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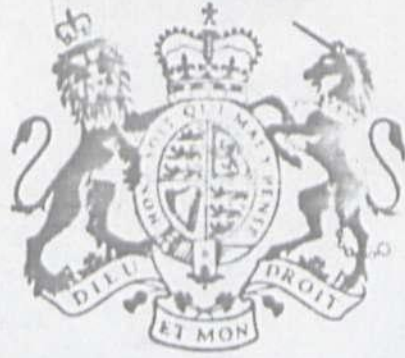
**Cabinet / Cabinet Committee Documents**

Reference	Date
EQS (81) 15	15.6.81
CC (81) 26 <sup>th</sup> Conclusions, Minute 3	2.7.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed AWayland Date 7 April 2011

**PREM Records Team**



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10 DOWNING STREET

THE PRIME MINISTER

6 July 1981

Luxembourg European Council

Thank you for your letter of 25 June with which you sent two statements adopted by the European TUC Executive at their meeting prior to the European Council in Luxembourg.

The Council had a full discussion on both unemployment and economic relations between the European Community and Japan. You may like to see what was said on both these subjects in the Summary of the Council's Proceedings which was issued by the Presidency, and I attach a copy. I also enclose a copy of the statement which I made to the House of Commons reporting the outcome of the meeting. *[copy filed at 1.7.81]*

We shall have to come back to both these questions at the Economic Summit in Ottawa later this month.

Sgd: Margaret Thatcher

The Rt. Hon. Lionel Murray, O.B.E.

cc. C.O  
Trade  
Industry  
FCO

Summary by the Presidency of the proceedings of  
the European Council

Luxembourg, 29-30 June 1981

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1. The European Council discussed in depth the present social and economic situation in which the European Community and the Member States find themselves at the time when the first cautious signs of limited improvement in the business cycle are becoming visible, but when the ravages of inflation and unemployment have by no means been brought under control. In the same context the European Council reviewed the Communities' position with regard to the Western Economic Summit in Ottawa and dealt with the need to preserve and strengthen the Communities' internal market. The European Council discussed these interlocking problems on the basis of a paper presented by the European Commission on the economic and social situation in the Community, the general orientation of which received unanimous approval.
2. The European Council expressed its firm conviction that by the pursuit of coordinated flexible policies, main-  
tained over a sufficient length of time, the Community will be able to overcome the present social and economic difficulties and return to a situation of economic growth, stability and satisfactory levels of employment. In particular, the problem of mass unemployment which is a major preoccupation for all the members of the European Council should not be approached in any spirit of fatalism.
3. In this light the European Council reviewed the work done by the Joint Council (ECO/FIN-Social Affairs) and agreed that a sound foundation had been laid for subsequent action. In particular, there was agreement that the highest priority should be accorded to coordinated action against unemployment and inflation, including efforts aimed at structural adjustment.

.../...

4. The major responsibility for these actions lies with national governments and will need to take account of the different economic situations in each Member State and of their particular possibilities and the constraints with which they are faced. But the effectiveness of such action will be increased by co-ordination within a Community framework. A major effort should be made both at the national and the Community level, to increase investments aimed at higher growth and employment. Investment should be directed in particular to industries with a high innovative potential and which will secure for the Community in the coming decades the place in the industrial world to which it is entitled. The European Council was convinced that investment in energy conservation and production is of vital importance. Care should be taken not to waste precious funds on economic activities that are bound to decline in importance. In the same connection it was underlined that considerable growth potential is to be found in the sector of small and medium enterprises.
  
5. The European Council took note of the fact that in some Member States the reduction in working time is seen as a significant element in the battle against unemployment. It was agreed that further study to evaluate the effects of such measures would be made at the Community level. In this connection, the competitive position of European industries vis-à-vis other industrialised countries deserves close attention.
  
6. It was stressed that optimal use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment. Efforts should also be undertaken to secure a larger economic benefit from the research activities that are under way in the Community and the Member States.

.../...

7. The European Council reaffirmed its commitment to a meaningful social policy by the European Community. It approved the conclusions reached by the Joint Council with regard to the labour market and the problems of unemployment. It took note with interest of suggestions made for the promotion of harmonised working conditions and workers' rights. In this context the term "espace sociale" was used. It expressed its conviction that the pursuit of balanced and purposeful social and economic policies require close consultation with the social partners.

8. The European Council echoed the alarm sounded by the Commission on the state of the internal market, which is increasingly threatened by intentional and unintentional barriers to trade and by the pervasive use of subsidies to ailing industries. The European Council agreed that a concerted effort must be made to strengthen and develop the free internal market for goods and services which lies at the very basis of the European Community and which is the platform from which it conducts its common commercial policy.

9. With regard to the forthcoming meeting of the Western Economic Summit the European Council stressed the need for a united approach to the problems presented by the level and volatility of interest and exchange rates, as these pose a serious threat to Europe's incipient economic recovery. These issues should be pursued in depth in discussions with the other major monetary powers. Important monetary policy objectives are shared with the U.S., but the U.S. should be urged to take due account of the significant international consequences of its domestic policies. The Community itself should do its part to relieve the strain on monetary policy.

.../...

10. The European Council also reviewed the Community's relations with Japan and it was agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth functioning of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors. The European Council stressed the need for effective openness of domestic markets, in particular the Japanese market. These issues should be kept under regular review and in doing so the Community should make the fullest possible use of its bargaining power as an entity.

STEEL PRICES

11. The European Council discussed the serious situation which faces the European steel industry. While welcoming the outcome of the recent Steel Council, the European Council agreed on the urgent need to see steel prices in the European market raised to a more remunerative level and urged the Commission supported by all the Member States to do all in its power to see to it that the steel industry respects the necessary discipline.

.../...

North-South Dialogue

12. The European Council approved the report on North-South policy drawn up by the Council (General Affairs) and recommended its approach for subsequent action. It is of the opinion that cooperation with developing countries and the intensification of international economic relations serve the interests of all concerned and that they are necessary not only in order to strengthen the economies of the developing countries but also to promote the recovery of the world economy. It considers it intolerable that widespread poverty and hunger persist in various parts of the developing world.

The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasised the crucial importance of a positive impetus to be given to this effect by the summit conferences in Ottawa and Cancun.

.../...



Implementation of the 30th May 1980 mandate

13. The European Council had a discussion of the procedure for dealing with the Commission's paper. They confirmed that the implementation of the 30th May mandate would be a major topic for the meeting in London on 26/27 November where appropriate conclusions are to be reached. The European Council asked the General Affairs Council to make thorough and timely preparations for their meeting in November. The Council will be assisted by a Group consisting of one representative of each Member Government who shall be at least of Ambassadorial rank. The Commission was invited to continue its contribution and to make appropriate formal proposals in good time.

**CONFIDENTIAL**



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10 DOWNING STREET

*From the Principal Private Secretary*

6 July 1981

*Dear David,*

EUROPEAN COUNCIL 29-30 JUNE 1981 :  
DRAFT RECORD

Michael Butler sent me a copy of the draft record of discussions at the European Council which he circulated with his letter of 3 July 1981 to you.

The only comment I have is to suggest that paragraphs 20-22 and paragraph 27 should be omitted from the record. Iraq, nuclear weapons and the forthcoming Greek election are not, strictly speaking, Community subjects, and I do not think it is a good idea to include them in a record which I suppose will have eventually a wide distribution in Whitehall.

I am sending copies of this letter to Brian Fall and Michael Franklin.

*Yours ever,*

*David Whitman.*

D H A Hannay Esq.,  
Foreign and Commonwealth Office.

**CONFIDENTIAL**

Mr. Whitmore

We spoke. I think  
this record will do, with one  
page 20-22 and 25-27.

had

3/7

CONFIDENTIAL



Foreign and Commonwealth Office  
London SW1A 2AH

Telephone 01-

D H A Hannay Esq CMG  
AUSS  
FCO

Your reference

Our reference

Date 3 July 1981

CABINET OFFICE
QZ 8196
3 JUL 1981
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*Sgt. C. C. Whitmore*

EUROPEAN COUNCIL LUXEMBOURG 29 and 30 JUNE 1981 : DRAFT RECORD

1. As agreed, I enclose a first draft record of discussions at the European Council. It does not cover the Prime Minister's bilateral with Mitterrand nor peripheral meetings of Coreper and Political Directors.

2. The draft is based in the main on the Secretary of State's notes. We were short of notes on the drafting session on the second day. We always are, since that kind of discussion can not easily be recorded. The Secretary of State's notes were supplemented by information gleaned by John Shepherd from other ministers' notes, Thorn's notes, the after-dinner debriefing by the Prime Minister and Secretary of State and reports from Ersbøll and others in the Secretariat who were present. This last source was responsible particularly for the three paragraphs at the end on the European Parliament, which have operational consequences for our own Presidency.

3. As you read, you will see why the Prime Minister and the Secretary of State found it so intensely boring.

Sir M Butler

cc M D M Franklin Esq CMG,  
Cabinet Office

The Lord Bridges,  
DUSS, FCO

C Whitmore Esq,  
No 10

B J P Fall Esq,  
PS/S of S, FCO

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## DRAFT RECORD

EUROPEAN COUNCIL LUXEMBOURG 29 AND 30 JUNE 1981

## A. FIRST SESSION: AFTERNOON OF MONDAY 29 JUNE

Introduction*(half an hour late)*

1. Opening the meeting (at 15.32) Mr Van Agt welcomed the three new members of the European Council, President Mitterrand, Signor Spadolini and M Eyskens. He suggested that the discussion should begin by taking together the economic and social situation and preparation for the Ottawa economic summit. That would be followed by the Mandate, Middle East problems and, on Tuesday morning, North/South relations.
2. Mr Van Agt, who had seen ETUC leaders in the morning, said that he proposed to see them again in the evening. He hoped that no member of the European Council would feel obliged to see the leaders of the demonstration (outside the Kirchberg) but that they would leave it to him, as President. (Herr Schmidt asked whether the demonstrators represented Community staff.) The Prime Minister said that she was happy with the order of business and agreed that Mr Van Agt alone should meet the demonstrators.  
President Mitterrand and others agreed.

Economic and Social Situation

3. M Thorn introduced the Commission paper. He thought that the economic part of the Community was in danger of collapsing. Investment was not coming forward from  
/industrialists

industrialists who seemed no longer to believe in the European Community as an operating entity. M Ortoli said that the moment for risk-taking and imagination had come. He detected signs of recovery. But recovery was proving more difficult to achieve than had hitherto been expected. Europe was not well placed in comparison with other industrialist countries. Rates of inflation were high, but they varied widely as between one country and another. Each also had varying degrees of unemployment and balance of payment deficits. Europe would have to live with this situation for some time. Balance of payments deficits could not be put right overnight. There was some budgetary room for manoeuvre, but again this varied between member states. In general it was still necessary to improve control over budgets. Exchange rates were a further problem: it remained to be seen whether the USA would seek to avoid excessive fluctuations. American interest rates were also very difficult for Europe. The Community must explain to the Americans how vital to Europe were US interest and exchange rates. A balance needed to be found between monetary control and taxation techniques. EC countries were responsible for solving their own problems. But a common strategy could help:

- (a) The internal market which was in danger needed to be consolidated and deepened.
- (b) Budget deficits needed to be controlled but not too fast, as that would run counter to the recovery.
- (c) A common interest rate policy was needed in the face of inflation.

- (d) Investment in research and new industries should be encouraged.

4. M Ortolli continued that investment in Europe represented only 22% of GDP as against 32% in Japan. Investment in energy was particularly low by comparison with the levels in the USA and Japan. On recycling, he thought that the Community should use all its influence to encourage multi-lateral organisations to help and should press forward with the creation of an energy bank [?World Bank energy affiliate.] Domestically, common action on eg loans, the New Community Instrument (NIC or "Ortoli facility") ~~was used~~. Costs must be kept down (wages, social security, indexation). An active employment policy was needed covering training etc. Problems associated with overtime, part-time working and early retirement, as discussed at the Jumbo Council, should also be examined. If the European economy was to have a chance of improving a common diagnosis was required.

5. Mr Jørgensen said that unemployment levels were so bad that the Community could not simply wait for an up-turn to arrive. A Community initiative was required. He also stressed the importance of problems associated with energy, recycling and raw materials. In spite of the gloomy outlook he thought that it was important to achieve the 0.7% of GNP aid target. Amongst other things this would increase the market for European exports.

6. M Eyskens said that the Community had succeeded in holding together in spite of its difficulties. He warned

against seeing the Community in terms of a juste retour. In matters of economic policy time was wasted in indecision between monetarist and Keynesian theorists. The differences between the theories were false and would disappear. It was important to act. Because of its rate of inflation Belgium had no margin of manoeuvre. The larger member states should increase demand in order to help others. There was a link with the encouragement of the growth of demand in third countries. He spoke of a "solidarity-growth pact" involving triangular financing, recycling and interest rate subsidies. Proposals were needed on interest rates for Ottawa. Belgium would develop proposals on the multilateralisation of swap arrangements. (M Eyskens spoke for 40 minutes)

7. At this stage Mr Van Agt pointed out that half the time available for the afternoon session had gone and the first item had still not been dealt with. He pleaded for brevity (in vain).

8. Herr Schmidt agreed with M Ortoli's analysis. The world economy was in a mess. He was worried by the course of the debate on developing countries. Development aid was hopelessly inadequate. The problem was that any increase in it would not necessarily lead to more European exports. It would probably only be spent on more oil. Many member states had balance of payments deficits. That of the Federal Republic was appalling. Reducing it was a high priority. It limited German room for manoeuvre. He agreed with M Ortoli about American interest rates. But he did not believe that American policy would change before next Easter. Things would only be made worse by Middle East



problems, which he described as a Damocles' sword: the bombing of the Iraqi nuclear power plant might for instance result in a further increase in the price of oil or a reduction in the supply. The economic summit at Ottawa was likely to prove difficult. One <sup>(sic)</sup> participating government was monetarist, the others Keynesian. The Federal German Government had used mixed remedies and had relied on the help and cooperation of both unions and employers.

9. Turning to Japan Herr Schmidt warned against criticising the Japanese simply because they were more successful. If Europe wanted to export more it should improve its own competitiveness and become better than Japan. He doubted whether that was possible with current European levels of wages and social security. He stressed the danger of adopting nationalist economic policies in the Community and criticised the persistence of non-tariff barriers to trade within the Community. The EEC covered a great part of internal Community trade: it must be preserved. In the steel sector particularly, government subsidies were madness. Price increases were necessary to protect the market: if it were damaged things would only get worse. The countries participating in the Ottawa summit should pledge themselves to protect the open trading system and inter-nationalism: they should not take advantage of each other through their interest rate policies or by competitive devaluations.

10. The Prime Minister agreed with Herr Schmidt and said that she thought that M Ortolli's analysis was good. The countries of the Community did indeed face a wide variety of

economic problems in differing degrees. These could not be dealt with by some simple financial formula. For example in the UK inflation was the paramount problem. Unemployment was caused by three factors: world recession, the changing pattern of world trade and lack of domestic competitiveness. New jobs could only come from increased competitiveness. Small businesses should be encouraged. One way was through help from the EIB to promote investment.

11. Public spending was responsible for a large part of the problem facing European countries. She firmly believed that monetarist policies were right, but they were not in themselves adequate. Public expenditure control was essential. Only in this way would resources for investment in adaptation of the private sector be realised. A shorter working week would merely lead to more overtime. It did not offer a way out. But there were some hopeful signs: there had been no recent oil price increases and this stability could give time to cope with the problems of structural change, curbing public expenditure and encouraging investment. She agreed with Herr Schmidt about aids to the steel industry.

12. Signor Spadolini said that he had appealed to the trade unions to help the government to beat inflation. Italy was also in a wage-price spiral largely because of excessive public expenditure. Uncontrolled public spending had to be curbed. Internal demand would need to be controlled. The balance of payments deficit was serious. 1981 was going to be a bad year. Harmonisation of economic policies in the Community was therefore essential. He ended with a plea for common action to promote Community spending on research.

13. Mr Lenihan hoped that the Community would go to Ottawa with a united stance and stressed the importance of employment promotion policies.

14. President Mitterrand said that French policy would play its part: the promotion of Community solidarity was a primary French objective. He did not wish to judge the policies of others. Many problems were shared in common but national temperaments differed. He did not seek an ideological debate, but the reconciliation of different policies and approaches was both necessary and possible. (The French election had proved that reason had triumphed over passion.) In France the number of bankruptcies and the level of unemployment were both rising. He did not believe that inflation was a cause of unemployment; this was shown by the Belgian experience. The problems of inflation and unemployment and the prevailing level of social inequality meant that the French Government had to act. He agreed with the main lines of the Commission Report. Nonetheless France had decided to practise a policy of revival. They believed that growth was possible. This revival would be pursued in four ways:

(a) by the selective encouragement of consumer demand (with the emphasis on buying French products such as textiles, cars and foodstuffs);

(b) by encouraging investment, largely through decisions in the public sector. He claimed that public ownership was not incompatible with competitiveness:

Renault, SNIAS and Elf-Aquitaine were all

highly competitive;

- (c) The state would also encourage investment in small and medium enterprises;
- (d) Finally French investment policy would be targetted towards adaptation to the third industrial revolution, harnessing science and technology rather than protecting society from them. This would all be done avoiding excessive public expenditure.

15. A necessary element in all this would be the reduction of working hours. French industry was working only at 70% of capacity, and this could be increased to 80% with productivity increases. In general the rich would have to shoulder the burden of increasing the standard of living of poorer workers. The French Government therefore proposed to take certain measures:

- (a) Loans would be raised, either Community loans or joint loans, to finance investment in well-chosen priority sectors of industry with development potential.
- (b) Efforts to give a European dimension to industries with an energy dimension, and modern sectors like telecommunications would be supported.
- (c) An "espace sociale europeenne" would need to be created to improve working conditions.
- (d) Working hours should be shortened.

16. Turning to the Ottawa summit, President Mitterrand said that he agreed that the Community should not beg Japan to change its policies. There should be no protectionism or excessive safeguards. But the Japanese

market was proving impenetrable, and Prime Minister Suzuki had been ambivalent in his response to French arguments. The Japanese made nothing more than general statements and refused to be specific. Discussion with Mr Suzuki had proved impossible. He agreed with Herr Schmidt and the Prime Minister about the manner of the approach to the USA. The American administration pursued its economic policy in spite of an awareness of its disadvantages. The Americans thought that they could beat inflation by pursuing these policies. They recognised their harmful effects but believed they were only temporary. He acknowledged the contradiction between French and US policies. He hoped that the Americans would change before next Easter but accepted that there would be no change at Ottawa. Nevertheless change there had to be: prolonging high interest rates were ruining all the western economies.

17. On North/South relations he stressed the need for a common European position. The Americans were not interested in North/South matters and needed to be encouraged. Revival of the economies in the Third World would help revival domestically, and France intended to promote trade with the Third World, especially in Africa where France had a privileged position. He believed it essential to set up the World Bank energy affiliate.

18. President Mitterrand concluded that the Community needed to pursue policies supported by working people, including reducing working hours, consulting the unions and making full use of the European dimension.

19. Mr Rallis spoke very briefly, and the session ended at 1830.

B. DINNER OF HEADS OF STATE OR GOVERNMENT, 29 JUNE

Iraq

20. Much of the dinner was devoted to a discussion of the Israeli bombing of the Iraqi nuclear power station at Tammuz. After the Prime Minister had asked President Mitterrand whether he intended to help the Iraqis rebuild. The latter had in the course of the conversation said the Iraqis would <sup>not</sup> have been able to make weapons grade fuel for at least another 3 or 4 years. They had had to go to the Italians for help. (Sig Spadolini did not rise to this.) The Prime Minister argued strongly that in the face of the most flagrant possible breach of international law the European Council could not remain silent at its first meeting after the event. President Mitterrand opposed this partly because it might affect the Israeli election, but was finally persuaded to accept a reference to the Security Council Resolution. But Herr Schmidt supported the Prime Minister.

Nuclear Weapons

21. Discussion of non-proliferation and the plutonium economy led Herr Schmidt on to the subject of LRTNF. He complained that the Americans did not seem to realise how their delay in opening negotiations with the Soviet Union was endangering the chances of Pershing II missiles actually being stationed in the FRG. President Mitterrand confirmed that France would maintain its deterrent but argued that the stationing in Europe of cruise missiles

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would upset the East-West balance by adding to the number of warheads that could reach Soviet territory. Mr Rallis thought this a reasonable point. Mr Jørgensen claimed that opinion in the Nordic Council was moving strongly in favour of a (?Nordic) nuclear-free zone.

22. The Prime Minister argued that weakness of this sort only tempted an enemy. The Americans were likely to start negotiating in the autumn, but they would not do so until they had carefully worked out all the steps in the argument. Herr Schmidt doubted if this would be soon enough. He would be unable to hold the line much longer. What was worse was that many US officials were arguing against any negotiation with the Soviet Union.

#### 30 May Mandate

23. The Prime Minister persuaded Mr Van Agt to direct discussion on to the 30 May Mandate. President Mitterrand said that he was not prepared to discuss it, but M Thorn stressed that only procedure needed to be tackled. He thought a special group should be appointed since Permanent Representatives were very busy. The Prime Minister retorted that hard work would do them no harm. They were probably the only people capable of negotiating across the spectrum of problems covered by the mandate. In any case the UK Presidency would be in the chair. Mr Lenihan supported this view and stressed the importance of Foreign Ministers having a thorough discussion in September. Mr Van Agt, after further discussion, noted general agreement that a special group be appointed.

24. Herr Schmidt said that the French Government must have time to reflect. (At no stage did he say anything on substance.) President Mitterrand said that he would not be in a position to nominate the French member of a special group for a couple of months.

#### Afghanistan

25. The Prime Minister raised Afghanistan briefly and said that Foreign Ministers would be preparing a text for consideration the following day.

#### Japan

26. A brief discussion produced general agreement on the need for a Community approach to the question of trade with Japan.

#### Greece

27. Mr Rallis said that he thought his chances in the forthcoming election were quite good in spite of the participation of Communists in the new French Government.

### C. DINNER OF FOREIGN MINISTERS 29 JUNE

#### Middle East

28. M Cheysson argued against the European Council making any further statement on the Middle East. All the people of France thought that the Venice Declaration was "anti-Camp David". The Secretary of State pointed out that it would be incomprehensible to world opinion if there was a full declaration on Afghanistan and nothing on the Middle East. M Cheysson allowed himself to be persuaded that a statement should be made. But he would not accept para 3 of the draft. (The final text, with new wording drafted by Sig Colombo therefore made no reference to the Venice



Declaration.) (Mr van der Klaauw did not make the promised oral comments on his Report.)

29. M Cheysson also agreed to the insertion in the European Council's statement of a condemnation of the Israeli bombing of the Iraqi nuclear power station.

#### Afghanistan

30. The text prepared by Ministers on 22/23 June was confirmed.

#### Seat of Institutions

31. Mme Flesch raised the problem of the places of work of the European Parliament and asked for agreement on a text (Annex A). The Secretary of State suggested that Coreper examine the text in the morning. (This was duly done (see Luxembourg tel no ): an amended text was agreed by the European Council (Annex B) as the final act of the Conference of Member States on the question called at the end of 1980 at French request.)

#### D. SECOND SESSION: MORNING OF TUESDAY 30 JUNE

##### Presidency Conclusions: Community Aspects

32. Mr Van Agt opened discussion of the draft Presidency conclusions prepared on the basis of discussions the previous afternoon and over the two dinners (Annex C).

Mr Jørgensen complained that the draft on the economic and social situation did not reflect the views expressed.

(President Mitterrand asked what was the point of discussing a text still being discussed by officials. Mr Van Agt replied that this was not in fact the case. Only the Political Cooperation texts were still being worked on by

officials.) Mr Jørgensen tabled amendments, including the removal of paragraph 2 and the changing of paragraph 3 to give the highest priority to fighting unemployment rather than inflation. The deepest part of the recession was not yet past. The Prime Minister warned against redrafting every paragraph: it would not be possible to satisfy everyone. Each would need to interpret the conclusion according to his lights. Signor Spadolini, who would also have liked several amendments, agreed with the Prime Minister and disagreed with Mr Jørgensen's approach. M Ortolini also argued against trying to redraft the text (but then tried to do so).

33. In discussion of the 30 May Mandate text, the previous night's agreement to appoint a special group was confirmed. But the Prime Minister reminded the European Council of the decision of the June Foreign Affairs Council about the work required of Coreper in July. M Thorn said that the Commission stood ready to provide any facts and figures Coreper wanted. (No-one disputed the validity of the Council decision. *After the meeting the Sops explained our plans for Poly to M. Chysson who declared himself content.*)

34. Texts on Japan and North/South were agreed with little discussion. At German request a new text on steel prices was tabled and agreed. (Final version of texts at Annex C)

#### Draft Press Statements: Political Cooperation

35. Political Directors having submitted generally agreed texts, there was little discussion, except on the Middle East, where only Signor Colombo supported the Prime Minister's attempts to re-insert a reference to the Venice Declaration. President Mitterrand advocated a step-by-step approach instead of that in the Venice Declaration.

(Final version of text at Annex D)

European Parliament

36. Herr Schmidt warned about the deteriorating state of the Council's relations with the European Parliament. 400 dissatisfied politicians were travelling around Europe giving vent to their frustrations. This should be a subject for discussion at the November European Council.

37. President Mitterrand volunteered that there no longer existed any obstacle to the President of the European Council reporting to the European Parliament. Mr Van Agt regretted that the Parliament was not sitting: he would have gone straight to report.

38. The text on the provisional places of work of the institutions was agreed with the substitution of the word "rappelé" for "constaté" in line . (Final version at Annex E) The text became the final act of the Conference of Member States which first met late in 1980.

39. The meeting ended at 1230.

CONFIDENTIAL



Foreign and Commonwealth Office  
London SW1A 2AH

Telephone 01-

D H A Hannay Esq CMG  
AUSS  
FCO

Your reference

Our reference

Date 3 July 1981

EUROPEAN COUNCIL LUXEMBOURG 29 and 30 JUNE 1981 : DRAFT RECORD

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Sir M Butler

cc M D M Franklin Esq CMG,  
Cabinet Office  
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PS/S of S, FCO

CONFIDENTIAL

## DRAFT RECORD

EUROPEAN COUNCIL LUXEMBOURG 29 AND 30 JUNE 1981

## A. FIRST SESSION: AFTERNOON OF MONDAY 29 JUNE

Introduction*(half an hour late)*

1. Opening the meeting (at 1532) Mr Van Agt welcomed the three new members of the European Council, President Mitterrand, Signor Spadolini and M Eyskens. He suggested that the discussion should begin by taking together the economic and social situation and preparation for the Ottawa economic summit. That would be followed by the Mandate, Middle East problems and, on Tuesday morning, North/South relations.
  
