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FM FCO
TO IMMEDIATE UKREP BRUSSELS
TELNO 156
OF 231200Z MAY 89
INFO PRIORITY EC POSTS

FRAME ECONOMIC

MIPT: INFORMAL ECOFIN, 19-21 MAY

1. THE MINISTERS HAD A THOROUGH DEBATE ON THE ECONOMIC AND POLITICAL IMPLICATIONS OF THE PROCESS OF ECONOMIC AND MONETARY UNION AS SET OUT IN THE REPORT OF THE AD HOC COMMITTEE CREATED BY THE EUROPEAN COUNCIL IN HANOVER.
2. THE MINISTERS REAFFIRMED THE OBJECTIVE OF THE PROGRESSIVE REALISATION OF ECONOMIC AND MONETARY UNION AS STATED IN THE MANDATE GIVEN BY THE EUROPEAN COUNCIL IN HANOVER, WITHIN A CONTEXT OF SOCIAL AND ECONOMIC COHESION.
3. ~~MINISTERS AGREED THAT THE REPORT IS A VALUABLE AND COMPREHENSIVE BASIS FOR FURTHER WORK.~~
4. WHILE A RANGE OF DIFFERENT VIEWS WAS EXPRESSED, THERE WAS A GENERAL VIEW THAT IT WOULD BE USEFUL IF THE COMPETENT BODIES (ECOFIN COUNCIL, COMMISSION, MONETARY COMMITTEE AND COMMITTEE OF CENTRAL BANK GOVERNORS) SHOULD:
 - PREPARE, AS A MATTER OF URGENCY, WORK FOR LAUNCHING THE MEASURES SET OUT IN STAGE 1 AS INDICATED IN THE REPORT.
 - DEFINE THE OPERATIONAL ELEMENTS OF STAGES 2 AND 3 AS INDICATED IN THE REPORT SO THAT A DECISION CAN BE TAKEN IN DUE COURSE ON THE CONVOCATION OF AN INTERGOVERNMENTAL CONFERENCE.

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TELNO 157
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FRAME ECONOMIC

INFORMAL ECOFIN

1. THE SPANISH PRESIDENCY HOSTED, WITH CONSIDERABLE EFFICIENCY, AN INFORMAL MEETING OF EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS AT S'AGARO ON THE COSTA BRAVA ON 19-21 MAY. THE CHANCELLOR AND THE GOVERNOR ATTENDED FOR THE UK. THERE WERE TWO PLENARY DISCUSSIONS OF SOME THREE HOURS EACH, AND A DISCUSSION OVER LUNCH, AS WELL AS BILATERALS AND INFORMAL CONTACTS.

SUMMARY

2. THE PRINCIPAL BUSINESS WAS THE DISCUSSION FORESHADOWED IN THE CONCLUSIONS OF LAST JUNE'S EUROPEAN COUNCIL THAT FINANCE MINISTERS SHOULD EXAMINE THE DELORS COMMITTEE'S REPORT ON EMU BEFORE THE EUROPEAN COUNCIL IN MADRID. THE OUTCOME OF THE DISCUSSION WAS A GENERAL VIEW THAT IT WOULD BE USEFUL IF THE COMPETENT BODIES (ECOFIN COUNCIL, COMMISSION, MONETARY COMMITTEE AND COMMITTEE OF CENTRAL BANK GOVERNORS) SHOULD PREPARE, AS A MATTER OF URGENCY, WORK FOR LAUNCHING THE MEASURES SET OUT IN STAGE 1 AS INDICATED IN THE REPORT: AND SHOULD DEFINE THE OPERATIONAL ELEMENTS OF STAGES 2 AND 3 AS INDICATED IN THE REPORT SO THAT A DECISION CAN BE TAKEN IN DUE COURSE ON THE CONVOCATION OF AN INTERGOVERNMENTAL CONFERENCE. THE COMMISSION INTRODUCED THEIR NEW APPROACH ON INDIRECT TAX APPROXIMATION, WHICH WAS GENERALLY REGARDED AS AN IMPROVEMENT ON THE OLD COCKFIELD PROPOSALS. THERE WAS A STOCKTAKING ON THE POSITION REACHED ON DISCUSSIONS ON WITHHOLDING TAX AND THE MUTUAL ASSISTANCE DIRECTIVE. INTERNATIONAL DEBT WAS DISCUSSED OVER LUNCH.

