

PREM 19/2974

Confidential Filing

The Community Budget.
Developments in the European Community.

EUROPEAN

POLICY

Part 1: May 79.

Part 44: Dec 89

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
12.12.89							
12.12.89							
15.12.89							
21.12.89							
22.12.89							
24.12.89							
5.1.90							
4.1.90							
18.1.90							
24.1.90							
28.1.90							
31.1.90							
7.2.90							
14.2.90							
19.2.90							
26.2.90							
28.2.90							
Part ends							

PREM 19/2974

PART 44 ends:-

FEBUS to PVM 28.2.90

PART 45 begins:-

SS/ENV to SS/energy 2.3.90

Ref. A090/574

PRIME MINISTER

Cabinet: Community Affairs

1. The Secretary of State for Trade and Industry may report on the 22 February Internal Market Council. Mr Redwood represented the United Kingdom. Key points were:

- satisfactory political agreement on the directive to open up public purchasing in the excluded sectors (water, energy, transport and telecommunications). An accompanying compliance proposal and a new proposal to liberalise public procurement in the services sector are expected shortly;
- Sir Leon Brittan explained the Commission's plans for completing the Single Market for insurance: the Presidency concluded that there was general support for rapid progress;
- discussion of East Europe focussed on the implications for trans-European infrastructure networks. Mr Redwood restated the United Kingdom's opposition to major EC expenditure and to subsidies.

2. The Secretary of State for Trade and Industry may report on the 26 February Research Council. Mr Hogg represented the United Kingdom. Key points were:

- useful discussion with the European Parliament (under the conciliation procedure) on the 1990-94 R & D Framework programme. Final agreement should be reached within a few weeks;
- brief discussion of fusion, with agreement to await the results of the current evaluation of the Community Fusion



Programme before any further decisions are taken;

- general agreement that the Community had a role to play in encouraging scientific cooperation with East Europe, but that the Framework Programme budget should not be used for this.

3. Forthcoming meetings are:

- Foreign Affairs Council, 5/6 March
- Agriculture Council, 5/6 March.

R.R.B.

ROBIN BUTLER

28 February 1990



Foreign and Commonwealth Office

London SW1A 2AH

28 February 1990

Tancred Tarkowski Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

CCPC
PCU
C 28/2

Jean Tancred,

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY: JULY -
DECEMBER 1989

Mr Maude was grateful for the various comments made in response to my letter of 12 February enclosing the draft of the new-style White Paper. We have incorporated many of the suggestions, in consultation with Departments.

Mr Maude has carefully considered Mr Newton's helpful suggestion that the "snapshots" might instead be put at the beginning of the text, as an overview chapter. He will bear this idea in mind during the more radical subsequent review which I mentioned in my previous letter. For this edition, however, Mr Maude believes the essays should be located at relevant points in the draft, with the design layout providing the necessary differentiation from the main text.

The Lord President raised a query over the use of "partial adoption" and "common position" in the Single Market charts. The 7 common positions shown under the French Presidency are those which had been sent to the EP for second reading and were still awaiting final adoption on 31 December; thus final adoption should occur during the Irish Presidency. The absence from the chart of any common positions for earlier Presidencies is because these had been adopted into Community law subsequently. Mr Maude agrees that there is scope for confusion, and we have therefore inserted a footnote in the draft for clarification. Partial adoption is rather different: it refers to measures on which some provisions have



been agreed but others are still on the table awaiting political agreement. An example is the liberalisation of maritime services contained in the Commission White Paper: the bulk of this was adopted under our Presidency in 1986 but one important provision (shipping cabotage) remains outstanding.

I am copying this letter, as before, to Charles Powell and to the Private Secretaries of other members of the Cabinet.

Yours ever

Nicola Brewer

Nicola Brewer
Private Secretary to
Mr Francis Maude

Euro Pol: Budget. Prud.



2



10 DOWNING STREET

Rin Minister

Jack Peel's letter
piece on the
Solid Charter. It's
far from helpful.

CDP
26/2

I saw it earlier.
He is for a solid charter
not



The Common Cause Report
on
Europe and the Social Charter
(Special Report)

REPORT No. 2
FEBRUARY 1990

COMMON CAUSE
OBJECTIVES

1. Common Cause is a non-profit making organisation.
2. It has never had any party political affiliation.
3. Its principal objective is to uphold the existing democratic freedoms of Britain.
4. It opposes any form, however disguised, of totalitarianism, whether from the right or the left.
5. It opposes, in particular, the spread of Communism in all forms and the activities of all revolutionary and subversive parties, such as National Front, Marxists, Trotskyists and other forms of militant and extremist organisations.
6. It is concerned to expose the activities of Terrorists.
7. It undertakes to research and prepare reports on behalf of selected organisations who feel they have been unfairly represented by the Media and/or others.



THE
COMMON
CAUSE

report

FREEDOM, THE COMMON CAUSE OF MANKIND

Report No. 2

February 1990

EUROPE AND THE SOCIAL CHARTER (Special Report)

This is the fourth in the series of Special Reports on 1992. The author is Jack Peel, formerly Director of Industrial Relations at the European Commission and General Secretary of a major British Trade Union. The previous Special Reports were *Trade Unions and 1992*, December 1988, *1992 and the Social Dimension*, April 1989, and *1992 and Strikes - Thinking the Unthinkable*, August 1989.

Whether Nero did actually fiddle while Rome burned is a matter for conjecture. Given the present tumultuous events in Eastern Europe, however, the member states of the European Community, with equal irrelevance, seem to be fiddling with the unavoidable consequences of the Single Market, such as the European Social Charter, whilst Eastern Europe is aflame with the desire for freedom and democracy.

How it all began

To the patient Euro-watcher the long running controversy about the Social Charter has about it all the elements of a farce. It is not only a re-run of an old argument, but a political dog's breakfast.

It all began at the Paris Summit of 1972, where the national leaders noted that the high rates of economic growth during the previous decade had still left poorer regions in member states, leaving wide disparities in wealth per head.

The Heads of State accordingly agreed

that the Community should have a human face to counter the image of a faceless, uncaring economic machine in Brussels. They called for a 'Social Action Programme', which the Commission duly prepared, comprising some 40 proposals.

Although the measures in the Programme were mild compared to the present Social Charter, they were opposed with the same relentless vigour by employers and governments, mainly on the grounds of costs and bureaucratic interference.

The oil crises of that time, however, triggered inflation and fast rising unemployment and allowed a modest selection of the Programme's proposals through the tight political screening of the Council of Ministers. These included directives dealing with equal pay, collective dismissals, mergers and takeovers and bankruptcies, all of them specifying workers' rights in the various situations.

All these measures were eventually included in Britain's national legislation

and do not seem to have raised any special problems for employers or governments. The rag-bag of remaining measures in the *Social Action Programme* proved to be little more than palliatives in the recessionary atmosphere of the 1970's.

Ironically, it was during this period when member states turned away from the *Social Action Programme* and became inward looking, that the non-tariff barriers to trade were erected.

The European Commission estimates that the trade lost because of these barriers is of the order of £130bn a year. The supreme irony is that the 279 measures now required to free the flow of trade by removing these national restrictions, has revived the idea of a Social Charter.

Predictably, some governments and employers' organisations are hostile towards it on the familiar grounds of cost and bureaucratic interference.

So much for the background. The differences between the *Social Action Programme* of the 1970's and the Social Charter of today are obvious.

The Programme was designed purely as a defence of workers' interests in a period of deep recession. The Charter, on the other hand, aims to set basic social standards as we move towards a Single Market of 320m citizens and vastly enlarged trading opportunities.

Balance of costs

The Social Charter's other aim is to ensure economic expansion takes place without industrial discord. Social improvements have invariably been opposed by business people on the grounds of costs. Clearly, a balance must be drawn between new social provisions and the extra industrial costs they might generate.

But this should not be an excuse for opposing all new measures. Indeed, without some guidelines in this area, the risk of industrial disputes will be high – and if they occur, so will be the costs.

Do-nothing platform for militants

Trade unions were spawned during the last century by the excesses of

developing capitalism, giving them a defensive role they are only now beginning to shed. To ignore the need for basic industrial rights gives employers an excuse to do nothing and offers a platform to the militants in the unions to foment trouble.

In short there is no need to say 'yes' or 'no' to the whole Charter. There is a middle position, which has been taken by 11 of the 12 member states. It is legitimate to ask what Britain's negotiators have been up to? It is obvious that 1992 will succeed only if both sides of industry are involved in it.

Social consensus equals sustained growth

A social consensus is an essential factor in maintaining sustained economic growth. The development of Britain's economy, from the early days of the Industrial Revolution, brought demands for universal patterns of training, education, health and social welfare and the provision of insurance.

Britain now has the chance with other countries to develop that social provision, Europe-wide, alongside the development of the single market. In this sense the Charter is a 'social safety valve', helping to prevent industrial explosions.

Why not agree in principle?

The *Single European Act* specifically states a commitment to social progress, where necessary by legislation. All member states agreed to promote improved working conditions and higher standards of living for working people as an integral part of the progress towards 1992. It was a mistake for the British Government to oppose the 'Declaration of Principle' on the Social Charter at Strasbourg last December. Britain was the only member state to do so.

Other countries like Ireland, Denmark and Portugal had reservations about the Charter, but agreed in principle that there should be one, knowing they could oppose the items they disliked when the Action Programme, designed to implement the Charter, came up for discussion.

That, it seems sensible, should have

been the UK position – agreement in principle, but watchful and prepared to debate about proposals in the Action Programme felt to be detrimental to Britain's industrial interests.

Differences breed difficulties

Now to the difficulties. They are real and obvious in the differing social and industrial relations systems in member states. The variations are bewildering.

For example, of the 12 member states 7 have minimum wage provisions and they are all different. Germany, Denmark, Holland and Luxembourg have laws permitting workers to serve on Boards of companies.

The ratio of part-time workers to the total workforce in each country varies from 8% in Belgium to 20% in Denmark and the UK. The degree of unionisation ranges from 75% in countries like Denmark and Belgium, to 15% in France.

Social security funding is different too, continental employers paying proportionately much more than in the UK. All medical bills are normally paid by the patients, who later claim re-imbursment from the Government.

This tends to deter frivolous use of the system. Whereas the UK spends around £30b a year on our Health Service, the French spend the sterling equivalent of £90b – and have a surplus of doctors, nurses and hospital beds.

All the industrial relations systems are different, of course, 'closed shops' and secondary picketing being virtually unknown on the continent, where collective agreements are also legally binding, hence the low ratio of unofficial strikes, which still plague the UK.

Minimum basic standards

Given this kaleidoscope of variations, it seems at first sight to be the right approach to aim for a set of minimum proposals – merely setting basic standards and seeking a commitment in principle, rather than binding Euro-legislation.

Even this method leaves anxieties, as some topics, like worker participation,

cross frontier bargaining, parental leave for family reasons and the concepts of a maximum working week and a limit on overtime, are highly controversial.

But this must be the right approach. You build from the foundation upwards, however slow the process. The convoy travels at the speed of the slowest ship.

Nationalism plagues TUs

Incidentally, the unions themselves have done little in the way of co-ordinating workers' rights internationally, partly for the reasons just given, but mainly because they have been unable, or unwilling to devise international organisations with real clout.

The ETUC at Euro level and the ICFTU at world level are worthy organisations, but confined by their affiliates to rather tame advisory roles. Unfortunately nationalism is an affliction affecting trade unions as well as employers and politicians.

Varying standards, social dumping

The voluntary approach to workers' rights within member states has its place, but does not fit the single market situation. It allows some employers to avoid their responsibilities and do nothing.

Moreover, multi-national companies with business interests in several member states, are faced with widely varying standards in the social and industrial relations field. Some apply the best standards all round – but others indulge in 'social dumping' by moving their resources and business to member states where labour and social costs are lowest.

Takeovers in Britain

According to a recent report by Coopers and Lybrand, the accountancy firm, 75% of takeovers in the European Community occur in Britain. Indeed, a dozen or more large British companies have been taken over since 1988.

These include well known names like Rowntree, Jaguar, Pearl Group, Inter-Continental Hotels, Morgan Grenfell and DRG. They have been acquired by an assortment of Swiss, American, German,

French, Japanese and Australian firms.

The implications for social standards are obvious. Without basic Euro guidelines anything could happen.

1992 Euro-migrants

A study by the International Labour Organisation in Geneva, argues that 1992 will not set off mass migrations in or to Europe like those of the 1960's or 70's. But the study contends there will be substantial movement between member states, with the highly qualified migrants outnumbering the unskilled - and short stays in the host nation being more popular than permanent settlement.

There could, however, be a significant rise in immigration from the countries of Eastern Europe.

At present there are about 13 million migrants in the 12 member states: of those, some 5 million are Community citizens living in a country other than their own and 8 million come from outside the Community. Germany and France have the highest foreign populations.

Factors limiting mobility

But the nagging problems remain. How do Community countries encourage mobility of labour, for instance, if there are no basic standards set in the fields of pensions, minimum wages, dismissal procedures and the whole range of fringe benefits?

These difficulties, added to the perennial problems of languages, will clearly limit mobility and work against the single market concept. From the functional point of view, this is the heart of the matter.

And yet it was Jean Monnet who said, 'the building of Europe will take a long time. Nothing would be more dangerous than to regard difficulties as failures'.

Labour's caring Euro-image

On strategy, the British Government seems also unaware or unconcerned about the challenge posed by Labour's changed approach to European issues. The change

may well be cosmetic, but by embracing the Social Charter, Labour can argue it has a more caring image than the Conservative Euro-sceptics.

It would be wrong to dismiss this as froth on the political tide, for two reasons. First, Labour is prepared to agree to the current Government legislation to abolish the closed shop, to enable it to fully endorse the Social Charter, which gives workers the right not to join a union.

To risk incurring union wrath on this hitherto sacrosanct principle, shows how determined Labour is to use the European issue as a stepping stone to power.

The Government argues that the Charter is a Euro-backdoor through which socialism may be thrust upon this country by unions who have failed to win improvements in their own country. The danger is remote, as the more extreme measures in the Charter can be opposed and defeated when the action programme proposals are presented.

The second point is that Labour's policy on Europe seems to reflect the views of the British people. In recent opinion polls, 65 per cent have expressed support for the Charter, only 15 per cent registering opposition.

It would be a tragedy for the Government if its attitude to European Community issues brought about its downfall at the next election, when the whole map of Europe is waiting to be re-shaped and its nations are poised for world dominance.

Charter concessions to UK

Against this background to the European Social Charter, its obvious difficulties and its strategic implications, how should the Government react most advantageously to the ongoing discussions on the Charter? It would be most effective if it stopped opposing it *per se* and was more selective in its criticisms.

With a view to winning UK support the Charter's original 80 articles have been reduced to 30 and the language is suitably vague. It talks about 'adequate'

social security, 'equitable' wages and improved living and working conditions.

Despite this, the UK opposed the Charter at the last Summit Meeting on the grounds that the concept of the Charter went beyond Community competence, though all the other member states thought otherwise.

Sorting out the nuts and bolts

The real battle, for which we should have saved our fire power, will be on the action programme being proposed by the European Commission. This will involve member States eventually introducing legislation to implement those Charter items which are agreed.

There would seem to be no insuperable difficulties in agreeing to the proposals on health and safety, training, the freedom of movement of workers in the Community and the mutual acceptance of diplomas and qualification. On other topics, such as worker participation in decision taking and maximum working hours, we can argue for a flexible interpretation.

British workers want to be informed and consulted about matters at work, but like the unions, they have never been enthusiastic about board membership. Nor would they be happy about limiting working hours. Overtime is endemic in British manufacturing industry.

In short, the new Europe cannot be built without the full support of the workers, employers and the general public. Unless there is some co-ordination of the jungle of social provisions and industrial relations systems in member states, then 1992 will see distortions of competition leading to social dumping and industrial unrest.

Flexibility and change

A sensible balance is needed between Euro legislation on a range of basic issues

and non-binding measures on the more controversial items, with a proviso that member states work towards co-ordination and review progress periodically. It is unnecessary to crucify ourselves on the Social Charter. It is important, but in the sweep of history, a mere 'nuts and bolts' issue.

The point is clear: the Social Charter's watchword should be flexibility and not overkill. In perspective, it is but a tiny piece of a vast European jigsaw which is being expanded and reshuffled at the same time.

The wider Europe

It was Charles De Gaulle who said 'Europe, the mother of modern civilisation, must establish herself all the way from the Atlantic to the Urals and live in a state of harmony and cooperation, with a view to developing her immense resources and so play, together with her daughter America, her worthy role in relation to the billion people who so badly need her help'.

Foreign ministers of the European Community, the European Free Trade Association and Liechtenstein, met recently to plan a 19 nation pan-European association, joined eventually by the reforming countries of Eastern Europe. Austria has already applied for EC membership and Norway, Sweden and Turkey are among others who are interested.

The Soviet Union also wishes Comecon, or what is left of it, to have closer links with the EC. Suddenly Europe is centre stage in a world of exciting political change. There has been no equivalent period in history since the French Revolution in 1789.

If politicians can't devise a compromise on issues like the Social Charter, they have little chance of controlling the thrilling and momentous changes now sweeping across the Continent.

COMMON CAUSE PUBLICATIONS LTD.
329a Fleet Road, Fleet, Hants. GU13 8BU

CCPA



THE DEPARTMENT OF TRANSPORT



FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

Ms Nicola Brewer
Private Secretary to
The Hon Francis Maude MP
Minister of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

My Ref:

Your Ref:

26 FEB 1990

CD
27/2

Dear Nicola,

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY:
JULY-DECEMBER 1989

Thank you for sending me a copy of your letter of 12 February:
we have read the accompanying drafts with interest.

I have just a small point on the "snapshot" on "The Single
Market Arrives". In the paragraph on transport the bracketed
explanation in the reference to road haulage cabotage is
inaccurate; a more accurate expression would be "offering
the prospect of some reduction in empty running".

I am sending copies of this letter to Charles Powell and
Private Secretaries of other members of the Cabinet.

Yours sincerely
Simon Whiteley

S C WHITELEY
Private Secretary

Euro 101: Budget
A4



111
1A

RESTRICTED
FM UKREP BRUSSELS (CORRECTED VERSION)
TO IMMEDIATE FCO
TELNO 535
OF 221925Z FEBRUARY 90
INFO ROUTINE UKDEL OECD, CSCE POSTS, CANBERRA, NEW DELHI, TOKYO
FRAME EXTERNAL

COREPER (AMBASSADORS), 22 FEBRUARY:

Not good

EUROPEAN ARCHITECTURE

SUMMARY

1. INFORMAL DISCUSSION, TO BE FOLLOWED BY FURTHER DEBATE IN RUN-UP TO APRIL FAC AND EC SUMMIT. MAIN THEMES: ACCELERATION OF INTERNAL COMMUNITY DEVELOPMENT, ESPECIALLY SINGLE MARKET AND EMU: BUILDING ON RELATIONS WITH EASTERAN EUROPEANS AND EFTAN'S: EARLY REVIEW OF IMPLICATIONS FOR COMMUNITY OF GERMAN UNIFICATION: POTENTIAL DEVELOPMENT OF CSCE PROCESS.

DETAIL

2. IN RESTRICTED SESSION CAMPBELL (PRESIDENCY) CALLED FOR A PRELIMINARY AND INFORMAL EXCHANGE OF VIEWS ON EUROPEAN ARCHITECTURE. THE POLITICAL DIRECTORS WOULD BE DISCUSSING THE SUBJECT ON 20 MARCH, AND HE ENVISAGED ANOTHER COREPER EXCHANGE BEFORE THEN, ON THE BASIS OF A SHORT PAPER FROM THE PRESIDENCY. IN A SHORT PROCEDURAL DISCUSSION NIEMAN (NETHERLANDS) AND LYBEROPOULOS (GREECE) THOUGHT IT MIGHT BE DIFFICULT TO STRUCTURE THE ON-GOING DEBATE ON THE RIGHT LINES, BUT THERE WAS GENERAL AGREEMENT (INCLUDING THE COMMISSION) THAT AN INITIAL EXCHANGE WAS APPROPRIATE AND TIMELY.

3. I APPLAUDED THIS INITIATIVE BY THE PRESIDENCY. AT THIS NEW STAGE IN EUROPEAN DEVELOPMENTS, BRICK-LAYERS WERE NEEDED AS MUCH AS ARCHITECTS. COREPER COULD PLAY A SPECIAL PART IN THE FORMER ROLE. WE ALSO HAD TO RECOGNISE THAT SOME OVERLAP WAS INEVITABLE BETWEEN THE RESPECTIVE EXCHANGES IN THE POLITICAL COMMITTEE AND IN COREPER, WITH BOTH TOUCHING ON AREAS OF THE OTHER'S RESPONSIBILITY, AS FORESEEN UNDER ARTICLE 30 OF THE SEA. IN THE TOUR DE TABLE THAT FOLLOWED, SOME SPEAKERS (ESPECIALLY VIDAL-FRANCE) EMPHASISED THAT THEY WERE PRESENTING PERSONAL VIEWS, BUT OTHERS MADE IT CLEAR THEY REFLECTED VIEWS IN THEIR OWN CAPITALS.

4. ADDRESSING THE VARIOUS ELEMENTS EARLIER IDENTIFIED BY THE

PRESIDENCY, I MADE THE FOLLOWING POINTS. IN THE INTERNAL DEVELOPMENT OF THE COMMUNITY, THE COMPLETION OF THE SINGLE MARKET WAS A KEY PRIORITY, AND HAD BECOME MORE IMPORTANT IN THE LIGHT OF EVENTS IN EASTERN EUROPE. THIS WOULD PROVIDE BOTH THE RESOURCES TO HELP SUCH COUNTRIES AND AN ENLARGED MARKET FOR THEIR EXPORTS. A CLEAR TIMETABLE HAD BEEN SET OUT FOR EMU. AS YOU HAD SAID IN BONN ON 6 FEBRUARY, WE SHOULD NOW INTENSIFY THE DISCUSSION ON THE BEST ROUTE TOWARDS ECONOMIC AND MONETARY UNION, A DISCUSSION IN WHICH THE UK WOULD PARTICIPATE FULLY. IT WOULD BE EASIER TO HANDLE THIS WHEN THE MONETARY COMMITTEE, THE COMMISSION (WITH BOTH THEIR PROMISED PAPERS) AND FINANCE MINISTERS HAD PROVIDED THEIR OWN IDEAS. THE UK WOULD CONTINUE TO ADVOCATE AN EVOLUTIONARY APPROACH.

5. ON THE EXTERNAL SIDE, WE SHOULD CONTINUE (PERHAPS FOR SOME YEARS AHEAD) THE G24 EXERCISE FOR THE EAST EUROPEANS. THIS MUST REMAIN A MULTI-LATERAL EFFORT, SINCE THE COMMUNITY ALONE COULD NOT COPE WITH ALL THE DEMANDS. BUT THE LATTER WOULD REMAIN THE MAIN DRIVING-FORCE. WE SHOULD PROCEED WITH NEW AGREEMENTS AND POSSIBLE ASSOCIATION LINKS, AND WE LOOKED FORWARD TO THE COMMISSION PAPER ON THESE. OUR AIM SHOULD BE TO CREATE A NEW FRAMEWORK IN WHICH EACH EAST EUROPEAN COUNTRY COULD ASSUME A MORE AMBITIOUS RELATIONSHIP WITH THE COMMUNITY AS IT CONTINUED ITS REFORM PROCESS. AS FOR APPLICATIONS FOR EC MEMBERSHIP, OUR RESPONSE TO THESE SHOULD BE NEUTRAL. WE SHOULD NOT DEMAND THAT AS A CONDITION OF FUTURE RELATIONS THEY WOULD NOT BE ELIGIBLE TO JOIN THE EC, NOR SHOULD WE OFFER THEM THE PROSPECT OF ACCESSION. THE UK SUBSCRIBED TO THE 1993 MORATORIUM, ALTHOUGH THE GDR REMAINED A SPECIAL CASE SINCE IT WOULD NOT BE INTEGRATED INTO THE COMMUNITY AS A THIRTEENTH MEMBER STATE.

6. I WELCOMED THE DISCUSSION THIS WEEK IN DUBLIN ON GERMAN REUNIFICATION, AND LOOKED FORWARD TO THE COMMISSION PAPER WHICH WOULD HIGHLIGHT THE SPECIFIC PROBLEMS IN INTEGRATION IF THE EAST GERMANS VOTED FOR UNIFICATION. WE BELIEVED THAT THE COMMISSION PAPER SHOULD BE PROVIDED IN TIME FOR FOREIGN MINISTERS TO DISCUSS THE ISSUES AT THE 2 APRIL FAC, FOLLOWED BY FURTHER DEBATE AT THE LATE-APRIL EC SUMMIT. THE DELORS APPROACH TO RELATIONS WITH EFTA HAD TAKEN ON ADDED VALIDITY, AND FITTED WELL WITH OTHER RELATIONSHIPS. WE WANTED TO SEE PROGRESS MADE SO THAT THE BACK OF THE NEGOTIATIONS COULD BE BROKEN BY THE END OF THIS YEAR EVEN IF THEY WERE NOT COMPLETED BY THEN.

7. I CONCLUDED THAT WE SAW THESE DEVELOPMENTS FITTING INTO A WIDER PICTURE, IN WHICH THE ATLANTIC ALLIANCE, ADAPTED AS NECESSARY, WOULD REMAIN CRUCIAL TO THE COUNTRIES OF WESTERN EUROPE. CSCE ALSO

HAD A KEY ROLE TO PLAY, WITH THE SUMMIT LATER THIS YEAR NOT AS THE FINISHING-POINT BUT AS A STAGING-POST TO HELSINKI II. THERE WAS ROOM TO EXPAND ACTIVITIES IN ALL THREE BASKETS, PARTICULARLY I AND III. THE COUNCIL OF EUROPE ALSO SHOULD PROVIDE A BASIS FOR FUTURE EC ACTION, AS THE REPOSITORY FOR THE FIRMEST SET OF OBLIGATIONS ON HUMAN RIGHTS.

8. COMMENT: IN ADDITION TO THE POINTS IN YOUR TELNO 58, I ADDED A REFERENCE ON THE LINES OF YOUR BONN SPEECH TO THE IMPORTANCE OF WORK ON EMU, AS AGREED WITH THE DEPARTMENT. NOT TO MENTION EMU, WHICH OUR PARTNERS SEE AS THE CENTRE-PIECE OF CURRENT EFFORTS TO DEEPEN THE COMMUNITY, IN A STATEMENT OF OUR VIEWS ON THE WAY FORWARD, WOULD HAVE GIVEN THE FALSE IMPRESSION THAT WE ARE NOT FULLY COMMITTED PARTICIPANTS IN DISCUSSION OF THIS SUBJECT. THIS IN TURN WOULD TEND TO UNDERMINE THE WEIGHT OTHERS ATTACH TO OUR VIEWS.

9. SUBSEQUENT SPEAKERS TOUCHED ON MANY OF THE SAME POINTS:

- (I) THE NEED TO ENSURE THE COMPLETION OF THE SINGLE MARKET BY 1992 (BELGIUM, NETHERLANDS, ITALY, LUXEMBOURG, FRG, FRANCE)
- (II) EARLY PROGRESS TOWARDS EMU (ITALY, LUXEMBOURG, FRG, FRANCE)
- (III) DEEPENING OF RELATIONS WITH EASTERN EUROPE (NETHERLANDS, DENMARK), AND USEFUL ROLE FOR COUNCIL OF EUROPE
- (IV) INEVITABILITY OF GERMAN UNIFICATION (BELGIUM, NETHERLANDS, ITALY)
- (V) THE NEED TO STRENGTHEN LINKS WITH EFTA (LUXEMBOURG, NETHERLANDS, ITALY - BOTH THE LATTER CALLING FOR THE EC TO AVOID AN OVER-LEGALISTIC APPROACH)
- (VI) NO NEW ACCESSIONS TO THE EC BEFORE AT LEAST 1993 (NETHERLANDS, FRANCE) THOUGH DENMARK ARGUED THIS WAS NOW AN OUT-OF-DATE CONCEPT AND
- (VII) COHERENCE BETWEEN EC AND EPC ACTIVITIES (BELGIUM, DENMARK, FRG).

10. SOME SPEAKERS ADDRESSED THE FOLLOWING CONCEPTS:

- (I) THE NEED TO PRESERVE THE PRESENT DYNAMISM IN THE DEVELOPMENT OF THE COMMUNITY (BELGIUM, NETHERLANDS, GREECE), WHILE PURSUING A

PRAGMATIC APPROACH (LUXEMBOURG, FRANCE)

(II) THE IMPORTANCE OF NORTH/SOUTH RELATIONS AND THE COMMUNITY'S SOUTHERN RIM (NETHERLANDS, SPAIN, FRANCE)

(III) THE NEED TO PRESS ON WITH INSTITUTIONAL REFORMS (ADVANCE TOWARDS POLITICAL UNION: IMPROVEMENTS IN COUNCIL PROCEDURES: ENHANCEMENT OF COMMISSION RESPONSIBILITIES: AND MORE POWER FOR THE EP). TO VARYING DEGREES THIS HAD THE SUPPORT OF BELGIUM, SPAIN, NETHERLANDS, ITALY, DENMARK, FRANCE, AND FRG (WHO WAS PREPARED TO GO EVEN FURTHER).

(IV) THE ARGUMENT FOR ADVANCING THE DATE OF THE IGC (NETHERLANDS, DENMARK, GREECE), AND

(V) THE NEED NOT TO IGNORE THE COMMUNITIES ROLE IN PROVIDING DEVELOPMENT ASSISTANCE (NETHERLANDS).

11. IN ADDITION, DI ROBERTO (ITALY) SPOKE OF THE IMPORTANCE OF GIVING THE EFTA'S THE CHANCE TO PARTICIPATE IN EC DECISION-MAKING WHILE NOT ALLOWING THEM TO BECOME "CO-DECISION-MAKERS" AS SUCH. HE NOTED THAT IN ROME SOME THOUGHT WAS BEING GIVEN TO RAISING THE SIGHTS FOR THE CSCE SUMMIT THIS YEAR, WITH A VIEW TO ESTABLISHING AN OVERALL SYSTEM OF RELATIONS WHICH WOULD ALLOW NATO AND THE WARSAW PACT TO PLAY A MORE POLITICAL ROLE AND TO ENJOY A NEW RAPPROCHEMENT. THE CSCE PROCESS COULD BE USED TO STRENGTHEN DEMOCRACY IN ALL THE EUROPEAN COUNTRIES, AND IT COULD EVENTUALLY BECOME THE INSTRUMENT OF AN ECONOMIC ORDER WITH CONTINENTAL DIMENSIONS. THIS WOULD IMPLY THAT THE PROCESS BECAME MORE INSTITUTIONALISED, ALLOWING REGULAR POLITICAL CONSULTATIONS, AND INVOLVING PERMANENT COORDINATION STRUCTURES INCLUDING A PARLIAMENTARY LEVEL. TO ACHIEVE ALL THIS THE HELSINKI SUMMIT IN 1992 SHOULD BE USED TO LAUNCH NEGOTIATIONS A' 35.

12. TRUMPF (FRG) DESCRIBED HIS POSITION AS CLOSEST TO THAT OF ITALY. HOWEVER, HE DID NOT SEE THE NEED FOR SUCH URGENCY ON EMU AND BELIEVED THE PRESENT TIME-TABLE SHOULD BE OBSERVED. HE EXPECTED THAT EVENTUALLY THE EFTA'N AND EAST EUROPEAN COUNTRIES WOULD REACH A POINT WHERE IT BECAME APPARENT THAT THEY COULD NOT ACHIEVE THEIR AIMS WHILE REMAINING OUTSIDE THE COMMUNITY. BUT IF THEY WISHED TO ACCEDE THEY WOULD HAVE TO FULFIL CERTAIN CONDITIONS INCLUDING THE ACCEPTANCE OF THE ENTIRE ACQUIS. TRUMPF WISHED TO UNDERLINE MORE THAN OTHERS HAD DONE THE NEED TO STRENGTHEN THE ANCHOR ROLE OF THE COMMUNITY IN EUROPE. IN A SITUATION WHERE EASTERN EUROPE WAS BECOMING LESS STABLE, THE COMMUNITY NEEDED TO MOVE TOWARDS POLITICAL

UNION. THE INSTITUTIONALISATION OF THE CSCE PROCESS RAN THE RISK THAT THIS MIGHT BECOME A SUBSTITUTE FOR THE COMMUNITY, UNLESS THE LATTER PURSUED FURTHER INTERNAL DEVELOPMENT, INCLUDING THE COMPLETION OF THE SINGLE MARKET AND EMU, THE STRENGTHENING OF INSTITUTIONAL STRUCTURES, AND PERHAPS STEPS EVEN BEYOND THAT.

13. LYBEROPOULOS (GREECE) SAID THE SECURITY OF EUROPE WAS NOT THE RESPONSIBILITY OF THE COMMUNITY, BUT THERE WOULD BE ADVANTAGES IF THE OVERALL COMMUNITY APPROACH TO THE ISSUE WERE WHOLLY COHERENT.

14. VIDAL (FRANCE), AFTER AGREEING ON THE NEED TO STRENGTHEN THE COMMUNITY AND TO ACCELERATE INTERNAL DEVELOPMENT, SAID THAT THOUGHT SHOULD BE GIVEN TO A QUANTITATIVE LEAP IN INSTITUTIONAL TERMS, WHICH WOULD CHANGE THE FRAME OF REFERENCE FOR EXAMINING FUTURE BIDS FOR MEMBERSHIP. ONCE IT BECAME AN ISSUE NOT OF ACCEDING TO A COMMON ECONOMIC MARKET BUT OF TAKING ON WIDER AND MORE BINDING POLITICAL OBLIGATIONS, THE PROSPECT OF FUTURE ACCESSIONS SHOULD BECOME CLEARER. AS FOR RELATIONS WITH THE NEIGHBOURS, HE FAVOURED THE THEORY OF VARIOUS CIRCLES (SUPPORTED BY DI ROBERTO AND TRUMPF). THE COMMUNITY NEEDED TO BE IMAGINATIVE AND REALISTIC AT THE SAME TIME. THESE CIRCLES HAD TO CORRESPOND TO DIFFERENT REGIONAL AND NATIONAL AMBITIONS AND REQUIREMENTS. THE COMMUNITY WOULD NOT NECESSARILY BE ALWAYS AT THE CENTRE OF ALL THESE CIRCLES (AS EXPERIENCE WITH EUREKA AND THE EBRD DEMONSTRATED). NOR COULD PRECONCEIVED IDEAS BE IMPOSED ON OTHERS. THE KEY LAY IN EXPANDING THE DIALOGUE ON EUROPEAN ARCHITECTURE, IN EXPLAINING THE COMMUNITY'S OWN PLANS, IN AVOIDING PREMATURE ACCESSIONS, AND IN PURSUING ALWAYS THE PRAGMATIC APPROACH. VIDAL CONCLUDED THAT HE EXPECTED THIS PROCESS EVENTUALLY TO LEAD TO A FEDERAL STRUCTURE FOR THE EC, BUT NOT ON THE BASIS OF A PRE-ESTABLISHED BLUE-PRINT WITH PRECONCEIVED AND RIGID STAGES.

15. IN RESPONDING TO THESE COMMENTS, WILLIAMSON (COMMISSION) SAID IT WAS VITAL TO HAVE A BROAD VIEW OF WHERE THE COMMUNITY WAS GOING, AND THE NECESSARY DATA ON WHICH TO CHART THAT FUTURE COURSE. THE COMMISSION WOULD PUT A PAPER TO THE EC SUMMIT IN APRIL ON THE IMPLICATIONS OF GERMAN REUNIFICATION, WHICH NOW SEEMED LIKELY TO FOLLOW THE MARCH ELECTIONS. THIS WOULD BRING TOGETHER ALL THE AVAILABLE INFORMATION AND ASSESS THE POTENTIAL IMPLICATIONS FOR THE COMMUNITY. IN ADDITION, THE COMMISSION WAS ACTIVE IN ASSEMBLING INFORMATION ON EASTERN EUROPE, IN ITS ROLE AS COORDINATOR OF THE G24 AND DIRECT LINK TO THESE COUNTRIES. THIS MATERIAL WOULD ALSO BE MADE AVAILABLE TO THE SUMMIT. HE NOTED THE APPROVAL FOR THE EARLIER COMMISSION APPROACH TO EUROPEAN ARCHITECTURE, MOVING TOWARDS CLOSER LINKS AN ASSOCIATION WITH OTHER COUNTRIES IN EUROPE UNDER CERTAIN

CONDITIONS. A MORE STRUCTURED RELATIONSHIP WITH EFTA WAS A CLEAR AIM, AND THE COMMISSION WOULD SHORTLY PROPOSE A NEGOTIATING MANDATE. PREPARATIONS FOR THE RANGE OF CSCE MEETINGS WERE NOW IN TRAIN. MEANWHILE, THE COMMUNITY MUST NOT HESITATE TO PURSUE ITS OWN INTERNAL OBJECTIVES, ESPECIALLY ON THE SINGLE MARKET AND EMU.

16. CAMPBELL DID NOT TRY TO SUMMERISE THE EXCHANGE, WHICH HE DESCRIBED AS A USEFUL PRELIMINARY TO FURTHER DEBATE. A MIX OF BRICK-LAYERS AND ARCHITECTS WAS CERTAINLY NEEDED. SOME BRICKS HAD ALREADY BEEN LAID AND THESE SHOULD NOW BE SUPPLEMENTED AS THE COMMUNITY CONTINUED TO SHAPE ITS RELATIONSHIP WITH OTHERS IN EUROPE, A PROCESS WHICH CARRIED ITS OWN IMPLICATIONS FOR INTERNAL DEVELOPMENT.

HANNAY

YYYY

DISTRIBUTION

233

MAIN 232

.FRAME EXTERNAL
ECD (E)
EED

JUA/EED
MR TAIT

ADDITIONAL 1

FRAME

NNNN



Ref. A090/487

PRIME MINISTER

Cabinet: Community Affairs

There have been no EC Council meetings over the last week. The Irish Presidency have announced the convening of a special meeting of the European Council, probably on 28 April, to discuss German unification.

2. Forthcoming meetings are:

- Internal Market Council, 22 February
- Research Council, 26 February

mt

R.R.B.

ROBIN BUTLER

21 February 1990



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

21 February 1990

Dear Nicola,

DRAFT WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY

Thank you for your letter of 12 February. I am sorry that these comments are late.

The Lord President warmly welcomes the introduction of "snapshots" and supports in general the move to make this document more accessible and readable.

On the detail of the paper, he wonders whether there is a factual error in tables A, B and C. They all draw a distinction between the agreement of a "common position" in the Council of Ministers and "partial adoption". This distinction is further confused by the fact that in table B "common positions", rather than "partial adoption", seem only to have occurred during the French Presidency. Since common positions have not only emerged in the French Presidency, "Partial adoption" must surely mean a common position in all previous Presidencies. He wonders if the FCO or DTI should look again at the distinction drawn between these two.

He also notes that in the annex dealing with major ministerial speeches on Community topics the only reference is to his speech to the Radical Society on 19 July (which should incidentally refer to the event being in London). He also made three substantial speeches on Community topics as Lord President of the Council during the period in question and you may also wish to include these in the annex. These are :

- Second Anglo-Spanish 'Tertulias', Bath, 28 October 1989
- European Democratic Group, London, 13 November 1989
- Institute of Directors Annual Dinner, London, 23 November 1989

I am copying this letter to Charles Powell and to the Private Secretaries to other Members of the Cabinet.

*Yours sincerely,
Gillian Baxendine*

GILLIAN BAXENDINE
Private Secretary

Ms Nicola Brewer
Private Secretary to the
Hon Francis Maude MP



EURO A02

Budget

Pt 44

0011
002



QUEEN ANNE'S GATE LONDON SW1H 9AT

21 February 1990

*copy
P.V.*
Always review of colleagues
COP

21/2.

Douglas

EUROPEAN COMMUNITY IMMIGRATION ISSUES

at flat 43

I wrote to you and other OD(E) colleagues on 24 November, prior to the meeting of EC Ministers concerned with immigration under the French Presidency and to the Strasbourg Council, to set out the prospects for those meetings as I saw them. I shall no doubt be writing similarly during the approach to the Ministerial meetings in Dublin, but I think it may also be helpful if I now mention how some of the issues are beginning to shape up under the Irish Presidency.

The most pressing matter concerns visa requirements for the GDR and other Eastern European countries. The question of the treatment of GDR nationals within other member states of the Community was the decisive factor in the breakdown of the new Schengen agreement in December, and at the meeting of EC Immigration Ministers the FRG Minister also canvassed the possibility of member states lifting their visa requirements in respect of Hungary. Italy has decided to do so, Denmark has indicated its readiness to lift visa requirements for holders of Hungarian diplomatic and service passports, and the FRG announced in Paris that it intended to do at least that much in any event. At the meeting of the Ad Hoc Working Group on Immigration in January, the FRG representative made a strong plea for the removal by all member states of their visa requirements at least for the GDR and Hungary. This plea was repeated with equal passion by the FRG Co-ordinator at the meeting of EC Frontiers Co-ordinators on 9 February. And separately, as you know, the GDR has itself now formally requested a visa abolition agreement.

At the Co-ordinators' meeting, the Secretary-General of the Council pointed out that the existing agreements within the Community on visas for Eastern Europe were breaking down under the pressure of developments, and proposed that a general review should be conducted of visa requirements for the GDR and the other Eastern European countries with a view to a discussion in the Foreign Affairs Council in April or May and to reaching a new common position. This proposal was accepted by the Co-ordinators' Group and the Presidency will be putting the arrangements in hand.

I suggest that we shall need to discuss this whole matter in good time to enable us to settle our line before discussion in the Foreign Affairs Committee, though I understand that OD(E)'s first look at the question is likely to be focused on the German reunification aspects. I am therefore

The Rt Hon Douglas Hurd, CBE., MP.
Secretary of State for Foreign & Commonwealth Affairs
WHITEHALL, S.W.1.

/over....

arranging to gather up-to-date assessments of the security and immigration threats from Eastern Europe and I will put these to you and other colleagues as soon as I can. Subject to these further assessments, however, my own view is that it would be premature to lift any of our existing visa requirements at this moment.

If we adhere to the position I have suggested, we will clearly be at odds with the FRG and out of step with a number of other member states. The French, however, seem unlikely to agree to any fundamental revision to the common list of visa countries, to which they attach the highest importance in the 1992 context, and there seems little prospect of our being isolated. It seems unlikely, in fact, that the Community will succeed in adopting a new common position. The question clearly makes something of a mockery of the proposals to strengthen the external frontiers of the Community, and from the point of view of our position on the abolition of internal frontier controls it would certainly be no disaster if the existing common list agreements began to look less reliable. We would indeed have every right to argue that the new situation in Eastern Europe creates such uncertainties that further work on the abolition of internal frontier controls should be suspended until the position in the East becomes much clearer.

Pending our discussion, and subject to any immediate responses to this letter, I am instructing my officials to maintain the position on any immediate relaxation of visa requirements which I have indicated in this letter.

On other issues, the picture at Strasbourg and Paris was largely as we expected, with no undue excitements and with the issue of the abolition of "internal" frontiers still sotto voce for the time being. The Strasbourg Council did, however, issue various remits, including some which we would not ourselves have pressed for. Heads of Government decided upon an inventory of members states' positions on immigration, which the Foreign Affairs Council subsequently entrusted to the Commission. The latest position on this is that the Commission will ask the Ad Hoc Working Group on Immigration to carry out the inventory so far as immigration policies as such are concerned - which we would favour - but will themselves carry out a further study of the social integration of immigrants. The Commission were also asked to study the adequacy of measures to strengthen the "external" frontier of the Community. We understand that they propose to concert this with the examination by the Ad Hoc Working Group on Immigration of the draft Convention on the Crossing of the External Frontiers of Member States. Again, this is probably the most acceptable way of dealing with the remit, although it remains to be seen how far the Commission will confine themselves to questions of Community funding and how far they will seek to delve more widely. There is also to be an inventory of national policies on asylum, with a view to harmonisation - again, not particularly welcome, but probably the least that could be done to meet the concern of the Dutch and others.

/cont....

The Strasbourg Council also decided that the two draft Conventions under consideration in the Working Group on Immigration should be concluded no later than by the end of 1990. The Irish Presidency has made it plain that it will give clear priority to concluding the Asylum Convention - which is supposed to embody in legal form decisions already reached at Madrid - during its own term. We are not major protagonists in respect of the Asylum Convention and can support this aim.

The other Convention (on controls at external frontiers) is a little more problematical, and I think it may be helpful if I air the issues which are of concern to us so that colleagues can be fully aware of the way the wind is blowing.

On the question of "Eurovisas", which I set out quite fully in my letter of 24 November, I am grateful for colleagues' responses and we shall approach the negotiations in the way I indicated, seeking to ensure that we retain the ability to refuse entry to the holders of visas issued by other member states but, subject to that, envisaging that we may be able to go along with the proposals in due course. For the time being, however, I intend to maintain our reserve on this aspect of the draft Convention and to explain to our Community partners that we will wish to consider the Eurovisa issue in the light of the detailed examination of the effects of the Convention which is now under way.

There are, however, two other aspects of the draft Convention of which I think colleagues should also be aware at this stage. The first is the question of computerised checks on entry and of the operation of a common refusal list. Successive conclusions at meetings of EC Ministers concerned with immigration - you may yourself recollect the discussions at Munich and Madrid - have culminated in what is now a precise proposal in the draft Convention that every third-country national entering a member state via the external frontier should be subject, in addition to the normal examination for immigration purposes, to a computer check in order to ascertain whether his name appears on a common EC list of inadmissible persons. A similar check would be made before a visa was issued. If the person's name was on the list, then, subject only to limited qualifications concerning humanitarian cases etc., there would be a duty to refuse a visa and/or entry.

It is still the opinion here that fresh primary legislation would be required in order to enable a visa or entry to be refused simply at the behest of another member state; and this is clearly an aspect of 1992 which will attract political interest. Assuming that we are successful in maintaining checks at "internal" frontiers, there may be those who will argue that we should not accept a provision, such as a common refusal list, which goes more naturally with a true European common travel area. If and when the proposal gets off the ground, there will also be resource considerations. Nevertheless, I am satisfied that these costs are a necessary price which we have to pay if our general stance of being willing to help in strengthening the external frontier is not to be attacked by our Community partners as being without any substance. There is no doubt that a demurrer by us at this stage

/cont....



Euro Book Lodge 1944

4.

would introduce a major blockage. I therefore propose to concur with this aspect of the draft Convention, although none of us will lament if, in the event, it proves slow to get on its feet, and we must be careful to ensure that the proposed introduction of an EC list does not hold up or interfere with improvements which we may ourselves wish to make to the operation of the immigration control, including computerised checks for our own purposes.

The second issue is embarkation controls. Last year we addressed the question whether any embarkation control was a necessary part of our "bottom line" on "internal" frontiers. OD(E) decided that that question needed further consideration. Whatever the outcome there, however, we have traditionally aimed at a light touch as regards embarkation controls. As regards the "external" frontier, by contrast, the Schengen partners have agreed between themselves that every third-country national should on exit be checked against the proposed Schengen Information System computer in order to see whether he has entered the territory unlawfully, whether he is wanted by the police, and whether there are court proceedings outstanding against him; and a proposal to the same effect has now come forward in the Community context.

We have reserved our position in Brussels on this proposal and I believe the right course is to continue to resist it. There is no doubt some attraction in a systematic police check on exit, and strong exit checks are already a good deal more familiar to some of the Continental states than to us. I suspect, however, that checks confined to non-EC nationals, as this proposal suggests, would prove a good deal less useful than might be assumed at first sight. We have not yet agreed to a Schengen-type information system among the 12 (although it is coming under consideration in TREVI), and a systematic police check on embarkation would represent a fundamental change for us both practically (expense and queues) and, I believe, politically. It is not in my view an inherent part of strengthening the external frontier and I think we should do our best to decouple the two questions. In any event, the future of the Schengen compact must now be in doubt, and I do not think we should at this moment hurry to accept ideas with such a clear Schengen pedigree.

I do not, for my part, suggest that these issues concerning the External Frontiers Convention require formal discussion, but I thought I ought to raise them in case you or other colleagues wish to react at this stage to my views on how we should proceed, and I should of course be pleased to expand on what I have said if you or other colleagues think that this would be helpful.

I am copying this letter to the Prime Minister, to other members of OD(E) and to Sir Robin Butler.



DEPARTMENT OF SOCIAL SECURITY
 Richmond House, 79 Whitehall, London SW1A 2NS
 Telephone 01-210 3000

From the Secretary of State for Social Security

Ms Nicola Brewer
 Private Secretary to
 The Hon Francis Maude MP
 Foreign and Commonwealth Office
 London
 SW1A 2AH

19th February 1990

Dear Nicola,

My Secretary of State has read with interest the drafts enclosed with your letter of 12 February to John Gieve. He strongly supports Mr Maude's moves to improve the accessibility and readability of the report. As we approach the Single Market it is more and more important for people to be made aware of developments.

We have two suggestions to offer. The first is that the list headed "Looking Forward" in the new piece on "A Practical People's Europe" should include a new insert on the lines of:

" - the arrangements for protection of social security rights for people who move between countries within the Community should be improved and ways should be sought to provide similar protection for people contributing to occupational pension schemes".

The second suggestion is more radical. There is a danger that the "snapshot" pieces will be lost to view if inserted at relevant points in the main text. Indeed it may well be difficult to decide which point is "relevant" - for example the people's Europe section covers matters dealt with in at least 3 different chapters. It might be better therefore to slightly rearrange these new sections so as to form one overview chapter at the start of the report where it would be eye-catching and likely to be read. The addition of references to sections in the body of the report would encourage people to read further on matters of particular interest to them.

I am copying this letter to Charles Powell and to the Private Secretaries of other members of the Cabinet.

Ross Hutchison

ROSS HUTCHISON
 Private Secretary

Sumo por: Budget

pb 99



107

THE RT HON JOHN WAKEHAM MP

*cel J.
✓
PL*



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

Ms Nicola Brewer
Private Secretary to
Francis Maude Esq MP
Minister of State
Foreign and Commonwealth Office
Whitehall
LONDON
SW1

*CP
25/2*

16 February 1990

Dear Nicola,

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY

Thank you for your letter *at top* of 12 February.

My Secretary of State is concerned about the paragraph on environmental problems in the "snapshot" on "A Practical People's Europe" the substance of which was not discussed in EQO. His concerns are twofold:

- (i) the final sentence should be deleted. Ministers have not yet considered in MISC 141 what role they would wish the Community to play in work on global warming. Inclusion of the sentence would pre-empt their decision by suggesting that they expected to work towards a common Community position both in negotiations over a climate convention and in implementation of any obligations. It would give the wrong signals to USA and Japan whose position is closer to that already decided by Ministers than that of many EC Member States on such a critical matter as targets for emissions of greenhouse gases;
- (ii) work in MISC 141 has also shown that many environmental problems are purely domestic and need not be tackled internationally. We do not want to encourage unnecessary Community interference in our domestic affairs. The word "some" should therefore be inserted at the start of the first sentence of this paragraph.

I am sending copies of this letter to Charles Powell and to the Private Secretaries of other members of the Cabinet.

*Yours
John*

JOHN NEILSON
Principal Private Secretary

Enrolou Budget
1944



UNCLASSIFIED



cept.
LCW

Treasury Chambers, Parliament Street, SW1P 3AG

CB

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

16 February 1990

Dear Minister,

**EUROPEAN SINGLE MARKET: OPTIONS FOR COMMON ARRANGEMENTS
FOR BANANAS**

Thank you for copying to John Major your letter of 5 January to Douglas Hurd. I have also seen Douglas' reply of 28 January and Nicholas Ridley's letter of 22 January.

2 I would much prefer it if the UK was to argue in Brussels that the banana market be liberated after 1992 and that some form of compensation be paid to ACP and EC producers. However, I reluctantly accept that in political terms this is not an option which is open to us and so we should be ready to argue for the least damaging arrangement which can be put in place. I must say though that I find it absurd that because of our apparent desire to help the ACP countries we are placed in a position where we are obliged to create a protectionist regime in the Community for bananas. This places some doubt, in my view, over the value of the Lomé Convention.

3 The idea of a dollar area quota for the Community has some attractions but it also has a number of major drawbacks. In particular, it will extend protection to previously unprotected markets, continue to inflate prices and will provide increased profits to dollar area producers. However, I am prepared to agree that this is the option we should press in Brussels. I should add though that I support Nicholas Ridley's view that growth in the EC quota should provide for an increase in the market share of the dollar area suppliers.

4 On the question of subsidies, my preference would be not to add budgetary costs to the very high costs which the arrangement would impose on EC consumers. However, I reluctantly accept that some provision for time-limited and digressive subsidies may make the UK proposal more attractive to other Member States and to the ACP countries and such payments may be the price we have to pay

UNCLASSIFIED

for averting an unacceptable Community regime. My agreement to subsidies is given on the strict understanding that it will be announced publicly that these payments will be digressive and phased out over a specified period.

5 For various reasons I would not regard expenditure on these subsidies as appropriate to either FEOGA or EDF. So I would not dissent from the notion that the "other policies" provision in line 4 of the financial perspective would be the most appropriate source.

6 I am copying this letter to the Prime Minister, to members of OD(E), to Lynda Chalker and to Sir Robin Butler.

Yours sincerely

Norman Lamont

NORMAN LAMONT
Approved by the Chief Secretary
and signed in his absence.

Enka Pol: Budget A 44



CONFIDENTIAL



SUBJECT CE MASTER.

File
VTRW
bc. PC

10 DOWNING STREET
LONDON SW1A 2AA

15 February 1990

From the Private Secretary

Dear Joseph,

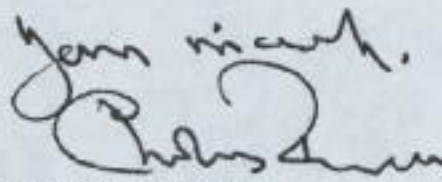
EUROPEAN COMMUNITY

The Foreign Secretary mentioned to the Prime Minister this morning the likelihood that there would be a move to bring forward the Inter-Governmental Conference on Economic and Monetary Union. There was also likely to be pressure for early discussion of institutional reform in the Community.

The Prime Minister said that we should start work straight away on formulating some proposals of our own for institutional reform. It was not necessarily the case that institutions which had been appropriate for the Community in its earlier years were right for a larger and more mature Community. We also had to consider the possibility that developments in Eastern Europe would lead to a further significant enlargement of the Community over the next ten years. Our broad objective should be a looser Community, or at least to prevent any further centralisation. It was probably not feasible to curtail the powers of the European Parliament, but we should have no truck with any enlargement of them. There was a strong case for reforming the role and powers of the Commission. Its main function should be to service and respond to the needs of the Council of Ministers, rather than act as a body with an independent power of initiative. This was no longer necessary.

The Foreign Secretary said that it would be difficult to secure broad support for such ideas, although some of our misgivings about the Commission were more widely shared. But he agreed they were at the least a good negotiating ploy. He would see that work was put in hand.

I am copying this letter to Sonia Phippard (Cabinet Office).

Yours sincerely,

CHARLES POWELL

J. S. Wall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Ref. A090/442

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer may report on the ECOFIN Council which the Economic Secretary attended on 12 February. Key points were:

- On EMU Stage 1 legal texts, formal adoption is now planned for the March ECOFIN. The Presidency's paper on multilateral surveillance procedure will be remitted to the Monetary Committee, the Economic Policy Committee and the Committee of Central Bank Governors with a view to further discussion at a future ECOFIN.
- Satisfactory agreement on the medium term loan to Hungary up to the ECU equivalent of one billion dollars; disbursement of the first tranche of 400 million dollars, guaranteed by the EC Budget, is conditional on Hungarian agreement with the IMF. The Commission will consult other G24 countries about participation.
- On German Economic and Monetary Union France and the Netherlands expressed some caution and Mr Ryder stressed the need for consultation with Community partners. Delors apologised for the leak of an internal Commission study document, and said that discreet analysis would continue. The Presidency suggested that an emergency ECOFIN might be needed in the next few weeks.



2. The Minister of Agriculture, Fisheries and Food attended an Agriculture Council on 12-13 February, which discussed the Commission's 1990 price-fixing proposals: no significant progress was made.

3. The Foreign Secretary may wish to comment on M Delors' proposal, made in Strasbourg on 13 February, that there should be a special meeting of the European Council to discuss German reunification, probably just after the GDR elections on 18 March. The Irish presidency may well decide to take up this idea.

4. Forthcoming meetings are:

- 20 February - EPC Ministerial meeting, Dublin
- 22 February - Internal Market Council
- 26 February - Research Council.

R.R.B.

ROBIN BUTLER

14 February 1990



*cdg
P.O.*

CONFIDENTIAL
Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5802
Telex 915564 Fax 01-273 5821

Secretary of State

Richard Gozney Esq
Private Secretary to the
Foreign Secretary
Foreign & Commonwealth Office
LONDON
SW1A 2AH

CDG
14/2

13 February 1990

Dear Richard

SITES OF NEW EC INSTITUTIONS

My Secretary of State has noted your letter of 26 January on the sites of new EC institutions. *Mar*

My Secretary of State has asked me to draw your attention to our interests in the Health and Safety Agency, which we expect will be brought forward formally under the Italian Presidency. We have informally registered our interest in having the Agency based here; and are following discussions of the proposal very closely.

However, my Secretary of State recognises that it is not tactically appropriate at this stage to try to get consideration of the Health and Safety Agency within the current package. We may however, need to rethink tactics if there is slippage on any of the decisions referred to in the Foreign Secretary's letter, or if other member states attempt to extend discussion more widely.

Copies of this letter go to **Charles Powell**, to the Private Secretaries to members of OD(E) and to David Hadley in the Cabinet Office.

Yours sincerely
Liz Smith

LIZ SMITH
Private Secretary



CONFIDENTIAL
Employment Department · Training Agency
Health and Safety Executive · ACAS

Euro Pol: Budapest. Hungary.

1952



CCP
✓
PY

Foreign and Commonwealth Office

London SW1A 2AH

12 February 1990

John Gieve Esq
Private Secretary to
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

CR/2

Dear John,

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY: JULY
TO DECEMBER 1989

I enclose the draft of the White Paper on developments in the Community from July to December 1989. As usual it is based on contributions from departments and has already been agreed by officials in EQ(O). You may wish to look in particular at the introduction which highlights the main achievements and decisions taken during the period. The rest of the report is a detailed account of developments. The draft has been approved by Mr Maude.

FCO Ministers believe that it is time to seek to improve the format and accessibility of the six-monthly White Paper. For this edition Mr Maude proposes the following improvements:

- a foreword by the Foreign Secretary (as was included in the January - June 1989 edition). A draft is enclosed;
- a series of short self-standing "snapshots" of the main EC issues and the UK contribution to them, which will be inserted at the relevant point in the text. The aim here is to give the reader some perspective, and look forward as well as back. The texts, which are enclosed, have been agreed by officials; Mr Maude has some further changes in mind, and would also welcome colleagues' personal comments on these texts;
- half a dozen charts (also enclosed) illustrating progress on the Single Market and the budget. We are grateful for the help of Treasury, MAFF and DTI officials in producing them; and
- a more attractive layout;



- the simultaneous publication of a short popular booklet summarizing the White Paper, and emphasizing UK policy on and achievements in the EC.

We shall be looking at more radical changes for the next edition. This White Paper is to be published by mid-March. I should be grateful if you and other recipients of this letter could let me have clearance or comments no later than 16 February.

I am copying this letter, with the draft White Paper, to Charles Powell and to the Private Secretaries of other members of the Cabinet.

*Yours Sincerely
Nicola Brewer*

Nicola Brewer
Private Secretary to
Mr Francis Maude

WJF

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITY, JULY
TO DECEMBER 1989

DRAFT FOREWORD BY THE SECRETARY OF STATE

This White Paper, which describes developments in the European Community in the second half of 1989, rightly paints a picture of varied and intense activity as is usual in the Community. But the last few months have in fact been anything other than business as usual. The reason is of course the revolution in Eastern Europe and its implications for the rest of our continent.

The Community's response throughout has been clear-sighted and prompt. Encouraged by the United Kingdom, the European Community is acting as a force for positive change, with political support and economic assistance to bolster political reform and the development of market economies in Eastern Europe. Our efforts continue in 1990.

The European Community that Eastern Europe sees is developing dynamically. Completion of the Single Market in which the UK has always played a leading role, remains the top internal priority. The second half of 1989 saw further progress in key Single Market areas such as financial services and transport liberalisation, and further evidence of the Community's determination that 1992 Europe should be no Fortress Europe, but open to the outside world.

We welcome the Commission's intention to give continuing priority to timely implementation of the Single Market Programme by member states to ensure that the 1992 competitive playing field is indeed level throughout the Community. The United Kingdom is up to date with 76 of the 77 directives due for implementation here - a record matched only by Denmark's.

The UK is also playing its full part in the debate on economic and monetary union in the run-up to the Inter-Governmental Conference. We support all the elements in Stage 1 of the process, which begins in July: the early completion of the single financial market is a major objective for the UK, and will benefit business and consumers alike. We have contributed our ideas on subsequent stages.

In the Community's external relations, the focus has not been exclusively on Eastern Europe. The UK is fully committed to the expansion of EC/EFTA cooperation, and the Ministerial meeting in December 1989 agreed on the opening of negotiations for a new, more structured relationship. Beyond Europe, the Community agreed the fourth Lomé Convention, with a financial package of up to 12 billion ecu for its first five years.

Change in Europe is rapid and dramatic, and the Community has a central role to play. My colleagues and I will be working to promote British views on the way ahead.

THE SINGLE MARKET ARRIVES

The Single Market was an original goal of the European Community - one that was lost sight of in the difficulties of the 60's and 70's over budgets and agriculture. Hard work by the UK and others brought it back to the top of the agenda in the '80's. In 1985 a Commission White Paper mapped out what needed to be done, and the 1986 Single European Act speeded up decision making, so that the programme could take off. And that is what it has done: 164 out of the 279 White Paper measures are now agreed. Almost 60% of the programme is now complete.

The 1992 deadline is tight, requiring a continuing legislative momentum over five years. So far, the timetable has held, with agreements on:

- liberalising capital movements - the abolition of exchange controls;
- the Second Banking Directive, giving banks a 'single passport' so they can operate in any member state with one authorisation;
- the Non-Life Insurance Directive - commercial insurance can be sold throughout the EC;
- mutual recognition of Higher Education Diplomas, enabling professionals to work anywhere in EC without having to requalify in each member state;
- abolition of national lorry quotas so firms can use hauliers of any nationality for cross-border trade;
- progress on removing differing national standards for a wide variety of products.

The French Presidency, with strong United Kingdom support, kept up the momentum. 65 market-opening measures were agreed, distinguished by their importance as much as by sheer numbers. Principles established over the past six months will make a difference to the way all businesses are run across the Community. For example:

- agreement was reached on the Merger Control Regulation, setting clear, competition-based rules for large mergers;
- political agreement was reached on the life assurance directive, making it possible for consumers acting on their "own initiative", to purchase a life insurance policy outside their home member state;
- agreement was reached on two directives (on access to networks and harmonising conditions for access) which, taken together, map out the broad outlines of a liberal European telecommunications regime, responsive to the needs of business;
- the Community approved a plan to allow road haulage cabotage (ending the nonsense of lorries returning from trips empty) and set guidelines for further liberalisation of air transport.
- one of the greatest areas of savings foreseen by the Cecchini report, The Benefits of a Single Market, is in the reduction of customs formalities: in November agreement was reached on the broad arrangements for the collection of VAT after 1992;
- We agreed three more major industrial standards directives; and agreed measures on national arrangements for testing and certification.

- supplying goods and services to Government departments and local authorities is an important area for many businesses. The Community is now close to agreement on fair rules for procurement in the so-called excluded sectors of water, transport, energy and telecommunications.

All these measures matter in themselves for individual businesses. But taken together they matter even more: they already add up to a sizeable part of the Single Market. Enough for it to be clear that the Single Market is already arriving - and that business must be ready for it.

IMPLEMENTATION

Adoption of a Single Market measure in the Council of Ministers is by no means the end of the story. It then has to be implemented in the national legislation of each member state, for the full benefits to flow through to the Community's businesses and consumers.

The Commission presented a report on implementation to the Internal Market Council on 21 December 1989. This confirms the UK's excellent record. According to the Commission's figures, which may not be completely up to date, member states' individual records are as follows:

<u>Member State</u>	<u>Up to date</u>	<u>Not implemented</u>
Belgium	54	31
FRG	67	18
Denmark	72	11
Spain	45	38
France	67	18
Greece	45	33
Italy	34	50
Ireland	55	25
Luxembourg	53	29
Netherlands	58	26
Portugal	33	45
UK	67	16

According to our own figures, the UK's record is even better. The Commission report identified 80 directives which should have entered into force by 31 December 1989. Of these, three cannot be implemented pending further decisions to be taken in Brussels. Of the remaining 77, 73 have been implemented in the UK; three will very shortly be implemented: and on the remaining one we are seeking further advice and clarification from the Commission. The continued excellence of the UK's record is concrete proof of the UK's commitment to the Single Market, and to the development of the Community.

A PRACTICAL PEOPLE'S EUROPE

The Single Market will bring benefits to individual citizens of Europe as well as to business. The Government strongly support the 'People's Europe' which produces practical improvements in people's lives.

In the Community the UK argues for close attention to consumers' interests. Our aim is to remove restrictions which prevent people from buying the goods and services they want at prices they can afford. We have pressed - successfully - for the right to buy insurance and other financial services from any country in the Community, and to have a bank account where you choose. The completion of the single financial market will make modern life easier for all.

Bringing down the barriers means more goods being sold more freely. But the Community is also laying down tough essential safety requirements, and is working on an ambitious programme of health and safety at the workplace in line with the UK's own comprehensive legislation in this area.

Environmental problems must be tackled internationally. Since the adoption of its first Action Programme in 1973, the Community has adopted over 100 measures. Recent achievements include easy availability of lead-free petrol; action to cut drastically pollution from power stations; and strict emission standards for cars. The Community also promotes conservation. The next challenge is global warming - working internationally with other member states to control emissions of greenhouse gases such as carbon dioxide.

Britain continues to benefit greatly from the three Structural Funds: in 1989 we received more Social Fund money than did any other member state. In 1989-91 nine industrial regions in the UK will receive over £1100m from the Community for training, infrastructure and measures to promote business and employment. Northern Ireland has special priority ("Objective 1") status and has received a Community contribution to the International Fund for Ireland.

Training and education are keys to our future. The highly successful ERASMUS programme (EC Action Scheme for the Mobility of University Students), launched in 1987, pays for exchanges of students and academics. About 5000 UK students should benefit in the current academic year. Other schemes include COMETT (technological learning), LINGUA (language skills) and "Youth for Europe" which enables 15-25 year-olds to spend short periods getting to know another EC country.

The free movement of people is a cardinal European principle - in the Community and between East and West. The Community's aim is maximum mobility coupled with the minimum checks essential to maintain security. All Community nationals should soon have the right to live where they choose in the Community as long as those not in work, such as pensioners and students, have adequate resources.

The UK has been in the lead in encouraging better cooperation on cross-frontier issues among member states, and also a more effective external frontier. Drugs are a shared menace - 62% of the cocaine seized at UK ports in 1989 came from or via another Community country. With strong UK support, the Community has set up a group of high level coordinators to act decisively on drug issues.

Looking Forward

Developing a practical People's Europe is a continuous process. The Government wants further action in many fields:

- cheaper and easier travel for Community nationals, in particular further progress on air liberalisation in line with the commitment made by the European Council in December. Deregulation on the London-Dublin route has already shown what can be done; in the three years the return fare has fallen from £125 to £85.
- The common format passport will allow faster immigration checks, consistent with continuing security requirements;
- further measures to ensure safety in the workplace. We welcome the proposal for an EC Health and Safety Institute;
- better access to training, as demographic conditions change in the 1990s, and continuation of programmes such as COMETT and ERASMUS;
- more human contacts between the Community and the rest of Europe, eg through the proposed TEMPUS programme, to extend to Eastern Europe existing Community schemes for academic exchange; and
- a vigorous environment policy. 1990 should see the establishment of a European Environment Agency, to act as a coordinating point for environmental information in association with countries and institutions outside the Community. We hope to see it sited in Cambridge.

CONTROLLING COMMUNITY EXPENDITURE

Ten years ago the expenditure of the European Community was out of control. The Common Agricultural Policy, originally designed to secure Europe's food supply and the welfare of its farmers, was in fact encouraging over-production and the purchase and storage of the excess at taxpayers' expense. Fraud was widespread.

Britain, with her efficient and compact agricultural sector, was paying in vastly more than she was getting out. Since 1979 the Government have demanded abatement to Britain's budget contribution, and an overhaul of the budget's control mechanisms. In 1984, at Fontainebleau, the first objective was firmly established; and in 1988, at Brussels, tighter budget discipline was agreed and subsequently enshrined in an Inter-Institutional Agreement (IIA) between the Council, the Commission, and the European Parliament.

These two agreements have succeeded in controlling and rationalising Community expenditure. By the end of 1990 total refunds to Britain from the Fontainebleau abatement will total about £7.5 billion. The 1988 measures set spending ceilings through to 1992 which charted a fall in the proportion of the budget spent on the Common Agricultural Policy. These limited the growth of agricultural spending to less than 74% of the growth of the Community GNP, ie likely to be less than 2% per year in real terms compared with 10% per year in 1984-87.

Mechanisms have been introduced to discourage excess production:

- stabilisers for most agricultural commodities which reduce Community price support when production exceeds stipulated limits. For example, in the cereals sector any over-production triggers an automatic price cut.

- a set-aside scheme which allows farmers to take part of their arable land out of production for five years.

These reforms are working. Intervention stocks - the infamous 'mountains and lakes' - have fallen drastically. Butter and milk powder stocks are a tiny fraction of what they were. Beef stocks are down by 80%. Cereal stocks are down 57% from their highest level and 14% over the last year.

Since 1988 high world food prices and a strong dollar (both of which reduce the costs of the CAP) have also brought large savings.

In the 1990 budget, CAP spending is 4.1 billion ecu (over £2.8 billion) below the ceiling laid down in 1988. There have been actual reductions in the budgetary provision for agriculture in 1989 and 1990.

Budgetary control still needs improving. In March 1989, following a UK initiative, the Commission launched a 45-point anti-fraud work plan. There are already significant increases in sums recovered from the detection of fraud. The Government continue to press for improvements.

Looking ahead, the UK will continue vigorously to promote budget discipline. The UK will continue to press for further reform of the Common Agricultural Policy in the context of the GATT Uruguay Round, where the Community has promised substantial and sustained reductions in price support. We will work for a 1991 Community budget which is, like its two predecessors, well inside its ceiling. We will argue for value for money, as we did successfully in the recent negotiations on the 1990-94 research and development framework programme. And we will press for continued high United Kingdom receipts from the Structural Funds (for regional aid) and other Community programmes.

ECONOMIC AND MONETARY UNION

The European Community has for some years been committed to the objective of Economic and Monetary Union (EMU), but there has been no agreement on how or when this could be achieved. One plan for moving by stages to EMU was drawn up in 1971 but never implemented. With the publication of the Delors Committee's report last year, EMU has once again become a live issue in the Community.

The Delors Report proposed that EMU should be achieved in three stages. Stage 1 would be based on consolidating the single market. It would involve the complete removal of physical, technical and fiscal barriers; strengthening competition policy and reducing state aids; implementing the Community's plan for reforming and doubling the funds for regional aid; closer coordination of economic and monetary policies; establishing a single financial area through the implementation of directives on banking, securities and insurance services; and all Community currencies joining the exchange rate mechanism of the European Monetary System on equal terms. Stage 2 would be a transitional stage in which a new Community institution - the European System of Central Banks (ESCB) - would be set up. But throughout Stage 2 ultimate responsibility for policy decisions would remain with national authorities. Stage 3 would involve possible further strengthening of Community structural and regional policies; a move to irrevocably locked exchange rates; and binding constraints on national budgets. Responsibility for monetary policy in the Community would pass to the ESCB. Finally a single Community currency would be established.

The Community has agreed that Stage 1 of EMU should start in July 1990. The United Kingdom Government fully supports this decision. It believes that the changes resulting from Stage 1 will transform Europe's economy. The completion of the single market will stimulate competition throughout Europe. As a result there will be even greater

pressures on all member states to pursue effective anti-inflation policies and to foster an economic climate which will attract both capital and labour. All this will take time. Economic integration in the Community will develop progressively, over many years.

The United Kingdom Government therefore believes it is premature to start drawing up blueprints for EMU beyond Stage 1.

The United Kingdom also has fundamental reservations about the Delors report's prescription for Stages 2 and 3 of EMU. In a House of Commons debate last November, all parties agreed that it was too centralist and bureaucratic. Binding rules on the size of budget deficits are neither necessary nor desirable: budgetary policy is best left in national hands. The Delors approach would take the control of monetary policy away from national governments while leaving those governments answerable to their electorates for policies over which they would have no control, with no guarantee that the ESCB would deliver successful anti-inflationary policies. Moreover, the suggestion that poorer countries should be helped to adjust to EMU through further increases in the Community's structural and regional funds is misguided. Market forces will ensure that countries with lower costs prosper under the single market.

The Government has published its alternative views on EMU*. It believes that the forces released in Stage 1 will lead to increasingly stable prices and exchange rates. The Community should build on these market forces as the means of ensuring increasingly close economic and monetary integration, rather than trying to force the pace through pre-set stages, and unnecessary centralisation.

*"An evolutionary approach to economic and monetary union",
HM Treasury, November 1989

The Strasbourg European Council in December 1989 agreed by a majority to convene an Inter-Governmental Conference at the end of 1990 to consider further steps on EMU. The Prime Minister has made clear that the United Kingdom believes this Conference is premature, but that we will play a full part in the discussions. The United Kingdom's paper will be one of the main documents to be considered.

INFLUENCING CHANGE IN EASTERN EUROPE

The UK has played a leading role in marshalling the Community's, and the wider Western response to the revolution and growth of democracy in Eastern Europe. The Community's economic assistance, particularly to the private sector, is aimed at stimulating and rewarding liberal reform, promoting political freedoms, and shoring up democratic institutions at this time of dramatic changes in Europe.

In the short term, the Community has provided food aid and humanitarian assistance to Poland and Romania, and is ready to do more. But the emphasis is, as it should be, on medium to long term solutions. The Community has concentrated on providing real trade concessions, which will encourage trade growth and increased prosperity. European Investment Bank loans have been made available to Hungary and Poland, and over £200 million from the 1990 EC Budget has been allocated to these countries for longer term agricultural reform, much-needed environmental protection, and the provision of training and skills.

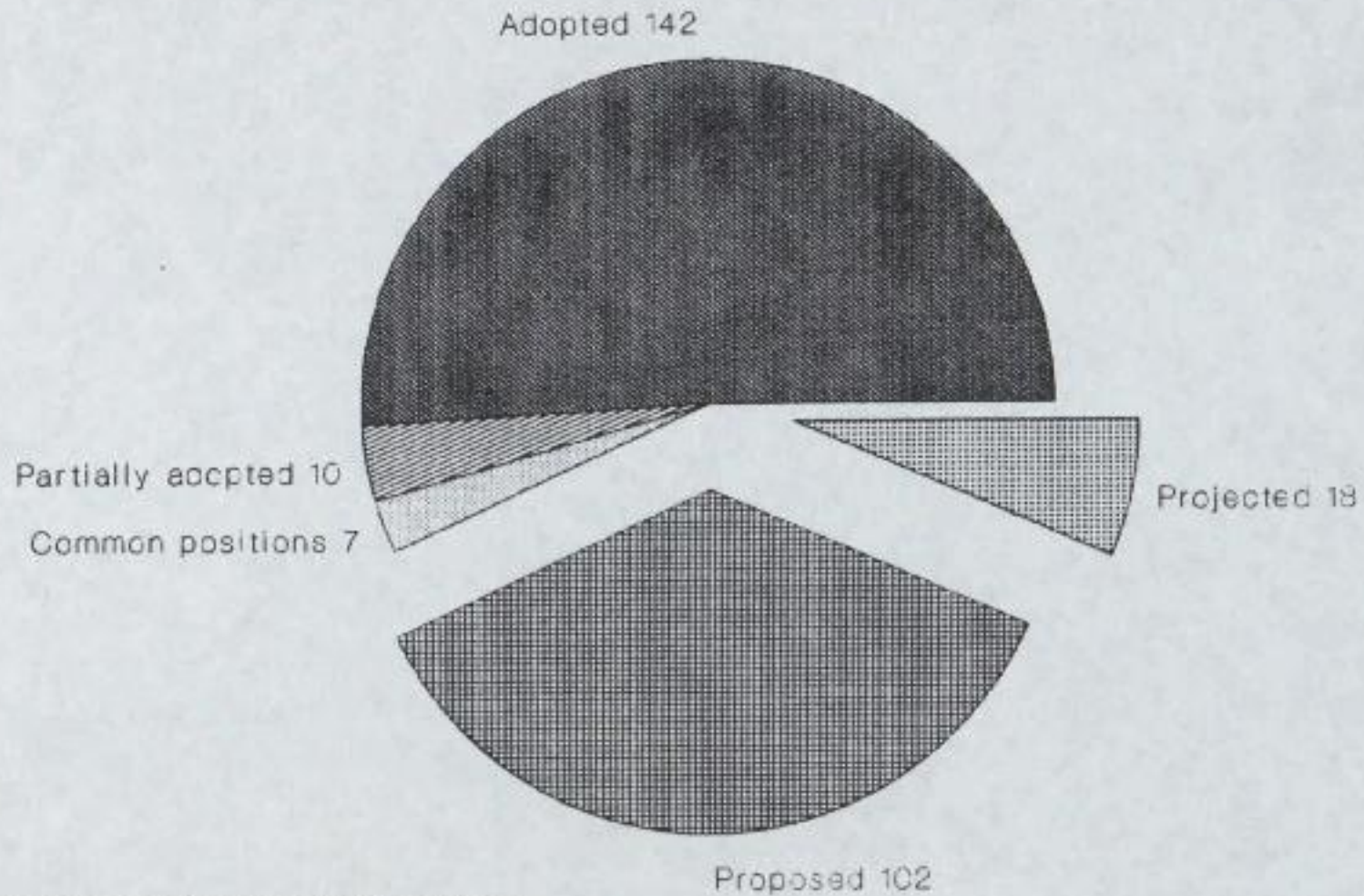
The banner of economic and political reform is now being carried throughout Eastern Europe. The old command economies are being dismantled, and the free market is for the first time being encouraged. The extent of assistance given is rightly geared to each country's commitment to reform, and according to its needs. A network of Trade and Cooperation Agreements covering trade concessions, and cooperation in particular areas like energy, agriculture, transport and the environment, is being established. Such agreements are already in place with Hungary, Poland and the USSR. Agreements are likely to follow in 1990 with the GDR, Bulgaria, Czechoslovakia and Romania.

The Commission has steered the coordination of broader Western assistance to Eastern Europe. The so-called Group of 24, OECD members, have targetted their assistance again on a basis of individual treatment and linkage to reform. This wider involvement of our North American, Japanese, European and other partners is very important. Negotiations are well advanced on the establishment of a European Bank for Reconstruction and Development, which will provide long term financial support for the private sectors in Eastern Europe.

The United Kingdom has also contributed actively to Community discussion on the long term relationship with Eastern Europe. In December we tabled a paper proposing criteria for the Community's burgeoning links with Eastern Europe. As well as responding to economic reforms in each individual country, there should be a political response to political reforms, in order to encourage the growth and durability of democratic institutions in these countries and their links with the West. Membership by Eastern European countries of the Council of Europe and accession to the European Convention on Human Rights are possible stepping stones in this process of political rapprochement. Depending on progress made, we believe that the Community should be ready to build on the agreements now being finalised in order to develop deeper cooperation with our East European neighbours.

