

S
807

PREM 19/755

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)1 Revise

COPY NO 1

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

INDEX OF BRIEFS

Brief by Foreign and Commonwealth Office

1. Index of Briefs
2. Steering Brief
3. Economic and Social Situation
4. Problems of Industry and Trade
5. Budget Restructuring
6. Fisheries
7. Energy
8. EMS
9. North/South
10. Civil Aviation
11. Insurance
12. New Commission
13. Report of Three Wise Men
14. Seat of Institutions
15. Enlargement
16. Political Cooperation (including Middle East,
Iran/Iraq, East/West, EC/US, Korea)
17. Common Judicial Area
18. New Zealand Butter
19. ERDF
20. Progress Towards European Union
21. Euro/Arab/African Trilogue
22. 1981 Budget
23. Export Credits Consensus
24. *Italian Earthquake*

Foreign and Commonwealth Office

26 November 1980

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)2

-- COPY NO

20 November 1980

1

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

STEERING BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. With the tying up at the October Foreign Affairs Council of the loose ends on the 30 May Budget settlement and with the actual negotiating on budget restructuring on the horizon but not yet on the table, current Community business is in reasonably good order and it should be possible for the Heads of State/Government to concentrate on an informal discussion of wider issues rather than getting embroiled in current problems requiring decisions. The meeting should therefore be more like the Venice Council in June than the preceding Luxembourg and Dublin Councils. This is the only European Council under the Luxembourg Presidency. The Greeks will be present for the first time.

AGENDA AND DOCUMENTATION

2. On the basis of M Werner's letter, the agenda is likely to be on the following lines, though this will probably be revised as a result of discussion in Coreper;
1. Economic and Social Situation (Commission to prepare a paper)
 2. New Commission - mandate on restructuring
 3. Report by Mr Jenkins
 4. Problems of certain sectors of economies (Trade and industrial problems and problems of agriculture)
 5. Relations with major industrialised countries (US, Japan)
 6. European Monetary System (Commission to prepare a paper)

CONFIDENTIAL

7. North/South dialogue
8. Functioning of Community - Report of Three Wise Men
9. Political Cooperation, to cover Middle East
(probably also Iran/Iraq, East/West, EC/US,
Korea and Euro/Arab/Africa 'trilogue').

UK OBJECTIVES

3. a) Our basic objective is to prepare the ground for the discussions which will be starting in earnest in the next few months on restructuring by demonstrating our commitment to the Community and our determination to play a full part in its development.

b) On budget restructuring our main aims are to inject a sense of urgency and of the need to stick to a tight timetable, to ensure that the new Commission seeks the views and reactions of Member States bilaterally before presenting any formal proposals, and to - - - - - steer the discussion towards the search for solutions within the 1% VAT limit and away from a 'big budget' approach.

c) We also want to focus the attention of the European Council on certain sectors of industry which face severe structural problems with a view to getting the Community to take more effective action in the trade policies field.

d) We want the European Council to conclude the discussions on the report of the Three Wise Men and to endorse the conclusions of the Foreign Affairs Council on it.

e) On Foreign Policy issues, we want to keep the Nine's Middle East activities alive while avoiding taking up positions which could bring about premature friction with the new US Administration.

OBJECTIVES OF OTHER GOVERNMENTS

4. President Giscard has said he would like the European Council to concentrate on political affairs, and may wish to promote an initiative by the Nine on the Middle East which we would probably wish to resist. However the French accept that economic and Community problems will be discussed. The Germans share our views on the Middle East and support our wish to discuss problems of trade and industry. Chancellor Schmidt may wish to express his dissatisfaction with the recent Community action

CONFIDENTIAL

on steel. The Irish have said they wish to discuss the problems of agriculture along with those of certain industrial sectors, no doubt with the objective of preparing the ground for a high agricultural price settlement in 1981. The Benelux countries may want to go further than France and Germany in developing the EMS. The Greeks may raise the subject of their quotas in the Regional Development Fund.

SUMMARY OF BRIEFS

MAIN BRIEFS

ECONOMIC AND SOCIAL SITUATION (Brief No 3)

5. This is a standing item on the agenda for each European Council and will provide an opportunity for the Prime Minister to set out the Government's economic policy and to emphasise its consistency with the general policy stance adopted by other Member States. Some governments will tend to focus primarily on the problem of unemployment and the Prime Minister may wish to emphasise the need to get the rate of inflation down if the problems of unemployment are to be mastered.

PROBLEMS OF INDUSTRY AND TRADE (Brief No 4)

6. In the current recession several industrial sectors in the Community are facing problems due to a combination of internal market conditions and third country competition. Steel is one example; textiles, synthetic fibres and petrochemicals face competition from the US, exacerbated in the latter two sectors by US energy price policies and from developing countries; in the car and consumer electronics sectors the pressure from Japanese imports is great. The Community's effort to develop a coherent approach toward Japan which will have been discussed at the November 25 Foreign Affairs Council is relevant to a number of these problems. Our aim will be to emphasise the need for the Community to take timely and effective but limited action to tackle these problems as they come up; but we do not want to get into a

trade liberalisation v. protectionism argument with the Germans if this can be avoided.

7. If the Irish or other Member States emphasise the problems of the agricultural sector, we shall want to resist any conclusions which might endorse the need for a high level of CAP price increases in 1981.

BUDGET RESTRUCTURING INCLUDING CAP REFORM (Brief No 5)

8. Detailed discussion on this subject has not yet begun; the Commission's ideas are not likely to be available until June 1981. However, the Prime Minister may wish to express some preliminary views and emphasise the importance and urgency we attach to this exercise. In particular she will want to emphasise our view that restructuring needs to be carried out within the 1% VAT ceiling. She will also want to emphasise the need for decisions which will have to be taken in the next few months particularly the 1981 price fixing (and any Commission proposals for CAP economy measures that may be linked with it) to avoid undermining the restructuring exercise by failing to check farm surpluses and thus the dominance of agricultural spending in the budget.

She may wish to emphasise the need for severe price restraint with lower than average increases for products in surplus. She may also wish to build on German ideas about a ceiling for agricultural expenditure and, letting the Germans take the lead if at all possible, to seek to get it established that Finance Ministers should explore **the idea of a ceiling** on agricultural expenditure for 1981. We may need to underline that across-the-board co-responsibility levies, (as opposed to the super-levy) which the Commission and some Member States favour, are not a satisfactory answer since they tend to be linked with overall price rises and thus to impose even further burdens on consumers.

ENERGY (Brief No 7) (Our position is under consideration and this brief is also subject to developments at the

Energy Council on 27 November)

9. Attention is likely to focus on the current international oil supply situation and in particular the difficulties arising from the continuing Iran/Iraq conflict. The situation is growing more disturbing, with little prospect of an end of the war and a steady firming up of spot prices. Our aim is to avoid any outcome to the discussion which will indicate panic and thus be likely to exacerbate market trends, to ensure that Community action is fully consistent with measures being considered in the IEA (which is holding a Ministerial meeting on 9 December) and to resist any pressure for specific commitments over supply of UKCS oil. Discussion of other Community energy issues is unlikely.

