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CONFIDENTIAL

10 DOWNING STREET

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FILE TITLE: <i>Relations</i>		SERIES <i>LUXEMBOURG</i>
		PART: <i>1</i>
PART BEGINS: <i>9 May 1997</i>	PART ENDS: <i>NOV 2000</i> <i>JUNE 2004</i>	CAB ONE:

**LABOUR
ADMINISTRATION**

Part done

PREM 49/2108

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Printed in the UK for HMSO Dd4063169 1/96 C10 59064

PART

CLOSED

DATE CLOSED	7 JUNE 2001
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Series : LUXEMBOURG

File Title : Relations

Part : 1

Date	From	To	Subject	Class	Secret
09/05/1997	FA/APS	FCO	Visit By Luxembourg PM	C	0
12/05/1997		Telegram/IN	Luxembourg State Of The Nation Address : Fiscal Measures	C	0
19/05/1997	FCO	FA/PS	Brief Meeting With Luxembourg PM	C	0
19/05/1997	FA/PS	PM	Brief Meeting With Luxembourg PM	C	0
20/05/1997	FA/PS	FCO	Record With Luxembourg PM	C	0
23/06/1997	Cab Off	FA/PS	Meeting with Luxembourg PM	C	0
05/08/1997	FA/APS	Luxembourg/Ambo	Invitation to Juncker	C	0
29/08/1997	FA/PS	PM	Overseas Visits - Luxembourg	C	0
16/09/1997	cos	PM	Juncker	C	0
17/09/1997	PPS	FCO	Meeting with Luxembourg Prime Minister	C	0
26/09/1997		PM	Luxembourg Socialist Party Leader wishing to meet	U	0
06/10/1997	FA/APS		Olivier Mores - Meeting with Luxembourg Socialist Party Leader	U	0
08/10/1997	FCO	FA/PS	Brief : Meeting with the Luxembourg PM	U	0
08/10/1997	Cab Off	FA/PS	Brief : meeting with the Luxembourg PM	C	0
09/10/1997	FA/PS	FCO	(M) Dinner with Luxembourg PM	C	0
13/10/1997	PM	Luxembourg/PM	(H) - Thanks for dinner	C	0
27/04/1998	PM	Luxembourg/PM	Thank you for your letter about the Venice Appeal	C	0
05/06/1998	FCO	FA/APS	Brief: Cardiff preparation: Bilateral with Juncker: 1130-1300, 9 June	R	0
09/06/1998	FA/PS	FCO	(M) Pre-Cardiff Tour: Meeting with Luxembourg Prime Minister, 9 Ju	C	0
10/06/1998	FA/PS	FCO	Luxembourg Prime Minister	C	0
12/08/1999	FCO	HMT	Luxembourg: Taxation of savings	U	0
16/08/1999	FA/APS	FCO	Possible Visit by Luxembourg Prime Minister	U	0
26/08/1999	FCO	FA/APS	Request for Call by Luxembourg Prime Minister	R	0
27/08/1999	FCO	FA/APS	Message to the Luxembourg Prime Minister	U	0
03/09/1999	FA/PS	FCO	Request from the Luxembourg PM to visit Britain	C	0
06/09/1999	PM	Luxembourg/PM	(H) Congratulations on second term as PM of Luxembourg	U	0
10/09/1999	Luxembourg/PM	PM	(H) Thank you	U	0
15/09/1999	FA/APS	FCO	Letter from the Luxembourg Prime Minister	U	0
09/02/2000	FA/APS	FCO	Meeting with Luxembourg PM	C	0
10/02/2000	Luxembourg/HMA	FA/APS	Meeting between the Prime Minister and Juncker, 2 March	R	0
29/02/2000	FCO	FA/APS	PM's Bilateral Meeting with Luxembourg Prime Minister , Jean-Claud	U	0
01/03/2000	FA/APS	PM	Meeting with Juncker	U	0
02/03/2000	FA/APS	FCO	(M) Meeting with Luxembourg PM	R	0
31/10/2000	FCO	FA/PS	Request for a call on the Prime Minister by the Prime Minister of Lux	C	0
01/11/2000	FA/PS	FCO	Request for call on the Prime Minister by the Prime Minister of Luxe	C	0

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file

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 November 2000

Dear Sherard,

**REQUEST FOR CALL ON THE PRIME MINISTER BY THE PRIME
MINISTER OF LUXEMBOURG**

Thank you for your letter of 31 October. The Prime Minister's diary is extremely congested at present. He saw Juncker earlier this year. Juncker does not seem to have requested a meeting this time around and, even if he had, it would be difficult to arrange. So I think we should let sleeping dogs lie.

Yours ever,

A handwritten signature in black ink, appearing to be 'JS'.

JOHN SAWERS

Sherard Cowper-Coles
FCO

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Foreign &
Commonwealth
Office

London SW1A 2AH

31 October 2000

Thursday
2 March
2000

JS
JB
AC
KG

Dear John,

**Request for Call on the Prime Minister by the Prime Minister
of Luxembourg**

Jean-Claude Juncker, the Luxembourg Prime Minister and Minister of Finance, will be making a speech at Oxford at 1700 on Monday 13 November. The title will be "Countdown to the European Council at Nice".

According to Juncker's office, his present plans are to travel straight to Oxford and to spend some time privately in the city on 14 November before returning to Luxembourg.

Although the Prime Minister and Juncker had a bilateral in London on 2 March, there is a clear case for a short focused call when he is here next month.

As the title of Juncker's speech suggests, his thoughts during the visit will be focused on Nice. In the match-up between large and small member states, the UK and Luxembourg find themselves on opposite sides of the table on several IGC issues, notably number of Commissioners and vote reweighting. But Juncker has a lively and independent mind and discussion with him could help identify the shape of a possible deal at Nice. We believe he would be responsive to our concerns in such areas as reinforced co-operation (where he has been at pains to underline that it should operate within existing institutions, be open to all participants and be used only as a last resort). He is also a key ally on IGC issues of major importance to us, particularly keeping tax and social security away from QMV. This would be an important opportunity to stiffen Juncker's resolve in the run-up to Nice.

We hope that the Prime Minister might be able to offer Juncker a short call on 13 or 14 November.

Yours em, *Sherard*

(Sherard Cowper-Coles)
Principal Private Secretary

John Sawers
10 Downing Street

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FILE
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MRH



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 March 2000

SUBJECT
MASTER

FILED IN

Dear Tim

**MEETING WITH LUXEMBOURG PRIME MINISTER:
2 MARCH**

The Prime Minister had an hour's meeting with Juncker this afternoon. Juncker was accompanied by his Budget Minister, Luc Frieden, Michele Eisenbarth and the Ambassador. Jeremy Heywood, John Sawers, Martin Donnelly, William Ehrman and I were present on our side.

Lisbon Special Council

Juncker had just read the Commission paper. He welcomed the way it correctly addressed the main challenge facing the Union, in terms similar to the British paper. But he was concerned at the emphasis on quantified targets in areas such as unemployment and bringing down poverty. This reflected unhelpful French priorities. The focus should be on content, not specific targets which would only lead to distracting debate. It was important that the Special Council transmitted a clear message about Europe's readiness for structural reform, focusing on innovation, lifelong learning and a knowledge-based economy. The importance of tackling social exclusion should also be acknowledged. The end result should be a list of 10-12 points with proposed completion dates, but staying clear of quantified targets. It would be important to establish a continuing process (the Union had failed to do so on employment following the Luxembourg Presidency).

The Prime Minister agreed that the Lisbon Council should send a clear signal on structural economic reform. Jeremy Heywood said that there was a balance required between establishing clear targets and avoiding an unhelpful degree of specificity. We were opposed to the suggestion of a 3% growth target. The Luxembourg position was probably in the mainstream.

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JK

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- 2 -

Euro

The Prime Minister observed that the Lisbon Council could also be significant for the Euro. A good outcome should increase confidence in the European economy. Juncker claimed to be unconcerned about the level of the Euro but agreed that it needed a better image. He expected that the Euro would start to pick up as EU and US growth perspectives moved closer. He was critical of the decision-making process within the ECB. It was too laboured and prone to internal debate. Duisenberg should exercise greater authority. The Prime Minister emphasised that the British position on the Euro was unchanged, despite all the fevered media speculation.

Austria

Juncker expressed reservations about the position of the 14 who should have reacted earlier – in the crucial few days when SPO/OVP negotiations broke down. A firm message at that stage about the unacceptability of the FPO would have been more effective. There was a danger that the current package of measures would feed anti-European sentiments not only in Austria, but in Germany and Scandinavia. However it was now very difficult to shift position. At a recent Benelux meeting it had been clear that the Belgians were well dug into their hard-line stance. Any country that tried to move things forward risked being seen as soft on extremism. When the right moment came, 5 or 6 countries would need to concert a position in advance. Juncker predicted that the Austrian coalition would not last longer than 2 years – ultimately there was insufficient common ground between the two parties.

The Prime Minister commented that the Presidency had had to balance a range of views. The 14 had probably ended up in the right place. The important thing was to make sure that governments convinced their public opinions both of the danger which the FPO represented, and the rightness of the 14's position.

Withholding Tax

Juncker talked at length about withholding tax. He acknowledged that a UK position based on exchange of information (EOI) created difficulties for Luxembourg, whose financial sector relied on banking secrecy. The same was true of Germany and Austria (indeed he suspected that any German indication of openness towards EOI was simply because they relied on Luxembourg to block).

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- 3 -

Luxembourg's problem was that it was a small Member State. Santer had always simply rejected directives in this area (although he subsequently introduced a draft directive immediately after taking over at the Commission). Juncker however believed that small Member States could not afford to simply rest on a negative position. He had therefore progressed the Code of Conduct and a co-decision-based withholding tax proposal during the Luxembourg Presidency. He was very conscious of the fact that Luxembourg needed to move beyond a blocking agenda, hence his proposal of a final withholding tax (although he conceded this would not command a consensus).

Juncker said he had considered whether the UK and Luxembourg should try and reach a common position on withholding tax. On balance, he thought not. It made more sense to continue to express our different problems with existing proposals, rather than to form a tactical alliance.

Juncker said he would ultimately prefer a good directive to an indefinite sterile debate. But he would prefer no solution to a bad solution. Approaching the issue on a wider international basis, drawing in third countries, was a prerequisite.

The Prime Minister agreed on the importance of an approach that encompassed non-EU financial centres. It would be absurd to agree a measure which would lead to outflows from the EU. This was a real danger, given the ease with which even small investors could now transfer funds. It was surprising that this dimension was not adequately factored into Commission proposals. Juncker commented that the Commission felt itself unable to negotiate with third countries until the EU had reached a common position of its own.

Juncker said he was conscious of Luxembourg's image problem over banking. This was one of the reasons why he was ready to agree a directive on the right terms. He reflected ruefully on the fact that every time the Germans publicly criticised Luxembourg's financial sector they forced him into a robust defence. This in turn simply stimulated a fresh influx of German money. It was all a source of concern. But the domestic background was not an easy one. The public believed that the financial sector had been the salvation of Luxembourg following the decline of the steel industry. It was sensitive to any suggestion that the sector's interests would be damaged by European legislation.

Juncker expressed concern that a continued impasse over the withholding tax would fuel pressure in the IGC to extend QMV to taxation. The Commission

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- 4 -

proposal to distinguish single market-related taxation measures from the rest was cleverly pitched to overcome the nervousness of some partners. Luxembourg would take an uncompromising position. The Prime Minister agreed that the Commission proposal was not a satisfactory way forward.

As he left, Juncker said he was about to catch the Eurostar to Brussels for talks with Bolkestein. His impression was that Bolkestein was not strongly committed to the withholding tax. It was something he had inherited from Monti. He would not lose much sleep if it foundered.

I am copying this letter to Tom Scholar (HM Treasury), Antony Phillipson (Department of Trade and Industry), Sir Stephen Wall (UKRep Brussels), William Ehrman (Luxembourg) and Sebastian Wood (Cabinet Office).

Yours ever

Michael

MICHAEL TATHAM

Tim Barrow Esq
Foreign and Commonwealth Office

RESTRICTED

From: Michael Tatham

Date: 1 March 2000

PRIME MINISTER

**cc: Jonathan Powell
John Sawers
Jeremy Heywood
Roger Liddle
Alastair Campbell**

MEETING WITH JUNCKER

Jean-Claude Juncker is seeing you for an hour tomorrow. He is in the UK to give a lecture at Cambridge (and has been seeking a meeting with you since his re-election last summer). A checklist for the meeting is attached. Juncker will major in on taxation (Jeremy and Martin Donnelly will be present in case the discussion gets down to technicalities). Juncker will also want to cover the IGC and Lisbon Special Council.

Taxation

Luxembourg approaches this from the opposite direction as us. We are pressing for an approach based on two-way exchange of information on as wide an international basis as possible. Luxembourg sees this as a threat to its own banking sector which thrives on secrecy laws. Juncker's own proposal of effectively fixing a cross-border tax at 10% is unacceptable. It would reinforce banking secrecy and encourage (legal) cross-border tax avoidance.

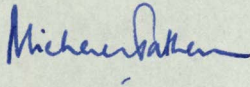
Our paper on exchange of information was circulated to partners last week. It will be discussed at the next high level working group (at the end of the month).

IGC

Not much identity of views. Luxembourg favours a double majority reweighted voting system; keeping its Commissioner; QMV as the rule; and further movement on flexibility. On two issues they are useful allies: they are against extending QMV on tax and social security; and they instinctively favour a non-binding political Charter of Rights (but are liable to buckle under Benelux pressure and need steeling).

Lisbon Special Council

Luxembourg is supportive on innovation and economic reform, but sensitive about welfare issues (they are happy with their current low unemployment, high benefit situation).



MICHAEL TATHAM

CHECKLIST FOR MEETING WITH JUNCKER

Taxation

- key principle, clearly established at Helsinki, is that all citizens resident in EC should pay tax due on savings;
- two-way exchange of information on widest possible international basis is the most effective way forward. Encourages compliance and allows income to be taxed in the right country at the right amount.
- Circulated a paper on exchange of information last week. Keen to see this discussed in high level working group.

IGC

- priority should be to keep IGC focused around immediate enlargement requirements. Important to complete this year;
- extension of QMV a sensitive issue for the UK. Need to consider on a case-by-case basis. Firmly oppose extending QMV to taxation and social security. Would value your support;
- Charter of Rights should be a political, not legal, document.

Lisbon Special Council

- Presidency has set the right goal. Vital to seize this opportunity to send a powerful signal of our commitment to economic and social reform.
- Must result in concrete outputs promoting innovation and generating jobs.



cc: PB
JS
Jb
JH
DM
B.p.

29 February 2000

Foreign &
Commonwealth
Office

London SW1A 2AH

De Ned.

Prime Minister's Bilateral Meeting with Luxembourg Prime
Minister, Jean-Claude Juncker, London 2 March 2000

The Prime Minister is having bilateral talks with the
Luxembourg Prime Minister, Jean-Claude Juncker, at No 10 on
... 2 March. I enclose a checklist and background.

Juncker, who is visiting the UK to give a speech at
Cambridge University on 1 March, has been pressing for a
meeting with the Prime Minister to discuss taxation of savings
for some time. He is concerned about developments in our
position. This will be a useful opportunity for the Prime
Minister to explain our approach.

On the Code of Conduct, we are keen to keep up the
impetus on business taxation. Luxembourg also wants the Code
of Conduct kept in play.

Juncker's approach to the IGC seems pragmatic, but
Luxembourg remains among the most federalist member states.
The Prime Minister may want to lay down some markers about
vote re-weighting and Commission size. It may be worth
exploring how solid their opposition is to QMV for tax and
social security. He might also probe Juncker on flexibility,
where the Luxembourg approach seems to be driven more by
ideology than practical objectives.

Though Luxembourg generally supports us on Lisbon-related
issues, they do not wish Lisbon to mark a break with the
European social model. It would be useful to lobby Juncker on
Lisbon as a key event in European reform.

Juncker will be supported at the call by Michele
Eisenbarth (Diplomatic Adviser), Jos Weyland (Luxembourg
Ambassador to London) and Mil Jung (Press Spokesman). William
Ehrman (HMA Luxembourg) will be present.

*Yours ever,
Tim*

(Tim Barrow)
Private Secretary

Michael Tatham Esq
10 Downing Street

**PRIME MINISTER'S MEETING WITH LUXEMBOURG PRIME MINISTER,
JUNCKER, 2 MARCH**

POINTS TO MAKE

TAXATION

- The principle established at Helsinki - that all citizens resident in the EU should pay the tax due on all their savings income - has to be right. Tax evasion is indefensible, and cracking down on it has to be part of our work for modernising the EU economy.
- It was to help EU discussions go forward on the basis agreed at Helsinki that we published a new paper on exchange of information (on 25 February). The exchange of information is the only way effectively to tackle tax evasion, and is consistent with the Helsinki principle. Exchange of information needs to be on as wide an international basis as possible to ensure a level playing field in all financial centres, and to ensure that the efforts of the EU are not frustrated by non-cooperation elsewhere.
- (If Juncker refers to his proposal for a 10% "final" withholding tax) Understand why you have suggested this, but cannot agree that this proposal is right way forward. Risks encouraging EU citizens to invest cross-border to avoid tax on their savings - to detriment of every Member State.
- [If raised] the draft directive on taxation of savings and the Commission compromise proposal from December are based on the one-way provision of information, not two-way exchange of information. Commission proposals do not provide a way forward.
- On the Code of Conduct, welcome Luxembourg's continuing support for the work of the group. Main task now is for Member States to start preparations to amend their harmful measures.

IGC

- UK approach positive;
- agree on scope, timing and broad aims of IGC;
- vote re-weighting not bigs v smalls; but I need a clear result;
- debate Commission size; but some restructuring necessary anyway;
- QMV is important; but agree on unanimity for tax and social security;

- prepared to discuss flexibility. But what is practical case for change?
- Charter of Rights must remain a political, not legal document.

LISBON SPECIAL COUNCIL

- Chance to make Lisbon a signal that Europe is committed to reforming its economies and social model;
- support the Presidency goal of building knowledge based and inclusive economy in Europe - that's the right path towards full employment in Europe.

DROIT DE SUITE

- Grateful for your support on Droit de Suite.

BILATERAL

- Welcome rapid expansion of trade (UK exports up 100% in past two years, Luxembourg exports up 50%).
- Understand some 15% of Luxembourg students who go abroad to university come to UK. Very welcome.

**PRIME MINISTER'S MEETING WITH LUXEMBOURG PRIME MINISTER,
JUNCKER, 2 MARCH**

BACKGROUND

Taxation

The Helsinki European Council agreed that "all residents in a Member State of the EU should pay the tax due on all their savings income". This principle establishes that all sources of savings (ie wherever held) are covered and also that EU residents should pay the tax due (ie. not some of the tax due). This undermines a solution based on a withholding tax and reinforces exchange of information. The principle must be taken as a package.

Helsinki mandated a high level working group to take forward the discussions on taxation of savings. Its first meeting was on Friday 25 February, where Dawn Primarolo represented the UK. Just ahead of that meeting we circulated to other Member States a new UK paper on "exchange of information and taxation of savings". It set out the key advantages of exchange of information over the idea of a withholding tax, including:

- Exchange of information allows for the right amount of tax due on the income from savings to be collected;
- Exchange of information allows savings income to be taxed in the right country; and
- Exchange of information encourages compliance with tax systems.

Our paper also makes clear that exchange of information must be on as wide an international basis as possible. That is the only effective way of tackling tax evasion. Many international fora - such as the G7, the OECD, the Financial Action Task Force - recognise this fact and are taking steps to promote modernisation along these lines of systems for cracking down on tax evasion and financial crime. The report on reinforced tax policy cooperation that ECOFIN submitted to Helsinki recognised the need for third country participation before any directive is adopted (though different Member States take different views on how firm a commitment that is).

It was agreed at the high level working group meeting that the UK paper will be discussed at the next meeting probably in late March/early April.

Luxembourg will see the new UK paper as a serious threat to its banking secrecy laws. But as discussions in the OECD have shown, the tide of opinion is firmly against those countries who continue to resist any rollback of banking secrecy to allow some exchange of tax information. Even Switzerland is prepared to contemplate some movement.

Juncker may try to raise their proposal for a 10 per cent final withholding tax ("final" meaning no collection of tax at marginal rates on cross-border savings income throughout EU). This proposal, dressed up as a compromise is intended to reinforce banking secrecy, since no Member State would need to provide any information. This is clearly unacceptable - it would fix the tax rate on cross-border savings at 10 per cent, encourage UK residents to invest elsewhere in the EU to (legally) avoid tax. This would potentially cost the UK exchequer £millions. It would also do nothing to curb existing tax evaders.

Luxembourg has supported us in calling for the report of the Code of Conduct Group to be published. It sees the Code as an important part of the tax package as a whole. Luxembourg has 5 measures found to contravene the Code (equal with Ireland and Belgium, only the Netherlands has a higher figure - 10). But two of them will expire in 2001.

Luxembourg is keen to ensure that we should also crack down on the measures in our Crown Dependencies that have also been found to contravene the Code: it regards these as its competition. We remain committed to address them, within the framework of our constitutional relationship with our Crown Dependencies. We have circulated full information about it round other Member States.

IGC

Luxembourg is not a traditional ally on institutional issues, but Juncker seems reasonably close on scope. They will have noted the strong pro-European flavour of our White Paper and the undramatic tone of its approach to the IGC substance. At the very least we should have a better working relationship with the Luxembourgers than at previous IGCs. But there are differences in the substance and some old Benelux habits die hard.

They accept vote re-weighting, but prefer a double majority system. They insist on keeping a Commissioner, but may accept some minor restructuring. Tactically we want to keep the debate on size running for now. On structure, the likely solution is to increase the number of Vice Presidents to 6-8. They support QMV as the rule, but accept it will be a case by case approach in the end. Though generally more ambitious, they should be useful allies on tax and social security.

They are pushing "more flexible flexibility" (i.e. no emergency brake, extension to Pillar II and a reduction in the minimum number of member states required). For them it is about showing that the EU can still advance after enlargement. We are prepared to discuss, but they need to make the practical case. Where would it be used?

Luxembourg still wants a political Charter of Rights, not a legal text justiciable in the ECJ. but they may be influenced by the Belgians who are now thinking about a binding text that could be used against a future Austria. We disagree with creating a binding text. This would fundamentally change the exercise which must be kept separate from the IGC.

Lisbon Special Council

When an Inter-departmental team visited Luxembourg on 31 January to exchange views on the Council, they were very supportive on the innovation and economic reform aspects of the agenda, but not willing to make changes to welfare policy. With low unemployment and high benefits, they think they have the work/welfare balance right.

We are making progress in advancing our views about the Lisbon Special Council with other Member States, essentially doing a lot of the groundwork for the Presidency. Our views have been well received. There is a lot of agreement on the need to create the best knowledge-based and inclusive economy in the world. Prime Ministers' sherpas agreed on 11 February to establish a three-tiered program for achieving concrete goals at the Council. Member States are getting more focused. Juncker staff say he is still attached to the idea of an EU wide minimum income (probably expressed as a proportion of each Member States average national income) and may propose this for Lisbon.

Droit de Suite

Luxembourg has been an ally in the discussions over Droit de Suite and this would be a suitable opportunity for the Prime Minister to express his thanks for their continued support.