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Economic and Social Situation

3. M Thorn introduced the Commission paper. He thought that the economic part of the Community was in danger of collapsing. Investment was not coming forward from  
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industrialists who seemed no longer to believe in the European Community as an operating entity. M Ortoli said that the moment for risk-taking and imagination had come. He detected signs of recovery. But recovery was proving more difficult to achieve than had hitherto been expected. Europe was not well placed in comparison with other industrialist countries. Rates of inflation were high, but they varied widely as between one country and another. Each also had varying degrees of unemployment and balance of payment deficits. Europe would have to live with this situation for some time. Balance of payments deficits could not be put right overnight. There was some budgetary room for manoeuvre, but again this varied between member states. In general it was still necessary to improve control over budgets. Exchange rates were a further problem: it remained to be seen whether the USA would seek to avoid excessive fluctuations. American interest rates were also very difficult for Europe. The Community must explain to the Americans how vital to Europe were US interest and exchange rates. A balance needed to be found between monetary control and taxation techniques. EC countries were responsible for solving their own problems. But a common strategy could help:

- (a) The internal market which was in danger needed to be consolidated and deepened.
- (b) Budget deficits needed to be controlled but not too fast, as that would run counter to the recovery.
- (c) A common interest rate policy was needed in the face of inflation.

/(d)

- (d) Investment in research and new industries should be encouraged.

4. M Ortolì continued that investment in Europe represented only 22% of GDP as against 32% in Japan. Investment in energy was particularly low by comparison with the levels in the USA and Japan. On recycling, he thought that the Community should use all its influence to encourage multi-lateral organisations to help and should press forward with the creation of an energy bank [?World Bank energy affiliate.] Domestically, common action on eg loans, the New Community Instrument (NIC or "Ortolì facility") *was used*. Costs must be kept down (wages, social security, indexation). An active employment policy was needed covering training etc. Problems associated with overtime, part-time working and early retirement, as discussed at the Jumbo Council, should also be examined. If the European economy was to have a chance of improving a common diagnosis was required.

5. Mr Jørgensen said that unemployment levels were so bad that the Community could not simply wait for an up-turn to arrive. A Community initiative was required. He also stressed the importance of problems associated with energy, recycling and raw materials. In spite of the gloomy outlook he thought that it was important to achieve the 0.7% of GNP aid target. Amongst other things this would increase the market for European exports.

6. M Eyskens said that the Community had succeeded in holding together in spite of its difficulties. He warned

again seeing the Community in terms of a juste retour.

In matters of economic policy time was wasted in indecision between monetarist and Keynesian theorists. The differences between the theories were false and would disappear. It was important to act. Because of its rate of inflation Belgium had no margin of manoeuvre. The larger member states should increase demand in order to help others. There was a link with the encouragement of the growth of demand in third countries. He spoke of a "solidarity-growth pact" involving triangular financing, recycling and interest rate subsidies. Proposals were needed on interest rates for Ottawa. Belgium would develop proposals on the multilateralisation of swap arrangements. (M Eyskens spoke for 40 minutes)

7. At this stage Mr Van Agt pointed out that half the time available for the afternoon session had gone and the first item had still not been dealt with. He pleaded for brevity (in vain).

8. Herr Schmidt agreed with M Ortoli's analysis. The world economy was in a mess. He was worried by the course of the debate on developing countries. Development aid was hopelessly inadequate. The problem was that any increase in it would not necessarily lead to more European exports. It would probably only be spent on more oil. Many member states had balance of payments deficits. That of the Federal Republic was appalling. Reducing it was a high priority. It limited German room for manoeuvre. He agreed with M Ortoli about American interest rates. But he did not believe that American policy would change before next Easter. Things would only be made worse by Middle East



problems, which he described as a Damocles' sword: the bombing of the Iraqi nuclear power plant might for instance result in a further increase in the price of oil or a reduction in the supply. The economic summit at Ottawa was likely to prove difficult. One <sup>(sic)</sup> participating government was monetarist, the others Keynesian. The Federal German Government had used mixed remedies and had relied on the help and cooperation of both unions and employers.

9. Turning to Japan Herr Schmidt warned against criticising the Japanese simply because they were more successful. If Europe wanted to export more it should improve its own competitiveness and become better than Japan. He doubted whether that was possible with current European levels of wages and social security. He stressed the danger of adopting nationalist economic policies in the Community and criticised the persistence of non-tariff barriers to trade within the Community. The EEC covered a great part of internal Community trade: it must be preserved. In the steel sector particularly, government subsidies were madness. Price increases were necessary to protect the market: if it were damaged things would only get worse. The countries participating in the Ottawa summit should pledge themselves to protect the open trading system and inter-nationalism: they should not take advantage of each other through their interest rate policies or by competitive devaluations.

10. The Prime Minister agreed with Herr Schmidt and said that she thought that M Ortolli's analysis was good. The countries of the Community did indeed face a wide variety of

economic problems in differing degrees. These could not be dealt with by some simple financial formula. For example in the UK inflation was the paramount problem. Unemployment was caused by three factors: world recession, the changing pattern of world trade and lack of domestic competitiveness. New jobs could only come from increased competitiveness. Small businesses should be encouraged. One way was through help from the EIB to promote investment.

11. Public spending was responsible for a large part of the problem facing European countries. She firmly believed that monetarist policies were right, but they were not in themselves adequate. Public expenditure control was essential. Only in this way would resources for investment in adaptation of the private sector be realised. A shorter working week would merely lead to more overtime. It did not offer a way out. But there were some hopeful signs: there had been no recent oil price increases and this stability could give time to cope with the problems of structural change, curbing public expenditure and encouraging investment. She agreed with Herr Schmidt about aids to the steel industry.

12. Signor Spadolini said that he had appealed to the trade unions to help the government to beat inflation. Italy was also in a wage-price spiral largely because of excessive public expenditure. Uncontrolled public spending had to be curbed. Internal demand would need to be controlled. The balance of payments deficit was serious. 1981 was going to be a bad year. Harmonisation of economic policies in the Community was therefore essential. He ended with a plea for common action to promote Community spending on research.

13. Mr Lenihan hoped that the Community would go to Ottawa with a united stance and stressed the importance of employment promotion policies.

14. President Mitterrand said that French policy would play its part: the promotion of Community solidarity was a primary French objective. He did not wish to judge the policies of others. Many problems were shared in common but national temperaments differed. He did not seek an ideological debate, but the reconciliation of different policies and approaches was both necessary and possible. (The French election had proved that reason had triumphed over passion.) In France the number of bankruptcies and the level of unemployment were both rising. He did not believe that inflation was a cause of unemployment; this was shown by the Belgian experience. The problems of inflation and unemployment and the prevailing level of social inequality meant that the French Government had to act. He agreed with the main lines of the Commission Report. Nonetheless France had decided to practise a policy of revival. They believed that growth was possible. This revival would be pursued in four ways:

(a) by the selective encouragement of consumer demand (with the emphasis on buying French products such as textiles, cars and foodstuffs);

(b) by encouraging investment, largely through decisions in the public sector.

He claimed that public ownership was not incompatible with competitiveness:

Renault, SNIAS and Elf-Aquitaine were all

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highly competitive;

- c) The state would also encourage investment in small and medium enterprises;
- (d) Finally French investment policy would be targetted towards adaptation to the third industrial revolution, harnessing science and technology rather than protecting society from them. This would all be done avoiding excessive public expenditure.

15. A necessary element in all this would be the reduction of working hours. French industry was working only at 70% of capacity, and this could be increased to 80% with productivity increases. In general the rich would have to shoulder the burden of increasing the standard of living of poorer workers. The French Government therefore proposed to take certain measures:

- (a) Loans would be raised, either Community loans or joint loans, to finance investment in well-chosen priority sectors of industry with development potential.
- (b) Efforts to give a European dimension to industries with an energy dimension, and modern sectors like telecommunications would be supported.
- (c) An "espace sociale europeenne" would need to be created to improve working conditions.
- (d) Working hours should be shortened.

16. Turning to the Ottawa summit, President Mitterrand said that he agreed that the Community should not beg Japan to change its policies. There should be no protectionism or excessive safeguards. But the Japanese

market was proving impenetrable, and Prime Minister Suzuki had been ambivalent in his response to French arguments. The Japanese made nothing more than general statements and refused to be specific. Discussion with Mr Suzuki had proved impossible. He agreed with Herr Schmidt and the Prime Minister about the manner of the approach to the USA. The American administration pursued its economic policy in spite of an awareness of its disadvantages. The Americans thought that they could beat inflation by pursuing these policies. They recognised their harmful effects but believed they were only temporary. He acknowledged the contradiction between French and US policies. He hoped that the Americans would change before next Easter but accepted that there would be no change at Ottawa. Nevertheless change there had to be: prolonging high interest rates were ruining all the western economies.

17. On North/South relations he stressed the need for a common European position. The Americans were not interested in North/South matters and needed to be encouraged. Revival of the economies in the Third World would help revival domestically, and France intended to promote trade with the Third World, especially in Africa where France had a privileged position. He believed it essential to set up the World Bank energy affiliate.

18. President Mitterrand concluded that the Community needed to pursue policies supported by working people, including reducing working hours, consulting the unions and making full use of the European dimension.

19. Mr Rallis spoke very briefly, and the session ended at 1830.

B. DINNER OF HEADS OF STATE OR GOVERNMENT, 29 JUNE

Iraq

20. Much of the dinner was devoted to a discussion of the Israeli bombing of the Iraqi nuclear power station at Tammuz. After the Prime Minister had asked President Mitterrand whether he intended to help the Iraqis rebuild. The latter had in the course of the conversation said the Iraqis would <sup>not</sup> have been able to make weapons grade fuel for at least another 3 or 4 years. They had had to go to the Italians for help. (Sig Spadolini did not rise to this.) The Prime Minister argued strongly that in the face of the most flagrant possible breach of international law the European Council could not remain silent at its first meeting after the event. President Mitterrand opposed this partly because it might affect the Israeli election, but was finally persuaded to accept a reference to the Security Council Resolution. But Herr Schmidt supported the Prime Minister.

Nuclear Weapons

21. Discussion of non-proliferation and the plutonium economy led Herr Schmidt on to the subject of LRTNF. He complained that the Americans did not seem to realise how their delay in opening negotiations with the Soviet Union was endangering the chances of Pershing II missiles actually being stationed in the FRG. President Mitterrand confirmed that France would maintain its deterrent but argued that the stationing in Europe of cruise missiles

would upset the East-West balance by adding to the number of warheads that could reach Soviet territory. Mr Rallis thought this a reasonable point. Mr Jørgensen claimed that opinion in the Nordic Council was moving strongly in favour of a (?Nordic) nuclear-free zone.

22. The Prime Minister argued that weakness of this sort only tempted an enemy. The Americans were likely to start negotiating in the autumn, but they would not do so until they had carefully worked out all the steps in the argument. Herr Schmidt doubted if this would be soon enough. He would be unable to hold the line much longer. What was worse was that many US officials were arguing against any negotiation with the Soviet Union.

#### 30 May Mandate

23. The Prime Minister persuaded Mr Van Agt to direct discussion on to the 30 May Mandate. President Mitterrand said that he was not prepared to discuss it, but M Thorn stressed that only procedure needed to be tackled. He thought a special group should be appointed since Permanent Representatives were very busy. The Prime Minister retorted that hard work would do them no harm. They were probably the only people capable of negotiating across the spectrum of problems covered by the mandate. In any case the UK Presidency would be in the chair. Mr Lenihan supported this view and stressed the importance of Foreign Ministers having a thorough discussion in September. Mr Van Agt, after further discussion, noted general agreement that a special group be appointed.

/24.

24. Herr Schmidt said that the French Government must have time to reflect. (At no stage did he say anything on substance.) President Mitterrand said that he would not be in a position to nominate the French member of a special group for a couple of months.

#### Afghanistan

25. The Prime Minister raised Afghanistan briefly and said that Foreign Ministers would be preparing a text for consideration the following day.

#### Japan

26. A brief discussion produced general agreement on the need for a Community approach to the question of trade with Japan.

#### Greece

27. Mr Rallis said that he thought his chances in the forthcoming election were quite good in spite of the participation of Communists in the new French Government.

### C. DINNER OF FOREIGN MINISTERS 29 JUNE

#### Middle East

28. M Cheysson argued against the European Council making any further statement on the Middle East. All the people of France thought that the Venice Declaration was "anti-Camp David". The Secretary of State pointed out that it would be incomprehensible to world opinion if there was a full declaration on Afghanistan and nothing on the Middle East. M Cheysson allowed himself to be persuaded that a statement should be made. But he would not accept para 3 of the draft. (The final text, with new wording drafted by Sig Colombo therefore made no reference to the Venice



Declaration.) (Mr van der Klaauw did not make the promised oral comments on his Report.)

29. M Cheysson also agreed to the insertion in the European Council's statement of a condemnation of the Israeli bombing of the Iraqi nuclear power station.

#### Afghanistan

30. The text prepared by Ministers on 22/23 June was confirmed.

#### Seat of Institutions

31. Mme Flesch raised the problem of the places of work of the European Parliament and asked for agreement on a text (Annex A). The Secretary of State suggested that Coreper examine the text in the morning. (This was duly done (see Luxembourg tel no ): an amended text was agreed by the European Council (Annex B) as the final act of the Conference of Member States on the question called at the end of 1980 at French request.)

#### D. SECOND SESSION: MORNING OF TUESDAY 30 JUNE

##### Presidency Conclusions: Community Aspects

32. Mr Van Agt opened discussion of the draft Presidency conclusions prepared on the basis of discussions the previous afternoon and over the two dinners (Annex C).

Mr Jørgensen complained that the draft on the economic and social situation did not reflect the views expressed.

(President Mitterrand asked what was the point of discussing a text still being discussed by officials. Mr Van Agt replied that this was not in fact the case. Only the Political Cooperation texts were still being worked on by

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officials.) Mr Jørgensen tabled amendments, including the removal of paragraph 2 and the changing of paragraph 3 to give the highest priority to fighting unemployment rather than inflation. The deepest part of the recession was not yet past. The Prime Minister warned against redrafting every paragraph: it would not be possible to satisfy everyone. Each would need to interpret the conclusion according to his lights. Signor Spadolini, who would also have liked several amendments, agreed with the Prime Minister and disagreed with Mr Jørgensen's approach. M Ortoli also argued against trying to redraft the text (but then tried to do so).

33. In discussion of the 30 May Mandate text, the previous night's agreement to appoint a special group was confirmed. But the Prime Minister reminded the European Council of the decision of the June Foreign Affairs Council about the work required of Coreper in July. M Thorn said that the Commission stood ready to provide any facts and figures

Coreper wanted. (No-one disputed the validity of the Council decision. *After the meeting the Sops explained our plans for July to M. Chysson who declared himself content.*)

34. Texts on Japan and North/South were agreed with little discussion. At German request a new text on steel prices was tabled and agreed. (Final version of texts at Annex C)

Draft Press Statements: Political Cooperation

35. Political Directors having submitted generally agreed texts, there was little discussion, except on the Middle East, where only Signor Colombo supported the Prime Minister's attempts to re-insert a reference to the Venice Declaration. President Mitterrand advocated a step-by-step approach instead of that in the Venice Declaration.

(Final version of text at Annex D)

European Parliament

36. Herr Schmidt warned about the deteriorating state of the Council's relations with the European Parliament. 400 dissatisfied politicians were travelling around Europe giving vent to their frustrations. This should be a subject for discussion at the November European Council.

37. President Mitterrand volunteered that there no longer existed any obstacle to the President of the European Council reporting to the European Parliament. Mr Van Agt regretted that the Parliament was not sitting: he would have gone straight to report.

38. The text on the provisional places of work of the institutions was agreed with the substitution of the word "rappelé" for "constaté" in line . (Final version at Annex E) The text became the final act of the Conference of Member States which first met late in 1980.

39. The meeting ended at 1230.



10 DOWNING STREET

*From the Principal Private Secretary*

3 July, 1981.

European Investment Bank, Luxembourg

You wrote to Michael Alexander about the suggestion that the Prime Minister should have a very brief look inside the new Headquarters of the European Investment Bank when she was in Luxembourg on 29 and 30 June for the Meeting of the European Council.

The Prime Minister was very ready to try to visit your building, but I am afraid that in the event there simply wasn't time. She has asked me to say how sorry she is to have missed the opportunity.

A. WHITMORE

Sir Denys Lasdun, C.B.E.

Gunn P01.

GPS 420  
UNCLASSIFIED  
FM BONN 031200Z JUL 81  
TO PRIORITY FCO  
TELEGRAM NUMBER 518 OF 03 JULY  
INFO ROUTINE UKREF BRUSSELS PARIS  
INFO SAVING DUBLIN ROME LUXEMBOURG COPENHAGEN THE HAGUE BRUSSELS  
AND ATHENS

MY TELNO 512: FURTHER FRG PRESS COMMENT ON LUXEMBOURG EUROPEAN  
COUNCIL

1. COMMENT IN YESTERDAY'S AND TODAY'S PRESS DRAWS ATTENTION TO THE DIVISIONS ON ECONOMIC POLICY THAT EMERGED BETWEEN THE MAIN EUROPEAN PARTNERS, CONTRASTS THE PRIME MINISTER'S MORE ROBUST DEFENCE OF THE NEED TO FIGHT INFLATION WITH CHANCELLOR SCHMIDT'S AND POINTS TO BRITISH HOPES FOR THE PRESIDENCY AND TO THE DECLINING POPULARITY OF THE COMMUNITY IN BRITAIN. HOPE IS EXPRESSED THAT YOU MAY BE ABLE TO GIVE A NEW IMPULSE TO THE COMMUNITY. THE FRG IS WARNED THAT IF BRITAIN GETS A SOLUTION TO HER BUDGETARY PROBLEMS ON THE LINES OF A PROLONGATION OF THE EXISTING ARRANGEMENTS, SHE WOULD HAVE LESS INCENTIVE TO PRESS FOR NECESSARY CAP REFORMS. BONN MUST TRY TO PREVENT THIS.
2. A NUMBER OF PAPERS NOTED PRESIDENT MITTERRAND'S PERFORMANCE, ONE DESCRIBING IT AS A SHOCK THAT CHANCELLOR SCHMIDT HAD TRIED TO HIDE. FRANCE'S QUOTE SOCIAL DIMENSION UNQUOTE FOR EUROPE WOULD MEAN ROCKETING GOVERNMENT INDEBTEDNESS, INCREASING INFLATION AND PROVE ULTIMATELY ANTI-SOCIAL. THE MAJOR COMMUNITY COUNTRIES WERE DIVIDED ABOUT HOW TO COPE WITH THE ECONOMIC CRISIS. MITTERRAND LOOKED THE MORE EUROPEAN BUT IT WAS HIS POLICIES AND NOT THE FEDERAL CHANCELLOR'S OR THE PRIME MINISTER'S THAT WOULD DRIVE THE COMMUNITY APART. MITTERRAND'S COURSE POINTED UP THE CLOSENESS OF UNDERSTANDING BETWEEN LONDON AND BONN AND THEIR DIFFERENCES WITH PARIS. THE FEDERAL CHANCELLOR WOULD, HOWEVER, BE BOUND TO RESIST ATTEMPTS TO BRING BONN AND LONDON CLOSER SINCE THAT WOULD IMPOSE INCREASED BURDENS ON THE PARIS/BONN RELATIONSHIP THAT WAS ALREADY CARRYING A HEAVY LOAD. BESIDES, THE CHANCELLOR HAD DOUBTS ABOUT BRITAIN'S EUROPEANISM AND RESENTED HER FAILURE TO JOIN THE EMS AND HER OBSTINACY ON FISH.
3. THE PRIME MINISTER'S STAND ON THE NEED TO CONTINUE THE FIGHT AGAINST INFLATION AND HER CRITICISM OF THE COMMISSION FOR FAILING, IN ITS PAPER, TO DEAL WITH THE FRG'S PROBLEM, DREW FAVOURABLE COMMENT.
4. AN ARTICLE IN DIE ZEIT SUGGEST THAT THE RESULTS OF THE RECENT COMMUNITY WIDE POLL ON ATTITUDES TOWARDS THE COMMUNITY IS NOT A GOOD OMEN FOR THE UK PRESIDENCY, THE UK OBJECTIVES FOR WHICH ARE NOT ONLY TO SECURE A RECTIFICATION OF HER BUDGETARY PROBLEMS BUT ALSO ADVANTAGES FOR HER AIRLINES AND HER INSURANCE

/COMPANIES.

COMPANIES. BUT THOUGH IN THE CONTEXT OF THE PRESIDENCY, BRITISH  
EGOISM IS PLAIN, THE BRITISH ARE TO BE APPLAUDED FOR THEIR  
INITIATIVE ON AFGHANISTAN. FURTHER COMMENT IN THE GENERAL ANZEIGER  
(BONN) , SUGGESTS THAT IT IS CLEARLY IN BONN'S INTEREST TO ENABLE  
YOU TO SCORE AS MANY SUCCESSES AS POSSIBLE DURING THE UK PRESIDENCY  
SINCE BRITAIN'S EC MEMBERSHIP IS AN IMPORTANT PILLAR OF BRITISH  
CO-RESPONSIBILITY FOR WEST BERLIN AND FOR NATO COHESION.

FCO PLEASE PASS SAVING

TAYLOR

FCO/WHITEHALL D

ECD (F)

[ REPEATED AS  
REQUESTED ]

GRS 330  
UNCLASSIFIED  
FM BONN 011410Z JUL 81  
TO PRIORITY FCO  
TELEGRAM NUMBER 512 OF 1 JULY  
INFO UKREP BRUSSELS PARIS  
INFO SAVING OTHER EC POSTS

LUXEMBOURG EUROPEAN COUNCIL: FRG PRESS COMMENT

1. TAKING THEIR CUE FROM SCHMIDT'S REMARKS TO THE PRESS AFTERWARDS, TODAY'S FRG PRESS SEES THE COUNCIL AS ONE WITHOUT GREAT DRAMAS WHICH, HANDELSBLATT COMMENTS, WAS JUST AS WELL, AFTER MAASTRICHT AND BEFORE THE EXPECTED DISPUTES AT THE SUMMIT IN NOVEMBER ON THE BUDGET, CAP, FISH AND ECONOMIC PROBLEMS.
  2. COVERAGE AND COMMENT FOCUSES MAINLY ON MITTERRAND'S DEBUT ON THE EUROPEAN SCENE. WELT QUOTES A FRENCH COMMENT THAT WHEREAS GISCARD FELT HIMSELF TO BE LIKE THE SUN KING, MITTERRAND BEHAVES LIKE THE EMPEROR. MOST PAPERS NOTE THAT MITTERRAND'S DESIRE TO GIVE PRIORITY TO THE FIGHT AGAINST UNEMPLOYMENT, AS OPPOSED TO INFLATION, RUNS COUNTER TO THE PREVIOUS EUROPEAN CONSENSUS. THE FRANKFURTER ALLGEMEINE ZEITUNG (FAZ) HOPES THAT HE WILL NOT BE SURPRISED IF HE ENCOUNTERS OPPOSITION. WELT NOTES THAT SCHMIDT SEEMED TO HAVE MORE IN COMMON WITH THE PRIME MINISTER ON THIS SCORE THAN WITH MITTERRAND, AND THE SUEDEDEUTSCHE ZEITUNG COMMENTS THAT MITTERRAND'S VIEWS SCARCELY LEAVE ROOM FOR THE CONTINUATION OF THE ECONOMIC STABILISATION POLICIES PURSUED BY SCHMIDT AND GISCARD D'ESTAING - AND THAT COULD SOON HAVE NEGATIVE EFFECTS ON THE EMS.
  3. WELT'S REPORT HEADLINES SCHMIDT IN LUXEMBOURG AS A POLITICAL WIDOWER BUT IN OTHER PAPERS THE JUDGEMENT IS NOT SO NEGATIVE. HANDELSBLATT WELCOMES THE NEW EUROPEAN TONE OF MITTERRAND'S PRONOUNCEMENTS AND HAUSER, WRITING FOR THE FRANKFURTER RUNDSCHAU AND GENERAL ANZEIGER, IN MITTERRAND'S FIRM ENDORSEMENT OF THE TNF DECISION SEES FURTHER EVIDENCE OF THE BENEFITS FROM CLOSE LINKS BETWEEN PARIS AND BONN. HOWEVER, SCHMIDT IS QUOTED BY FAZ AS HAVING SAID THAT THERE HAD BEEN NO DIFFERENCES BETWEEN PARIS AND BONN, NOR ANY STRONGER AGREEMENTS BETWEEN LONDON AND BONN: ANY SUGGESTIONS TO THE CONTRARY WERE WISHFUL THINKING.
  4. YOUR INITIATIVE ON AFGHANISTAN GETS THE LEAD IN SOME PAPERS AND THE SECOND LEAD IN ALL OTHERS. WELT HAS A LAUDATORY COMMENT ON THE FRONT PAGE AND THE STUTTGARTER ZEITUNG WRITES THAT THE PROPOSAL IS SO SKILLFUL THAT IT IS HARD TO SEE HOW THE SOVIET UNION CAN REJECT IT WITHOUT FINALLY DESTROYING ITS IMAGE OF A PEACE LOVING SUPER POWER.
- FCO PASS SAVING ATHENS, DUBLIN, ROME, LUXEMBOURG, COPENHAGEN, THE HAGUE AND EMBASSY BRUSSELS.

TAYLOR

FCO/WHITEHALL D  
ECD (E)

[REPEATED AS  
REQUESTED]

SUPPLEMENTARY NOTES FOR THE PRIME MINISTER: SHEEPMEAT CLAWBACK

BACKGROUND

The special Council in Luxembourg on 30 June to discuss the problem over sheepmeat clawback (at which the UK was represented by the Minister of Agriculture and the Minister of State) did not reach agreement on a solution to the problem of clawback.

France was wholly opposed to the Commission's short term proposals for altering the calculation of the UK market price so as to reduce variable premium, and hence clawback, for the rest of this marketing year but to pay back to the producers the amount they would thereby lose at the end of the year. The UK and the other Member States (though doubtfully in the case of Ireland) were however prepared to go along with the broad lines of the Commission's ideas. Mr Walker made it clear that we had moved a long way to seek a compromise and could compromise no further; and that indeed we should need improvements on certain aspects of the Commission's proposals before they were acceptable to us. (These would be designed to ensure adequate reduction of clawback and earlier payments of the "back-up" premium to producers).

M. Thorn said that he would discuss his package of proposals with the Commission this morning and would subsequently put proposals to the Management Committee: he implied that there might be amendments from the existing proposals, but we do not know whether these would meet our points.

The Minister of Agriculture lifted the UK reserves on the 'A' points concerning measures due to be implemented on 1 July (including the new sugar regime) but retained them on the other 'A' points and said that, if the clawback issue was not resolved satisfactorily we might need to reopen certain aspects of the price package.

A copy of the statement which the Minister of Agriculture is making in reply to a written Question today is attached.

LINE TO TAKE

~~My Rt Hon Friend is making a statement later today.~~ Understand there is a strong desire on the part of the majority of Member States to see



the clawback problem resolved. Essential that Commission now brings forward and implements proposals which meet our needs.

WRITTEN ANSWER TO BE GIVEN ON 1 JULY 1981

My <sup>right</sup> hon Friend the Minister of State and I represented the Government yesterday at the special meeting of the Agriculture Council to discuss the problem over sheepmeat clawback. I emphasised again the importance of implementing an acceptable solution to this problem which would ease the difficulties of our exporters. The Council examined in depth the proposals which the Commission had put to the Management Committee as well as other approaches. The outcome was that eight of the other nine Member States indicated that they, like us, would be ready to support in the Management Committee proposals based on the Commission's approach - though I made it clear that certain changes would be needed to achieve the results desired. The Commission are expected to discuss this matter further today before again putting proposals to the Management Committee. ~~At~~ At the conclusion of the meeting, I withdrew our reserves on those regulations arising from the price fixing which are operative from 1 July and on the regulations relating to structures (including those which will benefit Northern Ireland and the Western Isles of Scotland). But I maintained reserves on the remaining outstanding regulations from the price fixing package.