SINGLE MARKET CHECKLIST

Progress to 31 December 1989



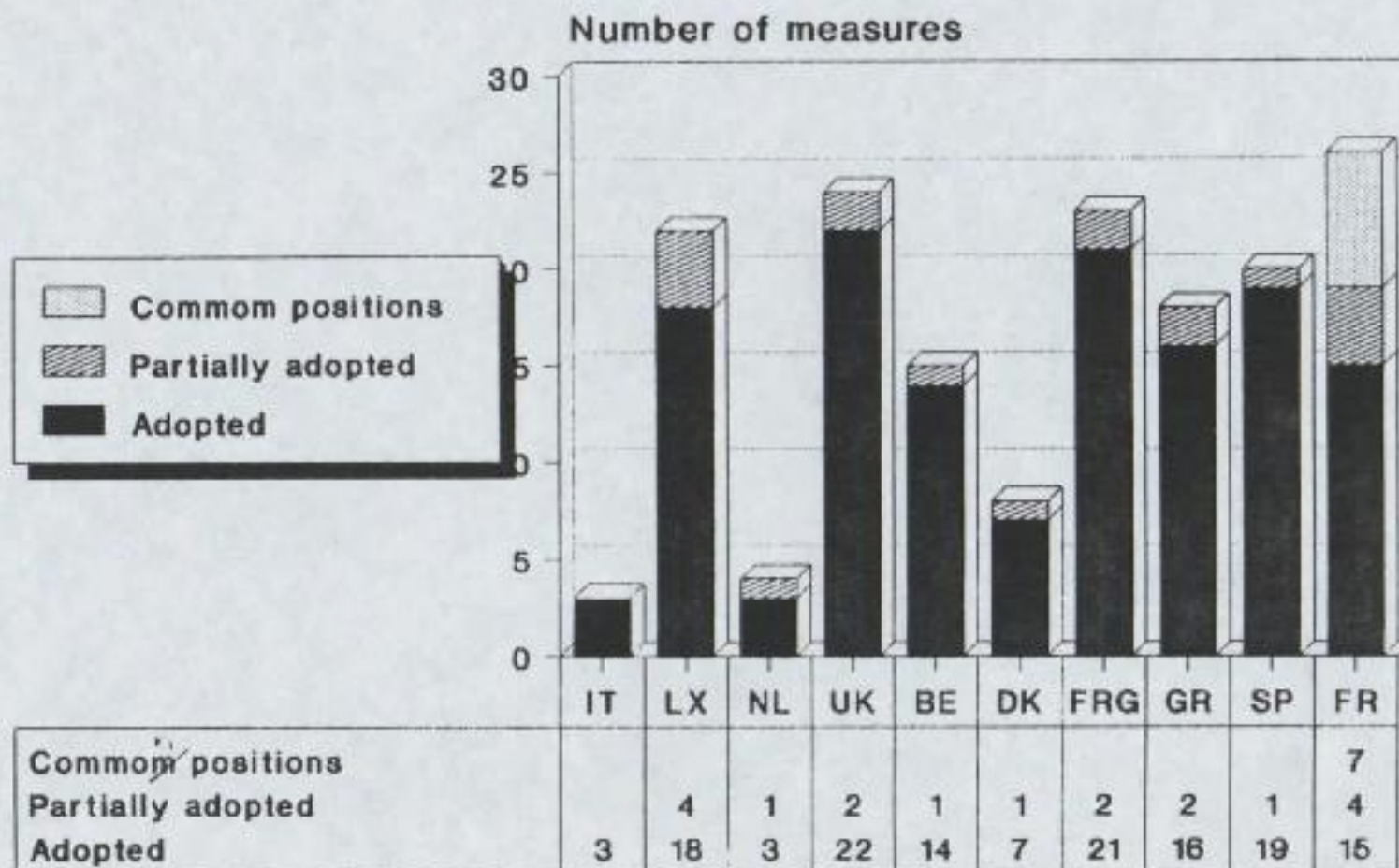
Department of Trade and Industry

(B)

[beginning of Section IV]

SINGLE MARKET CHECKLIST

Progress to 31 December 1989

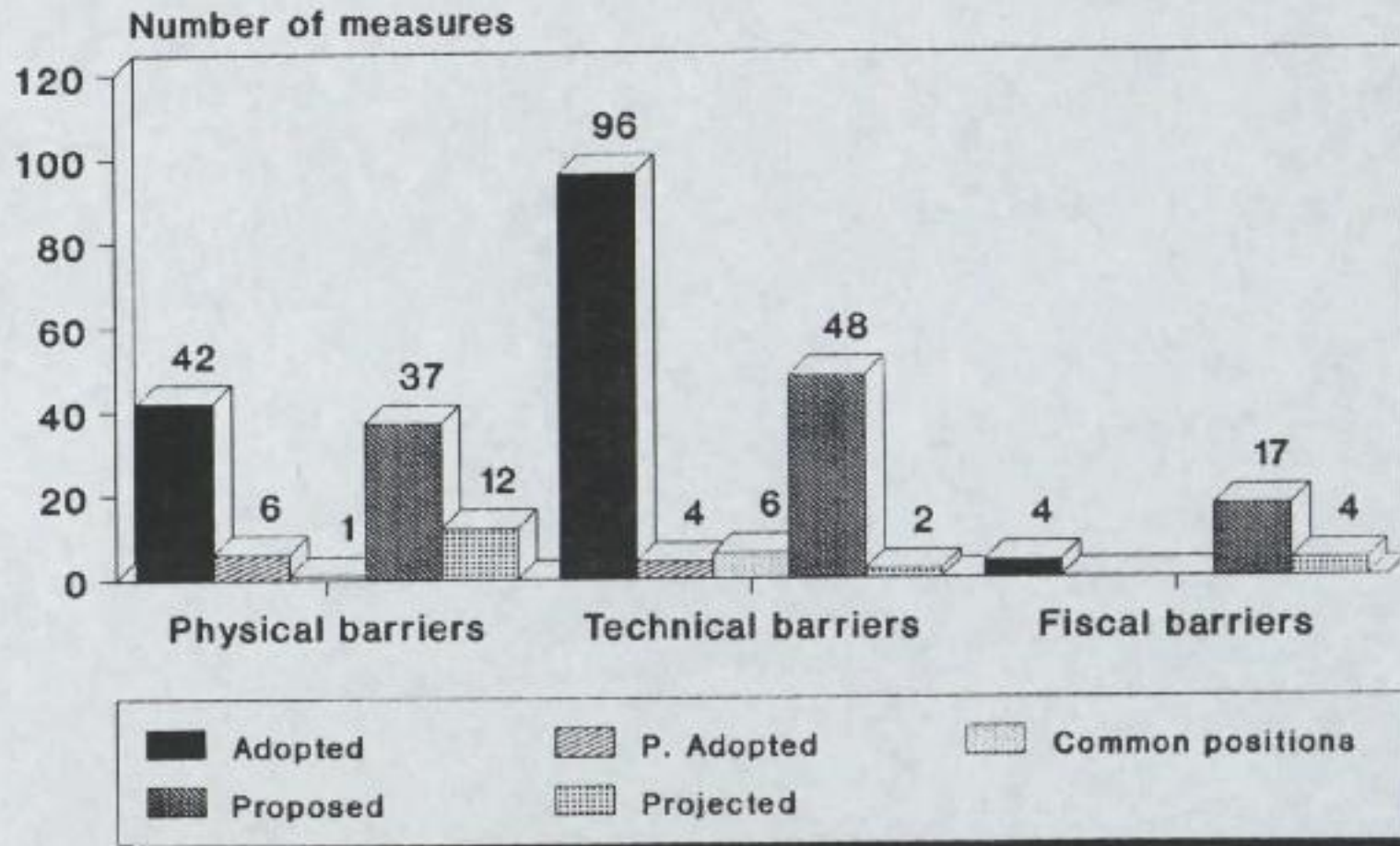


Presidency beginning Italy: Jan-June '85

Department of Trade and Industry

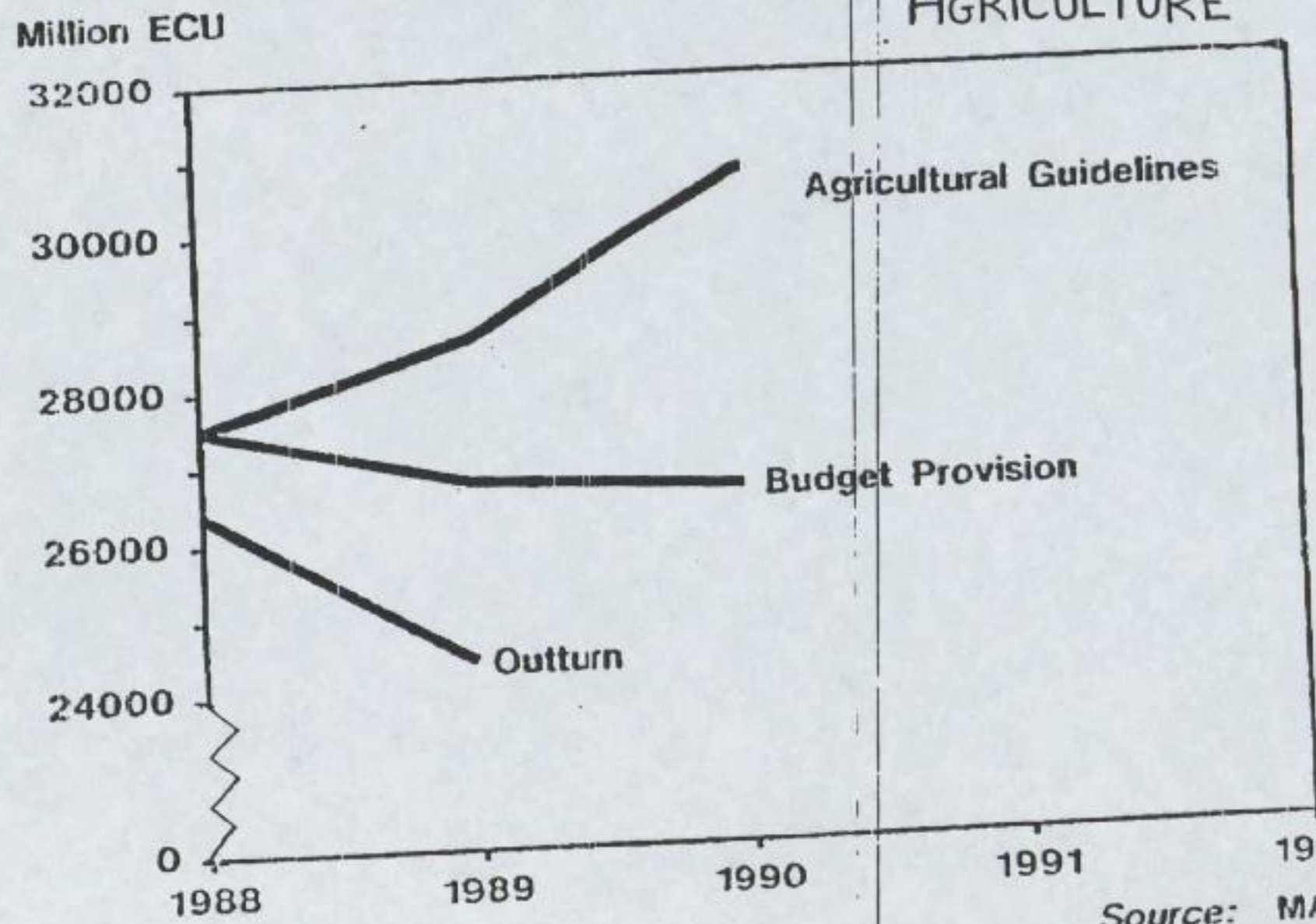
SINGLE MARKET CHECKLIST

Progress to 31 December 1989



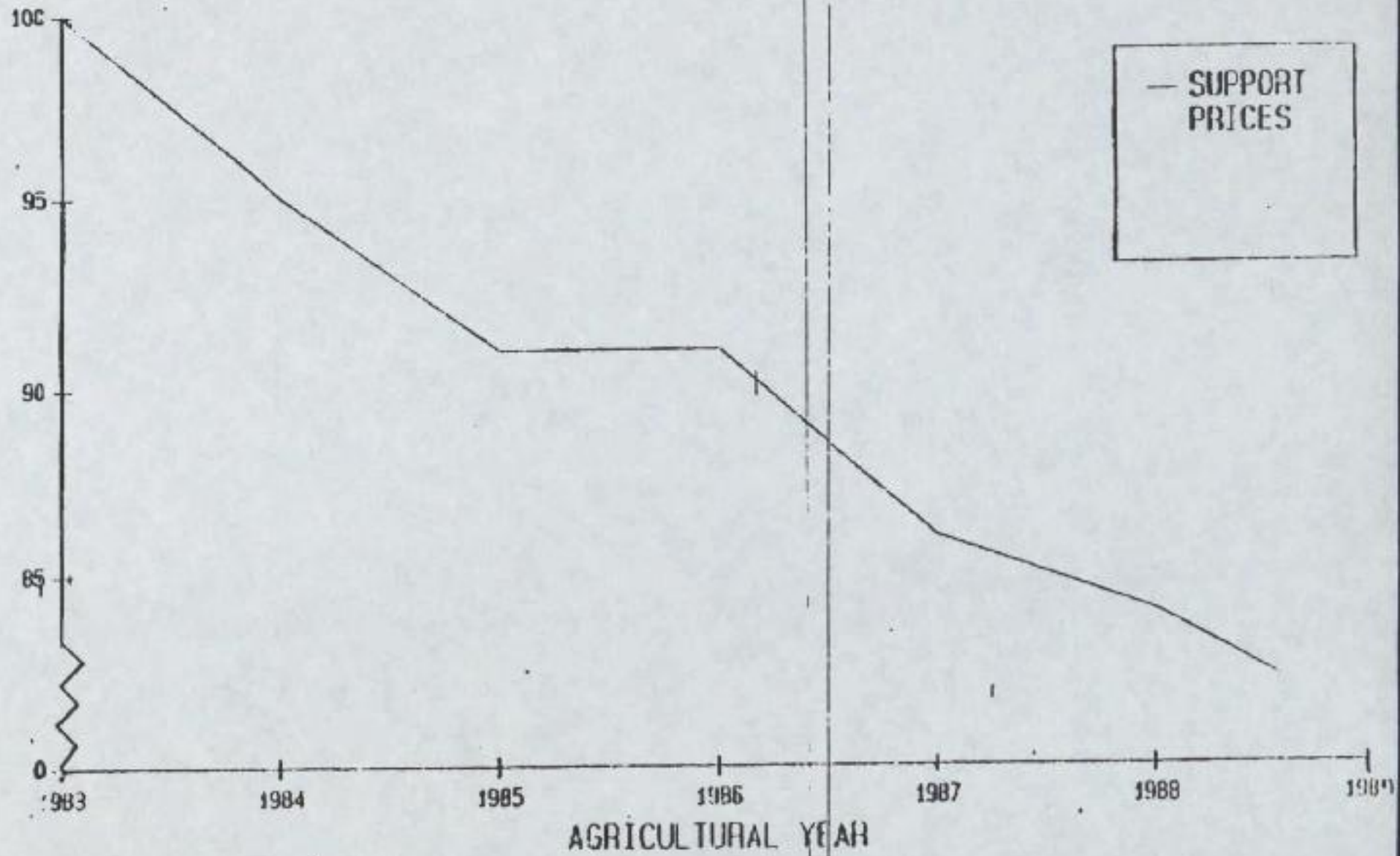
EC Budgetary Discipline: AGRICULTURE

(A)



Source: MAFF (FPD)

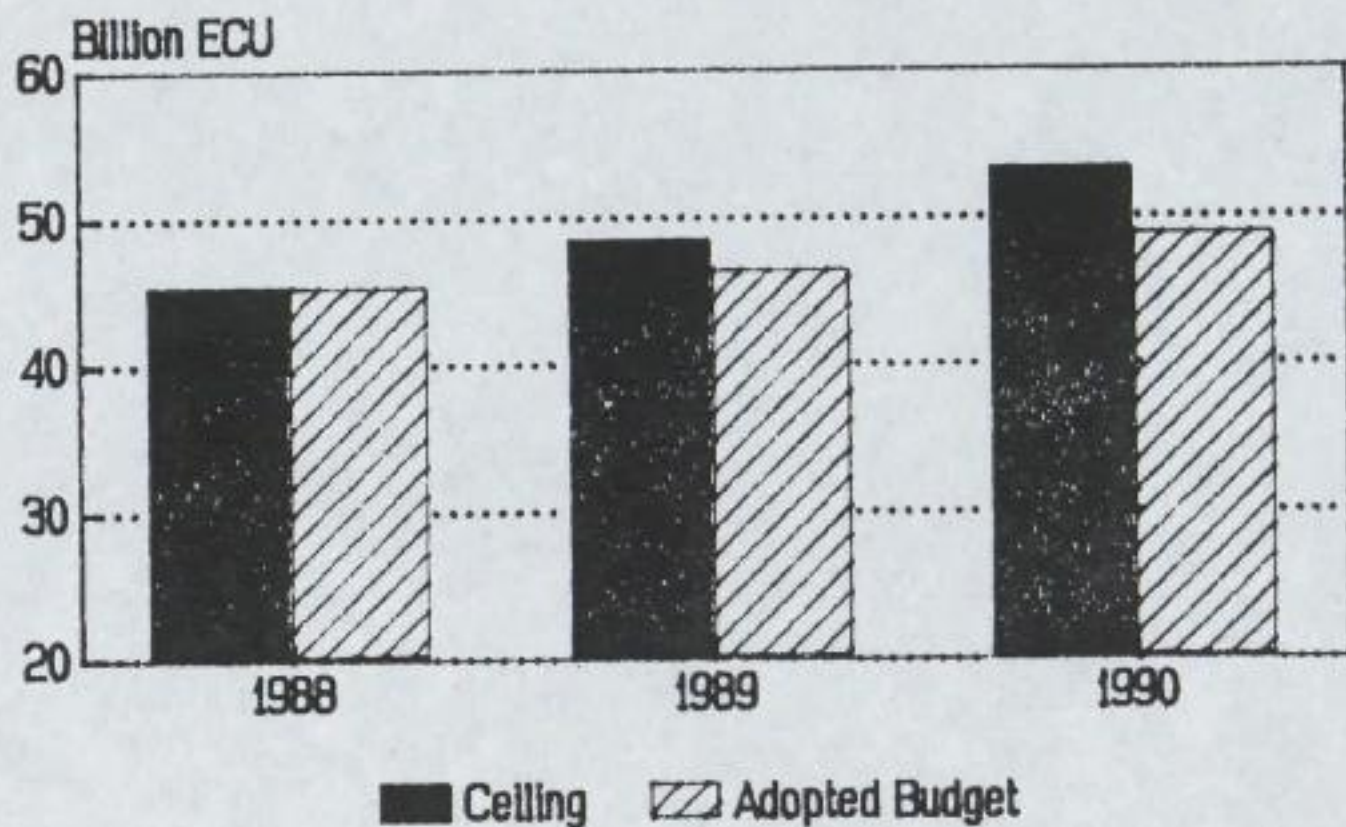
ANNUAL SUPPORT PRICE INDEX
(IN REAL TERMS)



— SUPPORT
PRICES

F

EC ADOPTED BUDGETS COMPARED WITH CEILING



DEVELOPMENTS IN THE EUROPEAN COMMUNITY
JULY-DECEMBER 1989

CONTENTS

Page

I.	Introduction	
II.	Economic, Budgetary and Monetary Matters	
III.	Agriculture, Fisheries and Food	
IV.	The Single Market	
V.	Regional Policy and Industrial Affairs	
VI.	Research and Development	
VII.	Environment and Transport	
VIII.	Social Affairs	
IX.	Energy	
X.	External relations, trade and aid	
XI.	European Political Co-operation (EPC)	
XII.	European Parliament	
XIII.	European Court of Justice	
XIV.	Economic and Social Committee	
XV.	Parliamentary Scrutiny of EC Legislation	
Annex A	Meetings of the European Council and the Council of Ministers	
Annex B	Major proposals adopted	
Annex C	Major Ministerial speeches on Community topics	
Annex D	Major treaties and agreements signed by the Community	
Annex E	Single Market measures agreed	

- Annex F European Court of Justice cases
 involving the United Kingdom
- Annex G House of Commons debates on European
 Community documents
- Annex H Reports from the House of Lords Select
 Committee on the European Commission
- Annex I United Kingdom trade with the European
 Community [not yet available]

NOTE: All financial conversions in this White Paper are at the 1
December market rate of £1 = 1.37081 ecu unless otherwise stated.

SECTION 1: INTRODUCTION

1.1 This White Paper covers the period of the French Presidency from 1 July to 31 December 1989.

1.2 The European Council met in Strasbourg on 8-9 December. It considered four main issues: the steps still needed to complete the common market in 1992; progress on Economic and Monetary Union (EMU); the Social Charter; and how the European Community could support democracy and economic reform in Eastern Europe. The Council confirmed the importance of completing the Single Market programme on time and welcomed the progress made in such areas as financial services, telecommunications, and road and air transport. At the suggestion of the United Kingdom, the Council called for agreement on a package of Single Market measures at the December Internal Market Council which subsequently approved the Merger Control Regulation and a number of other important measures. The European Council agreed priorities for the next stage, which include the liberalising of investment services and life insurance, and further progress in the three transport sectors.

1.3 The European Council welcomed the decision taken to enable the first stage of closer economic and monetary co-operation to start on 1 July 1990. President Mitterrand noted that the necessary majority existed to convene an Inter-Governmental Conference (IGC) by the end of 1990 to discuss further steps towards Economic and Monetary Union. It was agreed that the procedures for democratic control over economic and financial matters in each member state should be respected. The United Kingdom confirmed that it was unable to accept the text of the Social Charter proposed by the French Presidency on the basis of an earlier Commission draft. The Council agreed further practical measures to support those countries in Eastern Europe which are introducing political and economic reform. It also discussed a wider range of international political

issues including the maintenance of stability and security in Europe and Southern Africa.

1.4 The French Presidency sustained the rapid pace towards completion of the single market established over the past two years. A total of 65 measures aimed at removing barriers to trade in the Community were agreed or adopted, about half of which were in the Commission's original White Paper. Almost 60 per cent of the single market programme is now completed. Among the major achievements of the French Presidency was the agreement on an EC merger control regulation which will provide for EC jurisdiction over certain larger mergers in the Community. Other important measures agreed include directives on life insurance, package travel, nutrition labelling, an Open Network Provision framework directive for telecommunications together with a number of standards harmonization directives and a resolution and decision on testing and certification. Political agreement in principle was reached on three separate directives dealing with a right of residence for students, pensioners and other non-economically active persons.

1.5 Final adoption was also secured of the Second Banking Co-ordination Directive and the related Solvency Ratios Directive. Together with a directive on own funds of credit institutions which was adopted in April, these measures establish the legislative framework for a single market in banking. In addition Directives on insider dealing, broadcasting and public procurement (works and compliance) were adopted and significant progress was made in the transport field.

1.6 DTI's "Europe Open for Business" campaign continued, with the central objective of encouraging British business to prepare for the single market. To meet the increasing need for more information specific to particular sectors, and for practical advice about how to cope with the likely impact of the single market on industrial firms, DTI has begun to identify and encourage the development of

the range of specific information and advice which is available from the private sector. At the same time the Department's own information services on the single market have been extended in response to demand.

1.7 In the external field the Community provided significant practical support and encouragement for the countries in Eastern Europe which are introducing economic and political reform. This included the provision of free food supplies to Poland; the abolition or suspension of quantitative restrictions (excluding steel and textiles) on Hungarian and Polish exports to the EC; agreement to a £210 million package of assistance for Hungary and Poland in 1990; and agreement in principle to the establishment of a European Training Foundation and a European Bank for Reconstruction and Development. Trade and Commercial and Economic Co-operation Agreements were signed with Poland and the Soviet Union and a mandate was agreed for the Commission to open negotiations with the GDR on such an agreement.

1.8 The 1990 Budget was adopted on 13 December at a level well within the overall expenditure ceiling laid down in the Inter-Institutional Agreement of June 1988 between the Council, the Commission and the European Parliament.

1.9 In the trade field, the Community continued to contribute actively to the GATT Uruguay Round of multilateral trade negotiations. In December the Community tabled its wide ranging proposals on long term agricultural reform.

1.10 The Community and the United States maintained a constructive dialogue on trade relations with both sides showing a willingness to examine ways of resolving individual trade disputes.

1.11 EC and EFTA Ministers agreed in December to the opening of formal negotiations on expanding EC/EFTA relations in the first half of 1990 with the aim of providing a framework for extension of the Single Market, as far as possible, to include the EFTA countries.

1.12 Negotiations were successfully concluded between the EC and the African, Caribbean and Pacific (ACP) States on a successor to the third ACP-EEC Convention. The new Convention (Lome IV) was signed on 15 December.

1.13 The United Kingdom continued its strong support for the Community's deregulation initiative and welcomed moves by the Commission to improve the assessment of the business impact of new Commission proposals, and to improve consultation with business.

1.14 The Commission proposes to tighten up policy and to rigidly enforce existing rules on State Aids. The United Kingdom strongly supports Commission initiatives in this field.

1.15 The Agriculture Council reached agreement in July on the reform of the sheepmeat regime and in September on new arrangements for New Zealand lamb and butter imports. In November, the Council adopted reforms of the Community's regime for agricultural structures. The United Kingdom voted against these measures, objecting to the limits to be placed on the number of animals on which member states' Hill Livestock Compensatory Allowance payments would be reimbursed. Agreement was also reached on improved arrangements for determining the level of the additional cereals co-responsibility levy and on the issuing of 1 per cent extra milk quota from 1989/90. In December the Council agreed in principle on the arrangements which will apply for veterinary checks on certain animal products, and on two measures to combat fraud, one of which is a regulation which introduces reinforced arrangements for scrutiny by the member states of transactions under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund.

This was later adopted at the 21-22 December Internal Market Council.

1.16 In the fisheries sector, Total Allowable Catches (TACs) and quotas and guide prices and arrangements with third countries including Norway and Sweden for 1990 were agreed. The arrangements adopted by the Council of Ministers on TACs and quotas met all of the main UK negotiating objectives.

1.17 The Research Council of 15 December reached a unanimous agreement on a new Framework Programme for 1990-94. The Research Council also adopted, or agreed a common position, on a number of specific programmes within the overall provisions of the Community's 1987-91 Framework Programme for Research and Development.

1.18 In the environment sector, the Council adopted a resolution aimed at preventing natural hazards and reducing dangers from potentially hazardous industrial activities and the transport of dangerous substances. The Council endorsed a proposal to list the African Elephant on Appendix I of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Agreement was reached on a directive establishing systems for the national regulation of the deliberate release to the environment of genetically modified organisms. Political agreement was also reached on a regulation establishing a European Environment Agency responsible for the collection, co-ordination and analysis of environmental information.

1.19 In the transport field, agreement was reached on a regulation removing recommended road haulage tariffs between member states. Agreement was also reached for a transitional phase liberalising road haulage cabotage as a preliminary step to a full-scale regime from 1993. A framework within which negotiations should be taken forward on the second aviation liberalisation package was also set by the Council.

1.20 In the energy sector, the Commission set in train its programme of overcoming barriers to the internal energy market by publishing four proposals, mainly concerning gas and electricity. In October the proposals were discussed by the Energy Council but significant areas of disagreement remain. The UK supports in principle those on transit of gas and electricity and price transparency as first steps towards liberalisation of energy markets; it is opposed to that on notification of investments.

1.21 In the field of social affairs the European Council considered the Commission proposal for a Community charter of fundamental social rights of workers. Eleven member states adopted the charter although the United Kingdom was unable to support the proposal. The European Council noted that the Commission had drawn up an action programme of measures to implement the rights in the charter and expressed the view that consideration of the measures should be with "regard to national and Community responsibilities".

1.22 The Labour and Social Affairs Council adopted three "daughter" directives under the Framework Directive on measures to improve the health and safety of workers at the workplace, covering the workplace, work equipment and personal protective equipment. Common positions on two other "daughter" directives covering handling of loads, and display screens were also agreed.

1.23 On 3 October the Foreign Affairs Council adopted a directive on broadcasting, (based closely on the Council of Europe Convention on Transfrontier Television) providing for a limited harmonisation of member states laws' on matters relating to broadcasting. Adoption of the directive was welcomed by the Government as a measure which would reduce barriers to trade and open up broadcasting markets, whilst preserving acceptable standards of taste and decency.

1.24 In the field of frontiers issues, working groups established to consider matters relating to immigration, policing and the movement of people within the Community continued their work under the general oversight of the Group of National Frontier Co-ordinators. In December 1989, the European Council re-emphasised the importance of this work which aims to remove as far as possible impediments to the free movement of Community citizens within the Community. Subsequently Ministers of the member states made declarations which marked progress on police co-operation and on immigration control. A new forum, the Drugs Co-ordinators Group, was established to co-ordinate action in the fight against drug misuse.

1.25 The Education Council agreed conclusions on co-operation and Community policy in the field of education and training in the run up to 1993 and adopted a resolution on youth cards. The Council also agreed a second phase of the European Community Action Scheme for the Mobility of University Students (ERASMUS) programme and adopted a resolution on failure at school. It also agreed conclusions on technical and vocational education and initial training and discussed co-operation with Eastern Europe.

SECTION I

SECTION II: ECONOMIC, BUDGETARY AND MONETARY MATTERS

1990 Budget

2.1 The 1990 budget was the second to be subject to the arrangements for budgetary discipline put in place following the February 1988 European Council.

2.2 On 28 July the Budget Council considered the preliminary draft budget (PDB) for 1990 proposed by the Commission. The Council established a first reading draft budget totalling 48.2 billion ecu (£30.7 billion) in commitment appropriations and 46.1 billion ecu (£29.4 billion) in payment appropriations. These figures are respectively 0.8 billion ecu (£0.5 billion) and 0.7 billion ecu (£0.4 billion) below the figures in the PDB.

2.3 In September the Commission presented a Letter of Amendment to the 1990 PDB providing for assistance of 200 million ecu (£127.5 million) towards the economic restructuring of Poland and Hungary. This letter was formally established at the Economic and Finance Council on 9 October. A second Letter of Amendment, reducing the revenue required to finance the 1990 Budget by some 800 million ecu (£509.9 million) as a result of lower than expected agricultural support expenditure in 1989, was presented by the Commission in October.

2.4 At its first reading of the draft budget on 26 October the European Parliament voted to increase the package of economic aid for Poland and Hungary to 300 million ecu (£191.2 million). Overall, the revised draft budget which the Parliament sent back to the Council totalled 49.4 billion ecu (£31.3 billion) in commitments and 47.1 billion ecu (£30 billion) in payments.

1. All conversions in this section relating to the 1990 Budget are at the rate of £1 = 1.568999 ecu, otherwise they are at the 1 December market rate of £1 = 1.37081 ecu.

2.5 The Budget Council considered the Parliament's amendments and modifications on 14 November. The Council agreed to increase the aid package for Poland and Hungary to 300 million ecu on the basis that 200 million ecu would be inscribed in the 1990 budget before it was adopted, with the remaining 100 million ecu (£63.7 million) being provided in a subsequent supplementary budget following the necessary revision of the expenditure ceilings laid down in the inter-institutional agreement (IIA) between the Council, Parliament and Commission. The Council also revised the second Letter of Amendment, increasing the estimated shortfall in agricultural spending in 1989 from 800 million ecu (£509.9 million) to 1.8 billion ecu (£1.1 billion). The second reading draft budget to which the Council agreed totalled 48.4 billion ecu (£30.8 billion) in commitments and 46.2 billion ecu (£29.4 billion) in payments.

2.6 Negotiations between the President of the Budget Council and representatives of the Parliament took place in advance of the Parliament's second reading of the Budget on 13 December. It was agreed that the whole of the 300 million ecu aid package for Poland and Hungary would be inscribed in the budget before adoption.

2.7 The 1990 budget, as adopted, amounts to 48.8 billion ecu (£31.1 billion) in commitments and 46.7 billion ecu (£29.8 billion) in payments, respectively 4.4 billion ecu (£2.8 billion) and 4.1 billion ecu (£2.6 billion) below the overall expenditure ceilings in the IIA. Provision for expenditure on agricultural market support is 26.5 billion ecu (£16.9 billion,) almost 4.2 billion ecu (£2.7 billion) less than the limit set by the financial guideline calculated in accordance with the 1988 budget discipline decision. Non-compulsory expenditure totals 16.9 billion ecu (£10.7 billion) in commitments and 14.8 billion ecu (£9.4 billion) in payments. These figures are 22.2 per cent and 21.2 per cent respectively higher than in the 1989 budget.

Provision for the United Kingdom's abatement under the Fontainebleau arrangements is 2.4 billion ecu (£1.5 billion).

2.8 Taking account of a provisional surplus of some 1.8 billion ecu (£1.1 billion) carried forward from 1989, the own resources to be called up for the 1990 Budget represent 0.99 per cent of Community Gross National Product (GNP), compared with the relevant annual sub-ceiling in the Own Resources Decision of 1.18 per cent.

Fraud against the Community budget

2.9 Following the endorsement by the June Economic and Finance Council of the Commission's 45-point programme to combat fraud, and the call by the June European Council for early action, various legislative and administrative measures have been proposed or implemented.

Economic and Monetary Matters

2.10 Following agreement at the Madrid European Council on 26-27 June that Stage 1 of economic and monetary union (EMU) should begin on 1 July 1990, proposals have been brought forward to amend the 1964 Council Decision on co-operation between Community central banks and the 1974 Decision on convergence of economic policies. These new arrangements will strengthen the co-ordination of member states' economic and monetary policies, mainly through new procedures in the Committee of Central Bank Governors and the Monetary Committee of the Economic and Finance Council. They will not involve creating any new institutions and will not commit the Community to further steps beyond Stage 1. The Economic and Finance Council reached political agreement on these proposals on 18 December, and expects to finalise them early in 1990.

2.11 The European Council on 8-9 December decided that the necessary majority existed to convene an inter-governmental conference before the end of 1990 to consider Treaty amendments to provide for subsequent stages of EMU. The United Kingdom made

clear that it did not accept the need for a conference, since in its view progress towards economic and monetary union should be made without new institutions and therefore without amendments to the Treaty of Rome. However, the UK also made clear that it would attend a conference if it were held. The Council agreed that thorough preparation should take place before the inter-governmental conference. Arrangements have now been made for this work to begin, under the direction of the Economic and Finance Council. The UK paper "An Evolutionary Approach to Economic and Monetary Union", published on 2 November, will be one of the documents on which the preparation will be based.

2.12 In July the Economic and Finance Council discussed the economic situation in the Community on the basis of the Commission's second quarterly economic review; and in October the Commission published its Annual Economic Report for 1989-90, which reviews the improved performance of the Community economy over recent years and the continued good prospects for the coming years. The guidelines for economic policy in the early 1990s set out in the report were approved by the Economic and Finance Council in December.

Indirect taxation

2.13 At their meetings in October, November and December the Economic and Finance Council reached outline agreements on the VAT and Excise technical systems for use after the removal of fiscal frontiers on 1 January 1990. No agreement has been reached on VAT and Excise rates.

Insider dealing

2.14 Following a second reading in the European Parliament on 13 November the Economic and Finance Council adopted the Insider Dealing Directive. This requires member states to make insider dealing unlawful, and to co-operate in obtaining and exchanging

information for enforcement purposes. This Directive includes minimum standards definitions for inside information and transferable securities. It prohibits primary insiders (ie individuals with a defined relationship with the source of the information) and secondary insiders (other individuals with inside knowledge) from improperly taking advantage of inside information in full knowledge of the facts when buying or selling securities. There are also provisions to safeguard legitimate business practices, such as the work of analysts.

ECU Reweighting

2.15 The five-yearly review of the composition of the European Currency Unit (ecu) was completed. Following agreement by the Economic and Finance Council in June to include the Spanish peseta and Portuguese escudo in the ecu and to revise the weighting of its component currencies, the Commission set new currency amounts for the ecu to take effect from 21 September.

Banking

2.16 On 15 December the Council formally adopted the Second Banking Co-ordination Directive. This measure, together with the Solvency Ratios Directive which was adopted on 18 December by the Economic and Finance Council and the Own Funds Directive which was adopted in April, puts into place the key elements for the creation of a more open and competitive market in a wide range of services provided by credit institutions (broadly, banks and building societies in the United Kingdom) throughout the Community from 1993.

European Investment Bank

2.17 Following a request from the Council of Ministers, the Governors of the European Investment Bank authorised lending of up to 1000 million ecu (£729.5 million) for projects in Poland and Hungary meeting the Bank's normal lending criteria. This will be the first time that the Bank has financed projects in Eastern Europe.

SECTION III: AGRICULTURE, FISHERIES AND FOOD

Cereals

3.1 Following a Report to the Council in September on the cereals co-responsibility levy, the Commission, in September, adopted a regulation making a number of changes to the levy arrangements, including a penalty for late payment of the levy; also as a result of the Report, the Council agreed to, but has not yet formally adopted, a proposal changing the system for determining the size of the EC cereals harvest and adjusting the rate of additional cereals co-responsibility levy in the light of it. In October the Commission determined the size of the 1989 Community cereals harvest at 160.5 million tonnes. As this figure just exceeded the Maximum Guaranteed Quantity a small additional cereals co-responsibility levy should have been collected in 1989/90 but in December the Council, and Commission, adopted regulations which meant that no additional cereals co-responsibility levy is to be collected during 1989/90.

Oilseeds and Protein Crops

3.2 Under the stabiliser arrangements for oilseeds and protein crops, production estimates for 1989-90 were agreed which resulted in target price reductions for 1989-90, expressed in ecu, of 3.1 per cent for rapeseed, 6.2 per cent for sunflowerseed, 19.3 per cent for soya beans and 8.9 per cent for peas and beans harvested dry. Because most of these price reductions were smaller than those applying in the previous year, these changes gave rise to support price increases expressed in ecu of 4.9 per cent for rapeseed, 17.0 per cent for sunflowerseed and 0.1 per cent for peas and beans. Soya support prices fell by 10 per cent. As a result of green rate changes the increase for rapeseed, the only major oilseed grown in the United Kingdom, when expressed in sterling terms, was 12.1 per cent.

Sheepmeat

3.3 On 25 September the Council adopted a regulation reforming the internal EC Sheepmeat regime with the intention of moving by the beginning of 1993 to a system of a single, Community wide premium payable per breeding ewe.

3.4 On 25 September the Council adopted a Decision adopting the Voluntary Restraint Agreement (VRA) with New Zealand involving a reduction in total New Zealand imports, arrangements for price surveillance of imports and limits on chilled sendings in exchange for a reduction in the import levy to 0 per cent.

3.5 On 1 December the Commission adopted a decision amending Decision 89/310/EEC on the quantities of sheepmeat and goatmeat that may be imported into certain sensitive market areas (France and Ireland) during 1989 from third countries.

3.6 On 1 December the Commission adopted a regulation extending until the end of the 1992 marketing year the exemption of clawback charges for exports of sheepmeat from Great Britain to third countries.

Beef

3.7 On 11-12 December the Agriculture Council adopted regulations opening import quotas for 1990 covering 53,000 tonnes of frozen beef and veal, 34,300 tonnes of high-quality cuts of beef, 2,250 tonnes of buffalo meat and 1,500 tonnes of thin skirt. The Council also amended Regulations 1787/89 and 1788/89 concerning Community tariff quotas for certain alpine and mountain breeds of cattle. The amendments are intended to ensure maximum uptake and to facilitate the operation of these quota arrangements.

Milk

3.8 Arrangements were agreed for the continued import of New Zealand butter into the United Kingdom at a preferential rate of import levy over a further four-year period. Access was granted to

64,500 tonnes of butter in 1989 (compared with 74,500 tonnes in 1988) with further, staged, reductions to 55,000 tonnes in 1992. The rate of import levy payable was reduced to 15 per cent of the butter intervention price (compared with 25 per cent previously) for the whole period. These arrangements, adopted in accordance with Protocol 18 of the Treaty of Accession, reflected the outcome of negotiations with New Zealand conducted by the EC Commission towards the end of 1988.

3.9 It was agreed to add an additional quantity of milk quota to the Community reserve, equivalent to 1 per cent of existing wholesale quota, for distribution on a pro rata basis to member states. These in turn are to allocate additional quota to particular groups of producers with outstanding difficulties or, under certain circumstances, to all their producers. From the 1989-90 marketing year the proportion of wholesale quota temporarily suspended is reduced from 5.5 per cent to 4.5 per cent of the total on issue; the remaining 1 per cent is cancelled but compensation payments in respect of the small quantity are increased to obviate any adverse effect on producers. In order to offset the cost of the package the intervention prices for butter and skimmed milk powder are reduced by 2.5 per cent and 0.75 per cent respectively from 1 March 1990. The rate of supplementary levy payable in the event of production exceeding quota is raised from 100 per cent to 115 per cent of the target price from 1 April 1990.

Horticulture

3.10 On 23 October the Council adopted a regulation laying down the general rules for applying the supplementary trade mechanism to trade in fresh fruit and vegetables between Spain and the former Community of Ten and thus avoiding the need for a regime of import licences. On 20 November the Council adopted a regulation fixing the basic and buying in prices for certain fruit and vegetables to be applied in Spain from 1 January 1990 to the end of the marketing year. On 4 December the Council adopted a regulation laying down

general rules implementing the Act of Accession of Spain and Portugal as regards the compensation mechanism on imports of fruit and vegetables originating in Spain which will effectively continue a minimum import price system for certain products. These three regulations implemented the Act of Accession of Spain and Portugal for the second phase of transition beginning on 1 January 1990.

Animal Health

3.11 On 24 July the Agriculture Council adopted a decision introducing measures to set up pilot projects for the control of rabies within the Community. On 25 September the Council adopted a directive introducing animal health conditions governing trade in bovine embryos. At the same meeting the Council also adopted a decision designating the Institute for Animal Health, Pirbright Laboratory, England as a reference laboratory for the identification of foot and mouth disease virus and determining the functions of that laboratory. On 30 October the Council adopted a decision recognising the Belgian region of West Flanders as being officially swine fever free.

3.12 On 20-21 November the Agriculture Council adopted a directive on mutual assistance on veterinary and zootechnical matters. This spells out the means by which member states authorities should co-operate with each other and with the Commission in relation to, amongst other things, exchange of information and suspected infringements of Community rules.

3.13 On 11-12 December the Agriculture Council adopted a directive concerning veterinary checks in intra-Community trade. This provides for intensified controls by member states of origin to ensure that, in the case of certain specified animal and fishery products, Community health requirements and those of the recipient country are met, and sets out arrangements for checking the products covered in the member state of receipt. It also commits the Community to agree by the end of 1990 on checks on live animals and on harmonised rules on imports from third countries. The

directive provides for certain transitional measures which will enable member states to carry out checks at points of entry in order to confirm compliance with Community rules relating to foot and mouth disease and swine fever. The directive will be subject to review before the end of 1992.

Food law

3.14 An important development in the food law sector was the publication of the Commission document entitled "Communication on the free movement of foodstuffs within the Community". This document was published in Official Journal C271 (ref 89/C271/03) of 24 October 1989 and is the long awaited paper announced in the Commission communication of November 1985 on the completion of the Internal Market in foodstuffs. The purpose of this latest communication is to set out the legal situation resulting in particular from Articles 30-36 of the Treaty of Rome and the various European Court of Justice decisions such as the "Cassis de Dijon" case. The paper underlines the principles to be followed in those areas where Community food law will not be harmonised. These principles are designed to ensure as far as possible that a foodstuff lawfully produced and marketed in one member state should not be subject to marketing or import restrictions in another.

Structures

3.15 Following the reform of the structures funds agreed in 1988, the Council agreed a package of amendments to the EC agricultural structures regulations. The package included EC recognition of the importance of diversified activities on farms; a stocking limit and limits to Community funding under the Hill Livestock Compensatory Allowances; restrictions on grants for intensive beef production; tighter rules on spot checks and controls; and general recognition of the need to make structural measures friendly to the environment.

European Agricultural Guidance and Guarantee Fund (EAGGF)

3.16 The United Kingdom received £408 million from the Guarantee

Section of the EAGGF. Because of the operation of the system of delayed advances, these receipts relate to expenditure incurred during the period 1 May 1989 to 15 October 1989. The main areas of benefit were sheep premia, cereal refunds and oilseed crushing subsidies. United Kingdom receipts from the Guidance Section of the EAGGF amounted to £15 million.

Fisheries

Internal Regime

3.17 On 27 November the Fisheries Council agreed on guide prices for 1990 and a Community producer price for tuna intended for the canning industry.

3.18 The Council also adopted a decision to provide 110 million ecu (£80 million) Community aid towards member states' enforcement costs. This should bring about improvements in the standard of enforcement throughout the Community and encourage member states with a poor enforcement record to undertake the necessary expenditure to bring their enforcement up to standard.

3.19 In the light of scientific advice a further mid year increase in the Channel cod Total Allowable Catch (TAC) was agreed which gave the United Kingdom an additional 60 tonnes of this stock.

3.20 On 18-19 December the Council reached agreement by qualified majority on a package of TACs and quotas for 1990 together with associated technical conservation measures. The United Kingdom secured the allocation of quotas under the new EC/Greenland fisheries protocol in accordance with the fundamental principle of relative stability of the common fisheries policy, thus safeguarding our fishermen's opportunities. Whilst staying within the scientific advice increases in 17 of the proposed TACs were also achieved, in particular for North Sea cod and haddock. Further, the United Kingdom again secured recognition of our Hague Preference for North Sea haddock reflecting the importance of the

stock to our industry and the poor state of the stock, so increasing our share of the Community availability from 78 per cent to 87 per cent. The United Kingdom also secured agreement on flexibility to fish for part of the western mackerel quota in the North Sea, in recognition of the changed migratory pattern of the stock. Some technical conservation measures were agreed, including an increase in the minimum landing size for bass which the United Kingdom had requested.

3.21 The Council also adopted a measure providing support for projects improving the marketing and processing of fishery and aquaculture projects. The new measure replaces the fisheries aspects of Council Regulation 355/77 which covers agriculture and fishery projects. Agreement was also reached on a number of autonomous tariff quotas and suspensions for 1990 to operate between 1 April and 31 December to provide easier access into the Community for whitefish used by the processing industry.

External Regime

3.22 The negotiations between the Community and Greenland for a new five year protocol to the existing fisheries agreement were concluded on a mutually satisfactory basis. The new protocol was formally adopted by the 18-19 December Fisheries Council. At the same Council, the fisheries arrangements with Norway, Sweden, Greenland and the Faroes for 1990 were agreed.

SECT. III

SECTION IV: THE SINGLE MARKET

4.1 The French Presidency sustained the rapid pace towards completion of the single market established over the past two years. Sixty five measures aimed at removing barriers to trade within the Community were finally adopted; agreed in principle; or had common positions agreed for submission to the European Parliament. A list of all 65 measures is at Annex E: a number of these are described in detail elsewhere in this White Paper.

4.2 The Internal Market Council met five times; on 18 July, 18 September, 10 October, 23 November and 21-22 December. The Council on 21-22 December made major progress including agreement on an EC merger control regulation which will provide for EC jurisdiction over certain larger mergers within the Community. The Commission shall declare incompatible with the Common Market those qualifying mergers which create or strengthen a dominant position as a result of which effective competition would be significantly impeded. The thresholds are set at a high level: the Commission expect to review about 35-40 mergers a year, of which it is believed that about 10-15 will involve UK companies. This number will be similar to current practice under Articles 85 and 86 of the EC Treaty. These Articles will be disapplied - as far as is legally possible - from mergers falling within the scope of the regulation. Below the threshold the Commission may intervene only at the request of a member state and then only to remedy competition within the territory of that member state. Also, the Commission proposed and the Council accepted their proposal to bring forward an action plan to tackle barriers to takeovers by March 1990.

4.3 Other important decisions reached at the 21-22 December Internal Market Council included political agreement in principle on three separate directives dealing with a right of residence for students, pensioners and other non-economically active persons. These measures are aimed at providing a right of residence throughout the Community for EC nationals not already deemed to have

such a right under the free movement provisions of the EC Treaty. The legal base for these directives remains to be agreed. The Council also accepted in principle a directive facilitating effective exercise of freedom to provide services in life insurance pending an opinion from the European Parliament. The directive liberalises cross frontier life insurance transactions in cases where the policyholder acts on his own initiative in seeking insurance from another member state. On 10 October the Council signed the agreement between the EC and Switzerland on non-life insurance, subject to the agreement of the European Parliament.

4.4 In the area of technical harmonisation and standards the Council of 21-22 December adopted common positions on three "new approach" directives on non-automatic weighing instruments, gas appliances and active electro-medical implantable devices and formally adopted a fourth on personal protective equipment. The Council adopted a resolution setting out the guiding principles for a European and "global approach" to conformity assessment. Also a draft decision committing the Council to the use of a number of agreed conformity assessment procedures in future technical harmonisation directives was agreed in principle subject to an opinion from the European Parliament.

4.5 The Council also adopted a common position on a directive laying down common rules on package travel including package holidays and package tours, and establishing a minimum level of consumer protection in this field. It will apply to domestic as well as overseas travel arrangements.

Other steps towards completion of the single market

IT Standardisation

4.6 The Senior Officials Group for Information Technology Standards met on 15 September and 18 December. The Commission, within their programme to harmonise Information Technology (IT) standards have now issued over 125 mandates to the European

Standards Organisation which have currently resulted in the approval of 50 European IT standards and prestandards.

Public procurement

4.7 On 18 September the Commission presented to the Council an amended proposal for a single directive on procurement by public and private bodies in sectors excluded from the Works and Supplies Directives (water, energy, transport, and from the Supplies Directive only, telecommunications)

Intellectual property

4.8 In December, the Commission and member states participated in a conference in Luxembourg which agreed the text of the Community Patent Convention. This is now open for ratification until the end of 1991. A Council working party met three times and completed a second reading of the proposed Council directive on the legal protection of biotechnological inventions. The proposal for a Council directive on the legal protection of computer programmes was considered on six occasions by a Council working party and on 21-22 December by the Internal Market Council.

Consumer Policy

4.9 On 9 November the Consumer Council adopted a Resolution identifying priorities for the relaunch of consumer policy. The Commission outlined its plans for improved representation of consumers at Community level. New Commission proposals for the European Home and Leisure Accident Surveillance System were forwarded to the Council on 16 November.

Customs and indirect taxation

4.10 The Economic and Finance Council discussed reports by the Ad Hoc Group of Officials on the Commission's revised proposals and the alternative approaches put forward by several member states. Agreement was reached that for VAT, the destination system would be

retained for commercial traffic for an unspecified period. The Council also agreed that a duty suspension regime between authorized warehousekeepers would apply to most commercial movements of goods subject to excise duty.

Broadcasting

4.11 The EC Directive on Broadcasting adopted in Council on 3 October forms an important part of the completion of the single market and achieves three single market goals;

i. removing obstacles to the freedom of movement of services: the directive sets down common rules on broadcasting which will enable member states to accept each others' transfrontier broadcasts (they will only be empowered to suspend retransmission of broadcasts which infringe the rules);

ii. protecting consumers, by ensuring that programmes respect certain standards, such as the need to protect minors from exposure to pornography or gratuitous violence; and

iii. providing an agreed regime on the amount, frequency and ethics of advertising thus facilitating free trade in broadcasting services.

FIREARMS

4.12 On 13 November the Commission presented to the Council its amended proposal for a directive on the Control of the Acquisition and Possession of Weapons. No discussions have yet taken place on the proposal within the Council framework.

SECTION.IV

SECTION V: REGIONAL POLICY AND INDUSTRIAL AFFAIRS

5.1 On 26 September the Industry Council agreed a resolution for a programme for improving conditions for sub-contractors in the Community. The programme, which is being developed and will be subject to further discussion, will include a separate information centre for sub-contractors; an up-date of the terminology list for the metal, and plastics and rubber sectors; an examination of the consequences for sub-contractors of differences in legislation and practices concerning terms of payment; and proposals on the definition of an unambiguous and balanced legal framework for sub-contractors within the framework of public procurement. Discussion also took place on the Community's craft industries; a Crafts Conference and Exhibition is to be held in Avignon in May/June 1990.

5.2 Following the announcement by the Commission on 31 May of an expansion of the European Information Centres from 39 to 184, eight additional centres were set up in the United Kingdom between October and December 1989. By the end of October 1989 there were 5604 subscribers to the Business Co-operation Network (BC-Net), set up by the Commission to promote trans-national co-operation, of which 24 per cent were from the United Kingdom.

5.3 In September the Commission introduced a pilot training programme for small and medium enterprises for preparation for 1992, to run until January 1990.

5.4 In November the Commission launched a programme to back 24 seed capital funds throughout the Community.

5.5 In December, the Council agreed on a framework for special measures, most of which are in the agricultural field, to aid the French Overseas Departments. Implementation of this framework programme will involve the submission by the Commission of detailed, specific proposals. The first such proposal, to replace the present

dock dues system with another non-discriminatory taxation system, was also agreed in December.

Structural Funds

5.6 The European Commission adopted the Community Support Frameworks (CSFs) for Objective 1 and 2 regions on 31 October and 20 December respectively. The United Kingdom signalled its agreement to the CSFs on 20 December. The CSFs will govern the provision and use of funding under the reformed Structural Funds. For the United Kingdom this means £578 million support from the Structural Funds for Objective 1 - Northern Ireland for 1989 to 1993 - and £941 million support from the Structural Funds for Objective 2 - declining industrial regions in Great Britain for 1989 to 1991. The funding will be disbursed through national programmes, of which some have been approved by the Commission, some await approval and some, for newly qualified areas, are being submitted. In addition the Commission has allocated £160 million for existing Community programmes and the 1989 European Social Fund in UK Objective 2 areas.

5.7 The European Commission approved in December the Integrated Development Operations (IDOs) for Manchester/Salford/Trafford (£46 million), Durham and Cleveland (£50 million), Tyne and Wear and South East Northumberland (£58 million), Merseyside (£61 million) and Industrial South Wales (£58 million). It also approved in December the programmes for Mersey Basin Phase II (£35 million) and Northern Ireland Transport (£99 million).

Social Economy

5.8 On 15-18 November a conference organised jointly by the French Government and the Commission was held on the "Social Economy" - economic organisations which are neither private companies nor public enterprises, which have some co-operative, mutual or voluntary aspect. The Internal Market Council on 20-21 December discussed a Commission communication on the social economy which proposed a series of studies to identify specific problems.

Tourism

5.9 The launch of the European Year of Tourism 1990 took place in Strasbourg on 11 December. This was followed by an informal meeting of Tourism Ministers on 12 December which discussed the continuing development of the European Year of Tourism, along with other tourism matters generally.

Telecommunications

5.10 On 7 November, the Telecommunications Council reached political agreement on proposals for a Council directive on the frequency bands to be reserved for a pan-European land based radio-paging system and a Council recommendation on its co-ordinated introduction by 31 December 1992, subject to the opinion of the European Parliament. The Council also took a decision on a common position to be taken by member states in discussion of the world standard for High Definition Television at the International Radio Consultative Committee plenary assembly to be held in 1990. On 7 December, the Telecommunications Council reached political agreement on a Commission directive under Article 90 of the Treaty of Rome and a related proposal for a Council directive on a framework for Open Network Provision (ONP). On 21-22 December a common position on the ONP proposal was agreed by the Council.

European Investment Bank (EIB) Loans

5.11 Loans signed in the United Kingdom from EIB own resources lending totalled £1084 million, all of which went to the private sector. The most significant loans were £100 million to British Aerospace for the Airbus A320 project; £100 million to the British Airports Authority for Stansted Airport; £100 million to the Severn Trent Water Authority to improve water quality and £75 million (in two tranches) to Eurotunnel. New tranches of two previous global loans totalling £55 million were signed with Barclays (£40 million) and 3i (£15 million), in addition to the signature of the first tranche (£30 million) of a global loan.

Deregulation

5.12 The United Kingdom continued to promote deregulatory policies in the Community. Bilateral seminars involving national officials and businessmen were held with Portugal and Belgium and the Commission. The United Kingdom has supported the Commission's efforts to give effect to the Communication on administrative simplification which was agreed by the Council in June. In particular we have welcomed proposals to improve the existing system of "fiche d'impact" for assessing the costs for business of new Commission proposals. We have also pressed for improved methods of consultation with business.

Steel

5.13 On 14 November the Industry Council agreed a Commission proposal modifying the decision of the December 1988 Industry Council on the restructuring of the Italian public sector steel industry. The November Council agreed to the extension of the closure deadlines of certain plants in exchange for a delay in the Italian government's payment of aid to the industry.

Intellectual property

5.14 A Community delegation took part alongside member states on 27 November-1 December in a World Intellectual Property Organisation meeting on harmonisation of trade marks law.

SECTION.V

SECTION VI: RESEARCH AND DEVELOPMENT

6.1 The Research Council met three times, on 18 September, 17 October and 15 December.

New Framework Programme: 1990-1994

6.2 On 15 December the Research Council reached a unanimous agreement on a new Framework Programme for 1990-1994. The total level of funding agreed was 5.7 billion ecu (£4.2 billion), comprising 2.5 billion ecu (£1.8 billion) for 1990-1992 and 3.2 billion ecu (£2.3 billion) for 1993-1994. The programme will cover Community research and development (R&D) activities in the following six main areas:

- i. Information and communication technologies
- ii. Industrial and materials technologies
- iii. Environment
- iv. Life sciences and technologies
- v. Energy
- vi. Human capital and mobility.

6.3 The 1990-1994 Framework Programme will be implemented through specific programmes which will be examined by the Research Council in the course of 1990.

1987-91 Framework Programme

6.4 On 17 October the Research Council agreed a common position on a research programme on agricultural competitiveness and the management of agricultural resources. The programme will receive Community funding of 55 million ecu (£40.1 million) over a five year period. The objectives of the programme are closely related to the need for Community agriculture to be brought into line with the market demand and for agricultural structures to be rationalised and modernised. Emphasis will be placed on research work which helps to identify alternative outlets for products and uses for land,

conserves natural resources and develops production systems in harmony with the environment.

6.5 On 15 December the Research Council adopted a research and technical development programme in the field of management and storage of radioactive waste. The programme will receive Community funding of 79.6 million ecu (£58 million) over a five year period; the primary objective is to develop systems for radioactive waste management which ensure the safety of the public and the protection of the environment.

6.6 On 15 December the Research Council agreed a common position on the human genome analysis programme. The programme will receive Community funding of 15 million ecu (£11 million) over a two year period; its main objectives are to develop and spread the basic technologies concerning the study of the human genome, improve the resolution of the human genetic map, and organise networks and co-ordination on a European and international scale of researchers from all disciplines working in this field.

6.7 On 20 November the Council adopted a research and technological development programme in the fields of raw materials and recycling. The programme will receive Community funding of 45 million ecu (£33 million) over three years.

6.8 On 20 November the Council adopted two research and technological development programmes in the field of the environment, STEP (Science and Technology for Environmental Protection) and EPOCH (European Programme on Climatology and Natural Hazards). The programmes will receive Community funding of 75 million ecu (£55 million) and 40 million ecu (£29 million) respectively over four years. The main objective of the programmes is the provision of scientific and technical support for the environmental activities of the European Community.

6.9 On 27 December the Council adopted a research and technological development programme in the field of biotechnology (BRIDGE). The programme will receive Community funding of 100 million ecu (£73 million) over four years.

Co-operation with EFTA countries

6.10 On 28 November the Council agreed a common position on co-operation agreements with the EFTA countries in the field of medical and public health research.

6.11 On 10 October the Council adopted co-operation agreements with Finland and Norway on research and development in the field of the protection of the environment.

6.12 On 30 October the Council agreed a common position on co-operation agreements with the EFTA countries for the SCIENCE (The stimulation of the international co-operation and interchange of European research scientists) programme.

Co-operation with Eastern Europe

6.13 On 15 December the Research Council agreed a statement on the possibility of research co-operation with Eastern Europe and invited the European Commission to come forward with specific proposals.

SEC.VI

SECTION VII: ENVIRONMENT AND TRANSPORT

Environmental Issues

7.1 On 19 September the Environment Council reached a political agreement on a directive concerning the deliberate release to the environment of genetically modified organisms. The directive requires member states to establish systems for the national regulation of such releases where they are for the purposes of research and development and establishes a Community-wide information exchange scheme between national authorities. It also establishes a system for their marketing throughout the Community.

7.2 On 19 September the Council also endorsed a proposal to list the African Elephant on Appendix I of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and agreed the arrangements for reaching the common positions of member states for the 7th meeting of the parties to the Convention at Lausanne on 9-20 October.

7.3 On 19 September the Council also adopted a resolution aimed at preventing natural hazards and reducing dangers from potentially hazardous industrial activities and from transport of dangerous substances. The resolution called on the Commission to undertake studies and initiate measures to improve the prevention of such hazards within the Community.

7.4 On 28 November the Council reached a political agreement on a regulation establishing a European Environment Agency responsible for the collection, co-ordination and analysis of environmental information. It is envisaged that the Agency will be a small, independent, professional body which will provide an authoritative source of information to underpin Community environmental policy. Care has been taken to avoid possible duplication of work being undertaken in other areas. The question of the eventual participation of non-Community countries remains open. No decision

was taken on the location of the Agency's headquarters. The United Kingdom has offered to host it in Cambridge.

7.5 Other subjects discussed at Environment Council were: the transfrontier movement of waste; environmental labelling of consumer products; the causes and consequences of tropical deforestation; proposals to curb emissions from diesel heavy goods vehicles; a new draft text on the protection of natural and semi-natural habitats and wild fauna and flora; the relationship between the environment, taxation and the completion of the internal market; freedom of access to information on the environment held by public authorities; and pollution of water by nitrates from diffuse sources.

Transport Issues

7.6 On 16 October the Transport Council agreed that, with effect from 1 January 1990, tariffs for road haulage services between member states shall be set by free agreement between the contracting parties.

7.7 On 23 November the Internal Market Council agreed a regulation on frontier controls for road and inland waterway transport which, rather than eliminating frontier controls altogether, as had originally been proposed, now makes it possible to carry out controls at frontiers to the same extent as elsewhere in the country. This regulation will come into force on 1 July 1990.

7.8 On 4-5 December, the Transport Council agreed on a transitional phase for liberalising road haulage cabotage. This scheme provides for a quota of 15,000 permits, each valid for two months, to be shared between member states, although each member state can opt to convert its share of the quota into twice as many permits, each valid for one month only. The arrangements will enter into force on 1 July 1990 and last until 31 December 1992. The Council is to adopt, by 31 July 1992, a regulation laying down a definitive cabotage system to enter into force from 1 January 1993.

7.9 The December Transport Council also considered and concluded that the liberal double disapproval system for setting fares, as set out in the Commission's proposal for a second stage of aviation liberalisation, should be introduced by 1 January 1993; that bilateral capacity sharing should be abolished by the same date; and that harmonised criteria should be introduced for licensing by 1 July 1992.

7.10 Following discussion on Community railway policy at the December Transport Council the Council invited the Commission to set up a Working Party to advise on the development of high speed rail links across Europe, and on associated technical harmonisation matters.

7.11 In the shipping sector, the Commission continued to investigate cases under the package of shipping regulations adopted during the United Kingdom Presidency in 1986. The Community continued consultations with the West and Central African States under the Lome III Convention. Discussions continued on harmonising operating conditions and improving the competitiveness of EC fleets; the United Kingdom, along with a majority of member states, do not accept that the Commission's proposals would meet that aim. However, the proposals also include provisions for the liberalisation of shipping cabotage, for which the United Kingdom has continually pressed.

7.12 The December Transport Council also considered, but did not adopt, the Commission's proposals on the compulsory wearing of seat belts and legal alcohol limits for drivers. The Council asked the Committee of Permanent Representatives to develop a set of technical measures for reducing road casualties.

7.13 Throughout the period the Commission has kept the Council informed on progress with their negotiations with Austria, Switzerland and Yugoslavia on the issue of third country transit.

SECTION VIII: SOCIAL AFFAIRS

Employment

8.1 On 10 July an informal meeting of Employment Ministers discussed employment and training, and agreed that an annual debate on employment would be useful.

8.2 On 30 October the Labour and Social Affairs Council discussed the draft charter of fundamental rights of workers. The Presidency concluded that there was a general agreement on the procedure to deal with the charter, in the form of a report to the European Council, but with a general reserve by the United Kingdom on the substance. The Commission promised to produce its action programme of measures necessary to implement the charter in time for discussion at the Labour and Social Affairs council on 30 November. The Council adopted Common positions on two of the "daughter" directives under the Framework Directive on health and safety at the workplace. These cover manual handling of heavy loads and display screen equipment (formerly visual display units), the United Kingdom abstaining on the latter.

8.3 The Standing Employment Committee, a four-sided group consisting of Employment Ministers, the Commission and representatives of employers and the workforce met on 10 November. The Committee discussed a Commission paper "Employment in Europe-Trends and Priorities" based on the Commission's first annual report on employment "Employment in Europe 1989". The Committee agreed that efforts to deal with persistent high unemployment must be continued and welcomed the impetus given by the Council Resolution of 22 December 1986 introduced by the United Kingdom Presidency. It reiterated its concern at the level of long term unemployment, emphasised the need for both initial and continuing training and drew attention to the problems caused by demographic change and changes in the nature of work itself. The Presidency concluded that efforts must be made to anticipate structural

changes and welcomed the French initiative for a European employment survey authority.

8.4 On 30 November the Labour and Social Affairs Council adopted three "daughter" directives under the Framework Directive on health and safety at the workplace. These covered safety at the workplace, use of work equipment and use of personal protective equipment. A common position on a draft directive on protection of workers from risks of exposure to carcinogens was also agreed. A resolution on a European employment survey and a decision allowing the Commission to negotiate on behalf of the Community on the ILO draft convention on safety in the use of Chemicals were adopted. Agreement in principle was reached on a proposal for a technology training programme, "Eurotecnet", subject to finalisation of the budget. The Commission gave an oral presentation of the social action programme: the text of the programme was not available and little discussion took place. The Commission also outlined a proposal for a programme on continuing training.

Health

Cancer

8.5 Agreement in principle, subject to the opinion of the European Parliament, was reached by the Health Council on 13 November on the adoption of a Decision covering a 1990-1994 action plan under the Europe Against Cancer programme. A 50 million ecu (£36.5 million) budget was agreed for the programme. In October all the major cancer charities, medical groups and Government health promotion agencies launched a special Europe Against Cancer Week and the start of a major, co-ordinated drive to improve public awareness of cancer issues.

Tobacco

8.6 On 13 November the Health Council adopted a directive concerning the labelling of tobacco products. This directive will set standardized health warnings on tobacco products from 1992. Also at the 13 November Health Council, a common position was

reached on the tar yield directive. This will set a maximum tar yield for cigarettes of 15 mg/cigarette from 1992 and of 12 mg/cigarette from 1997. Greece has a temporary derogation allowing an initial limit of 20 mg in 1992, and then a gradual reduction to the 12 mg limit in 2006.

AIDS

8.7 At their meeting on 13 November the Health Council agreed a resolution on HIV infection and AIDS which centred on steps to promote activities of common interest, and increase co-ordination of national and Community projects. The Resolution included an action plan requesting the Commission to consider co-ordinated research projects in the field of prevention to improve the system for gathering epidemiological data, to develop a programme of prevention of AIDS among injecting drug misusers, and to examine, within the framework of the internal market, the harmonisation of condoms and HIV self-testing kits. The AIDS Ad Hoc Group was asked to develop a programme of exchange of information and, with the Commission, draw up and submit to the Council, an action plan integrating measures to prevent and control HIV infection and AIDS.

Action programme for the disabled

8.8 On 18 December the Council adopted a decision concerning the further development of the Handynet system in the context of the Second Action Programme for Disabled People, known as HELIOS, which was set up by a Decision of the Council on 18 April 1988 (88/231/EEC) and runs until the end of 1991. The programme includes work on a proposed EC multi-lingual information system for disabled people, known as Handynet, and in particular its first module concerned with technical aids and equipment, Handy aids, which was subject to a review by the Council before 1 January 1990. This further decision enables work to continue until the end of the Second Action Programme. Within the existing budget for the HELIOS programme, priority is to be given to the completion and putting into operation of the Handy aids module including data on

technical aids for people affected by impaired motor, visual, hearing, mental or communication faculties.

Youth

8.9 On 9 November an informal meeting of Ministers concerned with youth discussed a number of issues relating to youth affairs. Topics discussed included consideration by Community institutions of the most appropriate structure for dealing with youth affairs, development of a Community youth policy and links with other institutions including Eastern bloc countries.

Education

8.10 On 6 October the Education Council adopted conclusions on co-operation and Community policy in the field of education and training in the run-up to 1993 in response to the Commission's guidelines for the medium term in this area. The conclusions identified objectives for future co-operation and recognised that such co-operation must have regard to the principles that the fundamental powers in matters of general education policy lie with member states, that Community action should be subsidiary to that of member states and that linguistic and cultural diversity should be respected. The Council also agreed that Ministers would encourage initiatives related to the development of national youth cards and on the co-ordination of national experiments in the public or private sector which might lead eventually to a European youth card.

8.11 On 14 December the Education Council agreed the extension of the ERASMUS programme for a further five years from 1990 to 1994, at an estimated cost of 192 million ecu (£140 million) for the first three years of the new phase.

8.12 The Council also agreed conclusions on technical and vocational education and initial training which invite the Commission to review existing Community programmes in this area and

to prepare proposals. The Council also adopted a resolution on measures to combat failure at school.

8.13 The Council agreed to discuss in due course proposals from the Commission relating to the European Schools, following discussion of the proposals by the Board of Governors of the European Schools.

8.14 Education Ministers also discussed co-operation with the countries of Eastern Europe and in particular with Poland and Hungary. They recognised the importance of assistance in the field of education and training and agreed urgently to pursue proposals for the establishment of a European Training Foundation and the development of exchange and other programmes in these areas.

Social Security

8.15 On 29 September the Labour and Social Affairs Council exchanged views on a number of wide-ranging items, including family policies and the possibility of a co-ordinated approach to the problems of disability. Agreement was reached on possible measures for combating the social exclusion of disadvantaged groups. There was also some discussion of the social security provisions for workers moving between member states and of the need for extension of co-ordination measures to social protection schemes in fields such as occupational pensions.

8.16 On 30 October the Labour and Social Affairs Council adopted amendments to the family benefits provisions of the Regulation (1408/71) dealing with social security for migrant workers, in the light of the European Court of Justice judgment in the "Pinna" case.

European Social Fund

8.17 On the European Social Fund the period was dominated by detailed discussion on the Commission's draft proposals for the Community support frameworks (CSFs) based on the United Kingdom

national plans for Fund objectives 3 (the long term unemployed) and 4 (young people), and the regional plans for objectives 2 (areas of industrial decline) and 5b (areas of rural development). The Commission is currently proposing to allocate to the United Kingdom £781 million over three years (1990-1992) for objectives 3 and 4 measures and £199 million over two years (1990-1991) for objective 2 measures.

Immigration

8.18 On 15 December, Ministers responsible for law enforcement and security matters met in Paris to review progress with work on the immigration aspects of preparing for the Internal Market. Ministers took note of the range of proposals which the French Presidency had brought forward, and adopted a joint declaration recording their agreement to introduce common standards of immigration control at external frontiers of member states, to harmonise policies and practices regarding the issue of visas and to exchange information about persons who must be refused access to the territories of member states. Detailed work on these matters will be carried forward during the Irish Presidency.

Policing co-operation

8.19 Also on 15 December the same group of Ministers endorsed a number of measures to reinforce co-operation among member states in the fields of law enforcement and security. In particular, it was agreed that further work should be done to co-ordinate the efforts of the Twelve to combat terrorism and drug trafficking. Ministers also approved priorities for further work to develop co-operation in general, including the development of a network of liaison officers; speedier sharing of information; joint studies of scientific and technical aspects; and measures to strengthen security at the external borders of the Community. These priorities were signalled in a declaration made by Ministers at the meeting.

Drug trafficking and misuse

8.20 Following a proposal by the President of the French Republic, a new intergovernmental group was established at the end of 1989 to co-ordinate action on a Community-wide basis in the fight against drug trafficking and misuse. The Drugs Co-ordinators' Group will provide a focus for the work of existing fora which deal with particular aspects of the drugs problem. The United Kingdom's representative is the Home Office Minister of State Mr David Mellor, QC MP.

8.21 The 13 November meeting of the Health Council adopted conclusions calling for preparatory work to be undertaken to enable the establishment of a European network of health data on drug abuse. This followed up the work on the lines entrusted to the Commission by the 16 May meeting of the Health Council.

SEC VIII

SECTION IX: ENERGY

9.1 The Commission tabled four proposals as part of its programme for completing the Community's internal energy market: directives on the transparency of gas and electricity prices, the right of transit of gas through the major systems and the right of transit of electricity through transmission grids, and an amending regulation on the notification of energy investments.

9.2 On 30 October, the Energy Council held preliminary discussions on each of the four proposals. The Council agreed on the principle of a directive on price transparency, which would ensure the communication to the Commission and publication, subject to commercial confidentiality, of prices of gas and electricity to industrial customers. In exchanges of views on the two transit proposals, the Council agreed that it was important to liberalise the transfer of electricity between member states, but was unable to reach a consensus on the transport of gas. The Council failed to reach a concerted view on the proposal for the notification of energy investments, to which several member states were vigorously opposed.

9.3 The Council resumed consideration of a programme for demonstration and dissemination projects for non-nuclear energy technology and hydrocarbons (THERMIE). THERMIE is designed to replace two schemes which expired on 31 December 1989. Significant progress was made, but final agreement was deferred until early 1990, pending settlement of the programme's financial provision.

9.4 The Council also informally discussed the proposed directive on public procurement in the excluded sectors, which include energy.

Receipts from the Community

9.5 In 1989 the United Kingdom Atomic Energy Authority expects to receive £16.3 million in respect of the Joint European Torus (JET) and the Authority's own fusion programme, and about £3 million

for its non-nuclear radioactive waste management and safety research and development programmes. British Coal received, in the period July-December, from the Community and the European Coal and Steel Community together £0.7 million in research grants. It also received £2.8 million and the Department of Energy £8.8 million, for readaptation aid. The European Regional Development Fund paid grants totaling £1.1 million to the electricity supply industry in England and Wales and £0.01 million to the gas industry for projects in the UK over the period July-December.

SECTION. IX

SECTION X: EXTERNAL RELATIONS, TRADE AND AID

GATT (General Agreement on Tariffs and Trade): Uruguay Round

10.1 Negotiations continued, with negotiating positions being submitted by the EC and other contracting parties by the year end, in line with the Director General's timetable. It was agreed that the final meeting of the Round should be held in Brussels on 3-7 December 1990. The Community and the UK were represented at an informal meeting of Trade Ministers to discuss the Round in Tokyo on 15-17 November. Ministers confirmed their commitment to bringing the Round to a successful conclusion by the end 1990 deadline.

Anti-Dumping

10.2 Anti-Dumping investigations were opened by the Community against imports of four products exported by a total of five countries. In addition definitive anti-dumping remedies were imposed on four producers from five countries. This represents a somewhat lower level of activity than for the previous six monthly period.

EC/Poland and Hungary

10.3 In response to the mandate given by the Paris Summit of the Group of Seven, the Commission produced an action plan for co-ordinated aid for Poland and Hungary. The Commission chaired four meetings of the 24 OECD donor countries to review aid measures taken for Poland and Hungary and to co-ordinate future aid. Specific EC measures were adopted to abolish or suspend quantitative restrictions on Hungarian and Polish exports to the EC, a £210 million package for Poland and Hungary in 1990 covering agricultural reform, environmental protection and manpower training, and the extension of Generalised Scheme of Preferences (GSP) status together with European Investment Bank lending to these countries. In addition some £70 million of free food was provided to Poland. The Strasbourg European Council agreed in principle to the establishment of a European Bank for Reconstruction and Development and a Training

Foundation for Eastern Europe, and referred to the need to grant an adjustment loan of \$1 billion Stabilisation Fund for Poland. An agreement on trade, commercial and economic co-operation with Poland was signed in Warsaw on 18 September under which the Community undertook to remove discriminatory quantitative restrictions and the Poles agreed to improve business conditions for Community operations. Provision was also made for economic co-operation in a large range of sectors.

EC/USSR

10.4 An agreement on trade, commercial and economic co-operation with the Soviet Union was signed in Brussels on 18 December along the same lines as the EC/Hungary and EC/Poland agreements, taking account of the state of Soviet economic reform and its non-membership of GATT. The agreement also covered EURATOM to provide for co-operation in the nuclear energy field.

EC/GDR

10.5 On 21 December, the Council agreed a negotiating mandate for an agreement on trade, commercial and economic co-operation with the GDR.

EC/Romania

10.6 On 20 December the Commission announced the freezing of all relations with Romania. A decision to suspend Romania's GSP status was taken on 21 December. These decisions were the result of the actions of the security forces against the civilian population in Timisoara and elsewhere. Following the subsequent overthrow of the Ceausescu regime these decisions were not promulgated.

EC/United States

10.7 The Community maintained a constructive dialogue with the United States on trade relations. Though a number of difficulties remained, broad United States concerns about the consequences of completion of the single market gave way to general support for closer European political and commercial co-operation. A joint

EC/US task force continued to examine ways of resolving the dispute over the EC's ban on imports of meat from animals treated with hormones. Discussion continued between the Commission, member states and the United States over problems associated with trade in civil aircraft and telecommunications. The GATT panel, set up to consider the United States complaint against the EC's oilseeds regime, reported to GATT contracting parties on 14 December. Both sides are considering their response.

10.8 The 6 November Foreign Affairs Council agreed to renew the voluntary restraint arrangement limiting EC steel exports to the United States for a further 2½ years. The annual high level meeting between the EC and United States was held in Brussels on 15 December, at which current trade disputes were discussed.

EC/Canada

10.9 The Community continued to monitor the implications for the Community of the Free Trade Agreement between the United States and Canada.

EC/Japan

10.10 The annual high level meeting between Japan and the EC was held in Brussels on 9-10 November. A wide range of issues were covered, including the need for structural reform in the Japanese economy, and market opening in particular sectors. Japan expressed concern about the EC's anti-dumping policy.

EC/Korea

10.11 The EC and Korea continued negotiations about Korea's intellectual property protection. (Current Korean legislation puts EC companies at a disadvantage when competing with United States companies). The Commission awaited a satisfactory Korean response to long-standing representations.

10.12 In October following pressure from the EC and others, Korea agreed to disinvoke GATT Article XVIII B and to remove by 1997 all import restrictions maintained on balance of payment grounds.

EC/ACP

10.13 Negotiations were concluded between the EC and the African, Caribbean and Pacific (ACP) States on a successor to the third ACP-EEC Convention (Lomé III) which expires on 28 February 1990. Ministerial negotiating meetings were held in Luxembourg on 27-29 October and Brussels on 25-27 November. The new Convention (Lomé IV) was signed on 15 December in Lomé.

10.14 The new Convention is of 10 years duration with provision for a review after 5 years. The EC will continue to provide financial resources on a 5 yearly basis. The financial package for the first 5 years of Lomé IV will be up to 12 billion ecu (£8.5 billion) comprising 10.8 billion ecu (around £7.7 billion) under the next European Development Fund (EDF VII) plus up to 1.2 billion ecu (£0.8 billion) from the European Investment Bank's own resources. Further improvements were made to the Lomé trade regime including improved access for a range of agricultural products, various improvements to the rules of origin and substantial progress on the liberalisation of ACP rum access. The EC agreed to ban all exports of toxic and radioactive waste to the ACP. Haiti and the Dominican Republic's applications to accede to the new Convention were accepted. The way was also opened for Namibia to join when it becomes independent and if it wishes to do so.

EC/EFTA (European Free Trade Association)

10.15 A meeting of EC and EFTA Ministers in Brussels on 19 December agreed to the opening of formal negotiations on expanding EC/EFTA relations in the first half of 1990. The aim of the negotiations will be to provide a framework for extension of the single market, as far as possible, to include EFTA countries; and for further co-operation in the so-called "flanking policy areas" (eg research and development, education, environment etc). This

decision followed extensive exploratory talks during which the Commission and EFTA identified much common ground for expanding relations.

EC/Austria

10.16 Austria submitted an application for EC membership on 17 July which was referred to the Commission for its Opinion in line with normal procedures.

EC/Argentina

10.17 On 18-19 December the Foreign Affairs Council adopted a mandate for negotiations on a trade, commercial and economic co-operation agreement between the EC and Argentina.

EC/Gulf Co-operation Council

10.18 On 18-19 December the Foreign Affairs Council adopted a mandate for negotiations on a second stage trade agreement between the EC and the Gulf Co-operation Council.

EC/Turkey

10.19 On 18-19 December, the Commission presented to the Foreign Affairs Council its opinion on Turkey's application for EC membership. The Council took note.

EC/Egypt

10.20 A meeting of the EC/Egypt Co-operation Council was held in Brussels on 6 November.

EC/Yugoslavia

10.21 A meeting of the EC/Yugoslavia Co-operation Council was held in Brussels on 27 November.

Overseas Development

10.22 Negotiations between the EC and the African, Caribbean and Pacific States on a successor to third ACP/EEC Convention were

successfully concluded. For further details see paragraphs 10.13-10.14.

10.23 Under the European Development Funds, 61 projects worth a total of £407 million were approved; food aid worth £74 million from the Community's regular programme was allocated to 11 countries, five international organisations, and various non-governmental organisations. Twenty three projects worth £229 million were approved under the Community's aid programme to Asian and Latin American developing countries, and its financial protocols with Mediterranean partners.

10.24 On 21 November the Development Council adopted resolutions on co-operation with the developing countries of Asia and Latin America; on food aid policy; on development and environment, including management and conservation of tropical forests and desertification; and on combating AIDS. It also noted progress on preparation of guidelines for assistance to Asia and Latin America in 1990.

SECTION.X

SECTION XI: EUROPEAN POLITICAL CO-OPERATION

Introduction

11.1 In European Political Co-operation (EPC), the Twelve maintained their close consultation and co-ordination on a very wide range of foreign policy matters. Common positions were reached on many matters and collective diplomatic action was taken on numerous occasions. The Twelve were especially active in East/West relations and in relation to the Middle East and Southern Africa.