DELORS REPORT

3. THE CHANCELLOR, AFTER MAKING CLEAR THAT HIS COMMENTS SHOULD BE SEEN IN THE CONTEXT OF WHAT HE SAID AT THE LAST ECOFIN MEETING IN LUXEMBOURG, EMPHASISED THAT THE POLITICAL ASPECTS OF THE DELORS COMMITTEE'S RECOMMENDATIONS WERE FUNDAMENTAL. THESE ASPECTS NEEDED MUCH GREATER DISCUSSION. THEY TOUCHED ON THE SOVEREIGNTY OF PARLIAMENTS, WHICH IN THE UK WERE FUNDAMENTAL TO

OUR CONSTITUTION. HE SAW NO NEED FOR AN INTERGOVERNMENTAL CONFERENCE (IGC) IN THE FORESEEABLE FUTURE. THE TASK BEFORE THE COMMUNITY NOW WAS TO CONSIDER HOW TO IMPROVE ECONOMIC AND MONETARY CO-OPERATION WITHIN THE FRAMEWORK OF THE EXISTING TREATY. NOR COULD HE ACCEPT THE STIPULATION IN PARAGRAPH 39 OF THE REPORT THAT A DECISION TO ENTER UPON THE FIRST STAGE SHOULD BE A DECISION TO EMBARK ON THE ENTIRE PROCESS. HE AGREED WITH RUDING (NETHERLANDS) THAT THERE WAS NO BASIS FOR THE COMMITTEE'S ASSUMPTION THAT REGIONAL AND STRUCTURAL POLICIES SHOULD BE EXPANDED. FINANCE MINISTERS AND CENTRAL BANK GOVERNORS SHOULD BE FULLY INVOLVED IN ANY FOLLOW-UP WORK.

4. MOST MINISTERS WELCOMED THE GENERAL THRUST OF THE REPORT, WITH THE EXCEPTION OF THE CHANCELLOR, PETERSEN (DENMARK) AND TO SOME EXTENT SANTER (LUXEMBOURG). RUDING WAS UNCERTAIN WHEN AN IGC SHOULD BE CONVENED: THOROUGH PREPARATION WAS NECESSARY. AMATO (ITALY) THOUGHT THAT THE WORK OF THE REPORT NEEDED FURTHER DEEPENING AND AN IGC SHOULD BE DECIDED UPON LATER. BEREGOVY (FRANCE) THOUGHT THAT DISCUSSIONS ON A NEW TREATY SHOULD BEGIN AS SOON AS POSSIBLE. PETERSEN, WHILE SUPPORTING PROGRESS IN STRENGTHENING THE EMS AND ECONOMIC CO-OPERATION GENERALLY, BELIEVED THAT THE COMMUNITY SHOULD HAVE MORE EXPERIENCE BEFORE EMBARKING ON THE GRAND DESIGN OUTLINED IN THE COMMITTEE'S REPORT AND ON CONSEQUENT TREATY AMENDMENT. MAYSTADT (BELGIUM) WAS READY TO CONTEMPLATE AN IGC, BUT THOUGHT THAT THE ESSENTIAL POINT WAS NOT ITS DATE OF CALLING, BUT THE DATE OF AGREEMENT IN PRINCIPLE THAT IT WOULD TAKE PLACE. REYNOLDS (IRELAND) SAID THAT A TOO HASTY IGC WOULD BE UNHELPFUL AND MORE CONSIDERATION WAS NECESSARY. ROUMELIOTIS (GREECE) ENCOURAGED THE THOUGHT OF AN IGC ONCE THE COMPETENT BODIES HAD CLARIFIED THE TECHNICAL ASPECTS. WAIGEL (GERMANY) SUGGESTED THAT CONSIDERATION OF CALLING AN IGC SHOULD AWAIT THE EXAMINATION OF TECHNICAL ISSUES RAISED IN THE REPORT. SANTER THOUGHT THAT THE FIRST STEP WOULD BE TO SEE WHAT COULD BE DONE UNDER THE EXISTING RULES FOR STAGE 1 AND THEN PERHAPS PROCEED FURTHER, IF THE POLITICAL WILL WAS THERE, AND THE RIGHT POLITICAL CONDITIONS HAD BEEN ESTABLISHED FOR A SUCCESSFUL IGC. THE STIPULATION IN PARAGRAPH 39 OF THE REPORT, THAT A DECISION TO ENTER UPON THE FIRST STAGE OF EMU SHOULD BE A DECISION TO EMBARK UPON THE ENTIRE PROCESS, CAUSED NO DIFFICULTY FOR RUDING, AMATO, BEREGOVY, WAIGEL AND, WITH SOME EQUIVOCATION, SANTER. PETERSEN EMPHASISED THAT HIS GOVERNMENT COULD NOT ACCEPT THE COMMITMENT IN THAT PARAGRAPH, AND SUGGESTED THAT IT WOULD BE HELPFUL IN THAT CONTEXT TO DISTINGUISH BETWEEN POLITICAL AND LEGAL COMMITMENTS. MAYSTADT AND RUDING HOPED THAT THE CONCEPT OF A TWO-TIER EUROPE COULD BE