*End Pd*

US INTEREST RATES

Interest rates are disturbingly high throughout the world, and all countries would like to see them lower. We agreed in Luxembourg to pursue these issues in depth in discussions with the other major monetary powers. The US administration has rightly stressed the importance of firm monetary control in fighting inflation and is committed to reducing the federal budget deficit. An appropriate balance between US fiscal and monetary policies should prevent their leading to undue pressure in world financial markets.

UK SHOULD NOW INCREASE PUBLIC SPENDING

The European Council called for coordinated action against unemployment and inflation, and agreed that the major responsibility for such action lay with national governments and would need to take account of the different economic situation in each Member State. The reduction of inflation is an essential precondition for the lasting reduction of unemployment. It is vital for us to keep our public sector deficit under control.

As we have shown over the last six months, an appropriate fiscal policy will bring down the level of interest rates; UK interest rates are now below those in the US and most European countries.

EMS

Although we are members of the EMS, we do not participate in the exchange rate mechanism. We would like to join it as soon as the conditions are right. We need to take account both of the possible effects on our domestic monetary policies and of the special position of sterling as a petro-currency.

## BUDGET RESTRUCTURING

### ROLE OF BUDGET RESTRUCTURING REVIEW?

The Community's commitment in 30 May 1980 Agreement to structural changes provides Britain and the Community with an important opportunity to put the budgetary situation on the right basis.

### BRITISH AIMS

Our aim will be to secure a better balance of policies and of the costs and benefits to the Member States so that unacceptable situations do not arise for any Member State.

### TIMETABLE

We aim to stick to the timetable contained in the 30 May agreement, which pledges the Community to take the necessary decisions this year. This means that there should be agreement on essentials at the next European Council in November.

### PROCEDURE

The next step is for officials to get to work immediately to clarify the issues raised in the Commission's report. They will prepare a work programme for Foreign Ministers to consider in September. In our view, the Foreign Affairs Council should have a central coordinating role with appropriate contributions from specialist Councils and should prepare for the discussion at the next European Council.

### UK PRESIDENCY

Our Presidency does not mean that we can in any way impose our own views on the Community. It does place on us the obligation to ensure that the Commission report is considered thoroughly but rapidly by the Community so that decisions can be taken this year.

/IF

#### COMMISSION PROPOSALS ON CAP

We shall be studying the Commission's ideas. Many of the points in the report echo the views which we have ourselves been expressing for some time - for example the need for price restraint leading to a closer alignment of Community and world prices, stricter control of national aids and restricting agricultural expenditure so that it grows less rapidly than the Community's own resources. Any development of the Community's export policy should contribute to reducing the cost of the CAP rather than requiring additional financial support.

#### PROPOSALS ON REGIONAL AND SOCIAL FUNDS

We support the Commission's idea that there should be greater concentration on areas of greater need. We attach importance to the use of the Funds' resources to alleviate the problems of youth unemployment and changes in industrial structure. The better agricultural expenditure can be controlled, the more scope there will be within the 1% ceiling to expand these Funds.

#### PROPOSED MECHANISM WOULD STILL MEAN UK CONTRIBUTION OF £700M

I do not know on what basis the Hon Member has calculated this figure. The Commission's proposal is expressed in a general way and it is not possible to make any precise estimate as to the level of our net contribution if it were implemented. The important point is that the Commission has recognised clearly the seriousness of the UK problem and has made a proposal intended to remedy it. That is a major step forward.

## UNEMPLOYMENT

### DIFFERENCES IN APPROACH BY UK AND OTHER MEMBER STATES

The European Council reaffirmed that co-ordinated action was necessary against both inflation and unemployment. But it was recognised that there can be no lasting solution to the socially damaging problems of unemployment unless inflation is significantly reduced. Only then, with improved competitiveness and increased investment can lasting conditions for sustaining growth be created. But Member States naturally place different emphasis on the detailed means of achieving this objective.

### WHAT CAN BE DONE ABOUT UNEMPLOYMENT?

#### HMG

Unemployment common problem shared by the whole Community. Government's strategy is right, improvement of unemployment a long, hard slog. Member States already making massive efforts to meet problem of unemployed. In the UK, nearly 1 million people are benefiting from various unemployment and training measures costing nearly £1 billion in 1981/2.

/COMMUNITY

COMMUNITY

With its limited resources, the Community also has an important role in:

- (a) improving coordination of Member States economic policies, in particular fighting inflation;
- (b) revision of social fund which is intended to cope with the problems of training and the unemployed;
- (c) better coordination and more effective policy of the social and regional funds in general;
- (d) an increase in the capital of the European Investment Bank.

PRESIDENCY

WHAT WILL BE THE GOVERNMENT'S OBJECTIVES NOW THAT THE UK HAS ASSUMED THE EC PRESIDENCY?

The Government's general objective when the United Kingdom assumes the Presidency will be to manage business efficiently and to contribute to the development of practical and constructive policies in the Community. Foremost among the issues to be dealt with during our Presidency will be work on the restructuring of the Community budget under the agreement of 30 May 1980. Other priorities will include the accession negotiations with Portugal and Spain and improvements in the working of political co-operation among the Ten.

WILL THE BRITISH INTEREST BE PROPERLY LOOKED AFTER DURING THE UK PRESIDENCY?

Yes. At Council and other meetings of the Community there will be a separate UK delegation. It will be their task, not the Presidency's, to speak up for the British interest. There need be no conflict between efficient, impartial and respected British chairmanship of the Council and the advancement of the Community's and the UK's interest.



## STEEL

The agreement by the Steel Council on 24/25 June was a substantial achievement. The Community demonstrated its ability to recognise the different interests of Member States and reach an agreement which should be of lasting benefit to the industry and encourage the return of profitability.

### State Aids

The Council on 24/25 June agreed the calendar of the aids decision, under which all aid schemes would have to be notified by September 1982, operational aids paid by December 1984 and investment aids by 30 June 1985. The decision, which will phase out those aids incompatible with the Treaty and meanwhile ~~to~~ tie them to capacity reduction, will expire on 31 December 1985. The removal of damaging subsidies will encourage necessary capacity reduction in other Member States, and should stimulate more realistic prices.

### Production Restraint

The Council has now agreed mandatory Article 58 ECSC production quotas in category 1 (hot rolled strip) and categories 5-6 (bars and re-enforcing bars). Voluntary arrangements among the producers will limit production in the other categories. This disciplined market should help restore prices to realistic levels, but we continue to believe that mandatory measures are also necessary in Category IV (wire rod).

### Social Measures

The Council agreed that there should be a Community contribution towards the cost of early retirement and short time working among steel workers affected by capacity reduction. Details have yet to be finalised, but the financing of the first tranche will be by means of adhoc contributions by Member States. We welcome the adoption of these measures which demonstrate the Community's concern for the harsh consequences of necessary restructuring.

EC/JAPAN

WILL THE UK PRESIDENCY SUPPORT THE DEVELOPMENT OF A COMMON  
EC POLICY ON JAPAN?

The Community has already issued a series of agreed statements on relations with Japan. We shall aim to follow this up in cooperation with the Commission and other Member States during the UK Presidency. The Community obviously has greater negotiating strength when it acts together than the Member States do acting individually.

WHAT HAS THE COMMUNITY ACHIEVED WITH JAPAN?

Recent visits to Europe by the Japanese Prime Minister and Trade Minister have opened up the possibility of progress. We particularly welcome the Japanese government's intention to issue a statement on the expansion of imports from the EC and seek the cooperation of the private sector to bring this about. But the Community remains concerned about the strain on the open trading system being caused by Japan's trade performance and will continue to make this clear for example at the Ottawa Summit.

/CARS

### CARS

The Japanese Trade Minister reached an agreement with the Commission on the 17th of June which acknowledges the European industry's efforts to modernise, states that there will be no diversion of Japanese cars to the Community as a result of restraint arrangements for the US and Canada, and gives an undertaking that Japanese car exports to the Community as a whole will be moderate this year. This covers the three points set out in the statement by the May Foreign Affairs Council. (if pressed on new Japanese arrangements for the FRG and Benelux). The Japanese have said that car exports to the EC as a whole will be moderate this year. The new arrangements for Germany and Benelux make a substantial contribution.

### PHASING OUT NATIONAL RESTRAINTS IN FAVOUR OF COMMUNITY MEASURES

The UK would not rule this out. By acting together the Community has much greater negotiating strength in dealing with the Japanese. But to be acceptable, Community restraint arrangements would have to be at least as effective for the UK as our existing inter-industry understandings.

### CONSISTENT WITH ALLOWING INVESTMENT IN UK BY JAPAN?

Industrial cooperation and investment have an important contribution to make to creating a healthier economic relationship with Japan. But at the same time early and effective action by Japan is needed to reduce the trade imbalance.

/HOW

HOW COULD THE FOREIGN SECRETARY SAY IN TOKYO THAT IMPORTS FROM JAPAN AFFECT EMPLOYMENT IN THE UK WHEN THE GOVERNMENT CLAIM THEY CANNOT CALCULATE THE EMPLOYMENT EFFECT OF MEMBERSHIP OF THE EC?

My right hon Friend the Lord Privy Seal has already explained (Hansard, 20 May, Col 279) the Foreign Secretary's remarks related to the concentration of Japan's considerable visible trade surplus with the UK in certain sensitive industrial sectors. The pattern of UK visible trade with the rest of the EC is quite different. The EC takes over 40% of UK exports and the balance of trade last year was of course in our favour.

MINISTER FOR TRADE'S SUGGESTION THAT AMENDMENT OF GATT MAY BE NEEDED TO DEAL WITH JAPANESE IMPORTS

It is obviously questionable whether the creators of the GATT in 1948 could have sought to cater for the kind of new problems which are being caused by Japan's export strategy. At present these problems are contained through a number of individual arrangements. But we and the EC as a whole are seeking Japan's cooperation in the search for a comprehensive solution. There are currently no UK initiatives in prospect for securing a review of the international rules.

COOPERATION ON FOREIGN POLICY ISSUES

It is clearly desirable that the industrialised democracies should show cohesion in dealing with foreign policy issues which affect us all. But important economic issues inevitably remain a facet of the overall relationship between Europe and Japan.

## ENERGY

1. The main long-term problem facing the Community is the need to reduce consumption of oil and thus to limit our dependence upon imported energy. All Community countries have a common interest in developing policies geared to more rational and efficient use of energy resources. Community policies play a valuable part in complementing the national energy programmes of member states.
  
2. Under the guidance of the Council of Energy Ministers - which met most recently only last week (24 June) - the Commission is pursuing work on a number of energy issues. Given the recognition in the Community of the importance of economic energy pricing, we await with interest the Commission's analysis of energy pricing practices in member states. The Commission is also exploring the scope for Community support for investment in the energy sector; and is developing ideas for additional arrangements to deal with the problems that might arise from a minor or temporary shortfall in oil supplies.

## FISH

### CFP NEGOTIATIONS

The European Council agreed in March that, in order to try to reach an early settlement on an overall CFP, the Fisheries Council should meet on Friday 27 March. It was unfortunately not possible then to reach agreement; we shall continue to work for a settlement which safeguards UK fishing interests.

### BLAME FOR COUNCIL DEADLOCK

We have made every effort to reach a settlement. It has not proved possible to persuade all our partners that our needs are reasonable and do not damage their interests. In particular, we have not been able to reach an agreement with the French over arrangements for access around Great Britain.

### WHEN WILL NEGOTIATIONS RESUME?

We shall always be ready to participate in constructive negotiations and we shall continue to work for an early settlement. But it would not be profitable to meet until all our partners indicate they are ready for serious negotiation.

WINE SALES TO THE USSR

MONITORING OF TRADE

The Commission has made clear its intention to maintain the arrangements made following the January 1980 decision to monitor food sales to the USSR. We welcome this, as well as the Commission's confirmation that it does not intend in present circumstances to put forward proposals for sales of Community butter to the USSR, which were suspended in 1980.

WHY WAS SO MUCH EC WINE EXPORTED TO THE USSR IN 1980, WHEN RESTRICTIONS ON FOOD SALES WERE IN FORCE?

Most of the wine exported in 1980 was exported under contracts made in 1979, at a time when there were no restrictions on Community food and wine sales to the USSR. Wine was not included in the restrictions imposed in January 1980 which were limited to grains and grain-related products, and were introduced in support of the partial US grain embargo.

#### THE MEXICO SUMMIT

#### UK ATTITUDE TO MEXICO SUMMIT

We welcome the proposed Summit. Believe meeting of this kind could made a valuable contribution to efforts to tackle the problems of developing countries. I shall be going to Mexico in a constructive spirit and will be looking to make progress wherever possible.

#### FORMAT OF SUMMIT

Not yet decided. We hope that it will be informal and free-ranging. Discussions expected to cover: food and agriculture, trade and industrialisation, finance and monetary questions, energy matters.

#### PREPARATORY MEETING

Agenda will not be finalised until after preparatory meeting on 1-2 August which my Rt Hon and Noble Friend will attend.

#### UK INITIATIVE AT MEXICO?

Too early to say. We shall be giving careful consideration to the many issues involved and we are reviewing the areas where progress may be possible.



#### EC REPRESENTATION

The European Community will not be formally represented as invitations are on a personal basis. However since the UK will be holding Presidency I shall of course be willing to take account of any views expressed by Community partners.

#### WILL THE MEXICO SUMMIT BE DISCUSSED AT CHOGM?

The problems of the world economy and particularly those facing developing countries will certainly be discussed at the Commonwealth Heads of Government Meeting (30 September - 7 October). The Commonwealth provides a unique forum for informal discussion of important and wide-ranging issues of this kind.

#### PRIOR CONSULTATIONS AMONG COMMONWEALTH?

We are in regular contact with the Commonwealth Secretariat and representatives of the Commonwealth on a wide range of developmental issues, many of which are likely to be discussed at Mexico.

#### MR HEATH'S MEMORANDUM ON THE MEXICO SUMMIT

I have read my Rt Hon Friend's paper with the closest attention. We share many of his objectives. His suggestions will be taken fully into account in our preparations for Mexico.

WILL THE UNITED STATES PARTICIPATE?

Understand President Reagan has accepted invitation to attend

WILL SOVIET UNION AND CHINA BE THERE?

China has accepted. The Russians have hitherto responded negatively to informal soundings.

GLOBAL NEGOTIATIONS

Informal contacts are continuing in New York but it seems unlikely that substantive discussion of suitable procedures and agenda will resume before the Autumn.

EC ATTITUDE TOWARDS GLOBAL NEGOTIATIONS

The EC have indicated their willingness to resume efforts leading to a general agreement which would permit the effective launching of Global Negotiations.

## THE OTTAWA SUMMIT

### ATTENDANCE AT OTTAWA SUMMIT

I shall attend the Economic Summit in Ottawa on the 20th to 21st July. I shall be accompanied by the Foreign Secretary and the Chancellor.

### EC ATTENDANCE

The European Community will be represented at the Summit by M Thorn of the European Commission and by the United Kingdom as Presidency.

### AGENDA FOR OTTAWA SUMMIT

There is no formal agenda for these meetings. However, I can assure the Right Honourable Member that discussions at Ottawa will cover international economic matters of concern to this House such as the macro-economic situation, trade, energy, monetary questions, and the problems of developing countries.

### POLITICAL DISCUSSIONS

The House will remember that there was discussion at Venice last year of political questions. This was right and proper. I look forward to similar informal political discussions this year at Ottawa.

#### EC/JAPAN TRADE

The EC has called for discussion of trade with Japan at the Ottawa Summit. Japanese exports are highly concentrated in sensitive industrial sectors and growth in export volumes is not being matched by growth in imports from other industrialised countries. This is putting increasing strain on the open world trading system.

#### INTEREST RATES

Our discussions in Ottawa on the world economy will cover all current problems. I am sure that if the level and volatility of interest rates are causing concern at the time of the Summit, the question will be raised.

#### RELATIONS WITH DEVELOPING COUNTRIES

In view of the difficulties facing the developing countries as a result of the world economic situation, I can assure the House that economic relations with the developing countries will be examined thoroughly in our discussions at Ottawa.

#### WILL THE MEXICO SUMMIT BE DISCUSSED AT OTTAWA?

The problems of developing countries will be discussed both at Ottawa but in general terms. (If pressed) There is no question of concerting a Western position at Ottawa. This would run counter to our wish to have an open and informal discussion at the Mexico Summit.

NEW IMPETUS FOR GLOBAL NEGOTIATIONS AT OTTAWA?

The US Administration have said that they do not wish to resume discussion of preparations for Global Negotiations until after the Mexico Summit. Together with our EC partners, we have accepted this position.

### SEAT OF THE EUROPEAN PARLIAMENT

The subject was raised last year by the French when they proposed that all aspects of the Parliament's activities including Committee meetings and the location of the Secretariat should be in Strasbourg. It became apparent, however, that on such a divisive issue it would not be easy to reach a generally acceptable agreement; the European Council on 23-24 March therefore decided to maintain the status quo.

### WHEN WILL THE DEFINITIVE DECISION BE TAKEN?

There are no plans at present to revert to discussion of the subject.

### WHAT ABOUT THE PARLIAMENT'S VIEWS?

The Parliament has not put to the Member States any proposal for a particular location for its seat. While its views should in our view be taken into account before any definitive decision is taken, the decision remains for the Member States to take by common accord.

### WHAT ABOUT THE WASTE OF MONEY, ETC, CAUSED BY THE PRESENT POSITION?

It is true that the present arrangements are not ideal and involve relatively heavy expenditure. But that is true of any solution which involved the Community's main institutions being in different places. For example, location of all parliamentary activities in Strasbourg would have entailed a very substantial increase in travel by Brussels-based Commission officials.

/CAN

CAN THE PARLIAMENT TAKE MATTERS INTO ITS OWN HANDS?

The Parliament, like the other institutions and Member States of the Community, is subject to the provisions of the Treaties. These provide for the Member States to take decisions on the site of the institutions by common accord.

TRADE

UK PERFORMANCE ON ALL VISIBLE TRADE WITH EC

Our recent trading performance with the EC has been better than with other manufacturing countries. 43% of our exports in 1980 went to the EC compared with 30% when we joined, and we had a visible surplus of £700 million with the Community in 1980. Community offers tariff-free access to market which is now almost 270 million. All Member States except Greece in 1980 were in our top twelve export markets, and the FRG is now our biggest market, worth £5.1 billion in 1980.

HAVE WE NOT HAD DEFICIT ON TRADE IN MANUFACTURES WITH EC?

Our performance on manufactures has been declining since before we joined the EC, but since we joined the decline with the Community has been less than with the rest of the world. In fact our deficit on trade in manufactures with EC has recently decreased from £3,100 million in 1979 to £1,750 million in 1980. Not surprising that we have a larger export/import ratio in manufactures with the rest of the world than with the EC (1.33 to 0.88). Former includes a large number of markets which are not significant producers of manufactures (eg. OPEC countries).

/WE



#### WE SHOULD REMOVE OIL FROM UK/EC TRADE STATISTICS

Trade in oil is an integral part of our overall trade. No valid reason for excluding it. When we had to import oil, no-one said that we should take it out of the trade statistics and thereby have a permanent surplus. Removing oil from statistics does not remove its effects eg. effect of exchange rate movements brought about by North Sea Oil on performance of manufacturing sector.

#### TRADE WITH WEST GERMANY/JAPAN

The FRG is the UK's leading trading partner. Although the UK had a crude deficit (of £2,007 million) in manufacture with FRG in 1980, the export/import ratio has remained steady since 1972 and was 61 per cent last year. In comparison, the export/import ratio for trade with Japan in manufactures deteriorated from 50 per cent in 1972 to 29 per cent last year. This latter figure reflects the high level of our imports from Japan relative to exports in certain sensitive sectors, particularly road vehicles, consumer electrical goods and iron and steel. The overall crude balance with FRG in 1980, helped by trade in oil, was in deficit by only £595 million, compared with a deficit with Japan of over £1,100 million.

/TRADE

#### TRADE IN INVISIBLES

UK invisible exports to the EC are an important part of our overall trade relationship. In 1979, the private sector and public corporations had an invisible surplus of £1,200 million with the EC 9 (on services, interest, profits and dividends). (However, the total transactions balance, including our contribution to the EC Budget and to BAOR costs amounts to a deficit of £750 million).

#### TRADE IN SERVICES

HMG is continuing to press for the speedy removal of barriers to trade in this field, for example by securing adoption of the insurance services directive. We have already had some success in the field of civil aviation, and will be pushing for progress on this during our Presidency.

## AFGHANISTAN -

### NOTES FOR SUPPLEMENTARIES

#### Visit to Moscow

1. The Foreign Secretary will present the proposal in Moscow on 6 July. It offers the prospect of a solution if the Soviet Union is ready for negotiations.

#### Is the British attitude on Afghanistan weakening?

2. No. In any negotiation our aims will be what they always were: complete Soviet military withdrawal, the return of Afghanistan to independent and non-aligned status, and satisfactory arrangements for the return of the refugees.

#### Who have you consulted?

3. We consulted in advance all potential participants as well as certain other interested countries. We were encouraged by the widespread support received. But I cannot disclose individual reactions - our consultations were confidential.

#### Who will attend?

4. Stage one would be attended by the permanent members of the Security Council, Pakistan, Iran, India, the UN Secretary-General and the Secretary-General of the Islamic Conference. Stage two would be attended also by representatives of the Afghan people.

#### Afghan representation

5. We deliberately do not define this further. The important thing is for the conference to begin. If it makes progress, the difficult question of Afghan representation in stage two will be more easily solved.

FURTHER NOTE FOR SUPPLEMENTARIES

Afghan Support Committee

1. I have indeed heard that several Members of this House and other distinguished people are launching this committee today. I wish it well. Non governmental activity in support of those who are suffering in Afghanistan is important.

ARAB--ISRAEL

WHAT WILL THE TEN NOW DO?

We need to consider the next steps very carefully. The situation in the area remains uncertain and time is required to digest Mr Van der Klaauw's report. We are interested only in making a genuine contribution to peace.

IS THE EUROPEAN INITIATIVE DEAD?

No. The communiqué makes clear that European efforts will be pursued energetically and without respite. All the Ten are committed to this.

HAVE THE FRENCH RENEGED ON VENICE?

No. President Mitterand stated at his press conference after the Council that France has committed herself to the Venice Declaration. There are no differences of substance between France and the rest of the Ten. We are agreed that European efforts, which are based on Venice, should be continued.

HAVE NOT THE FRENCH SUPPORTED CAMP DAVID OVER VENICE?

President Mitterand has referred to the desirability of a cautious approach to peacemaking in the Middle East and to the importance of the US role. I do not think that anyone could seriously disagree with that..

/DOES

#### DOES THE UK-SUPPORT CAMP DAVID?

We support the Venice approach, but we have always made clear that we have no interest in cutting across Camp David. Camp David made a major contribution to a settlement by bringing about peace between Egypt and Israel. The question is now whether the autonomy talks can in fact lead to wider progress.

#### ISRAELI RAID ON IRAQ

The Council statement endorses the unanimous Security Council Resolution which strongly condemned the Israeli attack, recognised the right of Iraq and all states to pursue peaceful nuclear programmes and called upon Israel to place its own nuclear facilities under IAEA safeguards.

#### LEBANON

The priority must be national reconciliation within Lebanon. The Council statement is designed to encourage Arab efforts to this end.

Earlier Council statements have reaffirmed the Community's support for the sovereignty and independence of Lebanon and the authority of the Lebanese Government. They have also expressed the Community's support for any action or initiative likely to guarantee a return to peace and stability there.

/SOUTH LEBANON

#### SOUTH LEBANON

Earlier Council statements have made clear that the solution lies in respect for the integrity of Lebanon's borders and in allowing UNIFIL fully to implement its mandate.

#### ISRAEL/SYRIA

Essential for all parties to exercise restraint and respect Lebanese sovereignty. Mr Habib's mission has our full support and that of the other Governments of the Ten.

#### ISRAELI ELECTION

Not for me to comment on the results. A new Government has yet to be formed. The Ten will continue to work closely with whatever Government gains a majority of the Knesset.

INCLUSION OF COMMUNIST MINISTERS IN THE FRENCH GOVERNMENT/  
BILATERAL TALKS WITH M. MITTERRAND

CONTENT OF TALKS WITH MITTERRAND?

First meeting with new French President. Discussed state of bilateral relations and points arising from European Council. Reaffirmed our wish to co-operate closely with new French Government.

WAS INCLUSION OF COMMUNIST MINISTERS RAISED?

No. Knew Mitterrand's reasons for including them. Nothing to be gained from further discussion. It is for French Prime Minister to decide who should fill individual posts.

CONCERN OVER INCLUSION OF COMMUNISTS?

Naturally concerned, not least because of example it will give to other countries, which could be adverse to Western interests. However their inclusion totally a matter for the French. Raises certain practical questions which will be for discussion between us.

WHAT ARE THESE PRACTICAL QUESTIONS?

These concern confidentiality of our exchanges on a number of subjects.



SECURITY OF NATO SECRETS?

Confident that, as in the past, NATO secrets will be adequately protected.

REVIEW OF PARTICIPATION IN COUNCIL OF MINISTERS?

Not necessary. Nature of member states' governments cannot affect their rights and duties under Treaty of Rome.

NEXT MEETING WITH MITTERRAND?

Expect to see President at Economic Summit in Ottawa on 19-21 July.

DISAGREEMENT OVER ECONOMIC POLICIES.

We agreed on the overriding need to combat inflation and unemployment and that different remedies are needed in different countries.

STATEMENT ON EUROPEAN COUNCIL IN PARLIAMENT

POLAND

WAS THE SITUATION IN POLAND A SUBJECT OF DISCUSSION AT THE EUROPEAN COUNCIL MEETING?

There was a brief discussion of Poland as part of a general review of the current international scene.

WHY WAS THERE NO MENTION OF THE DISCUSSION IN THE COMMUNIQUE?

The views of the Ten on Poland are well known. There was no need to repeat them on this occasion.

WAS ANY DECISION TAKEN ON A JOINT EC RESPONSE TO THE LATEST POLISH REQUEST FOR \$500 MILLION SHORT-TERM CREDITS?

We and some of our EC partners have received a request from the Government of Poland for some additional short-term financial assistance. This request is under consideration.

CAMBODIA

PURPOSE OF CAMBODIA CONFERENCE?

In implementation of the Resolution adopted at the last UN General Assembly to point the way to a Cambodian settlement which ought to be acceptable to all.

REPRESENTATION AT CONFERENCE?

We regret that Vietnam, together with the Soviet Union and her other supporters, has refused to attend the Conference. We feel that the Conference can show the way to a solution and continue to hope that all the parties to the dispute, both within Cambodia and outside, will be represented, if not at the opening session at subsequent sessions.