EMS (Brief No 8)

10. Some discussion of the EMS is inevitable, as this is the last European Council before the date set for the end of the first stage. However technical preparation of the move to the second institutional stage has been generally slow and no Member State now believes that it will be possible to carry through the original plan of setting up a European Monetary Fund and promoting a wider role for the European Currency Unit by March 1981. The French and Germans accept this but the Benelux countries may press for progress to be made. It is likely that a package extending the existing arrangements, possibly with some minor additions, will have been put together by the time of the Council which Heads of Government will be asked to endorse. Such a package is unlikely to cause us any difficulties. Pressure on the UK to join the exchange rate mechanism is unlikely, although the President of the Commission may raise this issue in his valedictory report and the French may try to blame us for the failure to move to the second institutional phase next year.

NORTH/SOUTH (Brief No 9)

11. We have no interest in a lengthy or detailed discussion of this subject at the European Council. In any discussion our objectives are to work for a positive but realistic

CONFIDENTIAL

approach to the problems of developing countries, giving proper weight to trade and private finance alongside aid. Our objective remains to protect the integrity of specialised international bodies like the IMF; informal exchanges on this are continuing in New York. At the same time we will wish to make clear our readiness to attend a N/S summit in June 1981, as proposed by the sponsors meeting in Vienna. The Dutch may raise the problem of Community representation at such a meeting.

CIVIL AVIATION AND INSURANCE (Brief Nos 10 and 11)

12. The Prime Minister has decided not to take the initiative in raising either of these questions directly in Luxembourg, but briefs are provided in case an opportunity arises of mentioning our interest in them.

NEW COMMISSION (Brief No 12)

13. This is a formality. M Thorn has to be formally nominated as the President. All Member States will put forward their nominations for Commissioners before or at the meeting, but there should be no need for discussion. There may be some discussion in the margins of the meeting on portfolios. Our aim is to retain the Budget portfolio for Mr Tugendhat and to do what we can to advance Mr Richard's chances of getting Development.

REPORT OF THE THREE WISE MEN (Brief No 13)

14. Foreign Ministers' conclusions on the Report will come to the European Council for formal endorsement and our aim is to get this agreed without spending a lot of time in discussion. There may be some discussion on issues affecting the European Council itself in particular the question of attendance by the President of the European Council at the Parliament.

SEAT OF THE INSTITUTIONS (Brief No 14)

15. The French may press their view that Strasbourg should be the permanent seat of the Parliament. Our aim will be to ensure that no decision is taken on the substance of the question.

We might support the Dutch view that the Parliament itself should be consulted before the seat is fixed.

EUROPEAN UNION (Brief No 20)

16. It should only be necessary for the European Council to take note of the reports, produced annually by the Commission and the Council on 'progress towards European Union'.

ENLARGEMENT (Brief No 15)

17. It is quite possible that this subject will not be discussed but, if it is, we will wish to make plain our continued support for enlargement and our belief that the enlargement negotiations should be carried forward in parallel with the Community's internal discussions on restructuring. At the same time, it is welcome that both Spain and Portugal now seem to accept that postponement of the January 1983 target date for entry is likely because of the Community's need first to deal with its internal problems. We will wish to underline the importance of working for solutions, both in the accession negotiations themselves and the restructuring negotiation, which avoid putting an undue financial burden on the Community budget.

POLITICAL COOPERATION (Brief No 16)

18. In his message to the Prime Minister, M Werner said he expected the Middle East to be the major theme in discussion of political cooperation subjects. Our objective will be to get agreement to further contacts with the parties concerned and with the new administration in the United States and to resist any French proposals that the Nine should at this stage launch a 'peace plan' for the Middle East.

19. Other topics likely to arise in discussion of the international scene are the Iran/Iraq war, East/West relations in the light of the developments in Poland and the Madrid meeting and Europe's approach to the new Administration in the United States. Chancellor Schmidt is likely to seek support for a Community demarche in Seoul on the fate of Kim Dae Jung.

EURO-ARAB-AFRICAN TRILOGUE (Brief No 21)

20. President Giscard may again raise the question which he previously raised in May of a 'trilogue' between Europe, Africa and the Arab world.

COMMON JUDICIAL AREA (Brief No 17)

21. President Giscard may try to keep the French initiative for a common judicial area alive by persuading the Netherlands to sign the Convention on extradition agreed by officials. We have no interest in the common judicial area and should give the French no support.

CONTINGENCY BRIEFS

FISHERIES (Brief No 6)

22. Reasonable progress is being made in negotiations on the Common Fisheries Policy against the background of the 30 May declaration that the CFP should be in place by 1 January 1981. There is a reasonable chance that agreement on the outline of a comprehensive settlement will have been reached by the end-year deadline. Our objective is to avoid discussion at the European Council since fisheries Ministers are actively engaged in the negotiations. However we need not object to a reaffirmation of the 30 May declaration.

NEW ZEALAND BUTTER (Brief No 18+ to be submitted)

(If not already settled)

23. Our objective is to secure the European Council's agreement that arrangements for post 1980 access should be made promptly.

1981 COMMUNITY BUDGET (Brief No 22 - to be submitted)

(If difficulties have arisen at 25 November Budget Council)

24. It is likely that there will be further negotiations between Parliament and Council in mid-December. However, we see no need for a discussion of these issues at the European Council and our aim will be to remit any discussion to the Budget Council.

EUROPEAN REGIONAL DEVELOPMENT FUND - GREEK SHARE (Brief No 19)
(If not settled at the November Foreign Affairs Council)

25. The Greeks may seek to raise this although the Greek Prime Minister will only be attending the meeting as an observer, and to argue against any reduction in the 15% share for them proposed by the Commission. We have asked the Commission to explain the basis for the 15% figure and are seeking to ensure that the brunt of cuts in quotas of present Member States to pay for the Greek share is borne by the more prosperous members of the Community. Our aim if this is raised at the European Council should be to get the issue remitted to the December Foreign Affairs Council. We should however avoid giving the impression that we are taking the lead in seeking a reduction in the Greek share.

FOREIGN AND COMMONWEALTH OFFICE
20 November 1980

EHG(L2)(80)2 Addendum

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

*Seven internal documents
 10,000 b
 12 billion dollars -
 rather than
 - air
 - immediate
 - record
 - which will be necessary*

*Polize, Prussia, ...
 - 5 minutes ...
 Italy
 5,000 dead
 15,000 wounded
 4-500,000 no homes*

COPY NO

1

1. Following discussion at the Foreign Affairs Council the Presidency have circulated the following "schema". (Numbers of briefs on each subject are given in brackets):

A OUTLINE GROUPING OF ITEMS LIKELY TO BE DISCUSSED

I ECONOMIC, SOCIAL AND FINANCIAL SITUATION OF THE COMMUNITY AND WORLD

EC. crisis, a structural reform.

- Employment (3)
- EMS (8)
- Innovation *and. Plan* (4)
- International Trade (4)
- North/South Dialogue (9)

Mr Jenkins' views on the Community's Development over the last 4 years and the outlook for the future

II POLITICAL COOPERATION QUESTIONS

- Middle East (16A)
- East/West relations (16C)
- Other Current Issues (16B, D, E, 17 & 21)

/III

III INSTITUTIONAL QUESTIONS

Report of Three Wise Men	(13)
Reports on European Union	(20)

(Composition of the new Commission (12) may also be discussed but was excluded from this list since not all Member States are agreed)

B ITEMS LIKELY TO APPEAR IN PRESIDENCY CONCLUSIONS

Only those items on which the European Council wishes to express its views will be dealt with in agreed texts. These items could concern:

Employment (3), EMS (8), publication of an updated version of the report by the Ministers for Foreign Affairs on the report by the Three Wise Men (13), publication of reports on European Union (20), confirmation of the brief of 30 May 1980 (5) and political cooperation (16, 17, 21).