Bilateral

Relations are friendly but not particularly close. There have been no major disagreements since Juncker's mishandling of Turkey at the Luxembourg European Council in 1997.

Trade between us has expanded rapidly in the last two years. UK exports are up 100% whilst Luxembourg imports are up 50%.

Britain is also an extremely attractive destination for Luxembourg students. 15-17% of all their undergraduates study in our universities (they have no full-scale university of their own).

TMO DE LUXEMBOURG

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From the Ambassador

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**British Embassy
Luxembourg**

10 February 2000

Philip Barton Esq
No.10

*cc: JS
JP
MT
AC
KG*

14 Boulevard Roosevelt
L-2450 Luxembourg
Telephone 22 98 64 / 3 / 6
Facsimile: 22 98 67

Dear Philip,

MEETING BETWEEN THE PRIME MINISTER AND JUNCKER, 2 MARCH

Michèle Eisenbarth (Juncker's Diplomatic Adviser) has confirmed to me this morning that Juncker is content with the time proposed for his meeting at No.10 with the Prime Minister, ie 2.30pm on Thursday 2 March for one hour.

*Yours ever,
William*
W G Ehrman

Cc: Nigel Sheinwald Esq CMG, Director EU, FCO
Jeremy Cresswell Esq CVO, EUD(B), FCO
Mark Lyall-Grant Esq, EUD(I), FCO

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10 DOWNING STREET
LONDON SW1A 2AA

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AC:

From the Private Secretary

9 February 2000

Dear Tim

MEETING WITH LUXEMBOURG PRIME MINISTER

We have been dealing with a request by Juncker's office for a bilateral meeting with the Prime Minister during his visit to the UK at the start of next month. We have agreed to a one hour meeting with Juncker at 1430 on 2 March. I have passed this news to William Ehrman who will inform the Luxembourg Government. I would be grateful for a brief by close of play on 29 February.

Yours ever

Michael

MICHAEL TATHAM

Tim Barrow Esq
FCO

ck



10 DOWNING STREET
LONDON SW1A 2AA

File
cc JPO
JS
PB O/R

From the Private Secretary

15 September 1999

Dear Tim

LETTER FROM THE LUXEMBOURG PRIME MINISTER

I attach a short letter to the Prime Minister from the Prime Minister of Luxembourg responding to the Prime Minister's message of congratulations to Juncker's on his renomination as Prime Minister. No reply is needed.

Yours ever

Michael

MICHAEL TATHAM

Tim Barrow Esq
FCO

September 10th, 1999

(200)



LE PREMIER MINISTRE

SUBJECT
MASTER

Filed on:

PRIME MINISTRE CORRESPONDANCE RECEIVED
15 SEP 1999

MT
c: JB
Vren

Dear Prime Minister,

Dear Tony,

I was deeply touched by the kind congratulations which you gave me the honour to express at my nomination as Prime Minister of the Grand-Duchy of Luxembourg.

Please accept my warm thanks for your message.

At the same time I express the hope and the will to strengthen the close co-operation and deep friendship which characterize the relations between our two countries.

Yours sincerely,

Jean-Claude Juncker
Prime Minister

The Right Hon. Tony Blair, QC, MP
Prime Minister of the United Kingdom and Northern Ireland
10, Downing Street
GB-London SW1A 2AA



FLO
HMA

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

6 September 1999

SUBJECT
MASTER

Filed on:

Dear Jean-Claude,

I send you my warmest congratulations on forming a new government and on starting your second term as Prime Minister of Luxembourg.

I look forward to continuing to work with you on the many issues facing us with the EU and in the wider world over the next few years.

Well done.

Yours sincerely
Tony

His Excellency Monsieur Jean-Claude Juncker

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File



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 September 1999

Dear Tim,

**REQUEST FROM THE LUXEMBOURG PRIME MINISTER TO VISIT
BRITAIN**

My Luxembourg counterpart was in touch earlier this week about Juncker's wish to come to London. We reviewed this alongside other pressures on the Prime Minister's diary this week and reluctantly concluded that we could not fit it in in the early part of the autumn. I spoke to Michelle Eisenbarth to let her down gently today, explaining about the Party Conference, Northern Ireland, etc. I suggested that the Prime Minister and Juncker might have a word in the margins of the Tampere European Council. She latched on to this and immediately tried to build it into a bilateral but I urged her to keep plans flexible for now.

Juncker clearly remains keen to come to the UK. But we should not raise Luxembourg hopes of an early call at No. 10.

I am copying this letter to Tom Scholar (H.M. Treasury) and William Ehrman (Luxembourg).

Yours ever,

JOHN SAWERS

Tim Barrow, Esq.,
Foreign and Commonwealth Office.

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Foreign &
Commonwealth
Office

27 August 1999

London SW1A 2AH

Dear Philip,

*TOP-PB
JBar
MT
Preu*

Message to the Luxembourg Prime Minister

Our Ambassador in Luxembourg has suggested that the Prime Minister should send a short message of congratulations to the Prime Minister of Luxembourg, Jean-Claude Juncker, following his success in forming a coalition and starting his second term in office. The Foreign Secretary will be sending a short message to the new Foreign Minister, Lydie Polfer.

Although relations with Luxembourg are not particularly close it is an EU partner, a NATO ally and holds the Presidency of the WEU. Juncker was somewhat upset about the way in which Lord Robertson was chosen as NATO Secretary General. He felt that this was another example of the larger nations ignoring the wishes of the smaller members. Therefore a short message to the smallest member of the EU would be well received. It would also help soften the blow, if the Prime Minister does decide that he cannot see Juncker in mid-September as he has requested.

... I enclose a short draft.

I am copying this letter and enclosure to Sebastian Wood (Cabinet Office).

*Yours ever,
Sherard*

(Sherard Cowper-Coles)
Principal Private Secretary

Philip Barton Esq OBE
10 Downing Street

T

August 1999

M Jean-Claude Juncker
Prime Minister of Luxembourg

I send you my warmest congratulations on forming a new government and on starting your second term as Prime Minister of Luxembourg.

I look forward to continuing to work with you on the many issues facing us with the EU and in the wider world over the next few years.

I am sorry that a meeting will not be possible in September. I hope that a mutually convenient time can be found later in the year.

Tony Blair

[Gavin Scott, EUD(B): 270-3481]

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Foreign &
Commonwealth
Office

London SW1A 2AH

26 August 1999

cc JTH
JS

back to PB

cc: KT
Pars
KG or

Dear Philip,

file
PRB
2/a

Request for Call by Luxembourg Prime Minister

Jean-Claude Juncker, the Luxembourg Prime Minister and Minister of Finance, has asked for meetings with the Prime Minister and Chancellor either in the week 13 - 17 September or early the following week.

Reasons given for the request include a long standing invitation for Juncker to visit London, that this is the first in a series of calls he plans to make on all EU Heads of Government, and Juncker's desire to discuss the EU draft Directive on the taxation of savings. The last time the two Prime Ministers met was at a pre-Cardiff Summit briefing in Luxembourg on 9 June 1998.

There are a number of reasons for agreeing to see him fairly soon. The Luxembourg Government were touchy about the way in which George Robertson was chosen as NATO Secretary General. Luxembourg holds the Presidency of the WEU and has so far been helpful in getting the message across on European Defence. A meeting now might help smooth ruffled feathers over Lord Robertson's appointment and encourage Luxembourg to continue to make a positive contribution to the European Defence debate. It would also be useful to speak to Juncker about the Inter Governmental Conference due later in the year.

But, we see a tactical disadvantage in formally discussing the EU draft Directive on taxation at Prime Ministerial level at this stage. Luxembourg have their own concerns about the draft Directive. Juncker would no doubt try to pin us down - a position which we have been trying to avoid.

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For the present, we recommend that you reply that a meeting in September is not possible for either the Prime Minister or Chancellor, but that you agree to look for a date to offer him fairly soon (later in the year if possible). The Treasury agrees. Juncker may, in any case, try to speak to the Chancellor in the margins of the informal ECOFIN on 10 September.

I am copying this letter to the Tom Scholar (HM Treasury) and Sebastian Wood (Cabinet Office).

*Yours ever,
Sherard*

(Sherard Cowper-Coles)
Principal Private Secretary

Philip Barton Esq OBE
10 Downing Street

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FILE



10 DOWNING STREET
LONDON SW1A 2AA

16 August 1999

Dear Tim

POSSIBLE VISIT BY LUXEMBOURG PRIME MINISTER

Michelle Eisenbarth, the Diplomatic Adviser to the Luxembourg Prime Minister, telephoned to say that Juncker was keen to pay a working visit to London during September. His ideal dates would be in the week of 13-17 September or at the start of the week immediately following. I explained that we would not be able to give a firm answer until the end of the month when we would be considering the Prime Minister's forthcoming schedule. I warned that the dates suggested fell into a difficult period in the run-up to the party conference.

I am copying this letter to Sebastian Wood (Cabinet Office) and William Ehrman (Luxembourg).

Yours ever

Michael

MICHAEL TATHAM

Tim Barrow Esq
FCO

AOB



Foreign &
Commonwealth
Office

European Union Department (Internal)
King Charles Street
London SW1A 2AH

Telephone: 0171 270 2319
Facsimile: 0171 270 2320/3896
James.Bryce@mail.fco.gov.uk

Michael Fatham (No 10) ^{cc DB ofr.}

I am sure that the ^{cc JHM}
line suggested here is ^{PB}
right. ^{LP}

12 August 1999

Peter Curwen o/r
Team Leader
EU & International Tax Team
HM Treasury

Richard Brown

Dear Peter,

LUXEMBOURG: TAXATION OF SAVINGS

1. I had a call this morning from the colleagues here who man the Luxembourg desk. Juncker's diplomatic adviser has put in a bid for Juncker to meet the PM on 13 September. (I understand that he is also bidding – again – for a meeting in the early autumn with the Chancellor, though we are less clear on the detail of that at this stage.) Juncker has just been re-elected to a new six year term, and is seeking to see all the other EU Heads of Government at the beginning of it. However he wants to come to the UK first. I guessed that taxation of savings would be at the top of his list, and this turned out to be right.

✓ 2. On the basis of conversations I have had with you and Peter Michael in the past, I suggested that this would be a discussion we should probably avoid for the time being. Luxembourg knows our position as well as other Member States; the subject is just as sensitive for us as for them; and their track record suggests that we should presume that they want to hide behind us, rather than do some more constructive joint working. I also noted that the proposed date was only shortly after the Informal ECOFIN. Our position might become clearer then, though that was still an open question; and whether it might become any less sensitive was also still unclear.

✓ 3. On this basis, I think that we will try to agree with No 10 that positive noises should be made to the Luxembourgers about the idea of a meeting, but we should play the date long: either later in the year, or indeed perhaps after Helsinki. There are some other points that Juncker wants to raise (eg over Kosovo and George Robertson getting the NATO top job), but tax looms larger than them by quite a bit. And on the economic side, I see that, in the reallocation of portfolios since the election, Juncker has given up direct responsibility for employment.



4. Please let me know if anything above does not strike the right note. I will be out of the office from Wednesday next week (18 August) until Thursday 9 September. The first point of contact for tax issues in EUD(I) in my absence will be Jane Darby (270 4059).

Regards,

James

James Bryce
European Union Department
(Internal)

cc: Peter Michael, IR
Richard Brown, CO
Jane Darby



10 DOWNING STREET
LONDON SW1A 2AA

file
F/Luxembourg PH
BCL

bc *pb*
Lio
te

From the Principal Private Secretary

10 June 1998

Dee Danich,

LUXEMBOURG PRIME MINISTER

Before their pre-Cardiff meeting in Luxembourg on 9 June, Juncker had a private word with the Prime Minister to apologise for what he had said about the Presidency after the Brussels Summit. He claimed that he had only been trying to help Kohl, who had been in considerable difficulties at the time. He appeared genuinely contrite.

I am copying this to Brian Bender (Cabinet Office), Sir Stephen Wall (UKRep Brussels) and Nick Elam (Luxembourg).

Juncker
JH

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

te



10 DOWNING STREET
LONDON SW1A 2AA

filed on:
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From the Principal Private Secretary

9 June 1998

Dear Domnick,

**PRE-CARDIFF TOUR
MEETING WITH LUXEMBOURG PRIME MINISTER,
9 JUNE**

Juncker was accompanied by Poos, Goebbels, Kasel, Schmit, Schommer, Guill and Schuller. On our side, Nick Elam, Brian Bender, Alastair Campbell, Emyr Jones Parry, Jurgen Trumpf and I were present.

Economic reform

The Prime Minister began by describing the content and handling of the economic agenda at Cardiff. Juncker saw no difficulties; national action plans on employment should be carried forward at Vienna and entrepreneurship given particular impetus at Cardiff.

Future of Europe

The Prime Minister set out his approach. Juncker stressed that the ratification of the Amsterdam Treaty should not be threatened by premature debate on new changes, although implementation of the Amsterdam Protocol could be looked at. In principle and in due course he could agree to Delors being asked to report on wider issues, but it was premature at this stage. He saw no added value in the Kohl/Chirac letter. Poos recalled Dutch/Belgian criticism of its contents at the 8 June GAC. It was hitting at the outdated shadow of a European centralised state. Moreover the relative competences of the Institutions had been examined during the IGC. Luxembourg, and indeed Belgium and Netherlands, could not accept dilution of the powers of the Commission, ECJ or European Parliament.

Responding to Brian Bender's question, Juncker saw advantage in a quick IGC agreeing the size of the Commission before appointments were made in autumn 1999. But he was against premature consideration which would jeopardise ratification. The Luxembourg Parliament would take it amiss if there

CU

were any suggestion of depriving individual member states of their Commissioner without some compensating deepening of the Union.

Enlargement/Agenda 2000

The Prime Minister outlined our modest aim of setting the timetable for agreement to the package. End game issues should be tackled together, probably at the March European Council. Juncker had no problems with this approach, although he feared the substance would be very difficult when we came to it.

Kosovo

The Prime Minister summarised our approach. Juncker stressed the need for a UNSCR to justify any use of force. He was worried about Russian willingness to go along. Poos recalled the GAC conclusions which stressed greater autonomy for Kosovo, within the FRY not Serbia. The Prime Minister agreed on the importance of autonomy and not independence. He had earlier today written to Milosevic, arguing that without rapid progress, pressure for independence would increase in Kosovo.

Turkey

Responding to the Prime Minister's approach to getting relations with Turkey back on the rails, Juncker recalled his experiences with Yilmaz and with other member states after the Luxembourg European Council. He was particularly critical of French behaviour. Amending the existing language would be difficult, not least because of the continued Greek veto (the Germans were not the problem). Fulfilling the EU obligations on financing was crucial. He noted that after Luxembourg he had for the first time needed police protection in the face of Turkish death threats.

On finance, Poos wondered whether it would be feasible to unblock a first element of what was on the table. Jones Parry set out the elements of the Presidency approach. We would ensure that at least 14 member states could accept any text tabled. The Prime Minister concluded that he would handle the subject cautiously. There was no guarantee of a positive Turkish response. Indeed there were few grounds for optimism. But the Presidency would make the effort to get relations with Turkey into a positive phase. Kasel asked whether we were pursuing the option of national contributions to fund the Customs Union provision. Poos was dismissive. That would in turn require the approval of 14 national parliaments.

EU/South Africa

The Prime Minister welcomed President Mandela's presence at Cardiff. We were pressing hard for quick progress on EU/South Africa.

India/Pakistan

Juncker raised this. He had found some concern about India and Pakistani nuclear tests on his recent trip to Asia but less than there had been about the French tests. The Prime Minister said recent statements from international groups had struck the right note. The key was to get both countries into the CTBT unconditionally.

MEPP

The Prime Minister said we had sought an influential EU role in the MEPP although this was difficult while the US had the central role. Arafat was increasingly exposed and Saddam might exploit the hiatus. Disagreeing with Juncker, the Prime Minister thought that the Israeli Labour party would support the US redeployment package if Netanyahu went for it.

Social dialogue

Juncker agreed that it was desirable that SMEs be associated with the social dialogue. This should be put forward at the Troika meeting with the Social Partners at Cardiff, and picked up in the European Council conclusions.

Tax

Poos raised Monti's proposal on an EU withholding tax and was encouraged that the Presidency would not be advocating early progress as the incoming Austrian Presidency wanted. It was agreed that there should be bilateral contacts on the tactics for handling this proposal post Cardiff. We should avoid a Luxembourg/UK battle over which territories were in the frame.

BSE

The Prime Minister made his standard pitch on the Date Based Scheme.

I am copying this letter to Tom Scholar (HM Treasury), Tom McKane (Ministry of Defence), Mike Wardle (Department for Education and Employment), John Alty (Department for Trade and Industry), David North (Ministry of Agriculture, Fisheries and Food), Rupert Huxter (Minister without Portfolio's Office), Jan Polley (Cabinet Office), Sir Stephen Wall (UKRep Brussels) and Nick Elam (Luxembourg).

Yours sincerely

Liz Lambert

PP JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

PRIME MINISTER'S PRE-CARDIFF BILATERAL WITH JUNCKER: 8 JUNE

POINTS TO MAKE

i. General

- * Not a historic European Council in the sense of Amsterdam or Edinburgh, in concluding major negotiations. But important work to be done, eg to consolidate and give an impetus to action on economic reform; and to set direction and provide momentum on Agenda 2000. In addition, want to have a wide ranging discussion on the Future of Europe. After Council ends, Heads will have lunch on the Tuesday with Mandela.

ii. Economic Reform (Monday morning; after presentation by EP President)

- * Over-arching aim of securing/cementing commitments to the necessary reforms to make EMU work and to enable the EU to create jobs and compete in the global market place. This week's ECOFIN and Social Affairs Council important in preparing Cardiff discussion. **Will hope for your strong support.**
- * Four elements (covered in single table round):
 - **Broad Economic Guidelines.** Want commitments to reform of product, capital and service markets, and a process for following them up;
 - **Employment.** Want to entrench process of peer group review of national plans; highlight positive aspects to emerge from first set of plans; and agree general policy orientations for review of Employment Guidelines in the autumn;

- **Single Market.** Want to develop scoreboard as a tool for assessing the functioning of a single market; set in hand further work for improving enforcement of single market law; highlight Commission work on price disparities; and invite Commission to produce framework for action on financial services;
- **Entrepreneurship.** Want commitments on access to capital and on improving the regulatory environment.

iii. **Future of Europe** (Monday lunchtime - Heads only)

- * Looking for wide ranging discussion on future direction and development of EU, the challenges we face and the political vision for meeting them. One aspect of this is how to balance the need for further integration, eg to make EMU work and to address citizens' concerns on internal security issues, with the effective application of subsidiarity. Another is how we carry forward political reform, how to ensure that the Union is accountable and has the confidence of the people.
- * Specific subset of this is when and how we resolve the institutional issues left undecided at Amsterdam.
- * Interested in views on the scope of the discussion and what outcome there might be. Should Cardiff set up a process of any sort (cf Chirac's suggestion of Wise Men)?

iv. **Enlargement/Agenda 2000** (Monday afternoon)

- * On **Agenda 2000**, framework will be set by report from 8 June GAC. Not trying to solve issues for end-game, but setting orientations, generating momentum and handing on well-prepared package to Austrians. Looking for conclusions which:
 - give a sense of momentum, notably by setting a deadline for the negotiations (key elements in Vienna; political agreement in March; final adoption before the EP elections in June);

- mark progress on technical issues which can be separated from the end-game;
- avoid premature negotiation on end-game issues (eg German concerns over net contributions). The problem on net contributions is on the expenditure side of the budget. Essential to keep spending down. Know you have had some ideas on reducing agricultural expenditure. Reaction from others?

* on CAP, establish sense of direction for reform (including need for competitiveness on world markets while safeguarding the rural economy and the environment and identify central issues for end-game). Agriculture Council conclusions, agreed unanimously last week, laid a good foundation;

* on Structural and Cohesion Funds, identify principles for simplified and improved management, and note need for fairness (for both existing and new Member States). But again, the most difficult issues will be for end-game.

* On enlargement, will want to note progress to date. May also want to use conclusions to try to build on your hard work at Luxembourg on Turkey, which established a good basis: Turkey's eligibility for membership, agreement to judge by the same criteria, European Strategy. Hope you will help us to carry this forward. Looking at a package relations with Turkey, covering perhaps 3 elements: repackaging Luxembourg language; giving an impetus to EU/Turkey strategy; and release of money.

iv. Other issues

* Will want language on:

- **Environment:** following up Commission document on integrating environmental concerns into other EU policies;
- **Justice and Home Affairs:** endorsing eg the EU drugs strategy, and giving an impetus to the work on organised crime;
- **Northern Ireland:** expressing support for peace agreement;
- **Millennium Bug:** to encourage member states to tackle the problem;
- **External Issues:** depending on developments and on discussion over Foreign Ministers' lunch on the Monday, but likely to cover India/Pakistan, Kosovo, MEPP;
- **CFSP High Representative/Deputy Secretary General:** suggest that we agree at Cardiff that decisions on this pair of posts should be made at Vienna. (Will have a British candidate - David Hannay - who would be well qualified for either post).

Tax harmonisation (if raised)

- * note your views on the Withholding Tax Directive.
- * we do not favour the proposal in its current form either, in particular since it risks forcing some highly-mobile business outside Europe. Interested to hear your views on how to handle it.
- * helpful if you did not single out the Channel Islands for attention. The point that wide international coverage is needed is valid. But that calls for broader international cooperation - otherwise proposals will just damage Europe.

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Foreign &
Commonwealth
Office

London SW1A 2AH

Tap - PM
cc JEM
PB
AC
JB/mc
B Bader
E Jaes-Parm
Bwp

5 June 1998

Dear Philip,

Cardiff Preparation: Bilateral with Juncker: 1130-1300,
Tuesday 9 June

The Prime Minister will see Juncker for a light working lunch. Juncker will be just back from a visit to Hong Kong, China and Singapore. The Prime Minister might thank him for his help in preventing the application of a visa regime to HKSAR passport holders through Schengen.

Domestically, Juncker faces unrest from the public sector unions ahead of next year's elections. He told EU Ambassadors last week that he welcomed the British Presidency's action oriented approach on economic reform, and employment in particular. He looked forward to a general discussion at Cardiff, with the Vienna European Council concluding evaluation of the National Action Plans and the Employment Guidelines.

Worth remembering, however, that on EMU issues, Juncker (who doubles as Finance Minister) has been pretty unhelpful. Partially at German behest, he was strongly critical of Presidency organisation of the EMU weekend; and has supported the French in trying to minimise British involvement in Euro-X.

Luxembourg feels threatened by a Commission proposal for a minimum withholding tax. We do not like the proposal either: we favour preventing tax evasion by lifting banking secrecy, which is anathema to Juncker. If Juncker raises tax, the Prime Minister might explore what he has in mind - but not allow Juncker to think he can hide behind the UK, putting the blame on us. And Juncker's focus on the Channel Islands is unhelpful. Broader international cooperation is needed; otherwise Europe (as a whole) will be harmed.

Santer is unlikely to have difficulties with our approach on Agenda 2000, though the Luxembourgers are on the whole reluctant reformers. They broadly support our approach on Turkey. But their "ownership" of the Luxembourg II Conclusions will make Juncker sensitive to any implied criticism of last December's outcome. The Prime Minister might say that our aim is to build on

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Luxembourg.