## SOUTHERN AFRICA

### WHAT ARE THE NEXT STEPS?

When the current phase of discussions with the South African Government is complete, officials of the Five will develop proposals, including constitutional arrangements, to enhance the prospects of achieving a negotiated settlement. These will be discussed with all the parties concerned including the FLS and SWAPO.

### WHAT OUTCOME FROM CLARK MISSION TO SOUTHERN AFRICA?

We have been, and will continue to be, in touch with the Americans about the next steps to be taken as a result of Mr Clark's mission. It would not be right for us to reveal details at this stage.

### IS THE UN PLAN DEAD?

No. After their meeting in Rome on 3 May, the Foreign Ministers of the Five reaffirmed in their communiqué that Security Council Resolution 435 provides a solid basis for a settlement. However, they also agreed that ways to strengthen the UN Plan should be considered.

### DOES THE UN STILL HAVE A ROLE TO PLAY?

In the 3 May communiqué Foreign Ministers of the Five reaffirmed their conviction that only a settlement under the aegis of the United Nations would be acceptable to the international community. However, we expect the Five to take the lead in developing proposals for discussion with the parties and governments concerned.

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 1 July 1981, columns 867-875  
"European Council (Luxembourg Meeting)"

Signed OWayland Date 7 April 2011

**PREM Records Team**

*Euro Rd*

STATEMENT ON THE EUROPEAN COUNCIL, LUXEMBOURG,

29/30 JUNE, 1981

*Made on 1.7.81*

With permission, Mr. Speaker, I will make a statement on the meeting of the European Council in Luxembourg on 29 and 30 June which I attended with my Noble Friend the Foreign and Commonwealth Secretary. The meeting also gave me the opportunity to have a first and very friendly meeting with the new President of France, M. Mitterrand.

At the end of the Council's meeting the Presidency gave a summary of the discussions on Community matters and we issued an agreed press statement on a number of international questions. I have placed copies of both these texts in the Library of the House.

The discussion on the economic situation provided a valuable occasion for hearing the views of all the Heads of Government, three of whom were attending the European Council for the first time. The Commission gave us a useful analysis of the prospects. The Council saw the first cautious signs of limited improvement in the business cycle even though inflation and unemployment have by no means been brought under control. On objectives we were all agreed: we must overcome unemployment and

/ inflation

inflation and return to a situation of economic growth, stability and satisfactory levels of employment. We recognised, however, that the major responsibility for tackling these problems lies with national governments because action needs to take account of the different economic situations in each member state. The differing levels of inflation, unemployment, balance of payments and budget deficits mean differing constraints and opportunities for member countries.

The effectiveness of action by national governments can be increased by coordination within a Community framework. We were particularly concerned that full use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment, including the growth potential in small and medium businesses.

We recognised that the changing patterns of world trade mean structural changes in our own industries. The focus should be on investment in industries with potential for the future rather than on economic activities that are bound to decline in importance.

There was agreement on the need to improve the Community's internal market ~~for~~ both <sup>for</sup> goods and <sup>for</sup> ~~for~~ services like insurance and air fares - which are of special importance to this country.

/ We also

o reviewed the matters for discussion at the forthcoming Economic Summit meeting in Ottawa. The level and volatility of interest and exchange rates could retard economic recovery in the Community. Discussion will need to be pursued with the other major monetary powers.

On trade, the Council discussed the threat to the smooth functioning of the world trading system which comes from the excessive concentration of Japanese exports on sensitive sectors. Further, it stressed the need for the Japanese market to be effectively open to foreign trade. This will need to be pursued within the Community and at Ottawa.

We also approved the recent report of the Foreign Affairs Council on North-South policy.

On the recent report of the Commission about the Community Budget and changes in the Common Agricultural Policy, a satisfactory impetus was given to further work. The first stage is to clarify the Commission's document to see, for example, how the budgetary proposals could affect each Member State. In September a special group will be set up to assist the General Affairs Council to make thorough and timely preparations for the next meeting of the European Council to be held in November under our Presidency. The United Kingdom assumes the Presidency of the Community today, and it is our intention to do all we can to press forward with these discussions, which are so important for the future of the Community, with the objective of reaching agreement within the timetable laid down last May.



The European Council also discussed the Middle East. As the  
communique makes clear, the Ten must review the results  
of the contacts established by the Dutch Presidency on  
the basis of the Venice declaration. In consultation  
with the United States and the parties concerned, it  
will be for the Ten to consider how best to make an  
effective contribution towards a comprehensive peace  
settlement in the Middle East.

The European Council approved and published a proposal on Afghanistan  
which has been in preparation for some time and is the  
result of a British initiative. The purpose is to  
establish the framework for a political solution which  
all the parties concerned accept as the objective.  
The proposal for an international conference in two  
stages builds upon earlier proposals and offers, we  
believe, a reasonable basis for the peaceful solution  
of a problem which remains an important cause of inter-  
national tension. My noble friend the Foreign Secretary  
will fly to Moscow on Sunday for talks about the proposal  
with the Foreign Minister of the Soviet Union. An initiative  
designed to restore the independent and non-aligned  
status of Afghanistan is a constructive and distinctive  
way to mark the start today of the British Presidency of  
the Ten.

DRAFT STATEMENT ON THE EUROPEAN COUNCIL, LUXEMBOURG,

29/30 JUNE, 1981

With permission, Mr. Speaker, I will make a statement on the meeting of the European Council in Luxembourg on 29 and 30 June which I attended with my Noble Friend the Foreign and Commonwealth Secretary. The meeting also gave me the opportunity to have a first and very friendly meeting with the new President of France, M. Mitterrand.

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employment. We recognised, however, that the major responsibility for tackling these problems lies with national governments because action needs to take account of the different economic situations in each member state. The differing levels of unemployment, balance of payments and budget deficits mean differing constraints and opportunities for member countries.

The effectiveness of action by national governments can be increased by coordination within a Community framework. We were particularly concerned that full use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment, including the growth potential in small and medium businesses.

We recognised that the changing patterns of world trade mean structural changes in our own industries. The focus should be on investment in industries with potential for the future rather than on economic activities that are bound to decline in importance. There was agreement on the need to improve the Community's internal market for both goods and for services like insurance and air fares, which are of special importance to this country.

/ We also

We also reviewed the matters for discussion at the forthcoming Economic Summit meeting in Ottawa. The level and volatility of interest and exchange rates could retard economic recovery in the Community and while the Community should do its part to relieve the strain on monetary policy, discussion will also need to be pursued with the other major monetary powers.

On trade, the Council discussed the threat to the smooth functioning of the world trading system from the excessive concentration of Japanese exports on sensitive sectors and the need for the Japanese market in particular to be effectively open to foreign trade. This will need to be pursued within the Community and at Ottawa.

We also approved the recent report of the Foreign Affairs Council on North-South policy.

On the recent report of the Commission about the Community Budget and changes in the Common Agricultural Policy, a satisfactory impetus was given to further work. The first stage is to clarify the Commission's document to see, for example, how the budgetary proposals could affect each Member State. In September a special group will be set up to assist the General Affairs Council to make thorough and timely preparations for the next meeting of the European Council to be held under our Presidency in November. The United Kingdom assumes the Presidency of the Community today, and it is our intention to do all we can to press forward with these discussions, which are so important

/for

for the future of the Community, with the objective of reaching agreement within the timetable laid down last May.

The European Council also discussed the Middle East. As the communique makes clear, the Ten must review the results of the contacts established by the Dutch Presidency on the basis of the Venice declaration. In consultation with the United States and the parties concerned, it will be for the Ten to consider how best to make an effective contribution towards a comprehensive peace settlement in the Middle East.

The European Council approved and published a proposal on Afghanistan which has been in preparation for some time and is, I am glad to say, the result of a British initiative. The purpose is to establish the framework for the political solution which all of the parties concerned, including the government of the Soviet Union, accept as the objective. The proposal for an international conference in two stages - the first without and the second with representatives of the Afghan people - builds upon earlier proposals, takes account of the objectives which these attracted and offers, we believe, a reasonable basis for the peaceful solution of a problem which remains an important cause of international tension. This new proposal has already gained support from a number of the governments concerned. My noble friend the Foreign Secretary will fly to Moscow on Sunday for talks with the Foreign Minister of the Soviet Union. An initiative designed to restore the independent and non-aligned status of Afghanistan is a constructive and distinctive way to mark the start today of the British Presidency of the Ten.

Duty Clerk  
No 10

CONFIDENTIAL

GRS 250

CONFIDENTIAL

FRAME INSTITUTIONS

FM LUXEMBOURG 301304Z JUN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 154 OF 30 JUNE

INFO IMMEDIATE UKREP BRUSSELS PRIORITY BRUSSELS STRASBOURG

ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

ATHENS

FOLLOWING FROM UKREP BRUSSELS

EUROPEAN COUNCIL LUXEMBOURG 29 AND 30 JUNE 1981

SEAT OF THE INSTITUTIONS

1. MME FLESCH (LUXEMBOURG) RAISED THIS AGAIN WITH FOREIGN MINISTER OVER DINNER LAST NIGHT, CIRCULATING A SLIGHTLY DIFFERENT VERSION OF THE TEXT DISCUSSED LAST WEEK (LUXEMBOURG TELNO 126). YOU SAID THAT PERMANENT REPRESENTATIVES SHOULD LOOK AT THE DRAFT. COREPER AGREED THIS MORNING ON A TEXT FOR SUBMISSION TO THE EUROPEAN COUNCIL, WITH THE RECOMMENDATION THAT IT SHOULD NOT BE PUBLISHED. THE TEXT WAS APPROVED WITH ONLY MINOR AMENDMENTS BY THE EUROPEAN COUNCIL (TEXT IN MIFT).

2. IT WAS AGREED IN COREPER THAT IF PROBLEMS ARISE FOREIGN MINISTERS WILL DISCUSS THE MATTER FURTHER. SIR M BUTLER SAID THAT IT WAS OUR INTENTION, IF THE PARLIAMENT PASSED A RESOLUTION ON 7 JULY, TO SAY THAT THE PRESIDENCY WOULD REPORT ITS VIEWS TO MEMBER GOVERNMENTS. THE MATTER WOULD THEREFORE PROBABLY REQUIRE SOME DISCUSSION IN THE MARGIN OF THE 13/14 JULY, FOREIGN AFFAIRS COUNCIL.

FCO ADVANCE TO:-

FCO - PS/S OF S PS/LPS PS/PUS PIRNIE

THOMAS

*Duty Clerk*  
No 10

CONFIDENTIAL

FRAME INSTITUTIONAL

FM LUXEMBOURG 301305Z JUN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 155 OF 30 JUNE

INFO IMMEDIATE UKREP BRUSSELS PRIORITY BRUSSELS STRASBOURG  
ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

FOLLOWING FROM UKREP BRUSSELS

MIPT

EUROPEAN COUNCIL LUXEMBOURG 29 AND 30 JUNE:  
SEAT OF INSTITUTIONS

1. FOLLOWING IS CONFIDENTIAL TEXT AGREED BY EUROPEAN COUNCIL:

1. THE GOVERNMENTS OF THE MEMBER STATES NOTE THAT,  
UNDER ARTICLE 216 OF THE TREATY, RESPONSIBILITY FOR  
DETERMINING THE SEAT OF THE INSTITUTIONS OF THE COMMUNITY  
FALLS WITHIN THEIR EXCLUSIVE COMPETENCE.

2. THE DECISION TAKEN BY THE GOVERNMENTS OF THE MEMBER STATES,  
AT THEIR MEETING IN MAASTRICHT ON 23 AND 24 MARCH 1981, TO  
MAINTAIN THE STATUS QUO AS REGARDS THE PROVISIONAL PLACES OF  
WORK OF THE INSTITUTIONS, FALLS WITHIN THE EXERCISE OF THAT  
COMPETENCE. IT IS WITHOUT PREJUDICE TO THE DETERMINATION OF  
THE SEAT OF THE INSTITUTIONS.

3. THE DECISION WILL BE SET DOWN IN THE OFFICIAL RECORD OF  
THE CONFERENCE OF THE REPRESENTATIVES OF THE GOVERNMENTS OF  
THE MEMBER STATES.

FCO ADVANCE TO:-  
FCO - PS/S OF S PS/LPS PS/PUS, PIRNIE

THOMAS

[ADVANCED AS REQUESTED]

FRAME INSTITUTIONAL  
ECD(I)

Summary by the Presidency of the proceedings of  
the European Council

Luxembourg, 29-30 June 1981

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1. The European Council discussed in depth the present social and economic situation in which the European Community and the Member States find themselves at the time when the first cautious signs of limited improvement in the business cycle are becoming visible, but when the ravages of inflation and unemployment have by no means been brought under control. In the same context the European Council reviewed the Communities' position with regard to the Western Economic Summit in Ottawa and dealt with the need to preserve and strengthen the Communities' internal market. The European Council discussed these interlocking problems on the basis of a paper presented by the European Commission on the economic and social situation in the Community, the general orientation of which received unanimous approval.
2. The European Council expressed its firm conviction that by the pursuit of coordinated flexible policies, main-  
tained over a sufficient length of time, the Community will be able to overcome the present social and economic difficulties and return to a situation of economic growth, stability and satisfactory levels of employment. In particular, the problem of mass unemployment which is a major preoccupation for all the members of the European Council should not be approached in any spirit of fatalism.
3. In this light the European Council reviewed the work done by the Joint Council (ECO/FIN-Social Affairs) and agreed that a sound foundation had been laid for subsequent action. In particular, there was agreement that the highest priority should be accorded to coordinated action against unemployment and inflation, including efforts aimed at structural adjustment.



4. The major responsibility for these actions lies with national governments and will need to take account of the different economic situations in each Member State and of their particular possibilities and the constraints with which they are faced. But the effectiveness of such action will be increased by co-ordination within a Community framework. A major effort should be made both at the national and the Community level, to increase investments aimed at higher growth and employment. Investment should be directed in particular to industries with a high innovative potential and which will secure for the Community in the coming decades the place in the industrial world to which it is entitled. The European Council was convinced that investment in energy conservation and production is of vital importance. Care should be taken not to waste precious funds on economic activities that are bound to decline in importance. In the same connection it was underlined that considerable growth potential is to be found in the sector of small and medium enterprises.
5. The European Council took note of the fact that in some Member States the reduction in working time is seen as a significant element in the battle against unemployment. It was agreed that further study to evaluate the effects of such measures would be made at the Community level. In this connection, the competitive position of European industries vis-à-vis other industrialised countries deserves close attention.
6. It was stressed that optimal use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment. Efforts should also be undertaken to secure a larger economic benefit from the research activities that are under way in the Community and the Member States.

.../...

7. The European Council reaffirmed its commitment to a meaningful social policy by the European Community. It approved the conclusions reached by the Joint Council with regard to the labour market and the problems of unemployment. It took note with interest of suggestions made for the promotion of harmonised working conditions and workers' rights. In this context the term "espace sociale" was used. It expressed its conviction that the pursuit of balanced and purposeful social and economic policies require close consultation with the social partners.

8. The European Council echoed the alarm sounded by the Commission on the state of the internal market, which is increasingly threatened by intentional and unintentional barriers to trade and by the pervasive use of subsidies to ailing industries. The European Council agreed that a concerted effort must be made to strengthen and develop the free internal market for goods and services which lies at the very basis of the European Community and which is the platform from which it conducts its common commercial policy.

9. With regard to the forthcoming meeting of the Western Economic Summit the European Council stressed the need for a united approach to the problems presented by the level and volatility of interest and exchange rates, as these pose a serious threat to Europe's incipient economic recovery. These issues should be pursued in depth in discussions with the other major monetary powers. Important monetary policy objectives are shared with the U.S., but the U.S. should be urged to take due account of the significant international consequences of its domestic policies. The Community itself should do its part to relieve the strain on monetary policy.

.../...

10. The European Council also reviewed the Community's relations with Japan and it was agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth functioning of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors. The European Council stressed the need for effective openness of domestic markets, in particular the Japanese market. These issues should be kept under regular review and in doing so the Community should make the fullest possible use of its bargaining power as an entity.

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STEEL PRICES

11. The European Council discussed the serious situation which faces the European steel industry. While welcoming the outcome of the recent Steel Council, the European Council agreed on the urgent need to see steel prices in the European market raised to a more remunerative level and urged the Commission supported by all the Member States to do all in its power to see to it that the steel industry respects the necessary discipline.
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.../...

North-South Dialogue

12. The European Council approved the report on North-South policy drawn up by the Council (General Affairs) and recommended its approach for subsequent action. It is of the opinion that cooperation with developing countries and the intensification of international economic relations serve the interests of all concerned and that they are necessary not only in order to strengthen the economies of the developing countries but also to promote the recovery of the world economy. It considers it intolerable that widespread poverty and hunger persist in various parts of the developing world.

The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasised the crucial importance of a positive impetus to be given to this effect by the summit conferences in Ottawa and Cancun.

Implementation of the 30th May 1980 mandate

13. The European Council had a discussion of the procedure for dealing with the Commission's paper. They confirmed that the implementation of the 30th May mandate would be a major topic for the meeting in London on 26/27 November where appropriate conclusions are to be reached. The European Council asked the General Affairs Council to make thorough and timely preparations for their meeting in November. The Council will be assisted by a Group consisting of one representative of each Member Government who shall be at least of Ambassadorial rank. The Commission was invited to continue its contribution and to make appropriate formal proposals in good time.

AGREED PRESS STATEMENT

two rd

(Presidency text as agreed by European  
Council 12.30hours, 30 June)

The European Council has discussed the overall political situation and paid attention in particular to Afganistan, the Middle East, Lebanon, Cambodia and Namibia. On Afganistan they issued a separate formal declaration.

Distribution

Prime Minister  
Secretary of State  
Mr Whitmore  
Mr Fall  
Sir R Armstrong  
Mr Ingham  
Mr Fenn  
Mr Bullard (2)  
Mr Cooper (2) ✓  
H M Ambassador

EUROPEAN COUNCIL DECLARATION ON AFGHANISTAN

1. The European Council notes with deep concern that the situation in Afghanistan remains an important cause of international tension, that Soviet troops remain in Afghanistan and that the sufferings of the Afghan people continue to increase.
  
2. The European Council recalls its earlier statements, notably those issued at Venice on 13 June 1980, and Maastricht on 24 March 1981, which stressed the urgent need to bring about a solution which would enable Afghanistan to return to its traditional independent and non-aligned status free from external interference and with the Afghan people having the full capacity to exercise their right to self-determination. In keeping with the Resolutions voted by the United Nations, the Islamic Conference and the New Delhi Conference of the Non-Aligned Movement, the European Council has made it clear on several occasions that it will support any initiative which could lead to the desired result.
  
3. The European Council considers that the time has come for a fresh attempt to open the way to a political solution to the problem of Afghanistan. They therefore propose that an international conference should be convened as soon as possible, for example in October or November 1981, and that the Conference should consist of two stages, each stage being an integral part of the conference.
  
4. The purpose of Stage One would be to work out international arrangements designed to bring about the cessation of external intervention and the establishment of safeguards to prevent such intervention in the future and thus to create conditions in which Afghanistan's independence and non-alignment can be assured.

5. The European Council proposes that in due course the Permanent Members of the United Nations Security Council, Pakistan, Iran and India and the Secretary-General of the United Nations and the Secretary-General of the Islamic Conference, or their representatives, be invited to participate in Stage One of the Conference.
6. The purpose of State Two would be to reach agreement on the implementation of the international arrangements worked out in Stage One and on all other matters designed to assure Afghanistan's future as an independent and non-aligned state.
7. State Two would be attended by the participants in Stage One together with representatives of the Afghan people.
8. The member states of the European Community will be ready at a later stage to make further proposals on the detailed arrangements for the proposed conference.
9. The European Council firmly believes that the situation in Afghanistan continues to demand the attention of the international community. It is convinced that this proposal offers a constructive way forward and therefore calls on the international community to support it fully with the aim of reducing international tension and ending human suffering in Afghanistan.



### Middle East

The European Council noted the report of the Presidency as well as Mr van der Klaauw's oral comments on his contacts with the parties concerned with the Middle East conflict.

It concluded that the efforts undertaken by the Ten to promote the conclusion of a peaceful settlement should be continued energetically and without respite, taking account of the results of the missions decided upon in Venice.

Accordingly, the European Council decided, on the basis of the results of the mission just completed by the President-in-Office, to instruct Ministers to elaborate further the practical possibilities available to Europe to make an effective contribution towards a comprehensive peace settlement in the Middle East, through internal reflection, appropriate contacts being maintained with all parties concerned, including the United States.

As regards the attack by the Israeli air force on the Iraqi nuclear plant on 7 June 1981 the European Council can only endorse the Resolution adopted unanimously by the UN Security Council.

## LEBANON

Recalling its earlier statements concerning Lebanon, the European Council noted with interest the results of the work of the Arab Quadripartite Committee. The Council earnestly hoped that positive results would be obtained at the Committee's next meeting in Beit-ed-Dine, so as to achieve a genuine national reconciliation, which can give Lebanon internal security and foster its stability in peace with its neighbours.

CAMBODIA

The European Council recalls the position it has adopted in favour of an independent and neutral Cambodia with a genuinely representative Government, free from any foreign military presence and maintaining friendly relations with all the countries of the region.

Convinced that a genuine solution to the problem of Cambodia will be possible only on the basis of the United Nations General Assembly Resolution 35/6, the Ten declare their readiness to contribute to the success of the international Conference on Cambodia called by the UN Secretary-General.

The European Council noted the future Presidency's intention to be represented there by its Foreign Minister.

NAMIBIA

The European Council discussed the question of Namibia. It reaffirmed its resolve to do what lies in its power to promote an early peaceful settlement through negotiations on the basis of Resolution 435 of the UN Security Council. In this context, it continues to encourage the efforts of the group of 5 Western powers.

PRIME MINISTER

Press Conference

You agreed to give your usual press conference at the end of the Council, plus short news interviews for BBC TV; ITV; BBC Radio; and IRN. We have reserved a room (Salle E). The radio and television interviews will be done in the same room after the press conference.

The press conference is intended primarily for British journalists but it is impossible to restrict attendance and you should assume a range of nationalities.

The main points of questioning are likely to be:

Afghanistan (though the impact of this has been spoiled by a German leak last evening of Lord Carrington's visit to Moscow). I attach at Annex 1 Nick Fenn's note on this. Here the press will try and put flesh on the bone - where the conferences are to be held, who will preside, what is Russian reaction etc. It might be sensible, after your announcement of the initiative and visit to Moscow, to invite Lord Carrington to take questions on this topic.

Your meeting with M. Mitterrand, your impression of him and your view of his policies. (The press will be anxious to explore your views of Communists in the French Government.)

Economic/Social Affairs taking in Ottawa, Japan and US interest rates. Here the thrust of some journalists will be to demonstrate that you are isolated economically in Europe; that your policies are out of step with the majority; and that the advent of Mitterrand is giving encouragement to those who want reflation. (N.B. We managed last night to get over the point that in yesterday's discussion Germany and Italy were broadly sympathetic to your approach; that every country had a different mix of problems; and that no country

/had

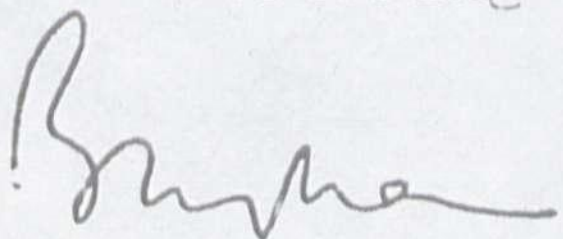
had much room for manoeuvre. (There may well be other journalists who will try to sustain the thesis that Europe collectively has not a clue how to concert action to revive the economy and that even if it had there is no prospect whatsoever of developing what M. Mitterrand calls a European dimension.) In short, the problem will be to present yourself positively.

The Mandate wrapped up with how you propose to handle this issue during your Presidency; your views of the Commission's proposals; and your hopes for reaching a budget settlement this year.

This will give you an opportunity on the eve of your Presidency to set out a positive view of the next six months while at the same time damping down over-optimism. I suggest you take a few minutes out to look forward positively to your Presidency and your agenda - budget restructuring, CAP reform, Afghanistan, Middle East, a Common Market in services (insurance) and air fares. A positive view of the Presidency could do something to dispell the negative atmosphere that surrounds the economic/social scene.

Middle East where some journalists will wonder whether, having acquired a new toy in the form of Afghanistan, much effort will be made on this front.

Although few decisions have been taken at the Council there is plenty to talk about. I suggest you call the conference to a halt after 30 minutes at the most. That, plus the radio and TV interviews, will give the media an hour - a generous use of your time. Can I take it that you propose to meet the press immediately after the Council, subject of course to a short briefing before?



30 June 1981

## Afghanistan

### Rationale of Proposal

- (a) Tragic situation in Afghanistan exists: 85,000 Soviet troops, 2 million refugees, continuing war, threatened stability in the region.
- (b) Efforts under UN auspices hamstrung because based on resolution which the Soviet Union voted against.
- (c) Regional negotiations (Pakistan/Iran/Afghanistan) show no prospect of success.

### The Proposal

The two-stage conference, each stage being integral of the whole; *perhaps beginning in October/November.*

- (a) Stage 1. To work out international arrangements in which Afghanistan's independence and non-alignment can be assured. Participation: the five permanent members of the Security Council, Pakistan, Iran, India, Secretary General of the UN and Secretary General of the Islamic Conference.
- (b) Stage 2. To reach agreement on the implementation of the arrangements etc. Participation: as in Stage 1 plus "representatives of the Afghan people".

A serious attempt to promote a settlement, not a propaganda move. We have listened to what the Russians have been saying (eg Brezhnev on 23 February and at Tbilisi on 22 May).

### Afghanistan Representation

Cannot be resolved at the outset. Better therefore to leave it to be settled in the light of progress in Stage 1. Do not elaborate or define "representatives of the Afghan people".

### Further details

The press will probe on modalities - venue, chairmanship etc. We shall have some suggestions later, but it would not be sensible to encumber the proposal with too many controversial details at the outset.

### Soviet Reaction

They have received the proposal (Keeble-Kornienko, 23 June) and have not rejected it. Lord Carrington going to Moscow to discuss it further.

/Visit to Moscow

Visit to Moscow

Lord Carrington will pay a one-day working visit to Moscow on 5-6 July at Soviet invitation.

The visit should be seen primarily in the context of the Community's proposal on Afghanistan which is a serious attempt to resolve the problem in which the Soviet Union has a key role. Lord Carrington will discuss Afghanistan on behalf of the Community in his capacity as President.

Since he will be going, he will naturally take the opportunity to discuss other matters, internationally and bilaterally. No set agenda but subjects are likely to include East/West relations (Poland), the Madrid Conference and arms control and the Middle East. On these subjects Lord Carrington will be representing Britain alone.

In reply to critical questions about going soft on the Russians, I recommend a robust reply. Never in favour of ostracism. Silly to pretend that Afghanistan can be solved without the Russians. Therefore necessary to talk to them. (Lord Carrington met Mr Gromyko in Vienna in May 1980 and in New York in September 1980.)

30 June 1981



CONFIDENTIAL

SUBJECT



*flkb*

10 DOWNING STREET

*cc Master*

*From the Principal Private Secretary*

30 June 1981

MEETING WITH PRESIDENT MITTERRAND

I enclose a copy of the record of the bilateral meeting between the Prime Minister and President Mitterrand which was held in the French Ambassador's Residence in Luxembourg this morning.