2. In addition to the briefs mentioned in the main steering brief a new brief (no 23) is being supplied on export credits. This subject could come up, depending on the outcome of EC discussions with the US and others, on 26-28 November.

Foreign and Commonwealth Office
26 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
EHG (L2) (80)3 COPY NO. 1

18 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

Brief by HM Treasury

OBJECTIVE

1. To emphasise that UK policies are in line with agreed Community formula, and to avoid specific commitments on measures to alleviate unemployment.

POINTS TO MAKE

2. (i) Inflation now slowing down in most countries. Gap between UK rate and average EC rate has narrowed sharply in recent months.

(ii) Output declining or at best stationary in all the main economies. EC recession has been more synchronised with that in the US than once expected. Partly because inflation better contained, present recession likely to be shallower than in 1974-75. But recovery could be slow.

(iii) UK economic policies are part of Community-wide strategy to cut inflation and restore conditions for sustained growth.

(iv) Rise in unemployment disturbing. But should avoid commitments to specific measures which would add to industrial costs and risk raising expectations that there is a short-term solution.

CONFIDENTIAL

CONFIDENTIAL

BACKGROUND (All Information useable)

References

A: COM(80)596 Annual Economic Report 1980-81

3. The slowdown in Community economies has been much more synchronised with that in the US than once expected. In the second quarter, GNP in the EC fell at an annual rate of over 5 per cent (9.6 per cent in the US). Among the larger members, the falls ranged from 1.1 per cent in France to over 6 per cent in the UK; In Germany and Italy there were declines of $3\frac{1}{2}$ -4 per cent. Overall, though, output is expected to weaken less than after the 1973-74 oil shock despite an equivalent terms of trade loss. Investors and consumers have generally been under less financial pressure. Total growth in 1980-81 could be almost 2 per cent compared with less than $\frac{1}{2}$ per cent in 1974-75. Even so, growth in the EC is expected to be lower next year than this.

4. The average rate of inflation in the Community peaked at almost 14 per cent in July, little short of the level reached in 1974. But the recent upsurge owed more than the earlier one to specific policies aimed at achieving faster adjustment (eg abandonment of price controls, adjustment of tax structures and rapid pass through to consumers of higher oil prices). Wages on the other hand have risen much less sharply than in 1974, although experience has varied widely between countries. As a result, the divergence between the lowest and highest inflators has increased a lot. The gap between Germany and Italy is now some 15 per cent. But UK

CONFIDENTIAL

inflation has recently been moving towards the middle of the EC range, occupied by France and Denmark (where inflation is still rising). Since May, the differential between the UK rate and the EC average has narrowed from almost 9 per cent to around 2½ per cent.

5. The Commission forecasts that unemployment in the EC could rise to 3 million by the end of 1981 (almost 7 per cent of the civilian labour force compared with 5.6 per cent in 1979). On the same definition, UK unemployment is expected to rise from 5.3 per cent in 1979 to over 8 per cent in 1981. There have been discussions at Community level between employers and unions on various forms of work sharing. This sort of consultative process is acceptable. Practical agreements between the two sides of industry are far better than specific commitments by the Council which risk raising expectations that something can be done imminently.

6. Most Community Governments, like the UK, are seeking to stabilize or cut public sector deficits, reduce money supply growth and strengthen medium-term economic potential. This approach is endorsed in the Commission's Annual Economic Report which notes that "on the basis of the present outlook the policy mix should be strong in efforts to reduce inflation, save on oil imports, and pursue other needed structural changes ..."

CONFIDENTIAL

CONFIDENTIAL

7. Governments have been unwilling to force the pace in reducing interest rates. In a number of member states the scope for doing so is limited by domestic and/or external financing difficulties. Real interest rates are as a result very high in Denmark, Belgium and the Netherlands. Even in Germany, where money supply is growing at the bottom of the target range, rates have remained high because of the instability of capital flows following the renewed increase in US rates. And in Italy, discount rate was raised in September after the fall of Sig. Cossiga's government. In the Community as a whole, monetary expansion (M3) is now for the first time in a decade nearing the trend of the 1960's of a little over 10 per cent a year.

8. Unlike the US and Japan, the EC's current account balance has deteriorated since 1978 not only because of higher oil prices but also because of worsening in the real trade balance. In 1979, the Community accounted for less than one-third of the OECD deficit of \$38 billion; in 1980 and 1981 its share of the forecast OECD deficits of \$80 billion and \$50 billion respectively is expected to be more than one-half. The German deficit could reach \$15 billion this year and may be as high as \$10 billion next. The French deficit, now running at a very high level, is unlikely to come down much over the next few months and the Italian deficit continues to deteriorate. In some of the smaller members, notably Denmark and Ireland, deficits represent a very high proportion of GNP.

CONFIDENTIAL

9. The deutschemark was until recently very weak within the EMS, especially against the French Franc. This may partly have reflected the much greater scale of the overall German balance of payments deficit. But it may also have stemmed from differences in the way the deficits are being financed. Germany has so far relied, with only limited success, on attracting inflows through the market. France, by contrast, has greatly expanded its programme of public sector borrowing abroad. In Germany there have been recent measures to restrict capital outflows and France is attempting to slow down inflows.

10. Inflation and recession in the Community is affecting agriculture as well as industry. Some members (Italy and Ireland) take the view that agriculture is suffering relatively more than other sectors and proposals on CAP reform, price constraint and so on should be modified to take account of falling real income amongst European farmers. In fact virtually all sectors of the European economies are under pressure, but the response to these pressures varies - with industry more likely to shed labour and close down capacity compared with agriculture. So a simple comparison of the course of incomes in the two sectors is not necessarily a valid guide to how the two are faring. Agriculture does however benefit from protected markets, in contrast to industry which has to face world competition. If the protection provided to agriculture is further strengthened this can be only at the expense of more exposed sectors.

H M TREASURY

13 November 1980

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)80)3 Addendum 3

COPY NO

28 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1-2 DECEMBER 1980

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

Brief by H M Treasury

OBJECTIVE

1. To ensure that unacceptable language in the Commission Communication - COM(80)76 Final circulated as EHG(L2)(80)3 Addendum - does not become incorporated in the Presidency conclusions.

POINTS TO MAKE

2. (i) Reference in para 9 EMS to "extension to member states not yet taking part" could imply that UK is the obstacle to second institutional phase of EMS. Key issue is that neither France nor Germany ready to legislate for definitive transfer of part of their reserves, to including gold, to EMF.

(ii) Reference in para 10 to role of Community in recycling could be interpreted as readiness to assist non-Member countries. Majority of countries oppose use of Community loan mechanism for relending outside Community.

(iii) References to "deflation" in paras 11-12 are clumsy. Maintenance of tight policies is agreed in the Community. What should be avoided is action specifically to reduce external deficits, by countries who can finance them.

CONFIDENTIAL

BACKGROUND

Reference: Commission Communication on the Economic and Social Situation in the Community - COM(80)756 final.

3. The Commission's paper is generally satisfactory and uncontroversial but certain passages are badly phrased and should not be used as a basis for the language of the Prisidency Conclusions.