On the Future of Europe, while they recognise that institutional reform will be necessary before enlargement, they are in no hurry. Their main concern is not to lose their Commissioner.

... I enclose briefing, plus a scene-setting telegram and report on Juncker's talk with EU Ambassadors last week about Cardiff prospects, together with a copy of the programme and the Prime Minister's letter to Heads.

I am copying this letter to Tom Scholar (HMT), John Alty (DTI), David North (MAFF), Sir Stephen Wall (UKRep) and Brian Bender (Cabinet Office).

yours ever,
Dominick

(Dominick Chilcott)
Private Secretary

Philip Barton Esq OBE
10 Downing Street

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BACKGROUND

Bilateral

1. Juncker sees himself as the EU's power-broker, straddling ECOFIN and the European Council, and bringing France and Germany together. He often acts as a mouthpiece for the French and Germans. And he hates to be excluded, as his grumbles about the handling of the EMU summit showed. (He may also have been trying to help out Kohl by putting the blame on the Presidency.) Juncker is unlikely to have major difficulties with any of the issues for Cardiff. It would be well worth seeking his support on economic reform, and his views on general issues (appointments etc).

Economic Reform

2. Juncker's main concern is employment. He recently told EU Ambassadors that he was pleased with the UK Presidency's action-oriented approach. He is an advocate of the "European Social Model", so the Prime Minister may want to stress the theme of social cohesion.

Future of Europe

3. While Juncker recognises that institutional reform is necessary before enlargement, he is not sure that it should be discussed again now, so soon after Amsterdam. On substance, his main concern is that reform should not marginalise the smaller states by depriving them of their Commissioner or their turn at the Presidency.

Agenda 2000

CAP reform

4. During negotiations, Luxembourg has been a reluctant reformer, particularly in the livestock sectors. They want maximum and permanent compensation for price cuts. But there are few domestic considerations.

5. However, recently Juncker suggested publicly that CAP expenditure might be reduced (eg by 20%) with additional agricultural support funded nationally (similar to Structural Funds additionality). This idea has attracted considerable attention, not least because some Germans, at least, may favour a similar approach after their elections this autumn as a means of reducing their net contribution.

Reform of Structural and Cohesion Funds

6. Luxembourg supports the 0.46% ceiling and reduced receipts for the EU15. It opposes continued support for Objective 6 regions (sparsely populated peripheral parts of Sweden and Finland) with GDP over 75% of the EU average, but seems to accept that Cohesion funding for EMU-ins should continue.

Future financing

7. The Luxembourgers, Europe's richest citizens, are net recipients. They have no interest in a generalised abatement. Juncker's solution to the net contributions issue appears to be to reduce CAP spending by providing for Member States to pay their

own farmers (see CAP, above).

Turkey

8. Juncker is broadly supportive of our objectives on EU/Turkey, but will be sensitive to implied criticism of the Luxembourg conclusions language on Turkey. The Prime Minister might stress that we support the Luxembourg conclusions and want to build on them. He should go through the main elements we hope to achieve at Cardiff:

- reference to Turkey as a candidate
- endorsement of Commission's paper on European Strategy
- invitation to Commission to report annually on Turkey's progress in harmonising with the acquis (cf screening and reporting for the CEEs)
- confirmation that all candidates will be judged by the same criteria, and there is no order of precedence.
- Reference to the need for EU financing to implement the European Strategy.

9. We are in early discussions with the Commission about ways to finance the European Strategy if the Greek block on Customs Union funding remains. We will float language at Cardiff, suggesting a new regulation for Turkey. This may be attractive to the Greeks, who have painted themselves into a corner on the Customs Union/Imia link.

Tax harmonisation

10. Juncker may well raise the Commission's recent withholding tax proposal, which he would like to see shelved. One of the main reasons for the proposal is German and Belgian pressure to prevent their nationals investing in Luxembourg, and evading tax by failing to declare income from their savings. A withholding tax would remove much of the attraction of investing in Luxembourg.

11. We do not like the proposal either: we would prefer to prevent tax evasion by lifting banking secrecy, requiring banks to give information to tax authorities, rather than by harmonised withholding taxes. We therefore strongly support G7 and OECD moves towards lifting banking secrecy. We are also concerned that the Withholding Tax proposal will force the Eurobond market (currently based in the City) outside Europe.

12. The Luxembourgers want to preserve banking secrecy, and hate the G7 and OECD initiatives. Juncker's line is that he will only consider a withholding tax if there is widespread tax harmonisation: savings should not be singled out. And he says (other) tax havens must be covered: Juncker often refers to the Channel Islands.

13. So whilst neither the UK nor Luxembourg likes the Withholding Tax proposal, our approaches have little in common. Juncker would dearly love to be able to hide behind UK blocking of the Directive (putting all the blame on us), so it would not be wise to oppose too vociferously in front of him. Rather the Prime Minister might listen to Juncker's suggestions for dealing with the proposal - and dissuade him from focusing on the Channel Islands.

14. There has been an odd rumour that Juncker might seek to shelve the Directive through European Council conclusions at Cardiff. This seems unrealistic and improbable: the political momentum behind the Directive is too great. Such a move would almost certainly be doomed to failure. And it would let Juncker put the blame on the UK.

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FM LUXEMBOURG
TO IMMEDIATE FCO
TELNO 104
OF 041746Z JUNE 98
INFO IMMEDIATE EU POSTS

SUBJECT: PRIME MINISTER'S PRE-CARDIFF MEETING WITH LUXEMBOURG PRIME
MINISTER: SCENE-SETTER

SUMMARY

1. A chance to get on closer terms with Juncker, whose help can be valuable (as over Hong Kong visas) and who is beginning to need friends.

DETAIL

2. The Prime Minister will see Juncker on 9 June for a working lunch.

CONTEXT

3. Juncker returns this weekend from a visit to the Far East, including Singapore China and Hong Kong. He has been very helpful in preventing the application of a visa regime to HKSAR passport holders through Schengen. The PM might refer to this and ask for Juncker's impressions of the Hong Kong SAR.

4. Juncker returns to a tricky situation domestically, with the public sector unions implacably opposed to his proposed pension reforms and threatening strike action (a very rare phenomenon in Luxembourg) in the run up to the elections.

CARDIFF

5. My telnos 85, 86 and 87 reported Juncker's briefing of EU Ambassador's last week. His principle concern will be to ensure that the Commission's paper on the taxation of savings is shelved. He will argue that it cannot be taken in isolation from other issues of fiscal - and indeed social - harmonisation.

6. He is worried about enlargement, believing that the citizens of present member states will become increasingly restless as they begin to realise what enlargement will mean for them in economic terms (competition, employment, transfer of resources).

PERSONAL

7. Juncker has not managed to hit it off with the Prime Minister so far. He has found it hard to relax into the relationship, partly I suspect because although he is even younger than the Prime Minister he feels some of the youthful limelight has been diverted, partly because he tends to think in terms of European political families (he said of Mr Major to me once "He is my political ally") and partly because, although a 'Christian Socialist', he has some lingering, almost nostalgic 'Old Labour' convictions.

8. Yet Juncker ought, given his intelligence, his wit, his youthfulness and his basic orientation as both a Christian and a socialist, to see the Prime Minister as a natural ally - and the fact that he is likely to be around a long time himself (and in need of an ally after Kohl's departure) should help push him in the right direction.

ELAM

YYYY

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NNNN

TELEGRAM RETRIEVED FROM DATABASE 5 June 98

RESTRICTED
FM LUXEMBOURG
TO PRIORITY FCO
TELNO 86
OF 251715Z MAY 98
INFO ROUTINE UKREP BRUSSELS, EU POSTS

CARDIFF COUNCIL: LUXEMBOURG VIEWS

SUBJECT: CARDIFF COUNCIL: LUXEMBOURG VIEWS

SUMMARY

1. Juncker pays tribute to Presidency preparations for Cardiff, to your handling of Turkey and to the Chancellor's Presidency of ECOFIN. He gives his views on possible subjects for discussion at Cardiff.

DETAIL

2. Juncker was the guest of honour at my Presidency lunch for EU Ambassadors today. He expressed admiration at the professionalism of Presidency preparations for Cardiff. He ventured the following thoughts on possible Cardiff agenda points.

Employment

3. He was pleased with the Presidency's action-orientated approach. The next critical moment would be the Vienna Summit's evaluation. But he hoped there would be opportunity for general discussion of the subject at Cardiff.

EMU

4. Juncker spoke of the "deplorable circumstances" of the EMU launch thanks to the quarrel over the top job. It had been a needlessly exhausting process and he feared a loss of momentum would result. But he did say how well the technical aspects had been prepared and he avoided any repetition of his off-the-cuff criticism of the Presidency for not preparing the top-job issue effectively. And at a later point he paid particularly warm tribute to the Chancellor of the Exchequer's Chairmanship of ECOFIN.

Subsidiarity

5. He saw no substantive need to add to the theological debate on subsidiarity but acknowledged that the French and German leaders might feel a need to highlight an area of agreement after their recent very public disagreement.

Institutional Reform

6. In response to a question Juncker recalled that institutional reform had been discussed exhaustively at Amsterdam and even brought close to a solution there. Institutional reform would be necessary before enlargement took place, but it might not yet be ripe for further discussion. The Delors initiative would not necessarily be on the Cardiff agenda.

7. On the substance, the larger Member States must understand that

reform could not mean marginalising the smaller states by depriving them of their Commissioners or their turn at the Presidency. All Luxembourgish always knew who their Commissioner was - and when they had the Presidency. Only about three percent of Frenchmen had ever heard of de Silguy or even noticed a French Presidency.

8. On the other hand the smaller states must be realistic about areas in which they had no serious claim to a determinant role. It was not realistic to suppose that Britain and France could allow majority voting on CFSP for example. Indeed differential voting regimes would be needed for the three different pillars.

MEPP

9. Juncker professed a great deal of understanding for Israel's position but acknowledged that Israel was not willing to accept a more active European role in the MEPP at present. He thought Israel might turn towards Europe in the future and commended the greater US willingness to work with Europe in this area.

Turkey

10. See separate telegram.

COMMENT

11. A fistful of compliments for the British Presidency from Juncker, who is obviously ashamed of his (characteristically) impetuous criticism of us after the Brussels EMU Summit. (He will have heard from those who had it from me direct how unjustified and inappropriate we deemed his remarks to be.)

12. My French colleague, however, got it in the neck - not only over Turkey - bearing out her predecessor's rueful complaint to me that as soon as the British left the dog house, the French were exposed.

ELAM

YYYY

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AFRG	1
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DICD	0
ERD	0
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GHF	1
INFO D1	0
INFO D2	1
LEG ADV	0
NAD	0
NAPRG	1
NEWS D	0
PD	1
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COMMENT:

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FM LUXEMBOURG
TO PRIORITY FCO
TELNO 87
OF 251730Z MAY 98
INFO ROUTINE UKREP BRUSSELS, EU POSTS

SUBJECT: CARDIFF COUNCIL: LUXEMBOURG VIEWS: TURKEY

SUMMARY

1. Praise for your handling of Turks. Juncker opposed to renegotiation of Luxembourg conclusions.

DETAIL

2. At my Presidency lunch today Juncker praised the way in which you dealt with the Turks during your visit to Ankara and spoke defensively about the Luxembourg Council, expressing 'his disgust' at the way certain principals had sought to curry favour with the Turks thereafter. Because of that he had told the Turks precisely what had been said by each participant in the discussion leading up to the agreement reached by all 15 members. He would be opposed to any renegotiation of that agreement although he did not rule out certain clarification and explanation of the arrangements proposed for Turkey.

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CARDIFF EUROPEAN COUNCIL : MAIN EVENTS

Sunday 14 June

PM : Heads arrive

Monday 15 June

- 1000-1030 : Meeting with President of European Parliament
- 1030-1230 : First Working Session : economic reform
- 1300-1600 : Working lunch (Heads only) : future of Europe
(separate lunches for Foreign, Finance and Europe Ministers)
- 1630-1800 : Second Working Session : Agenda 2000/Enlargement
- 2030-2200 : Dinner with The Queen (Heads, Foreign and Finance Mins)

Tuesday 16 June

- 0930-1215 : Third Working Session: Conclusions
(also likely to cover Environment, Drugs, Turkey)
- Council closes
- 1300-1415 : Lunch with President Mandela (Heads only)
(separate lunch for other Ministers)
- 1430-1515 : Presidency/Commission press conference
- 1515 onwards : National press briefings
- Departures



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

19 May 1998

Dear Jacques,

In a little under four weeks we will meet at the European Council in Cardiff. Before then, I will be making bilateral contact with all members of the European Council, and I will of course write round a few days before the meeting to set out in more detail how I plan to handle the agenda.

However, I thought it would be useful if I gave you and other colleagues now an outline of the main issues I hope we can cover at Cardiff, prior to our bilateral meetings.

The main discussion on the morning of 15 June will be on economic issues: the economic reforms necessary to make a success of EMU and to enable the EU to create jobs and compete in the global market place. The draft Broad Economic Guidelines (prepared by ECOFIN) and the national Employment Action Plans prepared in the light of the Luxembourg Jobs Summit (and to be discussed by the Social Affairs Council and by ECOFIN) will be important elements of this debate.

On the Monday afternoon, we should concentrate on taking stock of where matters stand on enlargement, and on the Commission's Agenda 2000 package of proposals.

We will also need to touch on a number of other subjects, including the environment, and crime and drugs.

I would like to use the working lunch of Heads of Government on Monday 15 June to have a first political discussion of the future direction and development of the European Union: the challenges we face, e.g. making a success of enlargement, the need to be in closer touch with and thus have the confidence of our people, and the political vision we need to achieve this.

I look forward to discussing these issues bilaterally with you in early June, before we meet collectively at Cardiff.

I am copying this letter to other colleagues in the European Council.

*Yours ever
Tony*

His Excellency Monsieur Jacques Santer

FILE

ECL



DC HMA
FCO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

27 April 1998

Dear Jean-Claude,

Thank you for your letter of 2 April about the Venice Appeal.

It is very important that the citizens of Europe should be able to participate actively in helping to shape the future of the Union, and I welcome the organisation of a forum that will enable leading Europeans from industry, commerce and politics to discuss some of the major challenges facing the continent in the coming years. I wish the Appeal every success.

*Yours ever
Tony*

His Excellency Monsieur Jean-Claude Juncker

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10 DOWNING STREET
LONDON SW1A 2AA

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THE PRIME MINISTER

SUBJECT
MASTER

13 October 1997

Filed on:

Dear Jean-Claude,

Thank you very much once again for such an excellent dinner last Thursday. I much enjoyed both the food and the discussion which was, in my view, valuable in a number of key areas.

I am glad our two Presidencies look like being able to work so well together. In particular I look forward to helping make the Jobs Summit next month a success, and ensuring it is followed up actively. Let us keep in close touch both about this and other issues.

Best wishes

Yours ever
Tony

His Excellency M. Jean-Claude Juncker

K

PRIME MINISTER'S MEETING WITH JUNCKER, 9 OCTOBER

CHECKLIST OF POINTS TO MAKE

EMPLOYMENT SUMMIT

- Successful Employment Summit a priority. Jobs will continue to be top of the agenda during the UK Presidency. Appreciate your efforts to ensure Summit produces concrete results - agenda now shaping up well.

- Much to welcome in Commission's draft employment guidelines. Good basis for further work.

- Key problem: targets. EU-wide macro-economic targets proposed by the Commission are meaningless and should be dropped. But agree that concrete policy targets are needed to put pressure on Member States. Support your suggestion of targeting intermediate policy goals rather than outcomes. But these need to be realistic - eg can offer every young person an opportunity, but can't offer them all a job.

- Also need language on the need to modernise labour markets to ensure they are responsive to economic change. This does not mean deregulation but appropriate regulation.

- How do you plan to take forward work on the guidelines? Important that Member States have the opportunity to discuss them in detail and to amend them before the Summit - otherwise Heads will waste time arguing over details.

- On spending, welcome EIB's proposals to increase lending in support of EU's employment objectives. Less sure about your/EP's proposals to fund loan guarantees to SMEs - is this the most effective way to use Community funds? If money available in the EC budget, may be better to use it for demonstrator projects in individual Member States, which would inform Community work on best practice.

- Aware of your ideas for increasing the involvement of social partners in Community work on employment. Would welcome an active role for them, if this provides a way of promoting employability and restructuring labour markets. But not convinced of merits of holding high level meetings between the Troika and the social partners.

- Attendance - important that Ministers responsible for employment policy domestically fully involved in preparations.

EMU

- What do you plan to achieve on EMU at European Council in December?

- UK Presidency: efficient and impartial in all respects; no hidden agenda.

- UK domestic debate: unlikely to join on 1 Jan 1999. There will probably be a Government statement by the end of year. Government has stimulated debate on merits of membership, and pushed forward debate on implications for business.

AGENDA 2000

- Enlargement a priority. Look forward to December Council focusing on early opening of enlargement negotiations. Appreciate excellent work of the Luxembourg Presidency which will help to make this possible.

- Important we begin accession negotiations only with those applicants who are ready.

- At the same time enlargement must remain an all-inclusive process. Need a pipeline to accession along which all candidates can move at their own pace.

- That is why reinforced pre-accession strategy important.

- European Conference crucial. An important forum for all countries with an active application for membership (including Turkey).

- Conference should allow practical progress on areas of common interest. Look forward to hosting inaugural event in London early in our Presidency.

- Reform of key policies essential for successful enlargement.

- Agree CAP reform particularly important. Commission's ideas

- involving significant price cuts - in right direction.

- But believe more radical strategy needed if EU is to meet coming challenges: WTO (negotiations beginning at turn of century) and enlargement.

- Reform of Structural and Cohesion Funds also overdue: arrangements need to be affordable, efficient, durable and fair.

- All existing Member States will eventually have to expect reductions in receipts if costs are to be contained. Future cuts should be handled fairly.

- Council needs to go beyond stating that Own Resources ceiling should not be raised above 1.27% GNP: must stress that actual spending should be well below this ceiling, not least to meet long-term costs of applying the acquis in new Member States.

- Council should stay off UK abatement. UK will be unable to accept any prejudicial change, or any hint of it in the future.

- Luxembourg conclusions should:

= agree to open accession negotiations with those that are ready while reinforcing pre-accession strategy.

= endorse European Conference (to include Turkey) and invite UK Presidency to establish terms of reference.

= recognize that policy reform is essential for enlargement to be successful.

= confirm 1.27% Own Resources ceiling and desirability of keeping actual spending well below it, since spending should not increase in line with GNP.

= leave UK abatement unchanged.

= endorse early reform of CAP to improve EU agriculture's competitiveness and ensure successful enlargement.

= endorse reform of Structural and Cohesion Funds that is efficient, affordable, durable and fair and keeps cost well below 0.46 % of EU GNP.

- Most important task for Council is to get process right and on track ie by calling for accession negotiations to begin and for Commission to table policy reform proposals early in 1998.

- Recognise that some Member States' views are very different from UK's. What problems do you expect before Luxembourg eg from the Spanish? Plans for avoiding trouble?

CONFIDENTIAL

Top = Luxembourg: Relations



10 DOWNING STREET
LONDON SW1A 2AA

see B...
✓ European Union
Single Currency
European Policy
Employment + Social
European Policy
Enticement

From the Principal Private Secretary

SUBJECT
MASTER

9 October 1997

Filed on:

Fixed to net

Deer Danivich,

**DINNER WITH THE LUXEMBOURG PRIME MINISTER,
THURSDAY, 9 OCTOBER**

The Prime Minister had dinner with Jean-Claude Juncker this evening. He was accompanied by Brian Bender, Nick Elam, Jonathan Powell, Alastair Campbell and myself. Juncker was accompanied by Foreign Minister Poos, Jos Weyland (the Luxembourg Ambassador in London), Martine Schommer, Nicolas Schmit and Yves Mersch. The dinner was preceded by a 20 minute tete-a-tete between the Prime Minister and Juncker which, according to the Prime Minister, covered very much the same ground as the dinner. The atmosphere was amicable and businesslike.

Jobs Summit

The Prime Minister said that the proposed Commission guidelines were a good basis, apart from the macro-economic, Europe-wide targets, which posed great difficulties. Intermediate targets had more attractions. Juncker agreed. Grandiose targets such as creating 12 million new jobs were essentially meaningless, and would only lead to arguments about what the right figure should be. The approach should be to set a general European framework under which national Governments would try to implement agreed policies. He thought there should be only two or three specific targets, covering for example getting those out of work for more than twelve months back to work, getting young people into work after six months, and ensuring that twenty five per cent of people out of work were in training, rather than ten per cent as at present. This was all part of employability. Governments would need to come back to the next European Council in six months time and report how they had fared against these targets.

There could then be other practical targets without numbers attached, for example reducing the amount of overtime worked, cutting non-wage labour costs, and reducing the cost for small businesses of taking on new staff. Each country

would be required to have plans in these areas. There would be no extra EU or national expenditure, but work was going on with the EIB to use their reserves to help small businesses create more jobs. He was also in contact with the European Parliament about how to mobilise extra funds from existing budget lines. He was hopeful that a package on these lines could be finalised well before the Summit itself, so there were no painful discussions on money. In general, he was anxious that the Summit should not simply contribute yet another useless piece of paper to the world. We should not be too ambitious, but not be too modest either.

The Prime Minister said that he was in general agreement with this approach. It was particularly important to focus on bringing down non-wage costs and burdens on small businesses. The basic approach should be to encourage employability and enterprise. Welfare reform aimed at getting people into work, rather than penalising them for taking up jobs, was also important. Brian Bender queried Juncker's reference to overtime. Was an EU policy appropriate here? It was not even clear that this was appropriate for national governments to tackle, since it was not under their control. Juncker said that it was surely possible for governments to make plans to work with the business community to bring down the current excessively high levels of overtime in Europe. The Prime Minister commented that he did not see how governments could stop overtime, and it was a mistake to set objectives which could not be fulfilled. But there could be objectives in areas such as training and re-skilling, the young unemployed, the long-term unemployed, helping small businesses establish and reducing their burdens.

Juncker said that it was important to focus on best practices. We should say not only that things should be improved but also how. Practical examples were needed, working with the social partners. The Prime Minister suggested that the Summit should concentrate on four or five headings, such as employability, small businesses, work and family life, and young and long-term unemployed.

Juncker said that one message he could not agree to was that "wild deregulation" was the way out of Europe's unemployment problems. He thought this could be a big failure. But the French idea of social treatment of unemployment was also a failure. Employability was an acceptable third way. There were some good Danish schemes in this area. The Prime Minister said that he and Juncker were not far away from each other in their approaches.

Brian Bender asked about the bureaucratic process of reaching agreement. Juncker did not reply directly but referred to the planned meetings of Finance and Employment Ministers. His general approach was to agree as much as possible

before the Summit, to avoid Heads of Government arguing over words. They should focus on presentation. The fact of meeting on this issue would also carry its own message. He was keen to avoid a circus at the Summit, which was why he had proposed Heads of Government and Foreign Ministers only. Anything else would not work with the coalition governments of many partners. He also did not want the social partners there. But they could not be left out entirely. His idea was therefore that the Troika should meet them once during each Presidency at Head of Government level, including a meeting before the Summit. The Prime Minister agreed to this idea. He suggested that the meeting during the Luxembourg Presidency should be on the eve of the Summit, or combined with the Summit itself. Juncker agreed.

