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PART A

Chief Lawson

PART A

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PART A

MEETING OF THE EUROPEAN COMMUNITY (EC) ECONOMIC AND FINANCE COUNCIL (ECOFIN), 28 OCTOBER 1985, BRUSSELS

PO -CH /NL/~~0117~~ 0837

PART A

Begins: 25/10/85

Ends: 29/10/85

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Pup.

FROM: JANET BARBER
DATE:25 OCTOBER 1985

Received 28/10.

1. Mr Lavelle ✓ Additional note attached

RL 25/x

2. Minister of State

ECOFIN 28 OCTOBER

You are due to attend ECOFIN on 28 October. Mr Lavelle and Mr Edwards will be in support. Mr Byatt will attend as Chairman of the Economic Policy Commitee, for item 2(a). Mr Knox, C&E, will attend to advise you on item 2(c); and Mr Louth, DTI, will attend to advise you on item 2(d). The Council begins with lunch at 1.15pm in the Kirchberg European Centre in Luxembourg.

2. There are 6 substantive items on the agenda:

(a) Annual Economic Report for 1985/1986 (including a possible Commission statement on their ideas on a Community infrastructure programme).
(b) Greek safeguard measures.
(c) abolition of fiscal frontiers.
(d) UCITS (Unit Trusts) Directive.
(e) budget discipline: adjustment of financial guideline.
(f) (possibly) letter of amendment to the 1986 Budget.

In addition, the following will probably be discussed over lunch:

(g) the EMS and the IGC.
(h) member states' net balances.

Further, there is an outside possibility that the Italians will raise:

(i) export credits: the ecu Commercial Interest Reference Rate (CIRR).

Briefs on all these items are attached.

3. The planned order of the formal agenda is as listed above. However, it would be in our interest to have the letter of amendment to the 1986 Budget discussed early when a quorum of Ministers would be present. You should request this at the start of the meeting.

THE ANNUAL ECONOMIC REPORT FOR 1985/1986 - BRIEF A1

4. Under the "convergence" Decision of 1974, the Council is required to adopt each year an annual report on the economic situation in the Community, and to establish the guidelines to be followed by each Member State in its economic policy for the following year. In recent years, this has been done at the December ECOFIN.

5. This year, the Presidency wish the Council to have an opportunity to discuss the economic situation at this ECOFIN. In response, Herr Pfeiffer will present the annual economic report which the Commission adopted on 16 October. Only a short exchange of views is expected, with a more substantive discussion being

left for the November or December ECOFIN. There is no question of the report being adopted by Ministers at this Council.Mr Byatt, as Chairman of the Economic Policy Committee, will tell the Council that EPC has discussed a draft of the report. If invited by the Presidency, he will give the EPC's view, but otherwise will wait for the discussion later in the year.

6. We have now received the final version of the report as adopted by the Commission, and you already have a copy. We are attempting, through UKREP, to have some factual corrections made to the UK chapter.

7. The report is on the whole acceptable, but there are some things in it which we do not like. Brief A1 gives the details. In due course, we will probably try to ensure that the terms of the Council Decision adopting the report are along the lines of last year's ie merely adopting the report, without reference to the policy guidelines, and not as in Article 1 of the proposed Council Decision attached to the report. This should ensure that we are not committed to every word in the report. We would propose to take this up in the Co-ordinating Group for economic and financial policies, which will meet on 11 November.

8. You asked about our commitment to European economic and monetary union. An attachment to Brief A1 sets out some of the things which the UK has said on this.

COMMUNITY INFRASTRUCTURE PROGRAMME - BRIEF A2

9. It is possible that the Commission may, as part of their response to the Presidency request to discuss the economic situation, outline its ideas on a Community programme for infrastructure investment. We think that the Commission may be considering, amongst other things, a new Community borrowing and lending facility just for infrastructure. Our view would be that this is unnecessary.

10. Our information is that Herr Pfeiffer will not give any details, but will merely indicate that the Commission have a draft proposal in hand. Therefore, there should be little substantive discussion on this issue. But, in case any grandiose Commission schemes seem to be gaining general acceptance, Brief A2 gives a sceptical line to take.

GREEK SAFEGUARD MEASURES - BRIEF B

11. On 11 October, the Greek government announced a series of measures to improve Greece's economic position, and to deal with a balance of payments problem. These measures are described in Brief B. Some of the measures, particularly import deposit scheme and a proposal to extend restrictions on capital movements, come within Community competence, and the Commission will have to take a view on them. In addition, it seems likely that Greece will request, or the Commission propose, some Community financial assistance in the form of a loan under the Community Loan Mechanism (CLM). This would involve the Commission raising a loan on behalf of Greece on the international capital market.

12. The Greek package, and no doubt the Community's response to it, are being discussed at the Monetary Committee on 25/26 October, ie immediately before ECOFIN. It is possible that the Monetary Committee could reach agreement at this meeting on a CLM

loan, and the associated economic policy conditions, in which case ECOFIN could be asked to approve the necessary Council Decision. In practice, however, it seems unlikely that things could get this far so quickly, and there may be no more than an interim report by the Commission. Mr Lavelle is arranging for supplementary briefing to be obtained from our Monetary Committee representatives over the week-end.

13. We understand that the Greeks would like the Council to express support for their measures, to strengthen their hand domestically. Nevertheless, we may want to be more critical on the import deposit scheme than indicated in Brief B. Mr Lavelle will provide supplementary briefing as necessary.

ABOLITION OF FISCAL FRONTIERS/TAX APPROXIMATION - BRIEF C

14. 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.

15. Finance Ministers discussed this issue at their informal meeting in September, when they decided on a political debate at the end of the year. Nevertheless, the Commission have insisted that it be on the agenda for this ECOFIN, because Lord Cockfield wishes to make a statement, probably to repeat his request that ministers make a politial commitment to tax approximation.

16. The UK's longer term objective is to avoid commitment to tax approximation, and to prevent substantive progress on it, without prejudicing progress on the more important aspects of the internal market. Brief C suggests that you try to avoid substantive discussion, and if this is not possible, to suggest that all possible options for getting round any tax problems associated with the internal market should be considered.

17. Your office is providing separately a copy of the Commission's White Paper on the internal market, a copy of Mr Knox's note of 13 September, and the note of Lord Cockfield's meeting with the Prime Minister. Mr Wilmott is also letting you have direct a short note on the sixth VAT Directive.

UCITS (UNIT TRUSTS) DIRECTIVE - BRIEF D

18. DTI are in the lead on this issue, and Mr Louth will be at ECOFIN to advise you.

19. The UK is in favour of the proposed UCITS ("undertakings for collective investment in transferable securities") Directive, which should go some way to open up European markets to the UK Unit Trust industry. You already have a copy of the Directive (sometimes referred to as the "co-ordination" Directive).

20. ECOFIN should have on the table a report from Coreper on where we stand on the UCITS Directive, following recent discussions. It is expected that the Council will be asked to agree the Directive "in principle", and you should express support for this as indicated in Brief D1. You will be invited to lift the UK reserve on the implementation period of 3.5 years, which you should do.The

Greeks will be asked to lift their reserve on the Directive, which they will probably do given the very recent agreement on their transitional period. The other points likely to come up are the German point on Article 26A, and the Danish point on Article 26; . Brief D1 covers these issues.

21. As well as the UCITS Directive itself, there is an associated capital movements Directive, aimed at promoting liberalisation of transactions in UCITS units. This is covered in Brief D2. It will not be possible to agree this Directive at this ECOFIN, but the aim is that both Directives should be formally adopted together by the end of the year. Some delegations, particularly the Germans and the Dutch, have linked the two Directives very closely together.

BUDGET DISCIPLINE: ADJUSTMENT OF FINANCIAL GUIDELINE - BRIEF E

22. The budget discipline provisions allow for agricultural Guarantee expenditure to grow at a rate less than the own resources base - the financial guideline. However, the financial guideline was agreed in respect of the current Community of 10, and the issue arises as to how it should be adapted to take account of enlargement.

23. The UK has asked for this item to be on the agenda, and you will want to lead the discussion. The long term objective is to reach a solution to the problem which does not threaten budget discipline. The aim for this ECOFIN is to get agreement to a study of the issue by officials. There is no question of reopening the provision for Guarantee expenditure in the 1986 Draft Budget.

24. A copy of the budget discipline text is at attachment 2 to Brief E.

LETTER OF AMENDMENT TO THE 1986 BUDGET - BRIEF F

25. The Commission have recently issued a letter of amendment to the 1986 Preliminary Draft Budget which corrects and thereby increases the UK abatement provided for in the Budget. The Commission did this on their own initiative. Naturally we are pleased about this, and would like to persuade the Council to approve it. Other Member States have reservations, on the grounds that the relevant rules do not allow for adjustments to be made at this early stage. Our objective is to obtain Council approval for the Commission's letter , if necessary by qualified majority, but, failing that, to obtain a commitment to an adjustment in September 1986.

26. A copy of the letter of amendment, and a table showing its impact on the 1986 Draft Budget, are attached to Brief F.

THE EMS AND THE IGC - BRIEF G

27. This item will be discussed over lunch.

28. This issue was discussed at the informal ECOFIN in September, where the predominant view was that Treaty amendments on monetary matters should not be pursued at the IGC, but should be left to Finance Ministers and their advisory bodies (ie the Monetary Committee and the Committee of Central Bank Governors, who are currently working on the longer term perspectives of the EMS).

29. At the moment there are no formal proposals for Treaty

amendment in this area, but we expect some in due course. There may be more information on this following the Monetary Committee meeting, and Mr Lavelle is arranging for this to be relayed by our Monetary Committee representatives. At this stage, our objectives are to discourage Treaty amendments which could commit us to monetary union or to participation in the exchange rate mechanism, and to keep monetary matters under ECOFIN's control.

30. Mr Ilett has sent you direct a note on sterling's participation in the exchange rate mechanism.

MEMBER STATES NET BALANCES - BRIEF H

31. The Germans were going to raise this item over lunch, but given recent developments may now not to do so. However, we would still like the matter discussed.

32. 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 which they would provoke. The Commission, hoping to avoid this discussion, has just given some figures - each Member State has been told its own receipts from the allocated Budget in 1983 and 1984. We are told that, as a result, the Germans may not now be planning to raise the issue. However, we do not feel that the new information is adequate, so we will be trying to persuade the Germans to raise the matter . Otherwise, you should raise it yourself.

THE ECU CIRR - BRIEF I

33. This is very unlikely to be raised.

34. Commercial interest reference rates (CIRRs) are the pseudo-market rates at which OECD permits official export credit support for low interest currencies, including the ecu. The Italians want to see the present rates lowered, so as to promote the availability of finance for their exports. A general review of CIRRs is being carried out at the moment by the Community, as part of discussions on a negotiating mandate for OECD in January. This will probably come to ECOFIN in December. However, the Italians are threatening to raise the ecu CIRR now, possibly to make known their general dissatisfaction, but perhaps also to obtain some sort of Community commitment on this in advance of Community decisions on the negotiating mandate as a whole.

35. Brief I suggests that if the matter is raised, you intervene to attempt to get substantive discussion postponed until December. Brief I also includes a line to take if the Italians threaten to reduce their own ecu CIRR unilaterally in breach of OECD rules.

OTHER MATTERS

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

37. Personality notes are attached - top copy only.

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

Janet Barber

JANET BARBER
EC1

CIRCULATION

PS/Minister of State
Sir Geoffrey Littler
PPS
Mr Lavelle
Mr Byatt
Mr Edwards
Mr Fitchew
Mr M Jay, Cabinet Office
Mr Fairweather, FCO
Mr Bostock, UKREP (6 copies)

Steering Brief only

PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr P Cropper
Mr Scholar
Mr Hopkinson
Mr Mortimer
Mr Kelly
Mr Matthews
Mr Culpin
Miss Sinclair
Mrs Case
Mr Butt
Mr Donnelly
Mr Ilett
Mr Dolphin
Mr Walker
Mr Romanski
Mr J.E.W. Kirby B/E
Mr Garside - Paris
Mr A C Thorpe - Bonn
Mr Lankester - Washington
Miss C Elmes - Rome
Mr Knox C/E
Mr Wilmott, C/E
Mr Louth DTI

ECOFIN, 28 OCTOBER BRIEF A1

SUBJECT: ANNUAL ECONOMIC REPORT

DOCUMENT: ANNUAL ECONOMIC REPORT

UK Objectives

1. The Commission will present their Annual Economic Report for 1985-86 to the meeting. There should be a first exchange of views and general discussion of their document. There should be no question of this meeting adopting the Report, normally this is not done until the December meeting of ECOFIN.