4. Paragraph 9 on the EMS is generally acceptable but there is a risk that the reference to "extension to those member states not yet taking part" may be used outside the Council as a basis for hinting that failure to move to the second institutional phase of the EMS is the fault of the UK. In fact neither France nor Germany are anywhere near ready to legislate for a definitive transfer of part of their reserves (including gold) to a European Monetary Fund, which is a key issue in the second phase as hitherto envisaged.

5. Paragraph 10 talks of the Community taking a more active part in recycling capital shortly after a reference to the Third World and paragraph 9 refers to adjusting the Community loan mechanism to assist countries (not Member countries) in balance of payments difficulties. This suggests that the Community might borrow in order to relend to LDCs. The majority of Community countries have hitherto been opposed to making the loan mechanism a kind of Community IMF. The possibility of ad hoc use of the loan mechanism to help a non-Member in some particular case is not wholly excluded but the majority view

CONFIDENTIAL

has been that we should not suggest publicly that the loan mechanism was for any purpose other than relending to members. Some other country (eg Germany) may take this point, when we could support them. The communique drafting ought not to imply that the Community is opening shop as a loan intermediary.

6. The references to "deflation" in paragraph 11, and especially in paragraph 12, are unsatisfactory. The first sentence of paragraph 12, if ⁱⁿ the communique, could be used critics of UK Government policy. The Communication says elsewhere that monetary policy must remain tight (paragraph 8) and budgetary policy must be tight too (paragraph 12). Some would call that "deflation". What the Commission really mean is that tight policies are needed to counter inflation but if they are adequate for that purpose, should not be further tightened to reduce external deficits. Collectively, the Community has to bear a share of the counterpart of the OPEC surplus. The admonition is directed at Germany. The thought is valid, though it is undesirable to appear to be telling the Germans what to do. But it is undesirable to have general references to "rejecting deflation" like that in paragraph 12. The OECD Ministerial Communique put the point much better. "Those countries which have no difficulty in external financing should refrain from taking policy measures specially aimed at reducing current account deficits".

H M TREASURY
28 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)3 ADDENDUM 2

COPY NO 1

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

Economic and Social Situation

Addendum by Department of Employment

UNEMPLOYMENT

Objectives

To be seen to be associated with Community concern at rising unemployment. But to focus attention on what is practical - e.g. the restructuring of Community policies to allow expanded structural funds.

Points to Make

(i) Main task is to get inflation down, and restore conditions for sustained growth. But certain groups need special help during this adjustment, especially the young and the long-term unemployed.

(ii) Community expenditure on the structural funds should make an effective contribution to alleviating unemployment especially spending in support of regions and industries, where present high levels of unemployment are concentrated.

(iii) It is important that there should be adequate room within the overall budget for these funds. This is one of the things we look to the restructuring exercise to achieve. [Brief No 5,

CONFIDENTIAL

/especially

CONFIDENTIAL

especially paragraph 6]

(iv) The UK values the help received from the European Social Fund (£135m total allocations for 1980) especially the support for the young unemployed and for training in the regions. The revised social volet proposals under the ECSC Treaty would if agreed provide aid for early retirement and short-time working in the steel industry.

BACKGROUND

Unemployment in the Community

1. Average 6.7%. Highest is Belgium 10.5% ; lowest is Germany 3.4% ; UK 7.9%. (Source : Eurostat 10 - 1980 of 14 November 1980). (Seasonally adjusted domestic figure for UK is 2.028 m or 8.4%) - Department of Employment 25.11.80.

Unemployment Measures

2. A programme of special measures was announced on 21.11.80 to help the unemployed in 1981 - 82, to cost nearly an extra £250 m over and above the £320 m originally provided for next year.

Youth Unemployment

3. Priority is being given to young people straight from school. MSC has been asked to provide 440,000 opportunities in the Youth Opportunities Programme next year, an increase of 180,000 over the current year.

4. Other measures to help the young include increases in Community Industry and the continuation of the Unified Vocational Preparation Programme.

/Adult

CONFIDENTIAL

Adult Unemployment

5. The Temporary Short-Time Working Compensation Scheme is being extended in scope; the Job Release Scheme will continue for men aged 64 and women aged 59 and for disabled men aged 60 or over. A new Community Enterprise Programme will be introduced to replace the Special Temporary Employment Programme. 25,000 places will be provided - more than twice the number at present.

European Social Fund

6. The Community contributes significantly to the Youth Opportunities Programme (£47 m this year). Provisional applications lodged with the European Commission for 1981 allowing for extensions now agreed. The UK's allocations for 1980 represent 22.7% of the Fund mainly for national programmes run by Government Departments such as the Manpower Services Commission's Youth Opportunities Programme and other schemes for young people (£71.9m) and the Training Opportunities Programme (£21m). The remaining allocations come under a variety of headings including help for disabled people, migrant workers, textile workers, and other special groups.

Shipbuilding

7. A proposal for Social Fund to provide income support for redundant workers in the shipbuilding industry is to be discussed at the Social Affairs Council on 27 November. Majority of member states are opposed for a variety of reasons including the need for budgetary restraint and to avoid too many new aids. The UK sees merit in the proposal but only if its details can be brought more into line with UK requirements. At the time of writing it seems unlikely to be approved.

/Work

CONFIDENTIAL

Work Sharing (overtime; part-time working; early retirement;
temporary work)

8. Covered in EHG (L2)(80)3 paras 2 (iv) and 5.

Department of Employment

26 November 1980

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)4 Revise

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

PROBLEMS OF INDUSTRY AND TRADE

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To stress the need for quick effective action to tackle trade problems, and to respond to any industrial questions raised.

POINTS TO MAKE

International Trade Questions

(a) Protective Action

2. British Government have resisted strong pressure for import restrictions in a number of sectors. Recognise dangers of unjustified protectionism. But recession is causing serious problems. Industry is entitled to expect EC to react as effectively as other developed countries to import surges and unfair trade.

(b) EC/Japan

3. (a) Welcome declaration on Community approach adopted by Foreign Affairs Council on 25 November. Right to use stronger tactics which deploy the strength of the Community as a whole. Previous initiatives over the years have failed to reverse the trend towards an increasingly wide gap on visible trade.

- (b) Vital to get across to Japanese the message that unless they adjust their policies they can expect the Community to defend itself more comprehensively than hitherto.

CONFIDENTIAL

(c) Council declaration calls for commitment by the Japanese Government to a substantial and early increase in imports of Community products and for effective moderation in exports in sensitive sectors. In present circumstances main emphasis has in practice to be on the latter.

(d) There can be no question of liberalisation of import restrictions by EC until we get results from Japan. On the UK side there are in any case no formal quota restrictions to be negotiated away. Mistake to dismantle our existing inter-industry arrangements unless there is something more effective to put in their place.

(e) In discussions about import problems the Community must provide for new as well as existing problem sectors.

(f) Right for Commission to maintain close contact with Member States. In wider dialogue it would add to Community's impact for Member States to join the Commission in the approach to the Japanese.

(c) US Oil And Gas Price Controls

4. (a) Essential for credibility of Western cooperation over energy that there is no delay in implementing US commitment to raise prices to world levels.

(b) Together with low dollar, US price controls are having a devastating effect on the UK textiles industry and damaging the chemicals industry. We must seek an urgent solution.

(c) Concerted effort needed to step up Community pressure on Reagan administration. But in any new approach to US EC case must be well substantiated and convincing. Commission draft statement seems to be on the right lines. But what exactly do the Commission have in mind? Consultations in the GATT are unlikely to produce early results as the existing talks on fibres show.