EMU

The Prime Minister said that he was strongly opposed to a separate Council of the Ins. If they felt the need to discuss particular issues, this should be done informally. If it was clear that some kind of divisive Council was going to operate, this would be very hard to present to British public opinion, at a time when it was moving in the right direction but remained fragile. Juncker said that he had in mind a G7 model (he did not make clear what he meant by this.) There was no need to make a great drama of what was a theoretical question for now. The French term of economic government was not right. But some rules would have to be fixed at the December Luxembourg Summit. It was better to deal with this under the articles dealing with general coordination of economic policy, than under those dealing with EMU. He had told the French not to raise expectations about an explicit Council of the Ins, because they were not likely to get this, and were setting themselves up for a diplomatic defeat. It would be helpful if the Prime Minister could speak to Jospin in this sense. The Prime Minister said that he would try to do so.

Juncker went on that there was a separate problem, under the French proposals, about how to operate under the Presidency of non-Ins. This would not apply to Britain next time, since EMU would not be in operation, but it would apply for example to the Swedes later. The Prime Minister said that any meetings would be easier to accept if they were under an ECOFIN aegis. It would be possible to defend countries like Britain not taking part in such discussions if we were saying that we would never join, but that was not the case. Others wanted us in, and we would be affected whether we were in or out. We therefore had a locus and should be included.

Juncker seemed to accept this. There were very few, narrow issues where only the Ins were concerned. That was why it was better to use the economic

policy coordination articles, not those relating to EMU. The Prime Minister said that we would be constructive during our Presidency. He was convincing people in Britain that it was important for us that EMU should work. He also wanted to use the Presidency to relaunch Britain as a strong player in Europe. It would be very bad if we started off in a rejected position over a Council of the Ins. Juncker agreed. That was why it was important to work on the French. Vedrine had seemed to accept the idea of a G7 formulation. He himself would try to be as helpful as he could.

Juncker raised the timing of the EP Opinion on participants in EMU. He proposed to suggest that the Parliament should give its view on the basis of the Commission's proposals, following the EMI report, in March. He was telling them that this would ensure that they had real influence over the decisions, although he knew that was not true. It would be uncomfortable to have the Parliament discussing for weeks on end whether, for example, Italy qualified or not. But this was better than the Parliament's own idea of meeting between the sessions of ECOFIN and the European Council over the crucial weekend. He did not see how this could really work. It was important that the Luxembourg and British Presidencies took the same view. Sir Nigel Wicks should get together with Luxembourg officials to sort this out, or he could speak to Gordon Brown.

The Prime Minister said that he completely agreed with Juncker's approach, as long as it was legally sustainable. Juncker said that the Parliament's legal services said that the Treaty meant the Parliament had to meet between ECOFIN and the European Council. His legal services and those of the Commission said that there was no need for this.

Juncker continued that there was a separate timing problem. The European Central Bank's Governing Council and President were supposed to be decided around 1 May. The EMI already took the view that the seven or eight months then left before the beginning of EMU was desperately short, given the amount of preparation needed. But the European Parliament were also supposed to have hearings on these nominations, which could take up to a month. It would be good to advance the nomination procedure, but it was hard to see how, given that the participants would not have been agreed before the beginning of May. The Prime Minister agreed that this was difficult. He suggested that this too should be talked through with Sir Nigel Wicks.

Agenda 2000

Poos said that a majority of countries now backed the Commission's position on which countries should begin negotiations. There were strong

arguments from the Greeks, Italians and Scandinavians against opening up divisions between the candidates. But the Commission opinions were objective. The annual review of candidates would be an opportunity to encourage those who were making good progress, and possibly add a new country or two to those with whom negotiations were being conducted. In theory, a country could also be dropped from the list of negotiations, although this would be difficult. There was then the question of the European Conference. As far as policies were concerned, the Luxembourg Council would only be able to narrow the gap a bit. The same probably applied to the British Presidency.

Juncker commented that the Commission's opinions had been made public prematurely, and badly marketed. Those not recommended for negotiations felt rejected. There therefore had to be a way of making all the candidates feel included in the enlargement process. The European Conference was the obvious way of doing this. But before the Conference could be held, there were some tough decisions to take. In particular the costs of enlargement had to be kept under control. The December Summit should therefore agree to stick to the financial ceiling of 1.27 per cent of GDP, and to the 0.46 per cent ceiling for structural funds. These should be ceilings, not targets. The Prime Minister strongly agreed.

Turning to the European Conference, the Prime Minister said that the main problem was Turkey. Poos agreed. Some felt strongly that Turkey should participate. Others felt that Turkey was already well ahead in some respects, and should be treated separately, through a "Customs union plus" approach. Moreover, those of the eleven who were not selected for negotiations did not want to be in the same conference as Turkey, because it implied that they might face the same length of time as Turkey before they could expect to get in. Luxembourg favoured a Customs union plus approach for Turkey.

The Prime Minister said that we favoured Turkish participation in the Conference. Having them in would help over Cyprus, and in keeping Turkey inclined to the West, not drifting away towards Islamic fundamentalism. Juncker agreed that Turkey must not be pushed away from Europe. But public opinion was not ready to regard Turkey as about to join the EU, for political and human rights reasons. Romania and Bulgaria also did not want to be treated in the same way as Turkey. Hence the idea of finding a structure for Turkey with the EU akin to that of Russia with NATO, i.e. a special status of their own. But they could also be in the European Conference for some subjects. The Turks should be able to present this positively. They were realistic enough to know that they could not join the EU, even in the medium term. The other eleven countries would be treated differently from Turkey in the sense that their applications would be reviewed every year, whereas Turkey's would not. The aim was to treat Turkey like the

other applicants in some respects, but give the other applicants better treatment in other ways. The Prime Minister agreed that this was the basic requirement. He could see a lot of sense in what Juncker had said. But the proposal needed to be worked up.

The Prime Minister turned to policy reform. He had the impression that there was broad agreement on how to deal with the Structural and Cohesion Funds. But the CAP was the most important area for reform. Enlargement would not work unless it was fundamentally reformed. Juncker said that the Luxembourg Presidency would not be able to give a definite answer on this issue. But he believed that such reform was a pre-condition for enlargement, not before the negotiations started, but before the first member was admitted. This mandate should be given to the British, Austrian and German presidencies by the December Summit. Three sentences in the Conclusions should be sufficient. If this could be agreed, together with the decisions on 1.27 per cent and 0.46 per cent, this would give a clear signal about the direction in which the EU was heading.

Juncker went on that there would be Spanish and Portuguese opposition to radical reduction of their receipts from the Cohesion funds. They had made huge efforts to achieve the Maastricht targets, and should not now be punished for doing so, not least since this would call into question the sustainability of their convergence. There was an overwhelming feeling in Spain and Portugal that enlargement was essentially a good deal for the Germans. He had a particular fellow feeling for Portugal, because of the large proportion of the Luxembourg population that was Portuguese. The Portuguese understood that their receipts were going to reduce, and that they would have to be phased out at an increasingly fast pace. But they should be treated with some understanding. The German and Dutch attitude was too brutal. The Prime Minister said that he understood the point.

BSE

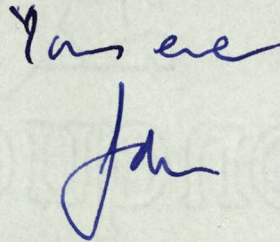
The Prime Minister said that the Commission would soon be putting proposals to the Standing Veterinary Committee on certified BSE-free herds, where individual cattle could be traced by computer. We would also be putting forward a separate proposal on cattle born after a certain date. We were very keen to move to a stage-by-stage lifting of the ban. Whatever mistakes had been made in the past, a huge effort had been made in Britain to make British beef completely safe. There was concern that other Member States would seek excuses to prevent progress, perhaps even for commercial reasons. He hoped Luxembourg would support our proposals, even if the Germans would find it difficult to do so because of their own constraints.

Poos said that the Commission had to face a very difficult time in the European Parliament and were divided on what to submit to the SVC. But his impression was that the SVC would propose some relaxation of the ban where there was real and proven traceability of BSE-free cattle. He thought this made sense. The proposals for cattle born after a certain date also sounded reasonable. The Prime Minister said that we were working hard to improve the atmosphere in the European Parliament on this issue. He believed that the Parliament would not in the end censure the Commission, and that this would make things easier.

Comment

This was a useful discussion, with the Luxembourgers appearing closer to us on nearly all issues than expected. Juncker's attitude to Turkey and to CAP reform was particularly encouraging.

I am copying this to Gabs Makhoulf (H.M. Treasury), John Alty (Department of Trade and Industry), Alun Evans (Department for Education and Employment), David North (Ministry for Agriculture, Fisheries and Food), Jan Polley (Cabinet Office), Sir Stephen Wall (UKREP Brussels) and Nick Elam (Luxembourg).

A handwritten signature in blue ink, appearing to read 'John Holmes', is written over a faint circular watermark.

JOHN HOLMES

D. Chilcott, Esq.,
Foreign and Commonwealth Office.

FROM: Brian Bender
DATE: 8 October, 1997

~~JOHN HOLMES~~
No 10

Prime Minister

cc Jonathan Powell, No 10
Alastair Campbell, No 10
Jan Polley

The Fed are providing a separate brief but this is a start (!). You should look at the Jobs Summit stuff - I recommend you read the Committee paper, which I have highlighted. It is pretty good from our point of view.
John B.H.

PRIME MINISTER'S DINNER WITH JUNCKER, 9 OCTOBER

1. When I met Juncker's Diplomatic Adviser, Martine Schommer, on Sunday evening, she said that she foresaw three main issues for discussion:

- EMU;
- Enlargement/Agenda 2000, including Turkey;
- Jobs Summit.

2. On EMU, Juncker will plainly be interested to hear about the British position. As far as the Luxembourg Presidency is concerned, the main outstanding bit of business is economic coordination; and, specifically, the French wish to enshrine in a Luxembourg European Council Resolution (or have blessed in some other way) arrangements for meetings of the "ins". **The Prime Minister might say that:**

- it would damage the climate in the UK if we were perceived as being excluded;
- the underlying need for economic policy co-ordination could be met by using ECOFIN better (at 15).

3. On enlargement/Agenda 2000 and on the Jobs Summit, I attach notes containing, in each case, (a) messages the Prime Minister might wish to get across to Juncker and (b) background.

Brian Bender
European Secretariat
Room 322, 70W
270 0044

**ENLARGEMENT/AGENDA 2000:
MESSAGES TO GET ACROSS TO JUNCKER**

- Vital that Presidency secures agreement at the Luxembourg European Council on the opening of enlargement negotiations, in particular:
 - * agreeing those countries with whom the EU will open enlargement negotiations in early 1998 [we support the recommendations in the Commission's July papers];
 - * the establishment of inclusive arrangements that will reassure the other CEE countries that they are not being left behind. These arrangements should include pre-accession strategies for each country and a European Conference;
 - * Turkey should have a place at the European Conference.
- Luxembourg European Council should also set some directions for the further work on Agenda 2000. While unwise to try to be too prescriptive at this stage, encourage Presidency to try to go as far as the market will bear in giving guidance, notably:
 - * confirmation of the 1.27% GDP ceiling for own resources;
 - * recognition of the need for CAP reform, giving a green light to the Commission to come forward with detailed legislative proposals early in the New Year;
 - * recognition that the overall cost of the Structural and Cohesion Funds should be contained below 0.46% of EU GDP, both before and after enlargement.

ENLARGEMENT/AGENDA 2000: UK OBJECTIVES FOR LUXEMBOURG

Subject	Commission proposals	UK views	Others' views	UK objectives for Luxembourg
<u>EU Enlargement</u>	EU should open accession negotiations with Cyprus (as already agreed by the European Council) and 5 of the 10 Central and Eastern European (CEE) candidates (Poland, Hungary, Czech Republic, Slovenia, Estonia) whom the Commission judge will in the medium term be able to meet the economic and political criteria for membership laid down by the Council.	Support Commission recommendation to begin negotiations only with those candidates who are ready (" differentiation "). Support Commission recommendation on individual candidates .	Key partners (France, Germany, Presidency) support differentiation . Scandinavians still hanker for "regatta start" to negotiations (on behalf of Latvia and Lithuania), i.e. opening negotiations with all.	To secure agreement to opening negotiations with Cyprus and 5 CEEs only during UK Presidency .
	"Reinforcement" of the Pre-Accession Strategy (the programme for helping applicants prepare for EU membership) through increased funding and refocusing of activity.	Support Commission's recommendations in principle (though with reservations about some of the detail).	No significant dissent on principle	Endorsement of strategy (subject to resolving detailed concerns).

Subject	Commission proposals	UK views	Others' views	UK objectives for Luxembourg
Enlargement (cont.)	Establishing the European Conference as a single forum (annually at Head of Government and/or Ministerial level) for member states and all countries "aspiring" to EU membership (i.e including Turkey) to discuss 2 nd and 3 rd pillar issues (Common Foreign and Security Policy and justice and home affairs).	Support establishment of Conference as mechanism (a) to make CEE candidates not in 1st wave of negotiations feel included and (b) to reassure Turkey that its readiness for membership will be judged on same basis as other candidates, but commitment to or specific timescale for Turkish accession. Should cover 1st pillar , and meet at official/ Ministerial level as appropriate.	France shares UK view on usefulness of Conference in managing Turkey. Germany highly sceptical - wary of Turkish involvement, given opposition to Turkish membership. Greece likely to oppose Turkish involvement. Luxembourg Presidency also sceptical about Turkish involvement.	Secure agreement to establishment of and broad aims of Conference with view to inaugural meeting during UK Presidency. Ensure Turkish participation .
<u>Future financing of EU</u>	Next financing period should run from 2000-2006 to cover first wave of enlargement. Current ceiling on overall budget ("Own Resources Ceiling") should remain (1.27% of member states' GDP).	Ideally, would like period to run beyond 2006 to avoid pressure for increase following the first wave of enlargement (but unrealistic). Strongly support Commission recommendation.	Net contributors strongly agree (e.g. Germany, Netherlands) Unlikely to be any real pressure from net recipients for increase (but may be used for leverage by e.g. Spain to preserve receipts).	To secure agreement to 1.27% ceiling .

Subject	Commission proposals	UK views	Others' views	UK objectives for Luxembourg
Future financing (cont.)	No change in current financing arrangements (ie to calculation of member states' contributions)	Agree.	Germany and Netherlands under domestic political pressure to reduce net contribution.	
	UK rebate mechanism (the "abatment") to be reviewed after first enlargement.	Abatement should not be on the table.	Abatement may come under attack (e.g. as part of German tactics on own net contribution). Others may argue that expenditure on enlargement is not covered by abatement.	To avoid any suggestion that UK abatement up for discussion; and any language on scope of abatement.
Reform of Common Agricultural Policy	CAP should be reformed, most immediately in arable, beef and dairy sectors, to (a) prevent build-up of surpluses, (b) prepare for enlargement, (c) strengthen negotiating hand for next WTO round, (d) meet environmental and rural development objectives	Strongly support Commission's proposals as a step in the right direction; but they do not go far enough in the direction of necessary radical reform (dairy proposals far too weak; direct aid to farmers to compensate for price cuts should be degressive).	Sweden and Denmark support. Germany strongly opposes market reform (highly sensitive in run-up to 1998 elections). Most others oppose direction of reforms (France undecided) but welcome emphasis on rural development.	To ensure process is not blocked and the Commission is able to bring forward specific proposals on key market regimes in time for discussion in UK Presidency (and directional conclusions from Cardiff).

Subject	Commission proposals	UK views	Others' views	UK objectives for Luxembourg
Reform of Structural and Cohesion Funds	Maintaining the ceiling on the SCF budget (within the Own Resources ceiling) at 0.46% of member states' GDP.	Strongly support Commission recommendation (0.46% should be ceiling before and after enlargement).	Budget disciplinarians (including France) support.	To avoid any commitment to preserving receipts of Spain or others.
	Earmarking a proportion of the budget for new member states (thus reducing existing member states' receipts).	Support principle that SCF should help poorest member states the most, and that existing member states must therefore take cut in receipts on enlargement.	Budget disciplinarians (including France) support principle. Some net recipients (notably Spain) strongly opposed to any cut in receipts. Others (e.g. Ireland) resigned provided there are transitional arrangements.	To avoid any commitment to preserving receipts of Spain or others.
	Streamlining and re-orienting the objectives of the SCF, in particular to focus on unemployment and growth.	Support in principle (though need to ensure that UK is not unfairly discriminated against e.g. through using unemployment as criterion).	Broad support from others , with nuances to protect national positions.	Green light for detailed Commission proposals early in UK Presidency.
	Maintaining the Cohesion Fund (aid for environment and transport infrastructure for poorest: Spain, Greece, Portugal, Ireland) in its present form, with continued eligibility for those taking part in the 3rd stage of EMU.	Question need for EMU-ins to receive Cohesion Funding (but without making this a sticking point).	Germany and others opposed to continued eligibility of EMU-ins. Spain strongly defensive of continued eligibility despite EMU.	Silence on this at Luxembourg.

EU JOBS SUMMIT: MESSAGES TO GET ACROSS TO JUNCKER

- UK objectives for the Jobs Summit:
 - * to get commitments at EU level on actions to be taken at national level on employability and labour market flexibility (eg focusing on long term unemployment and youth unemployment);
 - * to do this through early implementation of the Amsterdam Treaty Chapter on Employment, setting up a process which we will be able to carry forward through the UK Presidency;
- should involve:
 - * the systematic exchange of best practice between member states;
 - * through the setting of objectives in the guidelines and the resulting review process and peer group pressure, real improvements on employability and on structural labour market issues over the coming years;
- guidelines need to place due emphasis on structural reform of labour markets - essential if EMU is to be successful;
- need to take care in the setting of objectives/targets in the guidelines; must avoid over-prescriptive, inappropriate or meaningless targets; Officials should work together to ensure the right drafting;
- **process.** If Jobs Summit is to be a success, and guidelines adopted by the end of the year, must be careful preparation to ensure the drafting of the guidelines is got right;
- **money.** Welcome EIB proposals. Ready to examine refocusing of existing planned EC budget expenditure (not new money) onto more employment related activity (but don't like interest rate subsidies);
- **Social Partners.** Would welcome encouraging the Social Partners to cooperate as appropriate to promote employability and restructuring of the labour market; would not welcome it if an active role by the Social Partners led to unnecessary/regulatory EC-wide legislation, eg on the reduction of worktime/overtime. [If raised] Not attracted by idea of regular meetings with Social Partners and troika of Heads of Government.

EU JOBS SUMMIT: BACKGROUND

Essen (December 1994) European Council Process

Prior to Amsterdam, considered as the authoritative European Council statement on employment. It identified **five key areas for measures by member states**:

- improving employment opportunities by promoting investment in vocational training;
- increasing the employment-intensiveness of growth;
- reducing non-wage labour costs;
- improving the effectiveness of labour market policy;
- improving measures to help groups particularly hard hit by unemployment (notably the young and the long term unemployed).

A recurrent theme from the Presidency and others is that the outcome from the November Jobs Summit must be seen to go further than a re-statement of these Essen priorities.

Chancellor's Jobs Initiative

A. Launched in early June. Details attached.

Amsterdam Outcome

Employment Chapter. Calls for:

- “A co-ordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change ...”;
- the adoption annually of “guidelines which the member states shall take into account in their employment policies”; and an annual examination of the implementation of national employment policies in the light of these guidelines.

Amsterdam conclusions. Contained:

- the remit for the Jobs Summit, to “review progress in the implementation of, among others, the initiative concerning job creating potentials for small and medium sized enterprises, a new Competitiveness Advisory Group, the study of good practices on employment policies of the member states, and the initiatives of the EIB in creating employment opportunities”;
- a Resolution on Growth and Employment “with British ideas at the centre of it” (PM’s post-Amsterdam Statement).

Preparations for Jobs Summit

i. **Format.** The Presidency envisage a standard European Council, with participation by Heads of Government and Foreign Ministers only. To date, no other member state has objected to this. ECOFIN and Employment Ministers would be involved in the preparations, including at a joint meeting on 17 November;

ii. **Content.** The Luxembourgers envisage the output of the Summit to be Presidency conclusions, covering four main areas:

a. *joint (ECOFIN/Social Affairs Council) report on employment*

judging by previous such exercises, likely to be a worthy but unexciting piece of work. Expected to be finalised by the Joint Council on 17 November;

b. *list of examples of good national practice*

a useful exercise, based on inputs from each Government over the summer;

c. *money*

likely to contain two elements:

- **EIB proposals:** to set aside 1bn ecu from the Bank’s reserves to finance, notably, investment in small and medium enterprises (especially in the high technology sector); lending in the health and education sectors and greater emphasis on environmental projects; and where necessary a higher

proportion of funding from Trans-European Networks and related infrastructure projects. **We welcome this;**

- **EC budget contribution.** Discussions are taking place within the European Parliament on creating headroom within the planned budget levels for 1998 for additional expenditure on employment related activity. The front running idea is loan guarantees for SMEs. **We have no final view on this, but preliminary thinking is that we can welcome a refocusing of existing planned levels of expenditure towards employment-related activity (but not new money). A possible use of such money could be to fund demonstration projects in the member states on eg employability;**

d. *Employment guidelines*

the idea is that there would be early implementation of the provisions of the Amsterdam Treaty Employment Chapter, with guidelines adopted by the end of the year in the light of the conclusions of the Jobs Summit. **The Commission have tabled a draft (copy attached), which contains some good news:**

B.

- a structure and language heavily influenced by UK thinking, covering four themes: entrepreneurship, in particular the role of small firms in creating jobs; employability; adaptable labour markets; equal opportunities;
- a process of follow-up very much in tune with British thinking: largely bottom-up, involving detailed action plans by member states to be updated and monitored on an annual basis, reinforced in some areas by member states identifying their own quantified targets.

But some less welcome elements:

- some **numerical targets** at EU level (eg member states' efforts "could lead" to increase in employment rate to 65%, and reduction of unemployment to 7% within five years; the combined effect of recommended measures on long term and youth unemployment should reduce the rates of each by half within five years);

- an active role for the **Social Partners**. We would welcome this if it provided a way of promoting employability and restructuring of the labour market; we would not if it foreshadowed regulatory EC-wide legislation (eg on reduction of working time).

Initial reactions from other member states show some hesitation about any numerical targets (the Germans are the most reserved). **Juncker's** views are:

- he is not attracted by the Commission's ideas on numerical targets, but instead envisages seeking agreement on a handful (3-5) of quantified labour market policies (eg 25% of unemployed to be subject to active labour policy measures; all youth unemployed to be given a start within 6 months), with the method of implementation being left to member states;
- he wants the outcome of the Jobs Summit to give encouragement to the Social Partners. One idea he has, for discussion with the Prime Minister, is for a Troika of Heads of Government of the present, past and next Presidency to meet with the Social Partners every six months to take stock of implementation of the guidelines.

9 June 1997

(A)

Ms Moira Wallace
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

7196

Dear Moira,

C. Macpherson

GETTING EUROPE TO WORK

I attach a note on employability, growth and inclusion in the EU which the Chancellor circulated informally to Finance Ministers while attending today's meeting of ECOFIN in Luxembourg.