Points to make

1. Annual Economic Report useful development of strategy in last year's Report. Welcome continued emphasis on need for monetary policy to provide framework for stability by reducing inflation and stabilising exchange rates.

2. Agree with Report that boosting demand would do more harm than good, lead to higher inflation, no long-term employment gains. Agree also with Report's suggestion that moderation of real wage increases and greater flexibility in labour markets required if unemployment to fall. Note that report also sees role for lower taxes and job creation schemes and vocational training in promoting employment. All policies UK government has been following. Can also support promotion of free trade - both within Community and between Community and rest of world.

3. Regret that objectives for growth of output and employment over period 1986-90 are presented as such. Figures depend on particular economic model, may be on high side. Prefer to see tham as illustrative rather than as targets.

4. Wonder about usefulness of "pledges by the social partners on incomes and labour market adjustments". [In concluding section, lines 2 and 3 of page 118 in final version of Report.] Need to see action, especially lower real wage growth.

5. Chapter on UK interesting. We are pursuing a few factual corrections with Commission.

Background

1. The Annual Economic Report for 1985-86 has been adopted by the Commission and was published on 16 October. It is now sent to the Council for adoption. The Report is not usually ready in time for the October meeting, and it is normally adopted at the December ECOFIN.

2. The Report comprises well over 150 pages, including a section devoted to the United Kindgom and similar sections devoted to the other member countries. This meeting will only exchange first views on the Report and the discussion can be expected to concentrate on the "Introduction and Summary" section.

3. This year's Annual Economic Report is a development of the themes of last year's Report. The principal aim remains to find a means of achieving "a substantial and durable improvement in the employment situation". There is more emphasis in this year's Report on ensuring total demand is sufficient by the relaxation of fiscal policy and on a cooperative strategy between "the Community, governments of member states and the social partners". However, there is a clear recognition that increasing demand alone is insufficient to bring about an increase in employment and that moderation of real wage increases is equally important. The Report also makes it clear that while maintaining a sufficient amount of demand is desirable, providing a demand "boost" to the economy would not produce any long-term economic benefits.

4. The Report sets an objective of achieving output growth of 3½ per cent per annum over the next five years. This is slightly higher than the growth rate suggested for the Community by the Treasury's own latest assessment of world economic prospects. The Report suggests that such output growth, if accompanied by appropriate measures could lead to a 1½ per cent per annum increase in employment and a fall in the Community's unemployment rate from about 11 per cent now to 7 per cent by 1990. This seems optimistic.

5. The Report suggests a range of measures are required to achieve these objectives:

(i) Monetary policy conducted to reduce inflation further but to allow room for faster real growth.

(ii) Budgetary policies at a micro-economic level to favour employment creation. Tax cuts and infrastructural investment are mentioned specifically.

(iii) International policies to improve the freedom of trade and to mitigate the developing countries' debt problem.

(iv) Moderate increases in real wages.

(v) Initiatives to improve labour market flexibility.

(vi) Improved policies designed to open up the Community's internal market.

(vii) Greater investment in Europe's economic potential in the widest sense, eg through major transport projects and environmental investment.

There is little to quarrel with among these suggestions, although the government might want to place the emphasis in a different way from the Report.

6. Two themes run through the Report and are seen as crucial to the achievement of the stated objective. First, governments should ensure that macro-economic policies are providing enough demand in their economies. Germany is identified as the one country were domestic demand may be insufficient and fiscal policy could be relaxed. The UK is included with Denmark, France and the Netherlands in a group of countries which could find themselves with room to manoeuvre on fiscal policy in the near future. Second, co-operation between the social partners is regarded as vital in ensuring that growth is employment creating. This would be achieved by lower real wage increases and more labour flexibility.

7. The section on the UK is reasonably satisfactory. The Commission forecast is generally less optimistic than our own. They expect lower output growth in 1986 - real GDP to increase by 2 per cent, although they do expect "some slight improvement in the outlook for the unemployment count". They are also pessimistic about inflation saying that it will be "difficult to bring the annual inflation rate below 5 per cent on a lasting basis".

8. There are a number of supportive statements in the Report. The effect on the UK's competitiveness of rapidly rising unit wages costs is pointed out, the beneficial effects for employment of cutting income tax, especially by increasing tax thresholds, is recognised and the need for moderation in the growth of real wages is regarded as vitally important. There are also, however, some less welcome statements. In particular, the Commission are in favour of extra public expenditure on infrastructure investment. There is also strong encouragement for full membership of the EMS to be given further consideration.

2340/11

THE UNITED KINGDOM AND ECONOMIC AND MONETARY UNION (EMU)

At the Ministerial meeting of the Conference on 7 June 1971, it was agreed that the statement made by the Chancellor of the Duchy of Lancaster, Mr Rippon, on financial and monetary issues should form the subject of an exchange of letters annexed to the Act concerning the Conditions of Accession and the Adjustments to the Treaties. In particular, section (b) of the declaration stated:

> "We shall be ready to discuss after our entry into the Communities what measures might be appropriate to achieve a progressive alignment of the external characteristics and practices in relation to sterling with those of other currencies in the Community in the context of progress towards economic and monetary union in the enlarged Community, and we are confident that official sterling can be handled in a way which will enable us to take our full part in that progress."
>
> Letter dated 22 January 1972 to M. Thorn.

It was noted, however, that progress towards economic and monetary union and the future of sterling in an enlarged Community involved enormously complex problems. That is why we were not asked for or did not enter into any specific undertakings or commitments on methods or timetables.

2. The text of the Communiqué issued by the Heads of State or of the Government of the Countries of the enlarged Community at their meeting in Paris on 19 and 20 October 1972 (Cmnd 5109) stated:

> "The Heads of State or of Government reaffirm the determination of the Member States of the enlarged European Communities irreversibly to achieve the economic and monetary union, confirming all the elements of the instruments adopted by the Council and by the representatives of Member States on 22 March, 1971 and 21 March, 1972.
> The nececessary decisions should be taken in the course of 1973 so as to allow the transition to the second stage of the economic and monetary union on 1 January 1974 and with a view to its completion not later than 31st December, 1980."

3. In a statement by the Prime Minister to the House of Commons on 18 March 1975 entitled "Membership of the European Community" (Cmnd 5999) it was stated:

> "There is no prospect of our coming under pressure to agree to an arrangement whether in relation to parity commitments or otherwise, threatening the level of employment in Britain. As for EMU remaining as a long-term Community objective, its realisation in the foreseeable future, as I hinted at Question Time, is as likely as the ideal of general and complete disarmament which we all support and assert."

4. In a report on Renegotiation presented to Parliament in March 1975 (Cmnd 6003) it was stated (paragraph 51):

> "Any further discussions which may be held on progress towards closer economic and monetary unity in the Community will take place in a changed situation now that the over-ambitious 1971 and 1972 proposals are no longer being put into effect. The Government will be ready to consider any new proposals on their merits. They do not accept any commitment to maintain a fixed parity other than in circumstances of their choosing."

5. An extract from the conclusions of the Presidency of the European Council of 4 and 5 December 1978 in Brussels on the setting up of the EMS included the following:

> "The purpose of the European Monetary System is to establish a greater measure of monetary stability in the Community. It should be seen as a fundamental component of a more comprehensive strategy aimed at lasting growth with stability, a progressive return to full employment, the harmonisation of living standards and the lessening of regional disparities in the Community. <u>The EMS will facilitate the convergence of economic development and give fresh impetus to the process of European Union.</u>"

6. In its memorandum this year to the House of Lords Select Committee on European Union, the FCO stated that HMG was committed by the Solemn Declaration on European Union (signed at Stuttgart

in June 1983) to review progress towards European unification no later than five years from signature (ie by June 1988) and in the light of that review to consider whether the progress achieved should be incorporated in a Treaty on European Union. Part of the difficulty in considering European Union was that the term has never been satisfactorily defined.

7. In evidence given by Mr Malcolm Rifkind, Minister of State, Foreign and Commonwealth Office on 26 March 1985 to the House of Lords Select Committee on the European Communities regarding European Union it was stated:

> "... questions of economic and monetary union, insofar as that would involve common currencies, an independent central bank and so forth, are really more for the distant rather than the immediate future and therefore would not themselves determine the immediate question of our participation in the exchange rate mechanism."

BRIEF A2

ECOFIN 28 OCTOBER

THE COMMISSION'S IDEAS ON A COMMUNITY PROGRAMME FOR INFRASTRUCTURE INVESTMENT

OBJECTIVE

To listen to what the Commission has to say, to avoid substantive discussion if possible, but, if not, to avoid implicit or explicit commitment to any extension of Commission action in this area.

LINE TO TAKE

[If general discussion]	Infrastructure investment important, but only of benefit if justified by rates of return. Any expenditure from Community Budget must of course be subject to budget discipline.
[On possibility of new Community financing instrument]	Not at all convinced of need for new instrument. Private banking sector and EIB cater well for Community's infrastructure needs. Cannot ignore impact of additional Community borrowing on capital markets.
[Only if pressed on medium term transport infrastructure programme]	Should be left to Transport Ministers. Understand discussions are continuing in Brussels at official level.
[If pressed on New Community Instrument IV]	Are considering the Commission's proposals. Would want to see improvements in the management of the New Community Instrument before comtemplating an extension.

BACKGROUND

It is possible that the Commission may, in the context of the annual economic report, outline its ideas on a Community programme for infrastructure investment.

2. In the [draft] annual economic report, the Commission outlines the benefits of a co-ordinated infrastructure strategy, with particular reference to transport, telecommunications and environmental protection. The [draft] report recommends that the Community should "facilitate the advancement of the projects, inter alia through the easing of administrative and fiscal conditions [and] through the development of its own financial instruments."

3. At the moment, Community support for infrastructure is through:

(a) the Community Budget, mainly projects part financed by the Regional Fund, and a fairly small experimental support programme for transport infrastructure.

(b) the Community's borrowing and lending instruments principally the European Investment Bank, but also the New Community Instrument and, for energy projects, Euratom. Under these instruments, the EIB/Commission borrow on the capital markets, and on-lend for investment projects.

There is currently on the table a more ambitious medium term transport infrastructure programme (a Commission proposal), but this is bogged down in discussion at working level in Brussels. This could involve both Budget Finance and Community lending. If there is to be an programme, we would prefer the latter rather than the former, but decisions on this are a long way off, and at this stage we would presume that any associated lending would be absorbed within the EIB's activity.

4. It is known, however, that the Commission are currently conducting a study on the scope for Community action on infrastructure, which presumeably relates directly to the

recommendation in the annual economic report. It is this which they may decide to outline to the Council. The study is not yet complete. But we understand that the Commission is commissioning a study by outside consultants (Telesis) which would:

(i) identify large infrastructure projects of Community interest

(ii) identify the best administrative framework for such projects

(iii) look at the possible contribution of the Community's financing instruments.

On (iii), we think that the Commission is considering a new borrowing/lending instrument purely for infrastructure. The impression is strengthened by the fact that the current Commission proposal for extending the New Community Instrument (NCI III is approaching exhaustion, and there is a draft Council Decision for a new NCI IV) excludes infrastructure. (We expect discussion on the NCI IV proposal to begin in Brussels later on in the year). Also, some of the proposals for Treaty amendment being put forward in the Inter Governmental Conference also refer - somewhat ominously - to the Commission's borrowing and lending powers.

5. We would not wish to support the introduction of a new Community borrowing/lending instrument. There seems little need for it, given the EIB and the (conventional) NCI. Account must be taken of the impact of additional Community borrowing on the capital markets.