I am sending copies of this letter and of the record to John Wiggins (H.M. Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), Brian Norbury (Ministry of Defence) and David Wright (Cabinet Office). Some parts of the record are sensitive, and I should therefore be grateful if you and they would restrict its circulation as far as possible.

C. A. WHITMORE

B. J. P. Fall, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

*or*

P.R.

SUBJECT

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT MITTERRAND  
AT THE FRENCH RESIDENCE, LUXEMBOURG ON TUESDAY 30 JUNE 1981 AT 0900.

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President Mitterrand said that he was delighted to receive the Prime Minister. This first meeting was an important occasion at the start of what he hoped would be a long and fruitful period of discussion and debate between the French and British Governments.

The Prime Minister said that she too was pleased to meet President Mitterrand and to have the opportunity to discuss issues of direct interest to France and Britain bilaterally and as members of the European Council. She had hoped that the two questions of fish and sheepmeat would have been settled before the French Presidential Elections. Solutions were urgent. She recognised the need for French fishermen to make a satisfactory living. Fish was an important part of the economy in certain regions of Britain. As for sheepmeat, there were one or two points to be settled. Once these two issues had been resolved, there would be no major points outstanding between France and Britain within the Community. The Prime Minister wished to avoid any irritants in the bilateral relationship. President Mitterrand nodded in assent.

The Prime Minister, moving on to the economy, said that she would be happy if the United Kingdom had only a three per cent deficit like France. The British Government had consequently less room for manoeuvre. She thought that financial policy in recent years in France had been orthodox. She took a great interest in the economic situation in France and admired the development of France's strong industrial base.

President Mitterrand said that he had been familiar with the issues of fish and sheepmeat when he was in opposition. They aroused considerable feelings in France - sometimes excessively, to the extent of demonstrations and protests. But this did not prevent his wanting to reach agreement. He understood the UK's concerns and would not be ungenerous regarding British interests. It was up to the Ministers of Foreign Affairs to prepare the two questions clearly, setting out as necessary the differing French and British view-points. Once the questions had been adequately prepared it would be possible to consider them again between Heads of Government.

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/The Prime Minister

CONFIDENTIAL

- 2 -

The Prime Minister agreed that these were difficult issues. However, equitable solutions were necessary. The same was true of budget restructuring. She expressed concern about the position of Germany. The European Community had been instrumental in putting an end to the risk of hostilities between the FRG and other European countries, but she was conscious that because of the FRG's common frontier with a Communist country the FRG tended to hold views different from her neighbours. Any friction within the EC involving Germany could be serious for the EC as a whole. The FRG could not continue to be by far the largest contributor to the EC budget. It was necessary to press on with restructuring and to achieve a solution which would hold for a long time to come. President Mitterrand said that he was fully prepared to discuss the budget issue on this basis.

President Mitterrand went on to say that he believed that the FRG was entering a period of instability. The Prime Minister agreed, adding that the Germans were lucky to have Herr Schmidt as Chancellor, given his unique position both inside and outside the country. President Mitterrand nodded in assent. The Prime Minister commented that the discussion over dinner on 29 June on TNF modernisation has closely reflected discussion at a previous European Council. NATO was in some ways a fragile Alliance. President Mitterrand agreed. The Alliance was full of contradictions. France was not a member of the integrated military structure, but he had consistently drawn attention in public to the need to reinforce the Alliance as a whole. He was concerned by the need to combat the spread of neutralism which was progressing in the FRG and other countries of Northern Europe. He was not sure precisely how to act. He understood Chancellor Schmidt's position in the face of a shift of public opinion. It was necessary to find the furthest point to which it was politically possible for those in Western Europe who were standing up to the Soviet Union to go. He had agreed basically with the arguments the Prime Minister had used over dinner. The West should have adequate military forces. But what he could not say in front of the Ten was what he feared that Chancellor Schmidt might not last for longer than a few months unless TNF negotiations could be started. He admired Chancellor Schmidt as one of the rare Germans he knew who had the courage to stand up to the Soviet Union. The Prime Minister said that she was as anxious as Chancellor Schmidt to begin TNF negotiations since otherwise she feared that certain member states of the Alliance would back-track on the

CONFIDENTIAL

/December 1979

CONFIDENTIAL

- 3 -

December 1979 decision. That could have a damaging effect on US/European relations, since the US was the final guarantor of Europe's freedom. She was concerned about anti-US feeling in Europe, and feared that this could lead to some quarters in America questioning the stationing of US troops in Europe.

President Mitterrand agreed. When he had met Dr. Kissinger on a visit to Washington, the latter had said that the US were not obliged to defend Europe. President Mitterrand had replied that of course the US were not obliged to, but she was the most powerful country in the world and could not behave like Switzerland. He thought however that Dr. Kissinger did not believe what he had said. Nonetheless, President Mitterrand had been pleased that one of President Reagan's first statements on assuming office had been to reassure public opinion in Europe by saying that the US were fully committed to the defence of Europe. He agreed that if the Dutch and Belgians withdrew from the TNF decision, there would be a major crisis in US/European relations.

President Mitterrand went on to say that he thought there would be a difficult period in international relations when President Brezhnev left the stage. He was a man of compromise and had managed to achieve a degree of internal balance between the militarists (who had been taking refuge in the Party) and what he might call the liberals. President Brezhnev's potential successors were already jockeying for power. He feared that for reasons of personal prestige they would try to out-bid each other - for example over armaments, which would increase the risk of conflict. He believed that the next six months would be important in terms of the global balance of forces. After that he feared that the arms race would intensify. He repeated that he endorsed what the Prime Minister had said over dinner. A balance of forces between the East and West was necessary, on the condition that the FRG's capacity to follow such a policy was not over-stretched. The Prime Minister added that the Russians might divert attention from their internal problems to a crisis area abroad. Conflict in Europe was unlikely but she could envisage it elsewhere. She was somewhat alarmed at the prospect of having to spend more on defence. The UK was already spending 5.2 per cent of her GDP on defence and was committed to a 3 per cent increase in real terms each year. The Prime Minister explained the approach adopted during the Defence

CONFIDENTIAL

/Programme Review,

CONFIDENTIAL

- 4 -

Programme Review, which would achieve a better distribution of UK forces in order to defend the home base, to maintain the UK's commitment to the Alliance and to be able to deploy forces overseas. (President Mitterrand nodded at the last point). Britain's armed forces would now be better integrated. President Mitterrand recalled being in London at a time of a major blitz in January/February 1944. He had come to know then the British spirit. France could not possess today a very wide range of nuclear and conventional forces. Some choices were necessary. But she would not give up her conventional capacity and was keeping troops in Africa. He had already used French troops successfully to separate the combattants in the Gabon/Cameroon dispute. His Government would nonetheless place the main emphasis on nuclear forces as the only means of ensuring adequate defences for France. If new SLBMs were necessary, he would order them.

Moving on to the Middle East, President Mitterrand said that the Lebanon caused great concern in France. On Arab/Israel, he was more reserved than most of the Ten on the right way to criticise Israel. Naturally he condemned Mr. Begin's actions, but it was becoming the fashion in Western Europe always to say the Arabs were right. Personally he approved of the Camp David agreements. It was a satisfactory process. He was thus taking a somewhat different line from the Venice Declaration. The Prime Minister agreed that the Arabs were certainly not always right. The Venice declaration had been a fair and equitable document. She had always argued that Israel could not demand peace and secure frontiers for herself while ignoring similar legitimate demands from the Palestinians. The British Government had never met the PLO at Ministerial level though officials had done so. There were problems in dealing with an organisation that had fostered terror. She had striven at Venice to ensure that the PLO were not involved directly in negotiations, but simply associated.

The Prime Minister went on to say that Mr. Begin was a most difficult man to deal with because of his lack of reason or sense of fairness. She did not conceal that she hoped that Mr. Peres would win the elections in Israel since he knew the Palestinian mind better and might be more willing to reach a permanent settlement. She wondered whether it might be possible to find Palestinian representatives other than PLO, not linked with terrorism.

/President Mitterrand

CONFIDENTIAL

CONFIDENTIAL

- 5 -

President Mitterrand said that he had always thought he would have liked to meet an Old Testament prophet, but when he saw Mr. Begin he realised how difficult they must have been to deal with. He wanted to make his position clear. He fully supported the Israelis' right to exist. But he had consistently said that he could not understand why Israeli leaders did not recognise the Palestinians' right to a homeland where they could construct a State. To the Arabs he had preached recognition of Israel's right to exist. He thought the position had been evolving in Israel until Mr. Begin came to power. He recalled that he had received the Arab mayors who had suffered from Israeli persecution. He had personally met Arafat in Cairo and was in contact with the PLO representatives in France. But as President he would not receive Arafat if he came to France, though he would of course be entitled to visit France freely.

President Mitterrand said that if there was a difference between Britain and France over the Middle East it was not on the substance of the problem but simply on method. He did not believe in the phrase "overall settlement". This was not a reasonable approach. Arab countries such as Syria, Iraq, Jordan and Egypt (and the PLO) would never agree on a status for Israel through a global approach and Israel would not agree to negotiate on that basis. The only way forward was by small steps, starting now with Saudi Arabia and Jordan, and leaving aside Syria for the time being because she was too close to the Soviet Union. On a possible statement by the European Council he said that he would as a last resort go along with it, but would have preferred one not to be issued because the idea of an overall settlement was banal and meaningless.

The Prime Minister then referred to the statement made by M. Ortoli at the European Council. Each country in the EC had a problem of unemployment and must try to alleviate it in the context of its own economy. The causes of inflation in France were different from those in the UK. Emphasis had to be placed in the UK on achieving competitiveness in order to create more jobs. Pay was in a direct relationship with productivity. The Prime Minister pointed to the contradiction of those who argued on the one hand in favour of protectionism and on the other hand of greater help to the developing world in the North/South context. Britain's position had been made more difficult by the demographic pattern by which there

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- 6 -

were many school-leavers joining the labour force while comparatively few workers were retiring. Even without the world recession many jobs would have had to be created in the UK. This was the reasonable way in which to discuss the problem of unemployment. President Mitterrand, having asked what the level of inflation was in the UK, said that 11.7 per cent showed that the UK had made great progress.

Finally, President Mitterrand said that he had not forgotten about the issues of sheepmeat and fish which the Prime Minister had raised at the beginning of the meeting. The Prime Minister said that she hoped it would be possible to hold a bilateral summit in September. President Mitterrand said that he thought this was quite possible. He was delighted to be attending the wedding of the Prince of Wales and would see the Prime Minister then. He would also be willing to hold another meeting in the margins of the Ottawa Summit. A summit would be best after the summer. He mentioned the end of September as a possibility. (The dates of 10/11 September were not mentioned). He did not like to hold talks that got nowhere. He would not expect problems to be settled at a Summit, but it would be important for a meeting to make progress.

The meeting ended at 1000.

30 June 1981

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10 DOWNING STREET

*From the Private Secretary*

29 June 1981

I enclose a copy of a letter which the Prime Minister, has received from the General Secretary of the Trades Union Congress. I am assuming that the ETUC Manifesto for Employment and Economic Recovery, to which Mr. Murray refers, is available to you.

I shall be grateful if, in consultation with Ian Ellision (Department of Industry) and John Rhodes (Department of Trade) to whom I am sending copies of this letter together with copies of the second enclosure, you could let me have a draft reply which the Prime Minister could send to Mr. Murray in due course. It would be helpful if your draft could reach me by Monday 13 July.

I am also sending copies of this letter and of Mr. Murray's letter to Francis Richards (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Richard Dykes Esq  
Department of Employment

LB



MFJ

29 June 1981

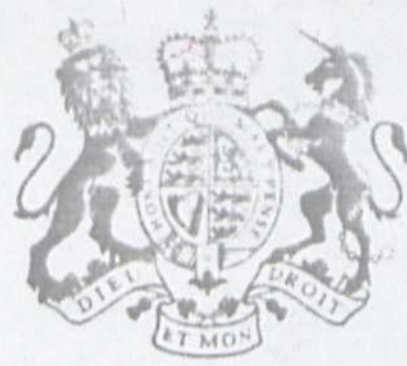
The Prime Minister has asked me to thank you for your letter to her of 25 June and for the enclosed statements. Your letter is receiving attention and a reply will be sent to you as soon as possible.

MODBA

The Rt. Hon. Lionel Murray OBE

Europe  
Luxembourg  
Charles

SUBJECT



file MB  
cc fro

10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S

29 June 1981

PERSONAL MESSAGE

SERIAL No. T 99/81

cc master  
Bp

Dear Taoiseach,

Thank you for the letter you sent me through your Ambassador here, explaining why you would be unable to attend the European Council in Luxembourg.

We shall all be very sorry not to see you at the meeting, but of course I fully appreciate the reasons for your decision.

There are, as you say, urgent and important matters to be discussed and we shall be glad of the participation of Brian Lenihan.

Yours sincerely  
Margaret Thatcher

Mr. Charles J. Haughey, T.D.

MB

AMBASÁID NA HÉIREANN, LONDAIN.



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

26th June 1981

*File*

*PM*

*2 vii*

*My dear Mr. Alexander*

Many thanks for your letter acknowledging the receipt of our Taoiseach's communication to the Prime Minister of 23rd June regarding the forthcoming European Council. I now enclose for your files the Taoiseach's signed letter.

*Yours ever*

*Eamon Kennedy*

Eamon Kennedy  
Ambassador

Mr M O B Alexander  
Prime Minister's Office  
No.10 Downing Street  
London SW1

Encl.

QZ 02193

C.S.  
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EUROPEAN COUNCIL: THE MANDATE

1. I telephoned Herr Heick this afternoon to compare notes on the visit of M Thorn. I gave him a brief account of the Prime Minister's meeting.
2. He told me that Thorn had told the Chancellor that the British knew they could not settle everything within six months and were pressing to have their own problem solved in isolation. (I said Heick would know from our earlier conversation that this was not correct.) The Chancellor and Thorn had therefore agreed that the budgetary problem could not be divided from reform of the CAP. Schmidt had told Thorn that the Germans were ready to be the largest net contributor but not without limit. They could only accept a ceiling for the United Kingdom if there was something similar for Germany. He understood the British problem and it would not be right if for example Greece were to become a net contributor. It was not right for wealthy countries like Denmark, the Netherlands and Belgium to be net beneficiaries. There had to be a more equitable distribution of the budget, and first of all, a reform of the CAP. State Secretary Lautenschlager had apparently stressed that Germany would not be ready, for 1982, to agree to a limit on the net contribution for the United Kingdom alone. He had also said that he did not believe France would be ready to negotiate before November. This had prompted Thorn to tell the Chancellor that he was convinced that <sup>thing</sup> every/could be done "in two months" and therefore finished by the end of the year.
3. Herr Heick confirmed that Chancellor Schmidt intended to make his position clear (no doubt along the lines of the above) at the European Council. I said the Prime Minister would also be speaking in general terms but our main objective would be a commitment to maintaining the timetable on the mandate as a whole as agreed last May.

M D M FRANKLIN  
26 June 1981

cc Mr Alexander  
Sir Robert Armstrong  
Sir Kenneth Couzens

Lord Bridges  
Mr Hannay  
Sir M Butler



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

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25 June 1981

C A Whitmore Esq  
10 Downing Street  
London SW1

Dear Clive,

COMMISSION REPORT ON 30 MAY 1980 MANDATE

The Chancellor has suggested that the Prime Minister may like to have a note ahead of her European Council briefing meeting this afternoon on how the proposals in the Commission's report might affect the UK's net budgetary contribution.

Commission proposal

2. The Commission's proposal is expressed in general terms, with no illustrative figures. Starting from the proposition that CAP guarantee expenditure is the only part of Community expenditure which raises distributional problems, the Commission suggest -

- i. a FEOGA budget mechanism, confined to the UK and limited in time, which would reimburse to the UK a 'fairly high' proportion of the difference between (a) our actual share of FEOGA guarantee expenditure and (b) what our GDP share of that expenditure would have been - this reimbursement to be financed either from own resources or in accordance with FEOGA guarantee receipts shares; and
- ii. continuation of the financial mechanism on the revenue side 'if it is needed' - the Commission to make proposals before the end of this year.

Effects on UK

3. The main point to be made is that the effects of these proposals on the UK would be highly uncertain. They would turn critically on what detailed arrangements we were able to negotiate. The Commission have deliberately avoided tackling the problem of budgetary imbalances head-on, as suggested in the Chancellor's Hague speech, and have preferred instead to suggest a technical adjustment to the Community's budgetary arrangements which is incompletely specified.

- ... 4. The attached table illustrates a limited range of possible outcomes, on alternative interpretations of the Commission's proposals. The effects on the UK would depend in particular on:-

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- a. what proportion of the difference between average FEOGA guarantee and GDP shares the agricultural mechanism would cover - the table illustrates 100 per cent, 80 per cent and 60 per cent;
- b. over what period these averages would be calculated - the table assumes three years; and
- c. whether or not the financial mechanism would continue - the table illustrates both cases.

The outcome would also depend importantly on a number of more technical details, including the precise rules of the financial mechanism.

5. If the proposals were already in force in 1981, the UK's net contribution on the assumptions illustrated could be anything between 250 million and 1050 million ecus. Even this range is subject to a considerable margin. If, for example, a slightly different period were used for averaging our shares of GDP and agricultural receipts, and a different assumption were made about the accounting for MCAs, the upper end of the range would rise to some 1300 million ecus.

6. For 1982, the range in the table is from zero to 1585 million ecus. Again, the upper end could easily be higher - for example if our share of Community GDP turns out to be smaller than assumed in the calculations.

7. It is impossible to say that any one of the outcomes illustrated is more likely than any other.

Effects on other countries

8. The report makes no direct recommendations for protecting the Germans' position. By implication it rejects Herr Schmidt's contention that the Germans too have an unacceptable budgetary situation. It does however make a nod in the direction of the Germans by envisaging that the refunds to the UK under the FEOGA corrective mechanism might be based on agricultural receipts shares rather than own resources shares. This could (we think) reduce the Germans' contribution to our refunds by up to some 100 million ecus.

9. If the FEOGA corrective mechanism were of general application rather than confined to the UK, the Germans could in fact benefit significantly from it - by about half (or more) of the amount that the UK benefits. In that event, the burden of financing the refunds for the UK and Germany would fall on the French and/or the Dutch and/or the Italians, depending on how the scheme was drawn up. But the report specifically confines the mechanism to the UK.

10. I am copying this letter to Francis Richards, Stephen Gomersall, Kate Timms and David Wright.

*Yours ever*  
*John Wiggins*

A J WIGGINS



## CONFIDENTIAL

### UK NET CONTRIBUTION TO EC BUDGET

	million ecus	
	<u>1981</u>	<u>1982</u>
1. Before refunds	1990	2710
2. After 30 May agreement	580-730	na
After agricultural correction at:		
3. 100 per cent	420	835
4. 80 per cent	730	1210
5. 60 per cent	1045	1585
After satisfactory financial mechanism as well as agricultural correction at:		
6. 100 per cent	245	0 (net receipts of 40)
7. 80 per cent	555	335
8. 60 per cent	870	710

(Assumptions attached)

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ASSUMPTIONS

- a. The UK does not contribute to its own refunds.
- b. Agricultural correction payments in respect of year 0 are determined by
  - i. the average difference between the UK's share of Community GDP and its share of agricultural receipts in years -2, -1 and 0, multiplied by
  - ii. total agricultural spending in year 0.
- c. The UK's average share of Community GDP is 18.4 per cent in 1979-81 (determining the correction in respect of 1981) and 19.2 per cent in 1980-82 (determining the correction in respect of 1982).
- d. The UK's average share of agricultural receipts is, for simplicity, constant at 6 per cent.
- e. Total agricultural spending by the Community is 12,675 million ecus in 1981 and 14,200 million ecus in 1982.
- f. A "satisfactory" financial mechanism is one which would reimburse to the UK, in net terms and without qualification, the excess of its share in budget financing over its share in Community GDP in any year, multiplied by the total size of the budget.
- g. The UK's share of Community financing is 20.8 per cent in 1981 and 23.3 per cent in 1982.
- h. The Community budget is 19,165 million ecus in 1981 and 21,400 million ecus in 1982.



# TRADES UNION CONGRESS

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The Rt Hon Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
LONDON SW1

YOUR REFERENCE

OUR REFERENCE

LM/DL/JH  
DEPARTMENT

Secretary's

June 25, 1981

*Bonnie Penister*  
*You will want to be*  
*aware of this.*

*Am*

Dear Prime Minister

LUXEMBOURG EUROPEAN COUNCIL

I enclose two statements adopted last week by the European TUC Executive at their meeting prior to the forthcoming Luxembourg Summit. I hope to be one of the ETUC representatives in Luxembourg next Monday when the statements will be presented formally.

The first constitutes the ETUC's proposals for dealing with the problem of unemployment, and I trust you will accept that it sets out a constructive approach which the trade unions of Western Europe are united in presenting to their Governments.

The second statement on European/Japanese economic relations arose from discussion on the motor car industry. We believe it is important that this problem is solved at the EEC level, and we also believe that the Luxembourg Summit should agree that this item be placed on the Ottawa agenda next month.

I hope that the British Government will be able to support the approach outlined in both of these statements.

Yours sincerely

*Lionel Murray*

General Secretary



GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE DEPUTY GENERAL SECRETARY: NORMAN WILLIS  
ASSISTANT GENERAL SECRETARIES: KENNETH GRAHAM OBE AND DAVID LEA OBE



**ETUC  
MANIFESTO FOR  
EMPLOYMENT AND ECONOMIC RECOVERY**

EUROPEAN TRADE UNION CONFEDERATION

MANIFESTO FOR

EMPLOYMENT AND ECONOMIC RECOVERY

## FOREWORD

The ETUC has launched a Western European campaign for employment and economic recovery because we are gravely concerned by the social, economic and political consequences of the course on which many of our societies seem set.

Mass unemployment, social security cuts, attacks on trade unions, monetarist dogmas, spreading protectionism, violence by extremists, increasing arms expenditure, growing international tensions - the parallels to half a century ago are deeply ominous and must not be ignored.

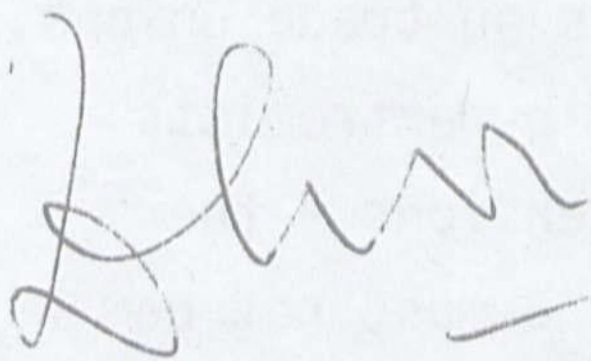
The European trade union movement is convinced that economic recovery holds the key to overcoming the crises our societies are enduring, and that internationally coordinated measures are required to achieve this recovery.

Yet many governments seem to be without vision, and to be locked into backward-looking and inward-looking policies. If seven almost unremitting years of economic restriction, of recession, and of rapidly growing unemployment have not solved such problems as inflation and structural adaptation - and plainly they have not - then, we are told, there must be even more restriction.

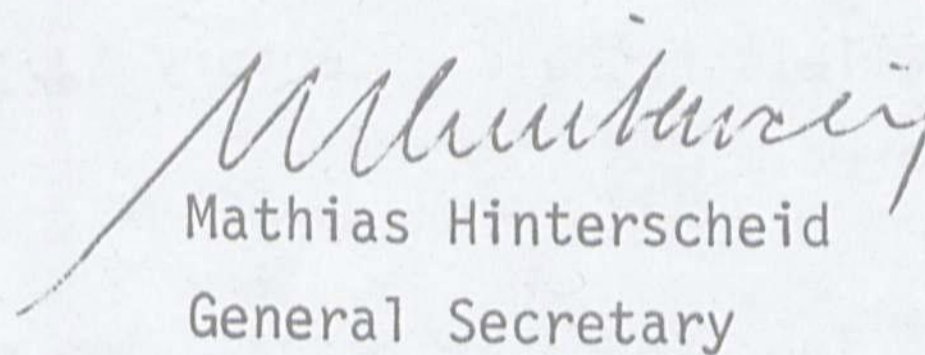
Not only are the real wages of working people often being reduced and their social benefits and services being cut - just as is the case with inflation, but deflationary policies are also depriving many workers of their jobs and of their chance through economic growth to improve their living standards. As a result, distributional conflicts are increasing and the cooperation of working people in fighting inflation is being lost.

And the situation is getting worse - but must it? The ETUC's clear answer is "NO".

There are alternative policies - and the purpose of this manifesto and of our campaign is to set out these policies and to mobilise the ETUC's 40 million members behind them.



Wim Kok  
President



Mathias Hinterscheid  
General Secretary

June 1980

ETUC MANIFESTO FOR  
EMPLOYMENT AND ECONOMIC RECOVERY

	<u>Page</u>
FOREWORD .....	1
<u>EUROPEAN SOCIETIES IN CRISIS</u> .....	4
Unemployment and its effects .....	4
The responsibility of governments for the crisis .....	6
Monetarist and laissez-faire policies .....	6
Most markets are not free .....	9
Our economies depend on each other .....	11
<u>THE ETUC'S ECONOMIC RECOVERY PROGRAM</u> .....	12
1. Governments must actively intervene to ensure that there are much higher levels of investment .....	14
A concerted public investment programme .....	14
The coordination of private and public investment .....	16
Action by European Institutions .....	18
2. Job creation and training schemes must be considerably strengthened .....	19
3. Working time must be significantly reduced .....	21
4. Aid to developing countries must be substantially increased .....	23
5. There must be a fair sharing of the burdens of change .....	24
6. Inflation must be tackled with specifically and socially- just policies and not through unemployment .....	26
Company price policies .....	27
Commodity prices .....	27
International monetary instability .....	28
Income distribution conflicts .....	29
<u>THE CHOICE BEFORE US</u> .....	30

EUROPEAN SOCIETIES IN CRISIS

Unemployment and its effects

++++  
+ Unemployment is individually destructive, +  
+ socially damaging, economically wasteful +  
+ and politically dangerous +  
++++

One worker in 12 in Western Europe is now unemployed.

There are 11 million people actually registered as unemployed but we know that many other people have given up the search for work, so that the real figure is certainly above 13 million.

Yet less than a decade ago, only one worker in fifty was without a job.

And of every ten people unemployed, at least four are below the age of 25. In fact, in some part of Europe, one young person in four is out of work.

Women, too, are being particularly badly hit: in the Common Market, for example, women now account for almost half of those unemployed compared to just over one-third in 1975.

*Unless policies are changed, the situation will continue to get worse with the result that by 1985, one worker in nine could be jobless. This is equal to eighteen million people.*

Unemployment is of course not just about statistics.

We must ask what happens to the pride and confidence of each person when his or her search for employment is met with one rejection after another.

- What will be the effects on young people whose first lesson on entering adult life is that society cannot find a place for them - that they are a cost and not a benefit? Just how do we expect them to occupy their time?
- What are the emotions of a man or a woman in their early fifties who is suddenly told that he or she is no longer needed - and is unlikely to be needed again?