The note expands on the letter the Chancellor circulated to Finance Minister colleagues last week by focussing on the UK's ideas for achieving more employment.

I am copying this letter to Private Secretaries to the Foreign Secretary, the President of the Board of Trade, the Secretary of State for Education and Employment and to Jan Polley (Cabinet Office).

① cc GA

② AC ③ GA ④ RB

bf 9/6

John

Nick

N I MACPHERSON
Principal Private Secretary

EMPLOYABILITY, GROWTH AND INCLUSION IN THE EU

Outline of draft UK Employment Programme for submission to ECOFIN Council.

Introduction

This note sets out initial UK ideas for the content of a UK Employment Programme in the context of the 'Getting Europe to Work' initiative, and in particular point (1) of our Action plan, aimed at focusing ECOFIN work on enhancing job creation - to bring real jobs within the reach of all, including those now excluded from the labour market.

It is clear that we now need to set a new agenda for employability, growth, job-creating flexibility, which means adaptability to changes, and inclusion in Europe. Employability is the key to a cohesive society which offers opportunity to all its citizens; to ensure that economic change and the pursuit of sound macroeconomic policies are consistent with providing individuals with real and lasting jobs, and that everyone can share in the rewards of a more dynamic and efficient economy. Both

While each of our economies faces different challenges, we need to focus our efforts in particular on five broad areas:

- **Promoting economic growth and stability**

- Investing in human capital
- Helping people from welfare to work
- Improving the workings of markets
- Creating a fair and inclusive society

For the UK this has the following implications;

Promoting economic growth and stability

- The UK has had slower growth of output over the past 18 years than many of our major competitors. As a result, the UK has slipped down the international GDP per head league table since 1979. The UK's GDP per head is now below our major competitors.
- The UK's poor record of economic stability has stunted investment and pushed up long-term unemployment. Since 1979, the UK has experienced the two deepest and longest recessions since the war.

We therefore need to ensure **macroeconomic stability** through policies for stable money, sound budgets and open markets. We

need to **raise the trend rate of economic growth** by nurturing investment in industry, skills, infrastructure and new technologies; recognising that government has an important role to play in creating the right environment in which investment grows and business flourishes. We should **promote investment** and make imaginative use of public-private partnerships across the whole range of public sector activity. We should recognise the important role of Small and Medium-sized Enterprises (SMEs), and remove unnecessary red tape.

Investing in Human Capital

- The education system has failed to equip Britain adequately to become a high-skills, high-pay economy. 20% of our young people leave school without basic literacy and numeracy skills.

We should improve basic skills in schools, and help people to make the transition between school and work: by reducing the costs of economic and social failure we can raise the proportion of national income spent on education. We should promote **lifelong learning**, and determine the appropriate roles of employers, the individual and the state. We should balance new opportunities with new responsibilities.

Helping people from welfare to work

- Approaching 1 in 5 working age households have no-one in work and the social security bill has nearly doubled, in real terms, since 1979.

We should improve ***work incentives in the tax and benefit system***, and look particularly at the way they interact. We should find opportunities for young people to work and train. We should ***reduce long term unemployment***, and provide opportunities for lone parents, older workers and disabled people.

Improving the workings of markets

- The UK has not got the balance right between minimum standards and labour market regulations. It has no minimum wage, has not signed the Social Chapter and has failed to promote competition by reforming competition policy.

We should introduce ***structural reform*** in product and labour markets. We need to ***complete the single market***, and reap the benefits in better living standards for all our people.

Many countries are taking steps to ***reform labour markets*** and to achieve greater job-creating flexibility, which means adaptability

to changes. But we need to move faster if we are to encourage greater job creation. We should develop a framework against which to judge labour market regulations. We need a sensible framework of minimum standards, with the interests of those without work reflected alongside those with work. We need a sensible balance in industrial relations law which helps employers to recognise their employees as partners in the enterprise. We need to look to **reduce non-wage labour costs**, particularly at the lower end of the labour market.

Creating a fair and inclusive society

- Inequality has risen faster in the UK than in any other major industrialised country since the late 1970's. UK workers have no guarantee of a minimum wage.
- The bottom 10% of households have suffered a 13% fall, in real terms, in disposable income after housing costs.

We need to **manage the human consequences of change and reduce inequality**. To this end, we must recognise that by promoting job creation, greater investment in skills and welfare

which wages cannot fall, set at sensible levels. We need **fair taxes**, which encourage work and opportunity for all and promote a fair society. We need to address the problem of **social exclusion**.

1 October 1997

Commission Communication

(B)

Proposal for Guidelines for Member States Employment Policies 1998

I. A new ambition

The European Council in Amsterdam was a watershed for employment policies in the Union. With the adoption of the employment Title, the Heads of State and Government agreed that employment should be considered as a matter of common concern. Building on the existing procedure launched at Essen, the new Treaty reinforces the coordination of national employment policies and foresees the establishment of common guidelines which can in due course lead to recommendations to Member States.

Following the Amsterdam agreement to anticipate the application of the new employment Title, the Commission now presents these guidelines as a framework for discussion at the extraordinary European Council on 20/21 November. The Commission will, on the basis of the Presidency's Conclusions from the Jobs Summit, present a final proposal for adoption by the Council.

It is important to understand the essence of this exercise. The new Treaty has launched a process which enables the Member States to consider the employment situation each year and adopt guidelines for their national employment policies. The latter must, of course, be part of an overall integrated approach which also involves sound macroeconomic policies, a functioning Single Market and the taking of employment into account in all Community policies.

A window of opportunity

After a period of slow growth, the underlying conditions necessary for sustained growth in output and employment in the EU are now in place: inflation is at an historic low; public finances are in a much sounder position; business profitability has recovered strongly; exports are rising sharply and confidence levels are much improved. Continued macroeconomic stability and the realisation of EMU, as well as the completion of the Single Market in accordance with the Action Plan adopted by the Amsterdam European Council, will underpin and sustain this process.

The current cyclical upturn and these improved prospects must not, however, lead to complacency. Tackling the present levels of unemployment in the EU requires a protracted period of strong growth, but growth alone cannot solve Europe's unemployment problems. These problems result from a continuing inability to create enough new jobs, inadequate workforce skills, failure to adapt to new patterns of work and inequality of opportunities. There is, therefore, a need for continued medium and long-term structural reforms. Experience shows that such reforms are best implemented in a climate of growth and rising demand. Governments should, therefore, consider the improved growth prospects as a window of opportunity for bold structural reforms of their employment systems.

The present Guidelines do not call for increased expenditure but rather a restructuring of expenditure, a reform of benefit and taxation systems and a move from passive income support measures to proactive policies so as to maximise the return on existing budget outlays. In particular, policy changes are needed to enhance the capacity and willingness of enterprises to invest and to give individuals the opportunity to meet the ever-growing demand for new skills and versatility in the face of increasing technological change.

These guidelines are, therefore, aimed at ensuring that the economic recovery is accompanied both by a high level of job creation and a stable macroeconomic environment, and that this favourable combination is sustained. To achieve this objective the Commission believes that Member States will have to strengthen their focus on four main lines of action in their employment policies:

- ◆ *Entrepreneurship;*
- ◆ *Employability;*
- ◆ *Adaptability, and*
- ◆ *Equal opportunities*

These actions must form part of an integrated approach and be drawn together into a comprehensive strategy. This integrated approach offers the best conditions for achieving both the flexibility needed to adjust to changing market conditions and the security of good jobs needed by workers.

Any real progress at the European level will require detailed action plans by Member States that reflect their own circumstances but which are drawn up and implemented within a common European framework of objectives and guidelines. This process must be interactive, involving both the Member States and the Union. The action plans will need to be updated and monitored on an annual basis.

The main challenge

The EU's longer term objective must be to move progressively towards an employment rate of over 70% in line with those of its main trading partners. In order to achieve this, Member States must in the medium term commit themselves to ambitious employment targets and policies while seizing the opportunities afforded by growth and macroeconomic stability. Considering the current favourable outlook for economic growth, the combined efforts of the Member States based on these guidelines, with EU support where appropriate, could result in an increase of the current employment rate of 60.4% to 65% within 5 years and a reduction of the unemployment rate to 7%. This will imply the creation of at least 12 million new jobs.

In this paper, the Commission has sought to focus on actions which, drawing on Member States' experiences and best practices, can be expected to have a real impact and added-value. Moreover, while recognising that the employment and labour market situation differs between Member States, these guidelines set out some ambitious targets in order to focus the attention of policy-makers at all levels.

ii. Create a new culture of entrepreneurship

Stimulating entrepreneurship means creating a climate where companies can thrive and individuals are encouraged to exploit their creative energies and new ideas to the full, thereby creating new jobs. One third of the jobs in the private sector are in micro-enterprises of less than 10 people, while another third are in enterprises of less than 250 people. Most new jobs are created in these enterprises. If Europe is to succeed in meeting the jobs challenge, it has to create more jobs by stimulating the growth of these enterprises, particularly in the services sector. This requires a new entrepreneurial culture.

The preconditions for this are already in place. Europe is not short of innovative ideas or talented individuals and it is more than capable of competing on the world stage. But Europe has yet to realise its full potential. There is an urgent need for co-ordinated and sustained efforts by all Member States to create a better business

environment and a new entrepreneurial culture capable of transforming this potential into jobs. There is clear evidence that policies which take a comprehensive approach towards entrepreneurship are most successful.

However, the need for entrepreneurship and job creation extends further and experience has shown the significant potential for job creation at local level and within the social economy. These new sources of employment need to be exploited much more decisively, particularly as regards services to people and to local communities, and the not-for-profit sector. Local employment initiatives and Territorial Pacts bringing together all involved at local, regional and national levels, in a broad partnership approach have proved particularly effective. The lessons drawn from these successful experiences need to be promoted as part of a wider local development drive throughout Europe.

Moreover, Europe must harness new technology and innovation for the creation and development of enterprises and the promotion of environmentally sustainable production and consumption patterns. Member States should develop strategies to promote access to the Information Society at all levels, thereby stimulating the use of new technology and the creation of jobs in new and expanding sectors. The Member States must also significantly boost RTD expenditure as a percentage of GDP, thereby raising the European average from 1.9% to 2.5%, so as to match its global competitors, while at the same time encouraging more effective sharing of innovation and new technologies through reinforced cooperation between large, medium and small enterprises.

Further efforts are required, however, to promote a new culture of entrepreneurship in Europe:

Make it easier to start-up and run businesses by providing a clear, stable and predictable set of rules. Member States should review and simplify the administrative burdens on SMEs, taking into account the new proposals to be developed by the Business Environment Simplification Task Force.

→ particular attention should be given to reducing significantly the overhead costs for enterprises of hiring an additional worker.

→ the obstacles, especially those within existing social security regimes, to people moving from employment to self-employment and setting up micro-enterprises need to be tackled and existing regulations must be adapted to facilitate easier transition to self-employment.

Develop the markets for venture capital, thereby mobilising Europe's wealth behind entrepreneurs and innovators. Member States should examine the specific needs of SMEs as regards financing, principally in the form of equity or guaranteed capital, building on EIB initiatives in this area.

→ a pan-European secondary capital market should be established by the year 2000.

Make the taxation system more employment friendly. In order to encourage enterprises to create new jobs, Member States must exploit the current favourable macroeconomic climate to finally reverse the average long-term trend towards higher taxes and charges on labour (which have increased from 35% in 1980 to over 42% in 1999). Each Member State should

→ set a target for reducing the tax burden on labour, while maintaining budget neutrality, with a view to achieving substantial progress by the year 2000.

The Commission will support Member States in their efforts to give more attention to entrepreneurship in education and training systems, identify current obstacles and disseminate information on good practice and new initiatives, and will launch an Entrepreneurship in Europe Initiative to drive this process forward.

iii. Creating a new culture of Employability

In its workforce, Europe has great potential for economic growth and prosperity. There are about 18 million unemployed and a further 8-9 million people who would like to work if they thought they could get a job. To turn this potential into reality, a new culture of employability has to be developed. Employability means the capacity for people to be employed: it relates not only to the adequacy of their skills but also incentives and opportunities offered to individuals to seek employment.

The ageing of the Union's workforce and the fast pace of new technology means that Europe is facing an ever-increasing skills gap. Enterprises are looking for new and adequate skills, but most of the unemployed have old skills or no skills. Moreover, many young people leave school early, or without any qualification, while large parts of the labour force have very little access to adult education and training, in particular those with lower skills and non-standard work contracts. Less than 10 per cent of the unemployed are offered training.

But training alone is not enough. There is a clear need to make benefit and taxation systems more employment-friendly by promoting active measures that favour employment or encourage people of working age to acquire new skills and update existing skills. Member States are spending about ECU 200,000 million on their labour market policies but only one third of this is spent on active measures. All social transfers should be examined to see whether they could be used more effectively in promoting rehabilitation, reintegration, training or work experience.

The capacity of Member States' employment services to help jobseekers should be reformed and strengthened in line with best practice, in particular by exploiting new information and communication technologies. Employment offices should also strengthen their role vis-à-vis employers by improving the level of market penetration in order to enable them to fulfill their double mission of providing employers with adequately skilled jobseekers and the job seekers with job opportunities. Passive unemployment support should be regarded as a last resort.

• Tackle long-term and youth unemployment. Member States should adopt preventive and employability-oriented strategies built on early identification of individual needs and early action and ensure that

→ every unemployed adult is offered a new start - in the form of a job, training, retraining, work practice or other employability measure - before reaching twelve months of unemployment.

→ every unemployed young person is given such a new start before reaching six months of unemployment.

The combined effect of preventive and reintegration measures can be expected to reduce the rates of long-term and youth unemployment in the Member States by half within 5 years. This will also improve the employment situation of the disabled, many of whom are long-term unemployed.

- Ease the transition from school to work. Employment prospects are poor for the 10% of young people who drop out of the school system early and many of the 45% who do not complete upper secondary education. Member States must seek to
 - reduce the numbers dropping out of the education system early by half within five years and reduce progressively the share who do not complete upper secondary level.
 - apprenticeship provides a particularly effective way of equipping young people with relevant skills and Member States should, where necessary, significantly increase participation in apprenticeship training in line with the best performing Member States and improve their systems accordingly.
- Move from passive to active measures Benefit and training systems should be reviewed and adapted to ensure that they actively support employability and provide clear incentives for the unemployed to seek and take up work or training opportunities. Each Member State should
 - set a target for the number of people to be transferred from passive income support to active employability-related measures.
 - seek to increase the numbers of unemployed who are offered training from the current EU average of 10% towards the average of the three best performing Member States i.e. above 25%, within 5 years.
 - consider how reducing the cost of hiring less skilled workers through measures such as targeted reductions in non-wage labour costs, can be better linked to measures designed to boost skill levels.
- Develop a partnership approach. Both enterprises and the social partners should be involved in joint efforts to invest Europe's wealth in its future by offering the necessary work experience/training positions. The Social Partners are urged to
 - conclude as soon as possible a framework agreement to open workplaces across Europe for training, work practice, traineeships and other forms of employability measures and to agree on the terms and conditions.
 - continue the impressive contribution which they have made over the past five years to the wage moderation which has contributed so much to the improved economic outlook and the improved prospects for new job creation.

In so far as the Structural Funds are concerned, a significant level of investment already goes towards underpinning Member States' efforts to promote higher skills, the activation of labour market policies through targeted measures aimed at preventing long-term unemployment, and at the promotion of entrepreneurship and adaptability. In the next programming period, Member States should seek to further increase the level of structural funding allocated to their human resource development policies and activities. In the short term, Member States should avail of the current mid-term review to reinforce the employment content of their Structural Fund programmes.

The Commission will support the Member States in developing their employment services by organising the exchange of knowledge and experience as well as developing benchmarks for the improvement of their performance. It is essential to remove the remaining obstacles to labour mobility while improving the flow of information on job opportunities and incentives to mobility, and the Commission will shortly present a package of measures to help achieve this objective.

IV. Promote and encourage adaptability

in Europe, as elsewhere, enterprises are undergoing a period of fundamental restructuring brought on by new technologies and new market conditions. This is visible in the form of mergers and acquisitions, new products and services and greater competition, all of which are affecting individual enterprises and leading to new work patterns. Through this process a new economy is emerging with technologically more advanced enterprises and with a growing services sector, often in the form of new small firms.

The capacity to adapt is decisive for the viability of enterprises, and their ability to seize new opportunities, as well as for employment and job security. However, workers often feel that they have not been adequately informed and consulted, and may see little prospect for a good job and a decent income after restructuring or downsizing. Member States should, therefore, make the adaptability of enterprises, and of those employed in enterprises, one of the main objectives of their employment policies. The Social Partners have a key role to play in this regard.

• Modernise work organisation in order to promote the modernisation of work organisation and working patterns:

Social Partners should

→ negotiate, at the appropriate levels, particularly in economic sectors undergoing major structural change, agreements on work organisation and flexible working arrangements, including where appropriate reductions in working time, with the aim of making enterprises productive and competitive, and achieving the required balance between flexibility and security.

Member States should

→ put in place a framework for more adaptable forms of contract, taking into account that forms of employment are increasingly diverse. Those in non-standard work should be given greater security and occupational status and those who opt to work reduced hours should not be penalised in terms of career progression or in terms of maintaining social security protection-

• Support adaptability in enterprises. In order to renew skill levels within enterprises, Member States should

→ remove fiscal and other obstacles to the promotion of investment in human resources and offer tax incentives for the development of in-house training. Incentives to workers to avail of training opportunities should also be encouraged.

→ re-focus their State Aid policies on upgrading the labour force, the creation of sustainable jobs and efficiently functioning labour markets, while respecting Community state aid provisions.

The Commission will assist this process by promoting its policies for a new organisation of work, and information and consultation of workers in respect of decisions affecting them as well as bringing forward clear guidelines concerning training aid.

V. Strengthen the policies for equal opportunities

There are sound economic and social reasons for a reinforcement of the efforts of Member States to promote equal opportunities in the labour market. While the employment situation of women has improved over recent decades, unemployment is higher for women than for men (12.6% as against 9.7%) and their rate of participation in work is lower (50.2% as against 70.4%). Within work, women are over-represented in some sectors and professions and under-represented in others. These labour market rigidities, which impede Europe's capacity for growth and job creation, must be tackled.

As the Commission's Demography Reports have outlined, the working age population is now growing much slower than it did during the last 20 years and over the next decade it will start to decline. In the longer term, therefore, the growth in employment necessary to sustain our living standards and the European social model is critically dependent on an increase in the participation of women in the labour force.

- Tackle gender gaps: Member States should translate their commitment to equality of opportunity into increased employment rates for women and breaking down gender segregation, and
 - make consistent efforts to reduce the gap in unemployment rates between women and men by actively supporting the increased employment of women.
- Reconcile work and family life: Policies on career breaks, parental leave and part-time work are of particular importance to women. Implementation of the various Directives and social partner agreements in this area should be accelerated and monitored. There must be an adequate provision of good quality care for children and other dependents in order to support women's entry and continued participation in the labour market. Member States should
 - seek to raise levels of care provision, using the standards of the best performing Member States as a benchmark.
- Facilitate return to work: Specific attention should be given to women considering a return to the paid workforce after an absence. They may face problems of poor employability due to outmoded skills and may have difficulty in accessing training opportunities if they have not been registered as "jobseekers". Moreover, taxation and benefit systems may interact to reduce financial incentives to seek work. Member States should address these and other obstacles.

Above all, Member States should, in developing, implementing and reporting on these guidelines, take into account the particular labour market situation of women. Specific strategies to promote entrepreneurship among women, to improve their employability and adaptability should be developed.

VI. The Implementation of the Guidelines

Member States should, from 1998 onwards, report on the implementation of these guidelines; they should highlight their best practices and their impact on employment for examination by the Commission and the Council. The Commission will present a proposal to ensure an agreed comparable database in Member States, and agreed indicators, in order to monitor the implementation of these guidelines.

In preparing the 1999 guidelines, the Commission will examine how each Member State has taken the current guidelines into account in implementing their

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employment policies and present its assessment in Autumn 1998 for adoption by the European Council at the end of 1998.

PRIME MINISTER'S MEETING WITH JUNCKER, 9 OCTOBER

CHECKLIST OF POINTS TO MAKE

EMPLOYMENT SUMMIT

- Successful Employment Summit a priority. Jobs will continue to be top of the agenda during the UK Presidency. Appreciate your efforts to ensure Summit produces concrete results - agenda now shaping up well.

- Much to welcome in Commission's draft employment guidelines. Good basis for further work.

- Key problem: targets. EU-wide macro-economic targets proposed by the Commission are meaningless and should be dropped. But agree that concrete policy targets are needed to put pressure on Member States. Support your suggestion of targeting intermediate policy goals rather than outcomes. But these need to be realistic - eg can offer every young person an opportunity, but can't offer them all a job.

- Also need language on the need to modernise labour markets to ensure they are responsive to economic change. This does not mean deregulation but appropriate regulation.

- How do you plan to take forward work on the guidelines? Important that Member States have the opportunity to discuss them in detail and to amend them before the Summit - otherwise Heads will waste time arguing over details.

- On spending, welcome EIB's proposals to increase lending in support of EU's employment objectives. Less sure about your/EP's proposals to fund loan guarantees to SMEs - is this the most effective way to use Community funds? If money available in the EC budget, may be better to use it for demonstrator projects in individual Member States, which would inform Community work on best practice.

- Aware of your ideas for increasing the involvement of social partners in Community work on employment. Would welcome an active role for them, if this provides a way of promoting employability and restructuring labour markets. But not convinced of merits of holding high level meetings between the Troika and the social partners.

- Attendance - important that Ministers responsible for employment policy domestically fully involved in preparations.

EMU

- What do you plan to achieve on EMU at European Council in December?
- UK Presidency: efficient and impartial in all respects; no hidden agenda.
- UK domestic debate: unlikely to join on 1 Jan 1999. There will probably be a Government statement by the end of year. Government has stimulated debate on merits of membership, and pushed forward debate on implications for business.

AGENDA 2000

- Enlargement a priority. Look forward to December Council focusing on early opening of enlargement negotiations. Appreciate excellent work of the Luxembourg Presidency which will help to make this possible.
- Important we begin accession negotiations only with those applicants who are ready.
- At the same time enlargement must remain an all-inclusive process. Need a pipeline to accession along which all candidates can move at their own pace.
- That is why reinforced pre-accession strategy important.
- European Conference crucial. An important forum for all countries with an active application for membership (including Turkey).
- Conference should allow practical progress on areas of common interest. Look forward to hosting inaugural event in London early in our Presidency.
- Reform of key policies essential for successful enlargement.
- Agree CAP reform particularly important. Commission's ideas
- involving significant price cuts - in right direction.
- But believe more radical strategy needed if EU is to meet coming challenges: WTO (negotiations beginning at turn of century) and enlargement.
- Reform of Structural and Cohesion Funds also overdue: arrangements need to be affordable, efficient, durable and fair.

- All existing Member States will eventually have to expect reductions in receipts if costs are to be contained. Future cuts should be handled fairly.

- Council needs to go beyond stating that Own Resources ceiling should not be raised above 1.27% GNP: must stress that actual spending should be well below this ceiling, not least to meet long-term costs of applying the acquis in new Member States.