(6. In fact, we would favour abolition of the NCI. There is little need for this, given the EIB, and the Commission have managed to make a loss on it in recent years. But getting rid of it is probably not possible, given its role in Integrated Mediterranean Programmes.)

7. So, if the Commission's remarks get as far, as suggesting a new Community infrastructure borrowing/lending instrument, and if this idea seems to be gaining general acceptance, you should indicate scepticism as in the line to take.

8. More generally, if there is general discussion, it cannot be said too often that infrastructure projects must be justified in terms of rates of return, and (if appropriate) any Community Budget expenditure must be subject to Budget Discipline.

ECOFIN, 28 OCTOBER BRIEF B

SUBJECT: GREEK SAFEGUARD MEASURES

UK Objectives

1. These are dependent on the outcome of the meeting of the Monetary Committee to be held on 25 October.

Points to make

1. Welcome fact that Greece is taking measures to correct imbalances in economy. Large current account and public sector deficits not sustainable.

2. High rates of price and wage inflation clearly main problem. Lower inflation would restore confidence, lead to more normal saving/investment behaviour, make it easier to attract funds from overseas to offset current account deficit.

3. Tight monetary policy vital. Need to maintain positive real interest rates. Also need lower public sector deficit. Welcome steps taken so far. ~~Hope that due consideration given to p~~Public expenditure cuts necessary in reducing deficit. Reduction of degree of wage indexation also to be welcomed. But any element of indexation likely to slow down adjustment to lower inflation.

4. Less happy with measures that will restrict imports. Should all work to foster free trade whenever possibe.

Background

1. The Greek economy has been looking unhealthy for some time, but the ruling Socialists put off taking any unpopular economic measures until after the elections in June this year, when they were re-elected. They have now acted in the sure knowledge that any loan they received from either the IMF or the ECC would have to be accompanied by a range of economic policy changes.

2. Although real output is expected to grow by a modest 2 per cent in 1985, major imbalances continue to threaten the economy. The current account deficit for 1985 is expected to amount to some 7½ per cent of GDP and the public sector deficit could be as high as 15 per cent of GDP. As a consequence the broad money stock is growing very rapidly. The share of investment in domestic uses of resources has been declined steadily for four years. Meanwhile, consumer prices have been growing at an annual rate of 18 per cent and earnings, which are protected by indexation measures, have been growing at 20 per cent.

3. The Greek government announced the following package of measures on 11 October:

(i) Devaluation of the drachma by 15 per cent.

(ii) Introduction of an advance deposit scheme for certain imported commodities.

(iii) Reduction in imports by the public sector.

(iv) Reduction of the pubic sector deficit by 4 percentage points of GDP. This is to be achieved by a combination of tax increases and expenditure cuts.

(v) Increase in some lending rates.

(vi) Modifications to the wage indexation scheme effectively to limit degree of indexation.

(vii) Limits on increases in agricultural prices.

(viii) Temporary surcharge on profits and on the income of the self-employed.

4. These measures should provide a useful, if limited, start to tackling the problems of the Greek economy. In particular, lower public sector deficits, higher interest rates and less indexation of wages should help bring inflation down. It may have been preferable to have fewer tax increases and more public expenditure cuts, but much of the increased tax take is to be raised by increasing the tax base. Less welcome are the restrictions to trade, which, although they may improve the external position of the Greek economy, will obviously reduce free trade both within the Community and between the Community and the rest of the world. The devaluation of the drachma may be necessary to restore the international competitiveness of the Greek economy, but would be unnecesary if domestic wages and prices were growing loss rapidly.

PROCEDURAL ASPECTS

5. The import deposit scheme has been implemented under Article 109 of the Treaty of Rome, which allows member states to take protective measures if a sudden balance of payments crisis occurs. Greece has also requested, under Article 108, to be allowed to continue with this import deposit scheme, and to continue restrictions on capital movements which should have been abolished by the end of this year (the end of Greece's transitional period of accession to the Community). Greece has also indicated that it expects consideration of "mutual assistance" from the Community.

6. We understand also that Greece is proposing to postpone the introduction of VAT from 1 January 1986 to 1 January 1987. This is apparently attributable to administrative problems, rather than to the state of the balance of payments, and so is unlikely to come up at this ECOFIN discussion of Greece's safeguard measures. (The UK, other northern Member States, and the Commission very much regret this further failure on the part of Greece to fulfill its Treaty obligations - Greece has already had a two year extension of the deadline by which it was to have introduced VAT.)

7. The next steps on the safeguard measures lie with the Commission. Under Article 108, the Commission should investigate Greece's position and the action it has taken, and make its own recommendations. These could include recommendation of Community mutual financial assistance, but the Commission would have to consult the Monetary Committee first.

8. The two forms of mutual financial assistance available are:

(a) Medium Term Financial Assistance. This involves all other member states contributing towards a loan to Greece (with the possibilty of an individual state opting out if it has problems of its own). Any contribution which we might make would count as public expenditure.

(b) Community Loan Mechanism. This would involve the Commission borrowing on the capital market, on its own credit rating, and on-lending to Greece.

If financial assistance is to be given, we would strongly strongly the Community Loan Mechanism, because of the public expenditure aspect.

9. Before the Community agreed to mutual financial assistance, it would have to be satisfied that Greece was taking the necessary domestic measures to correct its balance of payments problem. This would have to be thrashed out in the Monetary Committee before a proposal was put to the Council.

10. On the Community Loan Mechanism, the ceiling on the facility as a whole is 8 becu. At the moment, 3.2 becu is taken up as the amount outstanding on a loan to France in 1983. Also, during the recent accession negotiations, Portugal was provisionally promised a loan of 1 becu spread over the next 5 years. This should leave sufficient room for a loan to Greece; the Greeks themselves have hinted at a figure of around 1.5b dollars or about 1.8 becu. However, the Community would have to take account of the impact on the international capital market of additional Community borrowing for a loan to Greece. A Council decision to grant a loan under the CLM requires unanimity.

11. Greece could approach the IMF for financial assistance. However, our information is that they are unlikely to do so, and that they would prefer to rely on other sources such as the EC.

ECONOMIC AND FINANCE COUNCIL, 28 OCTOBER

BRIEF C

TAX APPROXIMATION/ABOLITION OF FISCAL FRONTIERS

Relevant document

Commission White Paper "Completing the Internal Market" (June 1985)

UK Objective

To avoid substantive discussion of the issues at this stage

OR (if unsuccessful)

To state UK reservations on the Commission's plans without either appearing to lead those opposing tax harmonisation or prejudicing the UK's aims on higher priority parts of the White Paper.

Points to make

- 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

- 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 an 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

Background

The item is on the agenda at the insistence of Lord Cockfield. He is expected to make a statement urging Member States to press on now with the necessary political decisions, so that the detailed proposals can be dealt with in accordance with the White Paper timetable.

There was an initial discussion of tax approximation at the informal meeting of ECOFIN on 20/21 September. A number of those present argued that tax approximation was politically very sensitive. There was general agreement with a German suggestion that ECOFIN should hold a political debate on the subject at the end of the year or early in 1986.

However, the Germans are now believed to have caved in to Commission pressure to agree to substantive discussion now. We do not know how the other Member States will react; some (eg Denmark, Greece) may prefer postponement of a debate while others (eg France, Benelux) may be prepared to go along with Cockfield. That is not of course to say that there will be any general move in favour of tax approximation - the difficulties remain immense.

ECOFIN: 28 OCTOBER 1985 BRIEF D1

Agenda item (d):

Draft UCITS (unit trust) directive

Relevant document:

UK Objectives

To secure "agreement in principle" of the directive; and a commitment that ECOFIN considers this directive (and the associated capital movements directive) with a view to adopting both directives before the end of the year. The Minister will wish to intervene on issues of importance to the UK as indicated in the briefing. [See also the separate brief on the related capital movements directive.]

LINE TO TAKE

1. UK strongly supports this proposal. Adoption will be significant step forward in liberating services in the community. Important for financial services sector and Europe's investors.

2. We should build on hard work and good progress of recent months and reach agreement on few residual difficulties.

[See separate briefing on:

(a) Government securities Funds (Article 26A);

(b) Danish problem;

(c) Implementation;

(d) Greek general reserve.]

Government Securities funds (Article 26A)

LINE TO TAKE

1. We would prefer to do without an extra rule requiring the holding of a number of issues.

2. However, in spirit of compromise we could accept the Presidency proposal. [This is as far as we could go.]

Defensive briefing

3. Q. (Germany). Will this expose investors to Funds investing in bankrupt countries (Mexico, Brazil etc)?

   A. No. Article already provides safeguards (reference to "equivalent protection").

4. Q. (Belgium). Does not this breach the spirit of Article 68(3) of the Treaty? (which requires one Member State to seek permission before issuing securities in another Member State).

   A. No. In the absence of exchange controls, any citizen can buy government securities direct. The same principle should apply to Funds investing in government securities which have already been issued. (Besides the article makes it clear that it is without prejudice to the Treaty.)

5. Q. (Belgium). Should not we defer this problem (as we are doing with 3 other issues)?

   A. No. The principle of allowing Funds to invest 100% in State issues was part of the original proposal and, unlike the 3 other issues, is not a new problem. It must be resolved now.

Background

6. The Minister will wish to intervene, as necessary. Funds investing 100% in a single Government's securities are common to most Member States but are not found in Germany, which has resisted the inclusion of them. They now seem to accept the principle but wish to ensure that the rules provide for an adequate spread of risk (ie investment risk not solvency risk). Their original proposal requiring a holding of at least 10 issues is unacceptable. Presidency compromise has been tabled - the limit would be at least 6 issues with no more than 30% in any one. We could accept - reluctantly. We would have preferred 5 issues and 35%.

7. Past worries about bankrupt third countries seem to have subsided. Agreeing and keeping up to date a list would be extremely difficult. We need to rely on Member States being sensible about this.

8. Belgium is worried that (eg) a UK Gilts fund sold in Belgium would make it difficult for the authorities to sell Belgian State Bonds. This is a risk associated with any measure designed to lead to greater competition for savings/ investments. They are likely to accept a face saving reference to this point in the recitals of the associated Capital Movements Directive.

9. <u>For information</u>

There are some 60 Gilts Funds authorised in the UK, with total funds of (approx) £500 million. This is compared to total gilts issues of £110 billion. It is estimated that £13 billion is held by private individuals (and private trusts). Thus ~~do~~ UK gilts funds represent only small part of the total market; and many more private investors buy gilts direct than via gilts funds (probably because it is cheaper to do so). Nevertheless, gilts funds offer a useful investment package, especially for the small investor.

Danish problem

LINE TO TAKE

1. Regret that Denmark is not able to accept the proposed solutions to their problem; and that this looks like blocking final agreement.

2. Reason for difficulties appears to be about a fundamental principle of the directive which was settled long ago.

3. We are prepared to look urgently and in detail at the Danish problem; but this should be in the context of a separate proposal.

Background

4. In view of the likely importance of this item, the Minister will wish to intervene. The problem was thought to have been settled but has now reared its head.

5. The directive requires a UCITS to invest no more than a maximum of 10% in any one single company.

6. 35% of issues traded on the Copenhagen Stock Exchange consist of bonds issued by 5 private sector mortgage credit institutions, which are closely controlled by the State. These bonds represent a significant proportion of the investments of Danish UCITS. During the summer the two largest mortgage credit institutions merged; and further mergers are expected. The Danes have realised that this could result in many Danish UCITS finding it difficult to meet the directive's basic risk spreading rule because such UCITS might need to invest more than 10% of their funds in securities issued by one or other of the mortgage credit institutions.

7. However, to allow investment of more than 10% in a private sector body (even if in a special category) would introduce a new principle in the directive at a very late stage. This risks upsetting fragile compromises elsewhere (eg Article 26A). We had thought the Danes were prepared to accept the promise of urgent consideration of their problem in the context of an amending directive.