We must ask what happens to societies built on fear and confrontation instead of on solidarity and cooperation. Rising unemployment is certainly bringing with it increasing health, housing, schooling and other social problems. We know that the social fabric of our societies is being torn apart.

We also know that unemployment means economic waste. In the European Community, for instance, the output lost as a result of unemployment is now equal to about 8% of total production. Unemployment benefits alone cost three times the amount of the common agricultural policy.

We know that if unemployment were lower - if people and machines were put back to work - we could be building more houses and hospitals, more roads and railways, and, of course, providing more of all the other goods and services people need and want.

And what are the political costs nationally and for Europe ...? Must we ignore the lessons of the 1920s and 1930s?



## The responsibility of Governments for the Crisis

The ETUC fully recognises that Western Europe does face a number of real economic problems stemming from:

- energy prices and supplies
- foreign competition
- the rapid growth of the labour force

On top of these, we have to worry about inflation, balance of payments problems, how much money governments can borrow, whether the harmful effects of new technologies will exceed the beneficial ones, and so on. We have to live with the legacy of past mistakes - because of course all our problems did not begin with the oil price increases of 1973. *BUT the fact that problems exist does not automatically mean that unemployment must be high.*

We have in fact faced and overcome bigger problems before - such as the reconstruction after the Second World War. The Man from Mars could be excused for thinking that precisely because major problems exist everyone should be hard at work solving them.

The key question is: "Are government policies making the problems better or worse?"

We think they are making them worse.

### Monetarist and laissez faire policies

A number of governments have unfortunately been trying to fight the problems of the 1970s and 80s with the failed monetarist and laissez-faire policies of the 1920s and 30s.

The "naive" monetarists, who preach that all that governments have to do to control inflation, and therefore to make their economies

work properly, is to control the monetary supply have, thankfully, now been largely discredited. Those governments which took this advice have never actually succeeded in getting the money supply under control, though they have wreaked havoc on employment and production.

Many more governments, however, are still under the influence of market, or laissez-faire, monetarism. These governments argue that the fundamental problem with our economies is that they are uncompetitive.

To restore competitiveness, it is argued, market mechanisms must be allowed to function properly. This, together with monetary and some fiscal measures designed for instance to increase "incentives" for businessmen, will hold down costs - particularly wage costs - and so lower inflation.

Once inflation is down, so we are told, the scene is almost set for private industry to surge forward on its own accord, and for the recession to end. But to ensure that there is "room" in the economy - as if there was not room enough - for this expansion, the public sector must first be cut-back.

Certainly, trade unions want lower rates of inflation - though the record shows that monetarist policies are a very expensive way of achieving this.

And governments are failing to explain how a low inflation rate in itself leads to economic recovery. Many countries, for instance, with relatively low rates, as well as those with relatively high rates, are affected by the depression.

If industrialists, whether in the private or public sectors, are going to start producing more, they will first have to be sure that they will be able to sell their increased output.

Where do governments think this extra demand for goods and services is to come from?

- + Not, surely, from private households, because monetarist policies are partly designed to hold down wages, and therefore private consumption.
- + Not surely from the public sector, either, since monetarist policies are also designed to reduce the size of this sector.
- + Through increasing exports to other countries? But which ones?
  - Many other industrialised countries are also following restrictive policies on monetarist grounds and so their markets are stagnant or contracting. Protectionism, in open or more hidden forms, is in fact increasing.
  - Exports to the developing world ...? But many developed countries are actually cutting aid to them.
  - Exports to the OPEC countries ...? Yes, some increase should be possible but many of the OPEC countries are so small that they are simply unable to increase their imports in line with their oil earnings.

That leaves the private sector itself - and we know that a number of governments, and many businessmen, argue that if action is taken to allow profits to increase - through for instance, holding down wages - then private investment will automatically recover.

Experience does not support this optimism however.

In the past, private investment has not picked up until a recovery has already started. Until there are definite signs that the tide is turning, individual business prefer to play safe.

If profits in a recession are increased as a result of governments reducing some taxes, then they are much more likely to be used ...

- to reduce outstanding debts
- to buy land, or commodities, or interest-bearing securities
- to rationalise production to reduce employment and costs, rather than to increase output
- to invest overseas

*And so the depression has continued ...  
Monetarist and laissez-faire policies are offering no way out of the crisis because they are based on false and incomplete assumptions.*

#### Most markets are not free

The idea that an economy can be managed by pulling just a few key levers rests on the assumption that market mechanisms in modern industrial societies do function as they do in old text books.

But in the real world when the monetary supply is reduced, or taxes are increased, market mechanisms do not work quickly, or necessarily produce the desired changes in the behaviour of companies and of individuals. Many industrial sectors are now dominated by a few companies, national or transnational, which have a large degree of control over their markets and therefore over the prices they can charge.

Thus, when governments increase interest rates, many big companies are immune for long periods because they can raise the

capital they require through "cash flow" - in effect, through charging higher prices, or perhaps from a subsidiary in another country.

Governments, if they try hard enough, and for long enough, can penetrate the armour of the big companies - but the effects are often not the desired ones ...

- monetary and fiscal policies have by then to be so severe that they are disastrous for smaller and often more innovative companies and transnational companies may threaten to move out of a country.
  
- And if the big companies do stumble, then whole economies shudder. Emergency rescue packages have often had to be introduced to avert a total collapse because the economic and social effects would be too dreadful to contemplate.

Where market mechanisms do keep prices in check, do result in good quality products, and do prevent monopolies from being created, then of course we recognise the advantages, but this is becoming very much the exception rather than the rule.

Realistically, it may now be very difficult to check the trend towards fewer and fewer companies - not all of which are necessarily very big - in many sectors, and especially in those facing international competition.

We must therefore achieve the results which market mechanisms are supposed to obtain in other ways - ie, through price policies, anti-monopoly policies, and so on.

Our economies depend on each other

Too many governments also act as if the world and Europe are composed of a number of separate and distinct economies highly responsive to national economic policies. But it has become increasingly clear that what was possible for one country to try to achieve through, for instance, interest rate policies, is no longer possible if many countries - as now - try to do the same thing. The end result has been an interest rate war.

This very close inter-dependence has resulted from ...

- trade and monetary liberalisation
- transport and communications developments
- the rapid growth of transnational businesses

Some governments of course recognise this but use it as an excuse for doing nothing or very little.

Certainly, if one country takes economic recovery measures by itself, then there is a danger that imports will increase much more quickly than exports, and that balance of payment problems and currency speculation will drive the country off course.

But if the European economies act together, then the results can be very different because one country's imports are of course another's exports.

The best solution is for the industrialised countries as a whole to act together, but Western Europe is big enough to act alone. While foreign trade accounts on average for about 20% of the total production of each country, the bulk of this trade takes place with other Western European countries. Thus, only 8% of Western Europe's total production is accounted for by trade with countries outside this region.

THE ETUC'S ECONOMIC RECOVERY PROGRAMME

After the Second World War, the governments of Western Europe did come together - with the participation of trade unions and employers' organisations - and agreed on a European Recovery Programme. The Organisation of European Economic Cooperation (later the OECD) was established to oversee the programme, which proved to be very successful.

We do not pretend that all of our problems are as serious now as they were then, but the ever-increasing rate of unemployment - which mini-booms have only temporarily halted - is now much more serious.

If we continue on our present path, we run the danger of seeing two new classes developing ...

- a shrinking group with work, controlling the wealth and income of our societies, and
- a growing group without work, depending on the generosity - or otherwise - of the privileged

A new recovery programme is therefore essential but with employment creation and qualitative, rather than just old-style quantitative, growth as its central themes.

We want, in fact, a type of economic development which ...

- creates employment
- improves working conditions
- protects the environment
- involves people and promotes a fairer distribution of income, wealth and power
- economises on the use of scarce resources and especially on energy
- improves the quality and usefulness of the products and services created

The Economic Recovery Programme the ETUC proposes has six key demands:-

- Governments must actively intervene to ensure that there are much higher levels of investment.
- Job creation and training schemes must be considerably strengthened.
- Working time must be significantly reduced.
- Aid to developing countries must be substantially increased.
- There must be a fair sharing of the burdens of change.
- Inflation must be tackled with specific and socially-just policies, and not through unemployment.

We are convinced that taken together these six points constitute a viable strategy for achieving full employment.



1. Governments must actively intervene to ensure that there are much higher levels of investment

We believe that higher investment spending holds the key to recovery. We must stimulate our economies, but it must be done in a way which ensures that we overcome the structural problems which have grown up.

Investment is needed in both private and public sectors but, as we argued earlier, in a depression with static or falling sales at home and abroad, many businessmen are going to be reluctant to invest at all, or they're going to invest to reduce costs - and employment - rather than to expand production.

*Only the public sector can go against the trend and break the deadlock.*

Once a recovery has started, then it is very important that private investment also picks up - but that it does so in a planned and coordinated way.

A concerted public investment programme

Clearly there is no shortage of needs to be met - in Europe or elsewhere in the world - though difficult choices have to be made, especially as between current and future needs. On balance, the ETUC believes that priority must be given to public investments which, at the same time, help ...

- to create jobs
- to overcome structural problems and to ensure competitiveness
- to reduce regional disparities
- to meet people's needs for better living and working conditions

*We propose that each Western European country should draw up and carry out public investment programmes on a concerted basis so that their efforts will be mutually reinforcing, both between countries and between sectors of a single economy.*

In their separate countries, ETUC affiliated organisations are already proposing to their governments public investment programmes, for example, in the following areas ...

- energy saving and the development of alternative sources
- infrastructures
- telecommunications
- housing and urban renewal
- water supplies, sewerage and waste disposal
- collective and social services

+ It is true that some governments under the influence of monetarist dogmas argue that an increase in public investment is not possible because governments are already borrowing too much.

Certainly, public deficits are high in comparison to what they were in the 1960s - but this is because unemployment is also very high. Cutting public investment is no solution because by causing extra unemployment, more is spent on unemployment and on other social benefits, and less is received from tax revenues.

*The real solution is to get people back to work.*

+ It is also true that interest rates are high in many countries, but this is not because of domestic competition between governments and the private sector for borrowing, but because some major governments have deliberately increased rates in accordance with monetarist dogmas, and because governments generally have failed to agree on effective recycling mechanisms for the OPEC surplus. We have seen short sighted

competition between governments for foreign funds to finance balance of payments deficits, even though these deficits are the inevitable counterpart of the OPEC surplus.

*What is required is an agreement on interest rate disarmament.*

#### The Coordination of private and public investment

Private investment must make an important contribution to sustaining an economic recovery, but we are not at all confident that private and public priorities will necessarily coincide.

It may for instance be sound commercially for a company to speculate in land or commodities, or to export its money but the interests of society as a whole are likely to be quite different.

It is already common ground in most countries that governments must intervene to influence the behaviour of companies to seek to ensure, for example, that regional balance is promoted, that the environment is respected, that processes are safe, and so on.

To fight unemployment and to overcome structural problems, we are convinced that close relationships between public and private investment planning must also be established. We must use wisely the scarce investment resources we have. And we must prevent the wasteful duplication of investments whether between regions or between countries.

Businessmen's calls for public sector cuts may give ideological gratification, but economically such demands are very short sighted as a large part of the private sector depends on the public sector for orders and sales.

*Thus, we propose ...*

+ that governments, employers and trade unions - and where appropriate, European institutions - should discuss what public and private investment priorities should be, and how these can be promoted, interrelated and coordinated.

+ that investment notification systems, such as now exist in the Common Market with regard to coal and steel, should be extended to other sectors to ensure that discussions and decisions are well based.

+ that all public aids to industry should be related to the agreed investment and industrial policy objectives, and that if these objectives are not followed, then firms should be obliged to repay what they have received.

### Action by European Institutions

We welcome the EC Commission's attempts to try to get concerted investment programmes introduced in the two key areas of energy and infrastructure development. Both would create many jobs and meet essential needs.

On energy, the Commission has urged that investment on conservation and on the development of new resources to meet already agreed targets should be increased from the present level of 40,000 million ecu a year to 55,000 million ecu a year throughout the 1980s - or from 9% of total investment to 12%. (One ecu = ± \$1.12).

On infrastructure, the Commission has said that a substantial increase in the 30,000 million ecu now spent annually on transport infrastructure is called for. In particular ...

- 6,100 kilometres of road and 3,400 kilometres of railway are badly in need of repair
- natural blockages between countries, such as the English Channel, the Straits of Messine, the Fehmarn Straits, and the Alps need to be overcome
- Canal systems must be improved, and air links developed

The Commission has also been active in trying to make countries aware of the need to invest in the new technology industries, and of the need to reverse the disastrous decline of R & D spending since 1973, especially relative to the USA and Japan.

Lastly, we welcome the Commission's draft Directive for improving the information and consultation rights of work people in transnational companies, and we are appalled at the "backwoodsmen" type resistance to this modest measure by some employers. We believe in fact that just as the Commission has been able to develop relations with many foreign countries, it should now devote much more attention to developing its relations with the 100 or so largest companies operating in the Community.

2. Job creation and training schemes must be considerably strengthened

Investment in people is as important as investment in machines and buildings - if not more so. Clearly, there must be planned links between these two kinds of investment.

Likewise, we must ensure that the employment policies and plans of companies take due account of regional, national and European objectives.

The objectives of manpower policies should be to ensure:

- that jobs and training are available for all, and that particular attention is paid to the needs of groups such as women, young people and migrant workers, who are threatened with long-term unemployment
- that people can gain more satisfaction from their work
- that the skills our economies require to remain viable and competitive are available

In certain of the Nordic countries, which have generally been much more successful in keeping unemployment down than most other countries, up to 7% of government expenditure is devoted to manpower policies. Elsewhere, however, expenditure on education, vocational training and re-training is often stationary in real terms or even falling. This is very short sighted and must be reversed.

Specific job creation schemes are also under attack in some countries on the grounds that they are expensive and do not create "real" jobs.

We disagree fundamentally ...

- first, under the influence of new technologies and the desire to remain internationally competitive, job creation in many parts of the private sector and in some parts of the public sector, will fall far short of the number of people seeking work. If we are to fight unemployment - as we must - then the public authorities must step in.
- secondly, there is no shortage of real needs so job creation schemes can create real jobs.
- thirdly, with regard to financial costs, it surely makes more sense to pay people to work than to compensate them for not being able to. The cost of doing so is in fact relatively small since for every unemployed person given a job, the state gains extra tax revenue and saves on unemployment and other social benefits.

3. Working time must be significantly reduced

Economic expansion and other measures proposed in this manifesto will help to safeguard and to create employment but things have got so bad that these measures alone cannot provide the 16 million jobs which Europe will at least require by 1985 to get back to anything like acceptable levels of unemployment.

The reduction of working time must therefore be an essential part of a European economic recovery programme.

The introduction of new technologies, and structural changes generally, must certainly be the subject of collective bargaining between trade unions and employers so as to ensure that they produce net benefits in terms of greater leisure, better working conditions, and higher incomes; and not net costs in terms of higher unemployment, poorer working conditions, and lower incomes.

The ETUC's demands are that working time should be reduced through one or a combination of the following:

- . achieving the 35-hour week
- . reducing the retirement age to 60
- . increasing annual holidays to six weeks
- . extending full time education
- . introducing extra shifts
- . reducing and eliminating overtime

We are making progress with these demands - and not just in countries with high unemployment. In the Nordic countries, for instance, considerable reductions in working time have been achieved, though this has generally been sought for social rather than economic reasons.



It is appalling, however, that there are still governments and employers who are resisting the ETUC's efforts to reduce working time by agreement, and are instead reducing working time through driving up the numbers of unemployed, which is immensely costly not only socially but also financially.

4. Aid to developing countries must be substantially increased

*"Helping them will also help us"*

The social and economic development of the Third World is very much in Europe's interest, especially since about 10% of our trade is with the non-oil producing developing countries. This is almost twice as much as our trade with the United States.

When these countries encounter difficulties, as they are doing now because of high energy prices and the world recession, then Europe too is adversely affected.

Essentially what is required is a comprehensive world development plan as proposed for many years by the international trade union movement, and now by the Brandt Commission. This should include ...

- large scale income transfers to developing countries: specifically Western European countries should increase their aid to the Third World to 0.7% of their GNP by 1985, and to 1% by 1990.
- anticipatory structural adjustments of industries in our countries.
- social, economic and political reforms in many of the developing countries themselves.

We hope that such a plan - with the more extensive action recommended by Brandt on such issues as trade, the monetary system, and the role of TNCs - will be adopted at the Mexico World Summit in October 1981, and so both help to put the European and other industrial economies back to work, and help to meet the Third World's vital needs.

5. There must be a fair sharing of the burdens of change

This manifesto has recognised that a period of difficult change confronts the European economies.

We also recognise that in order to recover, difficult decisions will have to be taken about the relative levels and development of private consumption, investment, government spending, and exports and imports. These decisions will of course vitally affect the living and working conditions of working people.

In democratic societies, all economic power does not, and should not, rest with employers. The EC Commission's decision to propose a Directive on the information and consultation rights of workers in transnational companies is a welcome recognition of this.

Likewise, political democracy involves more than having elections every 3, 4, or more years. The decisions which will need to be taken in the coming years must therefore be based on broad consultations with the important social groups such as the trade union movement.

It is also important that the burdens of economic and social change, and indeed the benefits of economic recovery, should be distributed fairly and equitably throughout our societies. It must be recognised that the internal dynamism of our economies depends to a great extent on the level of consumption and we will resist attacks on the purchasing power and social security benefits of workers in general and of the low paid in particular.

*Policies must be fair and be seen to be fair.*

If these conditions are not met ...

- if governments or employers try to enforce decisions which run counter to the interests of working people

- if workers are not convinced that change will bring overall benefits and that those who have to bear the costs are properly compensated

... then, their whole-hearted backing for a recovery programme will be difficult to achieve or to sustain.

6. Inflation must be tackled with specific and socially-just policies, and not through unemployment

A number of governments argue that beating inflation must now be their overwhelming priority, and that they cannot pursue full employment and economic recovery policies because inflation would increase.

We certainly agree that inflation must be fought. It is after all working people who suffer most from price increases.

We also recognise that a number of factors often beyond the short-term control of governments - such as oil and commodity price increases, and international monetary disturbances - have intensified inflationary problems.

But we completely reject the view that the only way to deal with the evil of inflation is to tolerate, or to make worse, the even greater evil of unemployment.

It is surely time governments reviewed their thinking and revised their restrictive policies for despite the persistence of the highest levels of unemployment in Western Europe for over a generation; despite seven years of low and sometimes negative growth; and despite real wages falling behind the rate of price increases in many countries; inflationary pressures are still strong.

In fact, in many countries restrictive policies, despite a very high cost in terms of lost production and increased unemployment, seem to have done little more than to temporarily suppress, rather than to remove, the causes of inflation.

We are confident that our proposed economic recovery programme would, in itself, be counter-inflationary since ...

- introducing new processes

- using more fully existing capacity
- enabling work people to earn their living  
instead of being unemployed
- reducing regional imbalances

... will all help to reduce costs.

BUT we do recognise that there are dangers.

An economic recovery programme must include measures to counter inflationary dangers stemming in particular from:

- the price policies of companies
- a new commodity price explosion
- international monetary disorder
- income distribution conflicts

#### Company price policies

With an economic recovery, there is a real danger that many companies will attempt to return to what they consider to be their rightful profit margins by increasing prices instead of by increasing sales. Price supervision and control systems are required to prevent a recovery being aborted in this way.

Anti-monopoly policies also need to be strengthened, and international rules are required to govern the operations of TNCs.

#### Commodity Prices

The see-saw of international commodity prices is in neither the consuming nor the producing countries' interests. The search for effective and fair agreements covering ...

- the immediate and longer-term development  
of prices,
- access to existing supplies
- investment to develop new sources

... must therefore be intensified.

An agreement on these lines with the OPEC countries must be a major priority, but when oil price increases do occur they must not be used as a justification for deflationary policies - this is one of the most costly ways of economising on oil imaginable.

What the OPEC countries are really doing by their price increases is laying claim to a greater amount of the goods and services produced by Europe. It makes no sense at all to react to this by reducing, instead of by increasing, the amount produced.

European agricultural policies should also be reformed, particularly so as to minimise their inflationary effects.

#### International monetary instability

A concerted Western European recovery strategy would help to minimise the "take-off" balance of payments problems of faster growth because all countries' imports and exports would be moving up roughly together.

But action is required to cope with the problems already being caused by the fact that many countries have to try to finance their oil-induced external deficits by attracting international funds through high interest rates.

The fact must be faced that the OPEC surplus cannot be eliminated in the short term, and that industrialised countries as a whole will therefore have a collective deficit for a number of years.

What is required is an international agreement on handling the problem. This should include ...

- measures to recycle the OPEC surplus
- controls over speculative flows of hot money
- agreement on significant interest rate disarmament

Income distributional conflicts

The ETUC does not accept that wage increases have been the cause of inflation, though we make no apology for the fact that we have tried to protect our members' living standards from being eroded by price increases caused by other factors.

Collective bargaining does not take place in a vacuum and trade union negotiators cannot be expected to respond to pleas for "moderation" if they are a disguise for maintaining an unfair status quo, or to appeals to put aside the interests of their members and to act "responsibly", when employers - for instance in their investment decisions - argue that they can only be bound by market considerations.

If governments unilaterally pursue policies designed to erode the living standards of workers, and to place all the burdens of adjustment on their shoulders, then they must not be surprised if workers oppose their policies and if they try to restore their position in the only ways open to them.

Governments must instead seek to slow and check the inflationary cycle with the policies described. The record shows clearly that in those countries which have pursued socially progressive policies, trade unions have been able to respond in their collective bargaining strategies.



THE CHOICE BEFORE US

The ETUC believes that a new economic recovery programme based on the six points set out in this manifesto offers Europe a future. In contrast, we fear that the policies presently being recommended by many European institutions, governments and employers' organisations will continue to lead our societies deeper and deeper into crisis.

PC/HL  
5.5.1981

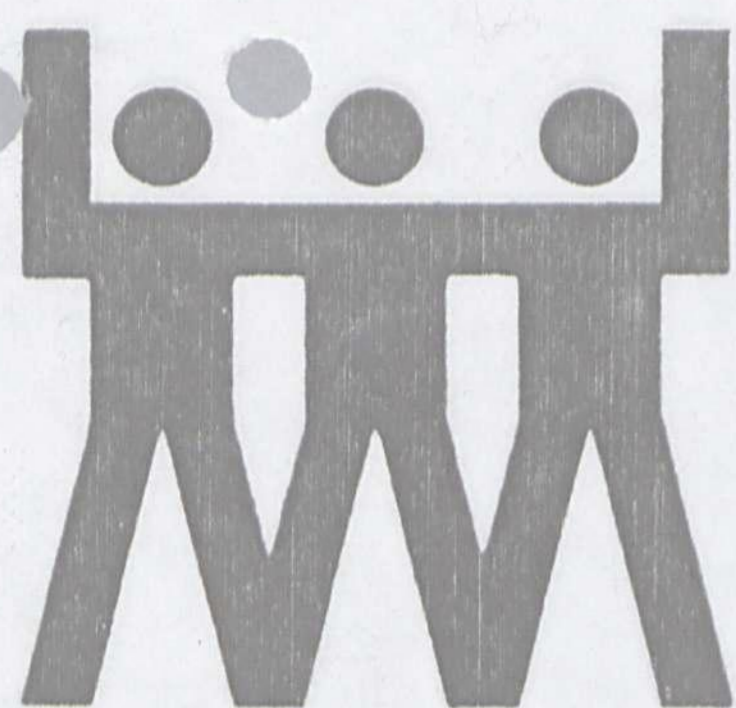
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**CES**  
**ETUC**  
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**DEFS**

# information presse

CP 26/81

## ETUC STATEMENT ON EUROPEAN/JAPANESE RELATIONS

Considering the importance of the European car industry for the total European economy, and thus for employment and incomes, and the growing imbalance of trade between Europe and Japan, the Executive Committee endorses the statement made by the ETUC General Secretary on 8th May 1981 in support of the policy statement of the European Metalworkers' Federation.

Following the recent concessions made to the USA, the representatives of the EC and EFTA must obtain an agreement from the Japanese government so that the cars not sold to the USA are not diverted to the European market.

The ETUC believes that the Japanese government and the Japanese car manufacturers must undertake to limit voluntarily the number of Japanese cars imported into the EC and EFTA.

The ETUC reiterates the demand it has made on a number of occasions to the EC and to EFTA that a common policy framework must be urgently established to serve as a basis for the negotiations which are absolutely necessary with Japan and the USA with regard to the car and other industries. The ETUC believes that if the attempt to find a negotiated solution fails then the EC and EFTA will be bound to adopt other measures.

The ETUC insists that the Luxembourg European Council should decide that the Community must intervene at the Ottawa World Economic Summit in order that this question and these demands are one of the principal points for discussion.

+++++

Confédération Européenne des Syndicats  
European Trade Union Confederation  
Europäischer Gewerkschaftsbund  
Den Europeiske Faglige Samorganisasjon

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📠 eurosyndic

MtE/AS/HDB  
15th June 1981



Euro Pol.

Foreign and Commonwealth Office

London SW1A 2AH

25 June 1981

Type for PNE

Signature

Dear Michael,

European Council

Thank you for your letter of 23 June, enclosing one from the Taoiseach.

As requested, I enclose a brief draft letter of acknowledgement.

Yours ever,

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

**DRAFT:** minute/letter/teleletter/despach/note

**TYPE:** Draft/Final 1+

**FROM:**

**Reference**

Prime Minister

**DEPARTMENT:**

**TEL. NO:**

**SECURITY CLASSIFICATION**

**TO:**

**Your Reference**

Top Secret

Secret

Confidential

Restricted

Unclassified

Mr Charles J Haughey TD  
Taoiseach

**Copies to:**

**PRIVACY MARKING**

**SUBJECT:**

.....In Confidence

**CAVEAT**.....

Thank you for the letter you sent me through your Ambassador here, explaining why you would be unable to attend the European Council in Luxembourg.

We shall all be very sorry not to see you at the meeting, but of course I fully appreciate the reasons for your decision.

There are, as you say, urgent and important matters to be discussed and we shall be glad of the participation of Brian Lenihan.

Enclosures—flag(s).....

PAFO 010/24

cc No: 10 - immediate

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PP UKREP BRUSSELS

PP LUXEMBOURG

PP BONN

GRS 200

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FM PARIS 1625Z JUN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 557 OF 24 JUNE 1981

INFO PRIORITY UKREP BRUSSELS, LUXEMBOURG AND BONN

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ADVANCE COPY

YOUR TELNO 255: EUROPEAN COUNCIL: PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

1. ACTION TAKEN YESTERDAY EVENING WITH DIPLOMATIC ADVISER AT THE ELYSEE. A MEMBER OF THE PRESIDENT'S PRIVATE OFFICE (M MOREL) TELEPHONED BACK THIS AFTERNOON TO SAY THEY HAD RESERVED 0900 HOURS ON 30 JUNE FOR A MEETING BETWEEN THE PRESIDENT AND THE PM. M MOREL NOTED THAT THE PRACTICAL DETAILS COULD BE SETTLED BETWEEN PRIVATE OFFICES ON THE SPOT AFTER ARRIVAL ON MONDAY IF THEY HAD NOT BEEN AGREED BEFORE. THESE INCLUDED THE NATURE OF THE MEETING (WE SAID WE THOUGHT THE PM WOULD ALREADY HAVE BREAKFASTED) AND THE PLACE AND THE LENGTH OF TIME AVAILABLE, GIVEN THAT THE PHOTOCALL FOR THE EUROPEAN COUNCIL WOULD BE AT 0945 HOURS.