East/West Relations and the CSCE Process

11.2 The Community and the Twelve responded decisively to the developments that took place in Eastern Europe. Decisions on the Community's commercial and economic relations with countries of Eastern Europe are described in Section X. In a political declaration at the Strasbourg European Council the Twelve:

- i. wholeheartedly welcomed the determination of the people of Eastern Europe increasingly to take their own destiny in hand;
- ii. recognised the crucial role of Mr Gorbachev in fostering change;
- iii. confirmed their willingness to give support to countries that had embarked on the road to democratic change; and
- iv. specifically re-affirmed the readiness of the Community and the member states to contribute to the establishment of healthy and prosperous economies in those countries where political and economic reforms had been undertaken.

11.3 The Twelve developed their political dialogues with the Soviet Union, Yugoslavia, Poland and Hungary.

11.4 The Strasbourg Declaration stressed the Twelve's belief that the vitality of the CSCE Process had contributed to the historic changes in Eastern Europe and that the Helsinki Final Act remained the basis on which the division in Europe should be overcome. The Twelve played a constructive role in the Sofia meeting on the Environment, held in the CSCE framework, from 16 October to 3 November; and continued to make full use of procedures established in the Vienna Concluding Document to monitor the implementation of human rights commitments.

11.5 The Strasbourg European Council, in its declaration on Central and Eastern Europe, sought the strengthening of the state of peace in Europe in which the German people would regain its unity through free self-determination. The Declaration stated that this process should take place peacefully and democratically, in full respect of the relevant agreements and treaties and of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West co-operation. The Declaration also stated that it had to be placed in the perspective of European integration.

11.6 Until the fall of President Ceaucescu on 22 December, the Twelve maintained a robust opposition to abuses of human rights in Romania and made full use of the CSCE process in an attempt to encourage change.

The Middle East

11.7 The Twelve continued a policy of active diplomacy to encourage the establishment of a dialogue between the parties directly concerned in the Arab/Israel dispute. The Troika of Foreign Ministers visited Cairo and Tunis and met the Israeli Prime Minister in Paris for this purpose.

11.8 The Strasbourg European Council reaffirmed the principles set out in the Madrid Declaration of 27 June, expressed serious concern at continuing human rights violations in the Occupied Territories and announced the intention of the Community and the

member states to increase substantially their aid to the inhabitants, with a particular focus on improvements in health and educational facilities.

11.9 The Twelve followed the situation in Lebanon closely and with great concern. They made repeated statements, including at the Strasbourg European Council, supporting the efforts of the Arab League and others to restore constitutional government there. An emergency meeting of the Political Committee was called by the Presidency on 23 August, which decided to despatch a mission to Lebanon to assess the most urgent needs of the population. Provision was made for emergency aid from the Community and member states totalling 8.6 million ecu (£6.3 million) and subsequently for rehabilitation aid totalling 25 million ecu (£18.2 million).

11.10 As regards the fate of the hostages held in Lebanon, several of whom are nationals of member states, the Twelve, in statements of 4 August and 26 September, condemned the taking of hostages and called on countries with influence to help secure their release.

11.11 In an effort to enhance relations with the Arab world and to give new impetus to a restructuring of the Euro-Arab Dialogue, the Twelve participated, with the members of the Arab League, in a successful Euro-Arab Conference at Foreign Minister level in Paris on 21-22 December.

11.12 The Twelve reaffirmed the position they adopted at the time of Iran's threats against Salman Rushdie, which they condemned as an unacceptable violation of the most elementary principles and obligations governing international relations. The Twelve maintained their suspension of high level political visits in response to these threats. At the same time the Twelve made it clear that they were willing to develop relations with Iran provided it renounced violence and threats.

Africa

11.13 The Twelve devoted much attention to Southern Africa and welcomed a number of positive developments in the region.

11.14 They gave their full support to the UN Secretary General and his Special Representative in the implementation of the UN Plan for Namibia and welcomed the completion of the electoral process there. The Strasbourg European Council confirmed the readiness of the Community and member states to contribute to the development of an independent Namibia and to welcome it to the new Lome Convention as soon as it expressed a wish to accede.

11.15 The European Council also recognised and welcomed progress towards internal reconciliation in Angola and Mozambique. Political Directors of the Troika visited Angola to underline the Twelve's interest in contributing to the peaceful development of the country.

11.16 As far as South Africa was concerned, the Twelve continued to express in forthright terms their wish to see an end to apartheid. At the same time the Twelve welcomed the positive moves made by President de Klerk, in particular the release of important long-term political prisoners, and called for further such steps. At the Strasbourg European Council, the Twelve declared their support for any peaceful process leading to negotiations between all parties involved in South Africa with the objective of creating a democratic and multi-racial system of government. The Twelve maintained a high level of diplomatic activity with the South African Government and others in pursuit of these objectives, and continued to make representations to the South African authorities when the pernicious effects of apartheid on the South African population gave particular cause for concern. The Strasbourg European Council decided to maintain the pressure exerted by the Community and the member states in order to promote change and to reconsider it when there is clear evidence of change. The Twelve played an effective role at the UN Special Session on Apartheid from

12-14 December, where consensus was reached on the final declaration.

11.17 The Twelve continued their active involvement in the Horn of Africa. In particular, they appealed to those involved in the civil wars in Sudan, Somalia and Ethiopia to do everything possible in the search for negotiated settlements and, as a matter of urgency, to allow relief supplies to get through to the victims of famine in those countries. The Strasbourg European Council issued a statement on Ethiopia reiterating these points. The Community and the member states collectively contributed substantially to the emergency relief effort for the region.

Latin America

11.18 The Twelve consistently declared their support for the peace process in Central America and, in a series of statements, deplored increasing violence in the region and called on all concerned to work for peace on the basis of commitments undertaken, notably full respect for democracy. Ambassadors of the Troika carried out several demarches in Central American capitals to underline these concerns.

11.19 The Twelve followed the situation in Panama with concern. In a statement of 2 September, they noted that the Noriega regime had no institutional legitimacy. A further statement of 20 September announced a number of political measures against the regime, including the suspension of high level contacts. Following the US action and the downfall of Noriega, the Twelve called for an early return to constitutional and democratic order in Panama.

11.20 The fifth meeting between Foreign Ministers of the Twelve and the Latin American Group of Eight took place in New York on 27 September. On this occasion the Twelve reaffirmed their support for President Barco of Colombia in his struggle against illegal trafficking in drugs. A number of member states, including the

United Kingdom, offered direct assistance to the Colombian Government.

11.21 The Twelve warmly welcomed progress in Chile towards the re-establishment of a democratic government. In their statement of 15 December they congratulated the President-elect, wished him success and looked forward to increased co-operation between Chile and the Community.

Asia

11.22 The Twelve continued to follow developments in China closely and reviewed the application of the measures agreed following the Tiananmen Square massacre. They judged that these remained valid, both as a signal to the Chinese Government of the unacceptability of its actions in June 1989 and as a means of encouraging the resumption of policies of reform and openness.

11.23 The Twelve gave full support to France in calling an International Conference on Cambodia in Paris in August. They recognised that the announced withdrawal in September of Vietnamese troops from Cambodia was a welcome development, but made it clear that proper verification of the withdrawal would have to take place as part of a comprehensive political settlement guaranteeing Cambodia's independence under a representative government. The Twelve continued to encourage all efforts to this end.

11.24 The Twelve continued to make plain their deep concern at the situation in Burma in the light of the authorities' acts of repression and disregard for the desire of the Burmese people to establish a democratic society through free elections. Ambassadors of the member states represented in Rangoon made representations for the release of detained political leaders.

Human Rights

11.25 The Twelve were active worldwide in defence of basic human rights and freedoms. They made numerous demarches in relation to specific cases of abuse and, in several international fora, set out their positions of principle and criticised unacceptable government actions, no matter by whom. The Strasbourg European Council welcomed the increasing readiness of the Twelve to intervene jointly in these matters.

SECTION.XI

SECTION XII: EUROPEAN PARLIAMENT

12.1 Following the third direct elections to the European Parliament, Sr Enrique Baron Crespo was elected to a 2½ year term as President of the European Parliament at the European Parliament's July plenary session. 14 Vice-Presidents were also elected.

12.2 The French Foreign Minister briefed the July plenary session on the programme of the French Presidency of the Council of Ministers. The President of France addressed the second October plenary session on prospects for the Strasbourg European Council, and the November plenary session on developments on Eastern Europe. The Chancellor of the Federal German Republic also addressed the November plenary session. The French Foreign Minister reported to the December plenary session on the outcome of the Strasbourg European Council.

12.3 Mr Francis Maude, Minister of State at the Foreign and Commonwealth Office, visited the September plenary session. Mr Peter Lilley, Financial Secretary to the Treasury, and Mr David Heathcoat-Amory, Parliamentary Under-Secretary of State at the Department of the Environment, visited the November plenary session. Mr David Mellor, Minister of State at the Home Office, visited the December plenary session.

SECTION.XII

SECTION XIII: THE EUROPEAN COURT OF JUSTICE

Cases

13.1 The United Kingdom continued to participate actively in cases before the European Court of Justice ("the ECJ"), a particular feature being the number of actions arising out of the activities of the so-called Spanish "quota hoppers". No new actions were initiated by the United Kingdom under Article 173 of the Treaty. Under Article 169 the Commission initiated four Actions against the United Kingdom (two of which, 246/89 and 279/89 were connected with Spanish "quota hopping" activities). There were three References under Article 177 from United Kingdom Courts or Tribunals and the United Kingdom submitted Observations in five such cases (two of which, 221/89 and 213/89 were associated with Spanish "quota hopping" activities). Judgment was received in three such cases. With regard to Article 177 References from other member states, the United Kingdom submitted written Observations in eight such cases and judgments were given in eleven cases. The United Kingdom applied to intervene in seven direct actions: four brought by the Commission against other member states and three brought by Italian companies against the Commission in respect of alleged breaches of the competition provisions of the Treaty (which will be heard by the Court of First Instance). Judgment was given in one existing case of this kind. The United Kingdom submitted written Observations in one case referred to the ECJ under the Judgments Convention. Lists of all the cases involving the United Kingdom on which judgment is awaited or was received are set out in Annex F.

Court of First Instance

13.2 The Court of First Instance which will deal with all staff, competition and ECSC Treaty cases started operating and its first

hearing was held in December. Some 150 competition and staff cases were transferred from the Main Court to the Court of First Instance. Henceforth Main Court cases will be denoted by the prefix "C" and Court of First Instance cases will be denoted by the prefix 'T'.

Court Judgements and Preliminary rulings

13.3 The Court gave judgments in several cases which are of interest. Cases particularly worthy of note and in which the United Kingdom participated are as follows:-

(i) Case 3/87: R v Ministry of Agriculture, Fisheries and Food
ex Parte Agegate Limited

Case 216/87: R v Ministry of Agriculture, Fisheries and Food
Ex Parte Jaderow Limited and Others

These were references from the High Court under Article 177 of the EEC Treaty for a preliminary ruling on the conditions to which fishing vessels operating under the United Kingdom flag could be made subject.

The Court found that Community law did not preclude the United Kingdom from requiring as one of its conditions that 75 per cent of the crew of the vessel must be EEC nationals but the United Kingdom was not justified in requiring that they should be resident in the United Kingdom. A condition that they should be making contributions to the Social Security Scheme was acceptable provided that it allowed for the exceptions set out in Council Regulation 1408/71. Spanish and Portuguese nationals could be excluded from 75 per cent of the crew during the transitional period under Articles 55 and 56 of the 1985 Act of Accession which enables the old member states to maintain existing restrictions subject to qualifications. Firstly new restrictive measures making more stringent the conditions on taking employment for Spanish and Portuguese nationals could not be

introduced. Secondly, the restriction could not affect the position of Spanish nationals already employed at the time of accession as workers on British territory or on board a British vessel where the employment relationship displayed a sufficiently close link with that territory. All the applicable provisions of Community law had direct effect, and could therefore be enforced in the national courts.

In *Ex Parte Jaderow Limited and Others* the Court decided that it was permissible to set down conditions to ensure that there was an economic link between vessels operating under the United Kingdom flag and the local populations dependent on fisheries for whose benefit the quota system was established. An obligation to operate habitually from a national port was compatible with Community law provided that it did not mean that vessels must embark from a United Kingdom port on all its fishing trips. A member state could hold that the landing of the proportion of a vessel's catches or its periodic presence in national ports may be evidence of the fact that it was operating from national ports. Community law did not preclude a member state from accepting as evidence of compliance with the operating condition only the landing of a specified proportion of the vessel's catches or a specified periodic presence of the vessel in national ports, provided that the provisions of the visiting conditions did not impose an obligation to land catches in national ports or hinder normal fishing operations.

(ii) Case 131/87: *Commissio n v Council*

The Commission applied for the annulment of Council Directive 87/64 of 30th December 1986 which amended earlier Directives (76/461 and 76/462) concerning health and veterinary inspection problems affecting intra-Community trade and importation of fresh meat. The Directive was adopted to facilitate the importation from non-member countries of glands and organs including blood for pharmaceutical manufacturing purposes and to ensure that the

same facilities were applied in intra-Community trade in those products. The case concerned the correct treaty basis for the measure, the Council having chosen Articles 100 and 113 of the EEC Treaty notwithstanding that the Commission had proposed Article 43 as the correct legal basis. The Court agreed with the Commission on the grounds that the products concerned came within the provisions of Annex 2 to the Treaty and that the Directive contributed to the achievement of one of the objects of the Common Agricultural Policy referred to in Article 39(1)(d) and (e) of the Treaty in ensuring that agricultural raw materials would be provided to the pharmaceutical manufacturing industry at reasonable prices so that supplies ultimately reached consumers at reasonable prices. The fact that the measure at the same time pursued objects which could appropriately be pursued under Article 100 did not remove the measures from the field of application of Article 43. Article 113 was inappropriate because the aim of the Directive was to provide uniform rules applicable to intra-Community trade as well as facilitating the importation of the products concerned into the community. The Directive was therefore void.

(iii) Case C109/88: Handels-OG Kontorfunktionaererens Forbund I Danmark v Dansk Arbejdsgiverforening

This case concerned the Equal Pay Directive and the question of upon whom (the employer or employee) the burden of proof lay in proving that a differentiation in pay between the two employees was attributable to a circumstance determined by sex. The cause of the dispute between the parties arose from the fact that the mechanism for determining individual supplements on basic pay for employees was applied in such a way that female employees were unable to identify the reasons for a difference between their wages and those of male employees carrying out the same work. The employees were not informed of the criteria governing the supplements nor how they were applied. They were aware only of

the amount in their wage packet. It was, thus, difficult for employees within a given pay group to compare the different elements in their wage packets with those of their colleagues in the same pay group. The question which the Court had to decide was whether the Equal Pay Directive had to be interpreted in such a way that where an undertaking applied a pay system totally lacking in transparency it was for the employer to prove that his wage policy was not discriminatory if a female employee established, in relation to a relatively large number of employees, that the average pay of female employees was less than that of male employees. The Court held that the Directive was to be interpreted in such a way that where an undertaking applied such a pay system it was incumbent upon the employer to prove that his pay policy was not discriminatory if a female employee established, in relation to a relatively large number of employees, that the average pay of female employees was lower than that of male employees. The Court also held that where it appears that the application of criteria governing pay supplements, such as the mobility, vocational training or seniority of the employee, systematically disadvantages female employees than the employer may justify applying the criterion of mobility if necessary for the performance of specific tasks but not if that criterion is understood as covering the quality of work carried out by the employee; he may also justify applying the criterion of vocational training by demonstrating that the training is of importance for the performance of specific tasks assigned to the employee and he does not need specially to justify applying the criterion of seniority.

(iv) Case 125/88: Criminal proceedings against H F M Nijman

A Dutch Court made a reference under Article 177 of the EEC Treaty for a preliminary ruling as to whether its national law relating to plant protection products which prohibited the use of certain substances should be interpreted in conformity with a Community Directive to which it was considered to have given

effect but which was narrower in its application. The Court was also asked to rule on the question whether the Dutch law was compatible with Articles 30 and 36 of the Treaty on the freedom of movement of goods. The Court held that as the Directive did not envisage total harmonisation the national court did not have to interpret the national law in conformity with the Directive in its application to products not containing substances enumerated in the Annex to the Directive. In the absence of harmonisation the Dutch law was compatible with Article 36 of the EEC Treaty even though it prohibited a wider range of substances than the directive because the Court found that its purpose was to protect the health of humans and animals, and the environment.

(v) Case 145/88: Torfaen Borough Council v B & Q PLC

This case was a Reference under Article 177 of the Treaty from the Cwmbran Magistrates' Court arising out of the prosecution of B & Q PLC for trading on Sundays contrary to the Shops Act 1950. The Defendant maintained that the relevant provisions of the Shops Act were incompatible with Article 30 of the Treaty in that many of the goods sold in their shops were imported from other Member States and the Shops Act provisions amounted to a quantitative restriction on imports. The Court held that national rules prohibiting retailers from opening their premises on Sunday applied to imported and domestic products alike. In principle, the marketing of imported products imported from other member states was not therefore made more difficult than the marketing of domestic products. It was necessary in cases such as this to consider whether rules such as those at issue pursued an aim which was justified with regard to Community law. As far as that question was concerned the Court have previously held that national rules governing the hours of work and delivery and sale in the bread and confectionery industry, constituted a legitimate part of economic and social policy consistent with the objectives of public interest pursued by the Treaty. The same consideration applied as regards national rules governing the

opening hours of retail premises. Such rules reflected certain political and economic choices insofar as their purpose was to ensure that working and non-working hours are so arranged as to accord with national or regional socio-cultural characteristics, and that, in the present state of Community law was a matter for the member states. The Court held furthermore that it was also necessary to ascertain whether the effects of such national rules exceeded what was necessary to achieve that aim. This was a question of fact which fell to be determined by the national court.

(vi) Cases 181, 182 and 218/89: OFIVAL etc.

In these proceedings French courts requested the ECJ to rule on validity of Articles 5 and 9 of Council Regulation (EEC) 1837/80 on the common organisation of the market in sheepmeat and goatmeat as amended by Council Regulation (EEC) 871/84.

In Cases 181 and 182/88 the French producers contested the amount of the income compensation received for the 1986 marketing year. In Case 218/88 the producers sought the annulment of OFIVAL's decision refusing to pay variable slaughter premium for sheep in respect of that year.

The producers claimed that OFIVAL's decision was based on regulation (1837/80) that was unlawful because Articles 5 and 9 (as amended) gave to the United Kingdom only the option of operating in Great Britain alongside the annual ewe premium either the variable slaughter premium or intervention. The remaining states had no such option: for them the means of support was the annual ewe premium together with the possibility of intervention. It was claimed that this difference in treatment was contrary to the principles of non-discrimination, equal treatment and the free movement of goods.

The Court considered that the option given to a member state to grant the variable premium was not contrary to the principle of equal treatment. In particular the Court referred to (i) its earlier judgment in Case 106/81: *Kind v EEC* 1982 ECR 2885 in which it held that the fact intervention methods varied from region to region in the Community, and the consequences of such a variation, did not amount to discrimination (2) the "clawback" arrangements under which British exports to other member states are subject to the payment of an amount equal to variable slaughter premium previously paid and (3) Article 39(2) of the EEC Treaty which provides that "in working out the common agricultural policy and the special methods of its application, account shall be taken of (a) the particular nature of agricultural activity, which results from the social structure of agriculture and from the structural and natural disparities between the various agricultural regions and (b) the need to effect the appropriate adjustments by degrees". The Court also held that Articles 5 and 9 of the regulation were not contrary to the principle of free movement.

(vii) Case C246/89R: *Commission v United Kingdom*

In the context of Article 169 proceedings brought against the United Kingdom challenging the nationality provisions of the Merchant Shipping Act 1988, the Commission successfully applied for an Order for Interim Measures. The interim order required the United Kingdom, pending delivery of the judgment of the Court in the main proceedings, to suspend the British citizenship requirements (but not the United Kingdom residence and domicile requirements) of Section 14 of the Merchant Shipping Act 1988 in so far as they relate to fishing vessels which were fishing under the British flag up to 31st March 1989 and which were owned by nationals of member states of the European Communities.

13.4 There were also several judgments of importance given in cases in which the United Kingdom did not participate. These are as follows:

Cases 46/87 and 227/87: Hoechst v Commission and Cases 97,98 and 99/87: Dow Chemicals v Commission.

These cases all involved challenges to Commission decisions in connection with investigations under Regulation 17 which implements the competition provisions of the Treaty. The cases involved the question of how far Commission Inspectors could go in carrying out "verifications" on enterprises' premises. Hoechst claimed that such verifications were actually searches which were illegal without a judicial mandate issued by a German judge. Although the Court held that such a mandate was necessary where national law required it in order to enter a company's premises, the Court dismissed the rest of Hoechst's claims to the effect that the Commission had no power to violate the fundamental right to the inviolability of the home, that the decision was void in that it lacked precision in particular with regard to the subject matter and purpose of the investigation and that essential procedural requirements had not been complied with. In the judgments in the Dow cases which were given a month after the Hoechst judgment, the Court clarified its earlier judgment and confirmed that if Commission Inspectors had carried out searches without the approval of national authorities and without respecting procedural guarantees provided by national law, the erroneous nature of such an interpretation of Regulation 17 could nevertheless not cause the decisions made by the Commission to be illegal.

Case 16/88: Commission v Council

In this case the Commission brought an action for the annulment of Article 6(4) of Council Regulation (EEC) No.3252/87 on the

co-ordination and the promotion of research in the fisheries sector.

The provision at issue specifies that decisions concerning the execution of Community research programmes which are approved by the Council are to be adopted by the Commission under the procedure laid down in Article 47 of the Regulation (EEC) No. 4028/86, known as the "management committee procedure" which enables the Council to take action in place of the Commission in the event of the Standing Committee on Fisheries Structures issuing an adverse opinion on the measures which the Commission intends to adopt.

The Commission challenged the Council's recourse to that procedure on two grounds: breach of Article 205 and the third indent of Article 155 of the Treaty and incorrect or wrongful application of the third indent of Article 145 of the Treaty, as amended by the Single European Act. Practically all the individual decisions which the Commission was authorised to adopt in this case involved the use of budget appropriations. Consequently, they did not fall within the scope of the implementation of rules within the meaning of the third indent of Article 145 of the Treaty but were covered by the powers vested in the Commission by Article 205 of the Treaty. By subjecting the exercise of these rights to a management committee procedure the Council thereby encroached upon the Commission's own decision-making power under Article 205. If it had been applied to the individual measures referred to in the Regulation that procedure would have given the Council the possibility of taking action in a sphere reserved exclusively to the Commission.

The Court rejected the Commission's application. It held that the Council's right to make the exercise of the powers which it conferred on the Commission subject to certain procedures was expressly enshrined in the amendments which the Single European Act made to Article 145 of the Treaty. Those procedures had to

be in keeping with the rules which the Council had previously laid down.

The Court went on to emphasise that the Commission's power to implement the budget was not such as to modify the division of powers resulting from the various provisions of the Treaty which authorise the Council and the Commission to adopt generally applicable or individual measures within specific areas and from the institutional provisions of the third indent of Article 145 and Article 155. Even if an individual measure could, virtually of necessity, entail the commitment it had to be distinguished therefrom particularly since the power to adopt the administrative decision and the power to commit the expenditure could be entrusted within the internal organisation of each institution, to different officials.

SECTION XIV: ECONOMIC AND SOCIAL COMMITTEE

14.1 The Economic and Social Committee held five plenary sessions in Brussels. Eighty-one Opinions were adopted on a wide range of subjects including Economic and Monetary Union, environment policy, social consequences of mergers (own initiative) and poverty (own initiative).

SECTION.XIV

SECTION XV: PARLIAMENTARY SCRUTINY OF EC LEGISLATION

Enquiry by the Select Committee on Procedure

15.1 The Select Committee on Procedure continued their enquiry into the way in which the House deals with European legislation. In July an exchange of letters took place between the Rt. Hon. John Wakeham MP, the Lord President of the Council and Leader of the House of Commons and Mr Nigel Spearing MP, chairman of the House of Commons Select Committee on European Legislation, covering a wide range of scrutiny issues, including: the Committee's Terms of Reference; the 30 October 1980 Resolution of the House; criteria for second debate; 'no debate at this stage' recommendations; and the balance between debates in Standing Committee and on the Floor of the House. This exchange resulted in the reaffirmation by the Government of its commitment to effective Parliamentary scrutiny and the immediate introduction of a number of improvements to the scrutiny process. The Report by the Select Committee on Procedure was published on 30 November 1989 and contained 28 recommendations for improving the House's scrutiny machinery. The Government was still considering its response at the end of the year.

Deposit of Community documents in Parliament

15.2 A total of 351 Community documents were deposited in Parliament. In addition 168 unnumbered explanatory memoranda were submitted by Departments where no depositable document was available or had not yet been received.

House of Commons

15.3 The House of Commons Select Committee on European Legislation considered 387 documents. They reported that 134 documents raised questions of legal and/or political importance and recommended 43 of these for further consideration by the House. Two hundred and fifty three documents were considered to be of no legal or political importance. Fifteen debates covering a total of 32 documents were held on the Floor of the House, and eight debates covering 12 documents were held in Standing Committee (see Annex G).

15.4 On only on one occasion did adoption take place in Council before scrutiny had been completed. This concerned measures on the extension of the Generalised System of Preferences to Poland and Hungary. Member states were asked to agree to the proposals urgently because of the general wish both in the Community and among other Western countries to assist Poland and Hungary.

House of Lords

15.5 The House of Lords Select Committee on the European Communities considered 415 documents and recommended 131 for further consideration in Sub-Committee. Seven reports covering 15 documents were presented to the House for debate; six reports covering 5 documents were presented to the House for information; and Six reports covering 10 documents were debated (see Annex H).

SECTION.XV

ANNEX A

MEETING OF THE EUROPEAN COUNCIL

Date	Council	UK Ministers Attending
8-9 December	Strasbourg	Rt Hon Margaret Thatcher FRS MP, Prime Minister Rt Hon Douglas Hurd CBE MP, Secretary of State for Foreign and Commonwealth Affairs

MEETINGS OF THE COUNCIL OF MINISTERS

Date	Council	UK Ministers Attending
10 July	Economic and Finance	Rt Hon Nigel Lawson MP Chancellor of the Exchequer
17 July	Foreign Affairs	Rt Hon Sir Geoffrey Howe QC MP Secretary of State for Foreign and Commonwealth Affairs Rt Hon Christopher Patten MP Minister for Overseas Development Rt Hon Lynda Chalker MP Minister of State, Foreign and Commonwealth Office
18 July	Internal Market	Hon Francis Maude MP Parliamentary Under Secretary of State for Corporate Affairs
24-26 July	Agriculture	Rt Hon John MacGregor OBE MP Minister of Agriculture, Fisheries and Food
28 July	Budget	The Earl of Caithness Paymaster General
18 September	Internal Market	John Redwood Esq MP Parliamentary Under Secretary of State for Corporate Affairs
18 September	Research	Hon Douglas Hogg MP Minister for Industry and Enterprise
19 September	Environment	Rt Hon Christopher Patten MP Secretary of State for the Environment

Date	Council	UK Ministers Attending
25-26 September	Agriculture	<p>Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food</p> <p>David Curry Esq MP Parliamentary Secretary Ministry of Agriculture, Fisheries and Food</p>
26 September	Industry	<p>Hon Douglas Hogg MP Ministry for Industry and Enterprise</p>
29 September	Labour and Social Affairs	<p>Mrs Gillian Shepherd MP Parliamentary Under Secretary of State for Social Security</p>
3 October	Foreign Affairs	<p>Rt Hon John Major MP Secretary of State for Foreign and Commonwealth Affairs</p> <p>Rt Hon Lynda Chalker MP Minister for Overseas Development</p>
6 October	Education	<p>Lord Trefgarne PC Minister for Trade</p> <p>Rt Hon John MacGregor OBE MP Secretary of State for Education and Science</p> <p>Robert Jackson Esq MP Parliamentary Under Secretary of State for Education and Science</p>
9 October	Economic and Finance	<p>Peter Lilley Esq MP Financial Secretary to the Treasury</p>
10 October	Internal Market	<p>John Redwood Esq MP Parliamentary Under Secretary of State for Corporate Affairs</p>
16 October	Transport	<p>Rt Hon Cecil Parkinson MP Secretary of State for Transport</p>
17 October	Research	<p>Hon Douglas Hogg MP Minister for Industry and Enterprise</p>

Date	Council	UK Ministers Attending
23-24 October	Agriculture	<p>Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food</p> <p>David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food</p>
30 October	Energy	<p>Rt Hon Peter Morrison MP Minister of State, Department of Energy</p>
30 October	Labour and Social Affairs	<p>Rt Hon Normal Fowler MP Secretary of State for Employment</p> <p>Tim Eggar Esq MP Minister of State for Employment</p>
6 November	Foreign Affairs	<p>Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs</p> <p>Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office</p>
7 November	Telecommunications	<p>Eric Forth Esq MP Parliamentary Under Secretary of State for Industry and Consumer Affairs</p>
9 November	Consumer	<p>Eric Forth Esq MP Parliamentary Under Secretary of State for Industry and Consumer Affairs</p>
13 November	Health	<p>Mrs Virginia Bottomley Minister of State, Department of Health</p>
13 November	Economic and Finance	<p>Rt Hon John Major MP Chancellor of the Exchequer</p>
14 November	Budget	<p>The Earl of Caithness Paymaster General</p>
14 November	Industry	<p>Hon Douglas Hogg MP Minister for Industry and Enterprise</p>

Date	Council	UK Ministers Attending
16 November	Telecommunications	Eric Forth Esq MP Parliamentary Under Secretary of State for Industry and Consumer Affairs
20-22 November	Agriculture	Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food
23 November	Internal Market	Rt Hon Nicholas Ridley MP Secretary of State for Trade and Industry and President of the Board of Trade John Redwood Esq MP Parliamentary Under Secretary of State for Corporate Affairs
27 November	Fisheries	David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food Ian Lang Esq MP Minister of State, Scottish Office
27 November	Foreign Affairs	Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs Rt Hon Lynda Chalker MP Minister for Overseas Development Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office
28 November	Environment	Rt Hon Christopher Patten MP Secretary of State for the Environment

Date	Council	UK Ministers Attending
30 November	Labour and Social Affairs	Rt Hon Norman Fowler MP Secretary of State for Employment Tim Eggar Esq MP Minister of State for Employment
4-5 December	Transport Council	Michael Portillo Esq MP Minister of State Department of Transport
7 December	Telecommunications	Eric Forth Esq MP Parliamentary Under Secretary of State for Industry and Consumer Affairs
11-12 December	Agriculture	Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food
14 December	Education	Rt Hon John MacGregor OBE MP Secretary of State for Education and Science
15 December	Research	Hon Douglas Hogg MP Minister for Industry and Enterprise
18 December	Economic and Finance	Rt Hon John Major MP Chancellor of the Exchequer
18-19 December	Foreign Affairs	Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs
18-20 December	Fisheries	Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food

Date	Council	UK Ministers Attending
		David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food Rt Hon Malcolm Rifkind MP Secretary of State for Scotland Lord Sanderson of Bowden Minister of State, Scottish Office
21-22 December	Internal Market	John Redwood Esq MP Parliamentary Under Secretary of State for Corporate Affairs David Maclean Esq MP Parliamentary Secretary Ministry of Agriculture, Fisheries and Food

OTHER MEETINGS

Date	Council	UK Ministers Attending
10 July	Informal meeting of Labour and Social Affairs Ministers	John Cope Esq MP Minister of State for Employment
9-10 September	Informal meeting of Economic and Finance Ministers	Rt Hon Nigel Lawson MP Chancellor of the Exchequer
12 September	Informal meeting of Tele- communications Ministers	Eric Forth Esq MP Parliamentary Under Secretary of State for Industry and Consumer Affairs
6 October	Informal meeting of Transport Ministers	Rt Hon Cecil Parkinson MP Secretary of State for Transport
14-15 October	Informal meeting of Foreign Ministers	Rt Hon John Major MP Secretary of State for Foreign and Commonwealth Affairs
29-31 October	Informal meeting of Agriculture Ministers	Rt Hon John Selwyn Gummer MP Minister of Agriculture, Fisheries and Food

Date	Council	UK Ministers Attending
		David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food
2 November	Informal meeting of Culture Ministers	Richard Luce Esq MP Minister for the Arts
9 November	Informal meeting of Youth Ministers	Lord Strathclyde Parliamentary Under Secretary of State for Employment
15-18 November	Conference on the Social Economy	Patrick Nicholls Esq MP Parliamentary Under Secretary of State for Employment
18 November	Meeting in Paris of Heads of State/ Government to discuss Eastern Europe	Rt Hon Margaret Thatcher FRG, Prime Minister Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs
7 December	Informal meeting of Fisheries Ministers	David Curry Esq MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food
14-15 December	Informal meeting of Immigration and TREVI Ministers, Paris	Rt Hon David Waddington QC MP Secretary of State for the Home Department

Annex.A

ANNEX B

MAJOR PROPOSALS ADOPTED

Economic Monetary and Budgetary

Council Directive 89/646 - on the second Council Directive on the co-ordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of credit institutions and amending Directive 77/780/EEC.

Council Directive 89/647 - on a solvency ratio for credit institutions.

Council Decision [89/] - adopting the 1989-1990 annual report on the economic situation in the Community and economic policy guidelines to be followed in the Community for 1990.

Council Decision [89/] - establishing a programme of special measures for the French Overseas Departments.

Council Decision [89/] - on a system of dock dues for the French Overseas Departments.

Customs and indirect taxation

Council Regulation 4046/89 - on the security to be given to ensure payment of a customs debt.

Council Regulation 3312/89 - on the temporary import of containers.

Council Decision 89/526 - concerning technical assistance measures for the implementation of the international convention on the harmonisation of frontier control of goods.

Agriculture and Food

Council Regulation 2967/89 - relating to the continued import of New Zealand butter into the United Kingdom on special terms.

Council Regulation 3013/89 - on the common organisation of the market in sheepmeat and goatmeat.

Council Regulation 3703/89 amending 2727/75 on the common organisation of the market in cereals permitting the small amount of additional cereals co-responsibility levy due for 1989/90 not to be collected.

Council Regulation 3879/89 - amending Regulation 804/68 on the common organisation of the market in milk and milk products.

Council Regulation 3880/89 - amending Regulation 857/84 adopting general rules for the application of the levy referred to in Article 5c of Regulation 804/68 in the milk and milk products sector.

Council Regulation 3881/89 - establishing, for the period 1 April 1989 to 31 March 1990, the Community reserve for the application of the levy referred to in Article 5c of Regulation 804/68 in the milk and milk products sector.

Council Regulation 3882/89 - amending Regulation 775/87 temporarily withdrawing a proportion of the reference quantities mentioned in Article 5c(1) of Regulation 804/68 on the common organisation of the market in milk and milk products.

Council Regulation 3883/89 - fixing the intervention price for butter and skimmed milk power as from 1 March 1990.

Council Regulation 4045/89 - on scrutiny by the member states of transactions forming part of the system of financing by the Guarantee Section of the European Guidance and Guarantee Fund and repealing Directive 77/435/EEC.

Council Regulation [/89] - amending Regulation 797/85 on improving the efficiency of agricultural structures.

Council Directive 89/556 - on animal health conditions governing intra-Community trade in and importation from third countries of embryos of domestic animals of the bovine species.

Council Directive [89/] - on mutual assistance between administrative authorities of the member states and co-operation between the latter and the Commission to ensure the correct application of legislation on veterinary and zootechnical matters.

Council Directive [89/] - concerning veterinary checks in intra-Community trade with a view to the completion of the internal market.

Council Decision 89/455 - introducing Community measures to set up pilot projects for the control of rabies with a view to its eradication or prevention.

Council Decision 89/572 - concerning the adaptation to the voluntary restraint agreement between the European Economic Community and New Zealand on trade in mutton, lamb and goatmeat.

Council Decision 89/577 - amending Decision 86/649 introducing a Community financial measure for the eradication of African Swine Fever in Portugal.

Council Decision 89/578 - recognising certain parts of the territory of the Community as being officially swine fever free or swine fever free.

FISHERIES

Council Regulation 2220/89 - amending for the eighth time Regulation 3094/86.

Council Regulation 2368/89 - amending Regulation 3951/88 fixing catch possibilities for 1989 for certain fish stocks and groups of fish stocks in the Regulatory Area as defined in the NAFO Convention.

Council Regulation 3646/89 - fixing the guide prices for the fishery products listed in Annex I (A), (D) and (E) of Regulation 3796/81 for the 1990 fishing year.

Council Regulation 3647/89 - fixing the guide prices for the fishery products listed in Annex II to Regulation 3796/81 for the 1990 fishing year.

Council Regulation [/89] - on the improvement of the conditions under which fishery and aquaculture products are processed and marketed.

Council Regulation [/89] - fixing for certain fish stocks and groups of fish stock, the total allowable catches for 1990 and certain conditions under which they may be fished.

Council Regulation [/89] - allocating catch quotas between member states for vessels fishing in the Norwegian economic zone and the fishing zone around Jan Mayen for 1990.

Council Regulation [/89] - laying down for 1990 certain measures for the conservation of management of fishery resources applicable to vessels flying the flag of Norway in member states' waters.

Council Regulation [/89] - allocating for 1990 Community catch quotas in Greenland waters.

Council Decision 83/631/EEC - on a Community financial contribution towards expenditure incurred by member states for the purpose of ensuring compliance with the Community system for the conservation and management of fishery resources.

Trade and Industry

Council Regulation 2369/89 - amending the list of goods which may benefit from the arrangements under Regulation (EEC) No 2763/83 for processing under customs control.

Council Directive 89/665 - on the co-ordination of the laws, regulations and administrative provisions relating to the application of review procedures to the award of public supply and public works contracts.

Council Directive 89/440 amending Directive 71/305 concerning co-ordination of procedures for the award of public works contracts.

Council Directive 89/592 - on co-ordinating regulations on insider trading.

Council Directive [89/] - on the provision of harmonized safety requirements and certification procedures for the manufacture of personal protective equipment.

Council Directive [89/] - on the extension of the regulatory procedure for adopting the Cosmetics Directive (76/768) to technical progress.

Council Directive 89/617 - on the extension of the use of metric units throughout the Community.

Council Directive - [89/] on the amendment to the mandatory range of quantities in which pre-packaged still wines may be sold.

Council Directive 89/666 - requiring companies from outside a member state that establish a branch in that member state to deliver certain documents to the relevant companies registry.

Council Directive [89/] - requiring member states to make provision for the incorporation and continuing operation of private limited companies with a single shareholder.

Environment

Council Directive [89/] - amending Directive 76/769 on the marketing and use of dangerous substances and preparations (comitology).

Transport

Council Regulation 2299/89 - on a code of conduct for computerised reservation systems.

Council Directive 89/438 - on admission to the occupation of road haulage operator in national and international transport operations.

Council Directive 89/458 - on the approximation of the laws of the member states relating to measures to be taken against air pollution by emissions from motor vehicles.

Council Directive 89/459 - on the approximation of the laws of the member states relating to the tread depth of tyres of certain categories of motor vehicles and their trailers.

Council Directive 89/460 - on fixing an expiry date for the derogations accorded to Ireland and the United Kingdom, Directive 85/3 on the weights, dimensions and certain other technical characteristics of certain road vehicles.

Council Directive 89/461 - on fixing certain maximum authorised dimensions for articulated vehicles, Directive 85/3 on the weights, dimensions and certain other technical characteristics of certain road vehicles.

Council Directive 89/463 - on the authorisation of scheduled inter-regional air services for the transport of passengers, mail and cargo between member states.

Social Affairs

Council Regulation 3427/89 - amending Regulation 1408/71 on family benefits for migrant workers.

Health and Safety

Council Directive 89/654 - on minimum safety and health requirements at the workplace.

Council Directive 89/655 - on minimum health requirements for the use by workers of work equipment at the workplace.

Council Directive 89/656 - on minimum health and safety requirements for the use by workers of personal protective equipment at the workplace.

Council Directive [89/] - on restrictions on the marketing and use of certain dangerous substances and preparations.

Education

Council Decision [89/] on the extension of the ERASMUS programme to 1994.

Health

Council Decision [89/] - on the acceptance of the Community of an OECD decision/recommendation on compliance with principles of good laboratory practice.

Council Decision [89/] - concerning the further development of the HANDYNET system in the context of the HELIOS programme.

Annex.B

ANNEX C

MAJOR MINISTERIAL SPEECHES ON COMMUNITY TOPICS

Date	Speaker	Occasion
5 July	Rt Hon Lynda Chalker MP Minister of State, Foreign and Commonwealth Office	Caxton Group
6 July	Hon Alan Clark MP Minister for Trade	International Federation of Training and Development Organisations 18th Annual World Conference, London
17 July	Rt Hon Peter Morrison MP Minister of State, Department of Energy	C.B.I. London
19 July	Rt Hon Lynda Chalker MP Minister of State, Foreign and Commonwealth Office	BBC French Service
19 July	Rt Hon Sir Geoffrey Howe QC MP Secretary of State for Foreign and Commonwealth Affairs	The Radical Society
11 September	Mrs Virginia Bottomley MP Parliamentary Under Secretary State for the Environment	Opening of Hamburg Harbour Conference
11 September	Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office	Europe in the 1990's Seminar, Santander
12 September	Rt Hon John Major MP Secretary of State for Foreign and Commonwealth Affairs	Economic Club of New York
22 September	Wyn Roberts Esq MP Minister of State, Welsh Office	Confederation of British Industry Conference on Distribution, Cardiff
4 October	David Heathcoat-Amory MP Parliamentary Under Secretary	CBI Initiative 1992 Seminar, London

4 October	Peter Lilley Esq MP Financial Secretary to Treasury	Association pour le Liberalisme Populaire, Paris
4 October	Rt Hon Nicholas Ridley MP Secretary of State for Trade and Industry	Europe Open for Professions, London
16 October	Timothy Eggar Esq MP Minister of State Department of Employment	European Business Institute, London
17 October	Rt Hon Nicholas Ridley MP Secretary of State for Trade and Industry	"The British Vision for Europe" Christian Democratic Union, Bonn
17 October	Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office	Anglo-Luxembourg Society
20 October	Rt Hon John Selwyn Gummer MP Minister of Agriculture Fisheries and Food	National Federation of Fruit and Potato Trades Annual Conference, Eastbourne
26 October	Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office	Boersen Executive Club, Copenhagen
27 October	Timothy Eggar Esq MP Minister of State, Department of Employment	British Import Union, Copenhagen
31 October	Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs	British Council's launch of "Britain in Europe
3 November	Ian Grist Esq MP Parliamentary Under Secretary of State, Welsh Office	Confederation of British Industry Conference of Property, Cardiff
4 November	The Baroness Trumpington Minister of State, Ministry Agriculture, Fisheries and Food	Torrige and West Devon Farm Council Winkleigh, Devon

6 November	Peter Lilley Esq MP Financial Secretary to the Treasury	Financial Times Business with Spain Forum, Madrid
6 November	The Earl of Caithness Paymaster General	World Congress of Junior Chamber International at the National Exhibition Centre, Birmingham
9 November	Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office	Speech to Nexus
13 November	Hon Francis Maude MP Minister of State, Foreign and Commonwealth Office	Speech to Kangaroo Group
14 November	David Maclean Esq,MP Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food	Leatherhead Research Association Symposium on food law, London
21 November	Rt Hon Christopher Patten MP Secretary of State for the Environment	CBI Conference Harrogate
22 November	Timothy Eggar Esq MP Minister of State, Department of Employment	European Centre for Policy Studies, Brussels
24 November	Wyn Roberts Esq MP Minister of State, Welsh Office	Confederation of British Industry Conference on Employment and Training, Cardiff
27 November	The Earl of Caithness Paymaster General	Littlejohn Frazer/Payne Hicks Beach (Chartered Accountants) 1992 Conference, London.
1 December	Rt Hon Douglas Hurd CBE MP Secretary of State for Foreign and Commonwealth Affairs	Oxford University Law Society

1 December Peter Lilley Esq MP
Financial Secretary to
the Treasury

Financial Times
Conference on
"Europe after the
Delors Report."

5 December Rt Hon Christopher Patten MP
Secretary of State for the
Environment

Royal Institute of
International
Affairs,
Chatham House,
London

ANNEX.C

ANNEX D

MAJOR TREATIES AND AGREEMENTS SIGNED BY
THE COMMUNITY

- i. **EC/Poland**
Agreement between the European Economic Community and the Polish People's Republic on trade and commercial and economic co-operation.

Signed at Warsaw on 19 September by the Community.
- ii. **International Coffee Agreement**
Acts of notification of the intention of the European Economic Community and its member states to apply the International Coffee Agreement of 1983 as extended by the International Coffee Council Resolution No 347 of 4 July 1989.

Deposited in New York on 29 September by the Community and its member states.
- iii. **EC/USA**
Agreement between the EC and the United States of America on an arrangement restricting Community steel exports to the United States and of a consensus on steel trade issues.

Signed at Brussels on 20 November by the Community.
- iv. **EC/ACP**
The Fourth ACP-EEC Convention (Lomé IV)

Signed at Lomé on 15 December by the Community and its member states.

- v. **EC/USSR**
Agreement between the European Economic Community and the European Atomic Energy Community and the Union of Soviet Socialist Republics on trade and commercial and economic co-operation.
- Signed at Brussels on 18 December by the Community.
- vi. **EC/USSR**
Agreement between the European Economic Community and the Union of Soviet Socialist Republics on trade in textiles products.
- Signed at Brussels on 18 December 1989 by the Community.
- vii. **Community Patent Convention**
- Convention for the European Patent for the Common Market (Community Patent Convention) which provides for a single patent covering the whole Community.
- Signed by the Community in December.

ANNEX.D

ANNEX E

SINGLE MARKET MEASURES AGREED

1. Processing under customs control

On 28 July the Budget Council adopted a regulation amending the list of goods which may benefit from the arrangements under regulation 2763/83 for processing under customs control.

2. Temporary import of containers

On 30 October the Council adopted a regulation replacing regulation 2096/87 of 13 July 1987 on the temporary importation of containers. The decision implements a European Court judgement that Article 113 is the correct legal base for the regulation. The provisions of regulation 2096/87 are unchanged.

3. Transit advice note

On 23 November the Internal Market Council adopted a common position on a regulation to abolish the transit advice note (TAN) for goods moving under the Community transit procedure, and which cross an internal frontier of the Community (except where the goods cross a third country, eg Switzerland or Austria).

4. Security for a customs debt

On 21-22 December 1989 the Internal Market Council adopted a regulation laying down the circumstances in which security is required to ensure payment of a customs debt.

5. Persons liable for a customs debt

On 21-22 December 1989 the Internal Market Council adopted a common position on a regulation determining the person liable for payment of a customs debt where goods have been consumed or used in a free zone or free warehouse, in circumstances other than those permitted by the free zone/free warehouses regulation (2504/88).

6. Binding tariff information

On 21-22 December the Internal Market Council adopted a common position on a regulation concerning the provision of information by

the customs authorities concerning the classification of goods in the customs nomenclature. Information relating to the classification of goods will be binding on the customs authorities initially in the member state which provided it and, from 1 January 1993, in all member states.

7. Elimination of frontier controls on road and inland waterway transport (see paragraph 7.7)

8. Rabies (see paragraph 3.11)

9. Trade in bovine embryos (see paragraph 3.11)

10. Foot and mouth disease (see paragraph 3.11)

11. African swine fever in Portugal

On 23 October the Agriculture Council adopted a decision to make an additional contribution towards expenditure involved in the continuation of the programme of eradication of African Swine Fever in Portugal.

12. Swine fever (see paragraph 3.11)

13. Mutual assistance on veterinary and zootechnical matters (see paragraph 3.12)

14. Veterinary checks in intra-community trade (see paragraph 3.13)

15. Personal property of individuals (removals)

On 23 November the Internal Market Council adopted a directive simplifying and relaxing certain formalities when tax-paid personal property is imported permanently from another member state.

16. Personal protective equipment

On 21-22 December the Internal Market Council adopted a directive laying down basic safety requirements and certification procedures for the manufacture of personal protective equipment and providing the free movement of complying products.

17. Gas appliances

On 21-22 December the Internal Market Council adopted a common position on a directive covering the safety and efficiency of gas burning appliances used for cooking, heating, hot water production, refrigeration, lighting and washing. It includes all applications of the appliances whether for domestic, commercial or industrial use, but excludes appliances where the pressure vessel aspect plays a dominant role (eg steam boilers) and where the appliance is especially designed for use in an industrial process.

18. Non-automatic weighing instruments

On 21-22 December the Internal Market Council adopted a common position on a directive harmonising the procedures which must be followed before non-automatic weighing instruments are sold and used. Non-automatic weighing instruments include shop scales and weighbridges.

19. Active electro- medical implantable devices

On 21-22 December the Internal Market Council adopted a common position on a directive establishing harmonised essential requirements and certification procedures for implantable electro-medical devices, such as human heart pacemakers.

20. Testing and certification (see paragraph 4.4)

21. Vehicle emissions - passenger cars

Following the agreement reached at the Transport Council on 5 June the Council on 18 July adopted a directive setting revised limits for the amount of gasses which may be emitted by new cars under 1400 cc engine capacity. The new limits (equivalent to United States

1983 emission limits) are 19 grammes per test for carbon monoxide, 5 grammes per test for the combined total of hydrocarbons and the oxides of nitrogen (NOx) with no separate limit for NOx. Draft regulations to apply these new limits in the United Kingdom were issued for consultation in December.

22. Motor vehicles - tyre tread depths

Following the agreement reached at the Transport Council on 5 June the Council on 18 July adopted a directive setting a minimum in use tread depth of 1.6mm across the main grooves of tyres on cars, light vans and light trailers. The current United Kingdom standard is a minimum of 1mm tread depth across three-quarters of the width of the tyre and visible tread on the remaining quarter. Draft regulations to apply these new standards in the United Kingdom were issued for consultation in December.

23. Tractors - roll over protection structures

On 21 December the Internal Market Council adopted a package of three directives further amending procedures for testing agricultural and forestry tractor safety cabs and frames. They also extend the regulatory committee procedure for adopting the testing of agricultural and forestry tractor cabs and frames (77/536, 87/402 and 86/298) to technical progress.

24. Nutrition labelling of foodstuffs

On 21 December the Internal Market Council adopted a common position on a directive setting out nutrition labelling rules for foodstuffs.

25. Veterinary medicinal products

On 21 December the Internal Market Council reached agreement in principle to a regulation establishing a system for fixing maximum acceptable residue levels of veterinary medicinal products in foodstuffs of animal origin.

26. Oligo elements in fertilisers

On 18 September the Internal Market Council adopted a directive extending the description "EEC fertiliser" to fertilisers containing the trace elements boron, cobalt, copper, iron, magnesium, molybdenum and zinc, enabling them to be traded freely between member states.

27. Dangerous substances and preparations

On 21-22 December the Internal Market Council adopted a directive restricting the marketing and use of seven categories of dangerous substances and preparations.

28. Dangerous substances and preparations - comitology

On 21-22 December the Internal Market Council adopted a directive extending the regulatory committee procedure for adapting the directive on the marketing and use of dangerous substances (76/769) to technical progress.

29. Cosmetic products - comitology

On 21-22 December the Internal Market Council adopted a directive extending the regulatory Committee procedure for adapting the Cosmetics Directive (76/768) to technical progress.

30. Units of measurement

On 27 November the Council adopted a directive extending the use of metric units throughout the Community. This requires most of the remaining imperial units of measurement used for economic, public health, public safety or administrative purposes to be phased out either by 1994 or 1999. However provision has been made to allow without a time limit being set - for the continued authorisation of the mile, yard, foot and inch for road transport signs and speed measurement; the pint for dispensing draught beer and cider and for milk in returnable container; the acre for land registration; and the troy ounce for transactions in precious metals.

31. Pre-packaged liquids

On 21-22 December 1989 the Internal Market Council adopted a directive amending the mandatory range of quantities in which pre-packaged still wines may be sold.

32. Labelling of tobacco products (see paragraph 8.6)

33. Cigarettes - tar yield (see paragraph 8.6)

34. Package travel directive (see paragraph 4.5)

35. Nurses

On 10 October the Internal Market Council adopted a directive amending existing legislation on the mutual recognition of educational qualifications of nurses responsible for general care.

36. Doctors, nurses, dental practitioners, veterinary surgeons and midwives

On 30 October the Council adopted a directive making various technical amendments to existing legislation on the mutual recognition of educational qualifications of doctors, nurses, dental practitioners, veterinary surgeons and midwives.

37. Public works contracts

On 18 July the Council adopted a directive amending an existing directive on the award of public works contracts. The directive is intended to improve openness and reduce discrimination in the award of public works contracts by central and local government and certain other bodies.

38. Public purchasing - compliance

On 21-22 December the Internal Market Council adopted a directive to improve compliance with Community rules on procedures for the award of public supply and public works contracts.

39. **Lingua programme**

Following the agreement reached at the Education Council on 22 May the Council on 28 July adopted a decision establishing the LINGUA programme which will support the improvement in foreign language competence in order to develop communication skills within the Community workforce. It embraces initiatives including in-service training of language teachers, language learning in universities, the exchange of foreign language students and the promotion of language learning in industry.

40-42. **Right of residence (see paragraph 4.3)**

43. **Second banking co-ordination directive (see paragraph 2.16)**

44. **Solvency ratios (see paragraph 2.16)**

45. **Motor vehicle insurance**

On 15 December the Council adopted a common position on a directive increasing the level of motor insurance cover required by drivers when travelling in member states with lower compulsory insurance limits, and harmonising procedures for claiming compensation from member states' guarantee funds.

46. **Life insurance (see paragraph 4.3)**

47. **Insider trading (see paragraph 2.14)**

48. **Listing particulars**

On 13 November the Economic and Finance Council adopted a common position on a directive extending the conditions under which a public offer prospectus prepared to the standard of listing particulars and approved in the issuer's home state shall qualify for mutual recognition in the host member state as listing particulars. It extends mutual recognition to cover cases where admission is requested in only one member state, whether or not that member state is involved in the public offer.

49. Lengths of articulated lorries

Following the agreement reached at the 5 June Transport Council, on 18 July the Council adopted a directive increasing the maximum length of articulated vehicles from 15.5m to 16.5 m. The directive will allow the use of the long semi-trailer while leaving sufficient room within the 16.5 m overall length for a reasonable-sized cab.

50. Lorry weight limits

Following the agreement reached at the 5 June Transport Council, on 18 July the Council adopted a directive ending from 31 December 1998 the derogations given to the United Kingdom and the Republic of Ireland on the EC weight limits for 5 and 6 axled vehicles and smaller lorries with 2, 3 and 4 axles.

51. Inter-regional air services

Following the agreement reached at the 5 June Transport Council, on 18 July the Council adopted a directive amending the Inter-Regional Air Services Directive (83/416) to bring it into line with the more liberal provisions for air services to major airports adopted by the Council in December 1987.

52. Computerised reservation systems

Following the agreement reached at the 5 June Transport Council, on 18 July the Council adopted a regulation providing for an enforceable code of conduct governing the operation of computerised reservation systems for air services.

53. Subsonic jet aeroplanes

Following the agreement reached at the Transport Council on 16 October, the Council on 4 December adopted a directive banning the additions of any further subsonic jet aircraft not complying with ICAO Annex 16, Chapter 3 standards to the registers of member states after 1 November 1990.

54. Road haulage - fixing of rates (see paragraph 7.6)

55. Road haulage - cabotage (see paragraph 7.8)

56. Vocational training for drivers of dangerous goods

Following the agreement reached at the Transport Council on 4-5 December, the Council on 21 December adopted a directive making it compulsory for certain drivers of vehicles carrying dangerous goods by road to undertake appropriate training and to hold a vocational training certificate. The directive comes into force from 1 July 1992 for tankers and explosives, and 1 January 1995 for other vehicles and types of carriage.

57. Civil aviation - air fares (see paragraph 7.9)

58. Civil aviation - market access (see paragraph 7.9)

59. Broadcasting (see paragraph 4.11)

60. Telecommunications - Open Network Provisions
(see paragraph 5.10)

61. Pan-European radio paging (see paragraph 5.12)

62. Eleventh Company Law Directive

On 21-22 December the Internal Market Council adopted a directive requiring companies from outside a member state that establish a branch in that member state to deliver certain documents, including accounting documents, to the relevant company registry.

63. Twelfth Company Law Directive

On 21-22 December the Internal Market Council adopted a directive requiring member states to make provision for the incorporation and continuing operation of private limited companies with a single shareholder, subject to certain safeguards.

64. Merger control regulation (see paragraph 4.2)

65. 18th VAT Directive

Following the agreement in principle reached at the 19 June Economic and Finance Council, on 18 July the Council adopted a directive which abolished certain derogations contained in the Communities basic VAT law (6th VAT Directive). The derogations allowed member states to continue to tax or exempt certain transactions in variance from the terms of the 6th VAT Directive.

ANNEX F

LIST OF EUROPEAN COURT OF JUSTICE CASES INVOLVING THE UNITED KINGDOM

This list includes all cases awaiting judgment and those on which judgment was received. An asterisk denotes those cases in which the United Kingdom applied to intervene or submitted Observations/Pleadings.

- i. Actions initiated by the United Kingdom under Article 173 of the EEC Treaty.
 1. Case 51/89: United Kingdom -v- Council (COMETT II programme).
- ii. Direct actions against the United Kingdom under Article 169 of the EEC Treaty.
 1. *Case 146/89: Commission -v- United Kingdom (Shifting of baselines - fisheries arrangements for the coastal waters of the United Kingdom).
 2. Case 202/89: Commission -v- United Kingdom (Equal treatment for men and women regarding employment, promotion and working conditions).
 3. *Case 246/89: Commission -v- United Kingdom (Nationality provisions of Merchant Shipping Act 1988).
 4. Case 279/89: Commission -v- United Kingdom (Fishing licence conditions).
 5. Case 337/89: Commission -v- United Kingdom (Quality of drinking water).

- iii. Cases referred to the European Court under Article 177 of the EEC Treaty from United Kingdom courts or tribunals.
1. Case 3/87: R -v- MAFF Ex Parte Agegate Limited (Conditions for licences to fish against United Kingdom quotas). Judgment given 14.12.89.
 2. Case 216/87: R -v- MAFF Ex Parte Jaderow Ltd. and Others (Quota of EEC nationals crewing fishing vessels within exclusive fishing limits). Judgment given 14.12.89.
 3. Case 118/88: Suffolk Coastal District Council -v- Notcutts Garden Centres Ltd. (Compatibility of Section 47 of the Shops Act 1950 with Article 30 EEC Treaty).
 4. Case 126/88: The Boots Company PLC -v- The Commissioners of Customs & Excise (Consideration of 6th VAT Directive purposes - special sales promotion).
 5. Case 134/88: Leonard Linsey, Solicitor for Mansfield District Council -v- Payless DIY Ltd. (Compatibility of Section 47 of the Shops Act 1950 with Article 30 EEC Treaty).
 6. Case 145/88: Torfaen Borough Council -v- B&Q PLC (Compatibility of Section 47 of the Shops Act 1950 with Article 30 EEC Treaty). Judgment given 23.11.89.
 7. Case 166/88: The City of Wakefield Metropolitan District Council -v- B&Q PLC (Compatibility of Section 47 of the Shops Act 1950 with Article 30 EEC Treaty).

8. Case 174/88: R -v- Dairy Produce Quota Tribunal ex parte Hall and Sons (Dairy Farmers) Ltd. (Calculation of reference quantity of milk to be assigned to a producer).
9. Case 195/88: Shrewsbury & Atcham Borough Council -v- B&Q PLC (Compatibility of Section 47 of the Shops Act 1950 with Article 30 EEC Treaty).
10. Case 232/88: Derry City Council -v- Hampden Homecare PLC (Compatibility of Section 6 of the Shops Act (Northern Ireland) 1946 with Article 30 EEC Treaty).
11. Case 262/88: Barber -v- Guardian Royal Exchange (Application of Article 119 EEC Treaty and Equal Treatment Directives to redundancy and pension payments to men and women at different ages).
12. Case 291/88: Torfaen Borough Council -v- Texas Homecare Ltd. (Compatibility of the Shops Act 1950 with Article 30 EEC Treaty).
13. Case 301/88: R -v- IBAP Ex Parte Fish Producers Organisation and Grimsby Fish Producers Organisation (Compensation for fish withdrawn failing to comply with marketing standards).
14. Case 306/88: Rochdale Borough Council -v- Anders (Compatibility of Shops Act 1950 with Article 30 EEC Treaty).
15. Case 331/88: R -v- MAFF & Secretary of State for Health Ex Parte FEDESA & Others. (Challenge to UK legislation implementing Hormones Directive).
16. Case 333/88: Peter John Krier Tither -v- Commissioners of the Inland Revenue (Exclusion from MIRAS of those specially exempt or immune from tax on salaries).

17. Case 370/88: Procurator Fiscal, Stranraer -v- Andrew Marshall (Whether Articles 7 and 40(3) EEC Treaty prohibit carriage of certain type of net by fishing vessel. Validity of Article 19 of Regulation 171/83).
18. Case 372/88: Milk Marketing Board -v- Cricket St Thomas Estate. (Interpretation of Article 25 of Regulation 804/68 as amended by Regulation 1421/78- whether exclusive purchasing right of MMB extends to pasteurised milk).
19. Case 23/89: Quietlynn Ltd. -v- Southend Borough Council (Compatibility of sex establishment licence requirements under Local Government (Misc. Provisions) Act 1982 with Article 30 EEC Treaty).
20. Case 71/89: R -v- IBAP Ex Parte BEOCO & Others and Case 72/89: R -v- IBAP Ex Parte Cargill (Validity of Regulation 1587/88 subsidy for rape seed).
21. *Case 188/89: A Foster & Others -v- British Gas PLC (Status of the corporation; sex discrimination in occupational retirement provisions).
22. *Case 213/89: R -v- Secretary of State for Transport Ex Parte Factortame Limited & Others. (Reference from House of Lords on availability of interim relief pending ECJ judgment).
23. *Case 221/89: R -v- Secretary of State for Transport Ex Parte Factortame Limited & Others. (Reference from Divisional Court on compatibility of provisions of Merchant Shipping Act 1988 with the Common Fisheries Policy).
24. *Case 233/89: Cray Precision Engineers Ltd. -v- David William Clarke (Sex discrimination).

25. *Case 292/89: R -v- Immigration Appeal Tribunal Ex Parte Antonissen. (Whether a member state may require a national of another member state to leave its territory if after 6 months from admission he has failed to enter employment: Status of Council declaration on Minutes of a meeting adopting a directive).
- iv. Cases referred to the European Court under Article 177 of the EEC Treaty from other member states' courts or tribunals in which Observations have been submitted by the United Kingdom.
1. Case 265/87: Hermann Schrader HS Kraftfutter GmbH & Co. -v- Hauptzollamt Gronau (Co-responsibility levy for cereals). Judgment given 11.7.89.
 2. Case 380/87: Soc Enichem Base Spa & Others -v- Comuni di Cisinello Balsamo in persona del Sindaca protempore (Ban on biodegradable plastic bags- compensation for infringement of Community rights- non-contractual liability of the Community). Judgment given 13.7.89.
 3. Case 5/88: Hubert Wachauf -v- Bundesrepublik Deutschland ("Meaning of holding" for the purposes of Community milk superlevy legislation - tenancy agreement). Judgment given 13.7.89.
 4. Case 93/88: Wisselink -v- Staatssecretaris Van Financien (Special consumption tax on passenger cars and the First, Second and Sixth VAT Directives). Judgment given 13.7.89.
 5. Case 94/88: Abemij BV -v- Hart Nibbrig en Greeve BV, CS -v- Staatssecretaris Van Financien (Special consumption tax on passenger cars and the First, Second and Sixth VAT Directives). Judgment given 13.7.89.

6. Case 109/88: Handels OG Kontorfunktionaerernes Forbund I Danmark -v- Dansk Arbejdsgiverforening (Equal pay for men and women and the burden of proof). Judgment given 17.10.89.
7. Case 125/88: Criminal proceedings against HFM Nijman (Compatibility of Dutch law on plant protection products with Article 30 EEC Treaty; interpretation of domestic law to correspond with Community directive). Judgement given 7.11.89.
8. Case 130/88: CC Van de Bijl -v- Staatssecretaris van Economische Zaken (Conclusiveness of certificates of experience issued by national authorities to self-employed persons in manufacturing and processing industries). Judgment given 27.9.89.
9. Case 143/88: Zuckerfabrik Suderdithmarschen AG -v- Hauptzollamt Itzehoe (Special elimination levy on sugar producers).
10. Case 177/88: EJP Dekker -v- Stichtung Vormingscentrum vor Jung Wolwassenen (Equal Treatment Directive, employer's refusal to employ a woman found suitable for the post on the grounds that she is pregnant).
11. Case 179/88: Handels-OG Kontorfunktionaerernes Forbund I Danmark on behalf of BV Hertz -v- Dansk Arbejdsgiverforening on behalf of Aldi Marked K/S (Equal Treatment Directive, protection from dismissal to cover protracted absence due to an illness following complicated pregnancy).
12. Cases 181 & 182/88: Deschamps and GAEC de Champs Fleuris -v- OFIVAL (Difference in treatment as between the United Kingdom and other member states in sheepmeat premium systems). Judgment given 13.12.89.

13. Case 204/88: Ministere Public -v- J J Paris (Prohibition on the marking of egg shells with the date laid, and the consumers right of information). Judgment given 13.12.89.
14. Case 218/88: GAEC Lambert -v- OFIVAL (Difference in treatment as between the United Kingdom and other member states in sheepmeat premium systems). Judgment given 13.12.89.
15. Case 235/88: Louis Kassel -v- Bundesanstalt fur Arbeit (Article 3(1) of Regulation 1408/71 and the interaction between international social security conventions with third countries and EC regulations).
16. Cases 267/88 to 285/88: Gustave Wuidart and Others -v- Societe Co-operative Laiterie Cooperative Eupenoise and Others (Validity and Interpretation of Community regulations governing the milk additional levy scheme).
17. Case 326/88: Anklage - Myndigheden (the Public Prosecutor) -v- Hansen & Son IS in the person of Hardy Hansen. (Interpretation of Regulation 543/69 (road transport) - strict criminal liability of employer).
18. Case 10/89: SA CNL-Sucal NV -v- HAG GF AG (Compatibility of German trade mark law with Articles 30 and 36 of the EEC Treaty).
19. Case 73/89: Alain Fournier and Others -v- Vaiteer Van Gerven and Others. (Registration of vehicles - the meaning of "normally based" for the purpose of motor insurance).
20. Case 92/89: Zuckerfabrik Soest -v- Hauptzollamt Paderborn. (Validity of Regulation 1914/87

introducing special elimination levy in the sugar sector for 1986/87 marketing year).

21. *Cases 100 and 101/89: M Peter Kaefer & M Andrea Procacci -v- Etat Francais (Scope of Council Decision 86/283 on the association of overseas territories with the EEC and effect of Articles 132 and 135 of EEC Treaty).
22. *Case 112/89: The Upjon Co. & NV Upjohn Puurs -v- Farzoo Inc., of Wilmington, Delaware (US) and Helmond (Netherlands) and Other (Whether a product administered to human beings with a view to restoring, correcting or modifying physiological functions may be regarded as a medicinal product).
23. *Case 181/89: Eammon Dominic Cunningham -v- Milk Marketing Board for Northern Ireland (Article 25(1)(a) of Council Regulation 804/68 on the Common organisation of the market in milk and milk products).
24. *Case 184/89: Helga Nimz -v- Freie und Hansestadt Hamburg Senatsamt fur den Verwaltungsdienst (Article 119 of EEC & Council Directive 75/117 - approximation of laws relating to the application of the principle of equal pay).
25. *Case 185/89: Staatssecretaris van Financien -v- Welker International Oil Co. Ltd. NV, Rotterdam (Article 15(4) of 6th Directive on the harmonisation of laws relating to turnover tax).
26. *Case 186/89: W. M. Van Tiem -v- Staatsecretaris Van Financien (Articles 4(2) & 5(3)(6) of the 6th Directive on the harmonisation of the law relating to turnover tax).

27. *Case 191/89: Cargill BV, Amsterdam & Others -v- Produktschap voor Margarine Vetten en Olien, the Hague (The validity of Commission Regulation (EEC) No. 1587/88 of 7.6.88. suspending the advance fixing subsidy for Colza rape and sunflower seeds).
28. *Case 238/89: Firma Pall Corp. -v- Firma P J Dahlhausen & Co. (Whether with the 'R' symbol added to the product name when there is no trade mark protection is contrary to Article 30 EEC Treaty).
- v. Actions in which the United Kingdom intervened under Article 37 of the Protocol on the Statute of the Court of Justice
1. Case 131/87: Commission -v- Council (Importation of organs and glands, including blood of swine and bovine animals, for pharmaceutical manufacturing purposes). Judgment given 16.11.89.
 2. Case 166/87: France -v- Commission (Aids to French steel industry). Withdrawn by order of 4.8.89.
 3. Case 173/87: Usinor -v- Commission (Aids to French steel industry). Withdrawn by Order of 4.8.89.
 4. Case 241/87: Maclaine Watson & Co Ltd -v- Commission & Council (Claim for compensation for losses suffered in collapse of International Tin Council).
 5. Case 301/87: France -v- Commission (Aid to the French Textile industry).
 6. Case 62/88: Greece -v- Council (Radioactivity levels in food-stuffs post Chernobyl).
 7. Case 158/88: Commission -v- Ireland (Exemption from turnover tax and excise duty on imports in international travel).

8. Case 180/88: Wirtschaftsvereinigung Eisen and Stahlindustrie -v- Commission (Action under ECSC Treaty to declare void Commission decision relating to aid to BSC).
9. Case 229/88: Cargill BV & Others -v- Commission (Advance fixing for subsidy for colza, rape and sunflower seed).
10. Case 352/88: Commission -v- Italy. (Refusal of authorisation for Aer Lingus to operate Dublin-Milan service).
11. Case 9/89: Spain -v- Council (Validity of Regulation 3483/88 amending 2241/87 establishing control measures for fishing activities).
12. Case 19/89: AMT (Tin Recoveries) Ltd. & Others -v- Commission & Council (Tin brokers claim for damages post ITC collapse).
13. *Case 57/89: Commission -v- Germany (Interpretation of the Wild Birds Directive).
14. *Case 68/89: Commission -v- Netherlands (Council directive on the abolition of restrictions on movement and residence within the Community for workers of member states and their families).
15. *Case 75/89 (now T-68/89): Italiana Metro Spa -v- Commission (Italian flat glass - Articles 85 and 86 EEC Treaty).
16. *Case 93/89: Commission -v- Ireland (Compatibility of Irish fishing licence conditions with EEC Treaty).
17. *Case 97/89 (now T-77/89): Fabbrica pisana Spa -v- Commission (Italian flat glass - Articles 83 and 86 EEC Treaty).

18. *Case 98/89 (now T-78/89): PPG Vernante Pennitalia Spa -v- Commission (Italian flat glass - Articles 85 and 86 EEC Treaty).
 19. *Case 235/89 - Commission -v- Italy (Patents-Compulsory licences).
 20. *Case 258/89: Commission -v- Spain (The registration of fish caught outside Community 200 mile zone).
- vi. Cases referred to the European Court under the Judgments Convention
1. Case 115/88: M Mario Reichert & Others -v- Societe Dresdner Bank.
 2. Case 220/88: Dumez Batiment SA & Others -v- Hessische Landesbank & Others.
 3. *Case 190/89: Marc Rich Co. AG -v- Societa Italiana Implianti PA.
 4. Case 214/89: Powell Duffryn PLC -v- Rechtsanwalt Dr Wolfgang Petereit Ms Konkursverwalter uner das Vermogen de Ibh Holding Kg.

ANNEX G

HOUSE OF COMMONS DEBATES ON EUROPEAN COMMUNITY DOCUMENTS

(a) Floor of the House

	Date	Subject
1.	12 July	Irradiation of Foodstuffs
2.	18 July	Animal health
3.	25 July	Freedom of movement of workers
4.	25 July	Road Safety
5.	1 November	Nitrates: Pollution of coastal waters
6.	2 November	Economic and Monetary Union
7.	13 November	Fourth Environmental Action programme: European Environmental Agency
8.	14 November	Bovine Somatotropin
9.	29 November	Social Charter
10.	29 November	EC/Japan trade
11.	29 November	Shipping
12.	11 December	Research and development
13.	11 December	1990 EC Budget
14.	14 December	Fish prices
15.	18 December	Package travel

(b) Standing Committee

	Date	Subject
1.	6 July	Trade marks
2.	20 July	Hazardous waste
3.	1 November	Nutrition labelling
4.	1 November	Gas appliances safety
5.	2 November	Dangerous substances
6.	8 November	Protection of calves/pigs
7.	6 December	Import levies
8.	6 December	Takeover bids

ANNEX H

REPORTS FROM THE HOUSE OF LORDS SELECT COMMITTEE ON
THE EUROPEAN COMMUNITIES

(a) Reports presented for debate

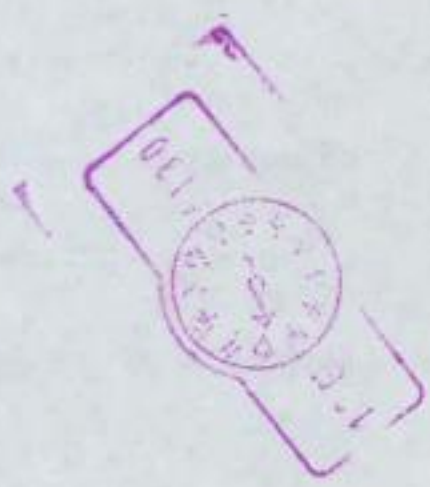
Subject	Report No and date of publication
1. Habitat and species protection	15th Report 1988/89 18 July
2. Nitrate in water	16th Report 1988/89 18 July
3. Transport infrastructure	21st Report 1988/89 7 November
4. 1992: Border control of people	22nd Report 1988/89 7 November
5. Delors Committee report	2nd Report 1989/90 22 November
6. Community Social Charter	3rd Report 1989/90 5 December
7. Irradiation of foodstuffs	4th Report 1989/90 21 December

(b) Reports presented for information

Subject	Report No and date of publication
1. Marketing and use of pentachlorophenol	14th Report 1988/89 18 July
2. Burden of proof in sex discrimination cases	17th Report 1988/89 25 July
3. Blood alcohol level in drivers	18th Report 1988/89 25 July
4. Motor insurance	19th Report 1988/89 25 July
5. Aircraft Noise	20th Report 1988/89 25 July
6. Freedom of access to information on the environment	1st Report 1989/90 22 November

(c)	Debates held	Report No and date of publication
	Subject	
1.	Equal treatment for men and women on pensions and other benefits	10th Report 1988/89 27 July
2.	Nitrate in water	16th Report 1988/89 31 October
3.	Habitat and species protection	15th Report 1988/89 14 November
4.	Relations between the Community and Japan	13th Report 1988/89 15 November
5.	Transport infrastructure	21st Report 1988/89 11 December
6.	Delors Committee Report	2nd Report 1989/90 18 December

Annex.H





PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

7 February 1990

2/8/90
Dear Caden,

RIGHTS OF RESIDENCE EC DIRECTIVE

The Home Secretary wrote to the Lord President on 15 December proposing a debate on the Rights of Residence Directive to be held on the floor of the House.

This is to confirm that the Commons Business Managers have arranged for a debate on the floor of the House on Thursday 8 February.

I am copying this letter to the Private Secretaries to the Prime Minister and members of L Committee and to the Private Secretaries to the Foreign Secretary, other members of OD(E), the Secretaries of State for Health, Education and Social Security, the Attorney General and the Solicitor General for Scotland and to Sir Robin Butler.

Yours sincerely,

Gillian Baxendine

GILLIAN BAXENDINE
Private Secretary

Colin Walters Esq
PPS/Home Secretary

CONFIDENTIAL

cc/c
 pu

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
 Secretary of State
 Department of Trade & Industry
 1 Victoria Street
 LONDON SW1H 0ET

cc/c
 pu

7 February 1990

Dear Nich,

EXCLUDED SECTORS DIRECTIVE

Thank you for your letter of 31 January. ^{attached}

I agree that it is important for suppliers to be able to get redress when discrimination has occurred. Our interest is in establishing means of securing compliance with the principles of competitive procurement, which after all was our object in proposing that firms which submit their procedures to audit should not have to follow detail rules. We expected that suppliers should nonetheless have means of redress against such firms. But with detailed rules there must always be the risk of litigation which is merely disruptive, and which is not in the interests of either purchasers or suppliers who are genuinely competitive.

I continue to be attracted by 'exemption', which the Commission has begun to call an alternative means of liberalisation. It is deregulatory, whereas the application of rules is not. It involves changes in the Offshore Supplies Office, but 1992 means in any case that Government must draw back from involvement with the operators' procurement decisions. In considering the issue we should take into account your suggestion that Member States using the exemption should be bound to act against discrimination. The latest conditions do, however, require Member States which use the exemption to ensure that the principles of non-discrimination and competition are observed. It remains important that the options are kept open in Brussels while we make our decision on the main question.

It may also be necessary for us to review our position on relations with third countries. I am glad to say that the position on other issues that have concerned colleagues now looks promising. The Commission is talking of the Council adopting

CONFIDENTIAL

CONFIDENTIAL

proposals in the future which take account of the particular characteristics of energy purchases, and has agreed that existing rules, or those now proposed, do allow consortia which win transport concessions to let contracts to their members, an issue raised by Michael Portillo in his letter of 20 December 1989.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson and John Redwood and to Sir Robin Butler.

*Yours truly
Malcolm*

THE EARL OF CAITHNESS



CONFIDENTIAL



Ref. A090/363

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign Secretary will wish to report on the Foreign Affairs Council, which he attended on 5 February with Mr Maude and Lord Trefgarne. Main points were:

- On Eastern Europe, the Council agreed to support the extension of G24 assistance measures to other countries in Eastern Europe, and to aim to complete Trade and Cooperation agreements with East Germany, Bulgaria, Czechoslovakia and Romania in the first half of 1990.
- The Foreign Secretary stressed the importance of differentiating between the circumstances of individual countries when considering assistance; this was reflected in the Council's conclusions.
- Most other member states favoured making the USSR eligible to borrow, for at least some purposes, from the European Bank for Reconstruction and Development (EBRD). The Foreign Secretary explained the UK's objections. The Commission urged that the Community itself (as distinct from the Member States) and the EIB should have a joint shareholding of 8.5%: the UK, FRG and Netherlands reserved their positions.
- The Commission was invited to submit specific proposals for action on Mediterranean policy and on EC/Turkey. On Turkey, there was general agreement (even from Greece) with the Foreign Secretary's view that it was necessary to build on

the Association Agreement and avoid an outright rebuff to Turkey: but Greece will evidently continue to make difficulty over the details of closer contacts.

- Herr Genscher announced that he would begin confidential consultations with Member States, especially the UK and France, on German reunification.
- Ministers welcomed the reforms announced by President de Klerk in South Africa.
- Agreement was reached on procedures for formalising the European Council decision to call an intergovernmental conference on EMU.

2. Forthcoming meetings are:

- ECOFIN Council, 12 February
- Agriculture Council, 12-13 February
- EC/ASEAN Ministerial Conference, 16/17 February.

R.B.B.

ROBIN BUTLER

7 February 1990



CONFIDENTIAL

CCP

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:



R H T Gozney Esq
Private Secretary to
The Rt Hon Douglas Hurd MP
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

OH
bh

6 February 1990

Dear Richard
at hand

Thank you for your letter of 26 January to Roger Bright about EC institutions.

My Secretary of State agrees with the Foreign Secretary that we should maintain all our bids for EC institutions to be sited here at this stage. He sees the European Environment Agency as a small, but prestigious, outfit best considered on its own unless and until formal proposals are made by the Presidency or the Commission for decisions to be made on a package basis.

He has also asked me to confirm that a fuller, formal presentation of the Cambridge case has now been made to Brussels and this does indeed include an indication that financial assistance with accommodation costs will be forthcoming if the Cambridge bid is successful.

Copies of this letter go to Charles Powell, to the Private Secretaries to members of OD(E) and to David Hadley (Cabinet Office).

Yours

Kate Bush

KATE BUSH
Private Secretary



Euro Pol: Budget Act



oooooooooooooooooooooooooooooooooooo

SPEECH BY SIR LEON BRITTAN,
VICE-PRESIDENT OF THE
EUROPEAN COMMUNITIES

TO OVERSEAS BANKERS CLUB
ANNUAL BANQUET:

GUILDHALL: 5 FEBRUARY 1990

oooooooooooooooooooooooooooooooooooo

CONTENTS

PAGE

E.C. Internal Liberalisation:

E.C. Approach to International
Negotiation in Financial Services:

Investment Services and Capital Adequacy:

Membership of UK to EMS:

Benefits of EMU:

2 February 1990

SPEECH BY SIR LEON BRITTAN,
VICE-PRESIDENT OF THE EUROPEAN COMMUNITIES,

TO OVERSEAS BANKERS CLUB ANNUAL BANQUET
GUILDHALL - 8 FEBRUARY 1990

EMBARGO UNTIL 19.30 8 FEBRUARY

Introduction

I am very pleased to have been invited to speak to the Overseas Bankers Club this evening. There can be few more international gatherings, even here in the City of London, and none which brings together so much financial wisdom accumulated across the globe. I am conscious that coming as I do from the European Community including only twelve countries I may appear somewhat parochial before such a cosmopolitan audience!