- Council should stay off UK abatement. UK will be unable to accept any prejudicial change, or any hint of it in the future.

- Luxembourg conclusions should:

= agree to open accession negotiations with those that are ready while reinforcing pre-accession strategy.

= endorse European Conference (to include Turkey) and invite UK Presidency to establish terms of reference.

= recognize that policy reform is essential for enlargement to be successful.

= confirm 1.27% Own Resources ceiling and desirability of keeping actual spending well below it, since spending should not increase in line with GNP.

= leave UK abatement unchanged.

= endorse early reform of CAP to improve EU agriculture's competitiveness and ensure successful enlargement.

= endorse reform of Structural and Cohesion Funds that is efficient, affordable, durable and fair and keeps cost well below 0.46 % of EU GNP.

- Most important task for Council is to get process right and on track ie by calling for accession negotiations to begin and for Commission to table policy reform proposals early in 1998.

- Recognise that some Member States' views are very different from UK's. What problems do you expect before Luxembourg eg from the Spanish? Plans for avoiding trouble?



Foreign &
Commonwealth
Office

London SW1A 2AH

SL: JEH
PB
AC
JP
BUP
Brian
Bender

8 October 1997

Dear John,

Meeting with the Luxembourg Prime Minister

The Prime Minister will visit Luxembourg on Thursday 9 October for a working dinner with Juncker, before going on the following morning to Strasbourg for the Council of Europe.

Juncker is likely to be focusing on how to achieve sufficient consensus for a productive outcome at, most immediately, the Job Summit on 21 November and thereafter the mid-December European Council. We suggest that the Prime Minister might therefore concentrate on what the UK would like to see from both events; and that the discussion be restricted as far as possible to the three key issues of employment, EMU and Agenda 2000.

We suggest starting with employment. The brief reflects discussion this morning between senior Cabinet Office, Treasury and DfEE officials (Bender/Sedgwick/ Tucker). We suggest concentrating on the two main decisions: the Commission's guidelines and money.

We agree with Juncker on the need for concrete results, and that the Commission's draft guidelines are a good basis for further work. The Prime Minister might explain why we think the notion of EU-wide targets misconceived, but agree that intermediate policy goals may be a better way of committing Member States to concrete policy targets, provided these are realistic.

We also need to stress the need to modernise labour markets (the guidelines' most important omission), taking into account the sensitivity of this for Juncker. Handling will also be important: the Presidency need to give Member States an opportunity to amend these before the Summit, so that all detailed points do not have to be raised at the Summit itself.

The Prime Minister might set out our views on the other big issue of spending, explore the Presidency's plans for involving the Social Partners, and finally touch on attendance (Juncker himself covers all three portfolios in the Luxembourg Government).



What is the broader underlying message? Juncker seems to have concluded in May that the new Government's policies, particularly on employment, were not much different from its predecessor's. The Prime Minister might want to show clearly and unambiguously why that is wrong, and underline his determination to work for a positive outcome that is both realistic and deliverable. It will be a question of convincing Juncker psychologically, as well as on the substance. It would be useful here for the Prime Minister also to explain again his vision for Britain in Europe.

On EMU, the Prime Minister might check Juncker's plans for the December European Council (not clear that it can in fact do more than reaffirm the existing timetable); and underscore our determination to fulfil our Presidency responsibilities scrupulously (some lingering Luxembourg suspicion here).

Finally, on Agenda 2000, the Prime Minister might set out our view that the December European Council should agree conclusions on enlargement which allow the early start of accession negotiations with those applicants who are ready ("differentiation"), while approving the reinforced pre-accession strategy and the European Conference.

On policy reform and future financing, the Prime Minister could offer some ideas for the December Conclusions, and stress the need to get the principles right, while recognising that these are lengthy negotiations and Member States will continue to disagree on the detail for some time yet.

... I enclose a copy of Nick Elam's scene-setting telegram, and briefs on these three issues, plus a copy of the Commission guidelines on employment and a short summary of the Agenda 2000 proposals.

I am copying this letter to Gabs Makhoulf (HM Treasury), Alun Evans (DfEE), Jan Polley (Cabinet Office) and to Stephen Wall (UKRep Brussels) and Nick Elam (Luxembourg).

yours etc,
Dominick

(Dominick Chilcott)
Private Secretary

John Holmes Esq
10 Downing Street

BACKGROUND

EMPLOYMENT

1. The Presidency's plans for the 21 November Jobs Summit are now fairly clear. Four dossiers will go to the Summit.

- (i) a proposal for increased EIB lending;
- (ii) a joint ECOFIN and Social Affairs Council report on employment;
- (iii) draft guidelines on employment (as foreseen in the Amsterdam Treaty);
- (iv) a summary of employment good practice in the Member States.

The two main decisions for the Summit will be on the guidelines and on money.

2. The Commission published its draft guidelines last week (copy attached). They focus on four themes - employability, adaptability, entrepreneurship and equal opportunities - which fit well with UK priorities and show the Commission have taken on board much of our agenda. The language on follow-up is also good - Member States should produce detailed action plans on employment which will be updated and monitored on an annual basis.

3. Not everything in the Commission draft guidelines is welcome, however. In particular they contain EU-wide quantitative targets for unemployment and employment rates, as well as various lower level objectives. Such targets are head-line grabbing. But they ignore differences in employment situations in different Member States (the unemployment target, for example, is above the current UK rate); and will be hard for the EU to deliver on. UK scepticism about the value of EU-wide targets is shared by most other Member States, though most also see a need for some sort of targets to give the guidelines teeth.

4. One solution would be for individual Member States to set national targets appropriate to their circumstances, within the overall objectives set out in the guidelines. Juncker is reported to prefer intermediate targets, focussing on means rather than ends. At the SAC on Tuesday he suggested:

- an offer of a job or training to anyone who has been unemployed for a year;
- a job for every under 25 year old;
- cuts to overtime working.

The first two of these could fit well with our domestic agenda, but they would need to be carefully worded to get all 15 Member States to agree them.

5. The guidelines' most important omission is anything on flexible labour markets. This is a sensitive point for many

other Member States (and for Juncker), who regard "better regulation" as another name for deregulation. We would ideally like a section in the guidelines setting out the tests which should be applied to new regulations at both EU and national level - effect on jobs, on labour market flexibility, on competitiveness, etc. But the Prime Minister may need to feel his way in how hard he presses these ideas with Juncker.

6. It might also be worth raising handling. The Commission have said that the guidelines will go to the Summit unamended and be finalised afterwards. The danger here is that Member States' detailed comments will be ignored unless we raise them at the Summit itself.

7. The other big issue will be money. The EIB have already made proposals to increase their lending, which ECOFIN have endorsed. But the Presidency and the European Parliament also want the Summit to agree to spend Community money on a new employment initiative (possibly funding loan guarantees for SMEs). It seems likely that we will have to agree to at least some EU spending not least because the EP has the power to spend the money in other ways if we don't. But officials believe it would be better if this were spent on demonstrator projects which fitted with the UK's wider employment agenda than on loan guarantees (which have not proved effective in the past). The Chancellor is considering.

8. Juncker also wants to use the Summit to give fresh impetus to the European Social Dialogue. He has mentioned the possibility of regular meetings between the Troika (at Head of Government level) and the Social Partners. This would be unwelcome. But some language on the Social Partners in the employment guidelines is inevitable and could be useful: for most Member States, labour market reforms are unthinkable without agreement at national level between employers and trade unions.

9. Finally, the Prime Minister may want to raise attendance. Juncker has said that only Heads of Government and Foreign Ministers will be invited to the Summit itself (although Member States would be free to replace their Foreign Minister with another Minister). Finance and Employment Ministers will be invited to a joint ECOFIN/Social Affairs Council the week before. No other Member State has so far objected to these plans, although official-level soundings suggest that a number would support inviting other Ministers to the Summit itself if we took the lead in proposing this.

EMU

10. Juncker would like to achieve as much as possible on EMU preparation during the Luxembourg Presidency, both to reflect well on him, and to minimise scope for UK interference. There were indications that Juncker wanted to agree membership of the first wave of EMU during the Luxembourg Presidency (possibly at the Jobs Summit), so pre-empting the EMU Council under the UK Presidency. But the decision must be based on outturn figures for 1997, and the Council cannot pre-empt the EMI and national central banks, which are to report in the spring. (The German government in particular would not want to incur the wrath of the Bundesbank). But it is hard to see that very much can be achieved before 1998, and we expect December's European Council to do little more than reaffirm

the EMU timetable.

11. Following a mandate agreed at Amsterdam, ECOFIN is discussing economic coordination, and will report to the December European Council. Discussions cover:

- general coordination of economic policy within EMU (Luxembourgers are sympathetic to French desire for an informal Council of the EMU Ins, from which EMU Outs would be excluded)

- dialogue between the Council and European Central Bank (what degree of political influence over exchange rate policy is desirable?)

- representation of the Euro-zone internationally (the European System of Central Banks will represent the zone on monetary policy; the Commission would like to have a greater role in representing it on economic policy, but this is resisted by most Member States).

AGENDA 2000

12. On enlargement, Luxembourg broadly shares our views. Their Presidency is geared towards the December Council taking the necessary decisions on enlargement, i.e. opening negotiations with those that are ready in early 1998 plus language on the reinforced pre-accession strategy and the European Conference.

13. Luxembourg is cautious about the Agenda 2000 proposals for policy reform, but recognises the need for CAP reform. The Prime Minister could encourage the Presidency to take UK views into account when preparing the draft Council conclusions. But we should not expect too much, given the political sensitivities in other Member States eg Spain.

14. Future financing: from discussion so far it seems that almost all can accept that the ceiling for Member States' contributions to the Community budget should stay at 1.27% of GNP for 2000-2006, and that the first wave of enlargement should be financed within that ceiling. But the ceiling is not as tight as it seems: defined in terms of GNP, it rises faster than inflation, so permits real growth in Community spending.

15. Costs of applying the acquis to the 6 new Member States will continue to rise after 2006, and we shall probably want to finance all post-2006 costs (including those from expansion to more than 6 new members) within the 1.27% ceiling. This will require headroom within the 1.27% ceiling in 2006, and we therefore support wording in the European Council conclusions on keeping actual spending below the 1.27% ceiling.

16. Some Member States would like to increase the ceiling in 2003 or 2004, not wait until 2006. If this is raised, the Prime Minister might emphasise that we want the 1.27% ceiling to run at least until 2006.

SUMMARY OF COMMISSION PROPOSALS

1. The key elements in the Commission's Agenda 2000 Communication are:

- Enlargement: Opinions measuring candidates against the objective criteria for membership agreed by the Copenhagen and Madrid European Councils in 1993 and 1995; recommendation to open accession negotiations with Poland, Hungary, the Czech Republic, Slovenia and Estonia; (Council has already decided to open negotiations with Cyprus); reinforcement of the pre-accession strategy to ensure the less advanced applicants remain fully involved in the enlargement process; and establishment of a European Conference within which the EU would discuss CFSP and Justice and Home Affairs issues with all countries who have an active application for membership (ie. including Turkey). The Opinions will now be considered by Member States, with a view to the Luxembourg European Council in December taking the necessary decisions to allow the opening of accession negotiations early in 1998, during the UK Presidency.

- Future Financing: the Own Resources Ceiling (the overall ceiling on the EC budget) to remain at 1.27% of Community GNP (1999 level) throughout the next financing period (2000-2006).

- CAP reform: significant cuts in support prices for beef and cereals leading to an end to public intervention buying and compulsory set-aside compensated via direct payments; milk quotas to be extended to 2006 with only minimal price cuts; and bringing together existing agri-environmental and structural measures as a new rural policy.

- Structural and Cohesion Funds: keeping spending within the existing ceiling of 0.46% of EC GNP (which it will reach in 1999); reducing the seven funding categories ('Objectives') to three; concentrating Funds on fewer people with the greatest need; new member states to receive 30% of the Funds by 2006 but with receipts capped at 4% of GDP; and transitional arrangements to cushion the loss of receipts to existing recipients.

1 October 1997

Commission Communication**Proposal for Guidelines for Member States Employment Policies 1998****I. A new ambition**

The European Council in Amsterdam was a watershed for employment policies in the Union. With the adoption of the employment Title, the Heads of State and Government agreed that employment should be considered as a matter of common concern. Building on the existing procedure launched at Essen, the new Treaty reinforces the coordination of national employment policies and foresees the establishment of common guidelines which can in due course lead to recommendations to Member States.

Following the Amsterdam agreement to anticipate the application of the new employment Title, the Commission now presents these guidelines as a framework for discussion at the extraordinary European Council on 20/21 November. The Commission will, on the basis of the Presidency's Conclusions from the Jobs Summit, present a final proposal for adoption by the Council.

It is important to understand the essence of this exercise. The new Treaty has launched a process which enables the Member States to consider the employment situation each year and adopt guidelines for their national employment policies. The latter must, of course, be part of an overall integrated approach which also involves sound macroeconomic policies, a functioning Single Market and the taking of employment into account in all Community policies.

A window of opportunity

After a period of slow growth, the underlying conditions necessary for sustained growth in output and employment in the EU are now in place: inflation is at an historic low; public finances are in a much sounder position; business profitability has recovered strongly; exports are rising sharply and confidence levels are much improved. Continued macroeconomic stability and the realisation of EMU, as well as the completion of the Single Market in accordance with the Action Plan adopted by the Amsterdam European Council, will underpin and sustain this process.

The current cyclical upturn and these improved prospects must not, however, lead to complacency. Tackling the present levels of unemployment in the EU requires a protracted period of strong growth, but growth alone cannot solve Europe's unemployment problems. These problems result from a continuing inability to create enough new jobs, inadequate workforce skills, failure to adapt to new patterns of work and inequality of opportunities. There is, therefore, a need for continued medium and long-term structural reforms. Experience shows that such reforms are best implemented in a climate of growth and rising demand. Governments should, therefore, consider the improved growth prospects as a window of opportunity for bold structural reforms of their employment systems.

The present Guidelines do not call for increased expenditure but rather a restructuring of expenditure, a reform of benefit and taxation systems and a move from passive income support measures to proactive policies so as to maximise the return on existing budget outlays. In particular, policy changes are needed to enhance the capacity and willingness of enterprises to invest and to give individuals the opportunity to meet the ever-growing demand for new skills and versatility in the face of increasing technological change.

These guidelines are, therefore, aimed at ensuring that the economic recovery is accompanied both by a high level of job creation and a stable macroeconomic environment, and that this favourable combination is sustained. To achieve this objective the Commission believes that Member States will have to strengthen their focus on four main lines of action in their employment policies:

- ◆ *Entrepreneurship;*
- ◆ *Employability;*
- ◆ *Adaptability, and*
- ◆ *Equal opportunities*

These actions must form part of an integrated approach and be drawn together into a comprehensive strategy. This integrated approach offers the best conditions for achieving both the flexibility needed to adjust to changing market conditions and the security of good jobs needed by workers.

Any real progress at the European level will require detailed action plans by Member States that reflect their own circumstances but which are drawn up and implemented within a common European framework of objectives and guidelines. This process must be interactive, involving both the Member States and the Union. The action plans will need to be updated and monitored on an annual basis.

The main challenge

The EU's longer term objective must be to move progressively towards an employment rate of over 70% in line with those of its main trading partners. In order to achieve this, Member States must in the medium term commit themselves to ambitious employment targets and policies while seizing the opportunities afforded by growth and macroeconomic stability. Considering the current favourable outlook for economic growth, the combined efforts of the Member States based on these guidelines, with EU support where appropriate, could result in an increase of the current employment rate of 60.4% to 65% within 5 years and a reduction of the unemployment rate to 7%. This will imply the creation of at least 12 million new jobs.

In this paper, the Commission has sought to focus on actions which, drawing on Member States' experiences and best practices, can be expected to have a real impact and added-value. Moreover, while recognising that the employment and labour market situation differs between Member States, these guidelines set out some ambitious targets in order to focus the attention of policy-makers at all levels.

ii. Create a new culture of entrepreneurship

Stimulating entrepreneurship means creating a climate where companies can thrive and individuals are encouraged to exploit their creative energies and new ideas to the full, thereby creating new jobs. One third of the jobs in the private sector are in micro-enterprises of less than 10 people, while another third are in enterprises of less than 250 people. Most new jobs are created in these enterprises. If Europe is to succeed in meeting the jobs challenge, it has to create more jobs by stimulating the growth of these enterprises, particularly in the services sector. This requires a new entrepreneurial culture.

The preconditions for this are already in place. Europe is not short of innovative ideas or talented individuals and it is more than capable of competing on the world stage. But Europe has yet to realise its full potential. There is an urgent need for co-ordinated and sustained efforts by all Member States to create a better business

environment and a new entrepreneurial culture capable of transforming this potential into jobs. There is clear evidence that policies which take a comprehensive approach towards entrepreneurship are most successful.

However, the need for entrepreneurship and job creation extends further and experience has shown the significant potential for job creation at local level and within the social economy. These new sources of employment need to be exploited much more decisively, particularly as regards services to people and to local communities, and the not-for-profit sector. Local employment initiatives and Territorial Pacts bringing together all involved at local, regional and national levels, in a broad partnership approach have proved particularly effective. The lessons drawn from these successful experiences need to be promoted as part of a wider local development drive throughout Europe.

Moreover, Europe must harness new technology and innovation for the creation and development of enterprises and the promotion of environmentally sustainable production and consumption patterns. Member States should develop strategies to promote access to the Information Society at all levels, thereby stimulating the use of new technology and the creation of jobs in new and expanding sectors. The Member States must also significantly boost RTD expenditure as a percentage of GDP, thereby raising the European average from 1.9% to 2.5%, so as to match its global competitors, while at the same time encouraging more effective sharing of innovation and new technologies through reinforced cooperation between large, medium and small enterprises.

Further efforts are required, however, to promote a new culture of entrepreneurship in Europe:

Make it easier to start-up and run businesses by providing a clear, stable and predictable set of rules. Member States should review and simplify the administrative burdens on SMEs, taking into account the new proposals to be developed by the Business Environment Simplification Task Force.

→ particular attention should be given to reducing significantly the overhead costs for enterprises of hiring an additional worker.

→ the obstacles, especially those within existing social security regimes, to people moving from employment to self-employment and setting up micro-enterprises need to be tackled and existing regulations must be adapted to facilitate easier transition to self-employment.

Develop the markets for venture capital, thereby mobilising Europe's wealth behind entrepreneurs and innovators. Member States should examine the specific needs of SMEs as regards financing, principally in the form of equity or guarantee capital, building on EIB initiatives in this area.

→ a pan-European secondary capital market should be established by the year 2000.

Make the taxation system more employment friendly. In order to encourage enterprises to create new jobs, Member States must exploit the current favourable macroeconomic climate to finally reverse the average long-term trend towards higher taxes and charges on labour (which have increased from 35% in 1980 to over 42% in 1995). Each Member State should

→ set a target for reducing the tax burden on labour, while maintaining budget neutrality, with a view to achieving substantial progress by the year 2000.

The Commission will support Member States in their efforts to give more attention to entrepreneurship in education and training systems, identify current obstacles and disseminate information on good practice and new initiatives, and will launch an Entrepreneurship in Europe Initiative to drive this process forward.

iii. Creating a new culture of Employability

In its workforce, Europe has great potential for economic growth and prosperity. There are about 18 million unemployed and a further 8-9 million people who would like to work if they thought they could get a job. To turn this potential into reality, a new culture of employability has to be developed. Employability means the capacity for people to be employed : it relates not only to the adequacy of their skills but also incentives and opportunities offered to individuals to seek employment.

The ageing of the Union's workforce and the fast pace of new technology means that Europe is facing an ever-increasing skills gap. Enterprises are looking for new and adequate skills, but most of the unemployed have old skills or no skills. Moreover, many young people leave school early, or without any qualification, while large parts of the labour force have very little access to adult education and training, in particular those with lower skills and non-standard work contracts. Less than 10 per cent of the unemployed are offered training.

But training alone is not enough. There is a clear need to make benefit and taxation systems more employment-friendly by promoting active measures that favour employment or encourage people of working age to acquire new skills and update existing skills. Member States are spending about ECU 200.000 million on their labour market policies but only one third of this is spent on active measures. All social transfers should be examined to see whether they could be used more effectively in promoting rehabilitation, reintegration, training or work experience.

The capacity of Member States' employment services to help jobseekers should be reformed and strengthened in line with best practice, in particular by exploiting new information and communication technologies. Employment offices should also strengthen their role vis-à-vis employers by improving the level of market penetration in order to enable them to fulfill their double mission of providing employers with adequately skilled jobseekers and the job seekers with job opportunities. Passive unemployment support should be regarded as a last resort

• Tackle long-term and youth unemployment. Member States should adopt preventive and employability-oriented strategies built on early identification of individual needs and early action and ensure that

→ every unemployed adult is offered a new start - in the form of a job, training, retraining, work practice or other employability measure - before reaching twelve months of unemployment.

→ every unemployed young person is given such a new start before reaching six months of unemployment.

The combined effect of preventive and reintegration measures can be expected to reduce the rates of long-term and youth unemployment in the Member States by half within 5 years. This will also improve the employment situation of the disabled, many of whom are long-term unemployed.

- **Ease the transition from school to work.** Employment prospects are poor for the 10% of young people who drop out of the school system early and many of the 45% who do not complete upper secondary education. Member States must seek to
 - reduce the numbers dropping out of the education system early by half within five years and reduce progressively the share who do not complete upper secondary level.
 - apprenticeship provides a particularly effective way of equipping young people with relevant skills and Member States should, where necessary, significantly increase participation in apprenticeship training in line with the best performing Member States and improve their systems accordingly.
- **Move from passive to active measures** Benefit and training systems should be reviewed and adapted to ensure that they actively support employability and provide clear incentives for the unemployed to seek and take up work or training opportunities. Each Member State should
 - set a target for the number of people to be transferred from passive income support to active employability-related measures.
 - seek to increase the numbers of unemployed who are offered training from the current EU average of 10% towards the average of the three best performing Member States i.e. above 25%, within 5 years.
 - consider how reducing the cost of hiring less skilled workers through measures such as targeted reductions in non-wage labour costs, can be better linked to measures designed to boost skill levels.
- **Develop a partnership approach.** Both enterprises and the social partners should be involved in joint efforts to invest Europe's wealth in its future by offering the necessary work experience/training positions. The Social Partners are urged to
 - conclude as soon as possible a framework agreement to open workplaces across Europe for training, work practice, traineeships and other forms of employability measures and to agree on the terms and conditions.
 - continue the impressive contribution which they have made over the past five years to the wage moderation which has contributed so much to the improved economic outlook and the improved prospects for new job creation.

In so far as the Structural Funds are concerned, a significant level of investment already goes towards underpinning Member States' efforts to promote higher skills, the activation of labour market policies through targeted measures aimed at preventing long-term unemployment, and at the promotion of entrepreneurship and adaptability. In the next programming period, Member States should seek to further increase the level of structural funding allocated to their human resource development policies and activities. In the short term, Member States should avail of the current mid-term review to reinforce the employment content of their Structural Fund programmes.