8. However, the Danes are not content. We think their concern is not so much to amend the 10% rule; but to make it clear that Danish UCITS - investing more than 10% in a single issue - can exist outside the directive (although they would not, of course, have the right to market their units in other Member States). The fourth indent of Article 1(2) allows Member States to exclude from the directive's scope UCITS which follow investment policies different from those laid down. But how different does this need to be, the Danes will ask.

9. This has unfortunately opened up an argument which was settled long ago. The Danes' problem would be resolved if the directive applied only to UCITS which marketed in other Member States. But that is not the case. It applies, and should apply, to UCITS whether or not they market in other countries. If that was not the case a "domestic" UCITS would operate under different - ie more relaxed - regime than a UCITS which marketed throughout the community. Thus "domestic" UCITS would have an advantage over "European" ones; and marketing across borders would carry with it the penalty of more stringent rules. This is not the way to liberalise the internal market.

Implementation

LINE TO TAKE

1. We would have wished for shorter implementation period. Nevertheless in spirit of compromise we can accept, on basis that directive will be adopted before end of year. [We withdraw our reservation.]

Background

2. COREPER hammered out a compromise period for implementation of 42 months (3½ years ie implementation by 1 July 1989). Only UK did not accept.

3. Original proposal was 2 years; but many delegations wanted longer (up to 5 years). 3½ years seems a reasonable compromise, even though it is longer than either UK or Commission would have wished.

Greek general reserve

LINE TO TAKE

1. Can accept the special transitional period for Greece

2. The concern on capital movements should be dealt with separately.

Background

3. A Greek item; no intervention necessary.

4. Greece wishes to protect her small domestic industry with a special transitional period to allow time for adjustment to more competitive conditions. The proposal which Greece will be asked to accept finally is for a special transitional period of 5 years, with a possible further 3 year period if necessary. Grece has requested a similar transitional period for capital movements. (See separate brief on capital movements.)

Defensive briefing. (Points not expected to be discussed.)

Tax Harmonisation

1. Q. (Ireland). Should not agreement of the directive be deferred until the tax regime is harmonised.

A. No. there is no direct link.

Article 29 (controls over acquisition of significant holdings).

2. Q. Should not the directive agree a single figure for what constitutes "significant influence".

A. Ideally yes but this hasnot been possible. The resulting compromise which requires Member States to "have regard to" local rules in other countries; and the parallel recommendation, provide a satisfactory outcome of this difficult problem.

Managed Funds (article 27)

3. Q. Has the UK withdrawn its request for an amendment to allow specially formed UCITS to invest solely in other UCITS ("managed funds")?

A. We accept that there has not been time to discuss this relatively new point; and that this should be discussed in the context of an amending directive.

Jurisdiction

4. Q. Should not the directive provide special rules for dealing with cross-border disputes (which may be more common under the directive)?

A. We think it should but recognise the legal uncertainties of doing so at this time given that this involves the Brussels convention on Jurisdiction, the latest amendment of which has not yet been ratified by all concerned. This point should be dealt with separately as soon as possible.

Background

1. ECOFIN will receive a report of the outcome of the negotiations on this directive. ECOFIN considered a package deal of key issues in June 1985 but reached no final agreement. Since then negotiations have resolved most of the outstanding points, leaving only a few issues for consideration by ECOFIN.

2. A parallel directive on capital movements will amend the existing community rules on exchange controls. It will give more favourable treatment to UCITS units putting them on the same footing as quoted securities. (See separate Treasury briefing on the capital movements directive.)

3. It is likely that ECOFIN will be invited:

(a) to deal with any unresolved points; and

(b) to "agree in principle" the co-ordination directive (but not the capital movements directive).

A late problem - concerning Denmark - looks like preventing ECOFIN agreeing inprinciple the directive. (See briefing on the Danish problem.)

4. Agreement would leave the way open for the directive to be formally adopted before the end of the year. It is generally accepted that this directive and the capital movements directive should be adopted together. Italy is not yet ready to adopt the latter directive for domestic procedural reasons. This may apply also to Ireland and Greece. "Agreement in principle" of the co-ordination directive would allow sufficient time for all concerned to resolve their difficulties with the capital movements directive and so be ready to adopt both directives by the end of the year. Everyone recognises the importance of settling this long oustanding matter before the accession of Spain and Portugal.

The Directive

5. The directive will harmonise the laws applying to Undertakings for Collective Investment in Transferrable Securities (UCITS) - ie unit trusts in the UK and Eire and their continental equivalents. Authorisation in one Member State will allow the UCITS to market its units throughout the community, without any further authorisation, and subject only to compliance with local (national) marketing rules. (Any local exchange controls and local fiscal rules will, of course, apply.)

6. This goes further than directives in similar (eg banking) fields, as it would guarantee UCITS freedom of establishment as well as freedom to provide services. National controls will be reduced with greater reliance placed on the effectiveness of other Member States' controls over their own UCITS. This is a welcome

step towards a common internal market in financial services but has made for difficulties in agreeing the directive's minimum standards. Different fiscal regimes and the maintenance of exchange controls by some Member States will lessen the impact of the directive to some extent.

7. The UK, with a strong, innovative and diverse unit trust industry, stands to gain from the dismantling of these barriers to trade. Accordingly we are keen supporters. The directive would further our wider interest in seeing greater harmonisation of the Community markets in services, especially financial services.

8. We have argued for a directive which is as liberal as possible, consistent with the need to give adequate protection to investors, and which catches only those UCITS for which the directive's provisions are appropriate (ie the UK's authorised unit trusts investing mainly in quoted securities). We have the support of the Netherlands as well as Luxemburg and Denmark. Germany and Italy are prominent in arguing for more detailed regulation whilst most other States (including France) lie somewhere in between.

9. UK unit trusts are authorised by the Department of Trade and Industry, under the Prevention of Fraud (Investments) Act 1958. The January 1985 White Paper "Financial Services in the United Kingdom" proposes fresh legislation which will, inter alia, reform the present controls over unit trusts and will take account of the directive's requirements. The Financial Services Bill is due to be published early on in the new session.

FINANCIAL SERVICES DIVISION
Department of Trade and Industry
25 October 1985.

ECOFIN 28 OCTOBER BRIEF D2

CAPITAL MOVEMENTS DIRECTIVE

Relevant Document : Report from Coreper

UK Objectives

To secure agreement that a new directive amending the capital movements directive should be adopted before the end of the year as part of a package with the UCITS directive (on which see separate brief) and before the arrival of the Spanish and Portuguese put the whole thing back to square one.

Line to take

Two directives should be agreed at the same time, since they are clearly different sides of the same coin.

BACKGROUND

Article 67 of the Treaty of Rome requires member states progressively to abolish all capital movement restrictions within the Community and any discrimination based on a nationality or residence. It also provides for an end to all restrictions on current payments.

2. A directive for the implementation of Article 67 was agreed in 1960 and subsequently amended in 1962. This directive classifies capital transactions into 4 lists depending upon their nature. Those in list A (direct investment, insurance payments, real estate and a range of personal transfers) and list B (quoted securities) are suppose to be liberalised unconditionally. Transactions in list C should also be liberalised, but are subject to a let-out clause in certain circumstances. There is no obligation in respect of transactions in list D.

3. The Treaty also contain safeguard clauses (Articles 73, 108 and 109) which allow member states to obtain derogations from the capital movements directive. At present France, Italy and Ireland all take advantage of these safeguard clauses to apply restrictions on capital movements in lists A and B. Greece also maintains

controls under the provisions of their Treaty of Accession (which run out at the end of this year when Greece wants them to be replaced by an equivalent derogation).

4. At present transactions in the units of unit trusts covered by the UCITS directive fall under list C of the capital movements directive (and are therefore subject only to conditional liberalisation). The proposed capital movements directive would promote them to list B.

5. For the countries which maintain derogations this change would not make any immediate difference. They would still in practice be able to retain restrictions which would substantially reduce the effect of the UCITS directive. (Indeed, if they were not able to do so the UCITS directive would blow an effective hole in their exchange control systems). But the other member states of the Community are now taking a much tougher attitude towards the continuation of exchange controls; and promotion of unit trusts from list C to list B would mean that restrictions upon them became in principle subject to more stringent scrutiny and authorisation procedures. We have therefore been arguing that the two directives ought to be seen as a package.

6. There are three points of difficulty.

7. <u>Ireland</u> has wanted a cast iron guarantee that their existing derogation from the capital movements directive would be extended automatically to UCITS when they were promoted to list B. Nobody seriously doubts that this will be done. But the Commission have argued that it is wrong in principle to agree that it should be automatic. A compromise has been put forward whereby an entry in the Council minutes when the directive is agreed would give the Irish what they want.

8. <u>Greece</u> has been pressing for a special transitional period before full adoption of the UCITS directive and wants a similar arrangement for the capital movements directive. At first sight this linkage has some logic. But it would have the effect of giving the Greeks the power to continue to maintain controls on the

marketing of other countries unit trusts to protect their own industry <u>even if</u> the balance of payments justification for maintenance of exchange controls generally had disappeared. This may seem a somewhat academic point. Greece seems likely to continue to have balance of payments problems for some time. But the Commission have opposed the proposal on grounds of principle. Again, a compromise seems likely.

9. <u>Italy</u> has indicated that she is not yet ready to agree the directive for reasons which are not absolutely clear but which appear to be connected to disagreements between different Italian departments about who should have responsibility for UCITS in the future. This is the main reason why the directive has not been agreed already. If the directive is not to be held up indefinitely, the Italians will have to sort themselves out quickly. They have promised to try to do so.

2331/29 BRIEF E

ECOFIN 28 OCTOBER

BUDGET DISCIPLINE : ADAPTATION OF FINANCIAL GUIDELINE

UK OBJECTIVE

To obtain ECOFIN's agreement that officials should consider how the CAP financial guideline can best be adapted to cover EC12 expenditure. (This item has been included at the UK's suggestion and the Minister will wish to intervene at the outset.)

LINE TO TAKE

- At the Budget Council on 17-18 September I gave notice that the UK would seek an early discussion in ECOFIN of how best to adapt or extend the financial guideline for agricultural guarantee expenditure to cover expenditure in the Community of 12.

- To avoid misunderstanding let me stress that we have no wish to question the provision for FEOGA Guarantee expenditure in Spain and Portugal which the Budget Council agreed to put in the draft budget for 1986. We are concerned rather with decisions affecting the budgets for 1987 and later.

- Neither do we have any wish to re-open the budget discipline conclusions agreed last year.

- We would hope however that ECOFIN colleagues would agree that budget discipline will be as important in the Community of Twelve as in the Community of Ten and in particular that a similar degree of restraint as is implied by the existing agriculture financial guideline for the Community of Ten should be applied in the Community of Twelve.

- We believe that there would be increasing problems in trying to operate a financial guideline designed for 10 in a Community now grown to 12. It would greatly complicate the price fixing negotiations, for example.

- It would in our view be premature to discuss today how the existing guideline might be applied in the Community of Twelve. As we see it, however, the Community will need a simple approach which:

  - preserves the existing rules;
  - applies to expenditure in the Community of Twelve as a whole rather than expenditure in Spain and Portugal separately; and
  - enables realistic provision to be made for agricultural spending in Spain and Portugal.

- I should like to propose that this Council invite officials to examine possible ways of achieving the objectives I have described, with a view to reporting back to ECOFIN at an early date, perhaps January or February of next year. I hope that the Commission will agree to assist us with this work.

[If others suggests that other parts of the reference framework as well should be amended to cover Spain and Portugal]

I would not object to extending the remit to cover the rest of the reference framework if that is the general will. I do suggest however that we should proceed on the basis of minimum change. In the opinion of the UK delegation, it is at best doubtful whether any changes will be needed in other areas of the budget discipline conclusions.

BACKGROUND NOTE

There was no dissent to your suggestion at the Budget Council that ECOFIN should consider how the financial guideline could be extended to cover EC12.

We have taken some preliminary soundings at official level with German, French and Dutch colleagues. The response has been fairly lukewarm. In particular other member states consider that a final decision on extending the guideline could not be reached until the new year, when Spain and Portugal would themselves have to be parties to the decision.