Yet we share the same interests. The European Community is and must remain an open trading block. We live by our commerce. Not just the export and import of goods; but a growing trade in all kinds of services, and in particular financial services.

The Community relies on and contributes to global financial markets; and we are playing an increasingly important role in determining how these markets will look in the coming years.

Internal liberalisation

Our fundamental contribution to the development of more open world markets is through a historic liberalisation of the Community's own financial markets, a liberalisation which we are convinced will benefit us, and which we invite other markets to follow. Much hard work and political commitment in the course of last year allowed us to reach final agreement just before Christmas on all the measures needed to open up the Community's banking market.

So on 1 January 1993 the Community will move from its present fragmented position to a unified banking market which places less restraint on what financial institutions can do and how they must do it than exists either in the United States or in Japan.

I do not need to remind this audience that we are determined to do so on a basis which benefits all banks duly established in the Community, whatever their ownership. The furore about reciprocity in the first half of last year has had the benefit of leading us to make the Community's position clear beyond doubt, by legislative text and not just by explanatory speeches. We want open markets worldwide; therefore we naturally intend to maintain our own markets open.

We shall be vigorous in our determination to negotiate away barriers to our banks and other financial companies doing business abroad. The case for open markets outside the Community is as strong as it is within the Community. But we have to recognise that while we can insist that there should be no discrimination against our banks on grounds of nationality, if we want to get our partners to remove barriers facing their own nationals, we can only do so by means of persuasion.

The right of establishment in the Community's market has been defined clearly in Article 58 of the Treaty of Rome. Every company set up under the laws of any one of the Member States and having its seat inside the Community is placed on the same footing as European-owned companies - even if 100% of its shares are in the hands of third country nationals.

So whenever a subsidiary of a third country financial institution is set up in the Community it benefits fully from the freedom of establishment in services inside the Community, including all the benefits of the new single banking passport, which domestic institutions enjoy.

This Treaty - guaranteed freedom of establishment, combined with our unambiguous approach towards maintaining an open market, are the twin supports of our financial services policy. They provide the basis for the Community's financial institutions to become world leaders in the coming decade.

International negotiations

But liberalisation cannot stop at our frontiers. And the spotlight is now turning to other countries' procedures, to see how far they too provide this open market. Financial services negotiations are underway in the GATT/Uruguay Round; the Community is also negotiating actively with our EFTA partners.

And there is certainly room for improvement. As regards access, in Australia and South Korea subsidiaries of foreign institutions cannot be created at all. In Canada, Australia and some Nordic countries no branches can be established; Australia and Singapore still operate barriers to foreign ownership of local banks. In the United States, despite improvements in recent years, the McFadden Act still restricts the geographic expansion of banks. Worse, certain states have reached reciprocal agreements between themselves allowing banks from other states to expand but not those whose parent bank is non-US owned - this is the case in Florida and Virginia for example.

The list goes on. There are too many examples of discrimination within markets against foreign banks. In Canada the total volume of assets which foreign-owned banks can hold is limited to 16% of total domestic assets - a figure which is arbitrary as well as unfair. In Japan there are still limits on participation of foreign banks in underwriting. There are also quotas on re-discounting at the Central Bank. Funding is notoriously difficult in Korea. Even in the United States the limit on daylight overdrafts allowed to foreign banks under the Fed wire system puts them at a clear competitive disadvantage.

Those who argue against a narrow reciprocity and for national treatment abroad should be careful to ensure that their domestic practices are beyond such criticism.

Moving beyond the question of national treatment we also need to discuss with our American friends the effects of the Glass Steagall restrictions on universal banking. How appropriate are the measures of the 1930s to the liberalised financial transactions of the 1990s? It is in everyone's interest to discuss such questions, to seek to separate the genuine needs of prudential regulation from the barriers of the past, and to open up new business opportunities fairly to all across the three global timezones.

Investment Services and Capital Adequacy

As well as this external agenda, the Community has now the challenging but important task of extending the single market to include non-banks' financial services. We shall achieve this through the Investment Services Directive which has received a first reading in the European Parliament and is currently under active discussion in the Council of Ministers.

The primary objective of the investment services directive is to provide a European passport to professional intermediaries in the securities area for the carrying on of a number of securities-related services. It will allow an investment firm once authorised in its home Member State, either to establish branches in other Member States, or to provide services in them without establishment, without needing to be authorised in the host country. An investment firm is defined as any firm whose business it is to engage in a securities-related activity, such as broking, dealing, market-making or portfolio management. This definition includes credit institutions which have been authorised by their home Member State to engage in one or several of these activities.

There is a need - and this is evidenced by the capital adequacy requirements in force in many Member States - for such firms to be sufficiently well capitalised against the risks that they run. In this way investors, and the counterparties of such firms, are safeguarded and the general health of the financial system strengthened.

It would be possible to leave host or home Member States with the discretion to set the appropriate level of such requirements. But this could lead to competitive underregulation by Member States; it could also lead to one investment firm having to meet 12 different sets of requirements simultaneously if it wished to operate throughout the Community. Of course, it would be extremely tiresome and costly for it to do so and the passport would then rightly be seen as of rather limited, if of any, value. If this were the case firms could well opt to create subsidiaries in other Member States rather than branch into them, implying that frontiers within the internal market remained in place.

It should be noted that investment firms, which are also credit institutions, will be able to engage in securities business throughout the Community on the basis of home country authorisation, so long as they meet the capital requirements set out in the solvency directive, to the satisfaction of their home country supervisors. This is the case of so-called universal banks, for example.

A more detailed treatment of securities positions than has so far been agreed is desirable to reflect the risks in such positions, and also to produce a similar level of requirements for banks and investment firms. This has become more urgent due to the rapid growth of securitisation in financial markets.

Against this background the Commission is preparing a complementary directive to the investment services directive which will:

- first, coordinate the levels of initial capital to be provided by investment firms other than credit institutions as a condition of their being authorised - those for credit institutions are already specified in the second banking directive:

- and second specify the capital they must maintain in relation to the risks that they run. These requirements would ideally cover all investment firms, though those for credit institutions would clearly have to take into account the requirements on securities positions already laid down in the solvency directive.

A working party of national experts has already discussed four drafts of a proposal for a directive and we are now at the stage of preparing a fifth and final version. This should be submitted to the Member States later this spring to ensure that the investment services directive can be implemented at the same time as the second banking coordination directive at the beginning of 1993. All investment firms, and not just credit institutions, should be able to receive a single European licence from that date.

Preparing a proposal in this field involves taking account of many different interests, and I would like to discuss some of the key issues that have arisen.

Reaching agreement on the technical manner in which risks should be measured has proved a demanding task, particularly in respect of banks' interest rate risk.

In this particular case, we are considering a requirement that banks devise their own systems to monitor and limit such risk, which must be approved by their supervisors, pending further harmonisation of its treatment.

On a more general level there has been a divide between Member States seeking identical requirements for all investment firms, regardless of their institutional category, and others who are prepared to tolerate a broad equivalence - at least in the short-term - between requirements for credit institutions, and those for other investment firms. On this view, further convergence between the two sets of requirements, which is desirable, would be achieved once further technical work (in the Basle Supervisors Group as well as in the Community context) has been completed.

The definition of capital for investment firms which are not credit institutions has also provoked considerable discussion. Our provisional view is that such firms should be eligible, at Member State discretion, for either the bank definition, or an alternative definition which includes a larger amount of subordinated debt than the bank definition, but, by contrast to it, deducts nearly all of their illiquid assets.

We believe that allowing this alternative definition as a buffer against potential losses, is sufficient to protect investors, and these firms' counterparties, the essential goals of supervision for such firms. However, such a buffer would not be appropriate for credit institutions.

Their buffer needs to be mainly in the form of equity so that losses may be absorbed without their net worth turning negative. In this way depositors can be confident that their credit institution will remain solvent. If this confidence was lacking, a panic withdrawal of funds would rapidly lead to a liquidity crisis for a bank given the long-term illiquid nature of its assets. Non-banks do not face the same problem for their assets which are held for short periods are, by contrast, liquid and readily marketable.

We are anxious to ensure that neither differences in the definition of capital, nor those in the measurement of capital requirements for credit institutions and other investment firms, lead to changes in the organisational structure of investment firms. We do not want universal banks for example to find that our proposal gives them an irresistible incentive to subsidiarise their securities operations.

I should also stress the importance we attach to the maintenance of European competitiveness in the global securities markets. Effective supervision is an asset and not a handicap for an international market; but it would be self-defeating to set up an unnecessarily complex or bureaucratic regulatory structure, since business would simply go elsewhere. There is no point in having a well-rolled field if all the games are played on other people's pitches. Our aim is to make Europe the preferred ground not just for our home teams but for American and Japanese away matches as well.

EMS AND EMU

So progress towards the Community's financial services internal market is well under way. And this is directly relevant to the developing debate on economic and monetary union.

It was agreed at the Madrid European Summit last summer, and confirmed before Christmas at the Strasbourg European Council, that Stage One of EMU should start on 1 July 1990. This date coincides with the coming into effect of the Capital Liberalisation Directive.

So from this summer the Community will have moved to ensure that, as agreed when the Treaty of Rome was signed over thirty years ago, free movement of capital will take its rightful place with the free movement of people, goods and services as one of the basic groundrules of the European Community.

Everyone agrees that a major part of Stage One of EMU is for all Member States to become full members of the European Monetary System, although there is of course no need to wait until Stage One to join the EMS exchange rate mechanism - just as France and Italy have not waited until the last possible moment before removing exchange controls.

They have acted well ahead of the legal deadline because they appreciate the economic benefits which free capital movements bring.

In the same way, full EMS membership is not a reward to be offered to our partners but a concrete benefit for British business. Norway - not even a member of the Community - is now seeking closer ties with the EMS. So should the time not now be close for a positive decision from the United Kingdom?

It is striking that the various conditions which the Government decided last year to lay down are now very close to fulfilment.

First there now exists almost total capital liberalisation in the Community.

Second the measures needed to make a reality of the single market in banking - the heart of the financial services sector - have all been adopted; and progress is encouraging in investment services and in the insurance sector too.

Third Community competition policy has taken a qualitative leap forward with the adoption at the end of last year of the Mergers Regulation which sets up a one-stop shop for larger takeovers with European implications.

In addition, our approach to state aids is becoming more rigorous throughout the Community - and is a central part of the construction of a true economic union in Europe. While some Member States are more virtuous than others, no one has so spotless a record as to be immune from Commission scrutiny.

The fourth condition - the level of inflation in the UK - is something for which the UK itself must take responsibility. But the Government's measures are putting underlying UK inflation on a downward trend and the headline figures look set to fall over the next few months. There is no need to wait for progress beyond the point where the trend is clear. An uncertain trend might have a destabilising effect, but once the downward trend is clear, joining the ERM would actually help the continuing battle against inflation.

Consequently the way is now open for the Government to start looking for an early date for full EMS membership. Indeed, to join the EMS sometime over the summer would provide a clear and unambiguous signal that the Government's determination to reduce inflation further is not for discussion. The EMS offers a unique opportunity to break free of the damaging cycle of inflationary expectations and pay increases not linked to productivity.

The explicit link between sterling and the Deutschmark would have an important effect on expectations within the economy - particularly wage expectations. Both businesses and trade unions would be aware that there could be no further prospect of any further double-digit depreciation of sterling. of the order we have seen over the last year. to offset inflationary wage settlements.

The alternative is a much longer period of very high interest rates - causing distress to house buyers and greater damage to the real economy - to produce the same effect on inflation.

Of course there are risks. In particular if the markets did not believe the Government's determination to reduce inflation and respect the EMS currency margins there would be increased speculative pressure. But I believe that this Government more than any other has the credibility to take such a step and succeed.

The benefits of lower inflation for the United Kingdom, monetary stability in Europe and perhaps most important of all a central role for this country in determining the future form and timing of monetary union throughout the Community are great. Like the CBI and the conclusions of the House of Lords EC Select Committee Report. I believe that we should take these benefits soon.

EMU

EMS membership has become one element of the wider debate on the benefits of economic and monetary union in the Community. There are legitimate differences of opinion about the form EMU should take. But all are agreed that full membership of the EMS is a necessary part of the first stage. The serious negotiations of the following stages will begin at the Intergovernmental Conference starting this December. Britain's voice and views will not be given the weight they deserve unless Britain itself has completed participation in the first stage by joining the ERM by that date.

But a further step will be necessary if Britain's views are to be regarded as a credible alternative to the Delors Plan. The Government has put forward its ideas on the best way to achieve EMU in a Treasury paper produced last November. The need to make the maximum use of market forces and avoid the creation of a centralised bureaucracy are concerns that many of us share.

However, the Treasury's evolutionary approach will only carry credibility if it is sharpened up to make clear that its objective is a system of permanently fixed exchange rates, and if it is clearly demonstrated that its preferred route will lead to the achievement of that objective.

For permanently fixed exchange rates (which amount to a single currency) and a common monetary policy are essential features of any EMU, and it is that to which all twelve Member States are committed. Competing exchange rates may help to get you there. But it is not plausible to suggest that they are in themselves the ultimate destination nor to be agnostic as to what the ultimate destination will be. Competing exchange rates cannot provide the same benefits of certainty for the investor, convenience for the individual and lower costs throughout the economy.

So if the United Kingdom is to avoid being sidelined in this debate it must accept explicitly the goal of permanently fixed exchange rates. This would amount to a common currency; but there is no reason why the currency should not be expressed in the familiar terms of pounds sterling in this country, so long as that is just a way of denominating in Britain a currency that has a common value throughout the Community. A common currency in that sense does not therefore mean forcing Britain's housewives to shop using the ECUs.

There are of course the broader macro-economic advantages of a low inflation zone in Europe based on sound money and a central bank structure freed from day-to-day political pressure. These have frequently been rehearsed.

Just as important, and less considered, are the real cost savings for business, especially smaller companies, who export. One Suffolk-based company wrote to us with an example. They had sold a pump to a French firm for £48.

When they tried to cash the French cheque it was returned by their local bank with a letter explaining that the resulting charges made it uneconomic to cash. To economists this is an example of transaction costs. To small firms it is a cost penalty they simply cannot afford.

Such burdens make a mockery of the real opportunities offered by the internal market. A monetary union will remove this unnecessary currency tax for those businesses which are inside it, with the immediate effect of more orders won and jobs secured.

Some will argue that if the price of the undoubted benefits of a single money is the loss of all control over national fiscal policy and budgets then that price is not worth paying. And I agree. There is no reason - economic or political - why the Member States of a currency union should not maintain their legitimate power over levels of taxation and spending; and specifically over the level of their budget deficit or surplus.

Those countries that choose to run a budget deficit would not of course be able to finance it by simply printing money; and their citizens - and creditors - would be aware that fiscal imprudence would have to be paid for subsequently.

We will need a structure which ensures that the tax payers of the other Member States are not left to pick up the bill. But these are the constraints of reality, not some arbitrary bureaucratic edict.

In practice, Member States would no doubt wish to consult about their national fiscal policies in order to maximise the advantages to be gained from coordinated action; and a country which risked taking on an unsustainable debt burden would as now be warned of the consequences. But there is absolutely no need to set up rigid budgetary rules; and I am sure that we can achieve a monetary union in Europe without them. In this important respect I believe the British view of these matters is absolutely right.

Economic union too is not only about budgets and fiscal policy discussions. More important for the real economy, as every company knows, is a vigorous and wide-ranging competition policy. It is the smaller firms and the new entrant to the market who suffer most from the existence of cosy cartels and price-fixing agreements.

Competition is the pump which will push increased economic activity to the four corners of the Community's internal market. The Treaty of Rome provides the powers and we in the Commission have the necessary determination to ensure that the Europe of the 1990s will not be a flabby Euro-solerotic but a lean and successful competitor on global markets.

The completion of the 1992 programme and the implementation of EMU will mean more competition in a bigger market offering a better deal for the consumer; and that is the best way to secure new opportunities for Community businesses as well.

Conclusion

So these are exciting times for Europe's financial markets. Our work bringing together the Community's separate national systems into one vast open market offers clear benefits to established financial capitals such as London or Frankfurt. It should also provide even greater opportunities to the Community's developing regional financial centres. Their lower labour cost and access to advanced telecommunications infrastructure leaves them well-placed to exploit new market opportunities. I hope they will do so.

A unified market at home, the maximum degree of openness abroad and a determination that the benefits of a healthy financial services sector should spread throughout the European economy. These are our goals for the 1990s. I hope that you and many others like you will exploit these new opportunities to the full.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

5 February 1990

Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Secretary of State,

CUSTOMS DUTY RELIEF ON IMPORTS OF DEFENCE EQUIPMENT

Will collect if required

Thank you for sending me a copy of your minute of ~~21~~ December to Douglas Hurd outlining the position reached in negotiations in Brussels on the EC Commission proposal for a Regulation on duty relief for weapons and military equipment. I agree that it is encouraging that negotiations have so far gone well with the Commission taking a surprisingly flexible line on the duration of the Regulation and the scope of the exemptions.

I agree that our negotiators should continue on the basis we agreed in November 1988 as updated in your recent letter.

Copies of this letter go to the Prime Minister and other colleagues in OD and OD(E), the Lord Advocate and the Attorney General and to Sir Robin Butler.

Timed to be signed

pp JOHN MAJOR

[Approved by the Chancellor & signed on his behalf]

CONFIDENTIAL



FCS/90/030

SECRETARY OF STATE FOR TRADE
AND INDUSTRY

*CVB
5/4*

Prospects for the Irish Presidency

1. I attach a paper, which has been agreed inter-departmentally by officials, on prospects for the Irish Presidency. It provides some background for Community discussions, and for bilateral contacts with the Irish, which a number of us have started over the past couple of months and which I hope will continue, as the paper recommends.
2. I doubt the need for OD(E) discussion of the paper but if you or other colleagues think a meeting would be useful, I shall arrange one.
3. I am sending copies of this minute to the Prime Minister, members of OD(E), the Secretaries of State for the Home Department, Transport, Environment, Energy, Health, Social Security and Northern Ireland, and to Sir Robin Butler.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office
5 February 1990

OD3AAF/9

CONFIDENTIAL

PROSPECTS FOR THE IRISH PRESIDENCY

Note by the Foreign and Commonwealth Office

Introduction

1. The Irish Presidency has opened against the background of greater confidence about the Irish economy. The Taoiseach sees what must be his last Presidency as an opportunity for international statesmanship. Continuing developments in Eastern Europe and the Soviet Union may mean that his personal emphasis will be on the Community's external relationships. But - as the Irish Foreign Minister made clear in his speech to the European Parliament on 16 January - they will also want to take forward the internal agenda, particularly the Single Market and EMU, and demonstrate again the capacity, despite slender administrative resources, to run an effective Presidency across the board. They may rely heavily on the Commission over detail, but seem, so far, to have their own priorities, which are broadly welcome to us.

EC/Eastern Europe

2. Development of the EC's relations with emerging democracies in Eastern Europe will dominate the external agenda. The Foreign Secretary's talks with Mr Collins on 7 January revealed considerable agreement on the right steps. The informal EC Foreign Ministers meeting on 20 January endorsed Presidency/Commission proposals for extended Trade and Commercial and Economic Cooperation Agreements with Romania, Czechoslovakia, and Bulgaria, provided there is no set-back to reforms. Negotiations with the GDR are starting already. The plan is to complete this network of "first generation agreements" by the summer.

3. The continuation of the G24 exercise on aid to Poland and Hungary and its extension to include the other East European countries (but not at this stage the Soviet Union) was also endorsed by EC Foreign Ministers on 20 January. This will involve the Commission more heavily than the Presidency, and the Irish seem likely to play a neutral Presidency role in intra-EC discussion (eg over handling of the loan to Hungary, or Soviet borrowing from the new European Bank for Reconstruction and Development). They have been helpful in discouraging excessive Commission ambitions for the scale of assistance to Eastern Europe.

Enlargement/EC/EFTA

4. The Irish plan a discussion of longer term "European Architecture" at the informal Foreign Ministers meeting on 28-29 April. The Commission were asked on 20 January to produce a paper on forms of closer longer term association between the Community and Eastern European countries (not necessarily on the model of existing EC Association Agreements with Cyprus, Malta and Turkey). A UK Framework paper, circulated before the Strasbourg European Council, appears to be influencing Commission thinking. No substantive decisions on Enlargement are likely to be sought, but the nature and outcome of the GDR elections in March will strongly influence the debate already starting about the GDR's special status. The Irish are conscious of the need to maintain the impression of forward movement on the Turkish membership application, but neither they nor other member states are inclined to respond to Turkish pressure to set a date for accession negotiation post-1992.

5. The EC/EFTA Ministerial meeting on 19 December agreed to the opening of negotiations on closer links in the first half of the year. The Commission plan to submit a draft negotiating mandate to the Council for approval in May. The complexities of the issues involved might cause slippage,

but such influence as the Irish exert will be helpful, since they share our view of the need to press on. The Commission are meanwhile continuing their exploratory talks with EFTA countries.

Single Market

6. This is a high priority for the Irish. They have some targets inherited from the French: they should be able to secure a common position on public procurement in the Excluded Sectors, and adoption of the Second Air Transport Liberalisation Package (due by end-June, but the Irish are aiming for end-March). In addition they have said that they expect to deal with energy, road and marine transport, telecommunications and financial services - where they now accept that the Investment Services Directive should be a high priority. Irish priorities fit broadly with ours, and they are allies on many issues, particularly transport, although they may pursue Commission/French ideas on European infrastructure networks. The Irish feel obliged to go through the motions of seeking progress on the European Company Statute, but will not press unduly. Their attitude to the Takeovers Directive is similar: ostensibly they will give it priority, but in practice they envisage a slow pace, which may help us to contrive a broader debate rather than a rush to decisions on the basis of the current Commission proposal. We shall need to encourage the Irish as well as the Commission to take up the Commission's action programme on barriers to takeovers (due by end March).

EMU

7. The principal Irish concern will be to avoid criticism for failing to fulfil the Strasbourg remit "to ensure the best possible preparation" for the IGC, which will open at the end of the Italian Presidency. ECOFIN agreed in December that the Monetary Committee should undertake further work on EMU, reporting by the end of March, when the

Commission's promised paper (or papers) will be ready. The Irish may suggest that the Commission's ideas should be analysed in the Monetary and Economic Policy Committees. They do not at present plan another Guigou-style group, with an across-the-board remit, but there is a risk of their looking to COREPER or a special group to analyse institutional aspects. These should not in our view be addressed separately from, and in advance of, discussion of the substance of EMU in the Monetary Committee and EPC. At present they seem to envisage the Dublin Summit doing no more than take stock of EMU preparations, but more ambitious objectives may emerge later, eg if the Taoiseach is tempted by calls from Strasbourg to devise a greater role for the European Parliament both in the run-up to the IGC and in its product.

Social

8. The Irish will give less emphasis than the French and Spanish to the social dimension, particularly now that Strasbourg has rung down the curtain on the Social Charter drama. They will be receptive to some of our concerns on over-regulation and subsidiarity, but the need for a firm line on labour relations problems at home may make them less willing to contemplate standing firm in Brussels. Only three Ministerial meetings are planned: Informal Social Affairs and Social Security meetings in March and a Social Affairs Council in late May. The Commission's 1990 work programme and Delors' Strasbourg speech on 17 January confirm that the Commission will bring forward this year items from their Social Action Programme likely to cause us considerable difficulty - eg measures on adaptation of working time, atypical work and consultation of the workforce. The Commission are likely to use at least one

of these as an opportunity to test the scope of Article 118A, and 100A in the social area. But Ministerial discussion of any Action Programme items is unlikely until the Italian Presidency. Particular Irish priorities are a resolution on the long-term unemployed, a programme on training, tying up loose ends on the health and safety measures already under discussion, and proposals for the convergence of social security schemes, possibly involving subsidies for the poorer member states.

Frontiers

9. The results of the Strasbourg remits (for two inventories of national policies on immigration and asylum, and a Commission study of ways to establish effective controls at the Community's external frontiers) are unlikely to be available until late in the Irish Presidency, which is more likely to focus on securing progress on the Asylum Convention (which would determine which member state was responsible for examining an application for asylum). As a lower priority, the Irish will also carry forward work on the external frontiers Convention. Discussion is bound to be affected by changes on the Inner-German border.

Indirect Taxation

10. Following agreement in the November and December ECOFIN meetings on the main elements of the systems for VAT and tax-paid travellers' allowances post-1992, and agreement to defer the question of rate approximation until 1991, the only work necessary at present is on the technical aspects of the collection system. We shall need to press the Commission hard on this. But the Irish worry about the revenue losses they will face, as market forces bring down their indirect tax rates.

Environment

11. The Irish Presidency's main environment priorities are thought to be nitrates, waste, and freedom of information. Rightly they think it essential to secure a decision on the siting of the European Environmental Agency before the Dublin European Council, at which they may want a substantive declaration on the environment.

CAP

12. The Commission's price-fixing proposals suit the Irish fairly well, for such proposals as there are for price cuts on top of the stabilisers are largely for Mediterranean products. They will probably aim for agreement by end-March; but if the Commission showed signs of weakening the package, the Irish would be unlikely to let their Presidency responsibilities debar them from joining the demandeurs. They will also warmly support the Commission's "Rural World" programme, and are unlikely to press for Commission proposals for reform of the agri-monetary system.

Animal and Plant Health

13. The Irish share our view of the need for progress on animal and plant health measures in the Single Market programme, and our belief that the Community should aim at the highest health standards in accordance with Article 100A of the Single European Act, and protect the disease-free status of particular regions. On animal health, they would, again like us, prefer the Community to work for the eradication of major diseases, in advance of the harmonisation of veterinary checks. On plant health, they are keen supporters of the "plant passport" system, and will attempt to secure acceptance of such concepts as ecological and protected zones. We should give broad support to this

initiative - the Irish will be more sympathetic to our concerns than will the four subsequent Presidencies.

Other External Issues

14. Irish thinking on the right Community response to Secretary Baker's 12 December speech seems similar to ours: they too favour building closer links through existing mechanisms, and oppose a formal treaty or a US seat at the EC table. The prospect of closer EC/US links and Ireland's good relations with the US could help in current EC/US trade disputes. In general the Irish will be useful in working for liberal EC positions on Uruguay Round issues, except on agriculture. They recognise the need to increase the tempo of Community GATT discussion as the Uruguay Round climax nears, and envisage substantive FAC discussion and an Informal Trade Ministers' meeting. Whether they will have the clout to tackle the French, German and Italians on the key issues on which the Community will at some stage have to move must, however, be uncertain. Their approach to the issue of post-1992 imports of Japanese cars should, however, be mildly helpful to us.

Conclusion

15. The Irish Presidency will mark a change of style: less partial but also less effective than the French. At working level their attitudes on EC external issues should be helpful; and UK ideas will be considered constructively. Any complications are more likely to arise from Mr Haughey's personal initiatives. On the internal side, no major decisions are likely on monetary or social issues, while on a range of Single Market, financial services, and transport liberalisation measures, all priorities for us, the Irish are likely to be helpful. Their stretched resources mean that there is scope for considerable UK influence behind the

scenes, provided we apply it sensitively and with due care: the climate will worsen in the autumn, with Italy in the chair.

16. This suggests that our key current aims should be to continue:

- (a) to persuade the Irish to keep Community's response to events in Eastern Europe positive but practical, encouraging political and economic reform, but avoiding extravagant gestures;
- (b) to stoke up Irish enthusiasm for our shared Single Market and transport priorities, particularly on investment services and air liberalisation;
- (c) to use the current lull to prepare the UK position on individual Social Action Programme measures to be introduced this year, and seek to bring home to member states, particularly in the south, their implications for competitiveness; and
- (d) to argue for thorough discussion of substantive EMU issues, using the Monetary and Economic Policy Committees; discourage premature emphasis on institutional aspects; and build on the approach in our November paper.

Foreign and Commonwealth Office
February 1990



Foreign and Commonwealth Office

London SW1A 2AH

5 February 1990

From The Minister of State
The Hon Francis Maude MP

The Earl of Caithness
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
London SW1A 3AG

RECEIVED
FEB 10 1990
SECRETARY OF STATE

CEAH
CEAH

COJ 5/2.

Dear Aledan,

EXCLUDED SECTORS DIRECTIVE *at first*

I have seen your letter of 19 January, and John Wakeham's reply.

I agree that we should press for exclusion of energy purchases, although I am not convinced that this should be a sticking point. While reversing our long-held stance on exemptions for upstream oil and gas could be awkward for us, it must be for John Wakeham's judgement where the balance of UK interest on this specific point lies. There should, in any event, be tactical paths we can follow in addition to what John suggests which avoid a blunt reversal of our position.

I am sending copies of this minute to the **Prime Minister**, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson, John Redwood and Sir Robin Butler.

[Handwritten signature]
[Handwritten initials]

Francis Maude

Euro Pol Budget R 44



PRIME MINISTER

Prime Minister

A big help over worker participation:

1 February 1990

I would be a bit more cautious about the wider implications.

EUROPEAN COMPANY STATUTE (ECS): USE OF ARTICLE 100A

44 (4)
CDP 2/2.

The attached telegram contains very good news.

The Council Legal Services have concluded that Art.100A is not an appropriate legal basis for the ECS. Art.235, which requires unanimity, is needed. This means that the Commission will not now be able to force through the objectionable worker participation provisions in the ECS on majority voting.

This is a big defeat for the Commission. Most Member States (for different reasons) opposed an Art.100A legal base for the ECS and it is unlikely that the Commission could muster enough support to carry on regardless. But if they did, we would be very well placed to challenge them in the Court.

This should therefore help tremendously in holding the line against the Commission's deliberate attempts at an aggressively wide interpretation of Art.100A.

John Mills

JOHN MILLS

UNCLASSIFIED
 FM UKREP BRUSSELS
 TO PRIORITY FCO
 TELNO 242
 OF 311900Z JANUARY 90

FRAME INDUSTRIAL

EUROPEAN COMPANY STATUTE (ECS)

COUNCIL LEGAL SERVICES OPINION

SUMMARY

1. COUNCIL LEGAL SERVICES HAVE CONCLUDED THAT THE COMMISSION'S USE OF ARTICLE 100A AS THE BASIS FOR THE ECS IS NOT APPROPRIATE AND THAT ARTICLE 235 IS THE CORRECT LEGAL BASE TO USE.

DETAIL

2. THE TEXT OF THE COUNCIL LEGAL SERVICES OPINION (JUR 13 4261/90) HAS BEEN CIRCULATED TODAY. IT CONCLUDES CLEARLY THAT THE COMMISSION'S INTERPRETATION OF ARTICLE 100A IS 'EXCESSIVE' AND THAT ARTICLE 235 IS THE CORRECT LEGAL BASE FOR THE PROPOSALS ON THE ECS. THE MAIN PLANK OF THE LEGAL SERVICES' OPINION IS THAT ARTICLE 100A CANNOT BE USED TO HARMONISE PROVISIONS WHICH BY THEIR VERY NATURE COULD NOT EXIST AT A NATIONAL LEVEL.

3. A COPY OF THE OPINION GOES BY FAX TO GRAFEN (DTI) AND OTHERS.

HANNAY

YYYY

DISTRIBUTION

184

MAIN 173

FRAME INDUSTRIAL
 .FRAME INDUSTRIAL
 ECD(I)

WED
 MR RATFORD

ADDITIONAL 11

N PARKER LEGAL ADVISERS

M COTT D/EM

UNCLASSIFIED

071737
MDLIAM 4694

D KEEFE ECD(I)
R GRAFEN (C) DTI
K MORTON SOLS DTI
TIM PRATT TSY SOLS
R JEFFRIES TSY

H PURSE D/EM
M BOLAND IR
C MUTTUKUMARU LAW OFFICERS
FRAME

NNNN

PAGE 2
UNCLASSIFIED

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Earl of Caithness
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line
Our ref
Your ref
Date

01 215 5622

PB2AGW

3/ January 1990

Mr Redwood
Sir Peter Gregson
Mr Roberts
Mr Benjamin EM
Enclosures: IEP
Mr Hopson IEP
(on file)

See Paymaster General

Thank you for copying to me your letter of 19 January to John Wakeham. I have also seen John's reply of 30 January, which officials will need to discuss.

I have no objection in principle to the suggestion that we should allow others to assume that we still wish the upstream oil and gas sector to be exempt although, as you know, I am concerned that exemption of the upstream sector might lead to other, less justified, exemptions elsewhere. The Spanish and German coal industries spring to mind in this context. Nonetheless, I would not hold out against exemption if it were tactically desirable for us to pursue this route.

However, I am concerned about the suggestion in your paragraph 3 that in the absence of exemption, suppliers "might have more chance of establishing breaches" and the implication that this would be undesirable. I am concerned to ensure that suppliers have every chance of establishing breaches - indeed, it seems to me crucial, if our efforts in this area are to be at all fruitful, that it should be as easy as possible for suppliers to demonstrate that discrimination has taken place. The comment in paragraph 5 of your letter that if the Spanish and German coal industries were also exempt, UK suppliers should not suffer "since it is intended that exempted firms should still be subject to action for discrimination" does not reassure me on this score. If the judgement of colleagues is that exemption should be sought, so be it, but full attention must clearly be given to ensuring that whatever system of compliance is chosen is properly effective in policing the actions of exempt and non-exempt firms alike.





the department for Enterprise

My only other comment relates to your paragraph 9. I would wish to see Member Governments have a duty to act against exempt entities which discriminate, rather than simply "be able" to do so.

I am copying this letter to the recipients of yours.

Yours sincerely

In Shood.

(Approved by the Secretary of State
and signed in his absence)





Ref. A090/266

PRIME MINISTER

Cabinet: Community Affairs

No major EC developments have taken place over the last week.

2. Forthcoming meetings are:

- Foreign Affairs Council, 5-6 February
- ECOFIN, 12 February.

R.R.B.

ROBIN BUTLER

31 January 1990

CONFIDENTIAL

CCAU
PC.



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State
Department of Energy
1 Palace Street
LONDON SW1E 5HE

31 January 1990

Dear Secretary of State,

CM 3/11

EXCLUDED SECTORS DIRECTIVE

Thank you for your letter of 30 January.

I note your comments on energy purchases, and hope that officials will put strongly in Coreper the reasons why the rules for the current proposal would not be suitable. I do not think the position on the exemption for upstream oil and gas is as clear-cut as you say, and we may need to consider collectively our position on this and other outstanding issues.

Meanwhile, I believe that in Coreper this week our officials must continue to keep our options open. I do not believe that it is realistic to argue now that electricity generation should be exempt, especially as we have said that electricity distribution in Germany should not be exempt. It would be possible, however, to refer to the imbalance in the coal sector that would result if German coal was exempted, and to say that we recognise that other sectors may think they have claims for exemption, without taking a view on their justification in each case.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson and John Redwood and to Sir Robin Butler.

Yours Sincerely
ADH

THE EARL OF CAITHNESS

CONFIDENTIAL

(approved by the Paymaster
and sealed in his absence)

Euro POL
Community Budget
Pt 44.



CONFIDENTIAL

ccp

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

ccp
30/1

The Earl of Caithness
Paymaster General
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1A 3AG

30th January 1990

Dear Malcolm

EXCLUDED SECTORS DIRECTIVE

Thank you for your letter of 19 January.

As you know, my predecessor and I have been concerned lest the bureaucracy of the proposed rules, including the substantial risks of litigation, impose costs upon the energy sector which might outweigh the benefits liberalisation would achieve for our industries which supply that sector. Much has been done to reduce the bureaucratic burden - your officials have done an excellent job in that respect. If we leave aside for the moment the question of exclusion of upstream oil and gas, I would until last December's Internal Market Council have had no hesitation in supporting the adoption of a common position on the proposal as a whole.

But I have to take very seriously the French Presidency's proposal that the rules of the directive should apply from 1995 to purchases of gas and electricity by the gas and electricity industries. Let me say at once that my concern is not protectionist. We are far in advance of any other Member State in liberalising our practice in respect of purchasing gas and electricity. In practical terms, because of our common carrier provisions already applying to gas and planned for electricity as part of privatisation, our gas and electricity distribution industries are and will be much more able and motivated to purchase their gas and electricity solely on commercial grounds than would be those on the Continent even if the French get their way. We

CONFIDENTIAL



have a very good story to tell in opening up our energy markets to competition and other Member States recognise that. But we cannot accept the smallest whiff of a commitment to apply the rules of the proposed directive to purchases of gas and electricity.

That is because they are completely different from those used throughout the Community for the purchase of gas and electricity by their gas and electricity distribution industries.

Particularly for gas, practice is not to compare various offers made in reports to an invitation to tender. Deals do not cover discrete quantities normally, but the total eventual output of one or more fields. Negotiating practice represents an elaborate courtship, replete with advances and retreats which may eventually after some years delay result in an arrangement on the price and other terms. The provisions of the draft directive are about as relevant to the procurement of gas as they are to the procurement of advantages through diplomacy. Coverage of gas purchases could well do immense harm to UK and Community gas interests. It would impede British Gas's ability to take associated gas as it arises and thus prejudice North Sea oil production. The technical difficulties with electricity may not be so great but in England and Wales there is essentially a commodity market into which producers and suppliers buy and sell. Unless that is unambiguously recognised in the directive, the latter's provisions are not compatible with privatisation. Even if our pooling arrangements were unambiguously recognised as a commodity market we would still have a major task in examining the longer term relationship between our supply companies and the generators for compatibility with the rules. Moreover the proposed provision would create a major imbalance of obligations since it would not affect Member States where distribution and generation are integrated (France, Italy, Spain, Portugal, Ireland, Greece, Belgium, Luxembourg). At this week's COREPER we should state that we can accept the new provision only if:

(i) the sub-paragraph on gas is deleted;

(ii) application of the rules on electricity is made subject not only to adoption of an electricity transit directive but also the creation in all Member States of an industry where those responsible for distribution and retail sales of electricity purchase freely at least the major part of their supplies of electricity;

(iii) the directive clearly states that the England and Wales pooling arrangements are a commodity market;

(iv) the energy experts of Member States have examined the proposals in detail to test their compatibility with sensible longer term relationships between generators and electricity distribution companies.

CONFIDENTIAL

CONFIDENTIAL



We are unlikely to be isolated in opposition to applying the rules to these purchases. Several other Member States are likely to be opposed even to liberalisation in principle even though they have not so far made their position plain in COREPER. We may therefore secure the withdrawal of the present French/Commission proposal on the matter: I have asked my officials to give yours every assistance to that end. If we succeed in that, we still have the problem of the exemption clause.

I appreciate all the trouble which our officials and the Commission have gone to in devising a clause which would exempt the upstream oil and gas sector from the detailed rules and be acceptable to a consensus of Member States. But I have to conclude that the clause does not now give sufficient advantage over the detailed rules and would be positively embarrassing to the UK if it was retained. The lack of advantage comes partly as a result of your own excellent efforts in mitigating the bureaucracy of the detailed rules. But it also results from the proposed declaration, largely accepted at December's Internal Market Council, which would subject procurement contracts awarded under the exemption clause to the same compliance regime as those awarded under the detailed rules. The compliance regime for the latter is expected to include as a possible sanction suspension of contracts: that would be a crippling penalty for our offshore oil and gas industry. Because the rules governing exemption are less precise than the full procedural rules, our offshore licensees would be less certain of where they stood and, faced with such a possible penalty, would interpret them even more cautiously to the detriment of enterprise and innovation.

The embarrassment to the UK comes because use of the exemption clause depends upon the agreement of the Commission in consultation with the advisory committee of Member States. It is not possible to prove non-discrimination. The reality is that few Member States would accept that the UK had fulfilled the requirements of the exemption clause unless and until the proportion of orders awarded by our licensees to the British offshore supplies industry had visibly fallen to well below its current 80%. That would encourage positive discrimination against British suppliers in order to get the exemption. Given the unlikelihood that we would obtain exemption, most of your other arguments in favour of accepting the exemption clause fall. If we were to apply for exemption and fail, that would be used by the USA and Far Eastern suppliers as evidence that we were discriminatory. If we refused even to apply for exemption, that again would be taken as evidence that we did not think we could demonstrate that our regime qualified for it. So long as the exemption clause stands as part of the proposed directive, we are therefore on a hiding to nothing and one of our main objectives now must be to get rid of it.

CONFIDENTIAL

CONFIDENTIAL



I accept that presentationally it will be awkward now to oppose the provision for exempting upstream oil and gas. However, we need not present the case in that way. We should seek the defeat of the exemption proposal by making additional demands so that it becomes unacceptable to other Member States. There are two such demands which are entirely reasonable and which also improve our relations with the relevant industries:

(i) British Coal and our manufacturers of coalfield equipment have complained that the UK coal industry will not be exempted while the Spanish and German will. The German coal industry in particular buys almost exclusively from German equipment suppliers although British suppliers are acknowledged to have the technical lead. Both German and Spanish coal industries depend on massive Government aid which provides scope for influence by their Governments on their procurement practices. We should point this out and press for the deletion of the coal sector from the exemption clause;

(ii) of all the sectors covered by the proposed directive, the one in which the UK Government will least be able to exert influence will be electricity generation following privatisation. We should point this out and demand the exemption of electricity generation if the licensing/approvals regime for power stations meets conditions analogous to those required for the exemption of upstream oil and gas.

If as a consequence of making these demands most other Member States revert to the zero option, we can readily accept.

In sum I believe that our negotiators should take the next opportunity to attack the proposed provision on gas and electricity purchases as quite unacceptable and to seek such changes to the exemption provision as will induce most other Member States to propose its removal.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson, John Redwood and to Sir Robin Butler.

John Wakeham
John

JOHN WAKEHAM

CONFIDENTIAL

ENVOI POL : Marguerite pt 44





CCPC

CONFIDENTIAL

FCS/89/020

copy

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Bananas

Ap.

1. Thank you for your letter of 5 January about the post-1992 EC regime for bananas.
2. Like the Secretary of State for Trade and Industry - his letter of 22 January - I agree with the recommendations in the paper you enclosed. The idea of an EC-wide quota for "dollar" bananas does seem the best available solution. I share your view that some EC transitional aid for ACP (and therefore perhaps Community) producers is an inevitable corollary, given our assurances to our traditional suppliers that present arrangements will not be set aside until an alternative, which safeguards their interests, has been devised. ACP losses could, I understand, amount to some £30 million a year, of which over £20 million would fall to the Windward Islands. This would be about 15% of their total export earnings. Losses to Community producers would be around £25 million a year. Helping the Windwards and Jamaica seems to me inescapable if we are to secure the benefits for UK consumers which the proposed regime would bring: that may make help to Community producers unavoidable.

CONFIDENTIAL



CONFIDENTIAL



3. You suggest that such limited and degressive aid might be funded from the "other policies" provision in line 4 of the Financial Perspective. Perhaps so; but others in the Community may propose different financing methods; and I suggest that we need not take a firm position now. We are after all talking about expenditure which would not start until after 1992.

4. Discussions in Brussels will, however, quickly lead to rumours and concern in the Caribbean and before that happens we need to speak in confidence to the Prime Ministers of the Windward Islands to explain our thinking. I suggest that our officials get together to agree a line. It would make/that our approach to the Commission is wholly consistent with our assurances to ACP suppliers, which we shall honour.

/clear

5. Copies of this minute go to the Prime Minister, OD(E) colleagues and Sir Robin Butler.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office
28 January 1990

CONFIDENTIAL

Europe - Budget Price





Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

26 January 1990

Dear Roger,

Sites of New EC Institutions

The Foreign Secretary would like to draw colleagues' attention to a number of decisions which will be necessary soon on the location of new European institutions; and to the initial tactical Whitehall analysis by officials, with which he agrees.

The four main institutions in question are the European Environment Agency (EEA); the European Bank for Reconstruction and Development (EBRD); the Training Foundation for Eastern Europe; and the Community Trade Mark Office (CTMO). The Strasbourg European Council called for a decision on the EEA site as soon as possible (in the Foreign Affairs Council). We hope decisions will be taken this spring on the sites of the EBRD and Training Foundation. On the CTMO, a decision on the site is the only important outstanding issue, but one which has blocked progress for several years.

Our bids for the EEA, the EBRD, and the CTMO are on the table. But there is strong competition. I attach a list of the field in each case.

We do not know whether the Presidency or the Commission will seek to put all the decisions together in one formal package: it seems a little unlikely. But they may propose some form of indicative transferable vote system, with formal decisions taken subsequently by unanimity: this would make sense, and would follow the precedent used successfully to secure JET for Culham. In any event, we must assume that no member state will succeed with more than one bid, and the initial Whitehall assessment is that none of ours is a clear winner. I understand that the inter-departmental consensus at official level rates them as follows:

- EEA; reasonable chance of success;~ good political, but low economic, spin-off;
- EBRD; only medium chance of success; strong political and economic spin-off;
- CTMO; small chance of success, but good economic spin-off if we could get it.

Officials are also considering our preferences among non-UK sites in each case.

CONFIDENTIAL

/The



CONFIDENTIAL

The Foreign Secretary believes that we should not withdraw any of our bids. The first step in maximising our chances of winning any one race is to parade our runners for all three. That has been done long since for the CTMO. For the EEA he understands that your Secretary of State has in hand a fuller presentation of the case for Cambridge, including an indication of financial assistance on accommodation (without which we shall not succeed). As for EBRD, he thinks it will also be important, if we are to be seen as a serious contender, that we should soon make a full presentation of our bid, and I understand that the Treasury have work in hand, with the Bank of England.

Whether we shall need in due course to switch all our effort to one race is not yet clear - realistically the choice would be between EEA and EBRD. Further inter-departmental consultation would be required.

Copies of this letter go to Charles Powell, to the Private Secretaries to members of OD(E), and to David Hadley (Cabinet Office).

Yours ever,

R. Howard Gozney

(R H T Gozney)
Private Secretary

Roger Bright Esq
PS/Secretary of State for Environment
Department of the Environment

CONFIDENTIAL

EEA

Brussels)
 Copenhagen)
 Strasbourg)
 Berlin) bids and
 Greece) supporting
 (two sites)) dossiers to
 Dublin) reach
 Milan) Commission by
 Utrecht) 25 Jan
 Lisbon)
 Madrid)
 Cambridge)

CTMO

London) shortlisted
 The Hague) by Commission
 Madrid) in Feb 1988
 Munich) from total of
 ten bids

Luxembourg) continuing to
 Dublin) press case

EBRD

Paris/Strasbourg)
 London) these are
 Berlin) cities
 Amsterdam) which have
 Vienna) been mentioned
 Prague) in discussions:
 Warsaw) this is not a
 Copenhagen) definitive list
 Luxembourg)

TRAINING FOUNDATION

Berlin

251305
FOR PS/ND 10.

~~COMMENTS SHOULD BE ADVERTISED TO ASCERTAIN THE MEANING OF S D II~~

RESTRICTED
FM PARIS AMENDED DISTRIBUTION - 25/1/90
TO PRIORITY FCO
TELNO 104
OF 241656Z JANUARY 90
INFO PRIORITY BONN

EDU MEETING. PARIS 25-26 FEBRUARY

SUMMARY

1. CHIRAC STILL AWAITING CONFIRMATION FROM BONN THAT KOHL WILL ATTEND THIS MEETING.

DETAIL

2. WE ASKED PIERRE LELLOUCHE, WHO ADVISES CHIRAC (IN HIS CAPACITY AS LEADER OF THE RPR) ON FOREIGN AFFAIRS, HOW PREPARATIONS WERE GOING FOR THIS EDU MEETING, WHICH WE HAD HEARD WAS TO BE HELD IN PARIS AT THE LEVEL OF PARTY LEADERS. LELLOUCHE SAID THAT PROPER PREPARATION WAS BEING HELD UP, TO HIS CONSIDERABLE ANNOYANCE, BY THE FAILURE OF CHANCELLOR KOHL TO CONFIRM WHETHER HE WOULD BE COMING, SINCE THE MAIN THEME FOR DISCUSSION WAS SOLIDARITY WITH THE EMERGING DEMOCRACIES OF EASTERN AND CENTRAL EUROPE, IT WAS IMPORTANT THAT KOHL SHOULD BE THERE. APART FROM THIS UNCERTAINTY, HE WAS EXPECTING A GOOD TURN OUT EXCEPT FROM THE NORDICS, SINCE THERE WAS TO BE A NORDIC MEETING IN ICELAND AT THE SAME TIME. ONCE THE QUESTION OF GERMAN PARTICIPATION WAS SETTLED, LELLOUCHE EXPECTED THAT THERE WOULD BE A PREPARATORY MEETING IN PARIS (ATTENDED BY SIR JAMES SPICER MP) TO FINALISE THE PROGRAMME AND A WORKING PAPER FOR THE MEETING. HE SAID THAT HE EXPECTED THE PROGRAMME TO BE:

SUNDAY 25 FEBRUARY PRE-DINNER SESSION FOLLOWED BY DINNER

MONDAY 26 FEBRUARY EXECUTIVE COMMITTEE MEETING CHAIRED BY CHIRAC, ENDING SOMETIME IN THE AFTERNOON

3. LELLOUCHE ADDED THAT CHIRAC LOOKED FORWARD VERY MUCH TO SEEING THE PRIME MINISTER AT THIS EDU MEETING, BUT HE IMPLIED THAT IF KOHL DECIDED NOT TO COME, IT MIGHT BE BETTER TO POSTPONE THE MEETING.

FERGUSON

YYYY
MAIN 43
LIMITED 6
WED 9
ECD(E) 6
ECD(I) 6
PS 7
PS/MR WALDEGRAVE 1
PS/MR MAUDE 1
PS/MRS CHALKER 1
PS/LORD BRABTON 1
PS/MR SAINSBURY 1
PS/PUS 1

MR P J WESTON 1
MR RATFORD 1
PS/ND 10, 1
[B.MCCALL] 1

Ref. AO90/205

PRIME MINISTER

Cabinet: Community Affairs

The Foreign Secretary may wish to report on the informal meeting of Foreign Ministers which he attended on 20 January. The main points emerging were:

- the meeting concentrated on guidelines for helping the reform process in Eastern Europe. There was broad agreement on the need for prompt action on a food aid package for Poland and Romania, and for progress on the proposals for a Training Foundation and youth exchanges. There was support for the extension of G24 activities to East European countries other than Poland and Hungary.
- the Foreign Secretary stressed the need to differentiate between East European countries, targetting real needs in each. There was general support for this, and for his suggestion that the Commission draft a paper on longer-term options for association with Easter European countries.
- there was general support for a CSCE heads of government meeting in 1990.

2. The Minister of Agriculture may wish to report on the Agriculture Council he attended on 22/23 January. The main points were:

- first reactions to the Commission's 1990/91 farm price proposals included criticism by several Member States of the cumulative price cuts resulting from the cereals stabilizer.
 - unanimous agreement to emergency food aid for Romania and further food aid for Poland (costing 41 and 30 MECU respectively).
 - no simple majority against Commission proposal for additional restrictions on UK exports of live cattle on account of BSE (exports to be confined to cattle which will be slaughtered under the age of 6 months): such measures are a responsibility of the Commission which can - and, in this case, evidently will - proceed in the absence of a simple majority of member states against the measure.
 - A helpful statement from the Commission confirming advice that, on present knowledge, meat from BSE countries presents no health risk and urging Member States (ie Germany) to follow that advice and obey the law.
3. No council meetings are scheduled next week.

F.R.B

ROBIN BUTLER

24 January 1990

010

CCPC



Foreign and Commonwealth Office

London SW1A 2AH

24 January 1990

Sean Charles,

CCPC

European Community: Annual Review for 1989

I enclose Sir David Hannay's annual review for 1989. He highlights the year as one in which, unusually, external policies were as important for the Community as internal developments. He notes in particular:

- the key significance of the Community's speedy response to developments in Eastern Europe: the central role which the super powers see for the Community in their efforts to manage change in Eastern Europe; and the relative unity of purpose demonstrated on this at the Strasbourg Council;
- the important development of relations with EFTA countries so that the extension of the Single Market to cover them is now a plausible goal;
- that 1989 was another excellent year of progress in the Single Market, firmly maintaining its deregulatory and anti-protectionist trend; our creditable record has done much to enhance our standing within the Community. The Social Charter was effectively sidelined;
- that Economic and Monetary Union dominated attention following publication of the Delors Report in April. But the real debate has hardly started: the tabling of the UK paper in November should help ensure that alternative approaches to Delors Stages 2 and 3 will be thoroughly studied during preparatory discussions for the Inter-Governmental Conference.

The Foreign Secretary thinks that other encouraging features of 1989 were:

- maintenance of budget discipline: the 1989 budget outcome is expected to be £1.4 billion below the Guideline, with the 1990 budget set at some £2.6 billion below the Guidelines;

/- acceptance



- acceptance by the Commission, and repeated public acknowledgements by Delors, of the principle of subsidiarity; this sensible doctrine is now firmly established in the Community in principle, and we must ensure that it is applied in practice

The despatch also surveys prospects for 1990.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

EUROPEAN COMMUNITY : ANNUAL REVIEW FOR 1989

Summary

1. After several years preoccupied by internal development the Community gave a higher priority in 1989 to the outside world, mainly in reaction to events in Eastern Europe. But this was not at the expense of internal development where the Single Market and Economic and Monetary Union dominated a busy year. (Para 1).

2. A conscientious Spanish Presidency especially on the Single Market. The French concentrated at first on two difficult issues for the UK: EMU and the Social Charter but good progress also on Single Market issues. (Paras 2-3).

CONFIDENTIAL

3. The Delors Report on EMU contained much we could not accept. The Madrid Council endorsed the evolutionary first stage we favoured; Strasbourg saw agreement to an IGC in 1990. (Paras 4-5).

4. Another vintage year for the Single Market. Over a hundred decisions and a sustained deregulatory, anti-protectionist approach. Implementation unsatisfactory, but our national record generally good. (Paras 6-7).

5. Attention now switches from the Social Charter, unloved even by its original proponents and rejected by the UK, to the social action programme, which should be somewhat easier to handle. (Para 8).

6. A new relationship with EFTA began to be shaped. Consensus to keep enlargement on the back burner. (Paras 9-10).

7. A swift and unified Community response to events in Eastern Europe and a central role for the Commission in G-24 coordination on Poland and Hungary. Moving from political commitment to concrete programmes will be a greater challenge. The implications of possible German reunification a factor at the back of everyone's mind. (Paras 11-12).

8. A busy year for Delors' second Commission and a more confident Delors. The new parliament still finding its feet, but difficulties with the Council in prospect on both budgetary and institutional issues. (Paras 13-14).

CONFIDENTIAL

9. A complex agenda for 1990. Agreement on most remaining important Single Market issues should be achievable, but will require substantial effort. Much still to do to argue our evolutionary approach to EMU in the run-up to the December IGC. External issues, especially Eastern Europe and Uruguay Round, will continue to dominate. (Paras 15-17).

10. A notable unity of purpose in the Community, whatever the detailed policy differences, and a new perception of its role, including by the superpowers, at the centre of efforts to manage events in Eastern Europe. (Para 18).

CONFIDENTIAL

CONFIDENTIAL

Office of the United Kingdom
Permanent Representative
to the European Communities

4 January 1990

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
LONDON SW1

Sir,

EUROPEAN COMMUNITY : ANNUAL REVIEW FOR 1989

1. 1989 ended a steady run of years during which the Community was a great deal more occupied with its own internal development - 1985: negotiation of the Single European Act, 1986 and onwards: the Single Market legislative programme, 1987/88: budgetary issues, CAP reform and the structural funds, 1988/9: Economic and Monetary Union - than with the outside world. The turmoil in Eastern Europe changed all that; and the Community, as ever reactive rather than pro-active, became deeply absorbed in responding to these events, with their increasingly far-reaching implications for the balance and nature of the EC's external policies but also for its internal equilibrium. So far this has been achieved without any noticeable slackening in the pace of internal development. We are experiencing widening and

/deepening

CONFIDENTIAL

CONFIDENTIAL

deepening, to use the Brussels jargon, at the same time. So it has been a very busy year indeed.

2. The first half of the year under a competent, conscientious and unbiased Spanish Presidency contained few precursors of anything out of the ordinary. Another big slab of Single Market legislation, including the first major decisions in the financial services area, went into the statute book; a relatively humdrum and restrictive CAP price settlement bore testimony to the staying power of the 1988 reforms; the external scene was marked by nothing more startling than the fourth re-negotiation of the Lomé Convention and the beginning of exploratory talks with the EFTA countries to see whether the Single Market could be extended to cover them; the Madrid European Council was dominated by two issues, each posing tricky problems for the UK, Economic and Monetary Union and the Social Charter, but neither came to a head in quite the way that their more enthusiastic proponents would have wished.

3. The second half year proved altogether less predictable. What had seemed likely to be a tiresomely egotistical French Presidency, dominated by its own chosen triptych - audio-visual, social, EMU - and interspersed with Presidency external spectacles of the Euro-Arab variety, turned out rather differently. The events in Eastern Europe provoked a unity of response which the French orchestrated well. While France gained its Strasbourg triumph of setting a date for the convocation of an Inter-Governmental Conference to negotiate treaty amendments on EMU, and did so mainly

/at

CONFIDENTIAL

at our expense, they accepted the interment of the Social Charter with reasonably good grace and produced a very creditable late spurt on the Single Market, some of it at their own cost. The price of glory in the Community is compromise.

1989 : Internal

4. Of the three main internal questions which dominated the 1989 agenda, Economic and Monetary Union received far and away the most public and political attention even though the issues before the Community so far have been more procedural than substantive. The first half of the year was devoted to the drafting of the Delors Report by a group of central bankers and experts; and to deciding what procedural follow-up should be given to it at the Madrid European Council. The first of these processes went a good deal less well for us than the second. There was much in the Delors Report which we could not accept, at least as a prescription for future action, which is what its many true believers, including its main author, rapidly set about turning it into as soon as it was published. But the Madrid European Council specifically endorsed only the first stage of EMU which follows the evolutionary approach we favour; it rejected the "in for a penny, in for a pound" doctrine set out in the Report; and the degree of centralised decision-making, on budgetary and fiscal policies in particular, foreseen in the Report under the economic side of EMU came in for heavy criticism.

5. After Madrid the French Presidency harnessed all further preparatory work to the single purpose of setting a date before

/the

the end of 1990 for the calling of a treaty drafting conference, an objective which had eluded them at Madrid, which they achieved at Strasbourg and which would, almost certainly, have occurred anyway, given the views of the Italian government which will be in the chair then. This process inevitably cast us in a negative role; but it also set up considerable strains between France and Germany and within the German body politic. Although these strains were overcome with deceptive ease at Strasbourg, they have not been banished for ever and are likely to play an important role in the pre-negotiations of 1990 and the treaty amendment negotiations themselves thereafter.

6. For the Single Market legislative programme, 1989 was another vintage year. The decision-making process, including the two readings by the European Parliament, worked relatively smoothly and effectively. Over one hundred decisions went through, among the more important the banking and solvency ratio directives, the merger regulation, the first step on road haulage cabotage and a political commitment to the second step on air transport liberalisation, further substantial progress in opening up public purchasing, deregulatory measures on telecommunications, and the definition of a VAT and excise system which will permit the abolition of fiscal frontiers in 1993. More important to us and to the Community as a whole the content of these many decisions remained firmly deregulatory and anti-protectionist. The perils of interference by industrial policy considerations under the merger regulation were warded off; the flawed reciprocity provisions of the banking directive were fundamentally changed for the better; a last ditch French effort to carry over into the Single Market a monopolistic approach to telecommunications was beaten back; the Commission's

original proposals for tax harmonisation were buried and replaced by an approach which gives considerable play to market forces. The nearest we came to the edge was over the broadcasting directive, where quota provisions provoked a spat with the Americans; but by the time we and the Germans were through with them the quotas were more a pious wish than a legal obligation and future US activity in the GATT should ensure they stay that way. By the end of the year both the US and Japan were signed up members of the Single Market supporters club.

7. Lest you think that Dr Pangloss has taken over UKRep, 1989 also saw the emergence of a new and worrying Single Market issue, implementation, or rather failure to implement. Commission statistics showed most member states lagging far behind in their fulfilment of the implementation dates contained in Single Market legislation. The fear of the public pillory should, over time, remedy this; and our own creditable, but not totally unblemished, record is helping to lay the myth of the UK as a "bad European". But behind implementation lurks another tricky issue, enforcement; and behind that, decisive action to reduce excessive state aids. All these will place a heavy burden on the Commission; we have a vested interest in their success.

8. The Social Charter ended 1989 as the skeleton at the feast. Unloved by its progenitors, criticised as inadequate by the trade unions and the European Parliament, rejected by the UK, its shelf life may be rather short. The idea of using a declaratory document of this sort to assuage the criticism by the left of the, as they saw it, unacceptably neo-liberal bias of the Single Market, was

/probably

probably doomed, given the high ideological charge that would have been contained in any such text. Attention now switches to the social action programme, which is a thorough curate's egg, but which should be somewhat easier to handle at least in the early stages and with a run of rather less unhelpful presidencies.

1989 : External

9. The Lomé re-negotiation (an old story re-told to most of the same accompanying music) and the Uruguay Round (little more than curtain-raising for one of 1990's big events) took up much official and ministerial time. The new approach to EFTA born out of an almost casual remark by Delors last January and initially thought of more as a prophylactic against new accessions than as an objective in itself, had picked up considerable speed and content by the end of the year. Both the Community and EFTA have begun to think the hitherto unthinkable and even to talk about it; and a betting man would, I suspect, hazard a small sum on the prospects for the foundations of a wider European Economic Area (the Brussels-speak for extension of the Single Market to cover the EFTA countries) being laid in 1990.

10. Enlargement itself remained firmly on the back burner whither the member states had consigned it in an unusual display of unanimity. The Austrian application for membership complete with its neutrality proviso did nothing to shake that consensus, and the Commission's opinion on the Turkish application merely confirmed it. There is unlikely to be room at this inn before the mid-1990s.

CONFIDENTIAL

11. But the year, in external terms, belongs of course to Eastern Europe. The Community's response to the political and economic reforms in Poland and Hungary was more surprising for its speed and unity than for its positive nature. The decision by the July Economic Summit meeting to designate the Commission as overall coordinator of the Western support effort is likely to have far-reaching implications going well beyond its most immediate manifestation, the constitution of the Group of 24 countries which met at ministerial level in Brussels just before Christmas. So far the Commission and the member states have done much; emergency food and medical aid have been provided; substantial trade concessions made; money pledged for training, agricultural and environmental programmes; balance of payments support to underpin IMF programmes made available; loans from the European Investment Bank and, in the future, from a new Bank for Reconstruction and Development, foreshadowed. But it is pretty clear, as the year ends, that the easy part of this operation is now over and the difficult part remains. What was conceived as a two country programme is going to need to be transformed into a six or seven country programme covering the whole of Eastern Europe. Paper pledges and decisions taken around tables in Brussels are going to be tested on the ground in countries whose existing political and economic structures have no track record at all as pluralist democracies or market economies.

12. Events in East Berlin and elsewhere in the GDR have had a major subliminal impact on the Community, even if the only decision so far taken has been to approve a rather bland mandate to negotiate

/a

CONFIDENTIAL

a trade and economic cooperation agreement with the new Modrow Government. The spectre of an FRG obsessed with dreams of reunification and turning its back on European integration has emerged and been, at least temporarily, exorcised at Strasbourg. But the implications in terms of increased German industrial and economic power, of new problems over the movement of people within the Community, of the overall balance within the Community in the 1990s have only just begun to be taken on board.

A New Commission and a New Parliament

13. The second Delors Commission has had plenty to do in its first year and, on balance, has not done it badly. Delors himself, as might have been expected, has played a larger role both within the Commission and outside it; he seems more self-confident and less prone to tantrums with his colleagues and the Council than before. He has made much in public speeches of the principle of subsidiarity but its influence on some Commission proposals is not blindingly apparent. Some of the other members of the old Commission (Andriessen, rather uncertainly at first; Matutes) have performed respectably as have some of the new (Brittan; Bangemann; MacSharry on internal if not on external, agricultural policy; Van Miert, instinctively a harmoniser yet a surprisingly liberal influence on transport policy). There are also a good number of passengers but fortunately most of them are in the passenger seats.

14. The new European Parliament was elected in June. It has yet to show its colours and to flex its muscles. It is dominated

/by

by two large groups (Socialist and Christian Democrat), with five or six others, each less than a quarter of the size of the big groups, being naturally much less influential. The 1990 budget was approved within the terms of the Inter Institutional Agreement with only minor skirmishing between the Parliament and the Council. It is clear however that this calm will not last much longer. On both budgetary issues (revision of the Financial Perspectives in 1990, and re-negotiation of the Inter Institutional Agreement in 1992), and institutional ones (influence over the treaty amendment process on EMU, pressure for more far-reaching institutional reforms) the rocks further down the river can be seen already.

Prospects for 1990

15. The agenda for 1990 is a long and complex one. It may start deceptively slowly, except on Eastern Europe, with a rather passive Irish Presidency contrasting sharply with the hectic activity of its French predecessor. It will not last that way. The Single Market remains centre stage. The challenge will be to get the remaining major decisions, on financial services, on transport, on public procurement and on trade policy (Japanese cars in particular) taken during 1990 and taken on a deregulatory and open basis. We also need sensible decisions on the outstanding animal and plant health proposals. All this ought to be achievable but it will take much effort. If it can be done, then our economic operators will have the clear picture they say they need and the incentive to take their investment decisions for 1992.

CONFIDENTIAL

16. There are no obvious decision points in 1990 on Economic and Monetary Union, but there will and needs to be much preparation for the Inter-Governmental Conference opening in December. If we are to pick up support for our evolutionary approach, then it will not be enough to camp on our November paper; it will need to be fleshed out, including in ways that make it clear that we do not regard the path of treaty amendment, which all other member states support, as a no-go area for ever. Events in the exchange rate market place and continued speculation about sterling's entry into the ERM will be an uncomfortable counterpoint to the discussions on EMU.

17. But for all this 1990 will almost certainly be a second year in which the Community's activity will be dominated by external developments and policies. The EFTA negotiations perhaps and the Uruguay Round certainly will come to a head towards the end of the year. The latter, in particular, will be difficult to handle and to bring to a successful conclusion; the German attitude on agriculture and the coincidence between the end of the negotiations and the federal election in Germany is only the most obvious of the many obstacles. Eastern Europe, with a cascade of promised democratic elections and the difficulty of taking hard economic decisions and setting an entirely new course while these are going on, will surely demand constant attention and substantial resources.

18. Looking back to 1989 from a more distant perspective than this review can achieve, I suspect the biggest shift may prove to have been in the perception of the Community and where it should be going,

/by

CONFIDENTIAL

CONFIDENTIAL

by its own members, by its immediate neighbours and by the two superpowers. It is striking indeed that a European Council meeting, like the one in Strasbourg, with a number of divisive issues on the agenda, which some years ago would have broken up in disorder and talk of crisis, was concluded in an atmosphere of united effort. More significant still is the way the emerging democracies of Eastern Europe and the old democracies of EFTA both see the Community as a lodestar for their future. Perhaps most significant of all is the development of both Soviet and US foreign policies which now place the EC at the centre of their efforts to manage the great changes under way in Eastern Europe within a framework of stability and security. There is a lot here that we too need to be thinking about if we are to play the active and positive role in the Community's future development which we seek.

19. I am sending copies of this despatch to the Chancellor of the Exchequer, to the Secretary of State for the Home Department, to the Secretary of State for Employment, to the Secretary of State for Trade and Industry, and to the Minister of Agriculture, Fisheries and Food; to the Governor of the Bank of England; to Her Majesty's Ambassadors in European Community and EFTA posts, at Washington, Tokyo, Moscow, Ankara, Prague, East Berlin, Budapest, Warsaw, Bucharest, Belgrade and Sofia; to Her Majesty's High Commissioners at Ottawa, Canberra and Nicosia; and to the United

/Kingdom

CONFIDENTIAL

CONFIDENTIAL

Kingdom Permanent Representatives at NATO, the OECD, the Council of Europe, and the United Nations at New York and Geneva.

I have the honour to be, Sir,
Your obedient servant

David Hannay

D H A Hannay

CONFIDENTIAL

Already seen

WITH COMPLIMENTS

Lord Hanson

to
Thanked
Oh

FORBES, FEBRUARY 19, 1990

Back door

SIR: Re "The dark side of 1992" (Jan. 22). A perceptive evaluation of the problems facing Britain, and the reason so many of us applaud Prime Minister Thatcher's caution, is only suggested in the article. Namely, Britain has the only conservative government in Europe today, whereas all the rest are socialist. Britain will not be dragged back into socialism by the Brussels back door.

—Gordon White

Chairman

Hanson Industries

New York, N.Y.

Almost everyone thinks the European Community is a great thing, but few Americans grasp the profound debate over what kind of union it is to be. The outcome matters greatly to our economic future.

The dark side of 1992

ALMOST EVERYWHERE, especially in the U.S., the prospect of erasing all economic boundaries within Western Europe by 1992 has been greeted with cheers. For more than 40 years U.S. Administrations have uncritically supported the political and economic merger among Western Europe's nations.

Suddenly, however, the cheers of support for a united Europe are becoming a bit discordant. The Soviet retreat from Eastern Europe, and troubles at home, have seemingly ended the Cold War and weakened the geopolitical argument for a united Western Europe. At the same time, the likelihood of a reunited Germany has revived memories of an arrogant, domineering Reich.

For British Prime Minister Margaret Thatcher, who has been accused of dragging her heels on European unity, the subsiding of the cheering for the EC is not unwelcome. She and her aides worry about what they see as planning, centralizing and interventionist ambitions of the Brussels-based European Commission bureaucrats. Meanwhile, a few thoughtful Americans have begun to worry about the possibility—by no means a certainty—that a European superstate one day could emerge as a protectionist, corporatist, anti-American Frankenstein.

Three thousand journalists mill about in Strasbourg's cavernous Palais de Congrès, gossiping, comparing notes on the local restaurants, quaffing the free wines and shouldering the complimentary travel bags full of gifts. At intervals, officials from the 12 member countries of the European Community—which significantly stopped calling itself the European Economic Community some years ago—dart out and hold off-the-record press briefings.

This twice-yearly meeting of EC government heads, steadily working its way through all the great European cities (and restaurants), is the so-called European Council. In these high-pressure, closed-door meetings, ministers from the various member states liaise with their opposite

By Peter Brimelow

numbers and approve joint decisions about the future of the Community.

There is also a European Parliament, based in Strasbourg and directly elected. But the parliament's functions are largely symbolic, and voter turnout is low.

Real power in the Community seems to rest with the European Court—whose rulings are binding on the Community's member countries, and which consistently goes beyond the letter of the law to further European integration—and with the European Commission, the Community's permanent bureaucracy in Brussels.

This faith in unelected officials appears odd to American eyes. But the paradoxical reality is that, while the nations of Europe are old compared with the U.S., their representative institutions are mostly much newer. Germany and Italy didn't finally unite until just over a century ago, and look what happened then: Their electorates produced Hitler and Mussolini. France centralized itself ruthlessly after the Revolution, but it achieved its present political stability only with Charles de Gaulle's Fifth Republic in 1958.

Additionally, much of continental Europe has been united from the top before. Napoleon did it, and so did assorted Hapsburg monarchs and other dynasties going right back to Charlemagne, whose medieval empire encompassed modern France, West Germany and northern Italy. (Charlemagne, not surprisingly, is now very popular in Brussels as a symbol of the Franco-German alliance that actually makes up the heart of today's EC.)

Britain is the big exception. An island, it has a long history of independence and self-government. Which is perhaps why M. Gaston Thorne, when president of the European Commission in the early 1980s, lamented that "the integration of Britain into the EC has been harder than had ever been imagined." Margaret Thatcher has continued the tradition.

At a briefing for NATO leaders after the Malta summit in early December, President George Bush put his foot in his



Jacques Delors, European Commission head
Ambitious to create a superstate.

th. He urged "a continued, perhaps even intensified, effort" to integrate the European Community. This totally undercut (and momentarily silenced) the British Prime Minister, his supposed ideological ally, who was about to face the first challenge in 14 years to her party leadership—a challenge inspired in part by her public reservations about current plans for further European unification.

Bush subsequently called Thatcher to claim that his comments had been misinterpreted. And Thatcher crushed her opponent, an obscure back-bench stalking horse, in a ballot of Conservative members of Parliament. Her victory, however, was not as complete as she might have wished.

Why—aside from sheer British cussedness—is Thatcher dragging her heels? Although British politicians consistently assure their flock that the European Community, before and after 1992, is only a free trade area, many Continental politicians see it as a developing superstate. Jacques Delors, the prim French socialist who now heads

the European Commission, has made no secret of his ambitions to make it one. He said in 1988 that in ten years' time no less than 80% of all Europe's microeconomic legislation will come from Brussels rather than from the governments of the member countries.

What Delors and his sympathizers seem to have in mind is not so much a federation on the U.S. model as an outright, highly centralized union. There is no equivalent in the EC of the U.S. Senate, designed to protect the individual American states. And there is no clear demarcation of powers between Brussels and the various member countries.

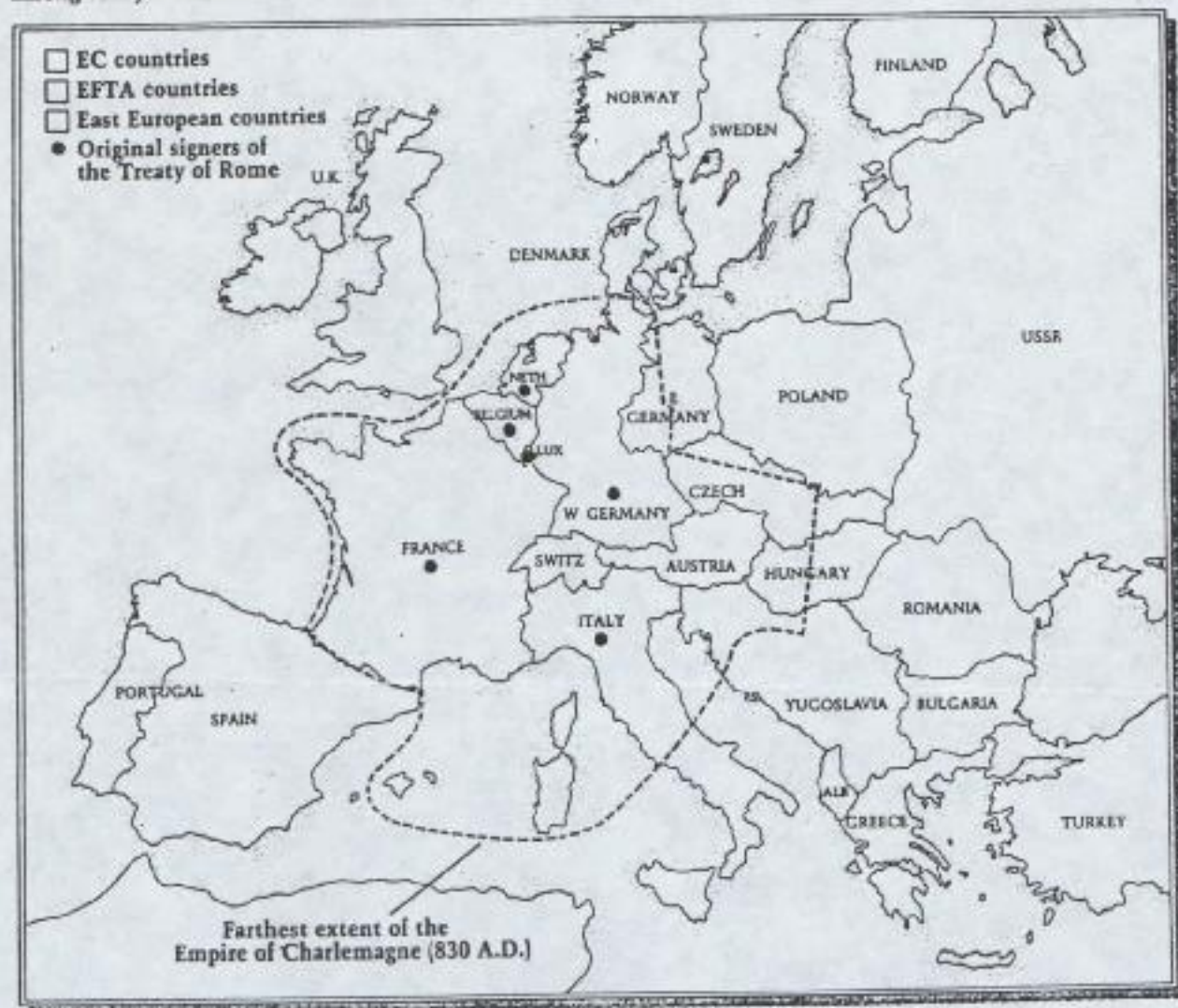
For example, whereas American states set their own taxes, Brussels has engaged in a protracted struggle to force member countries to "harmonize" their value-added tax. In 1988 the European Court ruled that Britain must extend it to previously exempt areas.

Some British MPs complained that this effort to unify taxes was the first time an outside body had tried to force taxes on the House of Commons since King Charles I's

One Europe? Or two?

At its core, Europe 1992 resembles Europe 830 under Charlemagne, who has become a popular symbol among today's Eurocrats. An alternative vision is of a

"two-tier" Europe composed of the European core and European Free Trade Association (EFTA) members—plus, perhaps, the United Kingdom.



ship tax in the 17th century—which led directly to the English Civil War and his decapitation.

Contrast this with the U.S., where each state is free to have an income tax or not have one, to have sales taxes or not and at what level.

Britain is trying to persuade its European partners that issues like the value-added tax should be left to each country, since the post-1992 free internal market itself will discipline their policy—just like what happens in the U.S.: If one state taxes business too heavily business can move to another state, this sets a painful limit to the greed of politicians.

"Mrs. Thatcher wants a market-driven approach to European unity," says one American observer, Stanislas Yasukovich of Merrill Lynch, who is chairman of London's Securities Association. "The Continentals expect an institution-led approach. Her approach is more American, theirs reflects the influence of Catholic socialism. You have two fundamentally opposed political traditions."

The EC's centralizing momentum is formidable. At Strasbourg, further steps toward monetary union and a common "Social Charter" were agreed upon over Thatcher's objections. But skeptics warn this progress may be deceptive.

"It's a politicians' Europe, a media Europe," says John Biffen, a British Conservative MP and a former member of Thatcher's cabinet. "But there's no sign of a peoples' Europe—because it don't exist."

"We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level with a European superstate exercising a new dominance from Brussels."

—Margaret Thatcher,
Bruges, Sept. 20, 1988

Over a year ago Margaret Thatcher chose to dramatize her objections to Europe's drift in a powerful speech at Bruges, Belgium. She said that the real job, and the point of the European Community, was "to deregulate and to remove the constraints on trade." Quite clearly this view is at odds with that of Commission President Jacques Delors, who has been quoted deprecating what he calls "savage capitalism"—meaning unregulated markets.

Thatcher also warned that the European Community must not be protectionist. And she urged greater defense cooperation with the U.S.—including "out-of-area defense," as in the Persian Gulf.

Thatcher's Bruges speech exploded in Brussels with the force of a bomb. It was savagely attacked there and in Britain. But in its wake a group of British academics and businessmen formed the Bruges Group in London to explore her suggested "market-driven" alternative to European unification by central decree.

The Bruges Group's chairman, Lord Harris, amiably dismisses the attacks on his group from adherents of the European superstate. A founder of the Institute of Economic Affairs in 1957, he says he also remembers its free market ideas being treated with "contempt." However,

they subsequently formed the basis of Thatcherism—and anticipated the powerful winds of economic deregulation now blowing across much of the globe.

Thatcher thus expresses an increasing anxiety, felt even by former supporters of Britain's joining the European Community, that the "institutionalist" approach to 1992 was turning into a drive for a centralized and interventionist superstate. This, as opposed to Thatcher's belief in a market-driven approach, wherein free markets, not the government, would be the unifying force.

The EC's blueprint for 1992, the so-called Delors Report, embodies the institutionalist approach. This detailed plan for economic and monetary union was developed by Jacques Delors, an avowed socialist. It called for a three-stage move to a single European currency (see box, p. 88). Simultaneously, it advocated the "Social Charter," which, in essence, would have imposed expensive social programs based on the West German model throughout the Community, such as minimum wages and hours of work.

Logically, neither a common currency nor common

social programs are necessary to a fully open economic market. After all, the U.S. and Canada just completed a bilateral free trade agreement without either. Certainly the 50 U.S. states have widely different social programs and tax structures and yet function within a single economic market.

In fact, a common currency could cause problems. "It would deprive weaker regions of the opportunity to devalue," says Patrick Minford, professor of economics at the University of Liverpool and a Bruges Group adviser. He argues that devaluation can be an effective weapon, for example in cushioning the shock of structural reform. For instance, Minford says that Margaret Thatcher's efforts to expand the supply side of the British economy in the mid-1980s were aided by a low, competitive pound.

Similarly, imposed social programs could deprive poorer regions of their one asset: cheap labor. It was, after all, relatively cheap labor that helped the U.S. Southwest and Southeast develop economically in the decades after World War II. Had uniform wages been decreed from Washington for the entire country, most industry might today still be concentrated in the Midwest and Northeast, and Georgia would be a poverty area.

