OF TRADE TOGETHER WITH THE QUOTE COLLAPSE OF THE INTERNATIONAL COMMODITY PRICES UNQUOTE. FINALLY, HE ALSO DREW ATTENTION TO IMNCREASING PROTECTIONISM AND TO THE ABSENCE OF NEW INVESTMENT CAPITAL. HE DESCRIBED THE PROBLEM OF THE LATIN AMERICAN DEBT AS NOT RESOLVED IN ANY WAY BUT SIMPLY ADMINISTERED WITHIN THE NEW ARRANGEMENTS NEGOTIATED.

3. WE SHALL REPORT ANY FINAL COMMUNIQUE OR DECISION ABOUT THE NEXT POLITICAL MEETING.

WALLACE

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ECONOMIC ADVISERS
MR MAUD
MR DAVID THOMAS

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TO PRIORITY FCO

TELNO 701

OF 171628Z SEPTEMBER

MY TELNO 699: CARTAGENA GROUP

1. THE TECHNICAL COMMISSION OF THE CARTAGENA GROUP MET IN MONTEVIDEO FROM 11 TO 13 SEPTEMBER. ACCORDING TO THE LOCAL PRESS THE FOLLOWING PACKAGE OF RECOMMENDATIONS WILL BE SUBMITTED TO MINISTERS AT THE NEXT POLITICAL MEETING:

(A) THE PRINCIPLE MUST BE ESTABLISHED THAT THE GROWTH OF THE ECONOMIES OF THE CARTAGENA COUNTRIES IS AN ESSENTIAL REQUIREMENT FOR THE SERVICING OF THEIR DEBT AND THAT THESE PAYMENTS CANNOT BE MADE AT THE EXPENSE OF THE WELFARE OF THE CORRESPONDING PEOPLES:

(B) THAT INCOME FROM EXPORTS CANNOT BE COMMITTED FOR REPAYMENT OF DEBT BEYOND REASONABLE PERCENTAGES:

(C) THE CRITERIA RELATING TO THE EXTERNAL DEBT SHOULD BE REVISED IN ORDER TO ENSURE THAT THESE DO NOT JEOPARDISE THE ECONOMIES OF DEVELOPING COUNTRIES:

(D) THERE IS URGENT NEED FOR FRESH MONEY AND NEW RESOURCES TO SUPPORT THE GROWTH OF THE LATIN AMERICAN ECONOMIES WHILE MEASURES FOR THE RESOLUTION OF LONG TERM PROBLEMS ARE WORKED OUT: AND

(E) THE FUNDAMENTAL PRINCIPLES FOR HANDLING THE EXTERNAL DEBT NEED TO BE CHANGED IN SUCH A WAY AS TO PROMOTE MORE EFFICIENCY AND ECONOMIC AND POLITICAL STABILITY BOTH FOR DEBTORS AND CREDITORS. /2

2. THE TECHNICAL COMMISSION HAVE ALSO RECOMMENDED THE RENEWAL OF DISCUSSIONS WITH EC MEMBER COUNTRIES AT A DATE TO BE FIXED. ONE REPORT STATES THAT THE NEXT MINISTERIAL LEVEL MEETING OF THE CARTAGENA GROUP IS EXPECTED TO TAKE PLACE IN MONTEVIDEO IN OCTOBER.

3. FCO PLEASE REPEAT AS NECESSARY.

WALLACE

MONETARY

SAMD

MCHD.