(d) If the issue cannot be resolved before the next economic summit (Ottawa - July 1981) we should consider using that occasion to bring home our concern to President Reagan personally.

(d) Multi-Fibre Arrangement (MFA)

5. We must have an effective successor to the present MFA.

UK industry is in a very difficult situation.

(e) Industrial Questions

6. (a) Steel

Community has made a successful start in tackling problems of domestic overproduction. Important that all EC companies comply with the quotas. Must now seek to reduce surplus capacity and restructure. Have already made difficult decisions ourselves. Externally we look for voluntary arrangements with suppliers which will be no less rigorous than the demands imposed on the domestic producers.

(b) Industrial Innovation

The Communication is a useful analysis of some of the problems. The Council should take note of it. We welcome the recognition that innovation is largely determined by the market place. The Community's role is, together with Member States, to help to create the right framework and in particular in identifying barriers to innovation and in proposing means of removing them.

(c) Telematics

Welcome Commission initiative. Hope work can move forward quickly. Particular need to liberalise market in telecommunication terminals.

BACKGROUND

References:

- A : Commission Communication on Industrial Development and Innovation;
- B : Commission Communication on International Trade Problems;
- C : UKREP telno 5209 giving text of Council Declaration on EC/ Japan;
- D : Tokyo telno 646 giving text of statement by Japanese Minister of Foreign Affairs on EC/Japan.

EC/JAPAN

7. In response to a rapidly deteriorating trade imbalance between the Community and Japan the Commission have proposed a new overall Community strategy. In addition to trade this would cover wider issues of political and technological cooperation. The working paper submitted to the 24/25 November Foreign Affairs Council paid more attention than previous drafts to the concessions which the Community should obtain from the Japanese. In particular it made it clear that 'moderation' by Japan over exports to the EC would be a precondition to discussion of reduction of Member States' import barriers. France, which together with Italy has the largest number of formal quotas on imports from Japan, has taken the lead in expressing reservations about the Commission's proposal and at the Foreign Affairs Council initially attempted to secure agreement to a statement dealing only with sectoral problems. Eventually however the Council adopted a declaration based on the Commission's working paper. It is clear the Japanese Government would have taken comfort from a failure.

/by

by the Foreign Affairs Council to support the Commission initiative. A week before the Council meeting a tough statement in relations with the EC was issued by Mr Ito the Foreign Minister (who is to visit London on 10 December immediately before his talks with the Commission).

8. The basic UK objective is to reduce our bilateral trade deficit with Japan and we want to act through the Community where appropriate to help achieve this. It is also for us an important political concern that the Community should develop a more stable and harmonious overall relationship with Japan. Discussion of wider economic and political issues could in the longer term make a useful contribution. We need to encourage a greater Japanese stake in the health of our economies through inward investment and industrial cooperation which can involve import substitution and transfer of Japanese technology. In the political field it is the Japanese who often feel the greater need to look to Europe (eg. the then Foreign Minister's visit to Luxembourg in April at the time of the debate in the Nine about sanctions against Iran).

9. Japanese car exports represent a major threat to the continued operation of the open trading system. The SMMT have asked for an assurance that they will continue to honour their commitment to market prudently in the UK (where their market share is likely to be over 12% in 1980). Despite the world-wide drop in demand the Japanese have increased their penetration in the USA to over 20% and in Germany to over 10%. The European manufacturers' association (CCMC) has called for formal import controls. A high level delegation including Sir M Edwardes and the heads of Renault, Volkswagen and Fiat visited Tokyo for talks on 18 November. JAMA apparently expressed understanding but gave no specific assurances.

10. Count Lambsdorff (FRG Economic Minister) suggested during a visit to Japan in July that Japanese exporters would be prudent to show restraint but the German Government remains formally

/opposed

opposed to import restrictions. It is strongly in the interest of the Japanese that this should continue to be the case. They are likely to try to play the Germans off against other Member States eg. by keeping their share of the German car market below 10%.

11. A particular threat is diversion of trade both to the EC and the EC's traditional export markets if restrictions are imposed on access to the US market. This threat remains despite the US International Trade Commission's ruling (by three votes to two) on 10 November that Japanese imports were not causing injury to American producers. President-elect Reagan has said that he is opposed to formal restrictions on Japanese car imports but he still believes their level should be reduced. He has had support from the US automobile manufacturers in his campaign for the Presidency.

US OIL AND GAS PRICE CONTROLS

12. President-elect Reagan has said he will maintain the Carter administration's objective of decontrolling US oil prices by October 1981 and gas prices by 1985/1987. This timescale is nothing like short enough to satisfy the European textile and chemical industries. On the other hand bringing gas prices up to world market levels is as sensitive an issue in the US as in the UK.

13. The Commission's draft statement envisages urgent consultations with the US authorities. We need to know precisely what the Commission have in mind. Consultations with the US in the GATT have been going on for some time but have produced no concrete results so far nor are they likely to in the foreseeable future. The Americans continue to argue that their producers' competitive edge derives mainly from higher productivity and movements in the exchange rate. In the circumstances it might be useful if the third sentence of the draft statement could be expanded to read "The Council instructed the Commission to engage urgently in consultations with the US authorities in order to explore the possibility of eliminating these distortions to international trade or to find other means of mitigating their effects".

CONFIDENTIAL

14. As the Commission communication to the Council points out the Community authorised the UK in February 1980 to restrain imports of two US synthetic yarns. The Government are now reviewing the situation for 1981 against the background of intense pressure from the textile industry for additional quotas.

MULTI-FIBRE ARRANGEMENT (MFA)

15. The rate of contraction of the UK textiles industry is accelerating. In the first eight months of 1980 60,000 jobs have already been lost. The Prime Minister told an industry delegation in July that a tough successor to the present MFA would be needed.

16. In practice a majority of EC Member States and other developed countries favour a successor arrangement. The Germans are the main developed country advocates of liberalisation. They have made it clear that they will be seeking credit for this in their relations with the developing countries.

17. Negotiations on a new MFA are not likely to begin in earnest until autumn 1981 (at about the same time as the next session of North/South global negotiations). There is a real prospect of a serious North/South confrontation.

INDUSTRIAL QUESTIONS

Steel

18. On 30 October Council gave unanimous assent to Commission proposals for mandatory production quotas under Article 58 of the ECSC Treaty which apply until 30 June 1981. The next step is to renegotiate the voluntary restraint arrangements with major third country suppliers to reduce imports in tune with internal quotas. The Commission are also to provide a report to the Council on restructuring in the next few months. We have already carried out major closures and the French have also been active, the Italians and the Belgians less so. The Foreign Affairs Council on 25 November considered revised Commission proposals to provide aid for early retirement

(including

(including severance pay) and short time working. There was general agreement that social measures were needed in the steel sector, but agreement was not reached on the specific proposals because of difficulty over the funding of the measures. We and other Member States have doubts about the vires of using the EEC Budget. Discussions will continue and the Council on December 15/16 will again discuss this subject.