In Britain, Minford estimates that the European Council's suggestion of a minimum wage set at 68% of mean earnings would eventually increase unemployment by 1.4 million and reduce GDP by 6.8%.

The Delors Report eagerly anticipates imposing uniform economic policies on the member states. It cites "the need for a transfer of decision-making power from Member States to the Community" (italics in original). The report envisioned member countries' economic policies being brought "within an agreed macroeconomic framework . . . subject to binding procedures and rules" on such questions as the size of their budget deficits. Similarly, the "Social Charter" is a political appeal by the Commission



British Prime Minister Margaret Thatcher
At bay—but not beaten.

to Europe's socialists. Jacques Delors made this appeal in person to the annual conference of Britain's Trades Union Council, helping to persuade the Labour Party to shift from its previous anti-EC stance.

Thatcher's resistance is to centralization—not to freeing up the European internal market. In condemning Margaret Thatcher for being anti-EC in an economic sense, some of her enemies ignore the facts. Of the 88 EC commission

directives issued on the subject of 1992, Britain has reportedly already implemented 69, more than any other member country except Denmark. By contrast, Italy has implemented only 35.

The British complain bitterly that other member countries have a habit of agreeing publicly with Community policies and then simply ignoring them. This certainly seems borne out by European Court records: Between 1981

One currency or many?

There's nothing in the enabling legislation for the European Community's single market that actually specifies a common currency to replace pesos and marks and pounds sterling and lire. But one is on the agenda anyway, in the funny way that these things tend to happen in Brussels.

The move to a common currency is supposed to happen in stages. Most European Community currencies except the pound are already held fairly steady in relation to one another. Over time, this relationship is to become tighter, central banks will coordinate policy more, and eventually both currencies and central banks will merge—one currency, one central bank.

In effect, most European currencies have been pegged to the deutsche mark. And for historical reasons the Bundesbank is the most allergic to inflation of any central bank in Europe. So politicians in the other countries have conveniently been able to blame Germany for imposing monetary discipline on them.

But the non-Germans still find this discipline embarrassing at times. It hampers their freedom of action to manipulate their domestic economies. This problem exists now, with the franc generally thought to be fixed too high relative to the deutsche mark, so that the French must endure high interest rates to keep it there.

By merging central banks, the French and others see a chance to get a little useful influence. The Germans, however, are fully aware of this. Despite their reflexive public support for the project (and most Euro projects), there are distinct signs that they are reluctant to entrust their monetary fate to those less committed to sound money. For precisely this reason, the Swiss have recently announced they will not join their franc to a common European currency even if invited.

Fixed-rate systems are hard to run if money is free to migrate in search of the best return. "They need exchange control or some substitute for exchange control," says the Hoover Institution's Milton Friedman.

Exchange control is notoriously a nontariff barrier because it inhibits the flow of goods and services across frontiers. So, at least in its transitional stages, this approach to European monetary union has anti-free-trade implications.

At the Madrid European Council meeting in mid-

1989, Margaret Thatcher finally agreed that Britain would enter this European "exchange rate mechanism"—on three conditions: when Britain's inflation rate fell, when all European exchange controls were removed, and when financial sectors were free to compete across borders. Some observers think this is tantamount to never—or that the exchange rate mechanism won't survive the abolition of exchange control.

Then Britain proposed an alternative "evolutionary" route to monetary union: The various government currencies should circulate freely and compete. This idea reportedly originated with Sir Alan Walters of Johns Hopkins University, a former economic adviser to Margaret Thatcher, who in 1988 told FORBES that competing currencies are "an intellectually very respectable idea."

Under the Thatcher/Walters proposal all Europeans would be free to use whatever currency they want. They would naturally prefer the least inflationary one. Other central banks would be forced to discipline themselves. There would be convergence, not on some politically determined consensus monetary policy as under the Delors proposal, but on the best. The Thatcher/Walters competing currency proposal thus depends on market forces rather than on government dictates to establish monetary discipline.

European Commission officials in Brussels have reportedly "derided" the British plan. But Margaret

Thatcher still insists that it must be considered when the EC member countries meet later this year to consider their next monetary move.

Why have a single European currency anyway? Supposedly it would eliminate exchange transactions and thus make trade simpler. But the U.S.-Canadian free trade area apparently doesn't need one.

Ultimately, the move to a single currency is about symbolism—and power. The Delors Report explicitly sees monetary union as an excuse for Brussels-directed regional subsidies and warns it will necessitate not just market mechanisms but "policy constraints" on the member countries.

Still, Milton Friedman told FORBES (Dec. 12, 1988) the Brussels bureaucrats would "never get" a central bank.

What does he think of the Delors approach? Bah, humbug, is what he thinks. "It will blow up. I hope the U.K. has sense enough not to get into it. If you want to make money, buy marks and sell francs."—P.B.



Former Thatcher adviser Walters
Why not competing currencies?

and 1988, for example, Italy and France each received twice as many complaints of Community law infringements as Britain did.

"The Americans had three motives for supporting European political union," says John O'Sullivan, a former special adviser to Margaret Thatcher and now editor of William F. Buckley's *National Review* magazine.

"First, they thought a united Europe would pay for its own defense. But it hasn't.

"Second, they thought it would bind Germany into the West. But the enlarged community of 12 countries from neutral Ireland to quasi-neutralist Greece didn't anchor Germany to anything very solid in Western terms, even before Eastern Europe joined the queue.

"Third, they thought Britain with the other free trade members would be able to block French and German protectionist tendencies. But in fact Britain's influence has been swamped. The most dramatic example is agriculture, where Britain has an identity of interest with the U.S. but ends up trying to make a prior deal and then supporting the European line in international conferences."

The facts bear O'Sullivan out: EC representatives caused the breakdown of the 1988 GATT [General Agreement on Tariffs & Trade] talks in Montreal by refusing to consider the abolition of agricultural subsidies, and at the end of 1989 both sides were reported in deadlock on general tariff reductions.

Washington is not unconscious of the dangers of a Fortress Europe, but lately it appears to have been lulled. The protectionist Common Agricultural Policy has been partly modified at Britain's insistence, and anyway recent U.S. harvests have been poor. The European Commission's fierce interpretation of its antidumping rules has caused controversy, but they seem primarily aimed at Japan—not surprisingly, since the U.S. has tended to run trade deficits with the Community, mostly with West Germany.

But the dangerous—dangerous to U.S. interests and to free markets—tendencies still exist. The Commission's recent directive on European content quotas for television, laughingly called "Television Without Frontiers," was as nakedly anti-U.S. as anything could get. It provoked U.S. Trade Representative Carla Hills to protest acidly that she did not understand "why the English culture is promoted more by a film produced in France by 'Europeans' than by a film of New Zealand origin."

British Euro-observers have no illusions about the Community's ultimate direction. "Political integration means protectionism," says John Biffen. "A United States of Europe, with regulation, would be a high-cost area, restricting imports," says the Bruges Group's Lord Harris. "The U.S. can't rely on Europe being a free trade element in the world economy."

Why is the U.S. so blithely ignoring these protectionist dangers? "The State Department never thinks about economics," says Irving Kristol, publisher of *The National*

Interest, a foreign policy quarterly. "That's why we had to set up the Office of the Trade Representative in the first place."

If Americans ignore these potential problems, non-EC Europeans do not. Recently, a member of Poland's new Solidarity government expressed reservations about further integration of the European Community because it might exclude his own country. A prominent American foreign policy intellectual responded that integration was vital to "bind in" West Germany. George Bush, he said, should tell Margaret Thatcher to get on with it.

In her eleventh year as Prime Minister, Margaret Thatcher is at bay. She is behind in the opinion polls and besieged by enemies in her own party.

But she has been in exactly this position before—in the middle of both her previous terms of office. It's dangerous to write her off—or to assume her relative mildness at Strasbourg means she won't continue to fight monetary unification and the Social Charter in detail.

Nor is she as isolated within the EC as might appear.

Christopher Corns/Keystone



John Biffen, Conservative MP

Political integration means protectionism.

Directly after the Strasbourg summit, German Chancellor Helmut Kohl unexpectedly canceled signing the so-called Schengen Agreement, the five-nation open-border accord that was supposed to be a prototype for the rest of Europe, reportedly because of the situation in Eastern Europe. Caution, it seemed, was winning.

Also after Strasbourg, Conservative MPs sympathetic to the Bruges Group ousted "Europhiles" (including Mrs. Thatcher's challenger) from all the top places on the party's back-bench European affairs committee.

And on his visit to Europe, U.S. Secretary of State James Baker reportedly advocated a

political role for NATO and "a significantly strengthened set of institutional and consultative links" between the U.S. and the European Community—suggesting some dawning concern about the EC's future direction.

It is still not considered respectable to oppose further European political integration, but dissent is beginning to speak in whispers. The whispers even suggest that if Britain had to join any trading bloc, it should have been a North Atlantic one embracing Canada and the U.S. "Sixty percent of our investment is in the U.S.," says one Bruges Group sympathizer, "only 20% in the EC."

Powerful economic forces are behind the trend toward freer markets, not only within Western Europe, but throughout the globe. But there is no evidence that elimination of trade barriers can be achieved only through political unification and standardization. In opposing the latter, Margaret Thatcher gets wrongly accused of opposing the former. Her struggle matters to the U.S.—economically and politically.

She wound up her Bruges speech by calling for a Europe "which looks outward—not inward—and which preserves that Atlantic community—that Europe on both sides of the Atlantic—which is our noblest inheritance and our greatest strength." That's the U.S. she's talking about. ■

Eliminating the whole of the green pound gaps should add no more than half of one per cent to the RPI and that effect would be spread over many months.

For many years food prices have lagged behind the general rate of inflation and farm gate prices have increased by less than half the RPI over the last decade. I recognise that the concern of Government is primarily with the future and that any increase in the inflation rate is unwelcome. I hope you will accept, however, that the cost of a green pound devaluation is a price that has to be paid to avoid lasting damage to a major industry. A further run-down in farming would be bad for both the economy and the countryside.

Yours sincerely
Simon Lowlay

R2011

AGRICULTURE HOUSE · KNIGHTSBRIDGE · LONDON SW1X 7NJ

01-235 5077



THE NATIONAL FARMERS' UNION

FROM THE PRESIDENT
SIR SIMON GOURLAY

19th January 1990

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1

Dear Prime Minister

I am writing to ask you to support a major devaluation of the green £ which is now vital if British farmers are to compete on fair and equal terms in Europe.

The steep fall in farm earnings over recent years, (a fall that has been checked only temporarily by improvements for a few commodities,) does not just mean that farmers have to tighten their belts. It means, in particular, that the industry lacks the resources needed for investment. With annual investment in fixed capital falling in volume terms by nearly a half between 1983 and 1989, the strength of the industry has been seriously undermined. The outlook is especially worrying because investment levels have been much better maintained in other leading EC countries.

The main financial pressures stem from inflation, the high level of UK interest rates and the operation of the green pound. The first two factors are common to most of British industry. But UK agriculture alone suffers the penalty of the green pound. The use of this artificial exchange rate means that British farmers earn substantially less than their counterparts in other EC countries for a range of basic products. Wheat prices, for example, are £20 lower than they would be if EC prices were converted to sterling at the market rate of exchange.

Farmers are willing and eager to compete. But if they are to be successful, the terms of competition must be fair. The green pound penalty, which provides subsidies on imports and imposes taxes on our exports, must be removed. The Commission's proposal to narrow the gap between green and market rates by only one-third this year is totally inadequate. If British agriculture is to gear up to meet the challenge of the Single Market, the trade distortions must be removed now.

I know that a green pound devaluation has some effect on food prices. But the impact on consumer budgets is small.

/....

Sir Simon GOURLAY
6/2



M

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

AJ

23 January 1990

01412

6/2
cc reply
to DSE

Roger Thompson
Rm N16/17
2 Marsham St.

I attach a copy of a letter which the Prime Minister has received from Sir Simon Gourlay.

I should be grateful if you could provide a draft reply for the Prime Minister's signature to reach me by 6 February.

I am copying this letter to John Gieve (HM Treasury) and Richard Gozney (Foreign and Commonwealth Office).

PAUL GRAY

Michael Harrison, Esq.,
Ministry of Agriculture, Fisheries and Food

KK

dti

the department for Enterprise

cel. g
p.u.

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Rt Hon John Gummer MP
Minister for Agriculture
Fisheries and Food
Whitehall Place
London SW1A 2HH

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 01 215 5622
Our ref JW5AGF
Your ref
Date 22 January 1990

Dear John

EUROPEAN SINGLE MARKET: OPTIONS FOR COMMON ARRANGEMENTS FOR
BANANAS

Thank you for copying to me your letter of 5 January to Douglas Hurd about single market arrangements for bananas.

It is difficult enough in our own national arrangements to reconcile our commitments to traditional suppliers with our general policy of encouraging competition through open markets. A satisfactory Community regime will be even more difficult to negotiate given the conflicting interests of Member States.

I nevertheless agree that it is right for us not only to look at proposals for common arrangements but to be ready to put forward our own views on the form they might take. I doubt if it would help our overall position if we found ourselves arguing on our own for a continuation of a fragmented banana market. The position would be different, as you point out, if some extension of the status quo was proposed because of failure by Member States to reach agreement on any alternative.

As for the options, I agree that an EC-wide dollar quota is the least objectionable. I am glad you accept that proper account must be taken of competition and that we should aim to reduce protection over time so that EC and ACP suppliers to the Community are exposed, even if gradually, to world market realities. As you know current banana policy, even with the changes we have made, imposes a substantial financial penalty on the UK consumer. If the consumer is to see real benefits after 1992 we shall need to ensure that the 'moderate' annual





the department for Enterprise

growth you propose in the EC quota is not set at too modest a level. It is particularly important, and I note this is covered in your paper, that dollar area suppliers should not be limited to a fixed market share. There must be room for competitive suppliers from whatever source to increase their sales. I should be glad if you would keep me in touch with further developments on this point.

On the question of cushioning the effect of the change to an EC-wide quota, I can see that subsidies for EC and ACP producers, clearly degressive and limited in time, could be a price worth paying if they allowed us to avoid long term price support programmes, costly either to the consumer or the Community budget. I hope John Major will look carefully at your proposals. We would of course have to be confident that such 'transitional' support could realistically be phased out. Otherwise we would find ourselves continuing to compensate suppliers while still far from achieving a free market.

I am content with the tactics proposed in your paper. Indeed I think it would be wise to follow up quite quickly the earlier discussions with the Commission. This does not mean that we need encourage the Commission to put forward proposals at an early date. Arrangements for bananas would not necessarily be a happy precedent for decisions in other areas where the continuation of national arrangements or their replacement by EC arrangements is at issue and there is much to be said for leaving the question of common arrangements for bananas to be dealt with in the later stages of the 1992 process as a problem on its own.

I am copying this letter to the Prime Minister, colleagues in OD(E), Lynda Chalker and to Sir Robin Butler.



CONFIDENTIAL
FM MADRID
TO IMMEDIATE FCO
TELNO 59
OF 221800Z JANUARY 90
AND TO PRIORITY UKREP BRUSSELS
AND TO ROUTINE OTHER EC POSTS

SPANISH PRIME MINISTER'S VIEWS ON THE COMMUNITY

1. I HAD THE OPPORTUNITY OF A QUARTER OF AN HOUR'S TALK WITH FELIPE GONZALEZ TODAY DURING THE KING'S RECEPTION FOR THE DIPLOMATIC CORPS. HE SPOKE IN VISIONARY TERMS ABOUT THE FUTURE OF EUROPE AND UNDERLINED HIS CONCERN THAT OUR OWN APPROACH WAS SO DIFFERENT.

2. ON THE FUTURE OF ECONOMIC AND MONETARY UNION, HE SAID THAT SPAIN BELIEVED IN TAKING FIRM DECISIONS QUICKLY. THIS DID NOT COMMIT COMMUNITY MEMBERS TO MOVING AT GREAT SPEED. IN FACT, HE WAS A FIRM BELIEVER IN THE STEP BY STEP APPROACH. WHAT WE NEEDED, HOWEVER, WAS A CLEAR IDEA OF WHERE WE WERE HEADING, EVEN IF IT TOOK A VERY LONG TIME TO GET THERE. NOBODY BELIEVED THAT ACTION ON STAGES TWO AND THREE OF DELORS WERE QUESTIONS FOR TOMORROW.

3. ON THE QUESTION OF THE DEMOCRATIC DEFICIT, FELIPE GONZALEZ SAID THAT THE SPANIARDS WERE NOT CONCERNED ABOUT THAT PROBLEM. FOR SPAIN, STRENGTHENED POWERS FOR THE EUROPEAN PARLIAMENT WOULD BE MORE THAN SUFFICIENT TO ENSURE THE RIGHT DEGREE OF DEMOCRATIC CONTROL OVER A CENTRAL BANK. THE EUROPEAN PARLIAMENT WAS A UNIQUE EXPERIMENT WHICH HAD NO PARALLEL IN ANY OTHER REGION OF THE WORLD AND SPANIARDS AT LEAST WOULD NOT BE AFRAID OF TRANSFERRING SOVEREIGNTY TO IT AND TO THE CENTRAL COMMUNITY INSTITUTIONS. I SAID THAT THAT POSITION WAS NOT ONE SHARED BY ANY POLITICAL PARTY IN WESTMINSTER.

4. AS FOR RELATIONS WITH EASTERN EUROPE, GONZALEZ SAID THAT THE COMMUNITY HAD REACTED WITH A SERIES OF IMPROVISATIONS SO FAR, NOT ENTIRELY SUCCESSFULLY. IT WAS CLEAR HOWEVER THAT WE COULD NOT CONTINUE TO DRIFT ALONG REACTING TO EVENTS AS THEY HAPPENED. WE NEEDED A BLUE PRINT WHICH HAD TO ASSUME A VERY DIFFERENT FACE OF EUROPE WITHIN A REMARKABLY SHORT TIME.

5. IN THIS REPORT IT WAS NO USE TALKING ABOUT THE QUESTION OF UPDATING NUCLEAR WEAPONS AS THOUGH THIS WERE AN ACTIVE ISSUE. NOBODY BELIEVED THAT THEY WOULD EVER BE DEPLOYED, STILL LESS

EMPLOYED AND THE ALLIANCE RISKED MAKING ITSELF LOOK FOOLISH BY PERSISTING IN OUTDATED CONCEPTS SUCH AS SNF MODERNISATION. I POINTED OUT THE NEED TO PROCEED IN THE SECURITY AREA WITH GREAT CAUTION. WHILE THE PROCESS OF REFORM LOOKED IRREVERSIBLE, WE ALL NEEDED TO DO WHAT WE COULD TO BOLSTER MR GORBECHEV'S POSITION AS PRIME MOVER OF REFORM. FELIPE GONZALEZ AGREED. ALTHOUGH DEMOCRACY WAS AN IRREVERSIBLE PROCESS IN EASTERN EUROPE, THIS WAS NOT NECESSARILY THE CASE IN THE SOVIET UNION. THERE NOTHING COULD BE RULED OUT, NOT EVEN A MILITARY TAKEOVER. MRS THATCHER WAS RIGHT, THEREFORE, TO EMPHASISE THE NEED TO SUPPORT MR GORBECHEV AND TO MOVE CAUTIOUSLY.

FEARN

YYYY

DISTRIBUTION 358MAIN 357.FRAME GENERAL
ECD (I)SED
MR RATFORDADDITIONAL 1

FRAME

NNNN



CCP

2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

3306 17 1130

The Rt Hon Peter Walker MBE MP
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1

2/ January 1990

In Peter,

CCP

EC DIRECTIVE ON CONSERVATION OF WILD BIRDS
ECJ CASE: 57/89 - COMMISSION Vs GERMANY - UK INTERVENTION

Thank you for your letter of 11 January setting out your views on the way in which our intervention in this case should be handled.

There is no disagreement between us on the unacceptably narrow interpretation of the Birds Directive that the Commission are adopting, nor the need to support the West Germans on the facts of this individual case. This is especially important, in the context of the future development of Cardiff Bay and other major sites, in relation to the exercise of the discretion permitted to Member States by Article 2 of the Directive to take account of not only ecological, scientific and cultural requirements but also economic and recreational requirements in deciding which areas to designate as Special Protection Areas. I would expect to see this point of principle pressed as hard as possible.

EQO(L) will need to discuss the difficulty of persuading the European Court of Justice to extend their deliberations into the question of the interpretation of Article 4 of the Directive, and whether this is likely to elicit a helpful judgement. We can then consider whether we need to discuss this matter again in the light of advice from EQO(L).

I am copying this to the Prime Minister, Douglas Hurd, Malcolm Rifkind, other Members of OD(E) and Sir Robin Butler.

Chris Patten

CHRIS PATTEN



ENLO POL
Budget
Pt 44.



CONFIDENTIAL



*ccpc
HU*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State
Department of Energy
1 Palace Street
Victoria
LONDON SW1E 5AG

*edp
22/1*

19 January 1990

The Secretary of State

EC DIRECTIVE ON PROCUREMENT IN THE EXCLUDED SECTORS

at flap
I wrote to you on 19 December in reply to your letter the previous day about our tactics at the Internal Market Council on 21-22 December. Although the Council failed to agree a common position on the Commission's proposal, it is likely to do so next month. It is therefore important that we are clear as to our objective on oil and gas exploration and extraction ("the upstream sector"). I should like to explain why I believe we should opt, if we can, for conditional exemption as suggested by the Commission instead of coverage by the normal rules of the directive.

The Commission put into the exemption in December the requirement that Member States should obtain its agreement before using it. This means that we shall have to show that we fulfil the other conditions for the exemption, which were developed by the Commission in consultation with our officials, and which are intended to ensure non-involvement in purchasing decisions. The Commission will need to consult an advisory committee of Member States, but its decision will be subject to review by the European Court of Justice. Provided we satisfy the Commission, exemption will mean that a highly competitive industry, which is largely in the private sector, will be able to operate without the risk of the costs and delays to which detailed rules would make it especially liable.

The other main development in December was the tabling of a statement confirming that entities benefiting from the exemption would be subject to the planned directive on compliance. They would, of course, be subject to it anyhow if they had to comply with detailed rules on contract procedures, and suppliers might in that case have more chance of establishing breaches. Operators have warned of the costs and delays that might result from

litigation, and it seems unwise to rely on the possibility put forward by the Commission that purchasers submitting themselves to audit should not be liable to have their contracts suspended. Some Member States are much opposed to this, and the Commission is suggesting that 'conditional fines' might be levied to dissuade purchasers from carrying on with alleged infringements. This could make the derogation of little value.

I understand that at the Council in December the Presidency included the exemption of the upstream sector in a list given orally of "concessions" made to Member States. The industry is likely to be aware of this, since it was reported by one of the Brussels news services, and it would not understand if we turned the offer down without good reason.

The Commission expects that exemption of the upstream sector will carry with it the exemption of the coal industries in Germany and Spain. This is because the authorisations under which they operate fit the terms of the upstream exemption. None of us wants an imbalance, but I understand that you have been prepared to accept that British Coal will be covered by the rules. UK suppliers should not suffer, since it is intended that exempted firms should still be subject to action for discrimination, and they will be anxious not to lose the exemption.

I would regard more seriously the possibility that electricity and gas distribution might also be exempted. This is because of the scale of the industries involved, and the lack of competition in each case. It is not clear how far Germany and Spain will press their case for exemption, and it is hard to see how the present terms of the exemption would allow it. But if such arguments seemed to be gaining ground, or the proposal as a whole seemed otherwise at risk, we should have to reconsider.

This applies as well if there appears any prospect of trading the exemption for better provisions on relations with third countries. At present these still unfortunately involve a facility for purchasers to reject non-EC offers and an obligation to prefer "equivalent" EC offers up to 3 per cent dearer. If we argue now for exempting the upstream sector, we can use it as a bargaining counter if the chance of avoiding mandatory preference appears.

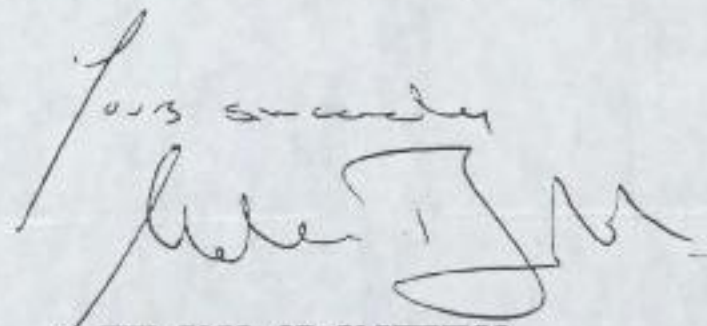
There is also a reason deriving from the GATT for promoting liberalisation through accepting curbs on intervention by Governments rather than by subjecting purchasers to detailed rules. In talks on broadening the GATT Procurement Code, the US has made it clear that it would not be able to accept formal rules on utilities which are outside the public sector. Current negotiations seem likely to focus on more direct ways to prevent interference by Governments, and it will help the Community to be able to show that this is possible.

Because of the way in which the exemption is drafted, its terms would only be available to Italy if that country changed its discriminatory system of licensing. By virtue of a change which we suggested to the Commission, and which it accepted, a Member State which uses the exemption will be able to act against an operator which it licenses on the ground that it has not observed

the principles of non-discrimination and competition in awarding contracts.

For all these reasons I believe that our representatives should not do anything to dispel the assumption that we wish the upstream sector to be exempted, and that if necessary they should make the case for it.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson, and John Redwood and to Sir Robin Butler.

Yours sincerely


THE EARL OF CAITHNESS

(Approved by the Paymaster General and signed in his absence)



Euro Pol: Budget P43



SRW
c/c

MR. MILLS

EUROPEAN COMMUNITY: DOCUMENT POLICY

Thank you for your note of 19 January. I recognise the dangers to which you draw attention. But:

- I do not think it is a UNESCO conference. It is jointly financed by IBRD, UNICEF and UNESCO;
- on the competence point, the telegram makes clear that the Irish Presidency went to some length to avoid discussion in the Community's Education Committee, and hold it separately as a meeting of the Twelve i.e. in political cooperation.

It is not uncommon to try to coordinate positions for international conferences among the Twelve. The telegram is at fault in describing the result in this case as a "common position", which is Community language and would imply competence. But I have established that the Commission are not in fact drafting any document.

In short, if a discussion had been in the Education Committee and there had been an attempt to reach a common position, your fears would have been entirely justified. As it is, I do not think competence is involved despite some sloppy drafting by UKREP Brussels.

(C. D. POWELL)
19 January 1990
a:\foreign\Mills (srw)

Embargo: 0001 Monday 27 November 1989

M.T.

EUROPE'S CONSTITUTIONAL DEFICIT

Call for 'multi-track Europe'

A multi-track European Community with curbs on the powers of the European Commission is proposed in a report published today by the Institute of Economic Affairs.

The IEA report calls for the removal of the Commission's 'monopoly power' to propose and initiate legislation. It sets out five policy options to make a flexible, 'multi-track Europe' a reality.

It says that the Treaty of Rome is now outdated. "Its framers were more concerned with providing a supranational platform for benevolent bureaucrats than a framework and processes for the exercise of political choice by the citizens of member states."

The paper says that Europe suffers from a 'constitutional deficit' and that the sweeping powers used by the Commission to push through the Single European Market "are not appropriate to the questions of monetary, social, political and defence co-operation that may form the post-1993 agenda".¹

¹ "Europe's Constitutional Deficit". IEA Inquiry 13. free of charge from IEA, 2 Lord North Street, London SW1P 3LB.



It complains that the Commission has powers to propose and initiate legislation which go far beyond those of the secretariats of other international organisations like the International Monetary Fund and World Bank.

Five-point plan

The report, by IEA Senior research fellow Frank Vibert, sets out a five point agenda for a new EC constitutional settlement after the Single market is achieved in 1992.

One option is to replace the Commission with an Executive Board of more accountable national appointees, on the model of the Boards of the IMF and World Bank.

A second is to shift power back to the Council of Ministers and transfer to the Council the power to initiate policy, supported by a separate secretariat.

This is the approach recently adopted, the report notes, for the conduct of EC foreign policy.

Fully-fledged Constitutional Review

The third option is to revise the Treaty of Rome and entrench the limitation of the Commission's powers.

"There is no enumeration of the rights and prerogatives of member states, or attempt in even general terms to define such important principles as 'subsidiarity' which might attempt to demarcate responsibilities.

"Ambiguities in the Treaty, such as the reference in the preamble to European 'union' which on one end of the

interpretative scale may mean 'co-operation' between member states and, at the other, the concept of a unitary state, constitute an increasingly grave problem."

The paper calls for a 'full-fledged constitutional review' as a vital part of any future treaty revision.

Treaty showing its age

The fourth option proposed is for more wide-ranging Treaty revision. to take into account the transformed European scene. The report says that the Treaty is "showing its age".

"Its framers were more concerned with providing a supranational platform for benevolent bureaucrats than a framework and processes for the exercise of political choice by the citizens of member states.

"Viewed as a constitutional document it is seriously deficient. Viewed as enshrining a process for co-operation between member states it has major shortcomings."

Multi-track Europe

The fifth option is a 'multi-track Europe'. This would revive the idea proposed by the Prime Minister at the 1983 Stuttgart Summit.

"The idea that different member states in Europe might co-operate in flexible groupings in different areas of concern has been opposed in the past. Nevertheless it has considerable merit in looking at priorities beyond 1992.

"Extending the Single Market should not necessarily involve EFTA countries in accepting the Common Agricultural Policy.

for example. Nor is it clearly evident that, once the Single Market is secured, it will remain necessary to retain use of majority voting with its temptations to 'political dynamism' on the part of the Commission.

The paper concludes:

"It would be possible for co-operation to proceed on different objectives for different countries at the same time as proceeding on Treaty revisions and on trimming the powers of the Commission.

"If, however, Treaty revisions cannot be negotiated and if achieving agreement between Britain and its partners on priorities post-1993 is hampered by the Commission's power to propose its own agenda, then a multi-track Europe is the natural and obvious outcome."

For further information: Frank Vibert 01-799 3745 (o)
(0590) 43279(h)

Lyndsey Unwin 01-799 3745 (o)
01-874 5694 (h)

Number 13

27 November 1989

EUROPE'S CONSTITUTIONAL DEFICIT

FRANK VIBERT

Senior Research Fellow, Institute of Economic Affairs

SUMMARY

As 1992 approaches, large strides will have been made towards the completion of one of Britain's major priorities in Europe, the achievement of the Single Market. The completion of the Single Market will complete many of the purposes set out in the Treaty of Rome. Beyond 1992, Britain and her EC partners will wish to set new priorities. These priorities may require a rather different balance in Community structures and institutions. The techniques and institutions appropriate to push through the achievement of a Single Market may not be those appropriate to Europe post-1993, when difficult questions of monetary, social, defence and political co-operation may be on the agenda. This paper therefore looks at the powers of the EC Commission, and in particular its power to initiate and propose legislation; the various forms of limitations on the exercise of those powers; and the safeguards available to member states. The paper compares the position of member states in the EC with that of governments and permanent institutions within other international organisations.

The paper suggests that existing limitations on the Commission's powers - particularly its power to propose legislation - are weak. Safeguards for a member state placed in a minority position are fragile. There are a number of ways in which this 'democratic' or 'constitutional deficit' can be redressed. The options include institutional changes to the Commission (for example, transforming the Commission into an Executive Board, on the model of the International Monetary Fund); limitation of the power to propose legislation; and the introduction of procedural revisions into the Treaty of Rome to entrench changes in the role of the Commission. The paper also examines more fundamental constitutional changes in the Treaty designed to provide an effective protection of member states' rights and the legal rights of their citizens.

A more radical approach would be for Britain and its partners in the EC to co-operate on a more flexible basis, with different member states grouping together as they find appropriate for different areas of co-operation. This 'multi-track' approach may, the paper suggests, provide a more effective foundation on which Europe can proceed on the diversified agenda required for co-operation in the 1990s. This approach would place greater weight, for example, on co-operation in foreign policy, and the new defence and security arrangements needed in the 1990s.



EUROPE'S CONSTITUTIONAL DEFICIT

FRANK VIBERT

I. INTRODUCTION

The scheduled completion in 1992 of the European Single Market will mark the achievement of a major aim of British policy towards the EC. Beyond this accomplishment, there will be other important objectives for Britain to pursue together with its EC partners:-

- o There will be a need to maintain momentum in removing the barriers that will still remain after 1992 in the way of a free flow of capital, goods, services and labour within the Single Market.
- o There will be a need to develop means of extending the Single Market area to include the members of the European Free Trade Association (EFTA) as well as countries in Eastern Europe pursuing market-oriented economic policies within a framework of political pluralism.
- o Of fundamental importance will be the need for Britain and the other European members of the Atlantic Alliance to manage the rearrangement of defence and security burdens with the United States, within the framework of the North Atlantic Treaty Organisation (NATO).
- o Other areas of co-operation between Britain and other European countries on market-oriented solutions to environmental problems, co-operation on drugs and on terrorism.
- o In addition, in the light of the Uruguay Round multilateral trade negotiations, scheduled to finish at the end of 1990 or shortly thereafter, the EC will need to continue to make progress on reducing its external trade barriers with the rest of the world - particularly those arising from non-tariff barriers to trade - and distortions in agricultural trade emanating from the Common Agricultural Policy.

Co-operation between EC member states on these important post-1993 objectives would be jeopardised by serious tension in the interpretation of Community aims. The draft European Social Charter together with Stages 2 and 3 of the Delors Committee proposals for European Monetary Union (EMU) are causes for concern. So is a lingering belief in the efficacy of large-scale public expenditure programmes in such areas as regional policy, and a remaining attachment to state-directed industrial policies affecting competition policy, external trade policy and co-operation in science and technology. In the meantime uncertainties and instability in Eastern Europe as well as the likely reduction in the contribution of the USA to Europe's defence appear to have caught the EC unprepared.

This divergence on the objectives of European co-operation beyond 1992, beyond the completion of the Single Market, may reflect a genuine difference of opinion between Britain and its EC partners. It may, however, be the case that a major source of the difficulty stems from the EC Commission itself, a body which enjoys powers unparalleled in other international institutions. It is therefore timely to examine the functioning of the Commission and, in particular, its role in setting the agenda for European co-operation and in proposing policy initiatives.

II. THE POWERS OF THE COMMISSION

Compared with other international organisations, the powers of the Commission are unique in their range and scope. Four main functions can be distinguished:

- o Providing a forum for consultation and review among member states.
- o Providing executive and administration services to support and implement policies decided by EC member states.
- o A regulatory and quasi-judicial function.
- o The power to initiate and propose.

The Review Forum

The role of the Commission in providing a **forum** for 'peer' review among member states can be illustrated in respect of the economic policies of EC members. This particular review function of the Commission essentially stems from Article 2 of the Treaty¹ which refers to a 'harmonious development of economic activities', and Article 3(g) which refers more specifically to 'the application of procedures by which the economic policies of member states can be co-ordinated'. This is elaborated in the Articles relating to co-operation in Economic and Monetary Policy (Part 3, II) where Article 103 states that conjunctural policies of the member states are a matter of 'common concern'² and enjoins member states, 'to consult each other and the Commission'. Article 105 establishes the Monetary Committee for economic review purposes and refers also to co-operation between the central banks of member states (through the Committee of Governors of the central banks). This mode of economic co-operation through mutual review was pioneered by the OECD and the International Monetary Fund (IMF) as well as, for central bankers, by the Bank for International Settlements. While views about the effectiveness of multilateral surveillance of this type have waxed and waned, it is a well established manner of co-operation which provides the formal backdrop to the practical co-operation occurring by direct communication between central banks and ministries of finance when needed.

The Executive Role

The powers of the Commission extend well beyond those of a consultative forum, like the Organisation for Economic Co-operation & Development. This is on account of the Commission's responsibilities for the **execution and administration of EC policy** in several huge areas. Their administrative responsibilities had their origin in the implementation of the original customs union between EC member states and in the Common Agricultural Policy. Other areas of executive and administrative responsibility include:

- o negotiating the common external trade arrangements of the community (Articles 111 and 112)
- o concluding association agreements with other states including those countries associated through the Lome Convention
- o and administering various funds including the European Social Fund (Article 124) and the FED for ACP countries.

In its executive role the Commission acts much as a civil service department within a national administration. In respect of other international institutions there are analogies with the executive responsibilities of, for example, the Bretton Woods institutions (the World Bank and the IMF).

¹ References to 'the Treaty' refer to the 'Treaty Establishing the European Economic Community' as amended by the Single European Act (SEA).

² The same language of 'common concern' is incorporated in Article 107 in respect of the exchange rate policy of each member state.

The Regulatory and Quasi-Judicial Function

The powers of the Commission extend well beyond those of the Bretton Woods institutions in respect of its **regulatory and quasi-judicial functions**. For example it has the power to issue directives to member states³ in respect of internal EC trade (Articles 13 and 33), in respect of the Common Agricultural Policy (Article 45) and in respect of Competition Policy (Article 90). It has the general power to bring legal action in the Court of Justice against a member state that fails to fulfil its 'obligation under this Treaty' (Article 169) and a faster procedure is allowed in respect of Single Market obligations under Article 100(a).

The Commission has a general power to carry out investigations and, in more specific areas of the Common Agricultural Policy, internal and external trade policy, transportation and competition policy, its powers may include the capacity to authorise, make rules, lay down provisions applicable to and to 'take decisions'. Its quasi-judicial function to give 'a reasoned opinion' is expressed in both a specific context (Competition Policy, Article 89) as well as more strikingly in general terms in Article 170 which states that member states bringing an action against another member state must first bring the issue before the Commission who then 'shall deliver a reasoned opinion'.

Initiation and Proposal

Last but not least, the Commission has the power to **propose legislation**. Throughout the Treaty from its first occurrence in Article 7 runs the formula, 'The Council may, on a proposal from the Commission...'⁴ The reference to the Commission's role in initiating, recommending and proposing permeates the Treaty. The power is expressed in general and open-ended terms in Article 155 which states (*inter alia*) 'In order to ensure the proper functioning and development of the common market the Commission shall... formulate recommendations and deliver opinions on matters dealt with in this Treaty, if it expressly so provides or if the Commission considers it necessary'.⁵

References to the role of the Commission in bringing proposals forward are contained over 80 times in the 248 Articles of the Treaty (excluding its annexes and protocols). The sweep of the Commission's powers raises many issues including the Commission's accountability, the extent to which its actions are subject to effective review and scrutiny, and the extent to which there is effective procedure for judicial review of its actions. They raise in particular the question as to whether it is prudent to encompass within one organisation such a wide range of functions. Especially important in view of the need to establish priorities for European co-operation beyond 1992 is the Commission's role as a proposer of policies. It is this role, incorporated in so many references within the Treaty, which appears to underlie many of the divergencies between objectives for a market-oriented Community and proposals in which the Commission may have a vested bureaucratic interest.

III. THE CONCEPT BEHIND THE COMMISSION'S POWERS

The origins of the power of initiative of the Commission lie in its precursor, the High Authority of the European Coal and Steel Community. The High Authority was set up with supranational ambitions and functions. Indeed the role of member states acting through the Council of the ECSC was defined (in Article 26): 'to harmonize the action of the High Authority and that of the Governments', this formulation clearly reflecting the role, independent of governments, envisaged for the High Authority. In the case of the EC the executive and administrative functions of the Commission have been set out with a greater degree of restriction in relation to the role of the Council. Nevertheless

³ Directives are left to member states to incorporate in an appropriate way in their national law.

⁴ Emphasis added.

⁵ Emphasis added.

the power of initiative remains with the Commission and successive Commissions have used this power of initiative, in conjunction with other Commission powers, to insist on an independent role for the Commission *vis-a-vis* the member states. As Roy Jenkins has recorded of one of a recurring number of instances during his Presidency of the Commission, 'the real issue was the independent position of the Commission as opposed to its subordination to member state governments.'⁶

Lying behind this desire of the Commission to retain an independent role and, in particular, the power of initiative, has been a vision of a process of European integration steered by the Commission with some form of potential union at the end of the road. The Commission has seen itself as an European 'government in embryo' and Roy Jenkins has not been alone in envisaging his role as President of the Commission as a putative Prime Minister of Europe.

The power of initiative has been crucial for the Commissions's efforts to set an agenda leading towards European union. Roy Jenkins records of his initiative on monetary union, 'as...none of the three main governments...was prepared to support a major Commission initiative, we...had to be prepared to go against them and to blaze a trail.'

More recently, President Delors has said that 'it is above all in exercising its right of initiative that the Commission shoulders its responsibilities. And everyone gives it credit for having defined goals and proposed ways and means of revitalizing European integration. The Commission intends to retain this dynamic approach, assuming it can come up with new ideas and options.'⁸

Whatever the attitude towards a goal of European political union, there must be a serious question as to whether the techniques of dynamic legislative initiation and regulatory control which were appropriate to introduce a Single Market, against vested interests within Member States, are appropriate to the questions of monetary, social, political and defence co-operation that may form the post-1993 agenda. Emerging concern about a 'democratic deficit' may need to be matched by concern about a 'constitutional deficit', and by fresh consideration of the institutions which may be relevant to the EC once the Single Market has largely been completed.

IV. THE LIMITS OF THE COMMISSION'S POWER

In considering existing limits on the Commission's powers, it is useful to distinguish four main sources of restraint:

- o those stemming from the Council (representing the member states)
- o parliamentary control (whether exercised through the European Parliament or through national parliaments)
- o judicial
- o 'doctrinal' control - the attempt to define through the principle of 'subsidiarity' a demarcation between the sphere of national competence and the areas which are of transnational European concern where the Commission may have a legitimate role delegated to it.

The Council

The **Council** represents member governments through the ministers responsible for their subject areas. Foreign Ministers have traditionally been concerned with work in progress as a whole and in preparing for the meetings of Heads of Government in the Council of Europe. The Treaty accords the Council the 'power to take decisions' (Article 145) and the same Article specifies that the Commission's powers of implementation stem from the Council - the Council shall, 'confer on the Commission...powers for the implementation of the rules which the Council lays down.'

⁶ Roy Jenkins, European Diary, 1977-81, Collins, 1989, p.106.

⁷ Op. cit. page 135.

⁸ Speech to the College of Europe - Bruges, October 17th 1989.

Over the years the Council, supported by the permanent representatives of member governments (COREPER) have together been seen to strengthen their position *vis-a-vis* the Commission. It is significant that the procedures for co-operation on foreign policy (Title III of the Single European Act), which is an area of co-operation of more recent origin, concedes to the Commission a distinctly subordinate role (Article 30). The Commission is to be 'fully associated with the proceedings of Political Co-operation,' but there is no mention of a Commission role in initiating or proposing policy and there is a separate secretariat directly responsible to the Presidency of the Council.

Nevertheless, the Council's ability to control the Commission is far from absolute. Inevitably and desirably there will be differences of opinion between member governments on matters under consideration, communiqués which paper over differences or seek refuge in ambiguity⁹ and it is these differences which the Commission is able to exploit through its power to initiate and propose. In some respects the Commission's aspirations to an independent and autonomous role involve form rather than substance. Roy Jenkins recalls, 'there wasn't any real issue of substance...but equally we [the Commission] strongly took the view that as an independent institution we could not just say, 'Yes, Yes', to any last minute decision of the European Council.'¹⁰ However, the Commission's power to propose can also be used to real effect to promote the Commission's own agenda and to exploit differences of opinion among member states. Concern about the Council's power, and in particular about its responsiveness to national government considerations, has recently been made evident in President Delors' suggestion that permanent ministerial Council members should be appointed, at Deputy Prime Minister level, to secure continuity and more rapid decision-taking. The intent of this proposal is not to strengthen the Council but rather to weaken the extent to which the Council reflects the voice of member states.

Parliamentary Limits

Parliamentary limits on the Commission are weak. Article 144 provides for the European Parliament to be able to censure the Commission (by a two-third majority of the votes cast by a majority of members) but the reality is not of a parliamentary body set to ensure that the Commission does not overstep its powers or to keep it to account. On the contrary, the Commission and the European Parliament may see each other as allies in extending the powers of each in relation both to national parliaments and to member governments. The co-operation procedure contained in the Single European Act was designed to provide for a stronger European Parliament role *vis-a-vis* the Council. Yet the effect of these provisions is potentially to strengthen the hand of the Commission *vis-a-vis* the Council. Article 149 envisages that the Commission may have an independent position on an issue having a qualified majority in the Council which it is to communicate to the Parliament (Article 149, 2(b)); amendments proposed by Parliament are to be re-examined by the Commission and proposals re-examined by the Commission and presented to the Council may only be amended by the Council if it acts with unanimity. The Commission thus gains a valuable 'middleman' role which accompanies its right in Article 155 to participate in 'the shaping of measures' by the European Parliament and the right of Commission members to attend all meetings of the European Parliament and to be heard 'at their request' (Article 140). Rather than the European Parliament acting to check the Commission, the reality is the potential use of the Parliament by the Commission as an instrument in order to assert its independent policy-making role.

Parliamentary review of the Commission by national parliaments also offers little effective mechanism for scrutiny. In the case of Britain, the relevant committees of the House of Commons and House of Lords have no direct relationship with the Commission and conduct their scrutiny function primarily through government evidence and within circumscribed terms of reference.

⁹ See, for example, the 'Solemn Declaration of Stuttgart' of 19 June 1983.

¹⁰ Op. cit., page 189.

Judicial Review

Judicial restraints on the Commission rest essentially with the European Court of Justice. They stem from Article 4 which states that 'Each institution shall act within the limits of the powers conferred upon it by this Treaty.' According to some eminent authorities¹¹, this provides the Court with a foundation to reject acts of the Commission on a basis broadly equivalent to the doctrine familiar in English Law of 'ultra vires'. Lack of competence, together with other grounds for the Court to review the legality of the acts of the Commission, are reflected in Article 173.

It must, however, be questioned whether Articles 4 and 173 do in practice provide for effective judicial restraints on the Commission. First, absent from the Treaty is any sense of 'checks and balances' whereby the Court of Justice would have a clear and, if necessary, adversarial responsibility to keep the executive and legislative branches of government not only within their limits, but also from co-mingling executive, legislative and judicial powers.

Secondly, public choice theory requires examination of the self-interest of institutions¹². An institutional self-interest of the Court of Justice and of the Commission may both lie in the same direction - in the extension of Community law and competence. As with the European Parliament, the Commission may in practice have an ally in the Court rather than an effective restraining institution. Thirdly, the Court from its own prospective may see the Commission as its ally. Important in this respect is Article 169 empowering the Commission to bring member states before the Court of Justice. The Court will thus see an activist Commission as important for the maintenance and extension of its own power. Fourthly, the doctrine of 'competence' and the reach of Article 173 cannot extend to 'recommendations or opinions' but only to acts. Thus there is no judicial restraint on the Commission's power to initiate and propose in any area, including areas outside its competence.

Doctrinal Restraints

A final category of limit on the Commission is the **doctrine of 'subsidiarity'**. Akin to a generalised demarcation between federal rights and States rights, the doctrine attempts a similar division between matters which lie within Commission prerogatives and those matters where member states should retain their prerogatives. The principle can be expressed as follows - 'the Commission's sphere is to carry out only those tasks which may be undertaken more effectively by the member states acting in common rather than separately and in respect of those tasks whose dimension or effects extend beyond national frontiers.' This theoretical divide is weak and is nowhere reflected in the Treaty. It is subjective and open ended.

This brief review of the limits on the Commission's power shows that with exception of the limits imposed by the Council itself, the restraints are weak. Particularly important is the absence of any restraint on the Commission's powers to initiate and propose, even in areas outside its competence. This is absent not only in the judicial restraint but also strikes at a vulnerable point in the control exercised by member states through the Council. It is a weakness fully exploited by the Commission. 'The lesson he [Jean Monnet] taught me was always to advance along the line of least resistance provided that it led in approximately the right direction.'¹³ That 'right direction' may consist of a view about European union which is markedly more extensive than that which exists at member state level.

¹¹ D. Lasok and J.W. Bridge, Law & Institutions of the European Communities, Butterworths, 1987 (4th edn.).

¹² See, for example, James D. Gwartney and Richard E. Wagner, 'Public Choice and the Conduct of Representative Government', in James D. Gwartney and Richard E. Wagner (eds.), Public Choice and Constitutional Economics, Cato Institute, 1988.

¹³ Roy Jenkins, op. cit., page 23.

It may be argued that the power of the Commission to propel member states in directions they do not wish to go is strictly curtailed by the safeguards in the Treaty - particularly those related to voting. The nature of those safeguards is next examined.

V. SAFEGUARDS FOR MEMBER STATES

The Unanimity Requirement

The traditional safeguard for member states in resisting proposals and institutions of which they did not approve has been the requirement for the **unanimous approval** by member states in most areas of decision. However in order to implement the Single Market programme, Britain agreed to an extension of majority voting. There is now the clear likelihood that this provision for majority voting established in the Single European Act will be used in areas on initiatives of which Britain does not approve.¹⁴

This possibility arises essentially for two reasons. First, Article 100(a) which introduces majority voting for the implementation of the Single Market has been framed in broad terms without defining 'the Single Market' and, in particular, without distinguishing between the term 'Single Market' and 'Common Market'. A second and related cause for concern is that the Single Market provision for majority voting provides other member states and, in particular, the Commission with an alternative treaty base on which to rest actions and initiatives compared with the unanimity required when the same subjects are treated in other areas of the treaty. Cases relating to the choice of Treaty base are being brought before the Court of Justice, but, as mentioned earlier, the Court may tend to side with the Commission rather than member states in its interpretations. In short, the majority voting provision which Britain saw as a limited departure from the normal unanimity safeguard may turn out itself to become an important basis on which the Commission rests its initiatives, leaving the unanimity safeguard emasculated.

Blocking Minorities

The possibility that the majority voting provisions of the amended Treaty will be used by the Commission and/or other member states on proposals to which Britain is opposed, is reduced to some extent as long as Britain can persuade other member states to join it in opposition to an unwanted initiative. As Sir Geoffrey Howe stated in the debate on the Treaty amendments 'it will be open to us to combine with other members to form a **blocking minority**'.¹⁵ It should be noted however that in order to block a proposal of the Commission under the majority voting provisions of Article 148, Britain will not be able to block with the support of one other of the 'Big Four' alone. Britain will always need to be joined by at least two other member states, including one of the Big Four. If the Commission is supported by each of the Big Four other than Britain, Britain will need to gain the support of at least 12 of the remaining 36 votes in order to block the initiative, involving the support probably of at least 3 of the remaining 8 member states. Given the relationships involved, it is unlikely that Britain will be able to block a Commission proposal that has the support of the remaining Big Four other than Britain itself.

¹⁴ Article 100 (a) does define a unanimity requirement for fiscal provisions, provisions relating to the free movement of persons and the rights and interests of employed persons. Whether these exceptions could be challenged on an alternative Treaty base remains to be seen.

¹⁵ Hansard, 23 April 1986.

The Luxembourg Compromise

If Britain is outvoted on a Commission proposal, the **Luxembourg Compromise** remains as a 'last resort'. Under this unwritten procedure, a member state may insist that the issue concerned raises a matter of 'supreme national interest' and that therefore discussion should continue until unanimity has been reached or its objections removed. However, Britain's invocation of the Luxembourg Compromise may be rejected by the other member states and, since it is nowhere incorporated in the Treaty, it is unlikely to stand if challenged before the Court of Justice. It is a 'safeguard' which rests on the goodwill of other members at the time at which it is invoked. It is significant that President Delors has referred to 'the pseudo-compromise reached at Luxembourg' and suggested that '...the old "inequality-unanimity-immobility" triangle has been replaced by a new "equality-majority-dynamism" triangle, the key to success. We will need to draw conclusions from this experiment when the time comes to make further improvements to our institutional apparatus'.¹⁶

Derogation

A final line of defence for Britain in opposing proposals or acts of the Commission to which it is opposed would be through a **derogation** procedure. However, the instances when a member state can formally opt out of a community requirement are extremely limited (see, for example, Article 73(2) in relation to capital controls). They are in any event subject to Commission challenge or authorisation. Essentially, under present treaty arrangements, a member state wishing to opt out of arrangements approved under majority voting provisions which it had failed to block, would have to resort to a position of defiance - which, in the final analysis, would mean defiance of other member states, the Commission and the Court of Justice.

Thus, in summary, not only are the limits weak on the sweeping range of Commission powers, but the safeguards for Britain in resisting Commission proposals to which it objects are also fragile. While Britain can, and should, attempt to gain the support of other member states for its views about priorities beyond 1992, the Commission's powers to initiate and propose its own agenda can create a major source of tension between member states.

Before considering the various potential approaches towards overcoming these problems, it is useful to look further at the way in which certain other international organisations structure their institutions.

VI. INTERNATIONAL INSTITUTIONAL COMPARISONS

Examination of the EC Commission in relation to the secretariats of other international institutions, is illuminated by points of comparison with the Bretton Woods institutions (the World Bank and International Monetary Fund) since they, too, have important executive responsibilities in their spheres of activity; at the same time they possess considerable operational freedom.

A first point of comparison is in respect of the relationship between the senior management of the Bretton Woods institutions, equating to the EC Commission, and the governments of member states (in the case of the World Bank, the shareholders). Since the early days of both institutions, senior management of the Bretton Woods institutions have possessed considerable executive discretion. In broad terms, they conceive their role as to act for the membership as a whole. Only rarely do they appear beholden to the particular member state to which they owe their appointment or selection and their credibility is weakened when they do so. Yet this convention does not mean that management bodies of these international organisations operate as embryonic global governing bodies, independent of their shareholder member states. In the World Bank and IMF, management cannot embark on an adversarial relationship with any member state, let alone a major one. They cannot indulge in public debates with major shareholders or in sustained public criticism of them. They act as international civil servants, not as rival authorities. Recently some

¹⁶ Speech to the College of Europe - Bruges, *supra*.

have been concerned that the EC Commission has acted otherwise, in particular to its approach to the 'competing currencies' proposals advanced by the UK Government.¹⁷

A second point of comparison arises in respect of the Executive Boards of the Bretton Woods institutions. Appointed by member governments mainly from the ranks of senior civil servants and, in most cases, returning to civil service or related appointments after spells on the Executive Boards of usually 2-3 years, Executive Board members do not normally involve themselves in the day-to-day running or operations of either institution. However, they act as the eyes and ears of member governments to whom they have a reporting/representative relationship. Equally important they act as a sounding board of the views of member states for senior officials. This means that potential areas of dispute can often be headed off and not have to come to formal vote. It means that policy issues are identified early and are discussed in the Executive Boards before being settled at a political level if they are of sufficient importance.

In the case of the EC Commission, the tendency of the Commission to act independently of member states has meant that a parallel machinery of government representatives (COREPER) has had to play a part alongside the Commission. The crucial functions of COREPER are not reflected in that part of the Treaty of Rome dealing with community institutions, except by summary reference in Article 151 to the provisions of the Merger Treaty. The issue is whether a more harmonious running of executive functions in the community might not be achieved by having an Executive Board of senior civil servants at the top of the Commission, rather than Commissioners drawn from the ranks of politicians and with a perception and practice of their role as an embryonic federal government.

A third point of comparison arises in respect of the role of national parliaments in ultimate control over the financial resources of the Bretton Woods institutions. Under the arrangements that have existed to date, both Bretton Woods institutions require their capital resources to be voted by the parliaments of member states, usually at 3-5-year intervals. While rarely used for scrutiny purposes by national legislatures (with the exception of the US Congress), nevertheless, in formal terms these occasions provided opportunities for national legislatures to review any aspect of the institutions. By contrast, in the case of the EC Commission, the occasion afforded for financial review, arises not for the national parliaments of national states but through the annual budget review process conducted by the European Parliament.

The effectiveness of this procedure can be questioned from a number of different perspectives. First, as already mentioned, the European Parliament and the Commission may well see themselves as allies, with a common interest in expansionary programmes and mutual recognition and validation of each institution's competence. Secondly, this review process means that there is no effective link between Euro-parliamentary review of the expenditure implications of community programmes, and taxation responsibilities which remain with national legislatures. Thirdly, the absence of effective links between national parliaments and the European Parliament, together with a lack of connection between the composition of the European Parliament and the governments of member states, means that the review process is disembodied from national procedures for scrutiny and accountability. Finally, the European Parliament is less likely to represent opinion on European programmes as much as the state of voter satisfaction or dissatisfaction with their national governments at the time when European elections take place.

The issue is whether it would be desirable to provide for an effective review of Commission activities by the parliaments of member states. Tradition would suggest that effective review is more likely if connected with the provision of finance for the Commission and would be weakened to the extent that the Community is provided with its 'own resources'.

¹⁷

See, for example, the *Daily Telegraph* (3 November 1989) quoting unnamed 'senior sources in the Commission' as saying that the competing currencies approach would be treated 'as little more than a joke'.

A final point of comparison arises in respect of policy initiatives relating to the activities and responsibilities of the Bretton Woods institutions. While proposals may emanate from the staff and managements of each institution, the combination of the management/shareholder relationship earlier mentioned, with the role of the Executive Boards, together with the political level machinery of the Interim and Development Committees, means a policy process more tightly managed by member states.

Thus, while the powers of the Commission are much more sweeping in their scope, than, say, the powers of the Bretton Woods institutions, these points of comparison suggest that procedures for ensuring the Commission's accountability to member governments could usefully borrow from analogous practices in other international organisations.

VII. OPTIONS

Britain and its fellow member states in the EC have an important responsibility in setting priorities for co-operation beyond 1992. This process could be subverted by the pursuit of an independent agenda by the Commission. Existing constitutional and institutional limits on the Commission are weak, and its powers notably larger than those applicable to the secretariats of other international organisations. In the event that priorities are set in directions which Britain or any other member state does not agree, the safeguards for such member states are fragile. The risks arising from the pursuit of divergent priorities have been heightened by the extension of majority voting under the Single European Act.

In looking at ways in which member states can establish a more orderly process for setting priorities beyond the Single Market objective, and in ways which will provide for greater safeguards for dissenting members, there are five key options:

- o to modify the Commission as an institution;
- o to refocus the powers of the Commission;
- o to introduce procedural changes into the Treaty of Rome;
- o to make constitutional amendments to the Treaty of Rome;
- o to explore the possibilities of co-operation in Europe on a flexible, 'multi-track' basis.

Each of these options is outlined below.

Modifying the Commission as an Institution

One option is to **define more narrowly the functions of the EC Commission** by replacing political Commissioners by an Executive Board, clearly answerable to member governments, and operating as civil servants. In the area of initiation and proposal a Commission in such a form would function as a secretariat to facilitate the work of COREPER and the Council. The primacy of the Council, representing ministers of elected national governments, would be emphasised and the role of COREPER would be made explicit. The institutional relationships in all areas of the Commission's work would parallel those set out recently in the Single European Act for co-operation in the sphere of foreign policy.

Refocussing the Powers of the Commission

The most fundamental change in the powers of the Commission would be to **modify its role to initiate and propose**. While in practice some policy proposals might still emanate from the staff and management of the Commission, the initiation of policy would be the clear responsibility of the Council supported by COREPER. The work of the Commission would centre around its executive and regulatory role. In order to focus on these regulatory functions, responsibilities for other kinds

of initiative, such as spending programmes (for example, FED), should probably be transferred to specialised agencies, such as the European Investment Bank.

It would also need to be examined whether the Commission's powers in the area of regulatory control should themselves be defined more narrowly. The power to investigate and prosecute, as well as to authorise, give reasoned opinions, and decide may be too comprehensive.

Procedural Revisions in the Treaty

Changes as outlined above would involve **revisions to the Treaty**. With the principal exception of replacing Commissioners with an Executive Board answerable to member governments, such changes concern processes. There may, however, be a need for a broader review of the Treaty from a procedural perspective at the time of the next Treaty revision. At such an opportunity the more than 80 instances referring to the Commission's role in initiating proposals would be possible candidates for reconsideration, as well as a recasting of Article 155 on the general role of the Commission.

Changing the Constitutional Provisions of the Treaty

Because Britain does not itself have a written constitution there is perhaps a tendency to ignore the written document. Yet viewed as a constitution the Treaty is gravely defective. There is no enumeration of the rights and prerogatives of member states, or attempt in even general terms to incorporate such important principles as 'subsidiarity' which might attempt to demarcate responsibilities. There is no attempt to provide for checks and balances between executive, legislative and judicial functions of the type which would be regarded as essential for the constitution of a modern state. Yet such separations of power may be necessary in order to transform the ill-defined notion of Commission 'competence' into an effective doctrine of 'ultra vires'. The position of a member state that finds itself in a minority is not adequately safeguarded and there is an absence of meaningful procedures allowing, for example, for derogation or opting out. Ambiguities in the Treaty, such as the reference in the preamble to European 'union' which on one end of the interpretative scale may mean 'co-operation' between member states and, at the other, the concept of a unitary state, constitute an increasingly grave problem. They lay the basis for activist interpretations of the Treaty provisions rather than judicial limits.

The democratic rights and civil liberties of individuals are nowhere mentioned. The Treaty is showing its age: its framers were more concerned with providing a supranational platform for benevolent bureaucrats than a framework and processes for the exercise of political choice by the citizens of member states. The absence of Treaty references to national parliaments reflects a desire of the Treaty-framers to bypass national procedures rather than to use them as a building block for co-operation between democracies.

Britain has opposed **Treaty revision** in the past because of the risk that once basic constitutional questions are opened it will be impossible to reach agreement and as a result progress in areas for practical co-operation will be impeded. The Commission and certain member states are now proposing Treaty revision in connection with Economic and Monetary Union. Britain should make clear that if Treaty revision is to be considered, it should include the limited procedural changes related to limiting the Commission's place in Community processes and that any attempts to introduce fundamental changes or new Community institutions (such as a European Central Bank) should be preceded by full-fledged constitutional review.

'Multi-Track' Europe

A fifth option is to revive the idea of a 'flexible' Europe of the sort suggested by the Prime Minister in her paper tabled for the June 1983 Stuttgart Summit. The idea that different member states in Europe might co-operate in flexible groupings in different areas of concern has been opposed in the past. Nevertheless, it has considerable merit in looking at priorities beyond 1992. Extending the Single Market should not necessarily involve EFTA countries in accepting the Common Agricultural Policy, for example. Nor is it clearly evident that, once the Single Market is secured, it will remain

necessary to retain use of majority voting with its temptations to political 'dynamism' for the Commission.

At the other end of the spectrum, co-operation between France and Britain on defence arrangements will need to be particularly close in the light of the growing importance of the Anglo-French nuclear capability, whereas 'neutral' countries, such as Austria, Ireland, Sweden and, possibly, new Eastern European associates, cannot be included in co-operation on defence arrangements. The role of such neutral countries in foreign policy co-operation must also be questionable. The need to co-operate more closely on combatting terrorism should not be held up for those countries that are willing to co-operate by those that are reluctant. It is also possible that some countries would wish to proceed with Economic and Monetary Union while others did not, and stayed out of the ensuing arrangements.

These various options are not mutually exclusive. It would be possible for co-operation to proceed on different objectives for different countries at the same time as proceeding on Treaty revisions and on refocussing the powers of the Commission. If, however, Treaty revisions cannot be negotiated and if achieving agreement between Britain and its partners on priorities post-1993 remains hampered by the Commission's power to propose its own agenda, then a multi-track Europe is the natural and obvious outcome.

VIII. CONCLUSIONS

Co-operation in Europe post-1993 will involve continuing efforts to make the Single Market a permanent reality and to extend its boundaries to embrace other European countries as well as a much greater focus on foreign policy and defence and security arrangements. The EC Commission is not well-equipped to deal with this diversified agenda. There is real concern that it pursues its own agenda in favour of new areas of interventionism, new institutions and expanded public expenditure programmes. This deflects attention from more fundamental priorities and complicates the process for achieving agreement on priorities between Britain and its EC partners. The idea of pursuing more flexible forms of co-operation in Europe, with different groupings of countries coming together on different priorities, could well be the most appropriate way to handle a diversified agenda in the 1990s. But, in addition to a 'multi-track' vision of co-operation, there is a need to look at Europe's constitution as presently set out in the Treaty of Rome and amended by the Single European Act. Viewed as a constitutional document it is seriously deficient. Viewed as enshrining a process for co-operation between member states it has major shortcomings.

Tackling either the procedural deficiencies or the more fundamental constitutional flaws will, on either course, involve a redefinition of the range of powers of the Commission and changes to the Commission as an institution. The least of these changes would involve removal of the Commission's powers to initiate and propose. A more appropriate model for the role of the Commission is contained in the procedures for co-operation on foreign policy contained in the Single European Act. Revision of the Treaty is now being advocated by proponents of European Monetary Union. It is not clear that a 'multi-track' Europe requires Treaty revision at this point. If, however, Treaty revision is to be tabled, in whatever context, Britain could make it a condition of Treaty review that changes in the role of the Commission should be examined, and will be on Britain's own agenda.

Rooted in the experiences of the 1930s and 1940s, the founders of the institutions of the EC looked to unelected officials to play a role above that of member governments and to entrust these officials to unfold a superior vision of where priorities lay. This deeply undemocratic concept is an inappropriate basis for co-operation between European democratic states in the 1990s and beyond.

APPENDIX

AN EXPANSIONIST INTERPRETATION OF TREATY POWERS

This Appendix notes some instances in which the Commission has taken a dynamic or expansionist interpretation of its Treaty powers.

Thrust of Treaty of Rome

The Treaty of Rome does not require the Commission to harmonise every law in sight. It permits 'the approximation of laws of Member States to the extent required for the proper functioning of the common market' (Article 3 - emphasis added).

The Single European Act does not replace the Treaty of Rome - it complements it with a particular programme to establish the internal market by 31 December 1992. The internal market is 'an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of [the Treaty of Rome]' (Article 8(a), introduced into the Treaty by the SEA).

The thrust of the combined document is liberal and deregulatory - especially in such areas as the:

- o Elimination of customs duties (Articles 12-17)
- o Setting up of common customs tariff (Articles 18-29)
- o Elimination of quantitative restrictions between member states (Articles 30-37)
- o Free movement of persons, services and capital (Articles 48-73)
- o Transport (Articles 74-84)
- o Rules against distortion of competition (Articles 85-94)

Yet the Commission has used such measures to foster harmonization well beyond 'the extent required for the proper functioning of the common market'.

Article 54

For example, even before the signing of the SEA, it used Article 54(3)(g) of the Treaty to promote two-tier boards or works councils for all large community companies. Yet this Article concerns 'the abolition of existing restrictions on freedom of establishment within the Community.' (1), emphasis added).

The powers given in Article 54 include :

- o ensuring close co-operation between Member States ((3)(b))
- o abolishing administrative procedures and practices...which would form an obstacle to freedom of establishment (c)
- o ensuring that workers can become self-employed in other Member States (d)
- o 'by effecting the progressive abolition of restrictions on freedom of establishment in every branch of activity under consideration, both as regards the conditions for setting up agencies, branches or subsidiaries...' (f)

Only after the specific powers comes a general, subordinated power 'to coordinate to the necessary extent the safeguards which, for the protection of the interests of members and others, are required by Member States of companies and firms...with a view to making such safeguards equivalent throughout the Community' ((g), emphasis added).

The Treaty power, therefore, is to coordinate safeguards to the necessary extent that they do not distort the Commission's general task, to promote freedom of establishment. Yet the Commission has repeatedly attempted to use it to standardise, by the 5th Company Law Directive, a particular structure of corporate management. It has never seriously argued that the difference of management structures impedes freedom of establishment in member states.

Since the Single European Act, Article 54 measures can be achieved by qualified majority instead of, as formerly, requiring unanimity.

Article 100

The Commission has also used Article 100 to promote statutory 'worker participation' in companies, in the 'Vredeling' Directive. Article 100 allowed the Commission to 'issue directives for the approximation of such provisions laid down by law, regulation or administrative action in member States as directly affect the establishment or functioning of the common market'. (Emphasis added).

Again, the Commission never seriously argued that the way in which workers are involved in the success of businesses did indeed directly affected the establishment of freedom of trade or establishment within the community. It is self evident that there can be a miscellany of approaches - best chosen within the different businesses themselves.

It remains important to try to ensure that, although the Single European Act watered down the Treaty by allowing a qualified majority for measures 'laid down by law, regulation or administrative action in Member States which have as their object the establishment or functioning of the internal market' (emphasis added) unanimity is still observed as required for:

- o fiscal provisions
- o those relating to free movement of persons
- o those relating to the rights and interests of employed persons.

And it also remains an important point of principle that directives should only be issued to complete the internal market not for wider purposes.

Article 118

The Commission has made much of a supposed 'social dimension' of the Economic Community. Article 118 gives the Commission limited powers in the social dimension. It is worth paying particular attention to the closely limited Treaty powers:

'Without prejudice to the other provisions of this Treaty and in conformity with its general objectives, the Commission shall have the task of promoting close co-operation in the social field, particularly in matters relating to:

- o employment
- o labour law and working conditions
- o basic and advanced vocational training
- o social security
- o prevention of occupational accidents and diseases
- o occupational hygiene
- o the right of association, and collective bargaining between employers and workers'.

To this end, the Commission shall act in close contact with Member States by making studies, delivering opinions, and arranging consultations...' (Article 118).

Again, it is quite clear:

- (a) that these powers are to be exercised in conformity with the general objects of the Treaty, ie promoting free trade and establishment;
- (b) that the Commission's primary role is informational and not to standardise any particular practice by law.

The SEA, however, added Article 118(a). This says:

'Member states shall pay particular attention to encouraging improvements, especially in the working environment, as regards the health and safety of workers,...

and gives power to issue directives by qualified majority.

Article 118(b) provides that:

'The Commission shall endeavour to develop the dialogue between management and labour at European level which would, if the two sides consider it desirable, lead to relations based on agreement.'

This vague language seems to be intended to promote Europe-wide collective bargaining. The Commission is, however, given no specific powers.

Conclusions

The evidence of experience with the Commission's interpretation of Articles 54, 100 and 118 suggests the following conclusions:

- o the Treaty of Rome, even as amended by the SEA, gives the Commission limited legal powers and these powers all fall within the framework that they must be necessary to complete the common market or (for some, since the SEA) have as their object the completion of the internal market. It is strongly arguable that the SEA should be interpreted narrowly, within the thrust and context of the Treaty itself.
- o Often the primary powers envisage other techniques than the blanket issue of directives: information, studies, promotion of co-operation. They are voluntarist. Britain should insist that these are used first, and directives as a last resort and only when proved necessary.
- o Even where directives are permitted, they should be designed to correct the particular abuses which impede freedom of trade or establishment within particular member states. It is a sign of the Commission's expansionist centralism that it usually issues blanket directives to cover every member state, rather than, for example, using powers to direct one or two states to correct legislation which is impeding the establishment of the market.
- o For some years Britain failed to have the political and legal confidence to link its vision of the Treaty to the words which the Treaty employs. They hang together, for both are liberal, free trade and free establishment. In the past, officials and ministers feared that to pick up these abuses of power would be deemed 'non communautaire'. More recently, the Commission has become aware that each measure will be tested against the Treaty and that measures which are ultra vires its powers will cause real legal and political difficulty. At the same time it has become clear that Britain is prepared to put forward alternative strategies - as in the case of the 'competing currency' approach to monetary co-operation. And it is moving to strengthen national Parliamentary supervision of Commission proposals.

All these indications suggest that it is possible to move towards a new constitutionalist approach to European co-operation, based on a strict interpretation of the Treaty powers, and a free trade, free establishment economic philosophy consistent with its objectives.

RESTRICTED

030053
MDLIAN 1388

EM

RESTRICTED
FM BONN
TO ROUTINE FCO
TELNO 059
OF 181159Z JANUARY 90
INFO ROUTINE EUKREP BRUSSELS, PARIS, DUBLIN, BMG BERLIN, EAST BERLIN
INFO ROUTINE MOSCOW, WASHINGTON

UKREP BRUSSELS TELNO 88 : SPEECH BY DELORS : EC/GDR

SUMMARY

1. GENSCHER WELCOMES DELORS' STATEMENT.

DETAIL

2. IN A PRESS RELEASE ON 17 JANUARY, GENSCHER WELCOMED DELORS' STATEMENT EARLIER IN THE DAY TO THE EUROPEAN PARLIAMENT THAT THE GDR WAS A 'SPECIAL CASE' WHICH HAD 'ITS OWN PLACE IN THE COMMUNITY, IF IT WISHED'. HE SAID THAT THIS TOOK ACCOUNT OF THE SPECIAL RELATIONSHIP WHICH THE GDR ALREADY HAD WITH THE EC. THE STATEMENT WAS AN EXPRESSION OF EUROPEAN RESPONSIBILITY AND FARSIGHTEDNESS. AT A SESSION OF THE BUNDESTAG FOREIGN AFFAIRS COMMITTEE, VOIGT (SPD) ALSO WELCOMED THE STATEMENT: AFTER FREE ELECTIONS IN THE GDR, THE WAY WOULD BE OPEN FOR GDR ASSOCIATION WITH THE EC AND LATER FOR FULL MEMBERSHIP.

MALLABY

YYYY

DISTRIBUTION

359

MAIN 358

.FRAME GENERAL
ECD(1) [-]

WED
MR RATFORD

ADDITIONAL 1

FRAME

NNNN

PAGE 1
RESTRICTED



me pm
cc: /pps /community

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBIN BUTLER

**COMMUNITY AFFAIRS: HANDLING OF STRATEGIC
ISSUES**

The Prime Minister discussed with you your minute of 17 January and agreed that the respective roles of OD and OD(E) should be along the lines you suggested.

ANDREW TURNBULL

18 January 1990

21. keep.

NAME <i>01/4</i>		
RECEIVED IN REGISTRY		
18 JAN 1990		
Class	R	REGISTRY
INDEX	PA	Admin. Lang.

ADDRESS BY JACQUES DELORS
TO THE EUROPEAN PARLIAMENT

PRESENTING THE COMMISSION'S PROGRAMME
FOR 1990

Strasbourg, 17 January 1990

Check against delivery

Embargo: 1000 hours

President's speech 1990

Final

Mr President

Ladies and gentlemen

What an astounding series of events have unfolded virtually on our doorstep since I spoke to you this time last year of the challenges facing the Community. I referred then to Mr Gorbachev's dream of a 'common European house' and our slightly different vision of a 'European village' built around a solid house called the 'European Community'.

The Community has progressed apace since then. Its economy has strengthened further thanks to job-creating growth fed by investment. The persistence of this cycle has led to production in the Twelve rising by some 20% since 1984, 8.5 million new jobs being created and European business displaying a new-found assertiveness at home and abroad - though it could still do even more. The Community's influence has grown economically and politically. The Community is now respected, courted, held in awe.

And yet recent events in Central and Eastern Europe should give us pause for thought. Why has it taken us more than thirty years to respond tentatively, with moves towards Economic and Monetary Union, to the objective of a political Community set by the founding fathers, whereas the Germans of the East, released from former constraints, have taken no more than a few weeks to re-open the Brandenburg Gate in an act full of symbolism for the future unity of the German nation?

Why is it taking us eight years, of what we regard as intense activity, to create a single market and an organized economic and social area, while our Eastern neighbours have taken no more than a few months to discover the heady wine of liberty and democracy?

It is a striking contrast, when seen against the tremendous surge of history in the making, as nations cast aside the old régime to embrace a new era holding the promise of peace, pluralist democracy, and economic and social progress.

Today more than ever the Community is faced with challenges: the challenge presented by aims, strategy and method as the Twelve face up to their responsibilities in the East and elsewhere in Europe, in the Mediterranean and in the developing world; the challenge of reaffirming our values through our day-to-day activities; the challenge of implementing the Single Act, which remains our top priority and finds practical expression each year in the Commission's programme.

But, first and foremost, how, in a new and exciting situation, can we ignore the fact that time is running short, that events in Europe are challenging the Community to respond?

The challenge of events in Europe

It was in the name of freedom that millions of men and women, far from remaining resigned to servitude, took to the streets, roused from their inertia by the decline of the régimes which had governed them and the relaxation, sometimes deliberate, of the iron grip which had held them in thrall.

But let there be no mistake: the prosperity and freedom of our Community - free from hegemony, governed by the rule of law, where even the smallest country has a say - served as a lodestone, a lodestar in terms of ideals and action. Over the last few months it has not been the ambitions of politicians, but the will of the people that has made history; a will manifested with dignity and joy in some countries, in the midst of drama and bitterness in others, and above all with a collective spirit that is all the more impressive because it seems so sadly lacking in our privileged Western half of the continent, hamstrung by ridiculous quarrels rooted in nostalgic yearning for past glories.

Our admiration for the people of Central and Eastern Europe must not, however, blind us to reality. The changes under way give cause for hope, but they are also fraught with danger. As Tocqueville wrote in the aftermath of the 1848 revolution '[it] has ceased to be an adventure and is taking on the dimensions of a new era'. There is still a danger of

back-tracking, of things going wrong, as is amply illustrated by differences between the people and their leaders in Leipzig and in Bucharest, not to talk of the upheavals taking place within the Soviet Union. And who can ignore the yawning gap between the determination of the people and the precariousness of their situation, between their clearly-expressed aspirations and uncertainty about the eventual outcome?

There are economic dangers, given that most of the countries of Eastern Europe are experiencing stagnant growth, low investment and high debt - particularly when compared to export earnings from trade with the rest of what used to be the Communist world. We must, of course, be wary of generalizations since situations differ in a number of respects - investment in Bulgaria, growth in Czechoslovakia and debt in Romania - and levels of development vary. And national differences are even more marked when traditions and political structures are borne in mind. But all the countries of Eastern Europe are in a difficult situation calling for new political structures and radical economic reform. Mr Andriessen will be speaking to you later today of his impressions on his recent visit.

Neither must we underestimate the political dangers facing Eastern Europe - and hence also of concern to us - in the uncharted waters leading to the free, multi-party elections scheduled for the spring, and indeed in the post-election period should political reforms fail to materialize, should economies collapse, should there be moves towards Balkanization.

- 5 -

The Community, too, is running enormous risks because the pace of events has fuelled the debate on European integration. I have heard it argued in some quarters that the Community, as a product of the Cold War, should die with the Cold War, completely disregarding the experience accumulated over forty years on our difficult but exciting journey to pooled sovereignty. I interpret this variously as a return to facile nationalism or a temptation to play the Metternich card. It is as if a changing world had created openings for those driven by vanity and for would-be statesmen seeking to play yesterday's hand.

I know, too, that others are talking in terms of immediate Community membership for the countries of Central and Eastern Europe, as if they were ready, economically and politically, to embrace pluralist democracy and operate a market economy; as if this scenario raised no financial or institutional problems. Perhaps I should remind them that Spain and Portugal spent seven years preparing for Community membership. This goes a long way towards explaining their success and the outstanding contribution they have made to reinforcing the Community spirit.

I quote this example deliberately because it demonstrates that the Community is a unique testbed for plural democracy, that is to say, democracy exercised by a concert of nations. But we must be wary of raising unrealistic expectations. Of course, the principle is quite clear: any democratic European country is free to apply for Community membership. But, leaving aside the fact that the Community has chosen to concentrate on the improvement of present structures in preference to expansion, it all comes down to ways and means and, while we will not abandon our basic approach, the substance of practical arrangements can vary over time. The question put to every applicant for membership is simple: are you, or are you not, prepared to accept the marriage contract in its entirety, with all that it holds for the future.

But to come back to our neighbours in Central and Eastern Europe: we are duty-bound to help them as they embark on the unique experiment of moving from Communism towards a market economy - a complete reversal of the process to which so many have given so much thought, often blinded by a tendency to equate capitalism with the market economy. How can we help without being paternalistic? How can we lend our support without getting in the way? This is of course, principally a matter for the countries concerned. But the Community must commit itself to solidarity, within a new framework for cooperation, which we intend to define as a matter of urgency.

Solidarity has been in evidence from the moment that the Paris Summit in mid-July asked the Commission to coordinate Western aid to Poland and Hungary. Less than two weeks later, experts from 24 countries met in Brussels to assess needs and consider what form action should take. Three meetings were held, the last - a month ago - at ministerial level. At the same time, the Community decided to send emergency food aid, which was already on its way to Poland by the beginning of September. Cooperation is taking shape, the Commission adding its ideas to those of the countries concerned so that coordination can make the entire operation more effective in terms of quality and quantity.

You can see that when there is an urgent need - for food aid and medical supplies - or when the issues involved are relatively well-defined - financial assistance, the opening-up of markets, extension of generalized preferences - the response is swift. Helping these countries rebuild their economies, when the machinery of State is fast disintegrating and individual initiatives are still in their infancy, will be more difficult and will take time. There will be ups and downs. But we are ready to deal with whatever comes.

The decision taken at the Paris Summit envisaged assistance to Poland and Hungary only. Developments since then have made our task infinitely more ambitious, as the Foreign Ministers of the 24 countries have acknowledged. This will inevitably raise the issue for the Twelve - as this House is well aware - of what Community instruments and what resources are available.

To take Community instruments first. We are in the process of negotiating, or have already signed, trade and cooperation agreements with all these countries. But these agreements are now unlikely to meet our requirements and their individual and collective needs. We must therefore look beyond them to devise new forms of cooperation and provide a framework for future political cooperation between democratic States.

This could be our goal in drawing up new, revised association agreements. If the six countries so wished, these agreements could include an institutional aspect, the creation of a forum for genuine dialogue and economic and political consultation, the extension of cooperation to the technical, scientific, environmental, commercial and financial spheres; but not necessarily involving a common market, since such ill-prepared economies could not cope with one for a number of years.