The Commission will support the Member States in developing their employment services by organising the exchange of knowledge and experience as well as developing benchmarks for the improvement of their performance. It is essential to remove the remaining obstacles to labour mobility while improving the flow of information on job opportunities and incentives to mobility, and the Commission will shortly present a package of measures to help achieve this objective.

IV. Promote and encourage adaptability

in Europe, as elsewhere, enterprises are undergoing a period of fundamental restructuring brought on by new technologies and new market conditions. This is visible in the form of mergers and acquisitions, new products and services and greater competition, all of which are affecting individual enterprises and leading to new work patterns. Through this process a new economy is emerging with technologically more advanced enterprises and with a growing services sector, often in the form of new small firms.

The capacity to adapt is decisive for the viability of enterprises, and their ability to seize new opportunities, as well as for employment and job security. However, workers often feel that they have not been adequately informed and consulted, and may see little prospect for a good job and a decent income after restructuring or downsizing. Member States should, therefore, make the adaptability of enterprises, and of those employed in enterprises, one of the main objectives of their employment policies. The Social Partners have a key role to play in this regard.

- **Modernise work organisation** in order to promote the modernisation of work organisation and working patterns:

Social Partners should

→ negotiate, at the appropriate levels, particularly in economic sectors undergoing major structural change, agreements on work organisation and flexible working arrangements, including where appropriate reductions in working time, with the aim of making enterprises productive and competitive, and achieving the required balance between flexibility and security.

Member States should

→ put in place a framework for more adaptable forms of contract, taking into account that forms of employment are increasingly diverse. Those in non-standard work should be given greater security and occupational status and those who opt to work reduced hours should not be penalised in terms of career progression or in terms of maintaining social security protection~

- **Support adaptability in enterprises.** In order to renew skill levels within enterprises, Member States should

→ remove fiscal and other obstacles to the promotion of investment in human resources and offer tax incentives for the development of in-house training. Incentives to workers to avail of training opportunities should also be encouraged.

→ re-focus their State Aid policies on upgrading the labour force, the creation of sustainable jobs and efficiently functioning labour markets, while respecting Community state aid provisions.

The Commission will assist this process by promoting its policies for a new organisation of work, and information and consultation of workers in respect of decisions affecting them as well as bringing forward clear guidelines concerning training aid.

V. Strengthen the policies for equal opportunities

There are sound economic and social reasons for a reinforcement of the efforts of Member States to promote equal opportunities in the labour market. While the employment situation of women has improved over recent decades, unemployment is higher for women than for men (12.6% as against 9.7%) and their rate of participation in work is lower (50.2% as against 70.4%). Within work, women are over-represented in some sectors and professions and under-represented in others. These labour market rigidities, which impede Europe's capacity for growth and job creation, must be tackled.

As the Commission's Demography Reports have outlined, the working age population is now growing much slower than it did during the last 20 years and over the next decade it will start to decline. In the longer term, therefore, the growth in employment necessary to sustain our living standards and the European social model is critically dependent on an increase in the participation of women in the labour force.

- **Tackle gender gaps:** Member States should translate their commitment to equality of opportunity into increased employment rates for women and breaking down gender segregation, and
 - make consistent efforts to reduce the gap in unemployment rates between women and men by actively supporting the increased employment of women.
- **Reconcile work and family life:** Policies on career breaks, parental leave and part-time work are of particular importance to women. Implementation of the various Directives and social partner agreements in this area should be accelerated and monitored. There must be an adequate provision of good quality care for children and other dependents in order to support women's entry and continued participation in the labour market. Member States should
 - seek to raise levels of care provision, using the standards of the best performing Member States as a benchmark.
- **Facilitate return to work:** Specific attention should be given to women considering a return to the paid workforce after an absence. They may face problems of poor employability due to outmoded skills and may have difficulty in accessing training opportunities if they have not been registered as "jobseekers". Moreover, taxation and benefit systems may interact to reduce financial incentives to seek work. Member States should address these and other obstacles.

Above all, Member States should, in developing, implementing and reporting on these guidelines, take into account the particular labour market situation of women. Specific strategies to promote entrepreneurship among women, to improve their employability and adaptability should be developed.

VI. The Implementation of the Guidelines

Member States should, from 1998 onwards, report on the implementation of these guidelines; they should highlight their best practices and their impact on employment for examination by the Commission and the Council. The Commission will present a proposal to ensure an agreed comparable database in Member States, and agreed indicators, in order to monitor the implementation of these guidelines.

In preparing the 1999 guidelines, the Commission will examine how each Member State has taken the current guidelines into account in implementing their

employment policies and present its assessment in Autumn 1998 for adoption by the European Council at the end of 1998.

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SUBJECT: PRIME MINISTER'S DINNER WITH JUNCKER: SCENE SETTER

SUMMARY

1. Luxembourg Presidency beginning to take a more positive view of British intentions in Europe. Juncker might seek a closer longer term relationship. Not a great deal separates them from us on the Jobs Summit except for lingering suspicions. They want EMU on time and with maximum qualifying membership. They are more ambivalent about enlargement and in practical terms see difficulty about including the Turks in a Conference.

LUXEMBOURG POLITICAL BACKGROUND AND ATTITUDES TO THE NEW BRITISH GOVERNMENT

2. After he saw the Prime Minister in May, Juncker said the elections in Britain had brought no change so far as Europe was concerned. His Socialist coalition partner initially took the same line. But Poos returned from his dinner with you in September convinced of the new approach and enthusiastic about it.

3. Juncker's scepticism was partly judicious - useful to be able to blame the Brits for any perceived failure of the Luxembourg Presidency. He may have lingering suspicions but he will find it hard to resist vying with Poos in claiming affinity with a new Government that has an overwhelming popular mandate and the authority to play a leading role in Europe.

4. Juncker is more socialist than the mainstream of his Christian Socialist Party, who are really Christian Democrats (members of the EPP). Except as a practising Christian, he is barely distinguishable ideologically from Poos. He sounds 'Old Labour' in public but in private both he and Poos would identify their views with New Labour.

5. Poos is unlikely to serve beyond the next elections (June 1999) but he may yet have to lead his party into them. And they might not do well enough to stay in the coalition. Juncker's needs are longer term. He dominates the local scene as leader of the party that will remain the largest - and is by far its most able and experienced politician. With more than two decades of active political life ahead of him, he is beginning to look for a future substitute for his patron and protector, Kohl, which he may not find in Germany or France.

6. The rivalry between Juncker and his Foreign Minister is reflected in the preparations for Thursday's dinner. At first we were told Poos would attend 'for coalition reasons', then that he would not be there. Now his attendance has been confirmed.

THE JOBS SUMMIT

7. Juncker has publicly rejected the idea of a 'Deregulation Summit'. He is convinced of the need to preserve certain minimum standards. And he faces serious problems with his unions over pension reform, so does not want needlessly to antagonise them. But Poos has confirmed to me that Juncker is not against all deregulation - rather against having it as a banner headline. Last week indeed he publicly acknowledged the need for flexibility - ''properly understood''. But in the wealthiest country in Europe, with the lowest unemployment, deregulation is not a pressing issue. The over-generous and unfunded public sector pensions are a more urgent matter. And although the social consensus may well be, today, the product rather than the cause of Luxembourg's prosperity, it is still an article of faith for most Luxembourgers and very much part of Juncker's personal ideological baggage.

8. But ideological preference will not override Juncker's prime objective, to make an acknowledged success of his Presidency in order to preserve Luxembourg's privileged position of influence in the EU. He wants a Jobs Summit that will be deemed a success. He is determined its conclusions must have more bite than a simple reiteration of Essen. But he recognises the impracticality of global employment targets and is looking instead for benchmarks to apply to the policy instruments - active labour market measures to provide occupation for young people unemployed for more than six months, to train the longer term unemployed, and so on. He regards the Commission paper on guidelines as a discussion paper and is not wedded to every detail. His ideas on financing are probably not dangerously different from ours. He is looking for what is realistic and what is achievable.

9. The closeness of understanding between Santer and Juncker is invaluable to both for the Luxembourg Presidency. Their views and approach may not coincide publicly at every point. At particular moments Juncker will pursue the Presidency objective of consensus while the Commission still need to be seen to promote longer term political convergence. But in truth Santer and Juncker are seeking the same outcome on the Jobs Summit (as on most things) - a workable consensus.

EMU

10. Juncker counts the ECOFIN decision to fix currency parities at the moment when participation in EMU is decided as a success for his Presidency and himself personally.

11. He wants EMU to begin on time and with the largest possible number of participants. He will not be worried by minor variations over the 3 percent deficit criterion (though he is inclined to regard 3.5 percent as too high) and he is ready to accept a permissive interpretation of the debt criterion. He is not bothered by the prospect of the Club Med being in, except for Greece. He does not expect us to join in the first wave but hopes we will make it soon thereafter.

12. Juncker's tax harmonisation plan is essentially a tactical move designed to delay the imposition of withholding tax by insisting it must be accompanied by general tax harmonisation.

ENLARGEMENT/AGENDA 2000

13. The Luxembourgers are ambivalent about enlargement. They fear

may threaten their prosperity. They would be happy to play it long and they deplore unrealistic rhetorical targets for its accomplishment. Poos says if the citizens understood the consequences they would not accept it. But he and Juncker both believe the price is worth paying, for security and longer-term prosperity. Both agree on the need for substantial CAP reform. Juncker was enraged by Dutch allegations about Luxembourg's net advantage from Community financing. But 'unfair' competition from lower, social-cost countries is probably of more real concern to them than budgetary adjustments.

14. Neither Juncker nor Poos is yet ready to espouse our idea of a Conference that would include Turkey. But their visceral dislike of Turkey on human rights grounds is not the predominant issue. It is rather a matter of how to achieve consensus, ie of what the Germans will accept.

ELAM

YYYY

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JEPD	0
LRD/TREATY	0
NAPRG	1
NEWS D	3
PLANNERS	0
PROTOCOL D	0
PUSD	9
PUSDVC	0
PUSDGC	3
RESEARCH ANALYSTS	1
RFPD//DIRECTOR RESOURCES	0
SECPOL D	1
SED	0
WSERG	1
PS	5
PS/MR HENDERSON	1
PS/PUS	1
POLITICAL DIRECTOR	1
DUS (ECONOMIC AND EU DIRECTOR)	1
DUS NON-EUROPE/TRADE	1
DUS DEFENCE AND INTELLIGENCE	0
CHIEF CLERK	0
DIRECTOR EUROPEAN UNION	0
DIRECTOR GLOBAL ISSUES	1
DIRECTOR PUBLIC SERVICES	0
DIRECTOR INTNAT SECURITY	1
DIRECTOR OVERSEAS TRADE	0
DEPUTY POLITICAL DIRECTOR	0



FAXED →

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 October 1997

Dear M. Mores,

The Prime Minister was grateful for Mr Asselborn's letter of 26 September inviting him to a meeting while he is in Luxembourg on 9 October. Unfortunately, the Prime Minister will only be visiting for a few hours and there will not therefore be time for a meeting. The Prime Minister will, of course, see Mr Poos at his meeting with Mr Juncker.

Yours sincerely,

Philip Barton

PHILIP BARTON

M Olivier Mores

TRANSMIT CONFIRMATION REPORT

NO. : 003
RECEIVER : 352 456575
TRANSMITTER :
DATE : 07 OCT'97 8:30
DURATION : 00'31
MODE : STD
PAGES : 01
RESULT : OK



Rita
RPS/Mores, TMW
cc Feo

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LONDON SW1A 2AA

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Philip Barton

PHILIP BARTON

M Olivier Mores

h

LSAP - d'SOZIALISTEN

Top - PB
JEM
K. G.
JP

① a Jonathan Powell,
(in Brighton)

Mr. Tony BLAIR
President of the Labour Party
London

Do we have to take
this seriously? No time
in practice.

Fax: 0044 171 2773300

② Sacha Pfeiffer
29/9.

Luxembourg, september 26th
1997

Dear comrade,

Hearing that you'll be in Luxembourg on october 9th, I would be very honoured and glad to meet you shortly -together with our Foreign Minister Jacques POOS- at any time just before or after your meeting with Mr Juncker.

Indeed, we think as Socialists that we can't leave all the field to our Prime Minister.

In case such a meeting is still possible within your time table, please do contact Olivier MORES at our office.

-> Tel : (352) 45 65 73
-> Fax : (352) 45 65 75

Yours sincerely,
s. Jean ASSELBORN
President of the Luxembourg Socialist Party

00

Philip

Are you in touch with
the luxembourgers
about attendance?
Will Poos be there?
Pl. reply as indicated
here, when you
have the answer.

John (by fax)

We have found him down
repeatedly before. Will he be at
the meeting with Juncker? If not we'd
better tell him so then.

✓

Joh
29/9.



PRIME MINISTERS OFFICE
Labour Party conference,
BRIGHTON.

FACSIMILE DOCUMENT LEADER

Serial Number

Date

From;

JP

To;

JEH

Leader + 1 pages

SUBJECT _____

Classification;

Top Secret/Secret/Confidential/Restricted/Unclassified

Caveat; _____

Precedence;

deskby Z/Immediate/Priority/Routine

Delivery Instructions;

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Cabinet Office _____

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1800
29/9

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LSAP - d'SOZIALISTEN

① c. Jonathan Powell,
(in Brighton)

Mr. Tony BLAIR
President of the Labour Party
London

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President of the Luxembourg Socialist Party

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✓



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

17 September 1997

Dee Davis

MEETING WITH LUXEMBOURG PRIME MINISTER

I have now agreed with my Luxembourg opposite number, Martine Schommer, that the Prime Minister will go to Luxembourg on Thursday 9 October for a working dinner with Juncker, before going on the following morning to Strasbourg for the European Council. We will be in touch separately about exact timings and attendance, but our intention would be to keep the occasion as small as possible, to allow frank discussion.

This will be an important opportunity to discuss the European agenda, notably EMU, the Jobs Summit and Agenda 2000. We will need to think carefully about our objectives for the meeting.

I am copying this to Gabs Makhlouf (HM Treasury), Alun Evans (Department for Education and Employment), Jan Polley (Cabinet Office) and Nick Elam in Luxembourg.

John Holmes

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

RESTRICTED

file

From: John Holmes
Date: 16 September 1997

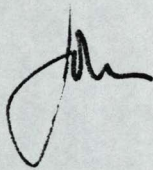
PRIME MINISTER

cc: Jonathan Powell
Alastair Campbell
Kate Garvey

JUNCKER

As you know, we have been trying to arrange a meeting between you and Juncker, to discuss EMU and the Jobs Summit in particular. After a lot of difficulty, we have hit on a date which works for both of you, namely 9 October. The idea is that you would fly over in the early evening for a small working dinner, and go on the following morning to the Council of Europe meeting in Strasbourg. I think this would work quite well. It is of course Tory Party Conference week. You will have been in Moscow at the beginning of the week, but Parliament is not back.

OK?



JOHN HOLMES

q:\docs\foreign\juncker jd.doc

RESTRICTED

FILE

C. Lux

From: John Holmes
Date: 29 August 1997

PRIME MINISTER

cc: Jonathan Powell
Alastair Campbell
Anji Hunter
Kate Garvey

OVERSEAS VISITS

Can I return to the charge on two outstanding issues, and raise a third?

Moscow

You were unwilling to accept the suggestion in the attached minute from Philip that you should go to Moscow on 5/6 October, shortly after the Party Conference. We had a further word about this, but can I ask you to consider once more whether this might not be possible. The Russians are very keen to see you in Moscow in the early autumn, as you agreed with Yeltsin. A lot of work has also been done by both ourselves and the Russians on the proposed bilateral agreement on crime and on a number of other specific moves, including trade and investment, export credit, air services, defence co-operation, more education co-operation, helping train Russian managers etc.

We have been talking to the Russians about possible dates for some time now, and have been unable to accept their other proposals. My fear is that if we let slip 5/6 October, the visit may in practice not happen until after our EU presidency (although there may still be a possible opening towards the end of November). This would not just be a pity, it would also reinforce the existing impression that we are not serious players on the Moscow scene, compared with the US, France and Germany, and even Italy. You have established a good

relationship with Yeltsin, and I think it is important to build on that relatively soon. It should be a good news story. And we will otherwise be short of any significant foreign travel all through the autumn.

Luxembourg

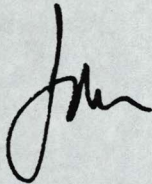
You may remember that you agreed to invite Juncker to visit London for lunch in September. We have been pressing hard for him to accept 10 September. But Juncker's office have now made clear that this is impossible, and that Juncker's programme in September, given that he is not only Prime Minister but also Finance Minister, with meetings of the IMF and ASEM Finance Ministers in addition to all his presidency demands, makes it difficult for him to find time to visit London in September at all.

I think all this is more or less genuine, although there may also be a feeling on the Luxembourg side that, since Juncker has visited you in London already, it may be your turn to go to him. In any case, what the Luxembourgers have suggested is that you might go for a quick working dinner in Luxembourg if we could find a free evening. This would involve leaving No. 10 at say 1730 or so, having dinner with Juncker very close to the airport for two or three hours, and returning to London that evening (not too late, given the time difference). Could you contemplate this on, say, 17 or 18 September, which look like the only possible dates? I think it would be worthwhile if you could bear it, since there is a lot to talk about to Juncker on the jobs summit, on EMU, and on how our two Presidencies should fit together on other major issues such as enlargement and future financing.

If you cannot contemplate this, I will go on trying to persuade Juncker to find another date to come to London, but chances look slim in September and probably October too.

Kohl

When you spoke to Kohl just before you went on holiday, you agreed to ring him again on return to discuss again getting together for a private talk. We have provisionally identified Saturday 13 September as a day when you could offer him a quiet lunch at Chequers. Are you happy to ring Kohl on Monday or Tuesday next week, if I can set it up, to pursue this (or another date if this will not work)?



JOHN HOLMES

foverseas visits kk



FAXED - To HMA/Luxembourg
5/8/97
(1820)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 August 1997

Dear Nick,

INVITATION TO JUNCKER

As you may have heard, the Prime Minister would like to invite Juncker to London for a working lunch some time in September. The idea is for them to have a chance to discuss Luxembourg Presidency priorities, notably the Special European Council in November, EMU and enlargement/agenda 2000; and co-ordination of our back-to-back Presidencies.

We have had a look at the Prime Minister's diary. He would be able to host a lunch for Juncker on either 3 or 10 September. I would be grateful if you could put this invitation and the dates to the Luxembourgers. If it would be helpful for me to talk in parallel to Juncker's office, please let me know.

I am copying this letter to Dominick Chilcott (Foreign and Commonwealth Office) and Jan Polley (Cabinet Office).

Yours ever,

Philip

PHILIP BARTON

J N Elam Esq CMG
British Embassy
Luxembourg

file - letter to ~~EU~~ Prime Minister
Luxembourg. I agree - lunch with
Juncker in September is
a good idea.

cc PB
MW

dl276

FROM: Brian Bender
DATE: 23 June, 1997

JOHN HOLMES
No 10

Agree?

John 26/6. Philip

Kate
see below.

3rd or 10th Sept
cc 5/8

MEETING WITH LUXEMBOURG PRIME MINISTER

1. At Friday's regular meeting with Stephen Wall, we set in train a work programme to identify the main UK objectives for the autumn EU "Jobs Summit" and how to achieve them, in the light of the Amsterdam conclusions and the point made by the Chancellor in Cabinet on Thursday about the need for an input from a number of Departments.

2. A crucial part of this exercise will be influencing M Juncker (who will also be chairing ECOFIN and the Social Affairs Council). Initial contacts with Luxembourg officials suggest that he does not have clear views of his own at this stage about the "Jobs Summit". And it was evident from his 20 May Chatham House speech that he hankers after a "new dynamic" in the European social model, and wants to encourage the Commission to bring forward new proposals under the Social Chapter. Mr Blunkett will be able to use lunch-time discussion at the Social Affairs Council on 27 June, and discussion at the Informal Labour and Social Affairs Council on 4/5 July, to inject UK thinking. The Chancellor will also be able to seek to influence Juncker on the ECOFIN net. But there is much to be said for the Prime Minister having a substantive session with Juncker.

3. How about inviting Juncker to a lunch in No 10 in September, covering Luxembourg Presidency priorities, notably the "Jobs Summit", EMU and enlargement/Agenda 2000; and coordination with the UK Presidency?


Brian Bender
European Secretariat
Room 322, 70W
270 0044

Yes. ← Kate

Can you identify a date(s)
in September when we
can offer this pls.

Philip
27/6

File
CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

f1juncker as
bc PB
SUBJECT
MASTER

Filed on:

From the Private Secretary

20 May 1997

Dear Dominick,

CALL BY THE LUXEMBOURG PRIME MINISTER, 20 MAY

Juncker called on the Prime Minister for half an hour this morning. He was accompanied by the Luxembourg Ambassador, his Diplomatic Adviser, his press attaché and one other. Nick Elam and Emyr Jones-Parry were present on our side.

Juncker said that he had been keen to make contact with the Prime Minister because of the imminent Luxembourg Presidency. Even if Amsterdam was a success, which he profoundly hoped, there would be a heavy agenda for Luxembourg not least enlargement. One of his major priorities would be the Social Chapter, and he was happy to welcome Britain on board. Luxembourg and Britain should combine efforts to implement the Chapter. It would be better to keep the issues away from the lawyers, and agree on informal cooperation and close association. In particular, an informal decision was needed that the British Government should be fully involved in Social Chapter negotiations, even if we would not be formally involved until after the IGC ratification process was complete.

The Prime Minister said that this would be very helpful. It was important to approach further legislation in this field on the basis of improving the labour market. As far as Britain was concerned, there was already a significant domestic agenda, for example the minimum wage legislation and changes to union rights, and he was not keen to overload the system with more European legislation. British employers were already nervous. The main criterion should be what was actually helpful in the workplace.

Juncker asked whether Britain would want to amend the Social Chapter. The Prime Minister said not, and repeated that our own approach would be cautious.

CONFIDENTIAL

7

Enlargement

The Prime Minister said that the key was to identify the steps necessary to make enlargement work in practice. For us, reform of the CAP, tackled in a careful way, and reform of the Structural Funds would be very important. We hoped the Luxembourg Presidency would be able to move this forward. Enlargement was a top priority for us - for its own sake, not because we wanted to stop integration. We would be ready to help Luxembourg in any way we could.

Juncker said that the Commission should have its Opinions ready by the end of July, assuming Amsterdam was a success. It would then be for the Foreign Ministers to look at them. Decisions would be needed by the end of the year. In the view of Luxembourg, it would be best not to start negotiating with everyone on the same day on the same line. It was better to decide on those who should start negotiation immediately, and in parallel decide how those not in this first wave should be handled. Future financing was another important issue. He believed that the 1.27 per cent of GDP financing limit should be adhered to. This would mean talking to the southern states and the Irish, to persuade them to phase out their structural fund benefits as enlargement proceeded. It would be hard to take enlargement forward without this, but it would be a critical moment in the process.

Juncker added that EMU, future financing and enlargement made a very big package, but it would have to be dealt with as a package at the end of the day. Everyone would have to get something out of the deal.

EMU

Juncker said that he was concerned that the financial markets would become nervous towards the end of the year. We would in any case have the 1997 figures by then (?). The two Presidencies would need to co-operate closely over how to phase the decisions. Our efforts should be complementary: we needed a common agenda and a common timetable. He would want to talk to Gordon Brown about this too.