Industrial Innovation

19. Innovation is the term for the industrial exploitation of technical and scientific developments. A Community role has yet to be defined. The Commission are trying to develop a policy to promote innovation in established industries, research in the new technologies and the establishment of a science and technology policy. The Communication to the Council "Industrial Development and Innovation" identifies some of the problems (investment demands, resistance to change, educational needs), and asks that the Commission and Member States reinforce public consciousness of these obstacles. The Communication makes no detailed proposals for action at the Community level. The Commission may see a Council endorsement of the analysis as giving them cover to act in specific areas and to obtain access to Community funds. The Council should therefore note rather than endorse the analysis. We believe that innovation will thrive better when companies have incentive and operate in a suitable economic climate.

Telematics

20. This is the term for the convergence of computer and information technologies. The subject was first raised at the European Council in November 1979 at the Commission's initiative when they were asked to bring concrete proposals to the Council. The UK welcomed this, and particularly favoured progress on telecommunications. First Commission proposals were produced in September and will be discussed in Working Groups shortly. The proposal for the open and competitive supply of telematic terminal equipment in all Member States would be consistent but

not as far reaching as the UK's liberalisation of the Post Office monopoly, would provide for reciprocity, and should benefit UK industry.

OTHER MEMBER STATES' AIDS TO THE STEEL AND TEXTILES INDUSTRY

21. We do not know precisely what state aids are given by each Member State, because in spite of the provisions of the Treaties, Member States do not divulge details of all their aids. Such details as we have are not exact and should not be quoted.

22. In the textiles sector the Commission becoming increasingly concerned at levels of aid, and have opened Article 93.2 procedures against the Dutch. Holland has announced £6.6m, 1978-80 for restructuring and £6.5m towards modernisation; Belgium recently £526m over next five years; France £7m per annum for restructuring and recently announced plans to reorganise and modernise the industry at substantial but unspecified cost. In comparison in 1979/80 we disbursed, mostly under the Industry Act and to a lesser extent short time working compensation, some £26m to the textile sector.

23. In the steel sector no assistance by other Member States appears comparable to the sums provided in direct financial support by the UK. £4b capital+loans since 1975. France has made available under the 1978 restructuring programmes assistance likely to amount to £2150m; Belgium a State contribution to investment programme of £335m, with debt relief of £92m per annum; Italy £800m since 1977; Luxembourg £46m; Holland £8m since 1977.

FOREIGN AND COMMONWEALTH OFFICE

26 November 1980

ENG(L2)(80) 4

REF B

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 758 final

Brussels, 20th November 1980

INTERNATIONAL TRADE PROBLEMS

(Communication from the Commission to the European Council,
Luxembourg, 1st-2nd December 1980)

COM(80) 758 final

International trade problems

Background note by the Commission

The Community faces some difficult problems in the field of international trade. This note sets out and comments on some of the more difficult as background to a discussion in the European Council.

2. World trade, which rose in volume by 6% in 1979 compared with 1978, is expected to grow only between 2% and 3% this year over 1979; the figure for 1981 is expected to be in the region of 2%. All this means growing protectionist pressures both in the Community and in our main export markets and a growing threat to our exports. It also gives added weight to the conclusion of the Venice Summit in June of this year that "we are resolved further to strengthen the open world trading system. We will resist pressures for protectionist actions which can only be self-defeating and aggravate inflation". It is against this general background that some of our main problems must be seen.
3. The difficulties in the external economic field cannot be solved by means of commercial policy alone. They result from the fact that the European economy with respect to third countries and especially Japan has lost in some critical sectors its former competitive advantage in part or entirely. This is true not only in the European market but especially in the Far East, the USA and the Middle East. The recovery of the maintenance of the international competitiveness of European industry must be a priority objective of economic and industrial policy in the Community.
4. Trade with Japan has featured in discussion at a number of previous European Councils. Annex A sets out the current state of affairs. After a discussion of a possible joint Community approach at the General Affairs Council of 25 November the problem will be taken further in discussion with Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and in exploratory discussions at official level early next year. Thus the first meeting of the European Council in the Spring of 1981 may well find the problems of our trade with Japan high on its agenda.

5. The current Multi Fibre Agreement governing world trade in textiles, in particular access to developed countries for the textiles of developing countries, runs out at the end of 1981. There is now rising pressure from industry in Community countries for a tough successor agreement. The timing and tactics of our approach here need to be carefully considered. There is broad agreement among Member States that a successor arrangement of some kind will be necessary if a jungle of national restrictions across the world is to be avoided. The negotiation of a new agreement will involve a delicate balance between the needs of our domestic industry and our need for a constructive relationship with the developing countries, all the more necessary at the time of the global negotiations in New York next year.

6. By the end of this year we, with the other signatories of the agreement, will need to say whether we consider a further agreement of some kind necessary. The negotiation of such an agreement would take place in the second half of 1981.

7. Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. Annex B sets out where we stand on this issue. The essential point is that wherever action has been possible and compatible with our GATT obligations the Community has taken it; thus the Commission authorized in February restrictions on imports of certain synthetic fibres into the United Kingdom where injury or the threat of injury could be demonstrated and in a number of cases anti dumping action has been taken. It would be difficult for the Community to take further action to increase tariffs or to restrict imports without violating existing GATT rules. Moreover such action would probably militate against our interests as the world's biggest exporter. The Commission recognizes that there remains in this field a very serious problem. We are in consultations with the U.S. Administration. In the meantime the European Council might wish to issue a statement to emphasize the importance the Community attaches to this question. A draft is attached at Annex C.

8. The main axis of the Community's policy should continue to be to give full effect to the results of the multilateral trade negotiations and to the strengthening of GATT.

Japan

Trade with Japan has featured in discussion at a number of previous European Councils; in particular a Commission note SEC(79) 923 of May 1979 analysed the problems involved and recommended continued pressure on the Japanese. At the end of the Tokyo Round last year it became clear that with the exception of some useful steps in removing testing restrictions the Japanese response has been meagre. It also became increasingly clear that our present commercial relationship with Japan - with its absence of a common Community approach and a patchwork of long-standing bilateral national restrictions by Member States - was hardly suitable for a Japan-EEC relationship in the 1980s.

2. So in July of this year the Commission put to the Council proposals for a new look at our relationship with Japan; these included exploration of the possibilities of removing trade restrictions on both sides and discussions on industrial cooperation. These proposals were discussed by the General Affairs Council in July but no decision was taken; partly in the light of press reports of this discussion the Japanese attitude hardened; Japanese exports to the Community also began to rise alarmingly.
3. In view of this the Commission invited Mr Okita, the Japanese Minister responsible for external trade negotiations, to visit Brussels. This he did on October 27. Vice-President Haferkamp and his colleagues emphasized to Mr Okita on this occasion the need in particular for Japanese restraint in exports to the Community and for a fundamental change in the Japanese attitude towards imports. The Japanese Government issued a statement on 17 November indicating in general terms its concern at Community difficulties and its willingness to examine issues.

4. In the light of these developments the Commission has put informally to Member States revised proposals for the outline of a common Community approach to Japan; after discussion of them by the General Affairs Council of November 25 the Commission will be able to put them to Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and explore whether there is a political will on the part of the Japanese Government to engage in a dialogue with the Community on this basis. A considered Japanese reply would be forthcoming when the next High Level Consultations with Japan take place at official level in Tokyo on January 28/29. In the light of the considered Japanese response it will be for the next Commission to report and if necessary put forward to the Council proposals for action. Thus the first meeting of the European Council in the Spring of 1981 may well find this item high on its agenda.