This would emphasize the necessarily open-ended nature of cooperation, setting it apart from ordinary trade agreements, which, while they have their uses, merely reflect the balance of interests at a given point in time.

might be a good idea to bear these considerations in mind during the coming months, since the Commission will be making fresh proposals under the interinstitutional Agreement to adapt resources and instruments to the new situation. In February 1988 the European Council took a historic decision to underwrite the internal solidarity and further development of the Community. Another 'February 1988', equally significant, equally historic, is needed to demonstrate our solidarity with Eastern Europe and the rest of the world.

Finally, I would stress that, whatever the solution found, it will be impossible from now on to separate the Community's economic role from its political one. This is one of the major lessons to be learned from developments in the East.

The Community's responsibilities elsewhere in the world

Given developments in the East, renewed détente and the emergence of a multipolar world, the Community and its Member States must be in a position individually and collectively to influence the course of events and the future shape of a Greater Europe so that it reflects their interests and values. This will be a crucial topic for discussion and political debate. We must tackle it head-on.

It immediately raises the German question. Rapprochement, or even reunification, of the German people is clearly a matter for the Germans themselves. But the Community has an interest too. Let me explain why. The preamble to the German Basic Law of 23 May 1949 links the principle of German reunification, on the basis of self-determination by the German people, to the issue of European unity - and may I say in passing that this text, which predates the Treaty of Rome by nine years, testifies to the perspicacity of the German leadership.

Furthermore, the Treaty of Rome itself makes reference to this issue, in the Protocol on German internal trade, in the declarations on German nationality and the status of Berlin, and in the 28 February 1957 declaration by the Bonn negotiators.

This makes East Germany a special case. I would like to repeat clearly here today that there is a place for East Germany in the Community should it so wish, provided, as the Strasbourg European Council made quite clear, the German nation regains its unity through free self-determination, peacefully and democratically, in accordance with the principles of the Helsinki Final Act, in the context of an East-West dialogue and with an eye to European integration. But the form that it will take is, I repeat, a matter for the Germans themselves.

Once this issue has been clarified, however, new light will be thrown on our relations with the rest of the world and the future shape of our continent. I propose to begin with the European Free Trade Association, though this does not mean that there is a hierarchy of countries in my mind.

In this House a year ago, I proposed to our EFTA friends that we should look into the possibility of a more structured partnership, going beyond the current association agreements based on limited, though admittedly successful, pragmatic cooperation. Since then, discussions have focused on the overall shape of future negotiations - with particular reference to the four freedoms and the corpus of Community legislation - and their precise content. It would appear, then, that the idea is gaining ground.

But I would like to be frank with these countries, as one should be with one's friends, because the crux of the current debate is the decision-making process. There will have to be some sort of osmosis between the Community and EFTA to ensure that EFTA's interests are taken into account in major Community decisions. But this process must stop short of joint decision-making, which would imply Community membership and acceptance of the marriage contract. This would serve the interests of neither party, so a delicate balance will have to be struck during the negotiations.

I have already spoken about the countries of Central and Eastern Europe.

And last but not least, we must do something about the countries that I call the orphans of Europe - and let me assure you that the expression is not derogatory.

What will the outcome of this process be? Will it end in a grand European confederation, as suggested by President Mitterrand? This is an exciting prospect for all those who believe in the identity of Europe and in its common cultural heritage and traditions. My own view, however, is that a grand confederation will not come into being until the Community achieves political union. It will be for each country to decide when the time comes.

But our responsibilities do not end there. Still on our doorstep, but this time to the South, we need to expand our relations with the countries on the shores of 'Mare Nostrum', the Mediterranean, to sustain progress already made towards democracy and, thanks to economic reform, towards growth and job creation. Down through the ages the Christian, Jewish and Muslim worlds, European and oriental civilization, have met and mingled in the Mediterranean. We must make it our concern, firstly because of traditional trade flows and cultural and historic links, and secondly because we cannot ignore the problems in the world around us, the urgent development needs of countries faced with a steep rise in population, the environmental pressures on the sea we share, and the flashpoints of social and religious tension which are a major source of instability. The Strasbourg European Council urged us to flesh out our policy of neighbourly relations, paying particular attention to the Arab Maghreb Union. It is for the Commission to take the initiative to promote cooperation and, in so doing, to demonstrate to the world that the Community's preoccupation with events in Europe has not blinded it to its other responsibilities.

Evidence of this was provided on 15 December last, when the Community and 66 African, Caribbean and Pacific countries renewed the Lomé Convention for the third time. This basis for cooperation, whose stability, durability and predictability is rooted in binding legal commitments, reflects links going back through the centuries and elicited a special effort on the Community side. The financial resources deployed have risen by 46% in nominal terms and 25% in real terms. The ECU 12 billion set aside for the next five years may appear meagre compared with the immense needs to be met - there is little doubt that we can never be generous enough, that our economies are not sufficiently receptive to the needs of the world's disadvantaged countries. But I would stress that no other official development aid, national or international, has increased to the same extent in recent times.

The Community's awareness of its international responsibilities is also in evidence in relation to Latin America and the Gulf. To cite just one example, the Commission recently received a mandate to negotiate an economic and trade cooperation agreement with Argentina. And we are setting up a free trade area with the Gulf countries, taking care not to damage our petrochemical industry in the process. Nor should we - how could we? - forget the vast region of Asia and the Pacific, where astonishing economic progress is under way. Here, too, the Community must play an increased role against a background of newly emerging patterns of regional cooperation. Further evidence of the Community's international status is provided by heightened interest being shown in it by the United States and Japan.

On 21 May President Bush invited the Community and its Member States to become partners in the management of world affairs thanks to the globalization of EEC-US relations and the introduction of new machinery. This offer was repeated and extended by US Secretary of State James Baker in Berlin on 12 December.

I agree that there is something ambiguous about linking transatlantic partnership with European integration as Mr Baker did. Some Member States might interpret it as a deliberate attempt to interfere in our affairs, something which would be unacceptable between two equal partners, the two pillars of the Atlantic Alliance. But it is difficult not to rejoice at the new attitudes emerging on both sides of the Atlantic, the willingness to step up cooperation and prevent our deep relationship descending to the level of disputes about pasta and hormones. When all is said and done, disputes are inevitable between the world's biggest trading powers. The bond between the Community and the United States merits another attitude of mind. The task of creating a framework for a revitalized transatlantic relationship remains and must be carried out without naivety or ambiguity. We are already working on it, and will be submitting proposals in the course of the year.

Last week I received a proposal from Prime Minister Kaifu to revitalize links between the Community and Japan. He restated Japan's willingness to shoulder its share of the world's economic and political burden - particularly vis-a-vis the countries of Eastern Europe - so great is the impact that future developments in Eastern Europe will have on world affairs. We can only welcome this approach and trust that the new structures for high-level consultation between Europe and Japan will be more effective than the old. I would repeat what I said to Mr Kaifu on this, namely that we feel very disappointed.

Our hope, then, is that the Japanese will take their new attitude to its logical conclusion. They cannot expect the West to apply the principles of openness and free trade indefinitely while these are denied to Western companies in Japan. To put it plainly, there can never be genuine community between the democracies of Europe, Japan and the United States unless we accept and apply the same principles, designed to create an open economy and support multilateral trade, the lifeline of the developing countries.

Completion this year of the Uruguay Round should provide a solution to these trade issues. I would sum up the Commission's position on these vital negotiations in three words: effectiveness, interdependence and fairness. Effectiveness, because we cannot afford any setbacks - international trade is the key to stronger and more balanced growth of the world economy. Interdependence, because it is impossible to treat any issue in isolation, though some would like to - progress must be made on all fronts. Fairness, because we must take account of the legitimate interests of the developing countries and the new responsibilities of the recently-industrialized countries.

These three requirements can only be met within a multilateral framework. This means that all threats to the system must be resisted. This indeed is the Community's aim. But pursuit of that aim must be vigorous and exemplary. We must maintain the link between currency, trade and finance, the triple base for an equitable, efficient world economic order.

The Community as a focal point

As you will no doubt appreciate, the Twelve have no choice but to remain a focal point, a rock of stability for the rest of the continent. This is not a role they have inherited from history but one they have earned by constant effort and resolve as the pioneers of European integration.

But this does not mean that the Community is the only European organization with a role to play. In the economic sphere there is EFTA, of course, but there is also COMECON. After undergoing radical changes, COMECON must consolidate its function, if only to keep up a flow of trade in products which cannot yet compete on the world market because of their quality. It seems that this was the conclusion reached by COMECON leaders at their meeting in Sofia despite the strong reservations expressed by some delegates about the organization. Should COMECON countries decide to embark on reforms, the Community will be prepared, at their request, to give them the benefit of its experience in economic cooperation.

Then there are the alliances which the two superpowers are resolved to retain as a source of stability, if not control, and which, to judge from certain pronouncements, are to be given new powers. And last but not least another organization offers a broad perspective: the Council of Europe. It must continue to work in the areas of cultural affairs, human rights and education and at the same time help the countries of Central and Eastern Europe to rediscover their cultural roots and refamiliarize themselves with the ways of multi-party democracy.

However, that affectio societatis which binds countries together is clearly deepest in the Community. We must be strong if we are to be generous to others, and we must be strong if we are to have any hope of overcoming the national antagonisms which may well re-emerge in Europe.

Strengthening the Community means pressing ahead with implementation of the Single Act. I will come back to this point later. But this alone is no longer enough. As I said in Bruges last October: 'The pace of change is gathering momentum and we must try to keep up.... Only a strong, self-confident Community, a Community which is united and determined, can truly hope to control that process.... For the honour of your generation and mine, I hope that in two years' time we will be able to repeat the very words which another great European, Paul-Henri Spaak, spoke at the signing of the Treaty of Rome: 'This time the people of the West have not lacked daring and have not acted too late.''

We need to make progress on two fronts: Economic and Monetary Union and political cooperation. In Strasbourg on 9 December, the Heads of State or Government showed the way forward. The decision to convene an Intergovernmental Conference before the end of 1990 should generate the necessary momentum to guarantee success. The political will is clearly there, but we will need time to overcome the practical difficulties.

- 21 -

We must therefore concentrate on stage one of Economic and Monetary Union, which involves increased cooperation on monetary policy and greater convergence of our economies. This, I must stress, is just as important a prerequisite as full and proper preparation for the Intergovernmental Conference. The success of stage one is the best way to convince the doubters. We have got to produce results.

To help with these preparations, the Commission will submit a preliminary paper in the spring on the final shape of Economic and Monetary Union, followed by a second paper on the institutional changes EMU will entail. The Commission will be playing its full part in the vital preparatory work for the Intergovernmental Conference.

This will involve looking at the issues the Conference will have to resolve. What kind of linkage should there be between the economic and the monetary aspects? What rules should be agreed and in what fields should they apply? To what extent should monetary policy be centralized? How should economic and political powers be divided between the centre and national institutions? What relationship should there be between the Independent Central Bank and the political authorities responsible for general economic policy? What should the quid pro quo be in terms of democratic concessions? In particular, what is Parliament's role to be? And this list is by no means exhaustive.

The other way of speeding progress up is political cooperation. The style - and the tempo - of political cooperation will have to change. Of course, we welcome the initiatives taken in this sphere over the last year, first by the Spanish Presidency - on the Middle East - then by the French Presidency - on Lebanon, relations with Eastern Europe and Euro-Arab dialogue. Considering how far foreign policy cooperation lags behind economic cooperation, these initiatives are encouraging. But, frankly, they do not go far enough.

There is clearly a risk that the economic attractions of the single market for neighbouring countries will have an adverse effect on the political identity of those who signed the Single Act and committed themselves to 'transform[ing] relations as a whole among their States into a European Union'. Some thought will therefore have to be given to the future of political cooperation.

As far as the approach is concerned, political cooperation is first and foremost, almost routinely I would say, a reaction to world events. Would it not be better to start by defining what I would call 'the shared vital interests' of the Member States, to show up the path they should follow and make it easier for them to take the initiative? As a first step in this direction the Twelve could perhaps mount a joint offensive at the CSCE - that other important template for Europe's future - on economic and human rights issues. They could defend a common position, show a spirit of innovation, be the driving force in an even more significant sense.

- 23 -

There will actually be an opportunity for putting the idea into practice this year, if Mr Gorbachev's proposal to convene a top-level meeting of CSCE participants to take stock of progress on the three baskets and open up prospects for a Greater Europe is accepted. This meeting will present an opportunity and a challenge: an opportunity because the CSCE could provide the framework for my vision of a 'European village'; a challenge because a 35-nation conference which institutionalizes a framework for peace does not necessarily complement 12-nation integration. However, the next economic conference in Bonn in March will give the Community a chance to affirm its identity and make its contribution to the CSCE process. This will be the first test.

The Community's position on these issues will be reinforced by its becoming a party to the Strasbourg Convention on Human Rights, something which we will be proposing this year.

Whether the topic is Economic and Monetary Union or political cooperation, we come back in the end to the question of institutions, because this is the only way of strengthening the Community's authority and giving it greater scope for action. I have to admit that so far - with the Single Act and in preparatory discussions on Economic and Monetary Union - I have tended to favour the pragmatic approach of putting forward an objective and suggesting a strategy, then tailoring the decision-making process to fit them.

But when time is short a bolder approach is needed. Given the degree of commitment being asked of the Community, and the danger of the Community being diluted - if only because some countries, alarmed by developments on the continent, are being tempted to play a more national card - we need an institutional structure that can withstand the strain. I know that this House, loyal as it is to the Spinelli philosophy, is about to take an important initiative in this area. So perhaps you will allow me to contribute a few ideas to the debate you will be embarking on, which will, I trust, also involve national parliaments and governments. You can certainly rely on the Commission to make itself heard.

Basically, there are three questions to be answered:

- what kind of executive?
- what form of democratic control?
- what powers?

Clearly the executive will have to be capable of carrying out its task to the full. As you know, I have always advanced two solutions to this problem: the first is that each government should designate a deputy prime minister to meet in Brussels once a week to hammer out the necessary deals; the second is that the Commission should be turned into a proper executive answerable for its actions. The logic followed by the authors of the Treaty of Rome and the challenges posed by the outside world demand that we back the second of these options.

The executive would, of course, have to be answerable to the democratic institutions of the future federation - more power means a personal commitment. And it would be appointed democratically, the other two authorities deciding initially on a mechanism for appointing its President, who should have genuine power to influence the choice of the other Members.

To deal with the democratic deficit - the answer to the second question - Parliament would have to be given more powers. However, a better arrangement for democratic control will have to be devised: there must be an acknowledgement that the two reflections of the popular will - the European Parliament and national parliaments - are in partnership. This is something that we all need to think about seriously.

There will have to be consultations on this question between members of the European and national parliaments, and the concept of subsidiarity will have to be clarified and reflected in the institutional and legal arrangements. Ours is a Community based on the rule of law, and nothing less will do, as a pledge of further progress along the path of democracy.

As for the third question - what powers? - subsidiarity, as I have just said, must be the watchword underlying any scheme for allocating responsibilities between the Community, the national authorities and the regional authorities. And in the federation of the Twelve - which will be unusual in that the central authority's primary role will be to provide impetus - the principle of subsidiarity will have to act as a constant counterweight to the natural tendency of the centre to accumulate power. At the risk of repeating myself, I will stress that this new step forward must be taken openly and with the question, of who does what clearly defined.

But this House has also raised other questions regarding the inclusion of the social dimension, the environment, even education and culture, in the remit of the forthcoming Intergovernmental Conference. My views on this have evolved somewhat and I now feel that the Conference, under a single chairman, should conduct two parallel sets of discussions, one on Economic and Monetary Union and its specific institutional aspects, the other on the remaining questions, including political cooperation, to draw up a full blueprint for the Community of the future.

At any rate, the subject is now open for debate and I am well aware of the dangers. But I can see no better way of creating a large trading area, an area of peace and cooperation, than by pursuing to its end, without undue haste, the Community's patient task of reconciling the proper exercise of its political powers and the requirements imposed by its international responsibilities.

Making a success of the Single Act

But none of these concerns, vital though they may be, can be allowed to deflect us from our central purpose: to make the Single Act an unqualified success. Our prosperity and the Community's future role in the world depend on it. You will see therefore that it is the Commission's main priority in its programme for 1990. This is perfectly compatible with the necessary political innovation which I have just spoken of.

With three years to go to the 1992 deadline, we are now well on our way. The Council has adopted almost two thirds of the 279 pieces of legislation listed in the White Paper and the Commission has presented virtually all its proposals. Indeed, such has been the zealous rivalry of successive Presidencies and the sense of responsibility of the institutions involved that some people are under the impression that our mission has been accomplished, that the single economic and social area is already practically complete. It is true that the path is clearly marked, that there is no turning back, but a good deal of political will is still required. As far as the single market is concerned, the Commission will therefore be focusing on two particular areas.

The first is the free movement of persons. At a time when walls are tumbling down elsewhere, this will provide tangible proof to our citizens that they are part of a single geographical and cultural entity, that internal frontiers are a thing of the past. This requires not only closer cooperation between the ministers responsible for immigration but also finalization of the conventions on the right of asylum and the crossing of external frontiers, as called for by the Strasbourg European Council. The Commission would also like to see delays in implementing the Schengen agreement overcome, since this decision by five of the twelve Member States will serve as a headline for the Community as a whole. My message, then, is that we need to quicken the pace.

The second area is the removal of tax frontiers. Progress here has been disappointing measured against the goals set by the Single Act. To use a somewhat fanciful image, the partial agreement reached by Finance Ministers in December could be said to be the gleaming bodywork of a car. But the engine - the alignment of VAT rates and the removal of restrictions on purchases by individuals travelling within the Community - is missing. That is the minimum target if we are to do away with the need for tax frontiers.

I do not propose to go into details of the steps to be taken this year under the single market programme. But I would like to rebut the accusations made by some that we are obsessed with deregulating the economy at a time when the staunchest defenders of this doctrine are beginning to realize the excesses of an economic system reminiscent of the fable about the fox in the hen house.

Is it deregulation to lay down Community rules for take-over bids, mergers, the European company statute, or to ban insider-trading?

Is it deregulation to harmonize tests and certification procedures, the labelling of goods, or the conditions for allowing pharmaceuticals on to the market - as part of a realistic policy for informing consumers and defending their interests?

Is it deregulation to harmonize flying time for pilots or hours at the wheel and rest periods for lorry drivers - to avoid the social dumping and distortions of competition which might ensue?

The Commission's view has always been that liberalization and harmonization should go hand in hand. It is true that opening up markets to competition is a prerequisite for the efficient allocation of resources, but no market can operate smoothly without a regulatory framework. Often the only aim in liberalizing at national level is to help make harmonization at Community level more effective.

The Single Act is an indivisible whole. It extends beyond the single market to solidarity through economic and social cohesion, to the social dimension, to the environment and to research and monetary cooperation, which contribute to competitiveness. It implies the creation of a single economic and social area, without which the Community would be a hollow creation, devoid of vitality and political will.

1990 will be the first full year of implementation of reform of the structural policies aimed at fostering the development and adjustment of the less-developed regions. This will call for a major effort by the Commission, the Member States and the regions, acting together in a new partnership, to ensure concentration and consistency in implementing practical programmes. And the relevance of the Commission's approach, endorsed by the European Council in February 1988, will have to be judged in the light of the results. Success will depend on the diligence of national and regional authorities, the attitude of business and groups representing social interests, and the ability of the Commission to come up with fresh ideas.

The social dimension is a legitimate concern of this House - indeed it sometimes accuses the Commission of being far too timid. But it can assure you that whatever people may think, the social dimension is central to our work. Without repeating what I said during our discussion last September, I would stress that, while devising a scheme is important (and that is done now, since at the end of the year the Commission adopted an action programme for the Social Charter), the way we go about putting it into practice is equally important: subsidiarity, partnership and gradualism will form the very basis of the Charter's implementation.

Our longstanding ambition has been a harmonious society more accessible to all, and to this end the basic pact is to build a Europe which displays solidarity, in controlled as in managed interdependence, to prevent the danger of disequilibrium.

However, just as lasting growth without social cohesion is impossible, it is also no longer acceptable to believe that anything can be achieved on the social front without action on the economic front. Renewed competitiveness and cooperation on macroeconomic policy must go hand in hand. It was the return to prosperity and sound growth rates that made it possible to create more than five million jobs between 1988 and 1990 and to bring the level of unemployment at the end of 1988 to below 9% of the labour force for the first time since 1982. I agree that 9% is still too high but the trend is encouraging.

Here again I must stress that we have not waited until now to make the social dimension a reality. I would ask the sceptics to count our practical achievements in 1989 alone. Leaving aside the Social Charter and the action programme, substantial progress has been made in a wide range of fields such as health and safety in the workplace (with adoption of four directives, including the framework directive), vocational training (for instance, adoption of the Eurotinet programme), education (Lingua and Erasmus II), health (action on cancer and Aids) and combating poverty.

As for the practical side, you will not be surprised when I say that there will be wide-ranging consultations with both sides of industry. That is the way I have always worked ever since relaunching the social dialogue in a speech to this House in 1985.

I am well aware that many of you believe that, whatever the limits of the Treaty, it is unacceptable that decision-making should be less effective for the social dimension than for the economic area. As long ago as last September I told you that the Commission was determined to exploit the potential of the Treaty, and Articles 100a and 118a in particular, to the full.

Solidarity has a bearing on environment policy too, given the importance of reconciling the need to improve the quality of life and the need to ensure that economic growth is viable. Even if green fashions go out of fashion one day, the Community will have to press ahead with its programme since the constant striving for a balance between man and nature is an essential element in the European tradition. That is why the European Environment Agency, which I mentioned here a year ago, will become a reality in 1990 to increase our capacity for monitoring and early detection of damage to the environment. This is why the Commission, once again favouring the regulatory approach, will be looking with the help of national experts at ways and means of ensuring that environmental legislation is properly harmonized.

But there are pitfalls here too. We must avoid striking a balance between man and nature at the expense of the balance between the environment and the economy. However, we have yet to find a way of reconciling the two that holds out the prospect of a new model for development which, while still competitive, shows greater respect for the human dimension and the rhythms of nature.

I have already said that to be generous you have to be strong, to show solidarity you have to be competitive. But the opposite is also true. There can be no lasting economic success without equality of opportunities, social justice and the participation of everyone, workers and managing directors, academics and research technicians alike. This is what makes our policy of research and technology for 1990 to 1994, adopted on 15 December, so valuable.

It should enhance the competitiveness of European industry and promote the Community's rise to a major economic power. Do you realize, for instance, that Japanese car manufacturers spend twice as much on research as European firms?

This is why we have decided to adopt a common strategy and focus our efforts on enabling technology, the management of natural resources and the development of intellectual resources. And since, as the United States and Japan have shown, pre-competitive research is the most effective instrument of industrial policy - a term which will make some of you shudder - the Commission has decided to study ways of making Community industry as efficient as possible in vital sectors such as automobiles, aerospace, electronics and biotechnology. But clearly the Commission will not be naive in any proposals it makes to the Council and Parliament on commercial policy. Opening up our economy will also depend on our trading partners and on our own success in catching up in areas where we still lag behind. Here, as elsewhere, the Commission cannot afford to drop its guard.

Lastly, there can be no economic power without monetary stability. Cooperation between the Twelve guarantees monetary stability and I can only reiterate how well the European monetary system works. It accommodated the peseta without any difficulty in September and in the space of three years there has been only one slight realignment, when the lira reverted to the standard margins of fluctuation. We must welcome the courageous decisions of these two countries and their full commitment to taking part in Economic and Monetary Union. In a world beset by monetary instability, the results are there for all to see. This should be an encouragement to one particular currency of major international importance, which the Commission hopes to see joining the system in the course of the year.

It would be remiss of me, having made all these points, to say nothing about two factors which seem to me to be vital. To begin with, our institutions - and the Member States - must realize that the heavy legislative workload which we - and you - have been shouldering for the last three years will not go on expanding exponentially. It is due to the imperatives of implementing the White Paper, and legislation should resume normal proportions from 1990 onwards. From now on, besides formulating the overall design for the construction of Europe, the Commission will have to focus on the smooth working of the Community and on the quality of the common market and of the common policies. I hope that will reassure this House, for having given the lie initially to those who forecast that the cooperation procedure would delay matters, it now seems to be experiencing some difficulty in keeping pace. But the rate at which legislation is put through will be falling back to something reasonable, which of course brings us back to our old friend subsidiarity.

But this intense legislative activity would be fruitless in the end if Member States failed to transpose Community legislation into domestic law. The situation here is somewhat disturbing. Of 88 directives which should already be in force, only 14 have been transposed by all twelve Member States. Last year's campaign to remind them of their obligations and internal measures taken in some countries (the La Pergola law in Italy, for example) have proved disappointing. This highlights the need for national parliaments to do their duty and devote as much time and energy as is needed to carve out the legislative framework for day-to-day life in the Community of Twelve.

Mr President

Ladies and gentlemen

Solidarity within its frontiers and solidarity beyond: the Community's ambitions for Europe and its responsibilities towards the rest of the world are enormous.

As the people of Central and Eastern Europe take their destiny in hand, throwing off the shackles of Yalta and Potsdam, I find myself regretting that our venture does not have more popular support. Perhaps people should think on these words of Václav Havel which are particularly pertinent today: 'political programmes, cannot take shape, ... exert any real influence unless founded on civic consent'.

Today, once again, necessity demands that the Twelve increase the pace and press further along the road to integration. As the superpowers map out their vision of our continent the question is this: is Europe to be a mere spectator or is it to play an active role in shaping tomorrow's world?

If Europe is to help fashion its own history, 1990 must be a year of serious thought and political debate to identify and define the aims, structures, decision-making procedures and arrangements for democratic control in a European Union. A Community, with a mission, playing a full part on the political stage in Europe and in the rest of the world, North and South alike.

History is pressing us to respond: 'Does the Community want to continue, shouldering its full responsibilities at home and abroad?' There is no doubt about the Commission's answer. It is an enthusiastic, unequivocal yes. The ball is now in your court. It is up to you - and by you I mean governments, this House; the Economic and Social Committee and national Parliaments - to give a straight answer to the same question. You will be judged on the clarity and strength of your commitment.

PRIME MINISTER

17 January 1990

Good news

④
R. Minister
Egg
17/1

BRITISH ALTERNATIVES TO THE SOCIAL CHARTER

The enclosed letter from John Banham, the record of his recent visit to Paris and the CBI booklet make two interesting points:

One is the view of the French business community to your stand on the Social Charter, and their misgivings about the German approach as well as the CBI's view of Europe in this area.

The other is the account in the CBI booklet of how employee involvement has changed in Britain over the '80s. Although some of this may appear rather trendy jargon, nevertheless this approach has been pursued by our most successful companies (including small and medium sized). A number of themes keep emerging:

- employees wish to be involved (financially, quality improvement, helping processes of change) and can make a positive contribution to the company's bottom line;
- the most effective forms of involvement are not the traditional ones in which management are positioned against trade unions, but those which place emphasis on employee teams, regular consultation, quality circles, employee equity, shares etc;
- giving greater independence and authority to employees through delegation as far down the line as possible.

All of this suggests that the 'enterprise approach' by Government since 1979 involving increased de-regulation and competition

has had marked effects on the structure of British industry over the '80s, which are popular with both management and employees.

It may be that in thinking about the next Manifesto, you might wish to consider whether there are any fiscal or other changes which could give these developments a further boost - and work with the grain of current development in industry. (eg strengthening the ESOP scheme which could have far reaching consequences and possibly making MBOs easier, etc).

Brian Griffiths

BRIAN GRIFFITHS

UNCLASSIFIED

FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 88

OF 171414Z JANUARY 90

INFO PRIORITY EUROPEAN COMMUNITY POSTS, STRASBOURG
INFO ROUTINE OTHER OECD POSTS, EASTERN EUROPEAN POSTS

FRAME GENERAL

SPEECH BY DELORS TO THE EUROPEAN PARLIAMENT: 17 JANUARY 1990
COMMISSION 1990 WORK PROGRAMME

SUMMARY

1. DELORS' MAIN THEME REMAINED THAT THE CHALLENGE OF EVENTS IN CENTRAL AND EASTERN EUROPE REQUIRED THE COMMUNITY TO PUT BOTH EUROPEAN INTEGRATION AND ITS COORDINATION OF EXTERNAL RELATIONS INTO HIGHER GEAR. HE ALSO EMPHASISED THE CONTINUING IMPORTANCE OF THE SINGLE MARKET PROGRAMME AND SOUGHT TO DEFLECT SOCIALIST CRITICISMS THAT TOO LITTLE ATTENTION WAS DEVOTED TO THE SOCIAL DIMENSION. HE ARGUED THAT ECONOMIC GROWTH WAS AN ESSENTIAL PRE-REQUISITE FOR PROGRESS ON SOCIAL ISSUES. THE INTER GOVERNMENTAL CONFERENCE TO START IN DECEMBER SHOULD TACKLE IN PARALLEL BOTH EMU AND ITS INSTITUTIONAL IMPLICATIONS AND ALSO OTHER ISSUES, INCLUDING POLITICAL COOPERATION, TO DRAW UP 'A FULL BLUEPRINT FOR THE COMMUNITY OF THE FUTURE'.

DETAIL

EASTERN EUROPE

2. DELORS TURNED FIRST IN HIS SEVENTY MINUTE SPEECH TO DEVELOPMENTS IN CENTRAL AND EASTERN EUROPE. THE COMMUNITY WAS PLAYING A MAJOR ROLE AS A DEMOCRATIC REFERENCE POINT FOR REFORMERS AND HAD A DUTY ALSO TO HELP EASTERN EUROPEAN COUNTRIES, IT NEEDED URGENTLY TO DEFINE A FRAMEWORK TO ACHIEVE THIS. HE POINTED TO THE COMMUNITY'S ROLE IN G24 COORDINATION ON HUNGARY AND POLAND AND TO EMERGENCY FOOD AID ALREADY PROVIDED. BUT THE TASK HAD NOW EXPANDED FROM 2 TO 6 COUNTRIES. THE TRADE AND COOPERATION AGREEMENTS ALREADY IN PLACE OR UNDER NEGOTIATION WERE INADEQUATE FOR CURRENT CIRCUMSTANCES. REVISION WOULD BE REQUIRED, AS WOULD CONSIDERATION OF THE INSTITUTIONAL MEANS FOR AN IMPROVED DIALOGUE ON POLITICAL, ECONOMIC AND SOCIAL ISSUES IF THESE COUNTRIES SO WISHED. IT WAS OPEN TO ANY DEMOCRATIC EUROPEAN COUNTRY TO APPLY FOR COMMUNITY MEMBERSHIP, BUT, ON SHEER ECONOMIC GROUNDS, THIS WAS NOT CURRENTLY

AN OPTION FOR EASTERN EUROPE. OPEN-ENDED MECHANISMS FOR COOPERATION HAD TO BE FOUND.

3. THE COMMISSION WAS WORKING ON PROPOSALS FOR A TRAINING FOUNDATION AND FOR EXCHANGES. THERE WAS ALSO PROGRESS ON A DEVELOPMENT BANK. THE SCALE OF THE TASK SHOULD NOT BE UNDERESTIMATED. ADDITIONAL FINANCIAL RESOURCES WOULD BE NECESSARY, REQUIRING A REVISION OF THE FINANCIAL PERSPECTIVES, WITHOUT ABANDONING BUDGET DISCIPLINE. HE NOTED THAT, FOR EXAMPLE, WERE THE COMMUNITY TO CONTEMPLATE ASSISTANCE TO THE SIX COUNTRIES ON THE LINES OF OBJECTIVE 1 ASSISTANCE UNDER THE STRUCTURAL FUNDS AND THE EIB, THE BILL COULD AMOUNT TO 19 BILLION ECU PER YEAR FOR A 5-10 YEAR PERIOD. THE ECONOMIC AND POLITICAL ROLES OF THE COMMUNITY COULD NOT BE SEPARATED. A CHANGE OF GEAR IN THE CONSTRUCTION OF EUROPE WAS REQUIRED IF THE COMMUNITY WAS TO FACE UP TO ITS INTERNATIONAL RESPONSIBILITIES. ON GERMAN REUNIFICATION HE STRESSED THAT THE DECISION WAS ONE FOR THE GERMANS THEMSELVES. THERE WAS A PLACE FOR EAST GERMANY IN THE COMMUNITY SHOULD IT SO WISH PROVIDED THAT, AS THE STRASBOURG EUROPEAN COUNCIL HAD MADE CLEAR, THE DECISION WAS TAKEN ON THE BASIS OF FREE SELF-DETERMINATION, PEACEFULLY AND DEMOCRATICALLY IN ACCORDANCE WITH THE PRINCIPLES OF THE HELSINKI FINAL ACT, IN THE CONTEXT OF EAST/WEST DIALOGUE AND WITH AN EYE TO EUROPEAN INTEGRATION.

OTHER EXTERNAL ISSUES

4. DELORS STRESSED THE IMPORTANCE OF EFFORTS TO ACHIEVE A CLOSER RELATIONSHIP WITH EFTA. THIS WOULD HAVE TO PROVIDE FOR SOME MEANS BY WHICH EFTA VIEWS COULD BE TAKEN INTO ACCOUNT IN COMMUNITY DECISION-MAKING. BUT HE WISHED TO MAKE CLEAR THAT THE BALANCE STRUCK WOULD HAVE TO STOP SHORT OF JOINT DECISION-MAKING. HE DOUBTED WHETHER MITTERRAND'S VISION OF A GRAND EUROPEAN CONFEDERATION COULD COME ABOUT EXCEPT IN THE CONTEXT OF EC POLITICAL UNION. THE COMMUNITY SHOULD ALSO DEVELOP ITS RELATIONS WITH MEDITERRANEAN COUNTRIES. ASSISTANCE TO THE ACP HAD JUST BEEN SHARPLY INCREASED. THE US WISH FOR ENHANCED COOPERATION SHOULD BE FOLLOWED UP. JAPAN WAS ALSO SEEKING CLOSER LINKS. THE COMMUNITY SHOULD RESPOND WHILE MAKING CLEAR THAT AN ESSENTIAL PRE-REQUISITE WAS THE OPENING OF THE JAPANESE MARKET TO FAIR COMPETITION FROM EUROPE. IN THE URUGUAY ROUND THE COMMUNITY SHOULD WORK FOR EFFECTIVE, GLOBAL AND EQUITABLE APPROACHES. HE NOTED ALSO THAT OTHER INTERNATIONAL ORGANISATIONS HAD AN IMPORTANT ROLE TO PLAY IN RESPONSE TO EVENTS IN EASTERN EUROPE, NOTABLY COMECON, NATO AND THE WARSAW PACT AND THE COUNCIL OF EUROPE.

ECONOMIC AND MONETARY UNION

5. THE IGC WOULD PROVIDE THE NECESSARY MOMENTUM. BUT IT WAS JUST AS IMPORTANT TO CONCENTRATE ON STAGE ONE AS TO PREPARE THE CONFERENCE. A SUCCESSFUL STAGE ONE WAS THE BEST WAY TO CONVINCE THE DOUBTERS. THE COMMISSION WOULD PRODUCE TWO PAPERS, THE FIRST ON TECHNICAL ASPECTS OF EMU AND THE SECOND ON THE INSTITUTIONAL IMPLICATIONS.

POLITICAL COOPERATION

6. A CHANGE OF TEMPO WAS REQUIRED. TOO MUCH TIME WAS SPENT REACTING TO WORLD EVENTS. THE TWELVE SHOULD DEFINE THEIR VITAL INTERESTS TO ENABLE THEM TO TAKE THE INITIATIVE TO PROMOTE THEM. DELORS SAW THE FIRST OPPORTUNITY AS A MAJOR INITIATIVE BY THE TWELVE TO SHAPE DISCUSSION WITHIN THE CSCE. THE COMMUNITY SHOULD ALSO BECOME A PARTY TO THE EUROPEAN CONVENTION ON HUMAN RIGHTS.

INSTITUTIONAL ISSUES

7. THE COMMUNITY REQUIRED STRENGTHENED INSTITUTIONS IF IT WAS TO REACT IN A UNITED WAY TO EVENTS IN EASTERN EUROPE. HE HAD EARLIER SUGGESTED AS ONE OPTION A COMMITTEE OF DEPUTY PRIME MINISTERS TO SPEED DECISION MAKING, BUT HE HAD NOW CONCLUDED THAT THE WAY FORWARD LAY IN HIS ALTERNATIVE SUGGESTION OF STRENGTHENING THE ROLE OF THE COMMISSION AS AN EXECUTIVE WHICH WOULD BEAR FULL RESPONSIBILITY FOR ITS DECISIONS BEFORE THE COMMUNITY'S DEMOCRATIC INSTITUTIONS. THE EUROPEAN PARLIAMENT WOULD REQUIRE ADDITIONAL POWERS TO DEAL WITH THE DEMOCRATIC DEFICIT. THE EP AND NATIONAL PARLIAMENTS SHOULD ACT IN PARTNERSHIP. THE PRINCIPLE OF SUBSIDIARITY SHOULD BE CLARIFIED AND REFLECTED IN THE INSTITUTIONAL ARRANGEMENTS AGREED.

INTER GOVERNMENTAL CONFERENCE

8. DELORS HAD EARLIER CONSIDERED WHETHER THERE SHOULD BE TWO CONFERENCES. HE HAD NOW COME TO THE VIEW THAT THERE SHOULD BE ONE CONFERENCE UNDER A SINGLE CHAIRMAN, WHICH WOULD CONDUCT TWO PARALLEL SETS OF DISCUSSIONS: ONE ON EMU AND ITS INSTITUTIONAL IMPLICATIONS AND THE OTHER ON 'REMAINING QUESTIONS', INCLUDING EPC, TO DRAW UP 'A FULL BLUEPRINT FOR THE COMMUNITY OF THE FUTURE'.

SINGLE MARKET

9. NONE OF THESE CONCERNS SHOULD DEFLECT THE COMMUNITY FROM THE SINGLE MARKET PROGRAMME. THIS WAS WELL UNDER WAY, BUT MUCH POLITICAL WILL WAS STILL REQUIRED. THE COMMISSION WOULD FOCUS ON FREE MOVEMENT OF PERSONS AND ON THE REMOVAL OF TAX FRONTIERS. HE DESCRIBED THE AGREEMENT REACHED BY FINANCE MINISTERS IN DECEMBER AS THE BODYWORK OF THE CAR WITHOUT THE ENGINE. ADDRESSING CRITICISMS FROM THE SOCIALIST GROUP THAT THE COMMISSION WAS ADDRESSING SINGLE MARKET

ISSUES, TO THE DETRIMENT OF THE SOCIAL DIMENSION, HE DENIED THAT THE COMMISSION WAS 'OBSESSED WITH DEREGULATING', GIVING A NUMBER OF EXAMPLES TO DEMONSTRATE THE COMMISSION'S COMMITMENT TO ENSURING THAT LIBERALISATION WENT HAND IN HAND WITH HARMONISATION AND THE ELABORATION OF APPROPRIATE REGULATORY FRAMEWORKS.

SOCIAL DIMENSION

10. ELABORATING ON THE COMMISSION'S COMMITMENT TO THE SOCIAL DIMENSION (ON WHICH HE HAD ADDRESSED THE SOCIAL AFFAIRS COMMITTEE THE PREVIOUS EVENING IN AN ATTEMPT TO DEFUSE SOCIALIST CRITICISM AND CALLS FOR REJECTION OF THE COMMISSION'S PROGRAMME), HE POINTED TO THE IMPORTANCE OF THE STRUCTURAL FUNDS, AND TO THE SOCIAL ACTION PROGRAMME, WHICH THE COMMISSION WOULD WORK TO IMPLEMENT ON THE BASIS OF SUBSIDIARITY, PARTNERSHIP AND GRADUALISM. IT WAS A MISTAKE TO DRAW A RIGID DISTINCTION BETWEEN ECONOMIC AND SOCIAL ISSUES. SOCIAL DEVELOPMENT COULD ONLY BE PURSUED ON THE BASIS OF PROSPERITY AND SOUND GROWTH RATES. BROAD PROVISIONS SHOULD BE AGREED AT COMMUNITY LEVEL, NOTABLY ON NON-TYPICAL FORMS OF EMPLOYMENT, REORGANISATION OF WORKING HOURS AND CONSULTATION OF WORKERS, WITHOUT GOING INTO INAPPROPRIATE OR IMPRACTICAL DETAIL. THE COMMISSION WOULD EXPLOIT TO THE FULL THE POTENTIAL OF THE TREATY AS A BASIS FOR ACTION ON SOCIAL ISSUES, NOTABLY ARTICLES 100A AND 118A.

11. COMMUNITY ACTION IN OTHER AREAS, SUCH AS THE ENVIRONMENT, ALSO HAD A DIRECT RELEVANCE TO IMPROVING THE QUALITY OF LIFE OF EUROPEAN CITIZENS. RESEARCH WAS ESSENTIAL TO UNDERPIN ECONOMIC DEVELOPMENT. AND THERE COULD BE NO ECONOMIC POWER WITHOUT MONETARY STABILITY. HE HOPED THAT THE SUCCESS OF THE EMS WOULD ENCOURAGE STERLING TO JOIN THE SYSTEM IN THE COURSE OF 1990. A FURTHER PRIORITY OF THE COMMISSION WAS TO ENSURE THAT LEGISLATION WAS ACCURATELY TRANSPOSED INTO NATIONAL LAW. REVERTING TO INSTITUTIONAL ISSUES, HE CONCLUDED WITH A CALL FOR 1990 TO PROVIDE FOR SERIOUS THOUGHT AND DEBATE ON THE AIMS, STRUCTURES AND DECISION MAKING PROCEDURES OF THE COMMUNITY, INCLUDING THE ARRANGEMENTS FOR DEMOCRATIC CONTROL.

RESPONSES FROM POLITICAL GROUPS

12. COT (FRANCE, SOCIALIST) THOUGHT THE SPEECH SHORT ON PRECISE PROPOSALS. IT FAILED TO MAKE CLEAR THE LEGAL BASIS ON WHICH THE COMMISSION INTENDED TO PURSUE SOCIAL ISSUES. THE COMMISSION PERSISTED (IN COLLUSION WITH THE COUNCIL) IN PAYING INSUFFICIENT ATTENTION TO THE VIEWS OF PARLIAMENT. CHANTERIE (BELGIUM, CD) SOUGHT A STRONGER COMMITMENT ON REMOVING TAXATION FRONTIERS AND AGREED THAT PARLIAMENT WAS NOT BEING GIVEN AN ADEQUATE ROLE. IT WAS NOTABLE THAT

IT HAD HARDLY BEEN CONSULTED ON ANY OF THE ELEMENTS OF THE COMMUNITY'S RESPONSE TO EVENTS IN EASTERN EUROPE. GISCARD D'ESTAING (FRANCE, LIBERAL) THOUGHT THE WHOLE PRESENTATION INSUFFICIENTLY AMBITIOUS AND IMAGINATIVE. HE HAD EXPECTED A MUCH STRONGER AND MORE DETAILED COMMITMENT ON EMU. PATTERSON (EDG) DISAGREED. HE THOUGHT THE COMMISSION'S PRESENTATION STRUCK THE RIGHT KIND OF BALANCE. IT WAS VITAL NOT TO LOSE SIGHT OF THE SINGLE MARKET. HE HOPED THAT STERLING MIGHT JOIN EMS LATER THIS YEAR.

HANNAY

YYYY

DISTRIBUTION 349MAIN 348

.FRAME GENERAL ECD(I) [-]

ADDITIONAL 1

FRAME

NNNN

MR POWELL



Prime Minister. A
I am sure X & Y
are right. All time
to involve OD is when
there are operational
decisions to be taken.

Community Affairs: Handling of Strategic Issues

It was agreed last summer, in the context of the competence exercise, that in the first month of each Presidency a note should be prepared reviewing the prospects for consideration by OD(E), followed by submission to the Prime Minister as Chairman of OD, for further discussion as she thought fit. This procedure was duly followed last July. In further discussions in the autumn, the Prime Minister made clear her wish that the more important strategic issues should be taken in OD rather than OD(E).

Agree!
OD
17/1

X
2. Since the note on the prospects for each Presidency is prepared largely for the information of Ministers, and does not entail operational decisions, I suggest that we should maintain the existing practice of taking such papers first in OD(E), with a subsequent report to the Prime Minister.

Y
3. Before Christmas there was some discussion of a possible OD meeting to consider our line for the Strasbourg European Council. In the event, this was ruled out by practical and timetable constraints. The question will arise again in connection with the Dublin European Council in June. We will put advice to the Prime Minister on this nearer the time.

4. At my bilateral with the Prime Minister tomorrow morning I should like to confirm that she is content for us to proceed in this way.

Louisa Rippeard

RP ROBIN BUTLER

17 January 1990

EPB:
Ref. A090/141
PRIME MINISTER

Cabinet: Community Affairs

The Foreign Secretary may wish to report briefly on the Irish Presidency's programme, which was set out in a speech by their Foreign Minister to the European Parliament on 16 January. Key points were:

- priority to be given to the Community's response to developments in Eastern Europe, but not to the exclusion of enhanced dialogue with EFTA and the US;
- further progress on the Single Market, social issues and other internal objectives, including active preparation of the inter-governmental conference on EMU.

2. The Foreign Secretary may also mention the Commission's work programme for 1990 which M Delors presented to the European Parliament on 17 January. Press interest is likely to focus particularly on his remarks on East Germany (a place for them in the Community if they wish, provided the conditions for German unification set at Strasbourg are satisfied) and on his advocacy of further institutional change.

3. Forthcoming meetings are:

- informal meeting of Foreign Ministers on 25 February, called mainly to discuss Eastern Europe;
- Agriculture Council on 22-23 January.

R.R.B.

SIR ROBIN BUTLER

17 January 1990

COPY
CPC



WELSH OFFICE
GWYDYR HOUSE

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0538 (Llinell Union)

WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Peter Walker MBE MP From The Secretary of State for Wales.

CT/12009/90

11 January 1990

EC DIRECTIVE ON CONSERVATION OF WILD BIRDS

at Cardiff
I wrote to you and other Members of OD(E) on 21 July last year about my concern over the Commission taking West Germany to the European Court on an alleged breach of the Directive on the Conservation of Wild Birds. My concern is heightened now I have seen the detailed papers presented to the Court by the Commission. These make it clear that the Commission holds an unequivocal narrow interpretation that Member States cannot take into account any considerations other than the interests of birds in considering developments within special protection areas.

You and Francis Maude supported my view that we should intervene with the European Court in support of West Germany. We agreed that the intervention should include the issue of principle that Member States must have the discretion to weigh conservation needs against other issues and particularly economic and recreational benefits. Officials are discussing in EQO later this month the terms of the HGM intervention. I was dismayed to hear that one of the options being considered was that our intervention should fall short of pressing the point of principle. If we followed that option we would lose the initiative and do no more than store up a potentially damaging problem for the future development of Cardiff Bay and our whole planning policy of balancing the needs of conservation and other issues.

/I am therefore

The Rt Hon Christopher Patten MP
Secretary of State for Environment
2 Marsham Street
LONDON
SW1P 3EB



I am therefore reaffirming my view that while we should support West Germany on the facts of the case, our intervention should also include the point of principle that Member States must be able to balance the needs of birds / with other considerations. I am copying this to the Prime Minister, Douglas Hurd, Malcolm Rifkind, other Members of OD(E) and Sir Robin Butler.

John G. ...

A handwritten signature in black ink, appearing to be 'John G. ...', is written over a purple rectangular stamp. The stamp contains some illegible text and a circular emblem.

Euro Pol: Budget

1994



Ref. AO90/68

PRIME MINISTERCabinet: Community Affairs

The Secretary of State for Trade and Industry may wish to mention the good progress made at the last Internal Market Council of the French Presidency on 21-22 December, at which Mr Redwood and Mr Maclean represented the UK. Agreement was reached on:

- 60/
- the Merger Control Regulation, together with satisfactory conclusions on barriers to takeovers;
 - life insurance services (a first step in liberalisation);
 - rights of residence (subject to Danish and UK Parliamentary scrutiny reserves);
 - an agreed range of testing and certification systems;
 - basic levels of consumer protection for the sale of package holidays;
 - standards for active implantable medical devices (eg pacemakers);
 - nutrition labelling of foodstuffs;
 - signature of the Community Patent Convention.

Progress was also made on public procurement in the excluded sectors, but final agreement proved elusive: the Irish Presidency will try to achieve this at the next Council in February.

2. Next week the Irish Presidency's plans will be set out in a speech by their Foreign Minister to the European Parliament (16 January). An informal meeting of Foreign Ministers has been

called for 20 February, mainly to discuss future handling of Eastern Europe. The first formal Council of the year will be on 22/23 January (Agriculture).

R.B.

ROBIN BUTLER

10 January 1990

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-836 0645

From
John M M Banham
Director-General



8 January 1990

JMMB/las

Professor Brian Griffiths
Policy Unit
10 Downing Street
London
SW1A 2AA

Dear Brian

As I hope you would expect, I have been doing my bit to line up some allies within the European business community for the UK position on the Social Charter.

I thought that you might be interested in the attached note following a recent visit to Paris. I should be grateful if you would treat it as confidential. I found it extremely easy to convince an audience of leading French business people that the Prime Minister was indeed a convinced and passionate European; her (and our) concerns were with the kind of Europe that we are building. In this context, there is very considerable support for the kind of visions set out in our document, A Europe of Opportunity for All which I am also attaching.

It is quite clear that there are a number of ways in which the CBI could be used to "stir up" the French business community to put some direct pressure on the French Government in discussions about particular directives and regulations arising from the Commission's action programme to follow up the Council of Ministers' decision on the Social Charter. If this can be of any help, you have only to call.

With best wishes for 1990,

Yours sincerely

A handwritten signature in blue ink, appearing to be 'John M M Banham'.

John M M Banham

NOTES FOLLOWING VISIT TO PARIS BY

DIRECTOR GENERAL ON 3 JANUARY 1990

Notwithstanding thick fog at Charles de Gaulle Airport (which grounded almost every airline except BA, which was on time) and a very congested French motorway network around Paris, I spent an interesting day at BIAC, the Fondation Europeene pour L'Economie, and CNPF. The visit was originally arranged at the request of Michelin - their local Director, Rene Fichant, is keen that CBI views on the Social Charter should be more widely known within the French business community, and his chairman is a leading light in FEE.

It emerges that FEE contains some rather high powered people - rather like our President's Committee, as the attached membership list shows. Whether they are willing to 'vote their shares' on particular issues is not quite so clear. The Patronat has no direct members of course - and, like EEF, is reducing its central negotiating role. It is part of the Corporate State, with a stake in the present highly regulated system. For example, the Patronat had a meeting with the French Unions to decide its position on the Social Charter. I should add that the Patronat, by the same token, evidently knew very little about the standing and activities of the Fondation whose main London correspondent at present is apparently Aims of Industry.

At the informal lunch, there appeared to be general appreciation of the UK position on the Social Charter - and warm support for the CBI role. There is quite a market for the French version of A Europe of Opportunity for All. The following points emerge from the discussions:

- only 20% of the French labour force is unionised at present. The French "man in the street" is not interested in the Social Charter; and the Unions are ambivalent, fearing that there will be a reduction in the benefits that they already enjoy. The main impetus is therefore coming from the Government
- Mrs Thatcher has more allies than is generally believed, and French business would be very willing to 'stand up and be counted' on individual regulations as these are promulgated. Whether the French Government would be prepared to take such a pragmatic view is however much more open to question
- the UK employment environment is seen as much less regulated than in France; and this is regarded as a major contributor to the UK's impressive job creation record in recent years.

Fichant emphasised that in a market where skilled labour is scarce, management simply cannot afford to ignore the needs and wishes of the workforce, whatever the legislation might permit

- there can be no single approach to the role of Trades Unions in Europe, because these differ in their structure, political affiliations and willingness to accept responsibility for management decisions. The co-determination model in Germany is not regarded as an unalloyed advantage, even in West Germany; much boardroom discussion is 'pure theatre', rather than genuine participative discussion
- the French see the West Germans as now being preoccupied with Eastern Europe and less interested in all aspects of the Single Market. Moreover, they fear German reunification, and are looking for alliances in the UK. The Chairman of Thomson has apparently recently stated publicly that all joint ventures involving Germany must be open to question
- the European Company Statute will only be useful when there is harmonisation of company taxation which is an unlikely prospect in the near-term; but once this is in place, then it could be useful according to Esso.

CNPF with an annual budget of FF 110 million (and 200 employees, of whom approximately half are executives) feels that it has a poor relationship with the President, and no more than a workman-like one with individual Ministers. They hope that every regulation issued under the Social Charter will be discussed with their Government on its merits, but they are not confident of their ability to ensure that the Government in fact takes such a line. They were preoccupied with the minutiae of a Single Europe. For example they would like to know why we are planning to take the line we are at the planned UNICE meeting on 15 January about the machinery for VAT harmonisation. (I should be grateful if John Wilkins could let Jean-Marie Fabre have details of the reasoning behind our position if that would not be too difficult). Their action with respect to Poland and Hungary is similar to ours - they have established that providers of training in particular would be prepared to offer 'hundreds' of places, because there is EC money in it. CNPF are planning to expand their operation in Brussels from two and a half to five or six people; they have a high regard for the efficiency and effectiveness of Dick Eberlie and his team, and were surprised to learn what a small staff we have in the Brussels office.

Finally, BIAC surprised me as being a small (eight-person) organisation clearly out with the one thousand seven hundred strong OECD bureaucracy. I was the first Director-General ever to have called on them in the last decade, and Mlle Michaud, the Secretary-General, was clearly appreciative that I had taken time to visit her. She is very satisfied with the support she receives from the CBI at present and of Dick Price's efforts in particular. She was evidently interested in the possibility that OECD, via BIAC, should undertake a detailed review of the protectionist implications of the Social Charter, in view of the threat that might be involved to the United States and Japan. If we were to ask them to launch a study, this might well give them the impetus that they need. Mlle Michaud asked for five copies of the French version of A Europe of Opportunity for All and twenty of the English version (I left copies of both documents with her). She also asked if she might receive copies of our recent Council papers on Social Europe and the EMS (could Dick Price please follow up). As to the future, Mlle Michaud requests support from CBI:

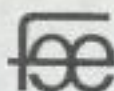
- President and/or Director-General representation at the Assemblée Generale on 3 April
- reinforcement of the importance of BIAC (and indeed of CBI interest in the work of OECD) in the form of a visit to the UK Ambassador at the earliest opportunity
- wider publication of BIAC activities (for which we are paying, modestly). Perhaps we should publish a synopsis in our Annual Report
- a replacement of equivalent standing to Dr Alan Rae who is apparently due to stand down shortly

* * *

If we want to acquire some alliances for our views (and UK Government's views) on various aspects of the Social Charter, we have several possibilities which we could discuss:

- a) To hold another, more formal, meeting with FEE in the Spring, perhaps combined with an address to the Franco-British Chamber of Commerce in Paris. The latter are very keen to be involved - there are around twenty five thousand Britons working in Paris)
- b) To hold a series of tripartite discussions CBI/CNPF/BDI in order to concert our views on various aspects of the Social Charter. This will be a good way, amongst other things, of getting to know Siegfried Mann's successor, and also of seeing what the prospects are for putting pressure on the German and French Governments respectively. CNPF are exploring the idea (which came from them) with BDI; we can then propose dates if we want to go ahead. CNPF evidently think that more than three sides (e.g. to include Confindustria) would make things too unwieldy ("it would be another UNICE").
- c) To promote an OECD study of the implications of the Social Charter for international trade flows, and the risks of protectionism, by means of a formal letter to BIAC.

I should appreciate advice as to which, if any, of the above steps I should follow up.



Déjeuner du 3 janvier 1990

*autour de Mr John BANHAM
Director General of the Confederation of British Industry*

LISTE DES PARTICIPANTS

MM.	Alain DEVILLERS	Délégué Général pour la France MOTOROLA INC. USA
	Hervé DUFRESNE	Conseiller pour l'Europe MOTOROLA INC.
	François DONNAY	Président d'Honneur STE FRANCAISE HOECHST
	Pierre DUFOURNIER	Président Directeur Général ARJOMARI PRIOUX
	Pierre EMANUELLI	Secrétaire Général MONDE ET ENTREPRISE
	M. FICHANT	Directeur Industriel MICHELIN UK
	Benoît-Laurent HABLOT	Vice-Président Délégué FONDATION EUROPEENNE POUR L'ECONOMIE
	Claudius LAURENT	Directeur Industriel Ets MICHELIN
	Richard LYON	Vice-Président de la CHAMBRE DE COMMERCE FRANCO- BRITANNIQUE Président du CABINET BURT AND LYON

J.M. NATHAN-HUDSON	Directeur des Relations Industrielles et Humaines PEUGEOT S.A.
Laurence O'TOOLE	Secrétaire Général CHAMBRE DE COMMERCE FRANCO-BRITANNIQUE
Didier PARENTEAU	Secrétaire Général GROUPE DES INDUSTRIES METALLURGIQUES
Claude ROUX	Président SAGESS
Nicolas THIERY	Administrateur Délégué REXECO
J.P. VUILLERME	Directeur des Relations Extérieures MICHELIN
Peter WESTRICK	Président du Directoire A.E.G. FRANCE
Assistante de Mr John BANHAM	

RESTRICTED
COVERING CONFIDENTIAL

EUROPEAN CALENDAR

JANUARY EDITION

This calendar is primarily concerned with European Community matters, but certain other events of relevance are included. Events and dates quoted are based on the information available to ECD(I) on the date of issue. All new or amended entries are asterisked for ease of reference.

1990

JANUARY

*	5-9	London	Fact-finding visit by Italian Parliamentary Finance Committee
*	6-7	Dublin	Irish Government meets EC Commission
	8	London	FCO Open Day for European Democratic Group MEPs
*	8-9	London	Foreign Secretary and Mr Gerry Collins (Irish Foreign Minister) to address EP/US Congress Delegates' Meeting
*	11	London	Standing Committee debate on Animal Protection during transport
	15-19	Strasbourg	European Parliament plenary (including Irish Presidency speech (16/1) Delors Speech on 1990 Programme (17/1) and debate on Takeovers)
	17/18	Dublin	Political Committee
*	17-19	Greece	Mr Maude to visit
*	mid	London	House of Commons Scrutiny Debate on Rights of Residence Directive
	22/23	Brussels	Agriculture Council (Price-Fixing)
	22-24	Madrid	Visit by House of Commons Foreign Affairs Committee

RESTRICTED
COVERING CONFIDENTIAL

*	late January	London	Mr Maude to give evidence to the Scrutiny Committee on Irish Presidency
	29-31 (to be confirmed)	Dublin	Visit by House of Commons Select Committee on European legislation
*	29-2 Feb	London	Visit by Graf Lambsdorff (Chairman of FDP in FRG).

FEBRUARY

*	2-4	Davos	World Economic Forum
	5/6	Brussels	Foreign Affairs Council
*	5-8	Denmark	Visit by Mrs Rumbold, Ministry of Education
	6-8	London	Visit by M Felber, Swiss Foreign Minister
*	7	London	Foreign Affairs Committee to hear oral evidence from the Foreign Secretary on the operation of the Single European Act
*	9	London	Visit by Mr Sudhoff (FRG equivalent to PUS)
*	10	London	Visit by Signor Ruggiero, Italian Minister for Foreign Trade
	date not yet known	Kuching, Malaysia	EC/ASEAN Ministerial Meeting
	12	Brussels	ECOFIN Council
	12/13	Brussels	Agriculture Council
	12-16	Strasbourg	European Parliament Plenary.
	13/14	Dublin	Political Committee
	19	London	Meeting between Foreign Secretary and Mr Ellemann-Jensen, Danish Foreign Minister
	20	Dublin	EPC Ministerial Meeting
	21	Munich	Visit by Mrs Chalker
	22	Brussels	Internal Market Council
*	26	Brussels	Research Council

RESTRICTED
COVERING CONFIDENTIAL

28-1 March

London

Visit by Sr Enrique Baron,
President of the European
Parliament

MARCH

Date not
yet known

Brussels/
Strasbourg

Visit by House of Commons Select
Committee on European
Legislation

*	1/2	Dublin	Informal Meeting of Social Affairs Ministers
	5/6	Brussels	Foreign Affairs Council
	5/6	Brussels	Agriculture Council
	12	Brussels	ECOFIN Council
	12-16	Strasbourg	European Parliament Plenary (probably including EP vote on approval of Lomé IV)
	13	Brussels	Industry Council
*	19-11 April	Bonn	CSCE Conference on Economic Cooperation in Europe
*	19-23 (probable)	Port Moresby	ACP/EC Joint Assembly. (Attended by MEPs. No UK Ministerial attendance)
	20/21	Dublin	Political Committee
	22	Brussels	Environment Council
*	23/24	Dromoland Castle	Informal Meeting of Internal Market Ministers
	26	Brussels	Research Council
	26/27	Brussels	Agriculture Council
*	27-29	Suva	ACP/EC Council of Ministers (Mrs Chalker likely to attend)
*	28/29	Fiji	EC meeting with ACP States
	29/30	Brussels	Transport Council
	29/30	London	Anglo-German Summit
	29-31	Cambridge	Königswinter Conference
	31/1 April	Ashford Castle	Informal Meeting of ECOFIN Ministers

RESTRICTED
COVERING CONFIDENTIAL

APRIL

2/3	Luxembourg	Foreign Affairs Council
2-6	Strasbourg	European Parliament Plenary
3	Luxembourg	Internal Market Council
7/8	Ashford Castle	Informal Meeting of Tourism Ministers
9	Luxembourg	Health Council
* 9/10	Dublin	San José VI Conference
10/11	Dublin	Political Committee
* 23	Luxembourg	ECOFIN Council
23/24	Luxembourg	Agriculture Council
* 23-27	Geneva	Joint Advisory Group on the International Trade Centre UNCTAD/GATT
25	Luxembourg	Telecommunications Council
* 26/27	Dublin	Informal meeting of Social Welfare Ministers
28/29	Ashford Castle	Informal Meeting of Foreign Ministers
28/29	Republic of Ireland (location to be confirmed)	Informal EPC Ministerial Meeting

MAY

7/8	Brussels	Foreign Affairs Council
* 8-16	Bergen	Economic Commission for Europe Conference on the Bruntland Report on Sustainable Development
14	Brussels	ECOFIN Council
14/? 15	Brussels	Internal Market Council
14-18	Strasbourg	European Parliament Plenary
15/16	Dublin	Political Committee
18	Brussels	Culture Council/Ministerial
21	Brussels	Energy Council

RESTRICTED
COVERING CONFIDENTIAL

21/22	Brussels	Agriculture Council
22/23	Milan/Rome	Visit by Mr Ridley
28	Brussels	Industry Council
29	Brussels	Development Council
29	Brussels	Social Affairs Council
* 30/31	Paris	OECD Council Ministerial
31	Brussels	Education Council
* Date to be decided	Brussels or Luxembourg	Consumer Affairs Council

JUNE

2-8	Finland, Sweden, Norway	Mr Maude to visit
7	Luxembourg	Environment Council
7/8	Dublin	TREVI Ministerial
11	Luxembourg	ECOFIN Council
11/12	Luxembourg	Agriculture Council
11-15	Strasbourg	European Parliament Plenary
12/13	Dublin	Political Committee
18	Luxembourg	EPC Ministerial Meeting
18/19	Luxembourg	Foreign Affairs Council
18/19	Luxembourg	Transport Council
18/19	Dromoland Castle	Informal Meeting of Agriculture Ministers
20	Luxembourg	Internal Market Council
25/26	Dublin	European Council
* 27	Brussels	Fisheries Council
29	Luxembourg	Research Council

070

cc Pd / 20



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

Await comments
from other departments

cross
10/1

From the Minister

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

5 January 1990

EUROPEAN SINGLE MARKET: OPTIONS FOR COMMON ARRANGEMENTS FOR BANANAS

One of the more difficult issues we face in the run up to the single market is the need to find ways of fulfilling our undertaking to safeguard the interests of our traditional banana suppliers in the Caribbean. We currently do this through national arrangements which limit imports of "dollar" bananas from Central and South America that would otherwise displace the higher cost Caribbean production from our market, but it is difficult to see how these - and similar arrangements operated by certain other member states to safeguard their own traditional suppliers - could be maintained after 1992. Indeed, we know that the Commission have for some time been working on common arrangements, and, now that the renegotiation of the Lomé convention has been completed, there is a chance they may bring forward proposals early in the New Year.

This is, therefore, the right time to agree what our approach should be, and in particular, how to strike the right balance between our undertakings to our suppliers and the promotion of consumer interests and of competition. I enclose a paper prepared by my department which follows closely the lines of one considered recently by officials from other interested

/departments in EQO....

departments in EQO. This sets out the background to our present policy, and its development over the years; and it summarises the current position within the Community, including the line we have taken so far, namely that the status quo should not be set aside unless and until a satisfactory alternative has been worked out which (inter alia) safeguards the interests of ACP suppliers. It then goes on to consider a range of options, its main conclusion being that the least unsatisfactory of these from a UK point of view would be a Community-wide quota on dollar suppliers. EQO agreed the recommendations of the paper as summarised in paragraph 20(i) to (v) and those on tactics at paragraph 23.

The analysis in the paper - and its conclusions - strike me as sound, and, in seeking views from you and other colleagues, I would only wish to highlight two points. First, whilst I agree that we should not entirely set on one side the possibility of maintaining the status quo, I do think we need to handle this point with some care. To argue for it, other than as a last resort in the event of failure by member states to agree on an alternative, does run counter to our general wish to see barriers progressively removed in Europe, and I think we will lack credibility if we are seen to be pressing too strongly for the maintenance of national arrangements. Moreover, as the paper notes, if we are successfully to oppose the more unsatisfactory schemes for common arrangements which have already surfaced, we need to be able to put forward viable options ourselves.

Secondly, you will see that paragraphs 16-19 of the paper deal with the need for some transitional subsidy to cushion Community and ACP suppliers against the fall in returns that a Community-wide dollar quota would bring about for those supplying markets, such as the UK, which provide an above average return. The Treasury had a reservation on the grounds that stable prices, albeit at lower levels than they currently enjoy, would constitute a sufficient return to the producers in question. The rest of the Committee agreed that we should be prepared to consider degressive and time-limited subsidies for ACP and EC producers as part of an otherwise satisfactory package based on dollar quota.

This is perhaps a point on which you and Lynda Chalker are best placed to comment, and no doubt you will wish to do so. I must say that, whilst I have some sympathy for the Treasury view, it strikes me that some kind of transitional arrangement will be necessary. The revenue losses would be quite substantial and could call in question both the Prime Minister's assurances to our traditional suppliers and the recently agreed Lomé text on bananas. The losses could amount (on the basis of 1988 figures)

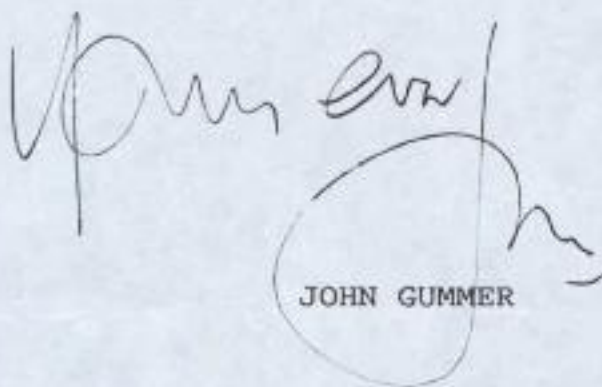
/to some 80...

to some 80 million ECU in all, including 45 million ECU for suppliers to the UK.

It seems to me, therefore, that, if the dollar quota concept is to run - and it is clearly in our interest that it should - some sort of transitional provision will be needed to win over the ACP countries, not to mention other member states (such as France, Spain, Greece and Portugal) who will wish to safeguard the interests of their own producers. I do think it would be helpful, therefore, if John Major could agree that our negotiators should have flexibility on this point, and that we should tell our traditional suppliers and the Community, when the time is ripe, that we would be prepared to consider degressive subsidies for ACP and Community producers for a limited period in the context of a Single Market arrangement that was otherwise satisfactory.

Subject to his views on the point of principle involved, decisions on the detail of any such arrangements will of course need to be taken in due course, but it is perhaps worth just mentioning now one other related point. This is where the money for ACP producers could come from. Our officials had to cover similar ground in discussions earlier in the year on possible compensation to ACP sugar producers for the cut in the Community sugar price agreed in this year's price fixing. Both EDF and FEOGA were considered unsuitable. The most appropriate source was held to be the "other policies" provision in line 4 of the financial perspective. This could well be right for transitional subsidies for the ACP on bananas as well.

I am copying this letter to the Prime Minister, to colleagues in OD(E), to Lynda Chalker, and to Sir Robin Butler.



JOHN GUMMER

CONFIDENTIAL

EUROPEAN SINGLE MARKET : OPTIONS FOR COMMON
ARRANGEMENTS FOR BANANAS

Note by the Ministry of Agriculture, Fisheries and Food

Introduction

1. This paper describes current UK banana policy, summarises the problems facing the Community in designing common arrangements, details the options, and makes recommendations on policy guidelines, the UK negotiating position and tactics.

Evolution of Current Policy

2. This has been designed to enable the UK to fulfil a long-standing commitment, re-affirmed by successive governments, to provide preferential access for bananas from our traditional suppliers, Jamaica and the Windward Islands. Our policy for over fifty years has been, essentially, one of Commonwealth preference. Protection has taken the form of tariff free access, while imports from the dollar area (Central and South America) have faced specific fixed tariffs, coupled with quota restrictions on (and prior to 1959 exclusion of) dollar fruit. Control over total supplies has allowed UK banana prices to remain sufficiently firm for the successful marketing of bananas from the traditional suppliers.

3. On accession to the Community, our previous commitments were subsumed into Community ones, and in the case of bananas, they have been embodied in the relevant Protocol of successive Lome Conventions. Under the protocol, all ACP banana exporting countries are allowed unrestricted access and freedom from the 20% common external tariff (C.E.T.). Traditional suppliers are assured that they will not be placed at a disadvantage in a less favourable situation in the Community

market than in the past or present. Lome IV, signed on 15 December 1989, also includes such assurances, together with a commitment to consult ACP countries on the formulation of common arrangements for bananas.

4. The Prime Minister summarised our commitments to our traditional suppliers in Jamaica in July 1987. She said "We shall continue to fight hard in the European Community to make sure that Jamaica and other Caribbean countries go on enjoying the preferential arrangements for bananas under the Lome Convention". This has been re-affirmed subsequently by Ministers on several occasions.

Arrangements in the Community

5. Protected systems of a kind similar to our own currently apply in five other Member States (France, Spain, Italy, Greece and Portugal). The FRG market also has to be isolated given the provision in a protocol to the Treaty of Rome under which they enjoy imports free of C.E.T.

6. Because these all involve restrictions in the free circulation of bananas within the Community, they will need to be reconsidered in the run up to 1993. An Interservices Group of the Commission has worked intermittently on the issue in 1988 and 1989. They have found it hard going and it is not clear when they will bring forward a proposal - they may keep to an internal timetable of the end of this year or early next, or choose to put it off. The Commission as a whole may consider that the problem is too intractable for early solution, and that it would be best left until nearer the end 1992 deadline, when, they may believe, pressures on Member States to compromise would be greater.

7. The core of the problem is the high production costs in the Community and some ACP countries. The f.o.b. costs of the highest cost ACP and Community suppliers are perhaps double those of the lowest cost dollar producers. Some

form of protective regime would have to apply, therefore, if the Community and individual Member States are to fulfil their commitments to traditional suppliers and to the ACP, and to allow Community producers to stay in business, once dollar bananas are in free circulation.

Current UK Policy

8. Current regulation of the UK market is based on a balance of considerations, agreed by Ministers in the context of the long term review of banana policy which reported in 1988. We wish to honour our bilateral commitments to our suppliers. But import restrictions clearly reduce consumer choice, and provide scope for market sharing arrangements between the Big Three importers, who account for over 90% of the supplies coming to the UK. Consequently, we also wish to promote expansion in, and greater competition on, the UK market. Measures to achieve these aims have been in force for over a year, during which time the market has grown. There has been pressure on retail prices. The independent importing sector has been strengthened through the introduction of a minimum quota for dollar fruit.

UK Lobbying

9. Despite certain drawbacks, the current national arrangements have had advantages. Our regime has enabled us to fulfil our commitments to our traditional suppliers in a way that achieves a favourable balance between conflicting considerations. Further it is flexible, having enabled us to introduce our suppliers to market realities and to move gradually towards a more liberal regime. In principle, the same applies to other Member States with specific national objectives and preferential arrangements.

10. We have therefore lobbied all concerned to the effect that the status quo should not be set aside unless and until a satisfactory alternative has been worked out which safeguards the interests of ACP suppliers, while contributing to the underlying objectives of the Single Market.

11. Although the status quo cannot easily be squared with the view we have adopted generally on the need to remove trade barriers within the Community, we are the only Member State to have specifically advocated it. The Commission are adamant that it is not an option since it is incompatible with the Single Market, and we believe that a number of countries would rally to it only in the event of failure to agree on an alternative.

12. Such an outcome would not be unwelcome to us in terms of defending the ACP interests at stake, and it is therefore a possibility which we should continue to bear in mind. Equally, it is unlikely that we could rely on it throughout what will be a long and difficult debate, during which a variety of alternative schemes are bound to emerge. Indeed, if we are successfully to oppose the more unsatisfactory of these, we need to be able to espouse a credible scheme for common arrangements ourselves. We recommend that we should do so. We return to the matter of when and how in the section on tactics in paragraphs 21-23.

Criteria for Common Arrangements

13. We recommend that we should be guided by the following basic principles:

- (i) **Trade Policy:** Common arrangements should provide for some reduction in protection over time. EC and ACP suppliers to the Community should be exposed gradually to world market realities. We should bear in mind our general interest in keeping exceptions to the Single Market to a minimum.
- (ii) **Competition policy:** There should be no reinforcement of the monopoly structure of the importing industry in Europe. Pressure should be maintained on retail

prices in the current high price national markets.

The average level of retail prices in the Community should be no higher than it is at present and preferably lower.

- (iii) **Community Producers:** We shall hear a great deal about Community preference and the relative dependence of certain disadvantaged regions on the banana crop. Under any form of Single Market, therefore, we might have to consider some support for Community producers. But in the long run, we should seek ways of discouraging high cost production.
- (iv) **ACP Producers:** We should honour our commitment to our traditional suppliers, within the framework of the provisions relating to bananas in Lome IV. There is no generally accepted definition of "access and advantages". Our suppliers recognise that they do not have a guarantee of their current levels of income. But, in the light of repeated Ministerial statements that we shall fight hard to ensure that the ACP continue to enjoy preferential access, we will be expected to maintain some meaningful preferential treatment: for example, it would not be sufficient to rely simply on their exclusion from the CET. Furthermore, we should aim for the same treatment for ACP as for Community producers.
- (v) **GATT:** We should oppose schemes which would require EC compensation under Article XXVIII to dollar producers and should seek to ensure that the Community adopts measures on bananas consistent with GATT objectives and our wider objectives for the Uruguay Round.
- (vi) **Budgets:** We should keep any EC and UK budgetary expenditure to a minimum.

Options for Common Arrangements

14. Three basic types of regime have been suggested informally in the Community so far. They are liberalisation, with subsidies to EC and ACP producers; a minimum import price system; and an EC-wide quota on dollar imports. The costs associated with each of these are set out in Annex 1. With both these and the guidelines in paragraph 13 in mind, we assess the options as follows:

- (i) Liberalisation, with subsidies to EC and ACP producers. Under this option (favoured by FRG and Benelux) the Community market would tend to be taken over by dollar fruit. It would be the most desirable course in terms of trade and competition policy and it would do most to reduce consumer expenditure. But there are strong arguments against it. First, if the subsidies were confined to structural aid in such areas as transport and marketing, such a scheme could not be held to be in conformity either with our bilateral commitments or with the Lome Convention. Secondly, if a scheme to compensate for price falls were adopted, the budgetary costs would be excessive. It would also be extremely difficult to administer. There would be major political difficulties in assessing costs, determining subsidy rates and in changing them over time. Thirdly, since there is no readily available alternative to bananas to sustain the economies of the Windward Islands, the subsidies would be a form of extended social security. The social and political systems of the Islands would have the greatest difficulty in absorbing this. Finally, if subsidies led to an EC and ACP market share higher than at present, there would be problems with dollar supplies in GATT. In brief, though advantageous to consumers, liberalisation with subsidies would be difficult to negotiate inside and outside the Community, costly to the taxpayer and unpredictable in its effects on the recipients. It would expose us to considerable

pressure from Caribbean governments who rightly fear the political consequences of the loss of their banana industries. Similarly, it is most unlikely to be acceptable to Community producing countries. Employment and income from bananas is central to the economies of Guadeloupe and Martinique, and to a lesser though significant extent Madeira and the Canaries.

- (ii) Minimum import price regime. The Commission and France see this as a key feature of any Single Market arrangements: operated either through a countervailing duty system or variable levy, it could easily be administered at price levels which would be effective in safeguarding the interests of Community and ACP producers, particularly if combined with a quota on dollar imports. But it has few friends elsewhere. It would add very significantly to aggregate consumer costs in the Community. All Europe's consumers would be forced to pay prices to protect EC and ACP suppliers, whereas at present only consumers in some of the Member States pay such prices. By levelling up current national protective schemes it would fail to satisfy both the underlying objectives of the Single Market and Community commitments in GATT. It would be contrary to HMG's policy on the CAP, as it would tend to insulate EC producers from competitive pressures. It would lead to criticism of the fortress-Europe type from the US and the dollar producers. It would be opposed in the Community by FRG and Netherlands and quite possibly Belgium and Ireland as well.
- (iii) EC-wide dollar quota. This is not ideal - for example it would introduce regulation to several currently free markets in Europe, and it would permit rents for dollar producers. But it has been identified already in Whitehall as having the potential for a compromise in the Community and for achieving a reasonable balance between our conflicting priorities. It could be administered in such a way as to meet the criteria in paragraphs 9 and 13 above.

15. If this approach is to be adopted, decisions are needed on various aspects. Our recommendations are as follows:

(a) Size of initial quota. If set at the level of existing EC dollar imports, consumer costs for the twelve in aggregate would remain broadly unchanged. There would be rises in the FRG and Benelux and falls in the UK, France, Spain and Italy.

(b) Growth factor. Provision should be made for moderate annual increases in quota. The aim would be to ensure that the most efficient (i.e. dollar producers) maintained or increased their overall market share, but without depriving competitive EC and ACP producers of the possibility of increased sales.

(c) Rate of CCT. The FRG expect to have to concede their tariff-free arrangements. It is important that the overall barrier to dollar supplies to the Community market should not increase, in order that the Community can argue in GATT that the new arrangements are no less favourable than those currently enjoyed by dollar producers. Given current volumes, this would require a level around 10% or lower, although we should not be restricted to 10% as a maximum, provided that the rate was defensible in GATT. We would then be able to point out that dollar suppliers could send broadly the same volumes, and achieve higher prices. The opening of the six national markets currently closed to them would be a further advantage.

(d) Administration. There will be burdens, but as far as UK traders are concerned these are unlikely to be much greater than under the current arrangements. Different administrative regimes could be employed, and the Commission will be able to bring to bear its own experience in Community quotas.

(e) Monitoring of Prices under Common Arrangements

Given the number of conflicting pressures to be reconciled in a Europe-wide banana policy, it will be important to analyse market trends, for example over competition. The Commission should take on this task.

Transitional arrangements

16. This is a potentially difficult area. As indicated in Annex 1, the losses to EC and ACP producers under a "pure" quota system would be substantial, and the Commission are bound to address the problems in their proposals for a Single Market. However, it remains to be seen what mechanism they will choose. They may seek to use one or more of the approaches to which we are basically opposed, or they may propose some kind of subsidy payment.

17. It would of course be open to us to oppose special measures, on at least two grounds: first that the Community should proceed rapidly to the most liberal possible regime, and secondly that stable prices for EC/ACP fruit at levels higher than current dollar prices (as assured by a dollar quota scheme) would constitute a sufficient return to the EC and ACP producers. But we would have to reckon with strong opposition to such a line from the Windwards and Jamaica, who will recall assurances that we would endeavour to safeguard their interests. We would also be opposed by France, Spain, Greece and Portugal, on behalf of their producers. In short, it may not be possible for the Community to agree on common arrangements, or to obtain the acquiescence of their Lome partners, without some assistance for producers, at least to help with the transition to the lower levels of protection which should ultimately obtain.

18. The alternative to opposing special measures outright would be either aids for banana industry projects - (reconversion, quality improvement, marketing investment and so on), or recurring subsidies - perhaps channelled to governments

for distribution either as project funding or as deficiency payments, or both. If it proved possible to achieve a rate of CCT higher than the 10% recommended in paragraph 13 above, this would generate new Community revenue which could be channelled in those ways. But this would of course raise the overall barrier to dollar fruit and give rise to demands for compensation in GATT. It would thus be safer to assume that some additional budgetary expenditure would be required.