The Prime Minister agreed that there should be close co-operation between Presidencies. His Government's attitude to EMU was different from that of the previous Government. The British option would remain open. Meanwhile it was

important for Europe that EMU worked, whether we were in or out, and we would do our best to make it successful.

Juncker said that decisions on how the so-called Stability Council would work would also be needed before the end of the year. Again, he hoped Britain and Luxembourg would work together. Part of this would be agreement on the broad economic guidelines. This was not just a Franco-German argument, but was relevant to the economic government of Europe in future. It would be important to ensure labour market policy was part of this debate. It was important that the guidelines should be adopted before the end of the year. He suggested that British and Luxembourg officials should meet to discuss this.

The Prime Minister asked how the Stability Council might work in practice. Juncker said that a key problem was external representation. If there was a crisis in EMU, who should the US Treasury Secretary call? Could the Presidency be in the hands of a country which was actually an out? The Luxembourg view was that the key was in the informal nature of discussion. For the ins to meet formally would be divisive within Europe. So an informal system was needed where the outs could be included in some way. He hoped that the Monetary Committee, under Sir Nigel Wicks, and then ECOFIN, could sort this out during the Luxembourg presidency. He did not want a situation where only the ins fixed the rules. His priority was to avoid divisive steps.

IGC

The Prime Minister said that we were keen to reach an agreement in Amsterdam if possible. There were many areas where the arrival of a new government in Britain had eased the situation, for example on employment, the Social Chapter and the environment. But there were other areas of difficulty, for example justice and home affairs, and defence and foreign policy. We favoured continuing intergovernmental co-operation in these areas. It would also be important to get the institutional questions right.

Juncker said that the institutional issues were vital for the small countries. Each Member State had to be allowed to have a full member of the Commission. There might be an obvious compromise between this and a change in voting weights. He was open-minded on this, although the French were trying to push things too far. It would also be difficult for Luxembourg to accept changes in the institutional arrangements if there was no further deepening of Europe. In particular, Luxembourg wanted to see more progress in the third pillar, as well

as change in the second pillar. His preference would be to see at least some of the third pillar move to the first pillar. But if at the end of the day there was no choice but to leave all the third pillar on an intergovernmental basis, there should at least be a review of the possibility of moving some of it to the first pillar after a period of years.

The Prime Minister said that he would consider this. Border controls were a very sensitive issue for us as an island nation. It was not that we did not want to co-operate more in justice and home affairs. Rather we thought that we could achieve much better co-operation if it remained intergovernmental. However, he understood the point that Juncker was making. Emyr Jones-Parry wondered how Luxembourg would react to the creation of a new kind of third pillar to deal with some issues, rather than moving them to the first pillar. Juncker said that, from a national point of view, he wanted all the third pillar moved to the first pillar. But as the presidency came nearer, he could envisage sticking to intergovernmental co-operation, while making more use of the Community institutions. There was also a need to look at the roles of the ECJ and the European Parliament. Freedom of movement was essentially a first pillar issue, and it was difficult to see how they could be excluded from this area.

Emyr Jones Parry suggested that use of the Court might contaminate the pillared structure. Another possibility would be a review in some years of the whole third pillar structure. Juncker said that this sounded to him as if it would need another IGC, on which he would not be keen.

Juncker also raised briefly the issue of simplification of the treaty. This would be helpful in explaining Europe to the public.

The Prime Minister concluded that he wanted to make sure the European Union worked for ordinary people. The British people were not actually hostile to Europe – the election result demonstrated that. But they did not understand it, and this made them anxious.

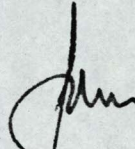
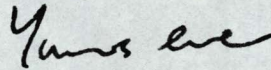
Comment

This was a friendly first meeting. Juncker's remarks on the Stability Council and third pillar were not always entirely clear, but he suggested a considerable degree of flexibility in the endgame about the latter. His diplomatic adviser was worried enough to make a point of telling me afterwards that Juncker would not be saying anything like this in Noordwijk on Friday!

CONFIDENTIAL

- 5 -

I am copying this to Alex Gibbs (HM Treasury), Ken Sutton (Home Office), Alun Evans (Department for Education and Employment), John Alty (Department of Trade and Industry), Jan Polley (Cabinet Office) and by fax to Sir Stephen Wall.



JOHN HOLMES

Dominick Chilcott, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

From: John Holmes

Date: 19 May 1997

PRIME MINISTER

**cc: Jonathan Powell
Philip Barton**

CALL BY JUNCKER

I attach an FCO brief for this 30 minute call. You should meet him at the door, and there will be the usual photocall. A couple of officials will attend on either side. Are you content to do this in the Cabinet Room, or would you prefer the White Room?

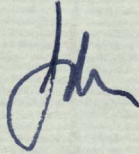
You are seeing Juncker because he is in London anyway, and because Luxembourg have the Presidency next. One of the main points will be to say how closely you want to work with the Luxembourgers in the run-up to our own Presidency.

Juncker is generally a good thing. He is young, businesslike and speaks good English. He is also incidentally Minister of Finance as well as Prime Minister.

In addition to your usual dual EU message of "fresh, positive start but some difficult areas for the IGC", and our own wider European priorities, you could usefully sound a warning note about your lack of enthusiasm for further EU social legislation.

Juncker will probably want to talk about the so-called "Agenda 2000" (see the FCO brief), as well as about EMU. He suggested recently that the parities for those going into a single currency should be fixed sooner rather than later, to avoid market speculation.

At some point after the various meetings with foreigners tomorrow, we might have a word about what you do and do not find useful in the way of briefing.

A handwritten signature in blue ink, appearing to be 'John'.

JOHN HOLMES

**CALL ON THE PRIME MINISTER BY THE LUXEMBOURG PRIME MINISTER,
JUNCKER, 20 MAY.**

POINTS TO MAKE

GENERAL

- My approach. Fresh start. National interest but constructive approach. Your and our consecutive Presidencies. Opportunities to give firm lead. Want to work together.

- My priorities: completing single market; enlargement; CAP reform; flexible labour markets; making CFSP more effective.
Yours?

AGENDA 2000 ENLARGEMENT

- Enlargement EU's key challenge over next decade. Want IGC to end successfully in Amsterdam so Commission can submit its Opinions on each applicant before summer break.

- UK will work for decision at December Luxembourg European Council on opening of negotiations. Important timetable does not slip.

- EU policies, specifically CAP and Structural Funds, need reform. Vital if enlargement is to be sustainable and affordable. Need to make progress on all these fronts. Instinctively favour taking them in parallel to reduce risk of cross linkages, which tend to be counter-productive.

- We seek policy reform to ensure more effective distribution of EC Budget; also to remove major distortions in EU economy, including restrictions on European agriculture and its excessive costs to tax-payers and consumers.

- Goal of CAP reform should be an efficient, prosperous and

outward looking European agriculture industry, able to operate in increasingly open world markets.

- Progress on policy reform essential to achieve suitable outcome on future financing. Understand Commission want to hold own Resources ceiling at 1.27 percent. We agree. Community should be subject to same financial discipline as member states domestically.

- Expect these issues to be addressed in the Council's consideration of the Commission's "Agenda 2000" Communication.

[If raised: UK abatement]

- Abatement is part of EC law, and can only be changed by unanimity. No question of change.

EMU

- Will keep our options open until time for decisions. Will then decide on basis of hard-headed assessment of UK's economic interests, subject to 'triple-lock'.

- Have not ruled out entry in first wave. And whatever our decision, we shall play a constructive role in preparations. No hostility to EMU going ahead on basis and timetable set out in Treaty.

- As much in our interest as yours that EMU built on firm basis and succeeds. Over half British exports go to EU.

- Will of course play our Presidency role constructively and fairly. Indeed, will want to work together closely to ensure full continuity in preparations for EMU.

[If raised]

Hold Special EMU Council in Luxembourg?

- Not planning to hold it in UK, since a meeting of the Council. Not yet clear whether location should be Brussels or Luxembourg.

EMU issues at Amsterdam (eg Stability Pact)?

- We want to play a constructive role at Amsterdam.

EMU and tax harmonisation

- Direct taxation a matter for national governments. Would not agree to any changes in this area.

Stability Council?

- Understand this will be discussed at Luxembourg Informal ECOFIN. Do not rule out such an arrangement, but will expect it to be inclusive not exclusive, and in particular to be consistent with ECOFIN responsibilities. Accept that certain matters are for discussion by Ins under the Treaty. But must avoid any arrangement which would divide the Community, and look for solutions within current structures.

SOCIAL POLICY

- Intend to play full part in shaping EU's future social and employment policy. Hope we can look for your Presidency's help in this while our ratification process still underway. Have made clear our intention to end UK's self-imposed exclusion from Social Chapter and to accept an Employment Chapter.

- EU needs to recognise economic realities. If tackling unemployment seriously, must promote employability and flexibility, not damage competitiveness by imposing higher costs on business.

- Understand Luxembourg Presidency might want to give new impetus to EU social policy. Agree new impetus required. But this should focus on supporting Member States' efforts to foster job creation, not on new legislation.

Social policy at IGC

- Believe Social Agreement as presently drafted represents good balance between need for efficient decision-making and need for Member States to be able to protect their interests.

- Therefore reluctant to agree to any extension of QMV. In particular, have made clear we will not agree to QMV for social security or for codetermination in the boardroom.

IGC (if raised)

- Committed to concluding IGC at Amsterdam to make way for the other important challenges facing the EU, like enlargement.

- UK has a positive IGC agenda in many areas: human rights; employment; environment; public health; Social Agreement; subsidiarity; quality of Community legislation: fraud; transparency.

- But difficult areas too: JHA; QMV in CFSP; EU/WEU relationship; flexibility.



cc: SD
PB
MC
BUP

Foreign &
Commonwealth
Office

London SW1A 2AH

19 May 1997

Dear John,

Luxembourg Prime Minister

The Prime Minister is seeing Jean-Claude Juncker for 30 minutes at 1100 on Tuesday 20 May. Juncker is in London for the day. He is also meeting the Secretary of State for Education and Employment; and speaking at Chatham House ("Luxembourg's Presidency of the EU").

Presidency preparation is the main focus of his visit. With the Prime Minister, Juncker's office say he would like to focus on that, EMU and social matters (he is also Minister of Finance and Minister of Labour).

The Foreign Secretary sees the main purpose of the meeting as being less to secure progress on specific issues than to establish a constructive working relationship with Juncker which will lay the basis for Luxembourg cooperation in preparing our Presidency. The brief therefore starts with UK priorities, the UK/Luxembourg consecutive Presidencies and Enlargement/Agenda 2000, but then addresses the subjects Juncker is planning to raise: the Prime Minister does not necessarily need to work through each one himself, and there will anyway not be time for this.

The Prime Minister may like to open by sketching the Government's determination to make a fresh start, and how he sees the priorities.

On Luxembourg's Presidency, Juncker would like to discuss how they intend to handle the package of papers - on Enlargement, Future Financing and CAP and Structural Reform - which the Commission will table in July, after the IGC (the so-called "Agenda 2000"). The Prime Minister might underline the importance the UK attaches to each of these individual elements, and our readiness to work with Luxembourg in taking them forward.



On EMU, Juncker would like to know how the British Government intend to approach EMU in the second half of this year, as decisions near on which countries will qualify for the first wave. Juncker will be particularly keen to establish that HMG does not intend to play a spoiling role. Juncker may raise the site of the EMU Special Council. This is delicate. HMG is not yet in a position to say more than that the Council will not be in the UK. But for the reasons explained in the brief, we strongly recommend avoiding a commitment to Luxembourg.

On Social Policy, Juncker will want to hear the Prime Minister's approach. The Prime Minister may like to say that the UK will be looking for the Luxembourg Presidency's cooperation in helping us to play a full role while our inclusion in the Social Agreement is still being ratified. In the IGC, Luxembourg has the usual small Member State positions and pre-occupations (support for further integration in JHA, CFSP and Defence, and retaining their Commissioner and voting weight in any institutional reform).

Luxembourg is per capita the most prosperous EU State. It is one of the three to meet all the Maastricht criteria. Its economic indicators are good (GDP up by 3.9% in 1996, inflation 1.4%, unemployment 3.7%). In 1995, Belgium/Luxembourg (they are not measured separately) was the UK's fifth largest export market (£8.2bn).

Juncker heads a Christian Socialist/Socialist coalition. He is on the left of his party, and has close links with the Trade Unions. He defends vigorously Luxembourg's generous Labour Laws and Social Policies and rejects suggestions that there may be scope for de-regulation. He next faces elections in 1999, and will almost certainly be returned.

Aged 43, he took over as Prime Minister in 1995, when Santer became President of the Commission. As Finance Minister in Luxembourg's last two Presidencies (1985 and 1991), Juncker oversaw signature of the Single European Act (1985) and negotiation of the UK and Danish opt-outs from Maastrich (1991)

The Foreign Secretary and Mr Henderson will be at the Foreign Ministers Conclave to prepare the IGC. But Emyr Jones Parry (Director, European Union, FCO) and Nick Elam (our Ambassador in Luxembourg) will attend, if you agree.



On Juncker's side, there will be the Luxembourg
Ambassador (M. Weyland), his Diplomatic Adviser
(Mme Schonner) and his press attaché (Mr Schuller). I
... enclose Points to Make and brief background on the issues
Juncker wants to raise, plus a personality note on Juncker, a
photograph, and Juncker's programme in London.

Yours ever,

Fiona

(Fiona Mylchreest)
Private Secretary

John Holmes Esq
10 Downing Street

BACKGROUND

EU Enlargement/Agenda 2000

1. Conclusion of the IGC will trigger the submission (probably in July) of the Commission's Opinions on the readiness of each Central European applicant. The EU will need to decide during the Luxembourg Presidency whether to start negotiations with only those candidates which the Opinions show to be the most advanced (the approach we favour), or with all the applicants together (the "regatta approach"), on the basis that the negotiations will go faster with those most fitted and allow a natural running order to emerge. Ideally the EU's negotiating mandate will be agreed under the Luxembourg Presidency, so that we can launch the negotiations under ours.

2. The prospect of enlargement heightens the need for reform of the CAP (already subject to pressure from tightening GATT limits on subsidised exports, and likely to face more pressure in the next round of the WTO negotiations) and the Structural and Cohesion Funds. Both would be unsustainable in their present form in an enlarged EU. The Commission will address these issues in its "Agenda 2000" Communication, also expected in July.

3. The Agenda 2000 package will include papers on the EU's future financing up to and possibly beyond enlargement. The indications are that the Commission shares the wish of the UK and other net contributors not to allow Community expenditure to rise above the current Financial Perspective ceiling of 1.27% of Community GDP. This will only be possible after enlargement if there is suitable policy reform and (in practice) if current net recipients see some reduction in their level of receipts from the Budget. As in previous financing negotiations, there is likely to be pressure to give up or change the UK abatement. However, it is enshrined in EC law, and can only be changed by unanimity.

EMU

4. Juncker will be interested in the Government's intentions on Stage III, but will be working on the assumption that we do not expect to join the first wave in 1999 (he may be interested in whether we will join the new ERM and link sterling to the euro).

5. He will welcome any reassurances that we will participate constructively in preparations for EMU, beginning at Amsterdam (where other member states hope we will lift our Parliamentary scrutiny reserves and agree to the Stability Pact, ERM II and legal framework for the euro), through to the EMU Special Council during the UK Presidency.

6. The Luxembourg Presidency is likely to see increasing certainty about which countries will qualify for the first wave (although the formal decision must await the EMU Special Council). Press reports suggest Juncker may try to reach agreement on arrangements to prevent speculative attacks against the currencies of prospective first waves.

7. Juncker may conceivably try to secure the Prime Minister's support for holding the Special EMU Council in Luxembourg (in line with the practice for all Council meetings in April). We want to avoid this. Only Brussels will be able to cope with the huge logistical operation that the Council will involve. That implies holding the Council in (probably) early May. But there are too many uncertainties to be clear about this yet. The key point is to avoid commitment to Luxembourg.

EMU and tax harmonisation

8. A Luxembourg priority. Juncker's declared intention is to use their Presidency to bring forward ideas on EU tax harmonisation. He has said publicly that EMU will require closer coordination of tax systems within the EU. EMU looks in fact only a pretext. Luxembourg's real purpose is to slow progress on an EU withholding tax (which is strongly opposed by its banks). Juncker probably considers that the most effective way to do this is to wrap it up with proposals for much wider tax reform, thereby ensuring widespread opposition from other member states.

Stability Council

9. French proposals for a 'Stability Council', as a forum for discussions and coordination among single currency members, will have to be discussed further during the Luxembourg and UK Presidencies. Plans for the Council remain vague, although the French and Germans favour an Ins-only structure, with Commission involvement.

Social Policy

10. Giving new impetus to EU social policy will be one of the priorities for the Luxembourg Presidency. Juncker is also meeting h Mr Blunkett. For the Luxembourgers "new impetus" means new legislation. We might prefer the Community to focus on complementing Member States' efforts to tackle unemployment eg by organising exchanges of experiences and promoting best practice. On this latter basis, it might be possible to coordinate action over our two Presidencies. Within the IGC Juncker may also raise IGC discussion of social issues. Luxembourg has supported the extension of QMV in the social field and Juncker may ask the Prime Minister's views.

IGC

11. With their own Presidency looming, Luxembourg is as keen as the Dutch to see the IGC conclude at Amsterdam. The Prime Minister may therefore wish to reassure Juncker of the UK's commitment to that target.

12. Luxembourg supports further integration in Justice and Home Affairs (communitising asylum, immigration, and external frontiers), defence (framing of common defence policy, phased EU/WEU integration), and CFSP (extension of QMV, role for the Commission). Like other smaller states, their priorities also include retaining their Commissioner and protecting their position in any reweighting of votes under QMV.

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JUNCKER, JEAN-CLAUDE

Prime Minister, Minister of State, Minister of Labour, Minister of Finance and The Treasury.

Born 1954 in Redingen/Attert. A lawyer by training, educated at the University of Strasbourg. In 1979 he became Secretary of the Christian-Social parliamentary group and National President of the Christian-Social Youth Organisation. 1982 appointed State Secretary for Labour and Social Security, the youngest ever member of a Luxembourg government. Appointed a full Minister in 1984. Was Minister of the Budget, Finance and Labour from 1989; took over from Jacques Santer as Prime Minister in 1995.

COI visit in 1988. Married with no children. His English is now good. Wife speaks some English but prefers French or German.

A capable and impressive man with a very professional style. The 1985 and 1991 EC Presidencies confirmed him as a star performer, in 1991 chairing the EMU Inter-Government Conference, when he worked well with UK Ministers. Has a reputation for arrogance perhaps not entirely deserved; he is quick, witty and direct, with a sardonic sense of humour. He was badly hurt in a road accident in 1989 and long recovery deepened his religious convictions. He is very much on the left of his party and has close links with the Christian Trade Unions.

**Programme for the visit of Mr. Jean-Claude Juncker
Luxembourg Prime Minister**

20th May 1997

08.30	Departure from Luxembourg
Approx 08.45	Arrival Northolt - greeting by FCO and Ambassador Weyland Drive to Embassy
11.00 - 11.30	Meeting with the Prime Minister Mr. Tony Blair
12.00 - 12.45	Meeting with The Chancellor of the Exchequer Mr. Gordon Brown
13.00	Lunch with British journalists
15.00	Interview by the BBC World Service, Mr. Fergus Nichol in Ambassador's office
[16.00]	Possible meeting with David Blunkett, Secretary of State for Education and Employment
17.00	Reception at Chatham House followed by:
17.30 - 18.00	Speech
18.00	Questions
18.30	Drive to airport
Approx 19.15	Departure from Northolt

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MW J

SUBJECT: LUXEMBOURG STATE OF THE NATION ADDRESS: FISCAL MEASURES

SUMMARY

1. In the annual State of the Nation address the Prime Minister announces wide-ranging tax measures, legislation on insurance for attendance allowance, pension reform, debate on EMU and on unemployment.

DETAIL

2. As expected, Juncker used the occasion of his annual State of the Nation address on 7 May to announce a package of fiscal measures to relieve the tax burden on individuals to take effect in 1998. The minimum tax rate will be reduced from 10% to 6% while the threshold will be increased to 270,000 Flux (4,700 pounds). The maximum tax rate will be reduced from 50% to 46%. Tax allowance for children will be reduced from 60,000 to 48,000 Flux (1,050 to 840 pounds) per child but there will be a compensating increase in child benefit.

3. He also announced tax relief for businesses. The effective date for the corporate tax rate reduction to 30% announced last year (Luxembourg telno 56) will be brought forward to 1 January 1998. Other fiscal measures include a capital grant or tax credit for tax payers investing in trainee programmes, an updated incentive scheme for audio-visual investment and tougher action on tax evaders. Companies may benefit from tax relief on wealth tax on condition that at least 5 times the amount of tax that would have been payable is reinvested. The tax package is expected to cost the Government 7 billion Flux (123 million pounds).

4. Juncker announced that the Government would introduce an insurance scheme to provide attendance allowance for persons in need of long term nursing care. The scheme would take effect from 1 January 1998 and would cost 6.4 billion Flux per annum (112 million pounds), 45% of which would be financed by the State and the

remainder by contributions from individuals salaries.

5. Juncker said that reform of public sector pensions was vital. Since they had failed to reach agreement with the unions the Government would proceed with legislation to be completed by 1 January 1998.

6. Juncker was confident that EMU would be introduced on 1 January 1999. There would be a special debate in Parliament before the introduction of the Euro. He announced financial measures to help businesses offset up to 2% of their costs of introducing the Euro to take effect from 1996. It would cost the State about 2.5 billion Flux (44 million pounds) over 3 years. He said EMU would require closer coordination of tax systems within the EU. He advocated overall harmonisation of unsound tax systems but Luxembourg would resist efforts to limit reforms to capital gains tax. He said Luxembourg would take an initiative in this area during its Presidency. He spoke also of the importance of wider social harmonisation.

7. On employment, Juncker recalled measures taken to combat unemployment. He said the Government would continue to work for the creation of new jobs but he rejected the suggestions contained in the OECD report (Luxembourg telno 40 to the FCO refers). Dismantling the social system in place was not an answer to unemployment in Europe: Luxembourg was not England nor the United States nor Asia. It had its own system.

8. Juncker rejected recent accusations in the Belgian press and by some Belgian politicians of money laundering in Luxembourg (reported separately). He said further legislation was in hand to strengthen Luxembourg's already tough legislation and uphold its good reputation as a financial centre.

9. Further details and comment follow by bag.

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10 DOWNING STREET
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From the Private Secretary

9 May 1997

Dear Dominick,

VISIT BY LUXEMBOURG PRIME MINISTER

My letter of 10 April refers. We have now had a chance to look at the Prime Minister's diary for 20 May. As you can imagine, the pressures on his time in this period are enormous. He will therefore only be able to see Juncker for 30 minutes from 1100-1130 on 20 May. I would be grateful if you would pass this on to the Luxembourg Embassy.

Please would you let us have a short brief beforehand.

I am copying this letter to Jan Polley (Cabinet Office) and to Nicholas Elam in Luxembourg by fax.

Yours ever,

Philip

PHILIP BARTON

Dominick Chilcott Esq
Foreign and Commonwealth Office

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