The Germans have expressed concern that by raising this point we may reopen the budget discipline conclusions as a whole and have also suggested that any study should logically examine the extension of the reference framework as a whole, not just the financial guideline, to Spain and Portugal. We have considered carefully the first point but think it can be handled by stressing the very limited scope of our proposal. The second point is not very welcome to us as it would complicate the negotiations by bringing in the Parliament, but if the Germans or others press it we may have to accept it.

We consider that it would be useful to get official level discussions (involving the Commission) started so that there is a chance that the Commission's CAP price fixing proposals for 1986/87 (expected about the turn of the year) could be influenced by any revision to the formula. You should only press for an early ECOFIN Council decision on the substance (ie in December or January/February) later in the discussion if others have shown a willingness to make progress.

A note of the UK's position on this issue which has already been circulated to the German, French and Dutch Finance Ministries is at attachment 1. Briefly our idea is that expenditure on FEOGA guarantee should be limited to the same proportion of the own resources base in the Community of 12 as is currently permitted under the EC10 financial guideline. This could be achieved by including the own resources base of Spain and Portugal (with the VAT element abated by the transitional own resources relief) when calculating the own resources factor to be applied to the existing Community of 10 own resources base.

Attachment 1 to Brief E

FEOGA GUARANTEE EXPENDITURE FINANCIAL GUIDELINE

EXTENSION TO COMMUNITY OF 12

The financial guideline for expenditure on agricultural markets is at present calculated by reference to the level of agricultural spending in the Community of 10 in 1984 and 1985 and to the rate of growth of the own resources base in the present 10 member states. The Budget Council, when establishing the draft budget for 1986, agreed to treat agricultural market support spending in Spain and Portugal as additional to the guideline in 1986 under the terms of Article 2 of the Council's conclusion on budget discipline. But there was no opposition to the UK's suggstion that the ECOFIN Council should take an early opportunity to consider ways of extending the existing guideline formula so as to cover the Community of 12.

2. In the UK's view, a formula for the Community of 12 should have the following properties:

- it should be as similar as possible to the existing formula;

- it should enable realistic provision to be made for the Community's additional requirements for agricultural guarantee expenditure after enlargement;

- it should apply to agricultural expenditure in the Community of 12 as a whole, not to expenditure in existing member states and in Spain and Portugal separately.

3. In keeping with this, the new formula might limit the FEOGA expenditure concerned in the Community of 12 to the same ratio of the own resources base for the Community of 12 as is implied by the existing guideline for the Community of 10. This could be achieved by including the own resources base of Spain and Portugal (net of refunds) in the forecast own resources base of the Community year by year when calculating the own resources factor to be applied to the Community of 10 expenditure base (see Article 4 of the budget discipline conclusions).

London
October 1985

ATTACHMENT 2 TO BRIEF E : BUDGET DISCIPLINE TEXT

ANNEX A

CONCLUSIONS OF THE COUNCIL ON THE MEASURES NECESSARY TO GUARANTEE THE EFFECTIVE IMPLEMENTATION OF THE CONCLUSIONS OF THE EUROPEAN COUNCIL ON BUDGETARY DISCIPLINE

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984 the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for further development during the present decade;

Whereas principles on budgetary and financial discipline are specifically laid down;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each member state shall also apply to the budget of the Communities, and stated that the level of expenditure will be fixed on the basis of available revenue, and that budgetary discipline will apply to all budgetary expenditure;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles as set out in its conclusions,

HAS ADOPTED THE FOLLOWING CONCLUSIONS:

Article 1

1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year in accordance with Articles 2 to 5 inclusive and Article 9.

2. In order to fix the reference framework, the Council shall act by qualified majority in accordance with Article 148(2), second indent of the EEC Treaty.

3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission communication of 6 March 1984, shall be implemented; these provisions are annexed to these Conclusions.

Article 2

The Council shall ensure that the net expenditure relating to agricultural markets calculated in accordance with Article 4, will increase by less than the rate of growth of the own resources base. This development shall be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

Article 3

The amounts to be taken into account for the application of Article 2 shall be—

(*a*) as regards expenditure—

that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline referred to in Article 2 shall be this expenditure, reduced by the sum of amounts corresponding to the marketing of ACP sugar, refunds in connection with food aid and the payments by producers in respect of the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges;

(*b*) as regards the own-resources base—

the potential revenue on the basis of which Titles 1 and 2 of the Revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline referred to in Article 2 shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the Budget of the year, together with the own resources, other than those derived from VAT, set out in Revenue Title 1, less the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges.

When the potential revenue from VAT is changed following an alteration in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

Article 4

The level of net expenditure relating to agricultural markets for a given financial year shall be calculated as follows—

(*a*) the level of expenditure, as defined in Article 3(*a*), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985;

(*b*) the own resources factor shall be established by dividing the forecast level of the own resources base for the financial year in question, as defined in Article 3(*b*), by the average own resources base for 1984 and 1985;

(*c*) the level of expenditure for the financial year in question shall be determined by multiplying the amounts obtained by the application of paragraphs (*a*) and (*b*), unless the Council acting by the majority defined in Article 1(2) decides otherwise;

(*d*) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading "budgetary imbalances" on the basis of the report to be presented by the Commission one year before the 1·4 per cent VAT ceiling is reached.

Article 5

In the event of failure to respect the qualitative guideline referred to in Article 2, the Council shall, during the following two financial years, ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate its activity primarily on the production sectors responsible for the failure to adhere to the guideline.

Article 6

1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, ensure that the reference framework is respected.

2. At the request of a member of the Council or the Commission, the Council, acting by the majority referred to in Article 1(2), may amend the reference framework.

Article 7

1. Except in the case of decisions mentioned in paragraph 4, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.

2. Within a period not exceeding one month, the Council, acting by the majority referred to in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.

3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.

4. In the case of decisions affecting net expenditure relating to agricultural markets, the procedures laid down in paragraphs 5(*c*) and 6(*b*) of the Annex to the Commission's communication of 6 March 1984 shall apply.

Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy.

Article 9

1. The Council shall comply with the maximum rate provided for in Article 203(9) of the EEC Treaty throughout the budgetary procedure.

2. In order to achieve this:

—when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in Article 203(9);

—at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.

3. Paragraphs 1 and 2 of this Article are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last sub-paragraph of paragraph 9.

Article 10

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, these conclusions shall first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

ANNEX A I

EXTRACT FROM THE COMMISSION COMMUNICATION OF 6 MARCH 1984 REFERRED TO IN ARTICLE 1 PARAGRAPH 3

" 5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules—

(*a*) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgement to be made of the compatibility of the proposals with the guideline referred to in paragraph 2.

(*b*) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in paragraph 2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.

(*c*) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules—

(*a*) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

(*b*) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary over-runs and report to the Council and Parliament forthwith.*

* Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in paragraph 5(*c*) would apply), such " over-runs " could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in paragraph 5(*c*).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

(*c*) In the event of failure to respect the qualitative guideline referred to in paragraph 2 (by reason either of a special Council decision (paragraph 5(*c*)) or of a supplementary budget), adherence thereto will mean both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline."

ANNEX A II

Council conclusions on co-operation with the Commission and the European Parliament on budgetary discipline

The Council on 28 November and 4 December had a thorough discussion in the light of the meeting on 21 November on how to ensure the necessary co-operation between the European Parliament, the Commission and the Council in the matter of budgetary discipline.

The Council adopted the following conclusions—

—firstly to invite the Commission and the European Parliament to examine with it ways in which the co-operation necessary for a budgetary discipline common to all three Institutions may be brought about;

—secondly to invite a delegation of the Parliament to meet it shortly before the meetings at which the Council is due to fix the reference framework for the year.

The Council authorised its President to transmit to the European Parliament the outcome of its deliberations on budgetary discipline, namely its conclusions on—

—the measures necessary to guarantee the effective implementation of the conclusions of the European Council on budgetary discipline.

—co-operation with the Commission and the European Parliament on budgetary discipline.

STATEMENTS

entered in the Council Minutes

1. Re Article 1(1)

"The Council states that the reference to expenditure to finance Community policies includes compulsory expenditure not relating to agricultural markets."

2. Re Article 2

"The Irish delegation considers that the phrase "exeptional circumstances" used in Article 2 should, as well as enlargement, include the disposal of the present high level of agricultural stocks since this is a requirement which has arisen from previous Council decisions, and can clearly be foreseen at this stage."

3. Re Article 2 and 9

"The Council states that in applying budgetary discipline it will take into account previous Decisions and other undertakings of the European Council including those referring to the needs of the least-developed countries of the Community".

4. Re Article 3

"The United Kingdom delegation states that it has agreed to the definition of expenditure referred to in Article 3(a) solely for the purposes of the agricultural guideline and on the basis that its use in this context has no implications for the budgetary treatment of the EAGGF Guarantee or for other purposes."

.../...

5. Re Article 3(a) first sentence

"The Council notes that this expenditure is currently presented in the Budget in a manner which includes "negative expenditure", i.e. is already reduced by the incidence of the financial contribution by milk producers (co-responsibility levy, super levy milk)."

6. Re Article 7(4)

"The Council declares that a Member State may seek the opinion of the Commission on whether the circumstances referred to in paragraph 5(c) of the Annex to the Commission's Communication of 6 March 1984 arise.".

7. Re Articles 1(1), 4(2), 6(2), 7(2), 8

"The Council considers that the functions conferred on it by Article 1(1), Article 4(c), Article 6(2), Article 7(2) and Article 8 should be exercised by the Council composed so as to include Ministers for Finance and Economic Affairs and, where appropriate, Ministers for Foreign Affairs, each Government remaining free to designate other Ministers to participate at the meetings in question."

8. Commission Statement

The Commission confirms the undertakings it made in the Annex to its Communication of 6 March 1984 on "Common Agricultural Policy: Financial Guidelines". As regards the method of measuring the growth rates of agricultural expenditure and the Community's own resources base, the Commission will use the definitions set out in Articles 3 and 4 of the Council's Conclusions.

. . . / . . .

The Commission will implement these undertakings so that they may apply in respect of the budgetary exercise of 1986 and subsequent budgetary exercises.

The Commission will also draw up at the beginning of each year the figures necessary for the establishment of a reference framework of the kind set out in Article 1 of the Council's Conclusions. These figures will be made available to both branches of the Budget Authority.

The Governments of the Member States undertake to provide the necessary data in sufficient time to enable the Commission to present the abovementioned figures.

9. The Council will invite both the Commission and the Parliament to examine with it ways of securing the co-operation necessary for a budgetary discipline common to all three Institutions.

10. The Council states that the agricultural guideline will be implemented with respect being paid to the principles developed by the Court of Justice concerning acquired rights and the legitimate expectation of individuals and financial and economic agents in relation to Community legislation.

11. The Greek delegation states that the agreement on budgetary discipline only constitutes a political undertaking by the Council and, as a result, it has no legally binding effect.

The Danish, Irish and Italian delegations support this statement.

1607/7

BRIEF F

ECOFIN 28 OCTOBER

SUBJECT: COMMISSION PROPOSAL FOR AMENDING LETTER TO 1986 PDB TO CORRECT UNITED KINGDOM'S ABATEMENT

Objective

To secure the Council's approval of the amending Letter so that it can be transmitted to the Parliament in time for them to consider it at their first reading of the Budget.

[Fallback Objective if Council Reject the Letter

To secure a firm undertaking from the Commission and the Council that there should be a supplementary and amending Budget in September 1986 to make this and any other necessary corrections to our abatement.]

Point to Make

- Regret it has proved necessary to discuss question at all. Had hoped it would be simply an 'A' point.

- All member states recognise United Kingdom did not ask Commission to propose Letter. This because new ORD itself clearly states that such matters are the Commission's responsibility. UK prepared to leave matter in their hands. (of course, also Commission responsibility to make all budgetary proposals).

- But we do welcome Letter. Commission were right to issue it. Once size of adjustment and consequential effect on abatement became apparent, only prudent to reflect this in Budget. Would have been irresponsible of the Commission to have done otherwise. Article 12(6) of Financial Regulation empowers Commission to submit Letters of Amendment if new information makes this necessary. These exactly the circumstances inwhich such a power should be used.