AVOIDED, THOUGH THE SITUATION COULD NOT BE EXCLUDED THAT A GROUP OF COMMUNITY MEMBERS MIGHT WISH TO BEGIN THE PROCESS WITHOUT DELAY. REYNOLDS, ROUMELIOTIS, CADILHE (PORTUGAL) AND PEREZ (SPAIN) EMPHASISED THE IMPORTANCE OF MORE SUPPORT FOR REGIONAL AND STRUCTURAL POLICIES AS A CONDITION OF EMU. RUDING AND WAIGEL SPOKE IN A CONTRARY SENSE. A NUMBER OF MINISTERS URGED THE UK TO JOIN THE ERM. ALL AGREED THAT ECOFIN MINISTERS AND THE CENTRAL BANK GOVERNORS COMMITTEE SHOULD BE INVOLVED IN ANY FOLLOW-UP WORK AGREED AT THE EUROPEAN COUNCIL.

5. AT THE END OF THE DISCUSSION IT WAS AGREED THAT THE PRESIDENT (SOLCHAGA) SHOULD SUMMARISE THE DISCUSSION IN HIS REMARKS TO THE PRESS AS IN MIFT. HIS REMARKS WOULD BE GIVEN ON HIS OWN PERSONAL RESPONSIBILITY, BUT ON THE BASIS THAT OTHER MINISTERS WOULD NOT SEEK TO REBUT THEM IN PUBLIC. SOLCHAGA DULY READ OUT THE WORDS IN MIFT, IN SPANISH, WITH A SLIGHTLY DIFFERENT ENGLISH TRANSLATION GIVEN TO THE JOURNALISTS. SO FAR AS IS KNOWN, NO WRITTEN TEXT WAS ISSUED AND YOU SHOULD NOT REGARD MIFT AS AN OFFICIAL OR AUTHORISED TEXT.

6. IF ASKED ABOUT THE PRESIDENT'S STATEMENT, YOU SHOULD MAKE CLEAR THAT THE UK'S POSITION HAS NOT CHANGED. WE ARE OPPOSED TO TREATY AMENDMENT, BUT AS THE CHANCELLOR MADE CLEAR IN HIS PRESS CONFERENCE AT S'AGARO, WE ARE KEEN TO SEE WHAT CAN BE DONE TO IMPROVE ECONOMIC AND MONETARY CO-OPERATION WITHIN THE FRAMEWORK OF THE EXISTING TREATY. THE PRIORITY ACCORDED TO THE PRACTICAL AGENDA OF MEASURES DESIRABLE AND FEASIBLE IN THE NEAR-TERM IS THEREFORE TO BE WELCOMED.

INDIRECT TAX APPROXIMATION

7. MOST MINISTERS GAVE A WARM WELCOME TO COMMISSIONER SCRIVENER'S NEW APPROACH, THOUGH ALL RAISED DETAILED POINTS OF DIFFICULTY, SOME OF A SUBSTANTIAL NATURE. THERE WAS GENERAL AGREEMENT WITH THE COMMISSIONER'S SUGGESTION FOR AN URGENT WORK PROGRAMME AT TECHNICAL LEVEL.