Trade in petrochemicals and synthetic fibres

Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. The price differential on oil should be phased out by the autumn of next year but that on natural gas will not be phased out until 1985. In the meantime European chemical producers complain that US exports which benefit from these advantages are having a damagingly depressive effect on European prices.

2. There is no provision in the GATT to prohibit domestic price controls on raw materials resulting in access to supplies much cheaper than world market prices. The conjunction of such price controls with export restrictions (which exist in the US) can under certain conditions be challenged in the GATT but these provisions are extremely complex, have never been used, and in any case do not provide for unilateral counter action. But there are provisions in the GATT for emergency action when imports are causing or threatening serious injury to domestic producers and for anti-dumping action. The Commission has taken action under these provisions whenever the situation justified it.
3. Thus the Community authorized action in February of this year to limit imports into the United Kingdom of polyester filament yarn and nylon carpet yarn; in both cases it was found that serious injury was being caused by imports. It was not felt that the case for action on man-made fibre carpets was sufficiently established. It was not easy to negotiate compensation with the Americans in respect of the first two items. Indeed, the Americans have publicly announced that continuation of these measures after the end of the year will provoke retaliation on their part.
4. In addition to the action taken on synthetic fibres we have also exercised our full rights in relation to anti dumping. At the end of 1979 we imposed a provisional anti dumping duty on acrylic fibres followed by a definitive duty in May of this year. In early September we imposed anti dumping duties on various types of polyester yarn. We have opened anti dumping investigations into vinyl acetate monomer and styrene monomer as well as orthoxylene and paraxylene.

5. All these actions have been in conformity with our GATT obligations. It should go without saying that fulfilment of these obligations is of crucial importance to the world's biggest exporter. The value of our export trade to the United States alone is of the order of 34 billion dollars.

6. The Commission recognizes that there remains a serious problem. We have suggested to both the Americans and the European chemical industry that our consultations with the U.S. Administration on this should be continued with the help of experts from industry; this has been accepted by the Americans and we hope the first of this pattern of consultations will take place in December. A report will then be made to the General Affairs Council.

ANNEX C

The European Council discussed the difficulties resulting for European chemical and synthetic fibre manufacturers from the artificially restricted level of oil and natural gas prices in the United States. The Council recalled the conclusion of the Tokyo Summit in June 1979 that "we agree on the importance of keeping domestic oil prices at world market prices or raising them to this level as soon as possible". The Council instructed the Commission to engage urgently in consultations with the US authorities in order to explore the possibility of eliminating these distortions to international trade. The European Council asked the Council to examine this problem in the light of reports from the Commission.

CONFIDENTIAL

GR 900

UNCLASSIFIED

FRAME EXTERNAL

DESKBY 260900Z

FM UKREP BRUSSELS 252151Z NOV 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 5209 OF 25 NOVEMBER.

INFO IMMEDIATE TOKYO.

INFO ROUTINE ROME, PARIS, BONN AND WASHINGTON.

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, DUBLIN, LUXEMBOURG,
ATHENS, UKMIS GENEVA, UKDEL OECD.

REF C

TOP COPY

COUNCIL OF MINISTERS (FOREIGN AFFAIRS) : 25 NOVEMBER 1980

EC/JAPAN

MIPT

1. FOLLOWING IS THE TEXT OF THE COUNCIL DECLARATION:

BEGINS

THE COUNCIL EXPRESSES ITS SERIOUS CONCERN AT THE PRESENT STATE OF TRADE BETWEEN JAPAN AND THE COMMUNITY AND ITS LIKELY FUTURE DEVELOPMENT.

IT FINDS THAT THE PENETRATION OF EUROPEAN COMMUNITY PRODUCTS ON THE JAPANESE MARKET REMAINS INADEQUATE.

IT FURTHER CONSIDERS THAT JAPANESE COMPETITION BY ITS NATURE AND THE EXTENT OF THE EFFORT BEHIND IT AND BY ITS CONCENTRATION ON A SMALL NUMBER OF PARTICULARLY SENSITIVE SECTORS LEADS TO AN IMBALANCE WHICH PLACES A STRAIN ON THE NORMAL DEVELOPMENT OF INTERNATIONAL TRADE. THE COMMISSION, IN CONJUNCTION WITH THE MEMBER STATES, SHOULD UNDERTAKE A DETAILED ANALYSIS OF THE CONCENTRATION OF JAPANESE EXPORTS TO THE COMMUNITY, AND, MORE GENERALLY, OF THE INDUSTRIAL AND COMMERCIAL STRATEGY OF JAPAN.

THE COUNCIL THEREFORE AGREED ON THE NEED FOR A WIDE-RANGING DIALOGUE BETWEEN THE COMMUNITY AND JAPAN BASED ON A COMMON STRATEGY.

FUNDAMENTAL TO THIS APPROACH SHOULD BE THE CONCEPT THAT JAPAN SHOULD NOT ATTEMPT TO DEAL WITH THE BALANCE OF PAYMENTS DEFICIT CAUSED BY RECENT OIL PRICE INCREASES BY AN EXAGGERATED EXPORT DRIVE, AND THAT IT SHOULD AS A MATTER OF URGENCY INCREASE ITS IMPORTS OF COMMUNITY PRODUCTS.

IN ORDER TO PROMOTE THIS DIALOGUE CERTAIN DEVELOPMENTS ARE ESSENTIAL. THESE SHOULD BE :

- (1) IN THE SECTORS WHERE A CONTINUED INCREASE IN JAPANESE EXPORTS TO THE EUROPEAN COMMUNITY WOULD LEAD TO DIFFICULTIES THERE NEEDS TO BE EFFECTIVE MODERATION DESIGNED TO PRODUCE EARLY AND TANGIBLE RESULTS. THIS

CONFIDENTIAL

/ SHOULD

CONFIDENTIAL

SHOULD APPLY TOWARDS THE EUROPEAN COMMUNITY AS A WHOLE AND NOT ONLY TO CERTAIN MARKETS :

- (II) THE YEN SHOULD REFLECT THE FUNDAMENTAL STRENGTH OF THE JAPANESE ECONOMY :
- (III) THERE SHOULD BE NO NEW MEASURES ON THE PART OF THE JAPANESE AUTHORITIES TO RESTRICT IMPORTS. INDEED, THERE SHOULD BE A CLEAR COMMITMENT ON THE PART OF THE JAPANESE GOVERNMENT TO A SUBSTANTIAL AND EARLY INCREASE IN THE IMPORTS OF COMMUNITY PRODUCTS. THE JAPANESE AUTHORITIES SHOULD FACILITATE OPPORTUNITIES FOR EUROPEAN INVESTMENT AND BANKING IN JAPAN :
- (IV) IN RELATION TO IMPORTS, REGARD SHOULD BE PAID BY THE JAPANESE AUTHORITIES TO AVOID MEASURES OR POLICIES WHICH GIVE OTHER MAJOR TRADING PARTNERS MORE FAVOURABLE TREATMENT THAN IS GIVEN TO THE COMMUNITY :
- (V) ON THE EUROPEAN SIDE FURTHER PROGRESS MUST BE MADE IN GETTING EUROPEAN INDUSTRIES TO DEVELOP POSITIVE STRATEGIES TO DEAL WITH JAPANESE COMPETITION, INCLUDING NOT ONLY RESTRUCTURING IN EUROPE BUT ALSO BY GREATER INVOLVEMENT IN THE JAPANESE MARKET.