- Has been suggested that agreed methodology makes no provision for amendment at this stage. But that is surely beside the point. Whole thrust of methodology paper is to set out way of establishing most accurate estimation possible of United Kingdom abatement. The paper certainly does not provide for inserting in main Budget figures which are known to be wrong or fail to take account of know developments. [Perhaps if net result of adjustments had been to reduce UK's abatement Amending Letter might have got warmer welcome?]

- Has also been suggested that still so may uncertaintities in the figures that an "irregular" correction now is premature. It could later prove to be unnecessary. The chances of this being so are very slim. Commission's latest estimates for United Kingdom's final abatement entitlement are in range 1613 to 1878 mecu. 1664 mecu that would result from Amending Letter is <u>well below</u> mid-point of this range, which is about 1750 mecu.

- Finally, do ask colleagues on the Council not to underestimate political difficulties rejection of this Letter would cause in the United Kingdom. Both the UK Parliament and wider public opinion would be very concerned if that were to happen. Since Fontainebleau, Community's image in the United Kingdom has improved accordingly. Rejection of the Letter could be seen as casting doubt on other member states' acceptance of that Agreement, and would increase influence of those hostile to the Community.

<u>If Necessary to Secure Fallback Objective</u>:

- Very disappointing that Council does not seem prepared to accept Commission proposal. But as rules of budgetary procedure say decisions must be taken by QM, obviously if the Letter fails to muster a QM, it must fall. Accept that decision is in the Council's hands.

- No one questioned that United Kingdom was entitled to abatement in respect of its VAT adjustment. Commission have already most helpfully said they will bring forward necessary amending Budget next September to cover this. Would go a long way to minimising negative political impact in the United Kingdom of decision to reject the Letter if Commission and Council could agree now that necessary action will be taken in September 1986 to correct our abatement having regard to the VAT adjustment and all other relevant developments.

[- If Council cannot agree to this, will be widespread feeling in United Kingdom that Community is renaging on Agreement reached at Fontainebleau.]

Background Note

1. Following regular payment of VAT adjustments on 1 August 1985 which increased the United Kingdom's VAT share from 21.34 per cent to 22.83 per cent, the Commission presented on 11 October a Letter of Amendment to the 1986 PDB to reflect this change in the United Kingdom's abatement provision in the 1986 Budget. This is in acordance with Article 3(3) of the new Own Resources Decision, which makes it clear that all payments in any one year are eligible for abatement, whether they arise from that year's Budget of from the preceding ones. The size of the additional abatement is 264 mecu (c.£160 million). The United Kingdom did not ask the Commission to make this proposal.

2. Other member states' have objected to the Commission's proposal chiefly on the grounds of timing. They were first annoyed that the Commission took nearly two and a half months to propose the correction, and then could produce only feeble reasons why they had failed to present the Letter of Amendment before the first Budget Council in September.

3. More important, however, they objected that the Commission's own agreed methodology made no provision for a Letter of Amendment

at this stage in the process. They, particularly the French, claimed that there should be no change in the figures between the initial estimate in the PDB, and any supplementary and amending Budget which might prove necessary in the September of the following year. They suggested that there was no good reason for the Commission to insist on making this particular change when there are still so many other uncertaintities, and it could prove in the end unnecessary.

4. There has been no serious attempt to query that the United Kingdom will eventually be entitled to have its VAT adjustments reflected in its abatement.

5. At Budget Committe on 22 October, five member states agreed to accept the Letter of Amendment. France and the Netherlands indicated they would reject it. Belgium and Italy were undecided. At COREPER on 24 October, they decided

6. The agreed methodology provides only for the possibility of a correction in September in 1986. The Commission is not obliged to update the figures until September 1987. Christopherson has already said privately that he would be prepared to make it clear that the Commission will be presenting a supplementary and amending Budget next September. If we are forced to accept that the Letter of Amendment will not be approved, we should get this assurance on the record in the Council. It would also be very helpful to get the Council itself to accept on the record that they will accept that amending Budget.

ATTACHMENT TO BRIEF F

EUROPEAN COMMUNITIES

(ECSC - EEC - Euratom)

LETTER OF AMENDMENT

TO THE PRELIMINARY DRAFT BUDGET

OF THE EUROPEAN COMMUNITIES FOR 1986 (1)

(1) Sent to the budgetary authority on 31 July 1985.

COM(85) 550

11 OCTOBER 1985

In accordance with Article 12(6) of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities, the Commission, for the reasons set out in the attached explanatory memorandum, wishes to present to the budgetary authority a letter of amendment to the preliminary draft budget for 1986.

*

* *

CONTENTS

EXPLANATORY MEMORANDUM

The purpose of this letter of amendment is to adjust the amounts entered in the preliminary draft general budget for 1986 for the correction of budgetary imbalances for 1985.

It concerns only the revenue side; the expenditure side remains unchanged.

REVENUE

VAT own resources payments and financial contributions from the Member States to finance the 1986 budget (Article 130 and Item 2000) were determined by:

- calculating the payments resulting from application of the uniform rate (or GNP share);
- applying the adjustments required under the arrangements for the correction of budgetary imbalances (Article 3(3)(b), (c) and (d)) of the Decision of 7 May 1985 on the Communities' system of own resources (85/257/EEC, Euratom).

The calculation of the correction of the budgetary imbalances is explained on pages B/758 to B/762 of Volume 7 of the preliminary draft budget and is based on the United Kingdom's share of VAT payments and financial contributions at the 1985 uniform rate according to the 1985 budget.

Since the 1986 preliminary draft budget was prepared a new factor has arisen which, for reasons of budget transparency, should be taken into account: the establishment and entry on 1 August of the balances of VAT and financial contributions for 1984 and corrections for previous years (1). This resulted in the United Kingdom paying a further 252,7 million ECU and the other Member States a total of 151,7 million ECU less, a net extra payment of 101 million ECU.

Under Article 3(3)(b)(i) of the Council Decision of 7 May 1985 on the Communities' system of own resources adjustments in respect of previous years are to be taken into account in calculating the United Kingdom's percentage share of VAT for the purpose of determining the correction.

While the United Kingdom's share in total VAT payments and financial contributions for 1985 was 21,3433% under the 1985 budget, it increased to 22,8287% when adjustments for earlier years were included.

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(1) Article 10(4) of Council Regulation (EEC, Euratom, ECSC) N° 2891/77 of 19 December 1977 and Article 10 of Council Regulation (EEC, Euratom, ECSC) N° 2892/77 of 19 December 1977.

Share of the United Kingdom in VAT payments and financial contributions in 1985 at the uniform rate					
	million ECU			%	
	1985 budget	1984 balances (1)	Total	1985 budget	Total
	(1)	(2)	(3)	(4)	(5)
United Kingdom	3.300,0	252,7	3.552,7	21,3433	22,8287(2)
Other Member States	12.161,5	(-)151,7	12.009,8	78,6567	77,1713(2)
TOTAL	15.461,5	101,0	15.562,5	100,0000	100,0000

(1) Including corrections for previous years.
(2) Based on non-rounded figures.

This new share means that the net correction for the United Kingdom should be calculated as follows:

1.	Share of the United Kingdom in VAT and GNP financial contributions in 1985 (revised)	22,8287%
2.	UK share of allocated expenditure in 1985 (unchanged)	13,4820%
3.	Difference (1 - 2)	9,3467%
4.	Total allocated expenditure in 1985 (unchanged)	26.977.374.000 ECU
5.	3 x 4	2.521.494.000 ECU
6.	Net correction: 0,66 x 5 =	1.664.186.000 ECU

In view of the margin of error, this figure has been rounded to 1.664 million ECU.

This increases the net correction from 1.400 million ECU to 1.664 million ECU.

This sum is to be deducted from the VAT payments which the United Kingdom would make at the uniform rate in the 1986 preliminary draft budget.

The correction will be financed by modulating the VAT rates of the other Member States, as shown in the following table.

Calculation of the allocation and the financing of the correction by modulation of the VAT rates or financial contributions for 1986

	VAT/GNP payments for 1986 at the uniform rate of 1,2461% million ECU	Normal shares in VAT/GNP for 1986 %	Financing of the "Fontainebleau" correction: Adjusted excl. UK %	Financing of the "Fontainebleau" correction: With Germany's share reduced to 2/3 of column 3 and other shares adjusted %	"Fontainebleau" correction by scale in column 4 million ECU	Corrected payments Total 1 + 5 million ECU	Modulated VAT rates 6 ÷ 1% VAT/GNP base for 1986 %
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
B	646,091	2,89	3,54	4,08	67,853	713,944	1,3769
DK	430,146	1,92	2,35	2,71	45,174	475,320	1,3769
D	5.735,690	25,62	31,41	20,94	348,403	6.084,093	1,3218
GR	448,587	2,00	2,45	2,83	47,111	495,698	1,3769
E	1.880,329	8,40	10,30	11,87	197,473	2.077,802	1,3769
F	4.558,148	20,36	24,96	28,77	478,699	5.036,847	1,3769
IRL	186,911	0,83	1,02	1,17	19,629	206,540	1,3769
I	3.118,680	13,93	17,08	19,68	327,525	3.446,205	1,3769
L	52,335	0,23	0,28	0,33	5,496	57,831	1,3769
NL	1.018,044	4,55	5,58	6,43	106,915	1.124,959	1,3769
P	187,791	0,84	1,03	1,19	19,722	207,513	1,3769
UK	4.125,261	18,43	0	0	-1.664,000	2.461,261	0,7434
EUR-12	22.388,013	100,00	100,00	100,00	0	22.388,013	-

Note: The figures in column 5 have been calculated on the basis of the scale in column 4 to twelve decimal places and then rounded to the nearest thousand. The figures in column 6 are based on these roundings.

VOLUME 1

(REVENUE)

A. REVENUE

The estimated revenue of the European Communities is :

Title	Heading	1986 preliminary draft budget	Letter of amendment	New amounts
1	Own resources	34.582.829.100	(-) 3.128.947	34.579.700.153
2	Financial contributions	204.383.555	3.128.947	207.512.502
3	Surpluses available			
	— Balance from previous year	p.m.	-	p.m.
	— VAT own resources and financial contributions	p.m.		
4	Miscellaneous Community taxes, levies and dues	185.308.350	-	p.m.
5	Revenue accruing from the administrative operation of the institutions	34.466.500	-	185.308.350
6	Contributions to Community programmes, repayment of expenditure and revenue from services rendered against payment	36.775.000	-	34.466.500
7	Interest on late payments and fines	p.m.	-	36.775.000
8	Borrowing and lending operations	4.238.500	-	p.m.
9	Miscellaneous revenue	2.656.000	-	4.238.500
			-	2.656.000
	GRAND TOTAL	**35.050.657.005**	-	35.050.657.005

TITLE 1

OWN RESOURCES

CHAPTER 13 - OWN RESOURCES ACCRUING FROM VALUE ADDED TAX PURSUANT TO ARTICLE 3 OF THE DECISION OF 7 MAY 1985

Article Item	Heading	1986 preliminary draft budget	Letter of amendment	New amounts
	CHAPTER 13			
130	Own resources accruing from value added tax pursuant to Article 3 of the Decision of 7 May 1985	22.183.629.100	(-) 3.128.947	22.180.500.153
	CHAPTER 13 - TOTAL	22 183 629 100	(-) 3.128.947	22.180.500.153
	Title 1 - Total	34 582 829 100	(-) 3.128.947	34.579.700.153

CHAPTER 1 3 — OWN RESOURCES ACCRUING FROM VALUE ADDED TAX PURSUANT TO ARTICLE 3 OF THE DECISION OF 7 MAY 1985

Article Item	Remarks
1 3 0	The uniform VAT own resources rate for 1986 is 1,2461 %. The rate to be applied for each Member State and the breakdown of payments are as follows :