WITHHOLDING TAX

8. THE COMMISSION MAINTAINED ITS PROPOSAL FOR A DIRECTIVE ON WITHHOLDING TAX DESPITE THE OPPOSITION OF FIVE DELEGATIONS (UK, LUXEMBOURG, GERMANY, THE NETHERLANDS AND GREECE) AND RESERVES OF DENMARK AND SPAIN. ON THE MUTUAL ASSISTANCE DIRECTIVE, ELEVEN DELEGATIONS COULD ACCEPT THE PROPOSAL, WITH CERTAIN REMARKS, WHILE ONE (LUXEMBOURG) WAS OPPOSED. WAIGEL, AFTER DETAILING THE REASONS WHICH HAD LED HIS COUNTRY TO ANNOUNCE THE ABOLITION OF THE WITHHOLDING TAX, CALLED ON MINISTERS TO WORK TOGETHER TO FIND A CONSTRUCTIVE SOLUTION, PERHAPS BASED ON THE HARMONISATION OF DOMESTIC PROCEDURE AND ACTIONS TO COMBAT TAX FRAUD. (FROM BILATERAL CONTACTS, IT SEEMS THAT HE HAS IN MIND MEASURES WHICH

DO NOT COMMIT MEMBER STATES TO NEW ACTIONS.) BEREGOVY, AFTER RECALLING THAT THE FRENCH PEOPLE THOUGHT THAT THE LIBERALISATION OF CAPITAL MOVEMENTS WAS LINKED TO THE HARMONISATION OF WITHHOLDING TAXES, SAID THAT THERE MIGHT BE INSURMOUNTABLE DIFFICULTIES IN IMPLEMENTING CAPITAL LIBERALISATION UNLESS THERE WAS A SOLID AGREEMENT FOR ACTION TO COMBAT FISCAL FRAUD AND EVASION. (BEREGOVY'S REMARK MAY (UNDERLINED) IMPLY THAT THE FRENCH RECOGNISE THAT THE WITHHOLDING TAX IS DEAD AND THEY WILL NOW PRESS FOR MORE INFORMATION SHARING AND CO-OPERATION BETWEEN TAX AUTHORITIES, PERHAPS THROUGH AN ENHANCEMENT OF THE MUTUAL ASSISTANCE DIRECTIVE.) THE CHANCELLOR ASSOCIATED HIMSELF WITH WAIGEL'S POSITION. AMATO SHARED BEREGOVY'S POLITICAL FEARS. SANTER WAS PREPARED TO CONSIDER THE MUTUAL ASSISTANCE DIRECTIVE AS WELL AS THE APPROACH IN ARTICLE 4 OF THE CAPITAL LIBERALISATION DIRECTIVE, PROVIDED THAT THE WITHHOLDING TAX DIRECTIVE WOULD NOT PROCEED.

9. THE PRESIDENT SUMMED UP THE DISCUSSION AS SUGGESTING THAT IT WOULD BE IMPOSSIBLE TO FIND A UNANIMOUS POSITION ON THE WITHHOLDING TAX DIRECTIVE, WHICH POSED ENORMOUS POLITICAL DIFFICULTIES. PROGRESS LOOKED TO BE EASIER ON THE MUTUAL ASSISTANCE DIRECTIVE. THE PRESIDENCY HAD A MORAL DUTY TO TRY TO FIND A WAY FORWARD IN VIEW OF THE LINK WITH CAPITAL LIBERALISATION. HE WOULD MAKE FURTHER REPORTS ON BOTH DIRECTIVES AT THE JUNE ECOFIN AND PUT FORWARD A REVISED TEXT ON THE MUTUAL ASSISTANCE DIRECTIVE.

INTERNATIONAL DEBT

10. THE PRESIDENT ENDEAVOURED, WITHOUT SUCCESS, TO PERSUADE MINISTERS OVER LUNCH TO SUPPORT A COMMUNITY MIDDLE INCOME DEBT INITIATIVE. THE MATTER WILL BE DISCUSSED AGAIN AT LUNCH AT THE JUNE ECOFIN.

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