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FM BONN

TO PRIORITY FCO

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INFO PRIORITY UKREP BRUSSELS

INFO ROUTINE OTHER EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

E.C. QUESTIONS: STOLTENBERG'S VIEWS

1. I CALLED ON FINANCE MINISTER STOLTENBERG THIS MORNING AND HANDED OVER A COPY OF OUR OBJECTIVES FOR THE UK PRESIDENCY. HE SAID THEY WERE BASICALLY IN LINE WITH GERMAN POLICY. THE PROBLEM WAS THE SMALL PRINT, EG ON AGRICULTURE. THE FALL IN THE DOLLAR MEANT THAT EC EXPENDITURE WOULD GO UP. ONE COULD ARGUE ABOUT THE AMOUNT BUT NOT ABOUT THE PRINCIPLE. I ASKED HIM ABOUT NATIONAL MEASURES. HAD THE FRG DONE ALL IT INTENDED IN COMPENSATING GERMAN FARMERS? HE REPLIED THAT THIS HAD BEEN A DIFFICULT POLITICAL PROBLEM AND THAT HE HAD HAD TO REJECT MANY PROPOSALS. CONCESSIONS ON MCAS MADE TWO AND A HALF YEARS AGO WERE STILL AFFECTING FARMING INCOMES IN THE FRG. MORE NATIONAL MEASURES COULD HELP TO KEEP DOWN CAP COSTS, BUT THERE WOULD BE MUCH OPPOSITION FROM MEMBER STATES (NOT ONLY IN THE MEDITERRANEAN) WHICH DID WELL OUT OF THE EXISTING SYSTEM.

2. STOLTENBERG SAID THAT AGRICULTURE WAS INEVITABLY LINKED WITH THE BUDGET. WE HAD TO STICK TO 1.4 PERCENT FOR 1986 AND 1987. THIS MEANT EXAMINING ANY NEW EXPENDITURE (INCLUDING R AND D) VERY CAREFULLY. IN BONN, THE CABINET HAD DECIDED THAT THERE SHOULD IN PRINCIPLE BE NO NEW PROGRAMMES UNTIL THE EC BUDGET WAS PROPERLY UNDER CONTROL. BUDGET DISCIPLINE HAD TO BE ENFORCED, AND STOLTENBERG WAS DETERMINED THAT IT SHOULD.

3. TURNING TO PROPOSALS FOR HARMONISATION OF INDIRECT TAXES, STOLTENBERG SAID HE HAD A TEAM LOOKING AT THE COMMISSION'S PROPOSALS. THEY WERE QUITE LOGICAL BUT IGNORED THE POLITICAL DIFFICULTIES. THIS WAS NOT A MATTER WHICH COULD BE RESOLVED DURING THE UK PRESIDENCY, NOT LEAST BECAUSE OF THE FRG ELECTIONS EARLY NEXT YEAR. BUT HE WOULD LIKE TO CONSIDER THE PROPOSALS BEFORE THE END OF 1986 WITHIN A SMALL GROUP OF EC COLLEAGUES, OF COURSE ON A STRICTLY INFORMAL BASIS.

4. FINALLY STOLTENBERG EXPRESSED KEEN INTEREST IN THE COMMISSION'S IDEAS ON LIBERALISING CAPITAL MOVEMENTS. THIS HAD ALWAYS BEEN A GERMAN OBJECTIVE, BUT HE THOUGHT DELORS WAS RIGHT TO SET ABOUT IT WITH SOME CAUTION.

BULLARD

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