Member State	Rate to be applied	1986 preliminary draft budget	Letter of amendment	New amounts
Belgium	1,3769	703 178 235	10.765.093	713.943.328
Denmark	1,3769	468 152 607	7.167.039	475.319.646
Germany	1,3218	6 028 816 991	55.275.426	6.084.092.417
Greece	1,3769	488 224 039	7.474.318	495.698.357
Spain	1,3769	2 046 472 432	31.329.846	2.077.802.278
France	1,3769	4 960 898 713	75.947.367	5.036.846.080
Ireland	1,3769	203 426 683	3.114.299	206.540.982
Italy	1,3769	3 394 242 017	51.963.114	3.446.205.131
Luxembourg	1,3769	56 959 471	872.004	57.831.475
Netherlands	1,3769	1 107 997 335	16.962.547	1.124.959.882
Portugal	–	–	–	–
United Kingdom	0,7434	2 725 260 577	(-) 264.000.000	2.461.260.577
Article 1 3 0 — Total		22 183 629 100	(-) 3.128.947	22.180.500.153

TITLE 2

FINANCIAL CONTRIBUTIONS

CHAPTER 20 - CONTRIBUTIONS PROVIDED FOR IN ARTICLE 3(3)(d) AND (7) OF THE DECISION OF 7 MAY 1985 ON THE COMMUNITIES' SYSTEM OF OWN RESOURCES

Article Item	Heading	1986 preliminary draft budget	Letter of amendment	New amounts
	CHAPTER 20			
200	Contributions provided for in Article 3(3)(d) and (7) of the Decision of 7 May 1985 on the Communities' system of own resources			
2000	Financial contribution from Portugal provided for Article 3(3)(d) and (7) of the Decision of 7 May 1985 on the Communities' system of own resources	204 383 555	3.128.947	207.512.502
	Article 200 - Total	204 383 555	3.128.947	207.512.502
	CHAPTER 20 - TOTAL	204 383 555	3.128.947	207.512.502
	Title 2 - Total	204 383 555	3.128.947	207.512.502

TITLE 2

FINANCIAL CONTRIBUTIONS

CHAPTER 2 0 — CONTRIBUTIONS PROVIDED FOR IN ARTICLE 3 (3) (d) AND (7) OF THE DECISION OF 7 MAY 1985 ON THE COMMUNITIES' SYSTEM OF OWN RESOURCES

Article Item	Remarks
2 0 0	
2 0 0 0	Council Regulation (EEC, Euratom, ECSC) No 2891/77 of 19 December 1977 implementing the Decision of 21 April [illegible] the replacement of financial contributions from Member States by the Communities' own resources (OJ No L 336, 27. 12. [illegible], p. 1), and in particular Article 13 thereof. Council Decision 85/257/EEC, Euratom of 7 May 1985 on the Communities' system of own resources (OJ No L [illegible], 14. 5. 1985, p. 15), and in particular Article 3 (3) (d) and (7) thereof.

FINANCING OF THE BUDGET

TABLE 3

Payments of own resources accruing from VAT and financial contributions pursuant to Article 3 (3) (b), (c) and (d) of the Decision of 7 May 1985

Member State	Own resources or financial contribution at uniform VAT own resources rate	Adjustments pursuant to Article 3 (3) (b), (c) and (d)	VAT own resources rate to be applied	VAT own resources and financial contribution to be paid
Belgium	646 090 621	67.852.707	1,3769	713.943.328
Denmark	430 145 578	45.174.068	1,3769	475.319.646
Germany	5 735 689 735	348.402.682	1,3218	6.084.092.417
Greece	448 587 509	47.110.848	1,3769	495.698.357
Spain	1 880 329 309	197.472.969	1,3769	2.077.802.278
France	4 558 147 524	478.698.556	1,3769	5.036.846.080
Ireland	186 911 462	19.629.520	1,3769	206.540.982
Italy	3 118 680 050	327.525.081	1,3769	3.446.205.131
Luxembourg	52 335 209	5.496.266	1,3769	57.831.475
Netherlands	1 018 044 431	106.915.451	1,3769	1.124.959.882
Portugal	187 790 650	19.721.852	1,3769	207.512.502
United Kingdom	4 125 260 577	- 1.664.000.000	0,7434	2.461.260.577
Total	22 388 012 655	0		22.388.012.655

TABLE 4

Summary of financing of expenditure

Financial year 1986

Member State	Sugar and isoglucose levies	Agricultural levies	Common Customs Tariff duties	Financial contributions		VAT own resources		Total
				Previous financial years	Current financial year	Previous financial years	Current financial year	
Belgium	79 550 000	186 000 000	536 600 000				713.943.328	1.516.093.328
Denmark	43 600 000	7 000 000	239 400 000				475.319.646	765.319.646
Germany	285 940 000	187 500 000	2 600 000 000				6.084.092.417	9.157.532.417
Greece	16 400 000	26 000 000	130 000 000				495.698.357	668.098.357
Spain	67 000 000	322 000 000	580 000 000				2.077.802.278	3.046.802.278
France	356 330 000	96 000 000	1 256 000 000				5.036.846.080	6.745.176.080
Ireland	15 300 000	6 200 000	160 800 000				206.540.982	388.840.982
Italy	70 620 000	313 300 000	920 000 000				3.446.205.131	4.750.125.131
Luxembourg	—	100 000	4 700 000				57.831.475	62.631.475
Netherlands	91 330 000	170 000 000	835 000 000				1.124.959.882	2.221.289.882
Portugal	200 000	10 800 000	128 000 000		207.512.502		–	346.512.502
United Kingdom	87 530 000	260 000 000	2 310 000 000				2.461.260.577	5.118.790.577
Total	1 113 800 000	1 584 900 000	9 700 500 000		207.512.502		22.180.500.153	34.787.212.655

CHAPITRE 13 — RESSOURCES PROPRES PROVENANT DE LA TAXE SUR LA VALEUR AJOUTÉE EN APPLICATION DE L'ARTICLE 3 DE LA DÉCISION DU 7 MAI 1985

Article Poste	Commentaires
1 3 0	Le taux uniforme de ressources propres « TVA » déterminé pour l'exercice 1986 s'élève à 1,0650 %. Les taux à appliquer à chaque État membre et la ventilation des versements se présentent comme suit pour 1986 :

États membres	Taux à appliquer	Projet de budget 1986	Lettre rectificative	Nouveaux Montants
Belgique	1,1958	609 285 608	10.765.093	620.050.701
Danemark	1,1958	405 642 029	7.167.039	412.809.068
Allemagne	1,1406	5 195 282 250	55.275.426	5.250.557.676
Grèce	1,1958	423 033 401	7.474.318	430.507.719
Espagne	1,1958	1 773 215 008	31.329.846	1.804.544.854
France	1,1958	4 298 489 396	75.947.367	4.374.436.763
Irlande	1,1958	176 263 917	3.114.299	179.378.216
Italie	1,1958	2 941 022 215	51.963.114	2.992.985.329
Luxembourg	1,1958	49 353 897	872.004	50.225.901
Pays-Bas	1,1958	960 050 803	16.962.547	977.013.350
Portugal	—	—	-	-
Royaume-Uni	0.5623	2 125 760 227	(-) 264.000.000	1.861.760.227
Total de l'article 1 3 0		18 957 398 751	(-) 3.128.947	18.954.269.804

2340/10

ECOFIN 28 OCTOBER BRIEF G

EUROPEAN MONETARY SYSTEM : INTER-GOVERNMENTAL CONFERENCE

Lunch discussion - no document

UK Objectives

To discourage over-ambitious proposals to write into the Treaty of Rome specific references to monetary union or the exchange rate mechanism of the EMS, or which might limit the internal and external competence of member states in this area. To ensure that ECOFIN does not go back on its decision (at the informal meeting on 20/21 September) that the IGC should remit all monetary/EMS matters to ECOFIN and the Monetary Committee.

Points to make

1. No need to amend Treaty in order to achieve progress - as the development of the EMS on the basis of the existing Treaty shows.

2. There are dangers in making the Treaty more specific

- introducing rigidities which could be difficult to change if the next 30 years shows them unworkable;

- overloading the Community with difficult political questions.

3. Better to concentrate on substantive issues, especially existing Treaty commitment to liberalise capital movements. [**NOTE:** offenders are France, Italy, Ireland.]

4. [IF PREVIOUS DECISION RE-OPENED] Essential to keep EMS/monetary matters within ECOFIN and Monetary Committee.

5. [IF SPECIFIC PROPOSALS MADE] Need to be quite clear about the purpose and implications of what is proposed; no decision of any kind until proposals have been processed properly.

BACKGROUND

The Inter-governmental Conference on Treaty amendment (IGC) was established by the Milan European Council by majority vote (UK, Greece, Denmark voted against). The proceedings of the IGC began on 9 September, when Foreign Ministers discussed timetable and procedures. The UK has decided not to put forward any proposals of its own for Treaty amendments, at least at this stage.

2. On 20/21 September, an informal meeting of ECOFIN more or less agreed that all proposals to amend the Treaty in the area of EMS/monetary affairs should be processed by ECOFIN, the Monetary Committee and, as appropriate, the Committee of Central Bank Governors. This is consistent with the Milan European Council's instruction to Finance Ministers and Central Bank Governors to continue work on the development of the EMS. The Luxembourg Presidency was not happy, however, and may try to re-open the question.

3. The actual proposals are still sketchy; there has been no discussion of substance. We may learn more from the Monetary Committee's discussions on the Friday/Saturday before the meeting.

- The Commission (Delors) is likely to propose specific amendments to the articles of the Treaty which currently deal with monetary matters ("conjunctural policy" - articles 103-109).

- France, Luxembourg and Italy appear to favour new references to the "monetary dimension" of the Community.

- The Netherlands share this view, but see no need to refer to the EMS (which they rightly see as a narrower concept, ie a means to an end); the Netherlands may be prepared to transfer some national functions but only if the extent of this transfer is clearly defined in advance.

- Belgium has more specific proposals (objective of EMU, conditions for convergence and more unified markets, use of EMS as special instrument, power for Council to take measures "paying due respect for legislative and constitutional requirements of each member country", whatever that means). But there are no texts yet. The Belgian Foreign Ministry may be keener than the Finance Ministry.

- Germany is more sceptical, and shares our concern at the possible loss of national powers.

4. In any event it is early days yet; your colleagues cannot expect the Council to discuss proposals in substance or detail until they have been properly formulated and processed by the Monetary Committee.

39/12

ECOFIN 28 OCTOBER **BRIEF H**

SUBJECT: MEMBER STATES' NET BALANCES

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

- grateful that the Commission have now supplied each member state with figures for allocated expenditure for 1984 in that member state. This is very useful;

- but it is nevertheless most important that information is now provided to each member state on net balances and VAT expenditure gaps in all the member states. Moreover, Commission should 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 developments in the Community;

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

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 most concerned that the Commission have not supplied the figures for 1984.

3. The Commission have just provided each member state with information on allocated expenditure in their own country in 1984. What is required now is information on net balances and VAT expenditure gaps in all member states.

4. 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, are thought to be reluctant to provide the figures for fear of fuelling complaints about budget imbalances.

5. The Germans asked at the Budget Council on 17/18 September that this subject should be discussed at the informal ECOFIN at the end of September. Although the Commission said they would be happy for such a discussion, the subject was not in the event raised. The Germans have now said they want the subject discussed over lunch at next Monday's ECOFIN.

6. It is possible that, in view of the Commission's decision to provide limited additional information, the Germans may not pursue their request for information on net balances and VAT expenditure gaps in all member states. We will be encouraging them to continue to press the Commission to provide this information. If they do not do so, however, we think that it would be sensible for the United Kingdom to press the Commission instead.

ECOFIN 28 OCTOBER

BRIEF I

ECU CIRR

UK Objectives

If raised by the Italians, to put off detailed discussion on the ECU CIRR until the December ECOFIN when the whole CIRR question can be discussed in preparation for the January OECD. You should intervene if possible, though the Germans and the Dutch are also unlikely to welcome any Italian attempt to bounce the meeting.