19. We recommend therefore that we should tell our traditional suppliers and the Community that we would be prepared to consider these forms of assistance, but on strict conditions;

- we would agree only in the context of a single market arrangement that was otherwise satisfactory (i.e. dollar quota, and not something worse).
- any subsidies to either ACP or Community producers should be degressive, and be for a limited period only (say five years).
- Subsidies for Community producers should be confined to income aids, which have a large element of national funding. We should oppose any back-door introduction under the guise of transitional measures of minimum-import, reference-price, or premium based schemes.
- subsidies for ACP producers should be financed not through EDF or FEOGA, but from Line 4 of the Community Budget, "Other special policy measures", which is also the UK preference for compensation to ACP sugar suppliers.

Summary of Recommendations on Policy

20. (i) Whilst not excluding the possibility that the status quo might be maintained, we should nevertheless be ready to argue the merits of a scheme for common arrangements. (paragraph 12).

- (ii) In choosing between the options, now and in the course of the eventual debate, we should be guided by certain criteria (paragraph 13).
- (iii) our preferred option should be EC-wide quota on dollar supplies (paragraph 14).
- (iv) The quota should be set at the existing dollar import volume and provision should be made for growth in this (paragraph 15(a) and (b)).
- (v) The rate of CCT on non-ACP imports should be 10% or lower (paragraph 15(c)).
- (vi) We should be prepared to consider degressive and time limited subsidies for ACP and EC producers as part of a package based on dollar quota (paragraphs 16-19).

Tactics

21. Obviously, our precise reaction to any Commission proposal can only be established once it has been published. This could still be some way off. In the meantime, we should consider what to do to influence the course of events.

22. We need to find the right moment at which to feed in our own ideas. Experience suggests that, once the Interservices Group moves into the final phase of drafting its conclusions, it will be hard to divert it from whatever course it has by then chosen. On the other hand, if we convey our views too early, they can be ignored more easily. Moreover, any change would need to be carefully explained to the Caribbean countries to avoid giving rise to accusations of bad faith.

23. We recommend that:

- (1) A close watch should be kept on developments within the Commission.

- (2) We should follow up our discussions with the Commission earlier this year, emphasising those aspects which we do not wish to see in any Commission proposals, and drawing on the analysis of dollar quota in this note with trusted contacts.
- (3) We should continue our contacts with Member States, concentrating on FRG, Netherlands, Italy, France and Spain. We should encourage the FRG and Netherlands to keep their preoccupations before the Interservices Group.
- (4) We have already ensured that our traditional suppliers understand that pressure on their returns is likely to continue and that we cannot guarantee the outcome of the Single Market negotiations. Other opportunities should be used, as they occur, to reinforce the message that some change may be inevitable. We should continue to encourage them to keep in touch with the Commission.
- (5) In public presentation of our position we should stick to our line of maintaining commitments to the ACP while moving towards a Single Market.

Ministry of Agriculture,
Fisheries and Food

18 December 1989

ESTIMATED EFFECTS ON EC CONSUMERS, EC'S SUPPLIERS AND EC & UK BUDGETS OF DIFFERENT POLICY OPTIONS (a) (MECU)
 BASED ON (PROVISIONAL) 1988 DATA

	(i) Liberalisation (with subsidies)	(ii) Minimum Import Price (b)	(iii) EC-wide Dollar Quota, without transitional arrangements (c) (d)	(d)
Consumers				
EC Total	-140	+185	+5	
of which: FRG	-35	+115	+65	
Benelux, Denmark and Ireland	-15	+50	+25	
UK	-95	-15	-40	
France	-85	+10	-25	
Italy	-45	+15	-5	
Spain	-65	+10	-15	
Suppliers (excluding any subsidy)				
All	-110	+165	+5	
of which: EC/ACP	-225	0	-80 (-70)	<u>UK Suppliers Losses by Country</u> Jamaica - 5 (-4) Windwards - 32 (-25) Others - 8 (-6)
- ACP to UK	-85	-20	-45 (-35)	
- EC/ACP to France	-80	+10	-20 (-20)	
- Canaries, Spain	-60	+10	-15 (-15)	
: 'Dollar Area'	-105	+165	+85	
Budget				
EC Expenditure on Subsidy	+225	0	+80 (+70)	
EC tariff receipts	+5	+20	+15	
UK Public Expenditure	+15	.	+5 (+5)	

1. All options assume CCT on Dollar Area supplies standardised across the EC at 10%.
2. Minimum Import Price set at current average import price for all EC/ACP supplies.
3. EC-Wide Dollar Quota set at current EC dollar import volumes.
4. Figures in parentheses take into account the supply response from lower prices; other producer figures are based on static volumes.
5. Rounds to zero.

CF

file

EURO Pa. Budget LPO



cc FCO
DTI
DES
CO.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 January 1990

Dear Sir Francis,

Thank you for your letter of 11 December enclosing ACOST's report on the completion of the single market. The report examines many important issues relating to the mobility of scientists, the role of international standards and other aspects of research support both in the government and industrial sectors. These issues will undoubtedly have to be considered further in relation to the opening of the European market and I am grateful to ACOST for a report which gives us such a helpful start.

I understand that you have sent copies of your report also to the Foreign and Commonwealth Office, and the Departments of Trade and Industry and of Education and Science. They may have further detailed comments on your recommendations in due course.

Yours sincerely
Nargant Halber

Sir Francis Tombs.

Kidea



cc FCO
SO
HO
CO.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 January 1990

Dear Monsieur Delors

Thank you for your kind message of sympathy after the storms of 16/17 December. I was pleased to learn of the Commission's decision to grant emergency aid, and know that such support will be much appreciated by the bereaved and others affected, to whom your words of condolence will also be passed. Our officials will work closely together to ensure that the assistance is distributed as quickly and effectively as possible.

Yours sincerely

Margaret Thatcher

Monsieur Jacques Delors.

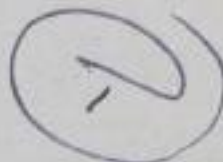
kk/ea



Foreign and Commonwealth Office

London SW1A 2AH

2 January 1990



Jean Chouls,

Message from M. Jacques Delors: Storms of 16-17 December

As requested in your letter of 23 December, ^{attached} I enclose a draft reply from the Prime Minister to M. Delors' message following the storms which struck parts of the UK over the weekend of 16-17 December.

We understand that eight people died during the storms, six lost at sea in a small fishing boat and two swept off the sea-front by large waves. There was some flooding in coastal towns, but no major disruption to power and communications.

Arrangements for the distribution of the Commission aid will be considered by the Cabinet Office and others this week.

I am copying this letter to Jim Gallacher (Scottish Office), Peter Storr (Home Office) and Sonia Phippard (Cabinet Office).

Jan,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DRAFT REPLY FROM PRIME MINISTER TO:

M. Jacques Delors

President of the Commission of the European Communities

Thank you for your kind message of sympathy after the storms of 16/17 December. I was pleased to learn of the Commission's decision to grant emergency aid, and know that such support will be much appreciated by the bereaved and others affected, to whom your words of condolence will also be passed. Our officials will work closely together to ensure that the assistance is distributed as quickly and effectively as possible.

dti

the department for Enterprise

copy

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629



Direct line
Our ref 215 5623
Your ref PE4AIY
Date 28 December 1989

Dear Charles

ACOST REPORT ON COMPLETION OF THE SINGLE MARKET

As requested in your letter of 11 December, I enclose a draft reply for the Prime Minister to send to Sir Francis Tombs.

A brief acknowledgement from the Prime Minister would be consistent with ACOST's expectations at this stage. The draft does not attempt to respond to the issues raised in the report. These will require a fuller response from DTI and DES in due course.

I am copying this letter and enclosure to Stephen Crowne (Department of Education and Science) and Sonia Phippard (Cabinet Office).

Yours ever,
Neil Thornton

NEIL THORNTON
Principal Private Secretary



Recycled Paper

DRAFT LETTER FOR PRIME MINISTER TO SEND TO SIR F TOMBS

Thank you for your letter of 11 December enclosing ACOST's report on the completion of the single market. The report examines many important issues relating to the mobility of scientists, the role of international standards and other aspects of research support both in the government and industrial sectors. These issues will undoubtedly have to be considered further in relation to the opening of the European market and I am grateful ^{& ACOST for a} ~~that the ACOST~~ ^{which} report gives us such a helpful start.

I understand that you have also sent copies of your report also to the Foreign and Commonwealth Office, and the Departments of Trade and Industry and of Education and Science. They may have further detailed comments on your recommendations in due course.

Euro for: Budget Plan





to

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 December 1989

I attach a copy of a telegram the Prime Minister has received from M. Jacques Delors.

I should be grateful if you could provide a draft reply for the Prime Minister's signature. It would be helpful if this could reach me as soon as possible please.

C.D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

A handwritten signature in the bottom right corner of the page.

NNN

22212

22 DEC 1989/0047

CZC ELM7234 BRU174 2/0519

GBXX CO BEBR 104

BRUXELLES 104/101 22 2200

THE RT HON MARGERET TATCHER MP

10 DOWNING STREET

LONDONSW1A

ar

BRUSSELS 21 DECEMBER 1989

DEAR PRIME MINISTER

ON BEHALF OF THE COMMISSION OF THE EUROPEAN COMMUNITIES I WOULD
LIKE TO EXPRESS OUR SYMPATHY WITH YOU CONCERNING THE GALES WHICH
RAVAGES WALES WESTERN SCOTLAND AND CORNWALL ON 16 AND 17 DECEMBER
I AM VERY PLEASED TO BE ABLE TO INFORM YOU THAT THE COMMISSION HAS
ON 20 DECEMBER DECIDED TO GRANT TOKEN EMERGENCY AID OF ECU
300,000 FOR THE FAMILIES OF THOSE WHO HAVE DIED AND THOSE WORST
AFFECTED

YOURS EVER

JACQUES DELORS PRESIDENT OF THE COMMISSION OF THE EUROPEAN COM-
MUNITIES

International
Telegram
For enquiries call the
number shown in your
Phone Book
British
TELECOM

CONFIDENTIAL



*cc/cd
PH*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Chris Patten MP
Secretary of State
Department of The Environment
2 Marsham Street
LONDON
SW1P 3EB

*CAP
22/12/89*

22 December 1989

Dear Secretary of State,
EC LARGE COMBUSTION PLANT DIRECTIVE

- append.

I have seen John Wakeham's letter to you of 21 December.

I strongly share John's concerns. I accept of course that you must be satisfied that the generators meet their agreed share of the UK's target reduction in emissions. But the proposed company bubble arrangement would provide a means of securing that. Plant by plant limits of the form currently proposed on the other hand could have serious implications for electricity privatisation, especially if they require the generators to exceed their obligations.

Although there will be provision to allow plant authorisations to be reassigned, I cannot imagine that the system will operate with sufficient flexibility to cope with the response times required in the electricity industry. We risk inhibiting competition and putting pressure on prices. Moreover, investors are likely to see plant limits as burdensome and costly, and a further constraint on the generators' ability to act commercially. The effect will be a significant impact on proceeds.

I would therefore join John in urging you to reconsider this issue, which as it stands could be damaging to our other priorities.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Wakeham and Malcolm Rifkind, and to Sir Robin Butler.

Yours sincerely,

PETER LILLEY
(approved by the Financial Secretary and signed in his absence)

CONFIDENTIAL

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 4244
OF 212152Z DECEMBER 89
INFO IMMEDIATE WASHINGTON
INFO PRIORITY TOKYO, GIBRALTAR, BERNE
INFO ROUTINE EUROPEAN COMMUNITY POSTS

SIC

FRAME ECONOMIC

INTERNAL MARKET COUNCIL, 21 DECEMBER 1989
LIFE INSURANCE SERVICES
UKREP TELNO 4041

SUMMARY

1. POLITICAL AGREEMENT REACHED BY UNANIMITY ON THE BASIS OF PRESIDENCY COMPROMISE DISTRIBUTED LAST WEEK IE WITH A WIDENED SCOPE TO INCLUDE NON-SOCIAL SECURITY RELATED GROUP BUSINESS: FREEDOMS FOR BROKERS AND COMPOSITES: THE FLEXIBLE SECOND BANKING DIRECTIVE RECIPROCITY FORMULA: BROADLY SATISFACTORY COOLING OFF PROVISIONS (FOR SERVICES BUSINESS ONLY). NON-LIFE-TYPE RESTRICTIONS ON CUMUL TO BE REVIEWED IN THE CONTEXT OF THE NEXT LIFE SERVICES PROPOSAL DUE LATER NEXT YEAR.

DETAIL

2. MINISTERS TODAY REACHED UNANIMOUS POLITICAL AGREEMENT ON THIS DRAFT DIRECTIVE. SEEN AS A MODEST, BUT PSYCHOLOGICALLY IMPORTANT FIRST STEP TOWARDS LIBERALISING THE LIFE INSURANCE MARKET BY WAY OF PROVISION OF CROSS BORDER SERVICES, IT FOLLOWS THE FRAMEWORK OF THE NON-LIFE INSURANCE SERVICES DIRECTIVE (FINALLY ADOPTED IN JUNE 1988) IN CREATING TWO REGIMES:- AN ILLIBERAL REGIME BASED ON HOST COUNTRY AUTHORISATION, AND HOST COUNTRY CONTROL OF PREMIUM RATES, POLICY CONDITIONS ETC: AND A MORE LIBERAL ONE BASED ON HOME STATE REGULATION. IN THE PRESENT DIRECTIVE, THE LATTER REGIME WILL APPLY MAINLY TO 'OWN INITIATIVE' BUSINESS IE WHERE A PROSPECTIVE POLICYHOLDER ACTS ON HIS OWN INITIATIVE (IN WHICH CASE THE INSURER IS DESCRIBED AS PROVIDING 'PASSIVE' SERVICES): FOR MOST OTHER BUSINESS THE ILLIBERAL ('ACTIVE SERVICES' REGIME) WILL APPLY.

3. TODAY'S POLITICAL AGREEMENT WAS BASED ON A PRESIDENCY

COMPROMISE CIRCULATED AT COREPER ON 13 DECEMBER (PARA 2 OF TUR) AND INCLUDED IN THE LATEST TEXT (10864/89), WITH SLIGHT MODIFICATIONS BY THE PRESIDENCY - PRINCIPALLY BY WIDENING AND EXTENDING THE DEROGATION ON GROUP INSURANCE - IN AN EFFORT TO WIN OVER THE MORE ILLIBERAL MEMBER STATES, PARTICULARLY SPAIN, PORTUGAL, BELGIUM, DENMARK AND GERMANY. THE LATTER'S DECISION TO RALLY TO THE COMPROMISE, AND THUS TO CREATE THE UNANIMITY WHICH WILL BE NECESSARY AT THE FORMAL COMMON POSITION STAGE (AFTER AN EP OPINION EMERGES) BECAUSE OF THE COMMISSION'S CONTINUING UNWILLINGNESS TO ACCEPT THE COUNCIL'S PREFERRED COMITOLGY PROCEDURE, WAS IN NO SMALL PART TRIGGERED BY PRESSURE EXERTED ON GERMANY BY MR REDWOOD (UK) IN THE EARLIER DISCUSSION ON THE MERGER CONTROL REGULATION: THERE HE LINKED THE UK'S AGREEMENT ON THAT MEASURE WITH GERMANY FLEXIBILITY ON THIS INSURANCE PROPOSAL.

4. THE MAIN ELEMENTS OF THE FINAL COMPROMISE ARE AS FOLLOWS:
- A) RECIPROCITY (ARTICLE 9): THE SAME FLEXIBLE FORMULA AS IN THE SECOND BANKING COORDINATION DIRECTIVE IE DECOUPLING THE AUTHORISATION PROCEDURE FROM CONSIDERATION OF WHETHER RECIPROCITY EXISTS OR NOT, AND A TWO-TRACK APPROACH FOR TACKLING THE SITUATION WHERE THERE IS EITHER LESS THAN COMPARABLE TREATMENT OR LESS THAN NATIONAL TREATMENT OF COMMUNITY FIRMS IN THIRD COUNTRIES.
 - B) ON TITLE III (FREE PROVISION OF SERVICES): A COMMISSION DECLARATION TO PRODUCE BY END-1990 A FURTHER (FRAMEWORK) PROPOSAL ON LIFE INSURANCE TO INCLUDE NECESSARY HARMONISATION OF TECHNICAL AND MATHEMATICAL RESERVES AND POLICY CONDITIONS, AND A COUNCIL DECLARATION THAT IT WILL EXAMINE THIS PROPOSAL AS QUICKLY AS POSSIBLE WITH THE AIM OF ADOPTING IT BEFORE END-1992.
 - C) SCOPE (ARTICLE 10): AN EXTENSION TO COVER NOT JUST INDIVIDUAL ''OWN INITIATIVE'' BUSINESS BUT ALSO NON-SOCIAL SECURITY RELATED GROUP BUSINESS, ALTHOUGH WITH A GENERAL (OPTIONAL) DEROGATION UNTIL END-1994 ON ''ACTIVE'' SERVICES IN THE CASE OF EMPLOYMENT-RELATED CONTRACTS.
 - D) DEFINITION OF ''PASSIVE'' SERVICES IE THOSE SUBJECT TO THE LIBERAL HOME STATE REGIME (ARTICLE 13): TO INCLUDE ''OWN INITIATIVE'' APPROACHES BY PROSPECTIVE POLICYHOLDERS TO BROKERS IN THEIR HOME STATE AS WELL AS IN ANOTHER MEMBER STATE, WITH A GENERAL (OPTIONAL) 3-YEAR DEROGATION FOR THE FORMER.

ON C) AND D) ABOVE THERE IS NOW A COMMISSION DECLARATION THAT IF THE PROMISED FRAMEWORK PROPOSAL HAS NOT BEEN ADOPTED BY END-1992, THE

COMMISSION WILL UNDERTAKE TO SEE WHETHER BOTH THE TRANSITIONAL PERIODS SHOULD BE EXTENDED AND IF NECESSARY SUBMIT APPROPRIATE PROPOSALS TO THE COUNCIL. (COMMENT: IT WAS THIS DECLARATION WHICH FINALLY PERSUADED GERMANY, BELGIUM AND PORTUGAL TO ACCEPT THE BROKER PROVISIONS IN ARTICLE 13.1.)

E) NOTIFICATION REQUIREMENTS FOR SERVICES BUSINESS (ARTICLE 14): MANDATORY RATHER THAN OPTIONAL REQUIREMENTS, BUT OPTIONAL WHERE SUPERVISORY AUTHORITIES OF THE HOST STATE ARE NOT INSURANCE SUPERVISORS (EG CAPITAL REDEMPTION OPERATIONS IN GERMANY).

F) COOLING OFF PERIOD (ARTICLE 15): FOR SERVICES BUSINESS ONLY.

G) CUMUL (ARTICLE 16): NON-LIFE SERVICES FORMULA WITH A MEMBER STATE OPTION TO PREVENT AN INSURANCE UNDERTAKING FROM PROVIDING A CLASS OF INSURANCE ON ITS TERRITORY BY 'ACTIVE SERVICES' IF IT HAS AN ESTABLISHMENT IN THAT SAME MEMBER STATE AUTHORISED FOR THAT CLASS. ALSO A COMMISSION DECLARATION THAT ALL SUCH RESTRICTIONS WILL BE REEXAMINED IN THE FORTHCOMING FRAMEWORK DIRECTIVE.

H) COMPOSITES (ARTICLE 18): 'A REVERSE DEROGATION' ALLOWING THESE COMPANIES (WHICH WRITE NON-LIFE AND LIFE BUSINESS) FREEDOM TO PROVIDE ACTIVE AND PASSIVE SERVICES UNTIL END 1995, BUT WITH A COMMISSION REVIEW IN THE LIGHT OF THE REPORT PROMISED IN THE FIRST LIFE DIRECTIVE AND DUE OUT SOON.

I) TAX (ARTICLE 24): THE NON-LIFE SERVICES FORMULA IE THE BASIC PRINCIPLE THAT THE MEMBER STATE OF THE COMMITMENT SHOULD LEVY PREMIUM TAXES ETC.

J) TRANSITIONAL ARRANGEMENTS (ARTICLE 24A): WHEREBY SPAIN (UNTIL END-1995) AND PORTUGAL AND GREECE (UNTIL END 1998) MAY BAN ACTIVE SERVICES BUSINESS, AND SUBJECT PASSIVE SERVICES TO HOST COUNTRY CONTROL OF TECHNICAL AND MATHEMATICAL RESERVES.

5. IN DISCUSSION, MME CRESSON (PRESIDENCY) DESCRIBED THE PRESIDENCY COMPROMISE AS 'BALANCED': HOWEVER ON THE BASIS OF RECENT BILATERAL DISCUSSIONS WITH CERTAIN DELEGATIONS, SHE WAS PREPARED TO MAKE TWO AMENDMENTS: (A) TO EXTEND THE DEROGATION FOR BELGIUM AND DENMARK ON GROUP INSURANCE TO END 1994 AND MAKING IT OPTIONAL FOR ALL MEMBER STATES: AND (B) TO MAKING A SMALL ADJUSTMENT TO THE TITLE III COMMISSION DELCARATION ON HARMONISING TECHNICAL RESERVES ETC.

6. SIR L BRITTAN (COMMISSION) NOTED THAT THESE HAD BEEN REQUESTED BY GERMANY. THE COMMISSION COULD ACCEPT THEM BUT NOT A THIRD DEMAND LINKING THE BROKERS PROVISION IN ARTICLE 13.1 SECOND INDENT TO THE ADOPTION OF THE FORTHCOMING FRAMEWORK DIRECTIVE. THE EUROPEAN INSURANCE INDUSTRY WISHED FREEDOMS FOR BROKERS AND THERE WAS CLEAR EVIDENCE THAT THE EP (INCLUDING SARIDAKIS, THE RAPPORTEUR FOR THIS PROPOSAL) WERE ALSO CONVINCED OF THIS. GERMANY SHOULD THEREFORE DROP THIS DEMAND. SCHLECHT (GERMANY) POINTED TO THE STRONG OPPOSING VIEWS OF THE GERMAN BUNDESTAG ON BROKERS, BUT IN A SPIRIT OF COMPROMISE HE WOULD BE PREPARED TO LIVE WITH A COMMISSION MINUTES STATEMENT. DE KEERSMAEKER (BELGIUM) SUCCESSFULLY MANAGED TO INCLUDE A REVIEW OF THE GROUP INSURANCE DEROGATION ALSO IN THIS COMMISSION DECLARATION (SEE SUB-PARA BELOW PARA 4(D) ABOVE) AND ON THIS BUSINESS ACCEPTED THE COMPROMISE. MARTINS (PORTUGAL) THEN FOLLOWED SUIT.

7. ON COMPOSITES, ROMITA (ITALY) RECEIVED AN ASSURANCE FROM SIR L BRITTAN THAT THE COMMISSION REVIEW ON THESE PROMISED IN THE FIRST LIFE INSURANCE DIRECTIVE WOULD BE PRODUCED BEFORE THE END OF 1990 AT THE LATEST. AS FOR TAX, SOLBES (SPAIN) REITERATED HIS CONCERN ON THE CURRENT PROVISION IN ARTICLE 24 WITH RESPECT TO GROUP INSURANCE, BUT IN THE END GAVE WAY.

8. VAN BEUGE (NETHERLANDS) WITH SUPPORT FROM O'MALLEY (IRELAND) AND MR REDWOOD VOICED CRITICISM ON THE INCREASED DEROGATIONS AND THE ABSENCE OF FREEDOMS FOR AGENTS. VAN BEUGE MAINTAINED HIS OPPOSITION TO THE BITTER END THOUGH UNDER PRESSURE WAS PERSUADED TO ABSTAIN, SIR L BRITTAN HAVING CONFIRMED THAT THE COMMISSION'S VIEWS ON COMITOLGY HAD NOT CHANGED AND THE COUNCIL WOULD HAVE TO ACT BY UNANIMITY.

9. MME CRESSON CONCLUDED THAT A POLITICAL AGREEMENT HAD BEEN REACHED BY THE REQUIRED UNANIMITY. FORMAL ADOPTION OF A COMMON POSITION WOULD HAVE TO AWAIT AN EP OPINION.

HANNAY

YYYY

CONFIDENTIAL

copy (2)
copy

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

The Rt Hon Chris Patten MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

12
Don't think
You should be aware of
this, but might want
DOE's reply before
commenting. CAP/air
will meet/air
below

Dear Chris,

EC LARGE COMBUSTION PLANT DIRECTIVE: IMPLEMENTATION

I am most concerned about the proposals which your officials have made for the implementation of the EC Large Combustion Plant Directive.

You have my total support in ensuring that the electricity industry fully meets its share of the reductions in SO₂ and NO_x emissions required of the UK by this Directive. I hope that in return I can look to you to ensure that our common objective is achieved in a way that does not unnecessarily disrupt the workings of the ESI, resulting in even higher prices for its 22 million customers; which is not excessively bureaucratic; which facilitates rather than restricts the competitive regime we are creating; which does not reduce proceeds substantially and which avoids unilaterally adding to the obligations which we have collectively accepted. I fear your officials' current proposals are likely to have all these effects.

When your Department consulted mine, and also National Power and PowerGen in the Autumn, the generators explained the advantages of a system whereby emission control would be based on a company wide limit on each successor company to the CEGB. This would combine effective enforcement with the necessary operational flexibility. This system is straightforward and easy to police. You will have my full support in ensuring that the industry stay within their limits under this system. HMIP will be able to prosecute senior members of the industry, if there are any breaches of the limits.

Apart from the fact that they were not planning to use a company approach elsewhere, your officials advanced no compelling reasons why this approach would not work effectively.

CONFIDENTIAL



Over the last few months, the electricity supply contracts between the generation and distribution sides of the industry have developed in preparation for vesting the new companies at the end of March. They are effectively for tranches of generating plant rather than for individual stations, and call for generators to bid prices into a pool (effectively a spot market) at 24 hours' notice for each half hour of the following day. It is a highly competitive system, for which operational flexibility between one station and another is crucial. Emission control will be most effective if it works with the grain of that system and not against it. It would be a bureaucratic nightmare if the generators had to continuously seek changes from HMIP in the emission limits for individual stations, notably in the latter part of the control year. Investors would just not understand why such an interventionist approach was necessary.

Another objectionable feature of your Department's proposal is the suggestion that the total of individual plant emission limits should sum to 95% of the authorised company total, thus imposing a greater reduction than warranted by the policy which the Government has endorsed of implementing the Large Combustion Plant Directive. Maintaining the limit at this level could mean about 130 million per year of lost revenue for National Power, and about 60 million for PowerGen, if they had to limit station output as a result. Our financial advisers estimate that this could knock around £500 million off proceeds.

Alternatively, having to procure additional low sulphur fuel to meet this 5% of output would impose extra costs of £15-£20 million per year on the generators, reducing proceeds by around £100 million. If they opted instead for a further 1GW of FGD, the cost would be approximately £260 million, which would come off proceeds.

The loss of flexibility could also strike at the deal recently concluded between British Coal and the generators (which is designed to avoid giving Scargill the opportunity to cause industrial unrest) because a generator would have difficulty in switching output quickly from one station to another in order to burn his full take of coal.

Your officials have said that it is intended to put in place arrangements for seeking the agreement of HMIP to the varying of plant limits; and that the Inspectorate has said it will respond as expeditiously as possible. But this is bound to impose a significant extra burden on HMIP (not to mention the generators), who may not have the resources to cope with requests for variations at very short notice. Towards the end of the year there could be daily requests for variations on the limits of a number of plants. Further, at a time of peak demand the requirement to seek variations, or in case of difficulty to obtain a direction from yourself to override limits, could threaten security of supply. There is a clear danger that cumbersome bureaucratic procedures would unnecessarily limit operational freedom without improving emission control.

CONFIDENTIAL



I can and will support you up to the hilt in ensuring that the generators live up to our international obligations. But I cannot accept a quite unnecessarily bureaucratic approach, which has all the disadvantages set out in the letter and which is at total variance with all our efforts to reduce unnecessary burdens on our industry.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, John Major and Malcolm Rifkind; and to Sir Robin Butler.

John Wakeham
John

JOHN WAKEHAM

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

me from
C:/Foreign/
EC
cetc

From the Private Secretary

21 December 1989

1990 EC BUDGET

The Prime Minister has noted the Paymaster General's minute of 19 December about the adoption by the European Parliament of the EC Budget for 1990.

C. D. POWELL

Malcolm Buckler, Esq.,
Paymaster General's Office.

CONFIDENTIAL

meb

all

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 December 1989

SPEECH ON EUROPE

The Prime Minister and Foreign Secretary touched during their talk this morning on the proposal that the Prime Minister might make a further speech on Europe. While they both thought the idea worth pursuing, no conclusions were actually reached on either the content or the timing of such a speech. You may, therefore, like to reply in due course to my letter of 15 December, with the Foreign Secretary's considered views.

C. D. POWELL

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



*me h
abd*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 December 1989

EC ECONOMIC AND FINANCE COUNCIL: 18 DECEMBER

The Prime Minister was grateful for the Chancellor's note of 19 December which she has noted. The Prime Minister and the Chancellor had a brief discussion about the Council in their bilateral this afternoon and agreed that the outcome had been satisfactory.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office) and Sonia Phippard (Cabinet Office).

PAUL GRAY

John Gieve, Esq.,
H.M. Treasury.

M



FROM THE MINISTER FOR PUBLIC TRANSPORT

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

My Ref:

Your Ref:

Dear Nicholas

20 DEC 1989

EC: PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

I should like to underline a point made by Malcolm Caithness in his letter of 18 December to John Wakeham about the UK's negotiating position at Thursday's Internal Market Council.

I agree with Malcolm that we must press hard to preserve the rights of consortia set up under an initial competitive contract to award sub-contracts to other members of the group without the need for further competition. We have found this to be the most satisfactory way of ensuring the maximum participation of and transfer of risk to the private sector in light urban rail scheme projects. Cecil Parkinson announced last month the go-ahead for the Manchester Metrolink scheme which is being designed, built and operated by just such a consortium. If the Directive requires competitive tendering for all the intra-group sub-contracts, such complete concession arrangements will not be feasible in the future and we may well lose the opportunity for substantial private sector participation in these schemes.

I hope that John Redwood will be able to give this point due weight at Thursday's Council.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Malcolm Caithness and John Redwood and to Sir Robin Butler.

Yours ever

Michael,

MICHAEL PORTILLO

CONFIDENTIAL

S: 12 LPO



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 December 1989

Dear Neil,

PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

The Prime Minister has seen the Trade and Industry Secretary's minute of 19 December setting out the line we propose to take in the discussion on public procurement in the excluded sectors at the Internal Market Council on 21 December. The Prime Minister agrees that we should proceed as set out in the minute.

I am copying this letter to the Private Secretaries to the Foreign Secretary, and other members of OD(E), the Private Secretaries to the Secretaries of State for Scotland, Transport, the Environment and to Sir Robin Butler.

Yours sincerely,

CHARLES POWELL

Neil Thornton, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

to



Li Printer
CC PC
2
CS
20/xi

FROM: EARL OF CAITHNESS
DATE: 19 DECEMBER 1989

PRIME MINISTER

ms

1990 EC BUDGET

The EC Budget for 1990 was formally adopted by the President of the European Parliament on 13 December.

fiap part 1/3

2. As envisaged in my minute of 15 November, the final stages of the procedure were difficult, with the Parliament determined to score political points and the French Presidency under great pressure to reach agreement by the due date.

3. The main elements of the eventual deal were:

(i) an immediate increase of 300 mecu in the relevant ceiling of the financial perspective to cover expenditure on aid for Poland and Hungary at the level agreed by the Budget Council on 14 November;

(ii) a reduction of over 1800 mecu in the contribution which member states would otherwise have had to make in 1990, reflecting the carry-forward of agricultural savings from 1989;

(iii) additional non-obligatory expenditure (DNO) of 162 mecu, representing virtually all of the amount which the Presidency was mandated to offer the Parliament;

(iv) a declaration to the effect that the Council would take note of the Parliament's priorities in considering the proposed revision to the financial perspective for 1991 and 1992 which the Commission will table early next year;

(v) a negative reserve of 38 mecu relating to category 4 of the financial perspective.

4. This is a curate's egg. The immediate revision of the financial perspective is not unreasonable, given the exceptional circumstances; the budgetisation of the 1989 surplus is welcome; the 162 mecu of extra DNO was predictable; and the declaration is relatively innocuous. But the negative reserve is objectionable, even though it will not allow higher expenditure in 1990 than would otherwise have been the case. The concept of a negative reserve was designed to meet temporary imbalances between revenue and expenditure in the budget. There is, of course, no such imbalance in the 1990 Budget (which is almost 9 becu within the revenue ceiling). The negative reserve is therefore an unnecessary and potential risky sop to the Parliament. I accordingly instructed the UK's representative to vote against the deal, while making clear that we could have accepted it, but for the negative reserve.

5. It was always likely that the newly constituted Parliament would seek to win its spurs in this year's budget procedure. And the Council's commitment to aid for Poland and Hungary left it in a relatively weak bargaining position. In all the circumstances, the outcome is no worse than might have been expected.


EARL OF CAITHNESS

DRAFT ANSWER TO AN ARRANGED QUESTION ON ADOPTION OF THE 1990 EC BUDGET

The President of the European Parliament formally adopted the 1990 Budget on 13 December. Subject to confirmation of the detailed figures, it totals 48.8 becu (£31.1 billion) in commitments and 46.4 becu (£29.6 billion) in payments. These amounts are 460 mecu (£293 million) and 200 mecu (£128 million) respectively higher than the revised Draft Budget established by the Budget Council on 14 November. The increase is consistent with the mandate which the Council gave to the Presidency for negotiations with representatives of the European Parliament under the process of co-decision provided for in Article 203(9) of the Treaty.

2. The negotiations took place on 11 December and it was agreed that the following package would be recommended to the Council and the Parliament:

(i) on the basis of a Commission proposal, an increase of 300 mecu (£191 million) in the ceiling for 1990 in category 4 of the financial perspective;

(ii) in consequence of (i) above, removal of the negative reserve of 200 mecu which the Council had previously agreed as a stop-gap measure;

(iii) adoption of the Second Amending Letter to the 1990 Preliminary Draft Budget, reducing by over 1800 mecu (£1147 million) the amount which member states would otherwise have had to contribute;

(iv) additional non-obligatory expenditure of 162 mecu (103 million) in commitments, including 5.8 mecu (£3.7 million) for category 2 of the financial perspective, 40 mecu (£25.5 million) for category 3, 94 mecu (£59.9 million) for category 4 and 22.5 mecu (£14.3 million) for category 5);

(v) a negative reserve of 38.4 mecu (£24.5 million) relating to category 4.

6. This package was approved by qualified majority at a meeting of COREPER on 1 December. The UK voted against because it could not accept the negative reserve of 38.4 mecu. The reserve will be extinguished during the course of 1990 and will not therefore enable higher expenditure than would otherwise have been the case. The Government nonetheless took the view that recourse to a negative reserve was not appropriate in the case of expenditure which could have been foreseen when the financial perspective was drawn up in 1988. The UK was content with the remainder of the package.

7. The adopted Budget for 1990 is 4.1 becu (£2.6 billion) within the overall ceiling for commitments in the financial perspective. The own resources call-up rate (ie the level of member states' contributions) is equivalent to 0.99% of Community GNP, compared with the legally-binding own resources sub-ceiling for 1990 of 1.18% of Community GNP.

EURO. POL. Budget Part 144

EUROPEAN
COMMISSION



CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
 Secretary of State
 Department of Energy
 1 Palace Street
 Victoria
 LONDON SW1E 5HE

19 December 1989

Dea Jol

EC: PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

Thank you for sending me a copy of your letter today to Nicholas Ridley.

I note your decision on the balance of advantage concerning the exemption of upstream oil and gas from the directive. John Redwood will have a delicate task at the Internal Market Council, since the Presidency is proposing a package which allows the possibility of the exemption we have sought. As the latest changes affect the companies only in so far as the exemption is more complete, we will need, as you say, to respond to pressure from others and to be seen to be putting our priorities elsewhere.

I agree that removing price preference should be our top priority. The package being put forward by the Presidency makes the provision subject to a decision by the Council to disapply it. Now that we are prepared to give up exemption for upstream oil and gas we should expect to replace the provision by a declaration. If John believes that we have a satisfactory deal on the rest of the directive, and our position is crucial, I would be prepared to accept the facility for purchasers to reject offers, but with a switch available to the Council, preferably requiring it to vote by qualified majority before it becomes operative. I would hope that in that case we could get a change from local content so that firms whose products have third country input are not at risk of discrimination. We should not support a common position that contains any form of mandatory provision.

The Presidency has itself suggested that the provision which excludes the French water industry from the directive should be deleted. We should, if the need arises, defend the exclusion of

CONFIDENTIAL

CONFIDENTIAL

deregulated bus operators and liberalised telecommunications services on the ground that there is direct competition in those sectors. We should, moreover, try to establish the right of consortia set up for a particular purpose to award contracts to their major components without competition. Otherwise an important part of our approach to urban transport projects will be undermined.

In your letter you have mentioned the possibility of getting amendments taken up after a common position is reached. Realistically we have to accept that it is not usually possible at that stage to bring up points in the Council that have already been settled. In the present case, agreement later this week on the substance of a common position will rest on a set of compromises which could be easily upset. Fortunately the text of the proposal being considered by the Council lets purchasers choose routes which lets them avoid delays in the contracting process.

Like you, I am attracted by the possibility suggested by the Commission that firms which submit their purchasing practices to audit should not be liable to have their contract procedures suspended. I believe, however, that it would be a mistake to try and get an endorsement this week of that position. It has been suggested at working level by the Commission with German difficulties particularly in mind, but there is a risk of a reaction against audit in an early discussion in the Council, especially as we do not know how far Bangemann himself is committed. It is also not clear whether Germany would be prepared to back us. I think the furthest that John should go is to express the hope that ways will be found to deal in the enforcement proposal with the difficulties that suspension of contract procedures might bring.

John will need to consider how far we can take the issue of representation on the standards-making bodies. This involves, of course, the position of bodies such as BSI which form the basis of the European bodies.

I am sending copies of this letter to the Prime Minister, members of OD(E), Chris Patten, Malcolm Rifkind, Cecil Parkinson and John Redwood and to Sir Robin Butler.

*Jan G
Hald*

THE EARL OF CAITHNESS

CONFIDENTIAL

Euro Pol Budgets Pt 44



A

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

EC ECONOMIC AND FINANCE COUNCIL, 18 DECEMBER 1989

As I reported briefly at Cabinet this morning, ECOFIN on Monday generally went well for the UK.

It was agreed that further work on economic and monetary union should be undertaken by the Monetary Committee, which will report back to ECOFIN at the end of March. The Commission's paper on the pros and cons of EMU will be available for the same meeting. This is a good conclusion, as it keeps work in the hands of the monetary experts, for the time being at least.

German reservations on the Solvency Ratios Directive were finally overcome. As a result, the way is now clear for banking services to be provided throughout the Community from 1 January 1993 on the basis provided for in the Second Banking Directive.

On fiscal matters, eleven Member States, including the UK, were prepared to accept the Commission's proposal for the improved mutual assistance between tax authorities to counter tax evasion, but Luxembourg is still unable to do so because of concerns to preserve banking secrecy. Discussion will continue under the Irish Presidency.

Finally, the abolition of fiscal frontiers was discussed. As expected, we were not able to secure amendments to the draft Council conclusions which would have committed the UK to accept a



standard VAT rate by 1991 within the 14-20 per cent rate. Instead, we secured agreement to the alternative option which you approved. The conclusions were recorded as Presidency, not Council, conclusions. They set as an aim for the Community that an agreement on VAT rates should be reached by the end of 1991. The UK entered a minutes statement which made clear our view that Community decisions on tax rates are neither necessary nor desirable, but that we have no present intention of diverging from a standard rate of VAT in the range of 14-20 per cent. I reiterated the importance to the UK of retaining zero rates. The question of VAT harmonisation has thus been kept open, and the way is clear for work to move forward on implementing the technical systems for collecting VAT and excise duties after 1992, on a basis which will be simple and cost-effective for UK businesses. They will now be able to start essential planning. I am very pleased that this outcome is so closely in line with the approach we have been pressing.

I am copying this minute to the Foreign Secretary and to Sir Robin Butler.

A handwritten mark consisting of a series of connected loops, resembling a stylized signature or initials.

A handwritten signature in blue ink that reads 'John H.'.

JOHN MAJOR
19 December 1989

no

20/10

dti

the department for Enterprise

21/10

CONFIDENTIAL

PRIME MINISTER

PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

You will want to note the proposed line for the Council. Opening up our

1 At our suggestion, the Strasbourg European Council pressed for decisive progress by the end of the year on a package of Single Market measures, including a draft directive to open up public procurement markets in telecommunications, energy, transport and water distribution, which were excluded from the original public procurement directive.

Offshore supplies sector could be

2 The directive is to be discussed at the Internal Market Council on 21 December, where the Presidency are hoping to reach agreement on major principles. In Douglas Hurd's absence abroad I chaired a meeting of colleagues on 13 December to consider our line, and there has subsequently been further correspondence from John Wakeham and Malcolm Caithness, which you will have seen. I am writing to let you know the conclusions that have been reached.

controversial. But the balance of advantage

3 As Malcolm Caithness has pointed out, this is an important directive on which we should now seek to reach agreement: it is a Single Market priority and would give a positive signal to encourage progress on liberalising public procurement in the GATT.

4 The present draft is a considerable improvement on the original proposal. While it will inevitably impose some new bureaucratic burdens on companies, these have to be weighed

feels to favour it.
mt
CMB 19/10.



against the benefits of helping to open up the Community market. We have continued to seek improvements on a number of aspects, but only two issues are now of major concern.

5 The first is the question of an exemption for the offshore oil and gas sector. OD(E) agreed in 1988 that, because of the special circumstances of operators in the North Sea we should seek exclusion of this sector from the directive. Unqualified exclusion has not proved negotiable, but the Commission would be prepared to offer an exemption for the sector subject to conditions regarding national licensing practices and non-discrimination in purchasing decisions. There is little support for such an exemption among other member states: and to secure it we would almost certainly have to accept corresponding exemptions for the German and Spanish coal industries (colleagues are agreed that we in any case would have to resist pressure for any further exemptions eg for gas and electricity distribution since these would unacceptably dilute the liberalising thrust of the directive).

6 The alternative to an exemption on these terms would be, as the Presidency have proposed, for all member states to abandon their requests for exemption (the "zero option"). This would mean a directive with greater liberalising effect. If this solution were adopted, I understand that there is no intention to make independent deregulated bus operators subject to the directive's requirements (which has, I know, been a matter of concern to Cecil Parkinson).

7. John Wakeham has concluded that, given the way in which the conditions attached to an exemption for oil and gas now seem likely to operate, our interests no longer lie in holding out for such an exemption. He believes that we should instead use it as a bargaining counter to secure improvements to other parts of the

directive. Colleagues have agreed that the main point on which we need to seek improvement is the mandatory preference clause which, as currently drafted, would require purchasers to give preference to offers involving more than 50% EC content, even if they are up to 3% more expensive than competing offers of less than 50% EC content. While there are arguments for a declaration or possibly even a clause in the directive linking treatment of third country offers to progress on liberalising public procurement in the GATT, our objective in supporting such a provision must be the opening of markets, not protectionism or retaliation. The requirement for mandatory preference would not achieve this, and we will want to weaken it or ideally to have it removed altogether.

8 I am copying this minute to Douglas Hurd and the members of OD(E), Malcolm Rifkind, Cecil Parkinson, Chris Patten, Malcolm Caithness, John Redwood and Sir Robin Butler.

N.R.

*signed by the Secretary of State and
N.R. signed in his absence.*

19 December 1989

DEPARTMENT OF TRADE AND INDUSTRY

JW2AIN



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

EC ECONOMIC AND FINANCE COUNCIL, 18 DECEMBER 1989

As I reported briefly at Cabinet this morning, ECOFIN on Monday generally went well for the UK.

It was agreed that further work on economic and monetary union should be undertaken by the Monetary Committee, which will report back to ECOFIN at the end of March. The Commission's paper on the pros and cons of EMU will be available for the same meeting. This is a good conclusion, as it keeps work in the hands of the monetary experts, for the time being at least.

German reservations on the Solvency Ratios Directive were finally overcome. As a result, the way is now clear for banking services to be provided throughout the Community from 1 January 1993 on the basis provided for in the Second Banking Directive.

On fiscal matters, eleven Member States, including the UK, were prepared to accept the Commission's proposal for the improved mutual assistance between tax authorities to counter tax evasion, but Luxembourg is still unable to do so because of concerns to preserve banking secrecy. Discussion will continue under the Irish Presidency.

Finally, the abolition of fiscal frontiers was discussed. As expected, we were not able to secure amendments to the draft Council conclusions which would have committed the UK to accept a



standard VAT rate by 1991 within the 14-20 per cent rate. Instead, we secured agreement to the alternative option which you approved. The conclusions were recorded as Presidency, not Council, conclusions. They set as an aim for the Community that an agreement on VAT rates should be reached by the end of 1991. The UK entered a minutes statement which made clear our view that Community decisions on tax rates are neither necessary nor desirable, but that we have no present intention of diverging from a standard rate of VAT in the range of 14-20 per cent. I reiterated the importance to the UK of retaining zero rates. The question of VAT harmonisation has thus been kept open, and the way is clear for work to move forward on implementing the technical systems for collecting VAT and excise duties after 1992, on a basis which will be simple and cost-effective for UK businesses. They will now be able to start essential planning. I am very pleased that this outcome is so closely in line with the approach we have been pressing.

I am copying this minute to the Foreign Secretary and to Sir Robin Butler.

A handwritten signature in cursive script, appearing to read 'John H.'.

JOHN MAJOR
19 December 1989

CONFIDENTIAL

ABC

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE

EM 18/12/89

01 238 3290

The Rt Hon Nicholas Ridley MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

18 December 1989

Dear Nick

EC: PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

Following Wednesday's ad hoc meeting of Ministers, I have given further consideration to the draft provision exempting upstream oil and gas from the detailed rules in the proposed directive. I confirm that in the light of the undesirable terms attached to the latest draft we should now cease to seek this exemption.

Deletion of the exemption provisions will undoubtedly disappoint our upstream oil industry. My officials have therefore discussed with them, against the possibility that we might not be able to obtain exemption, the changes that might be made to the current text which would most reduce the risks of added costs and delays. Most of those possible amendments are better taken up after a common position is reached. There are two however which should be dealt with during the Internal Market Council on 21 December.

The first of these is removal of the 3% preference for offers with more than half EC content. This was covered in Malcolm Caithness's letter of 8 December and at Wednesday's meeting. I am sure we should now abandon our pursuit of the exemption clause and concentrate instead on securing removal or amelioration of that provision. Our abandonment of the exemption clause would be tactically best done under pressure from elsewhere. We should, if at all possible, avoid being seen to volunteer it.

CONFIDENTIAL

CONFIDENTIAL



The other major point for us to pursue is avoidance of suspension of contract procedures as a remedy for breaches of the detailed rules. The current Commission thinking would allow Member States to choose not to provide that remedy for contracting entities which had submitted their purchasing practice to audit. While, of course, detailed negotiations on the compliance proposals have yet to commence, I hope that at the Internal Market Council John Redwood can achieve an unequivocal endorsement of that element of the Commission's thinking.

It would, I think, also be valuable if John Redwood took the opportunity to lodge our concern that a more balanced manufacturer/consumer representation should be achieved on the EC standard making bodies which will have an important role in shaping the new standards. This can then be pursued further in official discussions.

I am sending copies of this letter to the Prime Minister, members of OD(E), Malcolm Rifkind, Cecil Parkinson, Chris Patten, Malcolm Caithness, John Redwood and to Sir Robin Butler.

John Wakeham
for

JOHN WAKEHAM

CONFIDENTIAL

Ref. A089/3296

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Education and Science may report on the Education Council which he attended on 14 December. Key points were:

- first-hand account from Polish and Hungarian education ministers of help they needed; in the margins, the Hungarians said their first preference would be for the Community to provide English language training;
- ERASMUS programme (student mobility) extended for further 5 years, with UK, France and FRG dissenting on the legal base;
- conclusions on technical and vocational training and initial training adopted, with UK amendments.

2. The Secretary of State for Trade and Industry may report on the Research Council which Mr Hogg attended on 15 December:

- after a long negotiation, the Council agreed a total sum of 5.7 becu for the new R & D Framework Programme for 1990/4, a substantial improvement on the original Commission proposal of 7.7 becu;
- the total is divided into 2.5 becu for 1990-92, and

CONFIDENTIAL

3.2 becu for 1993-4: Mr Hogg made clear that the figures for 1993-4 must not prejudice any new inter-institutional agreement (IIA) and that any future proposals by the Commission must be consistent with the budget discipline prevailing at the time.

3. Depending on the outcome of the ECOFIN Council on 18 December, the Chancellor of the Exchequer may wish to report points of interest.

4. The Foreign Secretary will have just returned from signing the EC/USSR trade and cooperation agreement in Brussels and attending the first few hours of the Foreign Affairs Council, and may wish to report points of interest.

5. Continuing or future meetings are:

- Foreign Affairs Council, 18-19 December
- Fisheries Council, 18-19 December
- Internal Market Council, 21-22 December.

6. The first meeting under the Irish Presidency will not be until 18 January (possible Fisheries Council).

F.R.B.

ROBIN BUTLER

18 December 1989



QUEEN ANNE'S GATE LONDON SW1H 9AT

15 December 1989

Dear Lord President,

CM

RIGHT OF RESIDENCE DIRECTIVES

I am addressing this letter jointly to you as Chairman of 'L' and to Douglas Hurd as Chairman of OD(E).

As you will know, these documents were considered by the Commons Select Committee on European Legislations at their meeting on 25 October to be legally and politically important and were recommended for debate. We have not, however, been in a position finally to settle our position on the draft Directives because the important issue of Community competence has been outstanding.

The pace has now quickened. The conclusions of the European Council in Strasbourg refer to the draft Directives as an "important measure which is scheduled for adoption by the end of the year"; and they will be further considered at a meeting of the Internal Market Council on 21/22 December at which the Presidency and the Commission will be looking for final agreement.

The draft Directives deal with a right of residence throughout the Community for those EC nationals not already deemed to have such a right under the free movement provisions of the Treaty of Rome, and are aimed separately at students, pensioners, and other non-economically active persons. The general thrust of the provisions is therefore consistent with the Government's commitment to the completion of the Single Market and the free movement of European nationals. Discussion within the relevant European fora has, I understand, removed the difficulties which we and others had over ensuring that non-economically active EC nationals taking up residence would not become a burden on public funds in the host state. We are, however, left with a difficulty over the

/legal bases

The Rt Hon Sir Geoffrey Howe, QC, MP
Lord President of the Council

legal bases proposed by the Commission, and have not so far settled our final line on the issue of competence in respect of the Directives relating to pensioners and "others".

The opinion of the Law Officers on the competence question came in yesterday. The nub of the opinion is that it would be very difficult to sustain before the European Court the argument that there is no Community competence. It seems, therefore, that the reserve which we have had in place on the competence issue is not sustainable.

The UK position on the legal bases (for all three draft Directives) remains a firm one. The assessment is, however, that the Commission would probably be ready to revise their proposed legal bases if they could get unanimous agreement on the substance.

Subject, therefore, to the views of Douglas Hurd and other members of OD(E), it seems that the line to take at the Internal Market Council on 21/22 December is that the UK can now lift its reserve on competence and can agree to the Directives in their present form provided the legal bases are changed; and I expect that this is how John Redwood will wish to proceed unless he hears to the contrary before the meeting.

This still leaves us, however, with the difficult matter of a debate, there being a general expectation that we will not commit ourselves to European legislation before Parliament has had an opportunity to discuss the issue. As you will know, some consideration has been given to whether a slot might be found for a debate in the few days that remain before the House rises and the IMC meeting takes place, but it has not proved possible to arrange this.

In these circumstances, I think I can only suggest that, while indicating fully the substantive support which the Government can now give to the Directives provided the legal bases are changed, we should enter a residual scrutiny reserve on the basis that Parliament has to be consulted. We would then aim to arrange a debate before the end of January before lifting the reserve finally.

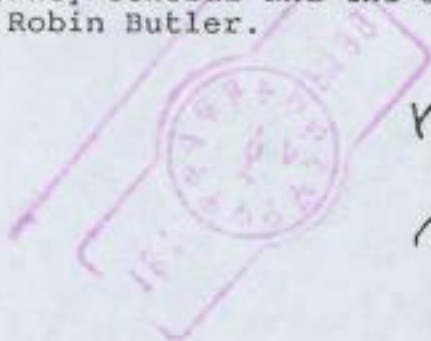
You may think that, on a matter of this importance, the debate should be on the floor of the House. Subject to your views, a suitable motion might be:

"That this House takes note of European Community Document No 7706/89 on rights of residence, and supports the objective of facilitating the free movement of EC nationals within the Community."

:

/I am copying

I am copying this letter to the Prime Minister, to L Committee colleagues, to Douglas Hurd and other members of OD(E), to Kenneth Clarke, John MacGregor and Anthony Newton, to the Attorney General and the Solicitor General for Scotland and to Sir Robin Butler.



Yours sincerely,

Pein Smr.

Approved by the Home Secretary
and signed in his absence.

PERSONAL



SPACE ②

Prime Minister

You may like
to see.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 December 1989

ms

cap
15/xii

EUROPE

It has been suggested from more than one quarter that the time has come for the Prime Minister to make another major speech about Europe. I think the Prime Minister would be prepared in principle to do this, provided we can produce some good material. I have no particular forum in mind (it is a pity that the Council of Europe suggestion did not work out): but one can easily be found when we know what we want to say.

My own inclination is that such a speech should concentrate on the wider Europe, that is the developments in Eastern Europe since Bruges and how we see the two parts of Europe coming closer together again (although how we handle German reunification would require careful thought). It might also deal with the defence aspects of Europe, possibly saying something new and positive about Anglo-French co-operation in this area. So far as the Community is concerned, the Prime Minister would want to amplify rather than stray from the Bruges vision, setting out our design for Europe in which we are 'united but not absorbed'.

The Prime Minister was struck by the originality of Secretary Baker's recent speech about Europe and the number of constructive proposals in it. We might be one of the first in Europe to take them up and make a considered reply, as well as put some original thoughts of our own. There have been some quite thoughtful pieces on Europe recently on which we could draw, for instance Oliver Letwin's pamphlet for the Centre for Policy Studies and the IEA's study on Europe's Constitutional Deficit. The Prime Minister would only want to make a speech if there was something genuinely new to say.

The Foreign Secretary might like to discuss this with the Prime Minister at their bilateral next week.

C. D. POWELL

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

PERSONAL

CONFIDENTIAL



file this

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 December 1989

Dear John,

DECEMBER ECOFIN: INDIRECT TAXES

The Prime Minister was grateful for the Chancellor's minute of 12 December which they discussed at their bilateral meeting this afternoon. The Chancellor reported briefly on his discussion earlier in the afternoon with Madame Scrivener. The Prime Minister said that she agreed with the approach set out in paragraphs 4 and 6 of the Chancellor's minute.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and to Sonia Phippard (Cabinet Office).

Yours,

Paul

PAUL GRAY

John Gieve, Esq.,
H.M. Treasury.

Kuo

CONFIDENTIAL

PAUL GRAY RA

13 December 1989

cc: Brian Griffiths

EC: VAT HARMONISATION

The two attached telegrams leave me a little worried because they appear to foreshadow ECOFIN conclusions without satisfactory language on zero VAT rates. Given the politics of that, I think it would be advisable to ask the Chancellor's office for advice (and, I hope, confirmation) that nothing of substance is being lost here.

John Mills

JOHN MILLS

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 4003
OF 121640Z DECEMBER 89
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

MY I.P.T.

8TH MEETING OF AD HOC GROUP ON FISCAL FRONTIERS 12 DECEMBER 1989

SUMMARY

1. PRESIDENCY DRAFT ECOFIN CONCLUSIONS AGREED BY 10 MEMBER STATES, WITH MINOR AMENDMENTS. RESERVES BY UK AND LUXEMBOURG. NONE OF THE UK AMENDMENTS ACCEPTED..

DETAIL

2. THE COMMISSION (KNUDSEN) STRESSED THEIR SUPPORT FOR THIS PRESIDENCY INITIATIVE TO ACHIEVE AT LEAST A PREVENTION OF FURTHER DIVERGENCE OF VAT RATES: FOLLOWING THE FAILURE TO AGREE ON RATES AT THE NOVEMBER ECOFIN, THIS WAS AN ABSOLUTE MINIMUM FOR THE COMMISSION.

3. THE UK EXPLAINED THAT MINISTERS WOULD TAKE A POSITION IN THE LIGHT OF THE TEXT AS IT EMERGED: MEANWHILE OUR CONTRIBUTION WAS SIMPLY DESIGNED TO ATTEMPT TO MAKE THE TEXT MORE ACCEPTABLE.

FIRST PARAGRAPH

4. THE UK SUGGESTED THAT 'NECESSARY' IN THE 4TH LINE BE CHANGED TO 'DESIRABLE'. GERMANY PROPOSED THE ADDITION OF A REFERENCE TO THE RELEVANT PART OF THE NOVEMBER ECOFIN CONCLUSIONS. BELGIUM AND GREECE ASKED THAT THE TITLE MAKE IT CLEAR THAT THE DRAFT CONCLUSIONS DEALT ONLY WITH VAT RATES. THE PRESIDENCY REWORDED THE LAST SENTENCE TO MAKE IT CLEARER THAT STANDARD RATES WITHIN THE 14-20 PERCENT BRACKET SHOULD NOT BE MOVED OUTSIDE IT, AND THAT THOSE OUTSIDE IT SHOULD NOT BE MOVED FURTHER OUTSIDE IT.

5. DENMARK MENTIONED THE PROBLEM OF ITS 'LABOUR MARKET CONTRIBUTION', AN ADDITIONAL PERCENTAGE TAX APPLIED ON TOP OF VAT WHICH THE COMMISSION ARE CHALLENGING AS A 'QUASI-VAT' IN BREACH OF ARTICLE 33 OF THE 6TH DIRECTIVE: THEY HAD NO INTENTION OF INCREASING THEIR VAT RATE (22 PERCENT) BUT NEEDED A MINUTES STATEMENT TO RESERVE THE RIGHT TO GO UP TO 25 PERCENT TO ABSORB THE LABOUR MARKET

CONTRIBUTION IF THEY LOST IN THE ECJ. SPAIN HAD ALREADY DECIDED TO RAISE ITS STANDARD RATE FROM 12 TO 14 PERCENT, SO COULD LIVE WITH THE TEXT. GREECE WAS CONCERNED BY THE REFERENCE TO THE NORMAL RATE APPLYING TO MOST GOODS AND SERVICES BECAUSE 60 PERCENT OF ITS GOODS AND SERVICES WERE SUBJECT TO A REDUCED RATE, BUT WAS REASSURED BY A PROPOSED MINUTES STATEMENT AND THE EXPLANATION THAT THIS WOULD ONLY REQUIRE THEM NOT DIVERGE FURTHER FROM THE 14-20 PERCENT BAND RATHER THAN MOVE IMMEDIATELY TO IT.

6. THE UK SAID THAT IT WOULD PROBABLY MAKE A MINUTES STATEMENT ON THE LINES THAT THE TEXT DID NOT CONSTITUTE A COMMUNITY OBLIGATION BUT THAT, WITHOUT PREJUDICE TO THE UK VIEW THAT COMMUNITY HARMONISATION WAS NOT NECESSARY OR DESIRABLE, ITS PRESENT INTENTION WAS NOT TO MOVE ITS RATE OUTSIDE THE 14-20 PERCENT BRACKET.

SECOND PARAGRAPH

7. THE GERMANS AGAIN ASKED FOR A REFERENCE TO THE NOVEMBER ECOFIN CONCLUSIONS. THE UK ASKED FOR THE LAST CLAUSE OF THE LAST SENTENCE TO BE MODELLED ON THE WORDING IN ARTICLE 99 OF THE TREATY.

THIRD PARAGRAPH

8. FOLLOWING GERMAN REQUESTS, COVERAGE OF THE REDUCED RATE WAS DESCRIBED AS COVERING ESSENTIAL GOODS AND SERVICES 'IN PARTICULAR'. THE UK ASKED FOR THE PARAGRAPH SIMPLY TO READ 'ANY SUCH DECISION WILL ALSO COVER REDUCED AND ZERO RATES'. ITALY, SUPPORTED BY NETHERLANDS, ARGUED THAT ANY REFERENCE TO ZERO RATES SHOULD STRESS THAT THESE WERE EXCEPTIONAL AND TEMPORARY, ALTHOUGH PORTUGAL ARGUED THAT THIS WAS UNNECESSARY IF THEY CAUSED NO DISTORTION OF COMPETITION. DENMARK STRESSED THAT USE OF A REDUCED RATE SHOULD NOT BE MANDATORY.

CONCLUSIONS

9. THE PRESIDENCY PRODUCED A REVISED TEXT AND 2 MINUTE STATEMENTS (BY FAX TO TURNER ECD(I)). THE TEXT NOW MAKES IT CLEAR THAT USE OF A REDUCED RATE IS OPTIONAL. HELPFULLY, THE PRESIDENCY DID NOT DESCRIBE ZERO RATES AS EXCEPTIONAL AND TEMPORARY.

10. NONE OF THE UK POINTS WAS TAKEN. THE CHANGE TO THE FIRST SENTENCE OF THE FIRST PARAGRAPH MIGHT HAVE BEEN ACCEPTED, BUT THE OTHER CHANGES WERE SEEN AS TOO MAJOR A DILUTION. THE UK THEREFORE PUT A RESERVE ON THE WHOLE TEXT. LUXEMBOURG ALSO PLACED A RESERVE ON THE GROUNDS ITS USUAL DELEGATE WAS ABSENT.

HANNAY

RESTRICTED

112001
MDHIAN 8841

YYYY

DISTRIBUTION

204

MAIN 203

.FRAME ECONOMIC
ECD (I)

WED
MR RATFORD

ADDITIONAL 1

FRAME

NNNN

PAGE 3
RESTRICTED

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 4002
OF 121605Z DECEMBER 89
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

MY I.F.T.
INDIRECT TAX HARMONISATION

1. IT IS DISAPPOINTING THAT OTHER MEMBER STATES WHICH HAVE HAD SERIOUS DIFFICULTIES OVER VAT HARMONISATION IN RECENT MONTHS (DENMARK AND IRELAND IN PARTICULAR) ARE PREPARED TO LIVE WITH THE PRESIDENCY TEXT, LEAVING THE UK AND LUXEMBOURG ALONE IN OPPOSITION. I DOUBT IF WE CAN RELY ON LUXEMBOURG STANDING FIRM AT THE COUNCIL.
2. IT IS UNLIKELY THAT FROM AN ISOLATED OR ALMOST ISOLATED POSITION WE CAN ACHIEVE THE CHANGES TO THE PRESIDENCY'S TEXT WHICH WE NEED IN ORDER TO SAFEGUARD OUR POSITION UNTIL THE REAL NEGOTIATION ON RATES IN 1991. THERE WAS CERTAINLY NO SIGN OF GIVE AT THE WORKING GROUP.
3. BUT WE STILL HAVE A MAJOR INTEREST IN SECURING A RELATIVELY AMICABLE OUTCOME TO NEXT WEEK'S DISCUSSION IN THE ECOFIN COUNCIL, SO THAT THE WAY IS THEN CLEAR FOR DETAILED WORK ON THE IMPLEMENTING DECISIONS FOR THE NEW VAT SYSTEM.
4. ONE ALTERNATIVE, IF OUR AMENDMENTS WILL NOT FLY, MIGHT BE TO INSIST ON THE CONCLUSIONS BEING PRESIDENCY CONCLUSIONS AND NOT COUNCIL ONES: TO GIVE THE OTHER MEMBER STATES SATISFACTION ON THE "NO DIVERGENCE" ISSUE WHICH IS IN FACT THE ONLY SUBSTANTIVE IDEA ON THE TABLE: AND FORMALLY TO RESERVE OUR POSITION ON ALL THE REST. IT IS JUST POSSIBLE THAT BEREGOVVOY, WHO WE KNOW HAS NO STOMACH FOR A LENGTHY DISCUSSION ON 18 DECEMBER BUT WHO IS LOOKING FOR A PRESIDENCY SUCCESS, MIGHT BUY THIS: MADAME SCRIVENER HAS IN THE PAST SHOWN CONSIDERABLE FLEXIBILITY.
5. THE UK STATEMENT TO BE MADE ON THESE PRESIDENCY CONCLUSIONS WOULD THE READ SOMETHING LIKE THIS:

"WITHOUT PREJUDICE TO THE UK'S VIEW THAT COMMUNITY DECISIONS ON TAX RATES ARE NEITHER NECESSARY OR DESIRABLE, THE UK GOVERNMENT STATES

THAT IT HAS NO PRESENT INTENTION OF DIVERGING FROM THE 14 PERCENT - 20 PERCENT BRACKET FOR THE STANDARD RATE OF VAT. THE UK ACCEPTS THE NEED TO SEEK AN AGREEMENT ON THE DECISIONS REQUIRED UNDER ARTICLE 99 OF THE TREATY AS MODIFIED BY THE SINGLE EUROPEAN ACT BY THE END OF 1991. IN THAT CONTEXT THE MAINTANANCE OF ZERO RATES WILL BE CRUCIAL.''

6. IF WE DECIDE TO TRY THIS ALTERNATIVE APPROACH, THEN I RECOMMEND THE CHANCELLOR PUTS BOTH ALTERNATIVES (THE AMENDMENTS TO THE PRESIDENCY TEXT WE WOULD NEED IF WE WERE TO ACCEPT IT AS COUNCIL CONCLUSIONS AND THE IDEAS IN PARAS 4 AND 5 ABOVE) TO BEREGOVY IN WRITING AS SOON AS POSSIBLE AND ALSO DISCUSSES THE TWO OPTIONS WITHN MME SCRIVENER ON 13 DECEMBER.

HANNAY

YYYY

DISTRIBUTION 194

MAIN 193

.FRAME ECONOMIC ECD (I)

ADDITIONAL 1

FRAME

NNNN

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 4002
OF 121605Z DECEMBER 89
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

MY I.F.T.
INDIRECT TAX HARMONISATION

1. IT IS DISAPPOINTING THAT OTHER MEMBER STATES WHICH HAVE HAD SERIOUS DIFFICULTIES OVER VAT HARMONISATION IN RECENT MONTHS (DENMARK AND IRELAND IN PARTICULAR) ARE PREPARED TO LIVE WITH THE PRESIDENCY TEXT, LEAVING THE UK AND LUXEMBOURG ALONE IN OPPOSITION. I DOUBT IF WE CAN RELY ON LUXEMBOURG STANDING FIRM AT THE COUNCIL.
2. IT IS UNLIKELY THAT FROM AN ISOLATED OR ALMOST ISOLATED POSITION WE CAN ACHIEVE THE CHANGES TO THE PRESIDENCY'S TEXT WHICH WE NEED IN ORDER TO SAFEGUARD OUR POSITION UNTIL THE REAL NEGOTIATION ON RATES IN 1991. THERE WAS CERTAINLY NO SIGN OF GIVE AT THE WORKING GROUP.
3. BUT WE STILL HAVE A MAJOR INTEREST IN SECURING A RELATIVELY AMICABLE OUTCOME TO NEXT WEEK'S DISCUSSION IN THE ECOFIN COUNCIL, SO THAT THE WAY IS THEN CLEAR FOR DETAILED WORK ON THE IMPLEMENTING DECISIONS FOR THE NEW VAT SYSTEM.
4. ONE ALTERNATIVE, IF OUR AMENDMENTS WILL NOT FLY, MIGHT BE TO INSIST ON THE CONCLUSIONS BEING PRESIDENCY CONCLUSIONS AND NOT COUNCIL ONES: TO GIVE THE OTHER MEMBER STATES SATISFACTION ON THE 'NO DIVERGENCE' ISSUE WHICH IS IN FACT THE ONLY SUBSTANTIVE IDEA ON THE TABLE; AND FORMALLY TO RESERVE OUR POSITION ON ALL THE REST. IT IS JUST POSSIBLE THAT BEREGOVVOY, WHO WE KNOW HAS NO STOMACH FOR A LENGTHY DISCUSSION ON 18 DECEMBER BUT WHO IS LOOKING FOR A PRESIDENCY SUCCESS, MIGHT BUY THIS: MADAME SCRIVENER HAS IN THE PAST SHOWN CONSIDERABLE FLEXIBILITY.
5. THE UK STATEMENT TO BE MADE ON THESE PRESIDENCY CONCLUSIONS WOULD THE READ SOMETHING LIKE THIS:

'WITHOUT PREJUDICE TO THE UK'S VIEW THAT COMMUNITY DECISIONS ON TAX RATES ARE NEITHER NECESSARY OR DESIRABLE, THE UK GOVERNMENT STATES

THAT IT HAS NO PRESENT INTENTION OF DIVERGING FROM THE 14 PERCENT - 20 PERCENT BRACKET FOR THE STANDARD RATE OF VAT. THE UK ACCEPTS THE NEED TO SEEK AN AGREEMENT ON THE DECISIONS REQUIRED UNDER ARTICLE 99 OF THE TREATY AS MODIFIED BY THE SINGLE EUROPEAN ACT BY THE END OF 1991. IN THAT CONTEXT THE MAINTANANCE OF ZERO RATES WILL BE CRUCIAL.''

6. IF WE DECIDE TO TRY THIS ALTERNATIVE APPROACH, THEN I RECOMMEND THE CHANCELLOR PUTS BOTH ALTERNATIVES (THE AMENDMENTS TO THE PRESIDENCY TEXT WE WOULD NEED IF WE WERE TO ACCEPT IT AS COUNCIL CONCLUSIONS AND THE IDEAS IN PARAS 4 AND 5 ABOVE) TO BEREGOVY IN WRITING AS SOON AS POSSIBLE AND ALSO DISCUSSES THE TWO OPTIONS WITHN MME SCRIVENER ON 13 DECEMBER.

HANNAY

YYYY

DISTRIBUTION

194

MAIN 193

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

FRAME

NNNN



A

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

DECEMBER ECOFIN: INDIRECT TAXES

Since we spoke about indirect taxes, immediately before the Strasbourg Council, I have received a further unwelcome approach from the French Presidency, indicating that they would like to discuss this issue at next Monday's ECOFIN; and Mme Scrivener, the Commissioner responsible for taxation questions, has asked to see me tomorrow. The purpose of this note is to let you know how I propose to handle this.

2. To start with the background, the original proposals put forward by Lord Cockfield were for:

- detailed proposals for approximation of standard and reduced rates of VAT
- an origin based system for collecting the tax, with a cumbersome clearing house arrangement for redistributing revenue
- excise duty rates to be completely harmonised.

We have moved the Commission, and other Member States, a long way since then. We now have:



- provisional agreements on a destination system for VAT, based very closely on the UK's ideas
- decisions on reduced rates postponed
- decisions on excise duty rates postponed for consideration next year.
- An implicit understanding with the Commission and the French that retention of our zero rates must be part of the final package.

3. So far as VAT rates are concerned we have consistently and publicly repeated the UK view that harmonisation is neither desirable nor necessary. Under this pressure, the Commission and the Presidency (who are both keen to tie up a package which says something about rates) have been casting about for a formulation that Member States could sign up to. The proposition which M Beregevoy has now put to me is, in essence:

- (a) the decision on the VAT standard rate to be deferred until the end of 1991;
- (b) member states to give a voluntary undertaking in the meantime not to diverge from the 14-20 per cent range;
- (c) agreement to be reached by the end of 1991 on the basis of a rate band or a minimum rate within the 14-20 per cent band, and on the continuance of reduced and zero rates.

Caus?
15% + 10%

It is clear from working-level discussions that all other member states would be prepared to sign up to this.



4. But we cannot. This formula obviously goes too far in conceding the principle that there will be an eventual agreement on a rate band or a minimum rate. But I believe that it would suit us best not to reject it outright, but to modify it to secure a formula which safeguards the considerable gains we have already made and which otherwise risk being withdrawn. What I think we could sign up to is voluntary "best endeavours" not to diverge from the 14-20 per cent range (since in fact we have no intention of changing our VAT rate for the foreseeable future), and an agreement to defer the eventual decision on VAT rates, without commitment. I would make it clear that the UK's view about the need for VAT approximation had not changed.

5. I think there are good reasons for avoiding bringing events to a head now. First, some sort of way forward on rates is seen by the Presidency, the Commission and other member states as an essential element in the VAT package, which is in turn a key element in achieving the Single Market. Secondly, I fear that to become totally and publicly isolated on this issue next week could go far to undoing the good work you achieved in Strasbourg. Thirdly, in two years time events will have moved on and things may look very different, to other member states as well as ourselves. In particular, there have been clear signs that other member states (for example France and the Netherlands) have been shifting their VAT rates towards the 14-20 per cent range. In two years time, there could well have been more movement. We may well be able to argue then that our market forces approach has been shown to work, and to persuade them that a formal agreement is not necessary. Finally and by no means least, if there is not some sort of interim statement on VAT rates, there is a risk that the Commission will fail to produce the necessary detailed proposals for the technical VAT system (and only they can do this). This will be of serious disadvantage to businesses in the UK who will not be able to plan with confidence how to manage their



intra-Community traffic after 1992; and there must be a risk that the other countries would revert to the fraud-prone clearing house system which we have so far successfully seen off.

6. I shall argue strongly for an agreement along the lines of paragraph 4 on Monday. I may not succeed. In that event, I will not accept the conclusions proposed by Beregevoy. I would propose that his text should be regarded as Presidency conclusions which do not bind the Council as a whole, and I would make a unilateral statement clarifying our position.

7. I will update you further after I have seen Mme Scrivener.

8. Copies go to Douglas Hurd, and Nicholas Ridley and Sir Robin Butler.



John H.

[J. M]

12 December 1989



CCAC

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5802
Telex 915564 Fax 01-273 5821

Secretary of State

The Rt Hon John MacGregor OBE MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

EA 13/14

12/14

December 17

John MacGregor

You wrote to Douglas Hurd on 8 December about the lines you proposed for the main agenda items at the EC Education Council on 14 December.

My main concern is with the proposed conclusions on technical and vocational education and initial training. The original text would have committed us to a large expansion of existing Commission activity in this field, the costs of which are largely met by my Department. I agree that we cannot avoid the Commission bringing forward further proposals, but the more that we can do to ensure proper evaluation of existing measures and to secure recognition of the principles of subsidiarity and value for money in any new measures, the better is our position in negotiations. I therefore welcome the changes that it has been possible to secure in the text, and your intention to seek to remove those parts of the Conclusions which still anticipate the outcome of the Commission's review.

One difficulty which we face with these Conclusions, and more acutely with the Erasmus proposals, is that both are concerned with spending under Article 128 of the Treaty. When the Education Council was established, we did not think that the definition of vocational training in that Article covered general education such as normal degree courses. Proposals that came to the Education Council therefore required the use of Article 235. The European Court decision about the definition of vocational training means that we now have proposals based on Article 128





Secretary of State
for Employment

coming both to the Education Council and to the Labour and Social Affairs Council. It is therefore far more difficult to look at the overall impact of the Commission's proposals in the field of vocational training and to secure the support of other Member States for moderating its ambitions.

If you are driven to agree the ERASMUS proposals under Article 128 alone, and I accept your arguments, I hope you might nevertheless emphasise that it is desirable for a single Council to take a view on all vocational training proposals, and that approval of ERASMUS ought not to be taken as a precedent for future proposals based on Article 128. Nevertheless, I accept that ERASMUS is somewhat unusual in that the costs will continue to fall entirely on your Department.

Perhaps I could also add a couple of small glosses to references in your letter to my Department. Your analysis of the Conclusions refers to measures to improve the comparability of qualifications and to the proposals for a second general directive on recognition. There is in fact also work going on under the auspices of the European Centre for the Development of Vocational Training (CEDEFOP) on the transparency of qualifications, and it would be useful to be certain about what is intended by the reference. Our officials are in contact.

You also referred to the creation of a European Training Foundation concerned with training programmes aimed at Eastern Europe. Its establishment was welcomed by the Prime Minister at Strasbourg. Our only concern has been to await Commission proposals about its functions before deciding whether it should be co-located with CEDEFOP in Berlin. That body in the past has shown itself to be less than efficient.

Copies of this letter go to the Prime Minister, members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robin Butler.

Norman
NORMAN FOWLER

EURO POL: Budget PT44



CONFIDENTIAL

CCPC

THE RT HON JOHN WAKEHAM MP



Department of Energy
1 Palace Street
London SW1E 5HE
01 238 3290

NOTE for the Record

I have asked to

Trade & Industry
Secretary to minutes to
at 4 PM on the outcome
of the meeting which
he is chairing today.

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign
& Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
SW1A 2AL

12 December 1989

*CDP
13/12*

Dear Douglas,

PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

Attached

Colleagues are to meet tomorrow to discuss Malcolm Caithness' letter of 8 December.

The situation in Brussels is developing rapidly and we cannot be sure whether a common position can be found. But I think I should record now my concerns if we could not obtain a satisfactory exemption of the upstream oil and gas industry from the detailed rules. These are:

- (i) the bureaucracy involved in those rules will impose heavy administrative costs and delays upon our North Sea licensees. A delay even of only a month to an average sized development could if a weather window were missed thereby entail a cost of some £50 million per development, most of which would be borne by the Exchequer. Less directly the rules would make the UKCS less attractive to oil companies in comparison with other world oil provinces;
- (ii) the directive would bite on our ability to ensure full and fair opportunity for British contractors and manufacturers in relation to the UKCS. But it would be ineffective in opening up markets in much of the Community where oil and gas licences are dominated by public sector companies. Even in the UKCS, it would not prevent other countries' state-controlled oil companies favouring their national suppliers through generous financial arrangements or advance information or both. Our offshore suppliers form a high technology industry with very large potential for exports; application of the detailed rules to upstream oil and gas would put at risk foreign exchange earnings of £800-1,200 million a year.

CONFIDENTIAL



Nigel Lawson discussed with the Prime Minister last April the possibility of bargaining away our policy of full and fair opportunity to obtain concessions elsewhere. The Prime Minister has on several occasions expressed her interest in the advance of the UK offshore supplies industry. I wonder whether you consider she ought to be consulted before we contemplate taking any step which would disrupt our system of fair competition on the UKCS without making any impact on the systems operating abroad which are based on State control and ownership.

I am sending copies of this letter to the Prime Minister, members of OD(E), Malcolm Rifkind, Cecil Parkinson, Chris Patten, Malcolm Caithness, John Redwood and to Sir Robin Butler.

John Wakeham

John

—



JOHN WAKEHAM

Europa Budget
PKL



CONFIDENTIAL



THE DEPARTMENT
OF TRANSPORT



FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-2763000

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AH

My Ref

Your Ref

Dear Douglas,

12 DEC 1989

NBM
RACC
rhc

PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

Unfortunately I shall not be able to attend the OD(E) discussion on 12 December.

As you know I was concerned that, although highly desirable in principle, this Directive could have damaging effects on the efficiency of public sector transport businesses by requiring them to set up bureaucratic purchasing procedures. However, in the light of Malcolm Caithness' letter of 8 December, I am satisfied that the text of the draft Directive now strikes a reasonable balance between the interests of purchasers and those of British suppliers, particularly if the threshold for supplies contracts is doubled to 400,000 ecu as is suggested.


But I do have one remaining concern. Malcolm's letter suggests that as part of a possible overall compromise package, the Presidency may propose that all special exemptions should be deleted, including that for the deregulated bus sector. This would be quite unacceptable. The draft Directive is aimed at large undertakings operating in sectors where there is an absence of competition and whose purchasing policy might be subject to some distortion. By contrast, the bus and coach industry outside London is now deregulated and fully competitive with over 6,000 operators, many of them very small, competing for business. It would be a highly retrograde step to impose upon them procurement procedures which are entirely unsuited to small and medium size businesses and which would simply add to costs. Even with a higher supplies threshold of 400,000 ecu purchases of more than 3 double decker buses would be covered so the number of contracts involved each year would be high.

CONFIDENTIAL

CONFIDENTIAL

The rationale of the UK's position on this has been fully recognised by the Commission. We therefore have every justification for insisting that the deregulated bus industry should be excluded and I agree with Malcolm that this should continue to be our position.

I am copying this to recipients of Malcolm's letter.


Yours *End,*
Cecil

CECIL PARKINSON

CONFIDENTIAL



FCS/89/218

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

Education Council, 14 December

1. Thank you for your letter of 8 December about this week's Education Council.
2. I agree that, unless there is a good chance of achieving a dual legal base of Articles 128 and 235, we should be prepared to vote for a decision on ERASMUS based on Article 128 alone. I also agree that the Conclusions on technical and vocational education and training should not pre-judge the level of future Community activity, but that the text looks broadly acceptable.
3. The Strasbourg European Council agreed in principle to set up a training foundation for Eastern Europe, and to develop educational and training programmes with Eastern European countries modelled on existing Community schemes. The next step is for the Commission to submit detailed proposals, which will need to be examined urgently in Whitehall.
4. I am copying this minute to the Prime Minister, members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robin Butler.

will discuss if req'd.

CCP

EMM 13/12.