2. M MOREL TELEPHONED AGAIN LATER, APPARENTLY AFTER CONSULTING THE ELYSEE PROTOCOL, TO SAY THAT HE THOUGHT IT WOULD BE APPROPRIATE FOR THE MEETING TO TAKE PLACE AT THE FRENCH EMBASSY. HE WOULD CONSULT THE PRESIDENT ABOUT BREAKFAST BUT DID NOT EXCLUDE THE POSSIBILITY THAT SOME WOULD BE OFFERED. WHEN WE SUGGESTED THAT A MEETING AT THE KIRCHBERG MIGHT PROVIDE MORE TIME (IF THE PHOTOCALL WAS TO TAKE PLACE THERE) MOREL SAID HE HAD BEEN ADVISED THAT THE ROOMS AT THE DISPOSAL OF THE FRENCH DELEGATION AT THE KIRCHBERG WERE NOT VERY WELL SUITED TO SUCH A MEETING. HOWEVER, HE DID NOT ENTIRELY RULE IT OUT.

HIBBERT.

CONFIDENTIAL

NOTE FOR THE RECORD

EUROPEAN COUNCIL 29/30 JUNE

I called on Herr Heick at the Federal Chancellery in Bonn yesterday afternoon. Herr Thiele was present throughout. Mr Beamish accompanied me, and will be producing a fuller note.

2. We compared notes about the Commission's document. One important difference emerged. Their understanding was that the Commission would recommend financing the British refund from the budget and only resort to the FEOGA key if and when the 1% ceiling was reached. If this was what the Commission proposed it was unacceptable. But if, as reported in UKREP tel no. 2294 the report gave the FEOGA key as an alternative which the Council if not the Commission might prefer then, according to Thiele, the Germans might at least be willing to study the proposal and see what results it would give. This suggested that a general adjustment mechanism was not, for the Germans a matter of principle. Their aim was to "have more than the two net payers" in the Community. They had not decided what level of German net contribution was acceptable but they were worried about the Chancellor's reaction when he learned of the latest Commission's estimate for the German net contribution in 1981 (6.5b D M). He would stress that Germany's domestic budgetary financial situation had changed dramatically since the May 1980 decision. They assured me that the Chancellor had no wish to attack the British position and undertook to be careful in their presentation not to speak of the burden of financing refunds for the U.K. They also agreed that there was no need to discuss 1982 at the European Council next week: the aim should be to focus attention on the need for decisions this year.

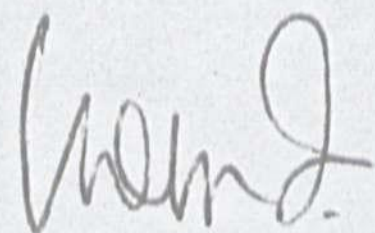
3. They quizzed me closely on the 1% ceiling. I said the Prime Minister's position was "rock-hard" but I thought we could live with what I understood the Commission report to say on the subject. It was not a matter to be settled next week.

*Two  
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- 24/6*



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4. We agreed that the Commission's report seemed likely to provide a good basis for reforming the CAP with the exception of Mediterranean agriculture about which they were plainly very worried. I said our aim was to get the Heads of Government to lay down guidelines at the November European Council.
5. I showed them our draft conclusions for the European Council (without saying we had given them to the Dutch). They were happy with them apart from paragraph 2(ii) which they thought implied too expansionist a view about new non-agriculture policies. If it was included (in deference to the wish of others) it should be qualified e.g. by a reference to the available financial resources.
6. On the economic debate at the European Council, Heick stressed that the Chancellor did not want a confrontation with the Americans. Interest rates were too high (and in the U.S. case too volatile): they restricted investment and could thus eventually provoke protectionism. Another oil price rise could worsen the situation. The Chancellor would want these concerns aired in Luxembourg and at Ottawa as a background to his own domestic policy decisions.
7. We briefly discussed Japan and the problems of opening up the Japanese market: and steel, where Heick was pessimistic about the forthcoming Council meeting.
8. I had previously spoken briefly to Per Fischer in the margins of the Foreign Affairs Council. He too said the Germans would find it unacceptable to finance a refund for the UK on the same basis as the 30 May, but implied that they would at least be prepared to discuss the alternative of a FEOGA key. He agreed that the forthcoming European Council should not discuss a 1982 refund. On procedure, he welcomed our decision to start off the preparatory work in COREPER; and said he would reflect on the idea of giving the Agriculture and Ecofin Councils an early opportunity to have a general debate.



M D M FRANKLIN

24th June 1981

CONFIDENTIAL

DISTRIBUTION

~~Mr~~ Alexander  
Sir R Armstrong  
Lord Bridges FCO  
Mr Hannay "  
Mr Hancock Treasury  
Mr Andrews MAFF  
Sir M Butler UKREP  
Mr Beamish Bonn  
Mr Elliott  
Mr Wentworth

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24 June 1981

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EUROPEAN COUNCIL, LUXEMBOURG

29/30 JUNE 1981

INDEX OF BRIEFS

Brief by Foreign and Commonwealth Office

1. Index
2. Steering Brief
3. Budget Restructuring and CAP Reform
4. Economic Situation
5. Employment and Social Policy
6. Preparation for Economic Summit
7. North/South
8. EC/Japan and USA
9. Fisheries
10. Energy
11. Enlargement
12. Relations with European Parliament
13. Steel
14. Industrial Adaptation and Innovation
15. Civil Aviation
16. Insurance
17. Internal Market
18. Political Cooperation :  
Arab-Israel  
Lebanon  
Poland  
Afghanistan
19. Bilateral Talks with President Mitterrand
20. Seat of European Parliament

Foreign and Commonwealth Office

24 June 1981

**CONFIDENTIAL**

FILE

VLB

23 June 1981

I am replying on the Prime Minister's behalf to your letter to her of 23 June enclosing a message from the Taoiseach about the forthcoming meeting of the European Council.

Mr. Haughey's message has been placed before the Prime Minister.

MICHAEL ALEXANDER

His Excellency Dr. Eamon Kennedy

*MA*

FILE

VLB

23 June 1981

European Council

I enclose a copy of a letter which the Prime Minister has received today from the Taoiseach informing us that the Taoiseach will not be able to attend the European Council Meeting next week.

I should be grateful if you would let me have a brief letter of acknowledgement which the Prime Minister might send to Mr. Haughey.

MICHAEL ALEXANDER

F. N. Richards, Esq.,  
Foreign and Commonwealth Office.

*FR*

✓ Harles  
92



Tab/81

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. 19681

23 June, 1981.

Oifig an Taoisigh  
Office of the Taoiseach

Mrs Margaret Thatcher,  
Prime Minister of the United Kingdom

Dear Prime Minister,

The forthcoming European Council will consider a number of important and urgent issues including the Commission's report on the Mandate given to it on 30 May, 1980. The report on the Mandate will form the basis of a fundamental examination by the member States of the existing policies of the Community and of its future. This process is of crucial importance to the Community and to the member States. Like its partners Ireland is deeply concerned with the outcome of this process especially as regards the Common Agriculture Policy which is of vital concern to it.

It is therefore with very great regret that due to the electoral situation in my country I have to inform you that it will not be possible for me to be in Luxembourg for the European Council on 29 and 30 June. I accept, of course, that because of the urgency of the subjects before the Council, the question of a postponement does not arise.

I am conscious of the need to safeguard the particular nature of the European Council as a forum for confidential discussion between Heads of State or Government. In the present difficult circumstances, however, I feel confident that it will be accepted that the best solution is for me to be represented at the formal discussions in Luxembourg of the Heads of State or Government by my Foreign Minister, Mr. Brian Lenihan.

If the Foreign Ministers meet together for separate discussions, as they normally do over dinner on these occasions, I propose that the Secretary-General of the Department of Foreign Affairs, Mr. A. O'Rourke deputise for Mr. Lenihan, who will have to leave before then.

May I again, dear colleague, express my regret at being unable to join you in Luxembourg.

Yours sincerely,

Oifig an Taoisigh, Tithe an Rialtais, Baile Átha Cliath 2.  
Office of the Taoiseach, Government Buildings, Dublin 2.

AMBASÁID NA HÉIREANN, LONDAIN.



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 96/81

23 June 1981

Dear Prime Minister,

The Taoiseach, Mr Charles J Haughey, TD, has asked me to transmit to you the following letter:

"Dear Prime Minister

The forthcoming European Council will consider a number of important and urgent issues in the external relations field and will receive the Commission's report on the mandate given to it on 30 May 1980. The report on the mandate will form the basis of a fundamental examination by the member states of the existing policies of the Community and of its future. This process is of crucial importance to the Community and to the member states. Like its partners Ireland is deeply concerned with the outcome of this process, especially as regards the Common Agriculture Policy which is of vital concern to it.

It is therefore with very great regret that due to the electoral situation in my country I have to inform you that it will not be possible for me to be in Luxembourg for the European Council on 29 and 30 June. I accept, of course, that because of the urgency of the subjects before the Council, the question of a postponement does not arise.

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/...

If the Foreign Ministers meet together for separate discussions, as they normally do over dinner on these occasions, I propose that the Secretary-General of the Department of Foreign Affairs, Mr A O'Rourke, deputise for Mr Lenihan, who will have to leave before then.

May I again, dear colleague, express my regret at being unable to join you in Lusembourg.

Yours sincerely

Charles J Haughey"

I beg to remain, dear Prime Minister,

*Yours sincerely  
Eamon Kennedy*

Eamon Kennedy  
Ambassador

The Rt Hon Margaret Thatcher MP  
Prime Minister  
No. 10, Downing Street  
London SW1



*debat*

GRS 47φ

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FM PARIS 19163φZ JUN 81

TO PRIORITY FCO

TELEGRAM NUMBER 527 OF 19 JUNE 1981

INFO ROUTINE UKREP BRUSSELS, THE HAGUE AND BONN

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*ant*

FRANCE AND THE EUROPEAN COUNCIL

1. WHEN I CALLED ON THE SECRETARY GENERAL OF THE ELYSEE THIS AFTER-NOON I TRIED TO DRAW HIM ON THE AGENDA FOR THE EUROPEAN COUNCIL, ASKING WHETHER HE COULD GIVE ME ANY INDICATION OF THE WAY IN WHICH THE PRESIDENT ENVISAGED THE VARIOUS SUBJECTS WHICH WOULD COME UP FOR DISCUSSION. THE ONLY POINT ON WHICH HE WAS ROUSED TO ENERGETIC ENQUIRY WAS THE HANDLING OF THE 3φ MAY MANDATE. HE WAS AT PAINS TO REITERATE THE FRENCH GOVERNMENT'S DESIRE FOR A PAUSE. I DREW HIS ATTENTION TO THE TEXT TABLED AT COREPER YESTERDAY BY THE NETHERLANDS PRESIDENCY FOR CONSIDERATION BY THE COUNCIL (FOREIGN AFFAIRS) ON 22 AND 23 JUNE (PARA 6 OF UKREP BRUSSELS TELNO 2263). HE SEEMED A LITTLE UNCERTAIN ABOUT FRENCH READINESS TO AGREE TO ANY SORT OF WORK STARTING IN JULY, SO I PRESSED HIM ON THIS AND SAID THAT THE BRITISH GOVERNMENT WAS MEETING FRANCE'S WISHES BY AGREEING THAT THERE SHOULD BE NO ATTEMPT TO REACH DECISIONS UNTIL NOVEMBER, BUT IT WAS NECESSARY TO BEGIN THE WORK OF STUDY AND ANALYSIS WITHOUT WHICH DECISIONS WOULD BE IMPOSSIBLE, AND IT WAS DEFINITELY THE BRITISH WISH THAT THIS WORK SHOULD BE BEGUN BY COREPER IN JULY IN PREPARATION FOR A FIRST DISCUSSION BY FOREIGN MINISTERS IN SEPTEMBER. HE SAID HE TOOK NOTE OF THIS.

2. HE TOLD ME THAT THE FRENCH GOVERNMENT WAS GOING TO HOLD A RESTRICTED MEETING OF MINISTERS ON 25 AND 26 JUNE TO CONSIDER THE POSITIONS WHICH FRANCE SHOULD ADOPT AT THE EUROPEAN COUNCIL. HE SAID THAT HE WOULD BE ABLE TO SAY MORE TO ME AFTER THAT, BUT WHEN I SAID THAT I WOULD SEEK AN APPOINTMENT WITH HIM NEXT FRIDAY OR SATURDAY HE BACKED AWAY A LITTLE AND TRIED TO SUGGEST THAT THE RIGHT SOURCE OF INFORMATION WOULD BE THE QUAI D'ORSAY. I SAID I WOULD GET IN TOUCH WITH HIM.

/ 3.

CONFIDENTIAL

## CONFIDENTIAL

3. I ASKED HIM WHAT LAY BEHIND THE FRENCH GOVERNMENT'S INDICATIONS THAT AFTER THE PAUSE FOR REFLECTION IT WAS GOING TO PROPOSE SOME NEW IDEAS FOR THE COMMUNITY. COULD HE GIVE ANY INDICATION OF THE LIKELY NATURE OF THESE IDEAS? HE SAID THAT THE GENERAL CONCERN OF THE NEW FRENCH GOVERNMENT WAS TO SEE THAT THE SOCIAL CONTENT OF THE COMMUNITY'S ACTIVITY WAS INCREASED. I WOULD KNOW, HE SAID, FROM THE NEW GOVERNMENT'S PRONOUNCEMENTS ON INTERNAL POLICY THAT THEY WERE EMBARKED ON AN EFFORT TO ENLIVEN ECONOMIC ACTIVITY IN FRANCE AND TO IMPROVE THE SOCIAL CONTENT OF THE FRENCH GOVERNMENT'S ACTION. THE FRENCH GOVERNMENT WANTED THE SPIRIT WHICH INSPIRED ITS INTERNAL POLICY TO INSPIRE COMMUNITY POLICY ALSO. IF THIS COULD BE DONE PROGRESS COULD BE MADE ON OTHER MATTERS TOO.

4. IN A QUICK RUN OVER THE MAIN HEADINGS OF THE AGENDA FOR THE EUROPEAN COUNCIL, M BEREGOVY SAID THAT THERE WERE OBVIOUSLY VARIOUS FIELDS IN WHICH FRENCH AND BRITISH IDEAS WOULD BE CLOSE TOGETHER AND HE SPECIFICALLY QUOTED TRADE RELATIONS WITH JAPAN AND POLITICAL COOPERATION QUESTIONS. HE SAID THAT HE WAS INFORMED ABOUT THE UNITED KINGDOM'S INITIATIVE ON AFGHANISTAN. I TOLD HIM THAT THE UK HOPED THAT BRITAIN'S NINE PARTNERS WOULD GIVE IT WARM SUPPORT AT THE EUROPEAN COUNCIL.

FCO PLEASE PASS SAVING TO ATHENS, BRUSSELS, DUBLIN, COPENHAGEN  
LUXEMBOURG AND ROME.

THIS TELEGRAM  
WAS NOT  
ADVANCED

HIBBERT.

(REPEATED AS REQUESTED)

FRAME GENERAL  
ECD (E)

010

Denys Lasdun Redhouse & Softley

Architects & Town Planners

Sir Denys Lasdun CBE RIBA  
Alexander Redhouse RIBA MRTPI  
Peter Softley RIBA

Associates Graham Lane RIBA  
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Peter McKinley RIBA MRTPI  
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50 Queen Anne Street London W1M 0DR Telephone 01-486 4761 Telex 22244  
DL/sn/568 2 June 1981

EUROPEAN INVESTMENT BANK  
LUXEMBOURG

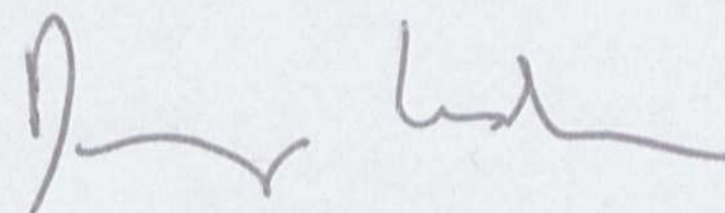
Dear Mr Alexander,

I write following our telephone conversation this morning. I understand that the Prime Minister will be visiting Luxembourg on the 29th and 30th of this month. She may be interested to know that the new headquarters building on the Kirchberg was inaugurated on 20 May by the Grand Duke. The President of the Luxembourg Government was also present and the building itself was most warmly received.

I do hope that time may be found for a very brief look inside what is the next major building of mine after the National Theatre. It is a building conceived to fit in with its dramatic setting of forest and valley which all working there can enjoy. Energy conservation is also a prime consideration in the overall design. The Prime Minister may also be interested in the fact that this is the first time in the history of the Common Market that an Institute of the EEC has appointed its own architect.

I enclose notes describing the project and a photostat of the article dealing with the opening ceremony which appeared in the Luxembourg press.

Yours sincerely,



Denys Lasdun

M O D B Alexander Esq  
Private Secretary/Prime Minister  
Private Office  
10 Downing Street  
London W1

Encs

attached  
to the  
inside  
of file.

## ■ banques

# Inauguration du nouvel immeuble de la B.E.I. en présence des Souverains M. Yves Le Portz : « La construction de ce bâtiment est un acte de foi dans l'avenir de l'Europe »



M. Yves LE PORTZ accueille le Grand-Duc et la Grande-Duchesse.

Le nouvel immeuble de la Banque européenne d'investissement à Luxembourg-Kirchberg a été inauguré hier en présence de LL.AA.RR. le Grand-Duc Jean et la Grande-Duchesse Joséphine-Charlotte. Ainsi, après quatre déménagements depuis 1958, année où elle commença ses activités en même temps que la Communauté économique européenne, la BEI « a finalement jeté l'ancre », comme l'a souligné M. Pierre Werner lors de son discours qui a suivi l'allocution de M. Yves Le Portz, président de la Banque européenne d'investissement.

Un édifice dégagant une impression de détermination et de dignité, mais pas un monument assez grand pour accueillir près d'un millier de personnes, mais étroitement intégré dans son environnement naturel au Kirchberg, fonctionnel et axé sur l'efficacité mais offrant des conditions de travail agréables et à l'échelle humaine. Tel était l'objectif que s'est fixé la Banque européenne d'investissement lorsqu'elle décida de construire son propre bâtiment. Grâce à une ténacité certaine, le but a été atteint.

La BEI est installée dans de magnifiques bâtiments, qui devraient coûter la bagatelle de 2,3 milliards de francs luxembourgeois et où chaque élément a été pensé afin que chacun se sente à l'aise non seulement à son poste de travail mais également lors de ses moments de détente, comme en témoigne l'importance donnée par exemple aux installations sportives, au restaurant ou à la cafétéria.

M. Yves Le Portz, président de la BEI, devait se réjouir tout particulièrement de ce que LL.AA.RR. le Grand-Duc et la Grande-Duchesse aient bien voulu honorer de leur présence

### Les personnalités

S.A.R. le Grand-Duc Jean; S.A.R. la Grande-Duchesse Joséphine-Charlotte; M. Léon Bollendorff, président de la Chambre des députés; M. Pierre Werner, président du gouvernement; Mme Colette Flesch, vice-présidente du gouvernement; M. Jacques Santer, ministre des Finances; M. René Konen, ministre des Travaux Publics; M. Camille Polfer, bourgmestre de Luxembourg; M. Yves Le Portz, président et les membres du conseil d'administration de la BEI; M. Guy de Muyser, maréchal de la Cour grand-ducale; M. le colonel Eugène Meunier, aide de camp de S.A.R.; Mme Christian Calmes, dame d'honneur de S.A.R.; M. Mertens de Wilmars, président de la cour de justice des C.E.; M. Murphy, président de la Cour des comptes; les ambassadeurs et membres du corps diplomatique des pays de la CEE; les directeurs de la BEI; MM. Bulz, Pütz, Simmons et Girardin, ministres des Cultes, les représentants du personnel, etc.

cette manifestation; une présence qui, selon l'orateur, témoigne de l'importance que les souverains attachent à la Communauté européenne et à ses institutions. Après avoir relevé les mérites de Joseph Bech, Pierre Werner et Gaston Thorn, le président de la BEI souligna les efforts déployés par les autorités du Grand-Duché pour créer et maintenir l'environnement propice à un travail fructueux. Evoquant la conception du bâtiment due à Sir Denys Lasdun, M. Le Portz rappela qu'il « avait été conçu en étroite harmonie avec son environnement, de sorte qu'il s'intègre dans les données naturelles du site, la forêt, et ce revers de vallée dont il épouse les formes. Il a également été pensé et réalisé à la pointe du progrès en matière d'économie d'énergie ».

### 150 milliards de francs de prêts

Ayant pris plaisir à mentionner l'entrepreneur général, la firme Philipp Holzmann et à annoncer que plus d'une vingtaine d'entreprises et une nombreuse main-d'œuvre qualifiée du Grand-Duché ont apporté leur savoir-faire lors de l'exécution des travaux, M. Le Portz insista

sur les activités de la BEI qui se sont considérablement accrues, surtout ces dernières années. En effet, plus de la moitié des financements accordés depuis la création de l'institution l'ont été de 1978 à fin 1980. Le total des prêts accordés en 1980 était de près de 150 milliards de francs lux. contre 10 milliards en 1968.

Parallèlement à cette extension des financements (qui concernent les 10 pays-membres, mais aussi plus de 70 Etats, en Afrique et dans le bassin méditerranéen, dans le cadre de l'aide communautaire au développement), les effectifs sont passés de 160 environ à la fin de 1968 à quelque 500 en 1980, parmi lesquels une soixantaine de ressortissants du Grand-Duché.

Faisant référence à la dispersion des services de la Banque dans les douze bâtiments de la ville, M. Le Portz estima que la mise en service de l'immeuble marquait une date dans l'histoire de la BEI car tous ceux qui y travaillent vivent enfin sous un même toit. Après avoir mis en exergue le fait que la BEI est la première institution communautaire à avoir construit son propre immeuble sur son propre terrain,

le président déclara que « la BEI a en quelque sorte l'impression que c'est toute une période de mutation qui se termine. La décision des administrateurs d'entreprendre la construction de ce bâtiment a été un acte de foi dans l'avenir de l'Europe, et dans l'action de la banque au service de la Communauté ».

M. Le Portz releva encore la contribution de la BEI à la réputation de Luxembourg comme l'une des grandes places financières internationales avant d'évoquer l'avenir: « La BEI a abordé sa troisième décennie avec confiance et avec la ferme intention de poursuivre ses efforts pour répondre aux tâches principales qui lui incombent. Principale source communautaire pour le financement d'investissements, la banque est consciente que l'essentiel de ses tâches reste à accomplir ».

Avant que le bâtiment ne soit béni par des membres du clergé, M. Pierre Werner félicita le président et les membres du conseil d'administration pour cette réalisation, ce « siège impressionnant ». Brossant l'histoire de la BEI, il assura que « cette inauguration signifiait que les services ont finalement jeté l'ancre après de nombreuses pérégrinations ». Puis le président du gouvernement, gouverneur de la BEI pour le Grand-Duché rappela la signification de la présence de cette institution au Luxembourg « le transfert de la BEI de Bruxelles à Luxembourg » ayant été projeté afin de concentrer les institutions financières dans la capitale du Grand-Duché, à l'époque des compensations.

Evoquant cet établissement définitif à Luxembourg, M. Werner devait déclarer que « les Luxembourgeois sont reconnaissants à la BEI de cette manifestation d'attachement au siège européen, fût-il provisoire », avant de conclure en soulignant « les belles et reconfortantes réussites de la BEI ».

J.-M. MARTINI.

EUROPEAN INVESTMENT BANK  
NEW HEADQUARTERS

ARCHITECT'S  
DESCRIPTION OF THE  
PROJECT

Denys Lasdun Redhouse & Softley  
Architects  
50 Queen Anne Street  
London W1M 0DR

May 1981  
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CONSULTANTS

Quantity Surveyors

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Consulting Engineers

Scott Wilson Kirkpatrick & Partners  
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CONTENTS

1. THE CLIENT
2. APPOINTMENT OF THE ARCHITECT
3. THE SITE
4. THE BRIEF
5. THE SCHEME
6. STRUCTURE
7. ENVIRONMENTAL CONTROL
8. CONSULTANTS
9. CONTRACT
10. TENDERING PROCEDURES FOR SUBCONTRACTORS
11. BUILDING BYELAWS AND STANDARDS
12. LANGUAGES AND COMMUNICATIONS
13. MANAGEMENT
14. AREA
15. HEIGHT

1. THE CLIENT

The European Investment Bank (EIB) was created by the Treaty of Rome which established the European Economic Community (EEC) in 1958.

The Bank is an independent public institution, and operates on a non-profit making basis. Its primary mission is to assist the development of the Common Market by drawing together the states and peoples of Europe in economic and social progress.

The Bank's activities have been extended to the provision of loans to non-member countries and regions.

Over three-quarters of the loans and guarantees since 1958 have been to investments in depressed areas, helping to raise or safeguard the living standards of their populations.

Among the many projects that have been assisted are the Bosphorous Bridge which connects Greece and Turkey (Europe and Asia) across the Golden Horn; and financial support for the campaign against pollution in the Bay of Naples.

The projects which the Bank has helped to finance have been responsible for creating or safeguarding many thousands of jobs within the Community.

The Bank borrows the funds required to carry out its tasks on the capital markets of the Community and non-member countries, and on international markets.

Further information about general background of the Bank and its work are contained in the Annual Reports and in the 20th Anniversary Publication 1958-78.



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### 3. THE SITE

#### a) CHARACTERISTICS

The site acquired by the Bank is part of the area on the Kirchberg Plateau set aside over twenty years ago by the Luxembourg Government for the institutions of the European Economic Community. The European Parliament, part of the EEC Commission, and the European Court of Justice were already established when the Bank decided on the site.

The Kirchberg Plateau is served by the motorway which, when complete, will connect Luxembourg to Trier in Germany. The new bridge, Ponte Grande Duchesse Charlotte, connecting Luxembourg City to the European Centre, was built specifically to encourage the institutions of the EEC to establish themselves on the Kirchberg Plateau. Luxembourg was originally a small medieval city and its rapid growth has created problems of traffic circulation in the central area.

The European Centre has easy communication with residential areas, shops, hotels and the airport. Existing shops and cafes are available in the Limpertsberg District which is about ten minutes walk across the bridge.

The approach to the Bank's site is off Boulevard Adenauer from the north-east, where it slopes down to a background of trees of the Parc des Trois Glands with views of the City beyond. The site may also be approached from the City on foot by paths through the woods.

The wearing down through the ages of the mountainous jurassic formations has left Luxembourg with its distinctive terrain of plateaux and ravines. The Bank's site near the junction of two such ravines, flanked on one side by rugged cliffs and on the other by woods sloping down to the valley of the river Alzette, occupies what must be one of the most dramatic situations remaining near the City of Luxembourg.