Line to take

The UK understands the Italian desire to reach a settlement on CIRR problems generally, and the ECU in particular. But we see little merit in considering one rate in isolation least of all when those round this table have had little opportunity to acquaint themselves with the complexities of the matter. The wider issue of the construction of CIRRs and their margin is currently under active consideration and will be coming to ECOFIN in December in advance of the January OECD. ECU CIRR should be considered at that time. Present temporary rules do not expire until then. [If Italians threaten to go it alone: The UK would deprecate such a move. The survival of the Consensus depends on individual countries adhering to the rules even when they have reservations about them. If countries break the rules they don't like, they risk disintegration of the Consensus and an outbreak of export credit competition which will reinforce protectionist pressures everywhere.

Background

Under the OECD Consensus which regulates export credit competition, participants are permitted to offer official support for low interest rate currencies (eg DM, Yen, Swiss franc and, in some markets, the US dollar) at rates based on a Commercial Interest Reference Rate (CIRR) which is meant to reflect market conditions. Currently CIRRs are in the main derived by adding various margins to the five year government bond rate (available, and transparent, in all markets) to transform it into a commercial rate available to first class exporters. In the two years of the system's existence there has been constant controversy over individual rates which has now reached a point where the existing methodology, as well as the general level of current rates is under question. In the forefront are the Italians and French who, more willing than the rest of the EC to subsidise their exports, wish to see lower rates. The Dutch and Germans, not wanting subsidy, take the opposite line. The UK stands somewhere in the middle: not wanting subsidy but wishing to ensure the system survives.

2. The ECU CIRR has been the focal point of the Italian case (they tend to use ECU more than others). They are currently arguing for a reduction in the rate and a change in methodology for the ECU CIRR and others.

3. The UK is prepared to consider their proposals (but is sceptical on both counts since the Italians seem prepared to use any argument to get the rate down). The Commission have put forward an interim proposal involving no change in methodology but a cut in the margin over yield of ECU bonds on the Luxembourg Stock Exchange from 0.8 to 0.5%. This, plus the 0.2 margin for official support is the minimum acceptable to the UK. But our basic objection is tactical. A reduction for this CIRR in advance of a more general settlement would set a precedent for reductions in other rates with much greater financial and economic significance. The Italians claim greater urgency for the ECU because the rate was initially set for only 6 months, a period which

expires at the end of December. A new rate could be set at the next OECD meeting in January. They have occasionally said that they are prepared effectively to set their own CIRR (and have been taken to task by the Commission) on this because it would amount to a breach of the Consensus. The danger to the Consensus in individual countries going off on their own is considerable.

4. In earlier discussion the Italian position got some, but not wholehearted, support from the French, Neither the Germans nor the Dutch were prepared to accept a margin below 0.8%.

5. The wider issue of CIRR methodology and margins is to come to ECOFIN in December to decide an EC negotiating mandate for the January OECD when the ECU CIRR can be discussed in the context of an EC line on a CIRR settlement generally.

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AND TO DES, HOME OFFICE, DHSS, DEPT OF ENERGY LONDON
AND TO DEPT OF ENERGY LEICESTER, DEPT OF TRADE, MAFF
AND TO SCOTTISH OFFICE LONDON, TREASURY, ODA, DOE
AND TO INLAND REVENUE, CUSTOMS AND EXCISE, BANK OF ENGLAND
AND TO COI, TLXLN FOR W/O CARDIFF - TELEX NO.498228

FRAME FORECAST
(SOUS RESERVE 'UNE EVENTUELLE CONSULTATION DEMANDEE PAR LES DELEGATIONS ESPAGNOLE ET PORTUGAISE) --

OBJET : 1ERE LISTE DES POINTS ''A'' DE LA 1035EME SESSION DU CONSEIL DES COMMUNAUTES EUROPEENNES (QUESTIONS ECONOMIQUES ET FINANCIERES) DU LUNDI 28 OCTOBRE 1985

- ACCORD CEE-ISRAEL : DEMANDE D'ISRAEL D'AUGMENTER LES DROITS DE SUR LES PLAQUES OFFSET POUR L'IMPRIMERIE
  DOC. 9676/85 ISR 11

- ADOPTION DANS LES LANGUES DES COMMUNAUTES DU REGLEMENT DU CONSEIL PORTANT MODIFICATION DU REGLEMENT (CEE) NO 1698/85 INSTITUANT UN DROIT ANTI-DUMPING DEFINITIF SUR LES IMPORTATIONS DE MACHINES A ECRIRE ELECTRONIQUES ORIGINAIRES DU JAPON
  DOCS 9663/1/85 COMER 96 REV 1
  9335/1/85 COMER 94 REV 1
  + COR 1

- QUESTIONS ECRITES POSEES AU CONSEIL PAR DES MEMBRES DE L'ASSEMBLEE
  DOC. 9798/85 ASSQUE 804
  NO 1107/85 DE M. SEELER - REGIME DE CIRCULATION INTRACOMMUNAUTAIRE DE MARCHANDISES EXPEDIEES D'UN ETAT MEMBRE EN VUE D'UNE UTILISATION TEMPORAIRE DANS UN OU PLUSIEURS AUTRES ETATS MEMBRES

NO 1298/85 DE M. WURTZ - PRET DE LA BANQUE INTER-AMERICAINE DE DEVELOPPEMENT AU NICARAGUA
NO 1348/85 DE M. BEYER DE RYKE - RECONDUCTION DU REGIME D'AIDE A L'APICULTURE - REGLEMENT (CEE) NO 1196/81
NO 1361/85 DE M. FORD - CONVENTION SUR LE DROIT DE LA MER
NO 1362/85 DE M. KUIJPERS - PROPOSITION DE DECISION DU CONSEIL PORTANT CONCLUSION DE LA CONVENTION EUROPEENNE SUR LA PROTECTION DES COURS D'EAU INTERNATIONAUX CONTRE LA

POLLUTION

POLLUTION

NO 1411/85 DE M. SEEFELD - TARIFS POSTAUX INTERIEURS APPLIQUES ENTRE LES ETATS MEMBRES DE LA COMMUNAUTE

NO 1464/85 DE M. ROGALLA - PROPOSITION DE DIRECTIVE DE LA COMMISSION RELATIVE A UNE SIMPLIFICATION DES CONTROLES DES PERSONNES AUX FRONTIERES INTERIEURES
DOC. 9586/85 ASSQUE 791

- AJUSTEMENT DES MONTANTS FIGURANT AUX PROTOCOLES ''ORIGINE'' ANNEXES A CERTAINS ACCORDS MEDITERRANEENS :
  DOC. 9868/85 MED 74
  = ADOPTION PAR LE CONSEIL DES REGLEMENTS D'APPLICATION COMMUNAUTAIRES RELATIFS AUX DECISIONS NO 1/85 DU CONSEIL DE COOPERATION CEE- ISRAEL ET DU CONSEIL D'ASSOCIATION CEE-CHYPRE, MODIFIANT UNE NOUVELLE FOIS LES ARTICLES 6 ET 17 DES PROTOCOLES RELATIFS A LA DEFINITION DE LA NOTION DE ''PRODUITS ORIGINAIRES'' ET AUX METHODES DE COOPERATION ADMINISTRATIVE
  DOCS CEE-ISR 2904/85 + COR 1
  7136/85 ISR 3 + COR 1
  CEE-CY 701/85 + COR 1
  7797/85 CY 12 + COR 1
  = ADOPTION PAR LE CONSEIL DES REGLEMENTS MODIFIANT UNE NOUVELLE FOIS LES ARTICLES 6 ET 17 DES PROTOCOLES RELATIFS A LA DEFINITION DE LA NOTION DE ''PRODUITS ORIGINAIRES'' ET AUX METHODES DE COOPERATION ADMINISTRATIVE DES ACCORDS DE COOPERATION ENTRE LA COMMUNAUTE ET, RESPECTIVEMENT, LA REPUBLIQUE ARABE D'EGYPTE, LA REPUBLIQUE LIBANAISE, LE ROYAUME HACHEMITE DE JORDANIE ET LA REPUBLIQUE SOCIALISTE ET FEDERATIVE DE YOUGOSLAVIE
  DOCS 7798/85 ET 1 + COR 1
  7799/85 RL 1 + COR 1
  7800/85 RHJ 5 + COR 1
  7801/85 YU 12 + COR 1

- OBSERVATIONS DE LA COUR DES COMPTES QUI PARAISSENT A CELLE-CI DE NATURE A DEVOIR FIGURER DANS LE RAPPORT ANNUEL RELATIF AUX COMPTES DE L'EXERCICE 1984
  = REPONSES A DONNER PAR LE CONSEIL AUXDITES OBSERVATIONS
  DOC. 9825/85 FIN 482 CMPT 15

ADOPTION

- ADOPTION DANS LES LANGUES DES COMMUNAUTES DE LA DECISION DU CONSEIL CONCERNANT L'OCTROI D'UN SOUTIEN POUR DES PROJETS COMMUNAUTAIRES DANS LE SECTEUR DES HYDROCARBURES (1985) DOCS 9880/85 ENER 107 FIN 439
  9511/85 ENER 96 FIN 467

- PROCES-VERBAL DE LA 1019EME SESSION DU CONSEIL (ENVIRONNEMENT) DU 27 JUIN 1985 DOC. 7678/85 PV/CONS 37 ENV 138 + COR 1

- NOMINATION DE L'AGENT DU CONSEIL DANS L'AFFAIRE 303/75 (NIPPON SEIKO KK C/CONSEIL) DOC. 9747/85 JUR 159

HANNAY

FRAME FORECAST

ECD [1]

2331/31

Copy

PS/CHANCELLOR

From : A J C EDWARDS

Date : 29 October 1985

cc PS/Minister of State
Sir Peter Middleton
Sir Geoffrey Littler
Mr Lavelle
Mr Fitchew
Mr Scholar
Mr Mortimer
Mr Dyer

ECOFIN COUNCIL, 28 OCTOBER

The Minister of State has suggested that we should let No 10 have a short briefing note on yesterday's Council ahead of the Prime Minister's Questions this afternoon. I attach a note accordingly.

AJCE

A J C EDWARDS

2331/31

EC ECOFIN COUNCIL, 28 OCTOBER

Line to take

Unit Trust Directives

Useful progress was made. The Council agreed, subject to a waiting reserve by Denmark, the texts of two Regulations enabling unit trusts to market their units throughout the Community with effect from October 1989.

Fontainebleau Abatement/Commission's Amending Letter to 1986 Budget

The Commission's proposal to amend the provision for the UK's abatement in the main budget for 1986 was not accepted; but the Council accepted that the United Kingdom was entitled to receive an extra 264 mecu (some £155 million) of abatement as proposed by the Commission and committed itself to adjusting the figure during 1986 to take account of this and other corrections.

Commission proposal to incorporate EMS in Treaty

I am aware that the Commission have made proposals about this. I believe that several other member states as well as the United Kingdom will find them unacceptable. Finance Ministers will be discussing the proposals.

BACKGROUND

Unit Trust Directives

The Council's agreement, subject to Denmark's waiting reserve, to the texts of the two much-discussed Directives establishing Community-wide rules for marketing of unit trusts represented a considerable step forward. The effective date of October 1989 was slightly later than we would ideally have liked.

Fontainebleau Abatement/Commission's Amending Letter

Mainly because of French opposition, the Council did not accept the Commission's proposal to increase provision for our abatement in the main budget for 1986 by 264 mecu (some £155 million), from 1400 mecu to 1664 mecu, to take account of the extra 253 mecu of VAT which we contributed in August under the regular procedure for annual correction in VAT payments. The Council did however accept that the United Kingdom was entitled to this extra money and invited the Commission to submit an amending budget in September 1986 to take account of this and other budgetary developments. This was a satisfactory outcome, especially as we hope to receive a further 200 mecu or thereabouts on account of developments on the receipts side of the budget.

Commission proposal to incorporate EMS in Treaty

Delors produced over lunch proposals for amending the Treaty of Rome to enshrine the EMS and the exchange rate mechanism. The proposals would involve a substantial extension of Community powers, and will be unacceptable to several other member states as well as the UK. The Commission subsequently released their proposals to the Press. The ECOFIN Council will be discussing them on 18 November.