(DOUGLAS HURD)



file SAH
c:/foreign/ec
cc PC
bcc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 December 1989

Dear Sir,

EC EDUCATION COUNCIL

Your Secretary of State sent a copy of his letter to the Foreign Secretary of 8 December about the EC Education Council to the Prime Minister. The Prime Minister would, I am sure, strongly support his efforts to secure a management committee structure for ERASMUS. She attaches considerable importance to this, despite the undoubted difficulties of obtaining such an outcome.

I am copying this letter to the Private Secretaries to Members of OD(E) and to Sonia Phippard (Cabinet Office).

Yours sincerely,

C. D. POWELL

Stephen Crowne, Esq.,
Department of Education and Science

mlm

CHARLES POWELL

12 December 1989

EC EDUCATION COUNCIL, 14 DECEMBER

John MacGregor has written round colleagues about the line he intends to take at this Council on Thursday.

My only comment is to suggest that the Prime Minister is invited to signal her strong backing for his attempt to get a management committee structure for Erasmus, as opposed to the weaker advisory committee structure which the Commission naturally favours strongly.

John MacGregor may well not succeed in this, but it would give impetus to the case he argues if the Prime Minister had also drawn specific attention to the point. The principle is an important one, given the ease with which the Commission can hijack such programmes, once agreed, to its own ends (and at great cost) with really very little oversight.

The rest of his letter can be noted without comment. It does nothing to ease my worries about the way the Commission is seeking to create competence over education by stealth and inertia on the part of the Member States, but there are, frankly, no realistic alternatives at the present time to the measured approach which John MacGregor proposes. He knows the need to get as much favourable language as possible in the various texts to preserve subsidiarity and national competence.

BG.

BRIAN GRIFFITHS

dti

the department for Enterprise

cd

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd MP
Foreign Secretary
Foreign & Commonwealth Office
Downing Street
London
SW1A 2AL

CD
14 xii

Direct line 215 4442
Our ref NPIAGO
Your ref
Date 11 December 1989

Dean Douglas

IMPLEMENTATION OF SINGLE MARKET MEASURES INTO NATIONAL
LEGISLATION

This issue is on the agenda for the Internal Market Council on 21/22 December. We have received from the Commission an advance copy of the report they intend to make to the Council.

I am glad to be able to tell you that the updated figures confirm the UK's excellent record on implementation. The Commission's figures show that the UK are adrift on 15 out of 88 measures due for implementation by the end of the year. This would put us in second position, close behind Denmark. According to our records, the UK is behind on only 3 out of 72 directives which should have been implemented by now. In addition, we cannot agree with the Commission over the correct way to implement 1 decision and 1 recommendation.

The Commission have been given our figures and the reasoning behind them. We will continue pressing in Brussels to have our figures reflected in the report which goes to the Internal Market Council.

I need not emphasise how useful these figures are as ammunition to counter charges that the UK is a half-hearted member of the Community. However, some care is needed on presentation. For example, it is not strictly true to say that we have implemented 77 out of 80 directives, or 85 out of 88 measures: some of the measures do not require implementation to enter into force; some are not possible to implement till further decisions are taken in Brussels. It is



dti

the department for Enterprise

more accurate to say that 3 out of the 72 directives remain unimplemented, or to use an alternative phrase, such as "the UK is up to date with 69 out of 72 directives".

I am copying this to the Prime Minister and to fellow members of OD(E).

John

Andrew



Recycled Paper

MR POWELL

EC SOLVENCY RATIOS DIRECTIVE

1. You asked for background to press reports that the Germans are holding up adoption of the Solvency Ratios directive, which is one of the package of banking liberalisation directives agreed in June.
2. The Solvency Ratios directive is a key element in securing a single market in banking. It aims to prevent distortions of competition between banks by establishing minimum capital adequacy standards. This involves relating a bank's assets to its capital base. In doing this calculation, individual assets (eg loans) are weighted to reflect the level of risk involved. After difficult negotiations, a common position was unanimously agreed by the Council in June, including provisions defining the weightings to be attached to different types of asset. The outcome was satisfactory for the UK. The Germans had pressed for a concessionary weighting for loans backed by commercial mortgages, to enable them to continue their present practice of lending more on this basis than other member states allow, against a given capital base. In the event, the Germans were brought to accept a limited derogation, with great reluctance.
3. The directive has now returned to the Council after consideration by the Parliament, and the Germans are trying to reopen the common position and extend the present concession on commercial mortgages. No member state supports them, and the directive could in theory be adopted by qualified majority vote; but we need unanimity in the Council to override a Commission bid to expand its powers of implementation.
4. We are in a strong position: the Germans are isolated and there will be Presidency pressure at ECOFIN next week to get the directive adopted before the end of the year. We hope that it will be possible to persuade the Germans to accept what they

Richard Martin
You enquired
about this.

AM 12/xii

agreed to in June. But, given that they already regard the directive as tilted much more to our advantage than to theirs, we need to work through private rather than public pressure.

D.H.

D A HADLEY

11 December 1989

CONFIDENTIAL



file RTJ

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 December 1989

I attach a copy of a letter the Prime Minister has received from Sir Francis Tombs.

I should be grateful if you could provide advice and a draft reply for the Prime Minister's signature. It would be helpful if this could reach me by Thursday 21 December.

I am copying this letter and enclosure to Stephen Crowne (Department of Education and Science) and Sonia Phippard (Cabinet Office).

C. D. POWELL

Neil Thornton, Esq.
Department of Trade and Industry

CONFIDENTIAL





ACOST

ccp

Advisory Council on Science and Technology
70 Whitehall, London SW1A 2AS
01-270-
Qh 0562

File No. ST 319/1/6

The Rt Hon. Margaret Thatcher MP
The Prime Minister
10 Downing Street
London
SW1

11 December 1989

Dear Prime Minister,

COMPLETION OF THE SINGLE EUROPEAN MARKET

The Council has recently completed a short study of the impact on science and technology in the United Kingdom of the completion of the Single European Market in 1992. The Single Market is concerned primarily with goods and services, but it will stimulate an acceleration of changes which are already taking place in other fields. The ACOST study has identified these changes and suggested ways in which they can be turned to the advantage of the UK.

The removal of barriers to travel will increase the mobility of skilled researchers and technologists across national boundaries. Whilst this is to be encouraged as a means of knowledge dissemination and technology transfer, it will be important to ensure that there is not a net loss of skilled resource from the UK. Appropriate steps must be taken to present an attractive environment in terms of facilities, career opportunities and financial support. Consideration of the general availability of education, training and research grants will be a necessary part of this process.

One contribution to the provision of facilities will come from the industrial sector, particularly if inward investment from outside the community is encouraged.

Public procurement, which amounts to 15% of the total GDP of Europe, will be open to competition from companies in all member states. We believe that this will act as a stimulus to industrial R&D, and offer opportunities for UK enterprises to participate in public S&T activities elsewhere.

Secretariat:
Telephone 01-270 0105
Telex 27582 CABOFF G
Fax 01-270 0462
Prestel 21 999 3466
Gold 81 MPO 005

The success of the Single Market depends in large measure on the creation of European technical standards to supersede existing national standards. It is imperative that the UK should be well represented on the bodies which create these standards, to steer them as closely as possible to the current UK practices. We are concerned that industry, BSI and DTI are not paying sufficient attention to this point.

Our report makes a number of other points, and a copy is attached for your consideration. I have sent copies also to the Secretaries of State for Trade and Industry, and Education and Science, and the Foreign, inviting their comments.

Yours sincerely,

Francis Tombs

SIR FRANCIS TOMBS

Encl.

CONFIDENTIAL



ACOST

Advisory Council on Science and Technology

STUDY OF THE IMPACT OF THE COMPLETION OF THE SINGLE
EUROPEAN MARKET ON UK SCIENCE AND TECHNOLOGY

EXECUTIVE SUMMARY	2
SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	4
A. Introduction	7
B. Mobility Issues	10
- barriers to travel	
- mutual acceptance of professional qualifications	
- general comments on mobility	
C. Impact on the Location of Research Facilities	16
D. Opening up of Public Procurement	23
E. Rationalisation of Technical Standards	26
F. Impact on Research Funded by Industry	30
- UK Patent Office	
- mergers and acquisitions	
G. Impact on Collaborative Programmes	32
Annex 1 - Terms of Reference and Membership	

CONFIDENTIAL

CONFIDENTIAL

EXECUTIVE SUMMARY

i. The general effects of the implementation of the Single European Act at the end of 1992 have been well publicised but there are many implications for Science and Technology which are still evolving. ACOST held a one-day review in September 1988 and that identified a number of points that would merit further study by the International Committee. The Working Group has therefore focussed its review on a limited number of topics that were considered to be of most relevance to ACOST interests.

ii. The 1992 process is important because it sets a fixed timescale for a fundamental change in the way the European Community operates. This has knock-on implications for all UK industry, government and HEIs. It can be seen as a threat or an opportunity but the Working Group took a very positive view in favour of the latter.

iii. Mobility of manpower is likely to increase with mutual recognition of qualifications. That is considered to be a good thing in principle but it also carries the risk that there could be a net loss to the UK. New graduates are seen to be the group where the combination of mobility and temptation to work abroad is strongest. However, it is also a well-defined group to convince that there are challenging career prospects in Britain. The UK offers a shorter route to professional qualification than most EC countries and that may attract more EC students to study here. Any initiatives that would persuade British graduates to remain to work in Britain would also influence some of the EC graduates to stay. The overall position is seen to be very volatile but a net loss seems likely unless more positive steps are taken to enhance the attractiveness of careers in the UK.

iv. Location of R & D facilities is an increasingly important question. Most international companies envisage having a complete

spectrum of business activities in Europe and 1992 has set their planning timetable. It is important that the UK should capture the strategic research and manufacturing sites because these will form the long term growth points for the whole European business of that company. We should seek to build on our assets, eg 'ownership' of the English language and a good academic research base, to maximise the R & D investment in Britain from third countries. That in turn would provide a nucleus for growth and follow-up investment in advanced manufacturing. 1992 provides a decisive one-off opportunity to strengthen the UK capability, but some action is necessary to seize the opportunity.

v. Public procurement represents a large budget that could be opened up to competitive bidding. The full implications are still being studied but it will represent a major test of the effectiveness of the 1992 Act. In principle, we believe that the R & D aspects of public procurement should also be open but we recognise that limitations may have to be set through a minimum threshold or for Research Council funding.

vi. Technical standards must increasingly be used as a marketing tool in international trading. Convergence of European with UK national standards could give a considerable competitive advantage but that will not come without a much more sustained effort by industry, the DTI and in particular the British Standards Institute (BSI). Public procurement should also be used to enforce conformance to European or preferably world standards, particularly in areas such as computing and communications which will have to develop rapidly to support the infrastructure that will be required post-1992.

vii. The report also considers a number of other topics such as industrial research collaboration and patents. In most cases their development in terms of the 1992 programme is already well in hand either through market forces or deliberate institutional

CONFIDENTIAL

action and no strong case needs to be made for alternative courses of action. Mergers and acquisitions will be one of the most significant factors in shaping European R & D post-1992, and this is addressed. Some of the changes required to meet the challenges offered by 1992 can be met by individuals of initiative and imagination. Many more require some organisational response. The opportunities are still on offer but time is short.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The report includes the following main conclusions:

- a. Increased mobility and interchange of QSEs is beneficial both from a national and European viewpoint (Paragraph 8).
- b. New graduates represent the group most likely to contribute to a net loss to the UK. This requires urgent consideration by the DES (Paragraph 12) and by ACOST's own Committee on Manpower and Training (Paragraph 11).
- c. The UK should seek to maximise the level of R & D investment, particularly from third countries, where this is associated with wealth creation opportunities for the UK (Paragraph 20).
- d. The interaction between industrial practice, research and training should be developed to provide improved training for all levels of industrial personnel (Paragraph 28).
- e. The UK should develop a more pro-active role in the formulation of EC research policy (Paragraph 32). This

CONFIDENTIAL

extends from sending appropriate representatives to policy meetings in Brussels, to project leadership in programmes such as COMETT and DELTA (Paragraph 23)

- f. The UK would have much to gain if R & D were subject to the full provisions of the procurement of services directive, ie full and open competition (Paragraph 36).
- g. There should be a minimum size of R & D contract to which the procurement directive should apply. A suggested starting point for discussion is £0.5 million (Paragraph 37).
- h. BSI with the support of DTI should quantify the marketing advantage to be achieved through participation in standards formulation. This has to be propagated through industry much more vigorously (Paragraph 41).
- i. Government (through DTI) should be more pro-active in seeking development and acceptance of world IT standards (Paragraph 44). The practice can be extended in the EC by specifying such standards for all public procurement (Paragraph 45). Standards should not be seen as a means of protectionism (Paragraph 46).
- j. If full competition is adopted for R & D, any additional receipts over and above the "cost" to the UK of the programme concerned should be retained within the British part of that programme rather than by the Treasury (Paragraph 55).
- k. The criteria to judge which research is most appropriately done in national or EC programmes have many interactions with the 1992 changes. However, since the problem is more general it should be considered by the

CONFIDENTIAL

full International Committee (Paragraph 56).

1. The ABRC should examine the resources and organisational structures required for increased participation in the problem-driven and training aspects of EC programmes. This is also linked to the 1992 issues of manpower provision (Paragraph 59).

- m. Departments should recognise their limited competence to debate the detailed issues of science-based programmes and enlist the help of Research Councils as necessary (Paragraph 32).

A. INTRODUCTION

(i) The completion of the Single European Internal Market

1. The Treaty of Rome identified as a goal a unified Europe through the establishment of a common market and a progressive approximation of Member States' economic policies to encourage expansion, stability, improved living standards and closer relations within the Community. Since that time membership of the European Communities (EC) has increased but there have been continued declarations by Heads of State committing themselves to the completion of a fully unified internal market. This led in 1985 to the Commission for the European Communities (CEC) being charged with the preparation of a White Paper outlining how this goal might be achieved by the end of 1992.

2. The White Paper, produced under the guidance of Lord Cockfield, laid down the steps necessary to remove both physical and technical barriers to create a single internal market and detailed where specific directives would be required. A major study - known as the "Cost of Non-Europe" or "Cecchini Report"- was conducted to identify the cost savings which would accrue. However, this study did not separately consider impacts of the completion of the Single European Market (SEM) on science and technology. This lack of separate consideration was of concern to ACOST.

(ii) ACOST Study

3. A roundtable discussion was arranged in September 1988 bringing together representatives from a number of organisations with an interest in "1992" and S & T. The conclusions of the discussion are summarised as follows:

CONFIDENTIAL

- little work had been done on this subject and a study by ACOST would be timely

- the nature of the topic was diverse, not only in the subjects embraced by also because "1992" will not produce dramatic changes, but rather initiate a process of change lasting well into the 21st Century.

- many changes were under way in the field of S & T, and it might be helpful to draw the distinction between those which will be stimulated by the completion of the single market, and those that would happen anyway.

4. The changes that will occur as a result of "1992" and of the greater alignment of the UK towards Europe can be seen as both opportunities and threats. It will be important for the UK science community and the UK more generally that the balance is tilted in our favour. The upside of "1992" offers great potential for S & T as it does for other sectors. Decisions to be taken concerning location of research facilities could be swung to favour the UK, English is the language of science, access to EC and overseas private sector funding for R & D may improve and the UK could be viewed as a favoured location in which to work. The downside of the process of integration might be a loss of investment and personnel from the UK to other Member States with the knock-on effects throughout the economy in terms of a failure to innovate, lack of investment in the latest technology and manufacturing techniques leading to a progressive loss of competitiveness. If the balance is to go our way we should not sit back and watch things develop but should actively seek to encourage a "virtuous circle" in the UK with increased scientific activity leading to investment in hi-tech industries and improving international competitiveness.

CONFIDENTIAL

5. To identify the important factors resulting from "1992" that will influence the development of R & D, the ACOST Standing Committee on International Collaboration set up a Working Group with the terms of reference and membership given at Annex 1. The Working Group investigated those topics most closely related to S & T, gathering data and consulting widely to assess impacts of 1992 on S & T. The Working Group took as a starting point the conclusions from the earlier round-table discussion and, through further discussion, identified six major areas where the impact of "1992" was likely to be felt in UK S & T. These were: mobility of people, location of industrial research facilities, the opening up of public procurement, the rationalisation of technical standards, impact on industrial and collaborative research programmes. A number of conclusions and recommendations were formed and these are summarised after the Executive Summary to this Report.

CONFIDENTIAL

B. MOBILITY ISSUES

6. One of the major features of completion of the single European market is the creation of a single market in employment. This measure will end discrimination by employers against suitably qualified and experienced employees from other Member States on the grounds of nationality. It should also allow employees to travel freely throughout the EC, taking advantage of employment opportunities wherever they arise. As with all aspects of "1992", the CEC is concerned with creating a "level playing field". In order to establish whether or not they had been successful for S & T, we considered both barriers to travel and acceptance of professional qualifications.

Barriers to Travel

7. The opportunities offered by "1992" for increased mobility apply equally well to qualified scientists and engineers (QSEs) as they do to all other sectors of the population. Hence the removal of restrictions based on nationality and the simplification of bureaucratic procedures were not of central concern to us but rather the specific factors that will apply to QSEs. However, we did not identify any significant difficulties which will apply to this sector of the population.

8. We considered that mobility of QSEs was to be encouraged as this should increase the level of technology transfer and cross-fertilisation of ideas between Member States. More specifically we consider that there could be significant advantages for the UK if there were a net inflow of QSEs which would not only increase the pool of QSEs available but might also increase interaction between research, manufacturing and teaching.

9. The pattern of migration or opportunity to work overseas can be split between two groups within the scientific community; (i)

undergraduates and newly qualified scientists and (ii) scientists in mid-career. Superimposed on "1992" effects will also be demographic trends and national characteristics both of which will be particularly significant for the former group of scientists.

10. The demographic trend showing a decrease in young people entering the employment market is common across the EC (although there are exceptions such as the Republic of Ireland and Portugal). This will increase competition for all young people, but particularly those who are most able. UK undergraduates are likely to be attracted overseas for a number of reasons. For example, UK graduates are generally younger than those in the rest of Europe (where degree courses are longer and a period of national service may be required) and become available when the motivation and freedom to travel is highest; that is, when they are less likely to have family commitments. Also UK undergraduates are more likely to have travelled away from home to study (as made possible and evident by the existence of a maintenance grant), decreasing their attachment/affiliation to a particular region. Furthermore, English language may be seen as a positive advantage by prospective employers outside the UK, or at least can be assimilated in the Company set up. Salaries in the UK are relatively low, increasing the incentive to seek employment elsewhere.

11. Net loss of young trained scientists could represent a major problem for the UK in the near future. As such it should be thoroughly investigated by those bodies responsible for providing adequate levels of training so that they can prepare a suitable strategy to make good any loss (see paragraph 12 below). In particular consideration should be given to making career development opportunities in multi-national organisations Europe-wide, thereby achieving integration of opportunity irrespective of nationality, and removing one of the drivers for people to

CONFIDENTIAL

migrate. We recommend that ACOST's own Committee on Manpower and Training should be made aware of our views and should be asked to investigate this matter further (if it is not already in hand).

12. It is also possible that the UK might see an influx of students seeking to take advantage of training opportunities available here. Eligibility criteria for undergraduate and postgraduate awards in the UK and other Member States (both in terms of nationality of students and portability of awards) may have a particularly significant impact on the demand for training places and the subsequent availability for employment of young QSEs. It is also possible that a large number of students will come from other Member States to UK HEIs to take advantage of the relatively shorter training period, to obtain professional qualifications. It is not clear if this would be a welcome development. There is a danger that as UK HEIs are required to seek full recovery of fees and alternative methods of student finance are introduced, home students may be displaced by those more able to pay from other Member States. Furthermore, even if the level of fees were set at full cost the UK may still not cover the costs of infrastructure investments necessary to provide such training. Therefore we recommend that the DES consider conducting a full review to be completed rapidly, of potential implications of changes in eligibility criteria for funding of undergraduates and postgraduates and that they adjust plans accordingly to take account of the research needs of the UK. Any such review should involve other bodies such as UFC, PCFC and ABRC as appropriate.

13. Once graduates have entered the job market mobility decreases. Mobility of individual QSEs seems to be motivated at the individual level by personal considerations and is difficult to predict. However, there is some recent anecdotal evidence to suggest mobility has decreased in recent years as opportunities for progression within individual companies have increased. This

may continue but we note that the publicity surrounding "1992", removal of bureaucratic barriers to travel and awareness of the opportunities on offer throughout the EC will tend to increase mobility. Taken together with the potential for rationalisation of industrial operations, including research as predicted by Cecchini, this will lead to a reversal of the recent trend in our opinion.

14. In the consideration of a "profit and loss" account for the mobility of QSEs, seniority is of importance. Although it has been suggested that it is the more senior scientists who are leaving the UK and being replaced by younger ones from overseas, SEPSU research has indicated an proportionate balance of inflow and outflow of university staff (lecturer and above), with a net outflow recorded only for new PhDs (at about 6% pa). However, as the barriers to mobility are removed, harmonisation of salaries/standards of living throughout the EC will probably have to occur if the current distribution of QSEs is to be maintained.

15. Two UK specific barriers to mobility have been identified. First, nationality requirement will still apply to some defence projects. This will reduce the flow of EC nationals to and from the UK in a sector that is relatively larger and more important here than elsewhere in the EC (with the exception of France). (Although we note steps being taken by NATO to agree on a number of priority technology areas will be the subject of co-operative research in Europe). Second, mobility of UK QSEs within the EC is hindered by limited language training/language skills. However, this problem is moderated by the general adoption of English as the international language of science.

Mutual Acceptance of Professional Qualifications

16. A prerequisite of the free movement of QSEs, particularly those in regulated professions (medicine, engineering, etc) is the recognition and acceptance of national qualifications throughout the EC. This has been noted by the CEC and appropriate national bodies, leading to agreement on a CEC general directive on higher education diplomas (which has been extended to cover engineering) and separate directives for some other specialist areas such as architecture and medicine. The general shortage of skilled staff will provide a strong and continuous pressure to ensure that any artificial barriers to recognition are removed or bypassed.

17. Although problem areas do still exist (for example teachers in France and West Germany must be own nationals), we are satisfied that appropriate steps are being taken by the CEC and national bodies to ensure that remaining barriers to the mutual acceptance of professional qualifications will be removed prior to the completion of the single European market.

General comments on Mobility

18. It seems likely that there will be increased mobility of QSE between Member States as a result of "1992" and plausible arguments could be advanced for either a significant net inflow or outflow of QSEs from the UK. A recent study by the Institute of Manpower Studies (IMS report No 167 - 'The Graduate Labour Market in the 1990s') estimated a net loss in 1986 of 12,500 managerial and professional staff from the UK to the rest of the EC. Considerable uncertainty surrounds this estimate but we consider the balance for the UK is probably negative and is unlikely to change without positive action.

CONFIDENTIAL

19. We accept that increased mobility and interchange of QSEs are beneficial both from a national and European viewpoint (see paragraph 8 above). However, a net outflow of QSE would be harmful to the UK. Therefore, we would like to see the situation monitored by DTI or the Department of Education and Science (DES). In order to do so adequate data are required and action will need to be taken to provide them as they are not easily available in the UK unlike elsewhere. In France such data are collected from social security forms required on exit. A common European form of this nature would be useful in collecting these data on a wider basis.

CONFIDENTIAL

C. IMPACT ON THE LOCATION OF RESEARCH FACILITIES

20. Significant changes are currently occurring in the structure of industry sectors and individual company strategies. Investment decision, including those related to R & D, are being brought forward in the run up to 1992. Mergers and acquisitions and market access considerations will lead to rationalisation of existing European plant and to the establishment of new European base operations by companies from outside the EC. Similar considerations apply to R & D where third country companies are setting up research facilities to be seen as 'good Europeans' or to develop fully integrated facilities away from the home base. The establishment of R & D facilities is likely to confer benefits on the host nation. Such are the requirements of advanced manufacturing techniques that production facilities are best sited close to research capabilities, hence the capture of R & D investment can lead to further investment in manufacturing plant. There are already examples of the reverse process, of manufacturing plant being expanded to incorporate R&D activities. The key to attracting research investment is the availability of a pool of suitably skilled personnel. Such resources exist in the UK and the UK enjoys a high international reputation for conducting basic research. Additional pressure on a resource which is already in high demand will cause difficulties in the short term, but the long term benefits should outweigh these. It is anticipated that increased demand for scientific and technological staff will stimulate young people to embark on relevant careers. Also, access to foreign technologies and methodologies will strengthen the UK's ability to apply the results of R&D to wealth creation. We recommend that the UK builds on the strength and seeks to maximise the level of R & D investment particularly from third countries. However, such investment should be coupled to the establishment of associated manufacturing or wealth creation facilities in the UK.

21. The choice of site for R & D or high technology manufacturing facilities is increasingly being considered on an international scale. The determinants on choice over and above that of research requirement are predominantly:

- i. An environmentally attractive location; ie areas which do not suffer from industrial or urban decay.
- ii. An assured supply of high quality and well trained manpower.
- iii. The fiscal environment.

At present the fiscal environment varies considerably across the EC but the process of levelling that will result from the 1992 process should decrease the impact. The UK government should ensure that this does in practice occur and that the fiscal environment in the UK is at least as attractive as in any other EC state. To this effect we recommend that DTI maintain an awareness of location incentives offered by other EC countries and reviews factors which have influenced recent investment decisions with a view to enhancing the attractiveness of the UK for inward investment where possible within existing Government policies.

22. Issues such as communications, infrastructure, supply of high technology services and stability in population, currency and political structure are important only if they are absent or go seriously wrong. Most major countries in Northern Europe can offer a similar environment so there is little obvious advantage for one location. No specific advice is offered by the Working Group but it is absolutely essential that the UK remains at least as attractive as any other location within the EC. The role of infrastructure and its improvement should never be disregarded and developments such as the Channel tunnel and associated transport links, optical fibre communications network etc are vital if the UK is to continue to be seen as a location for

competitive industrial facilities.

23. Ownership of the English language is probably the greatest asset possessed by Britain. This is particularly true with regard to location of new facilities by American or Japanese companies. It is also of major importance in the particular case of R & D where English is the recognised international language. In addition the Working Group noted that one major and under-exploited advantage with all native English speakers lies in their capability to provide education and training material. Much of the postgraduate technology training throughout Western Europe is conducted in English. We recommend that British organisations should be encouraged to take leadership roles in Community programmes such as COMETT and DELTA that would propagate the UK style of research and training. This should be to our eventual advantage in the build-up of R & D facilities in Britain.

24. Research required by industry falls into two categories, basic and applied research. Basic research which may not conform to product classifications, is of a longer-term nature and less likely to receive direct industrial funding. The majority of this type of research is carried out in HEIs. Britain has a recognised and leading international attraction for this type of research and the UK has been successful in attracting international industrial sponsorship for such research in the past. However, it is not without its problems.

25. The amount of basic research is relatively small and there is a tendency for companies to look to the Government-funded educational sector to provide the infrastructure for this type of basic research. The exploitation phase, which can be carried out anywhere, and involves a far greater level of investment and employment opportunity, is the more valuable in terms of its contribution to a country's economy. Capture of this

second phase investment should be the UK's aim. To this end the large and lively science base is resource that attracts overseas investment to the UK and as such is exploited to the benefit of the UK. In the cases where companies may wish to establish catch-up programmes of basic research, or tap into innovation in a UK academic research centre, consideration should also be given to further investment in the UK. However the companies involved should be encouraged to set up a more permanent base so that the benefit of the UK science base is maximised and disruption to academic centres minimised.

26. Applied R & D is directly associated with the exploitation phase but it need not always precede manufacture. In high technology industries the state of the art frequently exists in the newest factory rather than in the research laboratory, it is the factory that throws up problems that demonstrate that the basic science behind the technology is not sufficiently well understood. The research therefore becomes problem-driven rather than curiosity-driven. The difference is important because it may be one of the factors at the root of the poor UK record in technology transfer and exploitation.

27. Unlike basic research which is limited by quality of manpower, applied research is almost entirely limited by the number of suitable researchers available. The larger the pool of suitable manpower, the more attractive the UK becomes as a location for R & D and advanced manufacturing investment.

28. The number of British nationals who achieve senior positions within international companies tends to suggest that the UK can provide personnel who lack little in ability or basic education. We should therefore consider why people of similar background appear to perform less well in many British companies. Some of the problems lie in outmoded management attitudes which will certainly be shaken by "1992" but are out

with the scope of this study. A second and more relevant factor is in-service training and the need to recognise that the education and training process does not stop on graduation day. The priorities may change but the process should continue from the academic to the industrial environment. Although initial graduate training on entry to the engineering sector is improving through the work of the professional institutions (largely at the demand of new entrants) there is still a need to improve longer-term career training and retraining. If the UK could successfully address this problem we might significantly enhance the attractions of the UK as a location for new research, advanced development and high technology production location. One possible approach might be to ensure that the linkages between HEIs and industry are as strong as possible and that feedback between industrial practice and research ensured the pool of well trained personnel was maximised. We recommend that the ACOST Manpower and Training Committee consider this issue if they are not already doing so.

29. The improvement of the "scientific environment" can become self-sustaining. Greater research opportunities, whether they be in newly established commercial facilities or public sector facilities such as IRCs, would make the UK more attractive to researchers overseas. This in turn, makes the UK a more attractive location for commercial R&D facilities by increasing the UK pool of QSEs.

30. The harmonization of operating conditions that will occur as a result of CEC action in respect of "1992" may exert specific pressures on particular sectors of industry. For example agreement on pharmaceutical products pricing between governments and industry can be tied to the level of R & D carried out in that country. In practice this has resulted in higher prices and a higher level of R & D being carried out in Northern Europe when compared with some Southern European countries. "1992" should

mean that prices fall in Northern Europe and that Governments will not be able to favour particular companies under the provisions of any Public Procurement Directive (see paragraphs 33-39 below). This will be accompanied by a fall in the level of R & D carried out. Other specific issues may arise from regulation rather than deregulation. A potential illustration of this might be biotechnology.

31. Attitudes towards the conduct of biotechnology, particularly genetic manipulation of higher organisms, range from restrictive in West Germany (based on historic considerations) to liberal in the UK (based on scientific debate). The Working Group are particularly concerned about the prospects for biotechnology in Europe. The growing public interest in environmental issues and rejection of food additives and preservatives may have knock on effects for the commercial prospects of the products of biotechnology products eg novel foods that may be considered 'non-natural'. Such rejection would be a rejection of products that could be environmentally beneficial eg genetically improved plants with reduced fertilizer and pesticide requirements and novel foods with enhanced storage characteristics. Therefore we support the industry initiative to promote the "green virtues" of biotechnology through the Senior Advisors Group for Biotechnology by means of discussions with those associated with related policy in the UK and Europe.

32. Biotechnology illustrates a more general point which is that the UK should develop a more pro-active role in EC policy-making. Currently, UK government departments make a significant contribution to ensuring that proper mechanisms for programme management and evaluation are put in place by the Commission. However, with the possible exception of the DTI they are very weak (particularly compared with the French and Germans) in influencing the content of the programmes. UK intervention is frequently too late to be effective, and the Departments'

representatives are inappropriate for the task. In particular, Departments lack the expertise necessary to contribute to the science-based programmes. We therefore recommend that:

- i. Departments should recognise the importance to the UK of full involvement in the determination of the content of EC programmes. Competent staff should be assigned to this process early enough for the UK input to be effective.
- ii. Departments should seek specialist help from the Research Councils when negotiating science-based programmes.

D. OPENING UP OF PUBLIC PROCUREMENT

33. The value of public procurement (including defence procurement) in 1986 within the EC has been estimated by the CEC at some 15% of the EC's Gross Domestic Product (GDP) or over 500 billion ECU. This is just greater than cross-border trade in the EC. It has been further estimated that over half of the expenditure could be supplied outside the home country but in practice imports represent only about 1-2% of the total public procurement trade. Public procurement is therefore of major significance within the EC and the potential for alteration to sourcing policy great.

34. Three levels of competition in procurement are recognised. These are:

- i. open contracting - where open competition is required
- ii. restricted procurement - where bids are invited and limited competition will be expected
- iii. negotiated procedures - covering areas where competition may be inappropriate.

The CEC proposes to open public procurement to these levels as competition through three directives:

- procurement of works;
- procurement of services;
- procurement of supplies.

All of these will contain elements of R & D, but most R & D is likely to be covered by the directive on procurement of services.

However, we recognise that the majority of public procurement includes relatively little R & D particularly that concerned with building and the purchase of supplies.

35. R & D covers a wide spectrum of activities and a range of procedures and timescales may be appropriate. At one extreme there are design contracts as precursors to civil engineering works and at the other expenditure on basic research by Research Councils. The former may be more readily opened up for competitive bidding than the latter. In 1986 advancement of knowledge received 37%, 40%, 50% and 39% of the civil R & D budgets of Italy, France, West Germany and the UK respectively and since much of that work has no commercial timescales and recognises no national boundaries, there are arguments for adopting a wider European viewpoint particularly for the larger projects. It may lead to national specialisms but the strong UK position in basic science should encourage the UK to participate in projects on the widest international scale.

36. The scope and coverage of public procurement is still to be fully defined. However, as already noted much of the public procurement of R & D will fall under the services directive where DTI have proposed that it be subject to a limited form of competition. In principle we would like to see a more open form of competition but if this position were adopted mechanisms through which to exploit such openness would need to be developed. Accordingly we recommend that DTI reconsiders its position on the level of competition to be applied to R & D and that government Departments and the ABRC carry out parallel investigations to assess the impact of full and open competition from the citizens of other EC states for Research Council funds.

37. At the very least there will be a requirement for the CEC to gather data on which public procurement R & D contracts have been placed with which laboratories. The burden of providing such

CONFIDENTIAL

data will fall on research laboratories (and may be a particularly heavy burden for SMEs) while the burden of administrative effort for monitoring the procurement policy and collating data will probably fall to national administrations. We recommend that, as the provision of data will represent a considerable administrative task, a limit on the minimum size of individual or group R & D contracts which would be subject to the procurement directive should be established. We have not attempted to estimate the value of the minimum figure as this can only reasonably be assessed in practice. However, we suggest an appropriate trial figure might again be £0.5 million.

38. The opening up of public procurement might also act as a stimulus for greater private sector research activity. With large contracts open to tender after 1992 companies may embark on research programmes to gain a competitive edge through the development of better products or products of similar specification but at lower cost.

E. RATIONALISATION OF TECHNICAL STANDARDS

39. The inter-relationship between R & D and technical standards is complex but in any rapidly changing industry with international markets, the issue cannot be neglected. Standards can emerge in many ways: from the combination of the best features of leading edge products to the de facto recognition of the dominance of a market leader. They must, however, be recognised as an essential marketing tool and participation in their formulation and use is non-optional. Until recently different technical standards have applied across the EC but in the run up to "1992" a process of rationalisation has begun through the creation of new European standards, mutual recognition of national standards and the adoption of World standards. The aims of this programme are to increase competition through greater market access, the reduction of price differentials between Member States and the opening up of public procurement. The interlinkage to public procurement is important as the specification of internationally recognised standards will be necessary if companies from Member States are to compete on equal terms for public procurement contracts. Agreement on mutually acceptable standards should ideally precede the implementation of directives on public procurement. We recommend that DTI use this argument to try to improve UK company participation in harmonisation of standards (see Paragraph 41 below).

40. National standards authorities are responsible for the Europeanisation of technical standards together with CEN and CENELEC (European standards bodies). Harmonization has begun, although on a piecemeal basis with little consideration having been given to additional technical standards which may be required beyond 1992. The task of harmonization is significant. No collation of EC standards (of which there are possibly 50-100,000 throughout Europe including 10,000 in the UK) has taken

place and it is clear that, despite the increasing pressure to speed up the process, harmonization will not be complete before 1992. Therefore we recommend that national representatives continue to give high priority to the development of new European standards and harmonization of standards which relate to safety and which have quasi-statutory backing, over those standards which are voluntary.

41. We are aware of the potential competitive advantages that may be derived from the convergence of European with national standards. We understand that this point has not been lost on West German industry who are particularly active in the standards setting procedures. We consider that the UK must take an equally competitive position to ensure that whenever possible UK standards are more widely adopted. Some of this task can be performed by the British Standards Institution (BSI) but the competitive advantage can only come if the process is fully recognised and exploited by industry. We recommend that BSI and DTI should consider a joint study to quantify the marketing potential which could be achieved through appropriate standards. Industry organisations such as CBI and trade associations should be encouraged to participate in this study wherever possible.

42. The harmonisation process requires the involvement of dedicated high calibre negotiators who must be made available from industry to support BSI. Their work must necessarily cover a wide range of technical detail, have a good basis in R & D to anticipate future trends and also be able to translate a procedural notebook into market possibilities. Such people are valuable in any company and their time will only be made available to standards negotiation if the economic justification can be made.

43. Participation in standards formulation is particularly difficult in financial terms for SMEs and yet such companies

often have most to gain by having early conformance to a new standard. This is an example of a general problem for SMEs: they must participate to remain innovative and to maintain good prospects for growth but the probability of an unsatisfactory outcome is also high and no small company can afford to be exposed to too many such risks at once. Also the benefits of standardisation are not confined to those who participate in the standardisation process which adds to any reluctance to take part. Trade associations may be able to help, but the main focus should be on the DTI to establish an appropriate framework of de-regulation, information and support to set up a structure within which British companies can operate in this context.

44. "1992" has been useful in the standardisation process in a number of fields such as IT, where it has imposed a timescale for decision making. It has brought a willingness on behalf of third country trading blocks, notably the USA and Japan to discuss World standards. It has also brought together Member States to discuss international standards (eg High Definition Television). Some of these standardisation issues will be vital for the further integration of Europe for example standardisation of IT/computer software and hardware compatibility. Therefore we recommend that the Government (through the DTI) be more proactive in seeking development and acceptance of world IT standards. In this context we welcome the agreement reached between European interests (SPAG) and their counterpart in the USA (COS) on computer hardware compatibility under the Open Systems Interconnect (OSI) initiative. However, we are concerned that progress on software seems to have stalled with separate positions on Open Software and UNIX having developed. It is in this area that Government pressure may be particularly helpful in reaching agreement.

45. Public procurement has a role to play in this respect. In the UK the specification of BSI standards and OSI are mandatory

for public procurement. We recommend that the Government seeks to extend this practice in the EC such that European standards and OSI are specified for all public procurement in the Community. This will be particularly important for the development of government data-handling infrastructure which needs to be established.

46. In making the comments above we recognise that in certain fields (eg pharmaceuticals) it is the World market and standards which are the driving forces. Therefore we recommend that the Government and UK representatives consider standardisation issues against this wider world perspective and ensure that European standardisation is not used as a means of protectionism with its long-term implications for competitiveness and international trade.

47. We also recognise the interlinkage between technical standards and R & D and the value of prenormative research. We would therefore support the continued inclusion of prenormative research as part of the new EC Framework Programme.

F. IMPACT ON RESEARCH FUNDED BY INDUSTRY

Mergers and Acquisitions

48. The approach of the completion of the single European market has had a significant impact on companies involved in international trade. The level of UK merger and acquisition activity has increased in recent years such that in the first 6 months of 1989 British companies made 160 acquisitions in Europe plus 140 in the USA (Financial Times, 9 October 1989). This activity has partly been fueled by the need to increase size in order to compete in the European and world marketplace and by the fear of being shut out of the European market.

49. Within the EC UK companies have been particularly active in the mergers and acquisitions market both in link ups with European and with third country companies. This partly reflects a greater level of public ownership of UK companies when compared with the rest of Europe, partly the traditionally strong links with the USA and partly the importance of London in the World financial markets.

50. Mergers and acquisitions may be pivotal in the future distribution of research activity in the EC, not only in terms of industrial R & D but also in the level of national support which individual sectors attract (see paragraphs 33-38 above - public procurement). R & D is an issue which can be used for referral of a merger bid to the Monopolies and Mergers Commission but this is a relatively unrefined instrument since it can only consider specific cases and there will inevitably be many other interacting issues. However, the outcome of mergers should be monitored, eg through appropriate DTI statistics, and UK policy should encourage UK location of the R & D facilities in the merged company (see Section C - Location of R & D facilities). DTI should also take the lead in encouraging firms in mergers and acquisitions to maintain and strengthen their R & D activities.

The UK Patent Office

51. The Working Group also considered the role of the UK Patent Office and that of the European Patent Office (EPO) and their impact on the cost of protection of intellectual property. The work of the UK Patent Office has reduced substantially as a result of the setting up of the EPO in 1977. In recent years EPO has granted more patents in the UK than the UK Patent Office. However, both have a role to play. The cost of obtaining a European patent is substantially higher than the cost of patent protection in only one Member State. At present the break-even point is reached when protection is required in 3 European countries. Thereafter the cost advantages of a European patent become apparent.

52. With the decrease in demand for UK Patent the UK Patent Office has set about reducing costs reflecting the more limited aspirations of those companies, increasingly Small and Medium sized Enterprises (SMEs), who seek UK patent protection. As part of this cost cutting programme the UK Patent Office is moving from London to a lower cost site in Newport, South Wales. These plans to reduce cost are welcome.

53. The Working Group are aware of increasing backlogs and delays experienced at EPO which are likely to continue to mount as 1992 approaches. Similar backlogs are occurring at the UK Patent Office but these are likely to be temporary as demand switches to European patents. Therefore the UK Patent Office should be in a position to build on existing links with the EPO and to assist with their work. With this in mind it is recommended that data handling facilities at the Newport Office should be compatible with that at EPO in the longer-term.

G. IMPACT ON COLLABORATIVE PROGRAMMES

54. Significant impacts of the exposure of publicly funded R & D to full competition have been discussed above (paragraphs 33 to 38). Any such moves to open public procurement to competitive bidding might also include market access to non-EC nations. If this were the case then the opportunity should be taken to apply pressure on the USA and Japan in particular for reciprocal action.

55. It should be noted that the UK mechanisms for accounting for R & D carried out under the Framework programme will continue to have a significant impact on the enthusiasm of researchers in the public sector for increasing receipts from the CEC. We recommend that, if full competition for R & D is adopted, as an incentive to public sector facilities, any additional receipts that laboratories are successful in obtaining over and above the "cost" to the UK of the programme concerned, should be retained by the laboratory rather than by the Treasury.

56. The interlinkage and balance between national and international research programmes is an important area but is outside the scope of this review. Therefore, we recommend that the Standing Committee consider conducting a review to develop advice for Government on this issue. Topics that might be considered include: co-ordination between national and international collaborative research programmes, conditions under which research is more appropriately carried out on a national or international basis, national response to new international research initiatives, etc.

57. Similarly "1992" will have an impact on the UK's traditional collaborative research links (eg with Commonwealth countries). From limited data we have gathered, it appears that the trend within UK business and Government departments is to

look towards Europe for collaboration ventures. It is a general Europeanisation, rather than "1992" as a specific event, which is most significant in bringing about any such re-orientation.

58. Of more direct relevance is the prospect that, with the increase in competition within the internal market, technological collaboration might decrease as competitors become reluctant to share innovative ideas with potential rivals in the completed market. This is most likely to affect companies considering taking part in programmes such as EUREKA. Unless there is a need to compete on a world stage or where significant common infrastructure and/or government regulation is involved, the tendency could be that technological collaboration with companies outside the EC will increase at the expense of collaboration within the EC. This could be of particular significance to the UK with its strong traditional links with the USA. There are therefore two diverging trends:

- i. Collaboration with non-EC groups for product development and market access
- ii. Increased collaboration at the pre-competitive level under the enlarged Framework III programme.

The balance could tip either way but the outcome will in part be determined by the success of the CEC in translating Framework projects into EUREKA collaborations.

59. In the area of fundamental research, opportunities still exist for cost sharing of large facilities. Where no timescale can be identified for commercial exploitation of results, we recognise that the ABRC must continue to examine how it can allocate its funds most effectively. For progress above a relatively modest threshold, that is likely to be through

CONFIDENTIAL

European collaboration. However, specific "1992" issues appear most strongly in areas of applied research and those aspects concerned with training for advanced technology. There are very significant opportunities for European collaboration in these areas but Britain is at some disadvantage since it does not have a flexible research structure of the type offered by the Fraunhofer Institutes in Germany on which to develop this activity. We recommend that the ABRC urgently examine the resources and organisational structures required for participation in the problem-driven and training aspects of EC programmes. This should also be part of their contribution to the "1992" issue of manpower provision (Section B).

CONFIDENTIAL

ANNEX 1

STANDING COMMITTEE ON INTERNATIONAL COLLABORATION : WORKING
GROUP A - Impact of 1992 on UK S&T

Terms of Reference

- to establish a working knowledge of the Single Market as it applies to S&T
- to assess the consequences on UK S&T for both Government and Industry
- to consider the possible implications to the UK scientific and engineering community of European professional standards and improved mobility
- to take account of the likely restructuring of industries and other changes likely to be made as companies prepare to operate Europe-wide
- to develop advice appropriate for ACOST to offer to Ministers



List of Members

Chairman

Professor John Robertson

Department of Electrical
Engineering,
University of Edinburgh

Members

Sir Michael Butler

Hambros Bank Ltd

Mr Michael Posner

European Science Foundation

Dr Peter Collins

Science & Engineering
Policy Studies Unit

Dr Brian Richards

British Biotechnology Ltd

Professor Michael Hart, FRS

Department of Physics,
University Manchester

Mr David Hines

Imperial Chemical Industries

Professor Neil Kay

Department of Economics,
University of Strathclyde

Secretary

Mr Callum Searle

Cabinet Office

MEETING RECORD

cc MASTER



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 December 1989

Dear Andrew,

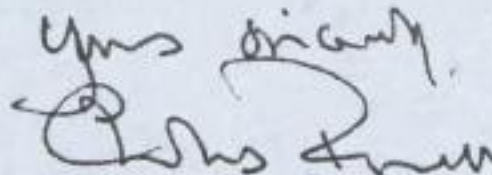
SINGLE MARKET; VETERINARY CHECKS

The Prime Minister had a brief word with the Minister for Agriculture this morning about his minute of 6 December about veterinary checks in the European Community.

The Minister for Agriculture said that it had been a considerable coup to separate the question of controls for certain animal and fishery products from those for live animals. His veterinary advisers were confident that the mechanism envisaged in the draft regulation dealt satisfactorily with the disease issue. There could still be problems with imports from third countries but these would have to be dealt with later. Taken together with the new directives on food safety, he believed that the system would give adequate protection.

The Prime Minister asked how we proposed to deal with live animals, and whether the current regulation would be regarded as a model or precedent for this. The Minister for Agriculture said this was an entirely different issue and a fresh battle would have to be fought. He did not believe the solution which had been reached for animal and fish products would in any way weaken our ability to stand out for stiff controls on live animals.

I am copying this letter to the Private Secretaries to members of MISC 138 and OD(E) and to Sir Robin Butler.

Yours sincerely,

Charles Powell

Andrew Lebrecht Esq
Ministry of Agriculture, Fisheries and Food.

PRIME MINISTER

SINGLE MARKET: VETERINARY CHECKS

You wanted to have a word with Mr. Gummer about his minute (attached) on veterinary checks in the European Community, to be sure that we can safely accept the new arrangement which he has negotiated. He is flying to Brussels on Monday morning to discuss it, so will come in to see you first at 0930.

It seems to me that the crucial point is what will happen about live animals, which we are committed to deal with by the end of 1990. This is politically the most sensitive issue (rabies). How does Mr. Gummer envisage it being handled?

Secondly, you will want to find out what further improvements he thinks that he may be able to negotiate and to what extent these will improve the overall package. Without further improvements, there is likely to be considerable disquiet in Parliament. The basic commitment in this area is Mr. MacGregor's statement in 1988: "1992 will make a major impact on our animal and plant health controls. We shall make every effort to ensure that the measures introduced provide protection and do not put at risk the high health standards we have built up".

CDP

CHARLES POWELL

9 December 1989



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

em.

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
LONDON
SW1A 2AL

- 8 DEC 1989

Dear Douglas,

The EC Education Council meets on 14 December next. Following discussion between officials, this letter indicates the line I propose to take on each major agenda item and seeks colleagues' reactions.

ERASMUS

The Council will be invited to agree a Decision amending that of 1987 establishing the ERASMUS programme to promote the mobility of students within the Community.

Following a decision of the ECJ on the scope of Article 128 (Case 242/87) the Commission propose that the amending Decision should be based on Article 128 alone. I shall seek the re-instatement of Article 235, and related amendments, on the grounds that the programme should include elements of research which are not covered by Article 128. But I shall want to resist a possible counter-proposal to add Article 130q2 to the legal base, because that would loosen control over the Community's R & D Framework Programme. I shall, therefore, if necessary, be prepared to agree a version of the Decision based on Article 128 alone that we can accept falls within the scope of that Article.

The Commission has indicated expenditure of 192mecu for the first three years of the next phase of the programme. Constrained by the IIA, that provision allows for only modest real growth in a popular and worthwhile programme. There is a clear majority for the proposal. Opposition would have been pointless, and the figure has been agreed in COREPER.

The Commission has proposed a student grant allocation formula less favourable to the UK than the present one. I shall try to secure improvements. I shall similarly try to secure Council support for a stronger management committee, on the same basis as the LINGUA programme, but discussion to date does not suggest that we shall get very far.

Because the proposed legal base requires only a simple majority, we have no negotiating strength on this item. After the publicity given to the LINGUA decision last year, I do not want to be said to have opposed a popular programme which is relevant to our ability to compete in the internal market. None of the features of the amending Decision are so objectionable as to merit continued opposition, and I shall if necessary be prepared positively to vote for a Decision based on Article 128 alone.

Proposed Council Conclusions on Technical and Vocational Education and Initial Training

Following a general discussion at the 6 October Education Council, these Conclusions would ask the Commission to review existing Community action and to make proposals for further measures.

Commission proposals in this area are inevitable, as it falls squarely within Community competence. The Community's major spending programmes concentrate on higher education. The Commission and most member states regard lower level vocational training as neglected and want to see less piecemeal measures than exist at present.

The proposed Conclusions provide an opportunity for Member States to express their views on the desirable form of new measures in advance of Commission proposals. They list a variety of possible measures including exchanges of trainees, the creation of networks of institutions, links between teachers and administrators in the different Member States and measures to improve the comparability of qualifications. The last of these points is embedded in current proposals for a second general directive on the recognition of professional qualifications, where the Department of Employment is in the lead; the others we can expect to see in any new Commission proposals in any case.

We have had some success in persuading the Presidency to remove from the draft Conclusions the assumption that existing Community action is inadequate and that there are gaps that need to be filled; and to secure recognition that any new measures should respect the principles of subsidiarity and value for money and should pay regard to the level of resources available. The draft Conclusions still anticipate to some degree the outcome of the Commission's review. I shall be seeking to tone them down further, but expect to be able to agree to them.

EC Education and Training Programmes and Eastern Europe

This is a fast moving topic and my line will be influenced by the outcome of the European Council on 8 and 9 December. As of now, we welcome the Commission's intention to bring forward proposals for involving reform-minded Eastern European countries in measures modelled on existing vocational training and science programmes. I prefer that approach to the approach of extending existing EC programmes by bilateral agreements: the latter is cumbersome, as experience with the extension of the COMETT programme to the EFTA countries has shown; for programmes other than COMETT, the question of what to do about the EFTA countries would arise if the Commission embarked upon negotiations to extend them to the East European countries.

We await the Commission's detailed proposals, and shall then we consider the practical issues they throw up, the timetable, and the priorities for early action.

So far as the European Training Foundation proposed by the Commission is concerned, I am willing to be guided by the cautious line taken by the Department of Employment.

Other Matters

A draft Resolution on failure at school and draft Conclusions on the European Schools will be taken as 'A' Points. I agreed to the former at the 6 October Council: its adoption was delayed by FRG and Portuguese reserves. The latter is an unexceptionable measure to delay until these matters have been considered by the Governing Board substantive consideration of the Commission's proposals to change the statute governing the European Schools and to allow the European Baccalaureate, presently confined to the European Schools, to be taught more widely.

Copies of this letter go to the Prime Minister, members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robin Butler. I should welcome any comments by Tuesday 12 December.

L. ...
JK

Eno Pol.

Budget P48.



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
 Secretary of State
 Foreign and Commonwealth Office
 Downing Street
 LONDON SW1

8 December 1989

See Douglas.

PUBLIC PROCUREMENT IN THE EXCLUDED SECTORS

The Internal Market Council will decide whether or not to adopt a common position on this proposed directive on Thursday 21 December. The directive is one to which successive European Councils have given priority, and it could be an important part of any package that is agreed on the Single Market. I consider it is important to make every effort to agree for this reason and to ensure that other procurement proposals are brought forward quickly. It is unlikely that delay would enable us to get a better directive. It is also important to give a positive signal to the GATT. However there are two main issues which concern us, the scope of the directive and the treatment within it of oil and gas exploration and extraction ("the upstream sector") and the treatment of offers with non-EC content ("reciprocity").

The upstream sector

The Commission has seen the directive as a means of opening up procurement in the sectors excluded from the Supplies and Work Directives - water, energy, transport and telecommunications. OD(E) accepted in July 1988 that the directive should apply regardless of whether or not an undertaking is in the public sector, but sought the exclusion of the upstream sector because of its special circumstances.

The Commission has come up with conditions which, if observed by a Member State, would permit it not to apply the rules of the directive to the upstream sector. The conditions cover the granting of licenses on a non-discriminatory basis and the non-involvement of Government in procurement processes. They include, at our suggestion, a requirement that Member States should require that holders of licences should observe the principle of non-discrimination in respect of contracts.

It is clear from recent discussions in Brussels that other Member States may not be ready to accept this form of exemption. Germany

CONFIDENTIAL

CONFIDENTIAL

is apparently prepared to see the conditions accepted, but insists they must apply to German coal, and also to electricity and gas distribution, because of the nature of the authorisations granted to undertakings in each case. The Presidency has suggested in the light of all this that the Council should accept the "zero option" of dropping all claims for special treatment, including an exclusion written into the proposal which affects water in France.

I believe that we should continue to press the case for the conditions, provided that electricity and gas distribution are not taken out of the normal rules. We should accept that German coal might be covered by the conditions, even though British Coal would not be. This will be unwelcome to potential UK suppliers of a market that has been virtually closed, but the situation can be improved by establishing rights for suppliers to have redress against purchasers who practise discrimination. I believe that we shall have to accept this in the case of the upstream sector, and that we shall have to say as well that we acknowledge that the Offshore Supplies Office will not obtain information in a way that could be used to influence procurement.

If we fail to get the conditions accepted, I believe we must accept the zero option. It is possible that we may be driven to this if ideas for including purchases of energy in the directive, which the Commission apparently thinks may be necessary to get the French to accept its suggestion for the upstream sector, prove not to be acceptable to us. It is possible that the French may claim that the zero option means that the exemption written into the directive for deregulated bus operators should be removed. We should resist this, unless we are satisfied that they can be excluded from the directive in another way.

Reciprocity

Under the Commission's proposal, purchasers in the excluded sectors would be able to reject offers with less than half EC content. They would be required to prefer offers with more than half EC content even if they were up to 3 per cent more expensive than otherwise equivalent offers. The Council could decide by qualified majority that the provisions should apply to offers of non-member country origin following agreement in the GATT or otherwise. The Commission explains these provisions by the need to have leverage in current talks to broaden the GATT Agreement on Government Procurement.

My view is that the Commission's proposals go too far, and that a declaration on the lines of one recently submitted by Germany calling for multilateral liberalisation would be sufficient. However, we may have to move further than the German proposal to secure a deal. I understand that the Commission will suggest a compromise next week consisting of two parts: first, that the facility for purchasers to reject offers of non-Community content should be capable of being rescinded by a decision of the council in the light of developments in the GATT; and, second, that the mandatory preference for equivalent offers of Community content should only become operative if triggered by a further Council decision. The Commission apparently hopes that France, which has been the main supporter of the original proposal will accept this,

CONFIDENTIAL

CONFIDENTIAL

along with Belgium and Italy. There would be a declaration as well, to help Germany and ourselves.

I believe that this compromise is a move in the right direction but that our objective should be to get the mandatory element removed completely. We should try if we can to get the facility to reject offers made subject to a decision by the Council by qualified majority before it becomes operative, is a positive trigger rather than a negative trigger, and to change the local content rule to one based on normal origin provisions.

Bureaucracy and other issues

OD(E)'s objectives last year included a reduction in the amount of bureaucracy in the proposal, the avoidance of mandatory standards and the securing of proper enforcement. On bureaucracy, the UK did not get support for its proposal that purchasers which submit their procurement systems to independent tests, and perform satisfactorily in them, should not have to follow the detailed rules. But I believe that discussions in Brussels have produced a directive which, while necessarily a constraint on purchasers, lets them treat it as a framework within which their own procedures can be fitted. The directive still requires purchasers to define their specifications by reference to European standards, but derogations which have been agreed should enable purchasers to impose special requirements provided they can justify them. The Commission has not submitted a proposal on enforcement (and is unlikely to do so until February or March) but discussions have taken place on a draft. I believe we should try to get a minutes statement committing the Council to early action. The fact that the proposal on compliance with the Supplies and Works Directives, on which a common position was agreed in July, will be taken as an "A" point this month, should help ensure that the momentum on enforcement is maintained.

I enclose a list of the principal points, apart from those I have mentioned, on which a satisfactory position has been reached or on which discussions are continuing in Brussels. On state aids, it is necessary to look to the separate actions being taken by the Commission against them. In the belief that the present discussions should succeed, I hope that colleagues will agree that on the question of scope and on offers with non-EC content we should proceed as I have proposed. John Redwood will need to have discretion in the Internal Market Council to respond to the discussion, but I suggest that he and I should consult colleagues mainly concerned if significant developments occur before then.

I am sending copies of the letter to the Prime Minister, members of OD(E), Cecil Parkinson, Chris Patten, John Wakeham and John Redwood and to Sir Robin Butler *and Malcolm Rifkind.*

*Jan Eric
Malcol*

THE EARL OF CAITHNESS

CONFIDENTIAL



PRINCIPAL CHANGES FROM THE COMMISSION'S PROPOSAL

CHANGES ALREADY MADE

Confidentiality	Entities can impose requirements to protect confidential information they make available.
Framework agreements	Can be treated as contracts, and call-offs under them made without competition.
Exclusions	Notification to Commission replaced by provision of information on demand. Commission to respect confidentiality in publishing lists. (Applies to contracts for purposes other than listed activities, and contracts for resale or hire or for liberalised telecommunications services.)
Information on specifications	Provision only to "those interested in obtaining the contract". Declaration that changes can be made that are proportionate and non-discriminatory.
Award procedures	Purchases possible in short term at prices significantly below market rates can be made without competition. As safeguard, price to be published.
Statistics	For contracts subject to the directive, general requirement to provide statistics replaced with monitoring on basis of information obtained at time of contract award.

Many of these changes were suggested by the UK and they are all welcome.

In addition, on post-tender negotiations a declaration is to be published confirming the freedom of purchasers to hold discussions to clarify and supplement requirements and tenders provided that

competition is not distorted. This is for when purchasers choose not to use the "negotiated procedure" provided for in the directive. The Commission intends in its proposal on enforcement to allow Member States to let review bodies, when considering interim measures, weigh the negative consequences against their benefits. It also intends to let entities avoid any risk of delay from possible suspension of award procedures by opting for regular audit of procurement systems.

CHANGES UNDER NEGOTIATION

Thresholds	Doubling of threshold of 200,000 ECU for supplies seems possible and will be welcomed by UK purchasers. Germany and Denmark making interesting proposal to exclude undertakings which rarely make proposals above the thresholds. (The works threshold of 5 million ECU is unlikely to change.)
Standards	UK hoping to get change in role given to standards bodies to consider whether an undertaking is right to consider a standard inappropriate.
Activities in third countries	UK seeking to make clear that rules do not apply to contracts for such activities.
Purchases by affiliates	UK seeking to enable purchases undertaken in accordance with the directive to be passed on to affiliates without competition.
Consortia	UK seeking to let members forming a significant part of a consortium set up for a particular purpose to make supplies to it without competition.
Implementation	Denmark, Germany, Greece and UK opposing requirement for implementing measures to make express reference to the directive. (This is a legal point connected with Member States being able to choose the form and methods by which they implement a directive.)

The UK is opposing the following moves:

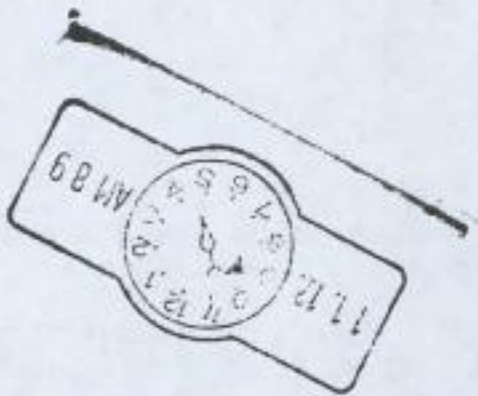
by Italy to restrict the directive to sector-specific procurement;

by Ireland to make it compulsory for purchasers to publish the value and share of a contract that has been awarded that is likely to be sub-contracted to third parties; and

by Denmark to make it compulsory for undertakings which provide information on working conditions "in force" to indicate that they have taken them into account. (The UK accepted this reluctantly when the Council adopted the new Works Directive in July. The compulsory element can be avoided by not giving information in the first place.)

8 December 1989

Emp Pol Budget Pt 43





FILE

EAM

cc AP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 December 1989

Dear Andy,

SINGLE MARKET: VETERINARY CHECKS

The Prime Minister has considered the Minister of Agriculture's minute of 6 December about the position reached in relation to veterinary checks in the EC. She would like to discuss this with him before reaching a decision. I should be grateful if you could be in touch with Mrs Ponsonby to arrange a time.

I am copying this letter to the Private Secretaries to members of MISC 138 and OD(E), and to Sir Robin Butler.

Yours sincerely
Charles Powell

CHARLES POWELL

Andy Lebrecht Esq
Ministry of Agriculture,
Fisheries and Food

KK



CONFIDENTIAL

up
DC

FCO/89/215

ODP
7/kin

HOME SECRETARY

Frontier Control Issues

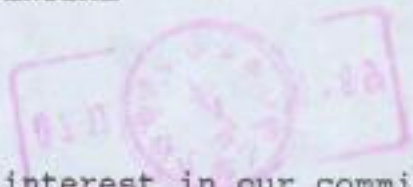
1. Thank you for your letter of 24 November. *flap*
2. As you suggest, the odds are that any discussion of frontiers issues as Strasbourg will be sensible and low key, including a useful initiative on drugs. This certainly was the message from the Foreign Affairs Council last Monday and Delors' talks here on Friday.
3. I agree that we must soon look at the status of airports within the Community after 1992. We can expect renewed pressure from the CAA as word of the Schengen arrangements gets round. I suggest we take this in OD(E) once officials have prepared the ground. I welcome also your intention to write round soon about immigration checks on Channel Tunnel trains.
4. I agree with your proposed handling of the "Euro-visas" issue.

/5.

CONFIDENTIAL



CONFIDENTIAL



5. We may face renewed interest in our commitment to freer movement when the Schengen Treaty is signed on 15 December. I suggest our officials should prepare a line which could form the basis of our public reactions. We would want to argue that the limited and slow progress of the Schengen countries shows the validity of our contention, now widely shared, that progress on frontier relaxation has to be linked with progress on security matters. We should argue that this is a major indication of our stance.

6. Copies of this minute go to the Prime Minister, Members of OD(E) and Sir Robin Butler.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office

7 December 1989

CONFIDENTIAL



Euro POT
Budget
PVFS



cc'dg (i)
R.

Prime Minister

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

You will want to consider very carefully whether this does go far enough to meet our concerns. If so, it is only just. You may like to discuss with Mr. Gummer. The key question will be what happens on live animals. C.O.P. b/xii Will discuss not

From the Minister
PRIME MINISTER

SINGLE MARKET: VETERINARY CHECKS

1. You will recall that, earlier this year, OD(E) and MISC 138 agreed that our "bottom line" position in relation to animal, plant and fish health should not include any reduction in our powers to operate existing controls before long term measures to meet our minimum requirements had been settled. These long term measures should include satisfactory measures to deal with diseases, and provision for random checks by importing Member States as they judged necessary at the point of entry, or at all stages in the food chain in the case of foodstuffs.

2. The Commission had already published, in August 1988, a proposal for a Regulation on Veterinary Checks (defined very widely as any physical check and/or administrative formality intended for the protection, direct or otherwise, of public or animal health). This would have deprived Member States of the right to check animals and animal products at national frontiers, relying instead on controls at the point of production and surveillance at destination, except in cases of genuine suspicion of non-compliance with Community or national requirements. The documents accompanying all meat and meat products are currently examined at import, together with a sample physical check. Although we would not want to check all goods at the frontier the possibility of doing so would represent a more effective disincentive to irregularities than the Commission's approach, and we have therefore been arguing strongly in favour of our bottom line position.

3. This proposal has been discussed intensively under the Spanish and French Presidencies, and a decision could be reached at the next Agriculture Council. Although the proposition now on the table is not fully consistent with our "bottom line", we have

● achieved considerable improvements compared with the Commission's original proposal. I believe that we can now acquiesce in its adoption in the light of our overall objectives. We could defend such an outcome, taking credit for the improvements that we have achieved, particularly against the background of spirited opposition from some Member States and support, at best wavering, from a group that would not with us have represented a blocking minority. Indeed the French Presidency have hinted strongly that if we press for further improvements they may abandon the attempt to meet our needs.

4. The following are the key points:

(i) The proposal no longer covers live animals, but only certain animal and fishery products for the time being (the Council would be invited to commit itself to dealing with live animals before the end of 1990). This reduces (though it does not eliminate) the risk of introducing key animal and fish diseases;

but how?
——

(ii) the main danger of importing disease through meat is by means of imports originating from third countries, particularly in the absence of harmonised import conditions. The proposal involves a commitment by the Council to agree by 31 December 1990 the rules and principles to apply when goods covered by the Directive are imported from third countries. The timing of the implementation of the Directive will be decided when this decision is taken;

(iii) at points where goods may enter from third countries (ie ports and airports in the case of the United Kingdom), Member States may check on the origin of goods (including, until the end of 1992, those carried on regular lines from within the Community). If such origin checks gave a genuine suspicion of irregularity, we would then have grounds to undertake further examination;


- (iv) Member States will be permitted, until 31 December 1992, to undertake documentary checks in transit - which must mean at the frontier too - on meat and meat products to ensure conformity with Community rules on foot and mouth disease and swine fever (The areas of greatest veterinary concern). They will also be allowed to undertake a documentary check on goods originating from third countries (which must by implication involve checking the documents of Community goods in order to distinguish those from third countries). If such documentary checks provide the basis of suspicion of an irregularity we will then be able to do a full inspection of the consignment;
- (v) a review of the Directive as a whole is required before the end of 1992 and a decision on the future of the transitional arrangements at (iv) above has to be taken by 1 October 1992 (which suggests that they could in theory continue). Both these dates fall of course within the UK Presidency;
- (vi) Member States will continue to be allowed to initiate safeguard measures against imports from areas where a serious disease situation becomes established (subject to confirmation through Standing Veterinary Committee procedure); and
- (vii) the Directive on the Official Control of Foodstuffs provides for the examination of foodstuffs at all stages of the marketing chain for a wide range of purposes other than the protection of public health. The veterinary checks Directive will apparently do nothing to reduce that right. A justified suspicion of non-conformity with veterinary rules arising from an inspection under the Control of Foodstuffs Directive could justify a full veterinary inspection.

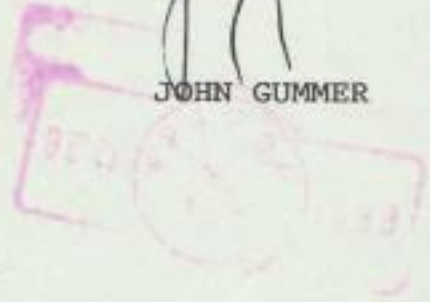
5. We have to acknowledge that it will be very difficult to secure continuation of the transitional measures beyond the end of 1992, and that what we actually do to undertake checks will be under very close scrutiny by the Commission and other Member States. But this is the best deal we are likely to get and, for the reasons that I outline above, I will be able to defend it, although we can expect vigorous criticism (for example in the debate in the House of Lords, still pending, on the Government's response to their Scrutiny Committee's report on the Commission's original proposal). If a solution on the basis which I have outlined seems likely to be the best outcome we can achieve I do not intend to vote against its adoption by the Council. If we succeed in achieving further improvements, I may be able to vote in favour.

I am sending copies of this letter to the members of MISC 138 and OD(E) and to Sir Robin Butler.

Ministry of Agriculture,
Fisheries and Food

6 December 1989


JOHN GUMMER



Ref. A089/3189

PRIME MINISTER

Cabinet : Community Affairs
European Council: Strasbourg, 8-9 December

Reference: A. Minute of 5 December from the Foreign Secretary

PURPOSE

1. To discuss the main issues likely to be raised at the European Council.

HANDLING

2. You might begin by inviting the Foreign Secretary to set the scene (colleagues will have seen his minute). You could then go through the key issues:

i. Eastern Europe (para 3 and Annex)

Key objectives for the UK will be:

- full and substantial discussion, reflected in the Conclusions;
- to make clear that the Community's internal development should proceed as planned: it needs neither speeding up nor slowing down as a result of recent developments in Eastern Europe;
- to secure proper technical scrutiny of the Presidency's proposal for a European Development Bank in the light of the real needs of Eastern Europe.

The Foreign Secretary, Chancellor and Secretary of State for Trade and Industry, may all wish to comment. The Secretaries of State for Employment for the Environment and the Minister for Agriculture may have views on the form of future assistance.

ii. Economic and Monetary Union (para 4)

You might invite the Chancellor to comment.

iii. Social Charter (para 5)

You might invite the Secretary of State for Employment to comment on the Foreign Secretary's analysis. The Secretary of State for Social Security also has a significant interest.

iv. Single Market (paras 6 and 7) 35

The Secretary of State for Trade and Industry will wish to comment on Single Market priorities, on which there should be broad agreement.

v. Other issues (para 8)

There should be no need to discuss these in any detail: colleagues are likely to be content with the Foreign Secretary's analysis. You are taking R & D in E(ST) on 14 December, immediately before the 15 December Research Council.

CONCLUSIONS

4. You may be able to conclude that:

- i. the line suggested by the Foreign Secretary for the European Council is broadly endorsed subject to points made in discussion;

ii. press briefing will need to highlight the 1992 and Eastern Europe issues as suggested in para 10 of the Foreign Secretary's minute.

OTHER BUSINESS

5. The Secretary of State for Transport may comment on the Transport Council on 4-5 December, at which Mr Portillo represented the United Kingdom. Key points were:

- a major breakthrough on road haulage cabotage, with a significant increase in existing quotas as a first step towards fuller liberalisation in three years' time (the Germans and Greeks were voted down);
- good progress on air transport liberalisation (abolition of capacity sharing, introduction of a simpler system for encouraging lower fares from 1993, etc). The Irish Presidency will be responsible for turning agreements now reached in principle into specific provisions, and for finalising an interim package of measures to apply until 1993;
- limited progress on shipping.

FUTURE MEETINGS

6. Future Council meetings are:

- Telecommunications Council, 7 December
- European Council, 8-9 December
- Agriculture Council, 11-12 December.

R.R.B.

ROBIN BUTLER

6 December 1989



cell

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT
6 December 1989

CDP/Ki

Ira Nikolaus

STATE SUBSIDIES IN THE EC AND INWARD INVESTMENT

The correspondence sparked by your letter of 13 November leads to some important general conclusions, on issues which are usefully summarised in Douglas Hurd's minute of 28 November.

More than most of our EC partners, we need to curb the competitive expansion of subsidies to which you and others have drawn attention. So long as our GNP per head remains lower than that of other large EC economies, we are simply less able to afford such a subsidy race.

It is absolutely right therefore to support a tough Community line. As the Prime Minister made clear in the Queen's Speech debate, the Commission's role is crucial. We are lucky that Leon Brittan is the man directly responsible. His power to succeed depends upon the existence and enforcement, in every member state, of clear, strong Community law.

Your prompt and open response to the Commission's perfectly proper interest in Rover subsidies should successfully head off any embarrassment to our general stance from that direction.

More than most of our partners, Britain needs to go on recreating and expanding her own industrial (manufacturing and high-tech) capacity. Inward investment has a vital role in reducing the trade deficit. While we aim to slow down the subsidy race, we should not behave as though we have already succeeded.

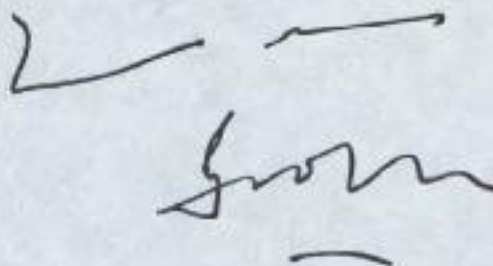
Not only in Scotland and Wales, but also in parts of England where labour is available, we must therefore keep up our efforts to attract inward investment. The investments by Toyota and Nissan, in which the Prime Minister's intervention played an important role, are good examples. So long as our EC partners remain at best neutral in their attitude, we need to make the most of such incentives provided that our actions are consistent with the EC code we are hoping to enforce.

*will require
review*

One factor, above all others, is crucial: investing in the UK is seen as offering automatic access to the EC open market - whose openness will in large measure depend upon the UK's effectiveness in supporting the right kind of Community policies. Secret and not-so-secret reports have shown how easily any apparent wavering in our commitment to effective Community membership can reduce or extinguish an intention to invest in the UK. We must take care to sustain our success in establishing the credibility of the UK as a gateway into the Community.

All this lends some force to Peter Walker's last point. Our twin objectives should be to improve our identification of gaps in our manufacturing capability, to which we can attract a greater share of inward investment, and firm support for EC law and the Commission's efforts to enforce it in the battle against subsidies. This is not to advocate an industrial strategy, still less the discredited idea that we can somehow "pick winners". But support for Leon Brittan and the Commission's activities has in my view to be seen as complementing explicit encouragement of industrial expansion, not only by inward investment; and we need to work these two strands of action together to secure our national interests.

I am copying this letter to the Prime Minister, members of OD(E), Malcolm Rifkind, John Wakeham, Cecil Parkinson and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'G. Howe', with a horizontal line underneath.

GEOFFREY HOWE

Rt Hon Nicholas Ridley
Secretary of State for Trade and Industry

EURO POL: Budget PT43



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

4 December 1989



with CDE
Jean Charles,

CCF
CDD 5/kin

Social Charter

Thank you for your letters of ~~25~~ November to Stephen Wall.

We agree that President Mitterrand's response to the Prime Minister was disappointing. The Foreign Secretary told M. Dumas so in the margins of the Foreign Affairs Council in Brussels on 27 November and said he hoped a short declaratory text might still be possible. Despite President Mitterrand's suggestion that the Foreign Secretary and M. Dumas should discuss this, M. Dumas was unable to do so in the margins of a busy Council which he chaired. The Foreign Secretary's view is that the ball is now in the French court. He will be ready to discuss the issue in Paris on 5 December, but will not run after Dumas, given that there no longer appears to be French interest in discussing our ideas or working up an alternative text.

The enclosed instructions, drawing on material agreed between the Department of Employment and the Treasury, have gone to EC posts. FCO and Department of Employment Ministers will continue to deploy these points in contacts with the UK and Community press before Strasbourg.

I am copying this letter to Clive Norris (Department of Employment), John Gieve (HM Treasury), Neil Thornton (Department of Trade and Industry) and David Hadley (Cabinet Office).

John Gieve

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

<<<<

1 <<<<
2 grant another 35,000 man years of holidays. A minimum
3 entitlement of 20 days per year would involve about 125,000
4 extra man years. This is largely because around a quarter
5 of part-time workers currently receive no paid holiday. We
6 regard the UK's 6 million part-time workers as an important
7 element in assuring labour market flexibility.
8 (b) Article 17 (dealing with workers' consultation, information,
9 and participation) could mean a 20 per cent increase in time
10 spent by trade union representatives on union business,
11 raising employer costs by up to pounds 100 million.
12 (c) Article 21 (equitable remuneration for young people) would,
13 on basis of a pounds 90 minimum weekly wage, lose 40,000
14 young people their jobs.
15 (d) Article 5 (assuring workers of an equitable wage). Although
16 neither the Charter nor the Commission's Action Programme
17 propose a legally binding Community minimum wage, it is
18 worth noting that if such a wage were set at 50% of the
19 national average, 0.75 million UK jobs would be lost as a
20 result. It remains our strong view that employment growth
21 is best assured by greater flexibility in pay bargaining,
22 which we regard as a matter for individual employers and
23 their workforce. A national minimum wage is an ineffective
24 way of protecting against low household living standards,
25 which we deal with by a redistributive tax system and ^{targeted} L
26 family and housing benefits.
27 - We welcome absence in Action Programme of proposals for
28 binding measures on industrial relations and social protection.
29 5. (For Lisbon, Dublin, Madrid and Athens).
30 If they implement it, Southern Member States and Ireland plainly
31 are particularly vulnerable to Community regulation of social
32 policy; agreement to the Social Charter and action programme as
33 proposed could involve considerable increases in costs. Lisbon
34 Telno 402 reinforces this. Grateful therefore you place

///
//
/

For distribution order see Page	Catchword: /particular
---------------------------------	------------------------

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
--	---------------------------------------	--------	--------------------------------

<<<<

1	<<<<	
2	particular stress on the likely cost implications of Community	
3	regulation.	
4	6. Posts should make maximum use of the Employment Secretary's	
5	speech in the Social Charter scrutiny debate on 30 November	
6	(being sent to you in the retract series).	
7		
8	HURD	
9		
10		
11	YYYY	
12	MAIN	
13	FRAME SOCIAL	
14	ECD(I)	
15		
16	NNNN	
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
/// 31		
// 32		
/ 33		
34		



For distribution order see Page	Catchword:

Enola: Buana PT43

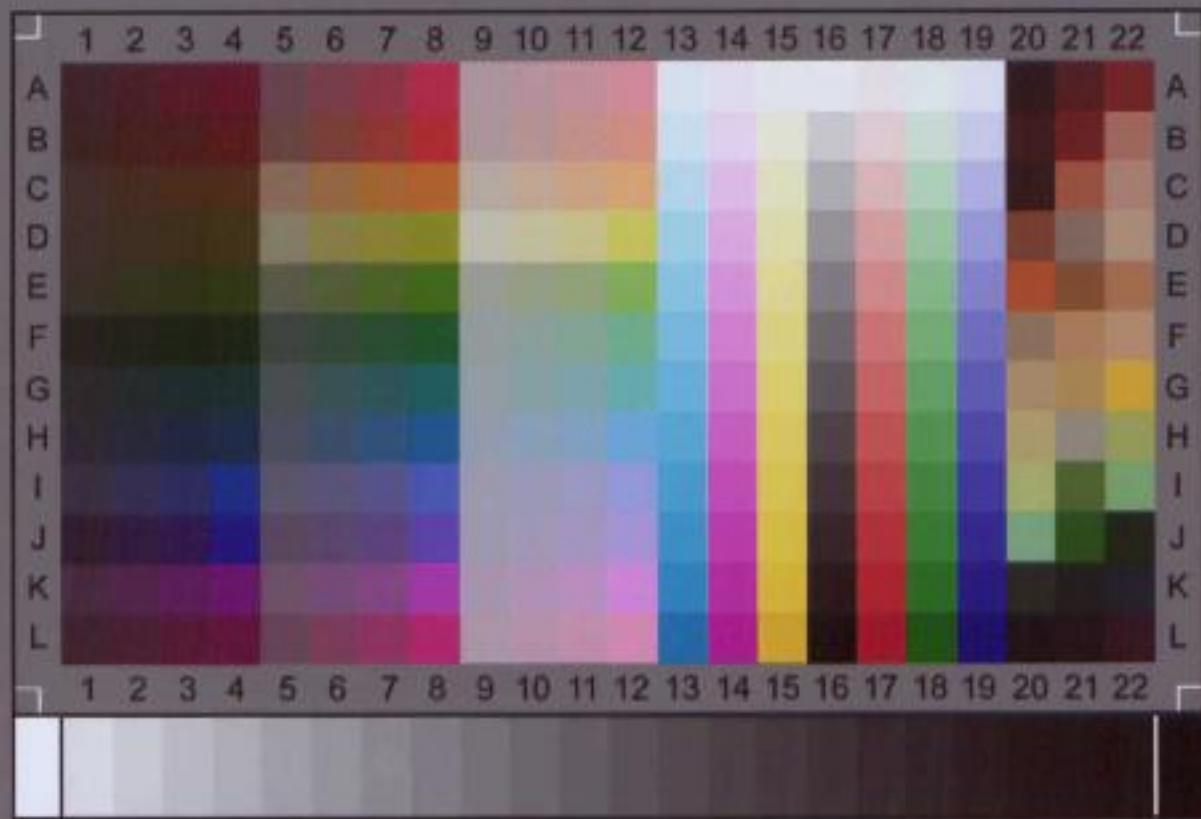


PART 43 ends:-

SS/Employment Press Statement
30 November 1989.

PART 44 begins:-

Fco to CNP 4.12.89



IT8.7/2-1993
2009.02

Image
Access

IT-8 Target

Printed on Kodak Professional Paper
Charge: R090212