The Bank requested the Architect to visit and approve the site before the appointment was confirmed.

2. APPOINTMENT OF THE ARCHITECT

The appointment of the Architect was confirmed by the Bank in August 1973.

This is the first time in the history of the Common Market that an institution of the EEC has appointed its own architect. All other EEC projects have been built by Governments of the host countries, namely Belgium in Brussels, France in Strasbourg, and Luxembourg on the Kirchberg.

b) CONSERVATION

It is considered that the future amenity of the Bank's new headquarters as well as that of the neighbouring institutions depends on no further building being carried out in this area and on special care being taken on the landscape design of the spaces between the buildings. In order to achieve this it will be necessary for the EEC institutions to make an approach to the Government of Luxembourg with a view to promoting legislation ensuring that this land is kept free of further buildings in perpetuity.

c) ENERGY CONSERVATION

The consultants were asked to make energy saving one of their foremost considerations in the design of the mechanical and electrical systems, within the functional requirements of the Bank's brief.

d) SIZE OF THE BUILDING IN RELATION TO THE SITE

To enable the Bank to make certain fundamental decisions, the Architect was asked to undertake a study in order to determine "the optimum capacity of the site".

The Architect recommended that the new building should not exceed the height of the adjacent trees and the Court of Justice.

The Bank accepted the Architect's recommendation that the optimum capacity of the site should be for a building, to the Bank's space standards, with a population of between 750 and 800 staff built in a single stage.

The decision to build in a single stage, made in the light of an exhaustive study, carried with it the need to let part of the building until the Bank can occupy it in its entirety. The Architect was asked to consider the implications of this during the design of the building but not to the detriment of the Bank's eventual occupation of the whole building.

e) SCHEDULE OF ACCOMMODATION

This was prepared by the Bank with the assistance of Bouwcentrum of Rotterdam. It is a study in depth dealing with the Bank's organisational structure, its special needs and its communications. A full assessment of the accommodation required when the Bank occupies the whole building was prepared in accordance with the existing departmental structure of

the Bank. Allowing for future growth, ten departments were assumed.

The main accommodation categories comprise: Management and conference facilities, flexible offices, supporting accommodation of library, computer, printing and lecture rooms, staff amenities including restaurant and sports facilities.

The Bank's staff, which is recruited internationally, includes a high proportion of qualified experts in banking, economics, auditing, law, engineering, communications and languages. The special nature of the work was taken into account in assessing the space requirements for the office accommodation.

4. THE BRIEF

a) THE ENVIRONMENTAL SETTING

The appointment of the Architect contains a most enlightened statement for inclusion as part of the brief:

"The Bank desires that the appearance of its new headquarters at the Kirchberg Plateau in Luxembourg shall be such as to create a cohesive unit, which by the aesthetic value of its visual and spatial order and by the quality of its materials and architecture blends with the surrounding area and reflects the status of the European Investment Bank in the European Community."

The Bank's aspirations for its new headquarters were further defined in the "Outline Programme" which called for a building sympathetic both to its immediate environment and its more remote background in which special care had been given to its proportions, frontage arrangement and choice of materials. It envisaged a setting of lawns and gardens. Car parking for a high proportion of the staff was called for, but it was stipulated that it should not be visible so that it would not impinge on the green spaces surrounding the building.

The Bank's brief clearly anticipated a respect for civic values, social responsibility, and an expectation of high standards in the design of the building.

b) CONTACT WITH THE LANDSCAPE

It was also desired that the environmental setting should be enjoyed to the utmost by those working in the building. A sealed building was not wanted and it was requested that air conditioning should not be provided except for those areas which required it due to the nature of their use or their location in the overall plan. The Bank, in these requirements, had in mind that its wish for a building with openable windows and close contact with the landscape was consistent with a policy of energy saving.

5. THE SCHEME

a) INSERTION INTO THE SITE

The building is situated where the slope of the plateau starts to fall rapidly and changes its direction to face the Val des Bon Malades and the distant views beyond. The arms of the cruciform shape create a low-lying building emphasising the continuity of its horizontal elements rising out of the topography of the site. Each quadrant formed by the wings has its own character imparted partly by its relation to the landscape and partly by the activity with which it is associated.

East - Main entrance forecourt, entered from Boulevard Adenauer. Inviting form - receptive and generous approach. Right angle related to Court of Justice. Ramp access to car park for visitors and staff.

South - Staff restaurant / Cafeteria / Amenity area / Lecture room. Sheltered space enclosed by trees and shielded from the motorway.

West - Conference, Reception, Dining, and Meetings. A private place with amenities of trees, garden, lawns, valley.

North - Sports amenities - swimming, squash, gymnastics and indoor games. The largest quadrant with open space for jogging and outdoor activities.

The entrance forecourt is approached by a route which maintains a horizontal level against the slope of the site from the point where it leaves the public road, leading direct to the centre of the building with views of the landscape beyond. This level also forms a predominant floor containing the Management and Administration, creating a reference level for a building which, as the site levels



continue to fall, has accommodation both above and below it.

The building is entered by a covered Porte Cochere leading to a hall from which is first sensed the organisation of the building itself with only glimpses of the landscape, but on approaching the conference foyer the soffite of the double height hall extends to define a space where the view opens out to encompass the panorama of forest, valley, and distant city. This sense of integration with the site extends through the building, where the occupant of every office can feel in touch with the exterior, whether by means of an enclosed space or a distant view. In either case the outlook is always in relation to the building itself, which despite its size is never seen in its entirety but always in relation to its small spaces and its human scale.

The cruciform plan, combined with a low stepped section, not only expresses with clarity the central organisation of the Client's brief but also has important architectural advantages. It enables the orbit of the site to be drawn into the heart of the building with the result that the site is occupied without destroying the spaces and the presence of the building is established on all sides. Moreover, the trees, valley and landscape are extended to the building itself, resulting in an earthbound structure with optimum orientation and prospect for working spaces.

The unequal wings of the plan exploit the maximum and minimum length of the site so that there is an inbuilt assymetry, with the long axis away from the motorway. Maximum use has been made of the falls in the site, thus reducing the excavation to a minimum.

The consistent use of terraces, galleries, stairs and external spaces, enables the architecture to cascade into the landscape creating a blend of building and environment. This manifestly landscape emphasis is used to create a sense of place in lieu of any false monumentality.

b) LAYOUTS

The Bank's requirements were resolved into clearly defined elements of accommodation. Its central organisation leads naturally to a form where these elements converge on a central area at varying levels, from which the individual can appreciate the extent and content of the building and sense its corporate nature.

The offices are in the wings where they can benefit from the maximum external perimeter. Between the wings and adjacent to the central vertical cores are contained, at the upper level, library and computer accommodation. At ground level the staff restaurant is on the south side and the sports facilities in a complementary position on the north side. The entrance hall is linked diagonally with the conference foyer in which a broad staircase leads down, as the site falls, to the main conference suite.

c) CONFERENCE

In the Main Conference Room there are seats for 111 delegates and translation facilities for 9 languages simultaneously. The central location of the main conference room flanked by reception on one side and dining on the other at a point where the main entrance in effect merges with the landscape, signifies its importance in the overall layout. The translation booths are arranged so that the interpreters can make visual contact with the maximum number of participants, while leaving two fully glazed walls clear for maximum contact with the landscape.

A smaller conference room (50 seats) with translation facilities for three languages simultaneously is provided on the top floor where it can double up as a departmental meeting room. It is connected by lift with the main conference foyer.

This is the only building in Luxembourg with equipment for the simultaneous translation of nine languages. The Conference Suite will be available on loan to other organisations.

d) FLEXIBLE OFFICES

The modular dimensions of the wings fit the office requirements of the Bank in the most economic way. Room depths of 6.9 metres and 4.5 metres on each side of a 1.8 metre corridor are used with a perimeter module of 1.8 metres giving a minimum room width of 3.6 metres. The varying sizes of floors brought about by the stepped ends to the wings and the different lengths of the wings themselves enable closely related groups to achieve identity and makes for the greatest possible flexibility in the location of departments of varying sizes and requirements. The total occupancy of the building calculated on the basis of 15.5 m<sup>2</sup> per person is 750. All offices enjoy access to the terraces at the ends of the wings.

e) SUPPORTING ACCOMMODATION

The Library, located centrally in relation to the offices, is arranged so that maximum use is made of the perimeter for the Reading Room, Work Room and offices, with the bookstacks and micro-film rooms internally. The documentation offices occupy perimeter space on the floor above. Immediately opposite the Library is the Computer accommodation, again arranged with the working areas on the perimeter and the machines and storage in the internal space.

The printing and photocopying service is located at a lower level where the vibration problems of its machinery can be more easily controlled. It comprises predominantly open areas, in which the various operations can be conveniently arranged, together with associated offices.

f) AMENITIES

The self-service restaurant with its cafeteria gallery and rest space, seats approximately 500.

The swimming pool is 8.0 metres by 16.2 metres. There is a standard sized squash court and a gymnasium 13 metres by 25 metres which is equipped with facilities for volley ball, indoor tennis, gymnastics etc. In addition to changing rooms there is a spectators' gallery running the full length of all the sports accommodation, and this gives access to a table tennis gallery.

The lecture theatre seats 80 persons.

The storage in the building comprises general stores, book stores, and archives, and these are accommodated on the lowest levels.

g) CIRCULATION WITHIN THE BUILDING

The main entrance, flanked by the administration, leads to the conference foyer two floors below. Independently of the main approach, staff may enter from the underground car park at the same level as the restaurant and sports facilities and with direct access to the main vertical circulation. This creates both horizontal and vertical routes for the staff which can avoid those used for Conference purposes. The offices and their supporting accommodation are approached by lift or stair in the central core which, at each level, contains a porter's space and document hoist.

The main lifts provide an easy connection with the smaller conference room on the top floor. The circulation in the flexible offices is primarily in horizontal routes from the central core. The secondary cores serve to improve communication between departments or to provide internal communication within them if a department is organised vertically on several floors. The supporting accommodation is closely linked to the flexible offices at the central core.

## 6. STRUCTURE

### a) FOUNDATIONS

All foundations are carried on the hard sandstone rock strata. Special measures were necessary at the edge of the valley and elsewhere to ascertain the precise position and extent of fissures in the rock which were revealed after drilling and blasting had taken place, and to provide for them in the design of the foundations.

### b) SUPERSTRUCTURE

The exterior and extensive parts of the interior are formed of prefabricated reinforced concrete beams and columns with a special exposed finish containing Montorfano silver-grey granite aggregate from Mergozzo in Italy. The specialised technique for exposing the aggregate was developed in the U.K. and fabricated under controlled conditions in Metz, France.

The offices are constructed of a rigid reinforced concrete frame of central columns and spine beams composite with the external pre-cast structure. The floors are of deep ribbed slabs allowing integrated lighting and ventilation services to be contained within their overall depth. This has the advantage of providing maximum efficiency for transverse stability in the structure, a high thermal inertia contributing to the attainment of acceptable internal summer temperatures and a soffit which allows within its modular limitations the alteration of partition positions without affecting the lighting or ventilation layout. In the corridors the floor is reduced to a minimum thickness slab in order to house the ventilation services above a suspended ceiling.

The Entrance Hall and Foyer columns are kept to a minimum to allow traffic movement at the main entrance and to free the double height space internally. They carry reinforced concrete diagrid coffered ceilings formed in situ with glass reinforced plastic shuttering.

The Conference Suite ceiling comprises a full floor height space to accommodate major structural elements, air conditioning services and additional height required for the conference room over and above the normal floor height. The availability of such a depth for the structure in this area allows it to receive point loads from above and creates uninterrupted glazed areas overlooking the landscape.

## 7. ENVIRONMENTAL CONTROL

### a) OFFICES

The Brief stipulated that the offices shall not be air conditioned, in the interests of energy conservation. The individual is allowed the maximum control over his office environment by manual control of installations or by opening windows. The building and its engineering services has been designed to delay the build-up of summer heat for more than a short period of time. The following considerations are essential to achieve satisfactory conditions:-

**Shade:** This is achieved by manually adjustable louvres external to the windows. Automatic control ensures their withdrawal in exceptional wind conditions.

**Structural Inertia:** Optimum conditions are obtained from the floor construction and concrete elements, in conjunction with the ventilation system. The utilisation of the admittance property of such surfaces and their subsequent radiant effect where not covered by insulating material can lead to an environmental temperature in the room lower than the ambient external air temperature in warm weather.

**Minimisation of Heat Gain from Artificial Illumination:** It was essential to reduce this source of heat gain as much as possible. This was achieved by extracting the ventilation air through light fittings. Lighting levels of 400 lux are available from fluorescent high-efficiency low-glare light fittings.

**Ventilation:** To obtain satisfactory summer conditions in the absence of air conditioning, it is necessary to achieve six air changes per hour. This cannot be guaranteed by natural air movement through windows and in any case, security considerations require the closing of the windows at a time when the cool night air is essential to evacuate the heat which has built up in the building fabric during the day. A mechanical ventilation system was therefore essential. The use of the voids in the concrete floor construction as a route for the inlet air assists further with the removal of the heat build up in the building fabric.

**Heating:** Low pressure hot water convectors under the windows provide heating when required. Automatic control valves permit a personal

choice of temperature in each room with a maximum of  $20^{\circ}\text{C} + 1^{\circ}\text{C}$  within the range of outside air temperature at  $-12^{\circ}\text{C}$  up to  $20^{\circ}\text{C}$ . The temperature differential within any office should not exceed  $2^{\circ}\text{C}$  between floor and 1.5m level.

Windows: Double glazed high-performance sliding windows with rigid, welded frames of aluminium with a durable syntha pulvin polyester powder coating. The window system is totally flexible to allow for future rearrangements of office partitioning and it is based on a specially developed locking mechanism to achieve a high performance against air infiltration.

b) OTHER AREAS

Systems used in the different areas can briefly be enumerated as follows:-

Conference Area and Lecture/Teaching facilities: Fully air-conditioned with low velocity all-air system and sealed windows.

Sports Facilities: Ventilated and heated with a low velocity all-air system.

Library/Computer Room/Print Room: Fully air-conditioned with a low velocity all-air system and sealed windows.

Restaurant, Cafeteria and Dining Rooms: Fully air conditioned with a low velocity all-air system. Exhaust air from the Restaurant transferred to mechanically ventilate the kitchen area. Vitiated air extracted through kitchen hoods etc. and exhausted separately at the highest roof level.

Entrance Hall: Maintained under positive pressure by a low velocity all-air system providing warm air at the base of vertical glazed surfaces.

Car Parking Area: Mechanically ventilated with supply air being introduced along the long wall adjacent to the main building and exhausted along the opposite wall by several extraction systems exhausting towards the main road. Warm spill air from the main building used as supply air as part of the heat recovery system.

c) Design Standards

Fully air conditioned areas: An internal temperature of approximately  $20^{\circ}\text{C}$  for an external air temperature ranging from  $-12^{\circ}\text{C}$  to  $+20^{\circ}\text{C}$  and as the external temperature rises from  $20^{\circ}\text{C}$  to  $30^{\circ}\text{C}$  the internal temperature to pass from  $20^{\circ}\text{C}$  to  $25^{\circ}\text{C}$ . For external temperatures above  $30^{\circ}\text{C}$  the internal



temperature to be maintained at a value of no more than 5°C lower than the external temperature. The temperature differential within any internal space will not exceed 2°C and the relative humidity in these areas controlled to approximately 50%. Recommendations of the Institution of Heating and Ventilating Engineers (IHVE Guide 1970) published by the Chartered Institute of Building Services used for ascertaining the minimum fresh air requirements.

**Heated and Ventilated Areas:** Internal temperatures maintained at levels compatible with the occupation of each individual space and normally at no more than 20°C for external temperatures ranging from -12°C to +20°C. On the warmest days when the external temperature can rise above 20°C, the internal temperatures will also rise above 20°C but will still be several degrees below the outside temperature.

**Illumination Levels:** Selected as being appropriate to occupational requirements using the Illuminating Engineers Society Code (1973) as a basis, and fittings of the low brightness high efficiency type specified in the offices.

**Noise Criteria:** Levels for the different spaces using the IHVE Guide 1970 as a basis. Special measures were taken to isolate the technical plant from the structure in order to control the spread of noise and vibration.

d) Other Services

There is a central control system for monitoring the services within the building. The standard offices are equipped with a central vacuum cleaning plant and connecting points are provided at regular positions throughout the building.

8. CONSULTANTS

The Bank required a broad representation of professions drawn from EEC member countries. This produced exceptional complexity. The British engineers (Scott Wilson Kirkpatrick & Partners) formed a team with Belgian (Progeco SA) and German Engineers (HL-Technik GmbH), so that the distances for communication extended from London to Brussels, Dusseldorf and Munich.

Bills of Quantities and U.K. Quantity Surveying procedures were accepted and adapted for continental usage by Widnell & Trollope. This is the first project for a European Community Building in which these procedures have been used.

9. CONTRACT

The Contract was based upon the standard FIDIC (Federation Internationale des Ingenieurs-Conseils) Contract suitably amended for building projects. It is to be construed under Luxembourg Law which follows the French Civil Code for building projects.

A two-tier tender procedure was adopted to enable the Contractor to begin construction before the design development was completed.

Philipp Holzmann AG of Germany were eventually awarded the Contract from a shortlist of 25 European firms and consortia, using a pre-selection procedure following responses to open advertisements in the European press.

No British contractor tendered.

Although the Contract is governed by the Law of Luxembourg, the language of the Contract is English.

10. TENDERING PROCEDURES FOR SUBCONTRACTORS

The Bank required the broadest possible range of tenders from firms of all member countries.

Subcontractors were invited by advertisements in the European Press. There are no 'Nominated' subcontracts in the JCT sense, the Main Contractor having full responsibility for all subcontractors.

The following brief examples show the extent of international involvement:

- Belgium - Light fittings, prefabricated ceilings, kitchens, electronics, lift installation
- Denmark - Library fittings, Forecourt Bollards
- France - Precast concrete units, entrance glazing
- Germany - Windows, joinery, services installation, office partitions
- Holland - Lettering signs, squash court plaster, cubicle partitions
- Italy - Granite aggregate, Restaurant furniture.
- Luxembourg - Electrical & drainage installations
- U.K. - Doors, special partitions, handrails, fibreglass precast shuttering, carpets, water-garden.

Craftsmen, specialists, skilled and unskilled labour were drawn by the Contractors from most countries of the Community.

11. BUILDING BYELAWS AND STANDARDS

The Building is designed to Luxembourg building regulations so far as they can be applied, or to the requirements of the Luxembourg authorities.

Specifications are to DIN or BSS standards.

12. LANGUAGES AND COMMUNICATIONS

The international nature of the project required considerable co-ordination of information. Whilst English was commonly used at meetings, there were wide differences in building procedures and practice from country to country.

Meetings were necessary in many countries of Europe, in addition to Luxembourg.

13. MANAGEMENT

The Bank retains a firm of Management Consultants for internal advice to their own Working Party.

The National Building Agency assisted with programming.

Bovis International assisted liaison between the Bank and Philipp Holzmann by providing a Construction Management Service.

14. AREA

Total Area of Building (excluding Car Park) = 34,172 m<sup>2</sup>  
(367,836 ft<sup>2</sup>)

15. HEIGHT

The height of the building from ground level to the top of the roof structure is 37.4 metres.



Ref: A04996



Euro. Pol.

MR. ALEXANDER

Deal with  
re. Mrs

Briefing for the European Council,  
Luxembourg, 29th-30th June 1981

The preparation of the briefs for the next European Council is now being put in hand. I should be grateful for your confirmation that it would be acceptable if they reach you by noon on Friday, 19th June. Perhaps you could also let me know what plans you have to arrange a preparatory meeting for the Prime Minister before the Council and who you would wish to attend such a meeting.

(D. J. Wright)

1st June 1981

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10 DOWNING STREET

*From the Private Secretary*

27 May 1981

Budget Restructuring: 29-30 June European Council

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 21 May and the enclosed draft text for inclusion in the communique of next month's European Council. The Prime Minister was not altogether happy with the proposed text. I enclose the text of a redrafted version which the Prime Minister has approved.

I am sending copies of this letter and its enclosure to John Wiggins (HM Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office)

M. O'D. B. ALEXANDER

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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CONCLUSIONS OF THE 29-30 JUNE EUROPEAN COUNCIL ON RESTRUCTURING

1. The Heads of State and Government had a first discussion of the Commission's paper. They confirmed that the necessary decisions under the 30 May mandate should be taken before the end of the year. This would therefore be the major topic for the meeting in London on 26-27 November.

2. They agreed that the preparatory work would need to concentrate on:

- (i) improving the CAP by bringing its costs under firm control and by discouraging the production of structural surpluses;
- (ii) the future development of other Community policies in such a way as to contribute most effectively to the needs of the Community in the 1980s and to the economic convergence of member states;
- (iii) consideration of such additional measures as may be needed to avoid the recurrence of an unacceptable situation for any member state.

3. The Heads of State and Government asked the Foreign Affairs Council, drawing on the work of other Councils as appropriate, to make thorough preparations for their meeting in November. They asked the Commission to continue its contribution and to make the necessary formal proposals in good time.

4. The Heads of State and Government made it clear that they intended to take a close and continuing personal interest in the work under the 30 May mandate, which they regarded as essential to the future wellbeing and development of the Community.

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FM F C O 262220Z MAY 81  
TO IMMEDIATE THE HAGUE  
TELEGRAM NUMBER 85 OF 26 MAY.

*fs*  
*Amul*

FOR FRANKLIN ON ARRIVAL 27/5/81 A.M. FROM ALEXANDER,  
PRIME MINISTER'S OFFICE.

DRAFT CONCLUSIONS OF THE 29-30 JUNE EUROPEAN COUNCIL  
ON RESTRUCTURING.

THE HEADS OF STATE AND GOVERNMENT HAD A FIRST DISCUSSION OF  
THE COMMISSION'S PAPER. THEY CONFIRMED THAT THE NECESSARY  
DECISIONS UNDER THE 30 MAY MANDATE SHOULD BE TAKEN BEFORE THE  
END OF THE YEAR. THIS WOULD THEREFORE BE THE MAJOR TOPIC FOR  
THE MEETING IN LONDON ON 26-27 NOVEMBER.

THEY AGREED THAT THE PREPARATORY WORK WOULD NEED TO  
CONCENTRATE ON:

- (I) IMPROVING THE C A P BY BRINGING ITS COSTS UNDER FIRM  
CONTROL AND BY DISCOURAGING THE PRODUCTION OF  
STRUCTURAL SURPLUSES;
- (II) THE FUTURE DEVELOPMENT OF OTHER COMMUNITY POLICIES IN  
SUCH A WAY AS TO CONTRIBUTE MOST EFFECTIVELY TO THE  
NEEDS OF THE COMMUNITY IN THE 1980'S AND TO THE  
ECONOMIC CONVERGENCE OF MEMBER STATES;
- (III) CONSIDERATION OF SUCH ADDITIONAL MEASURES AS MAY BE  
NEEDED TO AVOID THE RECURRENCE OF AN UNACCEPTABLE  
SITUATION FOR ANY MEMBER STATE.

THE HEADS OF STATE AND GOVERNMENT ASKED THE FOREIGN AFFAIRS  
COUNCIL, DRAWING ON THE WORK OF OTHER COUNCILS AS APPROPRIATE,  
TO MAKE THOROUGH PREPARATIONS FOR THEIR MEETING IN NOVEMBER.  
THEY ASKED THE COMMISSION TO CONTINUE ITS CONTRIBUTION AND TO  
MAKE THE NECESSARY FORMAL PROPOSALS IN GOOD TIME.

THE HEADS OF STATE AND GOVERNMENT MADE IT CLEAR THAT THEY  
INTENDED TO TAKE A CLOSE AND CONTINUING PERSONAL INTEREST IN  
THE WORK UNDER THE 30 MAY MANDATE, WHICH THEY REGARDED AS  
ESSENTIAL TO THE FUTURE WELLBEING AND DEVELOPMENT OF THE  
COMMUNITY.

CARRINGTON

[COPIES SENT TO NO 10 DOWNING STREET]

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PM/81/29

PRIME MINISTER

*I am not very happy with it. The style is awful and it has some strange for a communication. The Chancellor and Mr Welles are content? May this text be given to the Dutch next week.*

*Prime Minister.*

*AKR  
20/6*

Budget Restructuring: 29-30 June European Council

1. We need to consider how best to steer the European Council next month to conclusions on the budget restructuring mandate which will be consistent with our objectives and set the work on the right lines for our Presidency. Given the situation in France we obviously cannot hope to get very far on substance.

2. Officials have prepared the attached draft as a possible text for inclusion in the communiqué. It concentrates on the procedural arrangements to carry the work forward, while stressing its importance and its urgency. Paragraph 3 outlines the three areas of work which we believe are important, and on which we expect the Commission's report to concentrate. Even getting the European Council to agree that these are the three areas of work would be helpful, but if we try to enter too much into substance there will be no prospect of an agreed text. For that reason it does not refer to issues like the 1% ceiling which are certain to be controversial. Of course this in no way precludes you from making the British view on this clear at the Council, and we hope Chancellor Schmidt will do the same.

3. Paragraph 4 of the draft is designed to create the necessary degree of central control over the exercise without

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prejudging at this stage how the work of the Foreign Affairs and other Councils should be brought together. Paragraph 6, by referring to the involvement of Heads of Government, would provide the basis for us to propose special procedures such as a group of personal representatives if it becomes clear that the existing Community institutions are not making adequate progress.

4. If you and our colleagues agree, officials would give this text to the Dutch Presidency at a meeting to be held in the Hague on 27 May.

5. I am copying this minute and attachment to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

  
(CARRINGTON)

Foreign and Commonwealth Office  
21 May 1981

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DRAFT CONCLUSIONS OF THE 29-30 JUNE EUROPEAN COUNCIL ON RESTRUCTURING

1. The Heads of State and Government had a first discussion of the Commission's paper. They welcomed this useful contribution and invited the Commission to continue to contribute actively to the work under the 30 May mandate during the months ahead and to make the necessary formal proposals in good time for decisions to be taken.

2. They confirmed that it was their firm intention that the necessary decisions provided for under the 30 May mandate should be taken before the end of the year and they agreed that this would be the major topic for their next meeting in London on 26-27 November.

3. They agreed that the preparatory work would need to concentrate on three main areas:

? (i) The strengthening of the CAP by bringing its costs under firm control and by discouraging the production of structural surpluses:

(ii) The future development of the non-agricultural spending policies of the Community in such a way as to contribute most effectively to the needs of the Community in the 1980's and to the economic convergence of the member states;

(iii) The consideration of such additional measures as might be needed to avoid the recurrence of an unacceptable situation for any member state.

~~is~~ ? low VAT levies ?

3 4. Heads of State and Government wished their consideration of the restructuring mandate at their meeting in November to be very thoroughly prepared. They therefore asked the Foreign Affairs Council to give this high priority, drawing on the work of other Councils as appropriate.



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5. They agreed to ask the European Parliament for its views on the Commission paper and invited them to make these available to the Council by the end of September.

6. The Heads of State and Government made it clear that they intended to take a close and continuing personal interest in the work under the 30 May mandate, which they regarded as essential to the future wellbeing and development of the Community.