TO THE EXTENT THAT TANGIBLE PROGRESS IN THESE AREAS IS MADE, CERTAIN POSSIBILITIES IN RELATION TO LIBER-8'-589, ON BOTH SIDES COULD BE EXPLORED.

IN ADDITION, THERE SHOULD BE DISCUSSIONS - INCLUDING IN PARTICULAR DISCUSSIONS BETWEEN THE BUSINESSMEN AND FIRMS CONCERNED - ON INDUSTRIAL COOPERATION, INCLUDING CONDITIONS FOR INVESTMENT BOTH IN JAPAN AND THE COMMUNITY, FACILITIES FOR JOINT VENTURES AND THE TRANSFER OF TECHNOLOGY.

ON THIS BASIS AND IN THE LIGHT OF FURTHER STUDIES CARRIED OUT IN CONJUNCTION WITH MEMBER STATES, OF BOTH GENERAL AND SPECIFIC PROBLEMS, THE COMMISSION WILL PURSUE ITS FORTHCOMING DISCUSSIONS WITH THE JAPANESE AUTHORITIES. IT WILL DO THIS IN CLOSE CONTACT WITH MEMBER STATES, IN PARTICULAR THE 113 COMMITTEE AND WILL REPORT BACK TO THE COUNCIL BEFORE THE END OF FEBRUARY 1981.

CONFIDENTIAL

THE COUNCIL WILL BE INFORMED CONTINUOUSLY ABOUT THE RESULTS OF THE DIALOGUE. THE COUNCIL WILL GIVE THE COMMISSION AT ANY PARTICULAR TIME AND IN THE LIGHT OF THE RESULTS OF THESE EFFORTS THE NECESSARY DIRECTIVES FOR THE NEGOTIATIONS.
ENDS

FCO ADVANCE TO:-

FCO - PS/SOFS, PS/LPS, PS/PUS, FITZHERBERT, KINCHEN, PIRNIE
CAB - GOODENOUGH
DDI - MANZIE, GENT (ICA)
DDT - PS/MR NOTT, SIR K CLUCAS, SUNDERLAND, ABRAMSON, DUNNING,
FOSTER

FCO PASS SAVING TO COPENHAGEN, DUBLIN, ATHENS, UKMIS GENEVA,
AND UKDEL OECD.

BUTLER

[ADVANCED AND REPEATED AS REQUESTED]

FRAME EXTERNAL

ECD

COPIES TO:

ADVANCE ADDRESSEES

CONFIDENTIAL

GR 703
RESTRICTED

FRAME EXTERNAL

FM TOKYO 150200Z NOV

REF D
TOP COPY

TO PRIORITY FCO TELNO 646
OF 15 NOVEMBER INFO UKREP BRUSSELS, PARIS, BONN, WASHINGTON.

SAVING TO UKMIS GENEVA, UKDEL OECD.

UKREP BRUSSELS TELNO 4968: EC/JAPAN

FOLLOWING IS ADVANCE TEXT OF STATEMENT BY THE MINISTER
OF FOREIGN AFFAIRS, MR ITO, ON EC/JAPAN ECONOMIC RELATIONS
EMBARGOED UNTIL 6PM (0900Z) MONDAY, 17 NOVEMBER.

BEGINS:-

1. THE GOVERNMENT OF JAPAN WELCOMES THE INCREASINGLY
CLOSE RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES
WHICH ARE RECENTLY WITNESSED IN BOTH POLITICAL AND ECONOMIC
FIELDS. IT IS THE INTENTION OF THE GOVERNMENT OF JAPAN
TO FURTHER PROMOTE SUCH CLOSE RELATIONS FROM THE PERSPECTIVE
OF CONSOLIDATING THE COOPERATION BETWEEN INDUSTRIALIZED
COUNTRIES SHARING THE COMMON BASIC PHILOSOPHY OF RESPECT
FOR FREEDOM AND DEMOCRACY. THE GOVERNMENT OF JAPAN BELIEVES
THAT, IN PROMOTING THE CLOSE COOPERATION, THE GUIDING
PRINCIPLE IN TRADE RELATIONS SHOULD BE THE DETERMINATION
TO MAINTAIN AND IMPROVE THE OPEN AND MULTILATERAL WORLD
TRADING SYSTEM AND TO AVOID PROTECTIONIST MEASURES AS
STATED IN THE NEW DECLARATION ON TRADE POLICY ADOPTED
BY THE GOVERNMENTS OF THE MEMBER COUNTRIES OF THE ORGANIZATION
OF ECONOMIC COOPERATION AND DEVELOPMENT.

2. ON THE OTHER HAND, THE GOVERNMENT OF JAPAN RECOGNIZES
THAT CONCERN PRESENTLY EXISTS IN THE EUROPEAN COMMUNITIES
THAT AGAINST THE BACKGROUND OF CURRENT ECONOMIC DIFFICULTIES,
DEVELOPMENTS WITHIN THE EUROPEAN COMMUNITIES WHICH THREATEN
THE PRINCIPLE OF FREE TRADE MAY POSSIBLY BE INTENSIFIED DUE
TO THE TRADE IMBALANCE WITH JAPAN AND THE RAPID INCREASE
OF IMPORTS FROM JAPAN IN SOME SECTORS DURING THIS YEAR.

3. THE GOVERNMENT OF JAPAN MAINTAINS THE BASIC POSITION
THAT THE TRADE BALANCE SHOULD BE VIEWED ON A GLOBAL BASIS
AND THAT INVISIBLE TRADE AND OTHER ACCOUNTS SHOULD BE
CONSIDERED WHEN DISCUSSING BALANCE OF PAYMENTS PROBLEMS.
THE GOVERNMENT OF JAPAN IS ALSO OF THE VIEW THAT THE ALLEGATION
ATTRIBUTING THE PRESENT ECONOMIC DIFFICULTIES FACING
THE EUROPEAN COMMUNITIES TO THE INCREASE IN JAPAN'S EXPORTS
TO THE EUROPEAN COMMUNITIES IS NOT WELL FOUNDED.

CONFIDENTIAL

14. THE GOVERNMENT

CONFIDENTIAL

4. THE GOVERNMENT OF JAPAN MAINTAINS THE VIEW THAT THE TRADE IMBALANCE BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES SHOULD BE IMPROVED BASICALLY BY INCREASING EXPORTS FROM THE EUROPEAN COMMUNITIES TO JAPAN AND THAT GREATER EFFORTS ON THE PART OF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES ARE THE PRIMARY REQUIREMENTS FOR MEETING THIS END. IF ENTREPRENEURS IN THE EUROPEAN COMMUNITIES EXPERIENCE ANY DIFFICULTIES IN PENETRATING THE JAPANESE MARKET, THE GOVERNMENT OF JAPAN CONSIDERS IT USEFUL TO STUDY, TOGETHER WITH THE COMMISSION OF THE EUROPEAN COMMUNITIES, THE SPECIFIC CASES AS THEY OCCUR.

ON THE OTHER HAND, IN VIEW OF THE CURRENT SITUATION OF THE WORLD ECONOMY, THE GOVERNMENT OF JAPAN HAS NO INTENTION TO TAKE POLICIES SPECIFICALLY AIMED AT REDUCING RAPIDLY ITS CURRENT ACCOUNT DEFICITS. RATHER THE GOVERNMENT OF JAPAN HAS BEEN ENDEAVOURING TO MANAGE THE ECONOMY WITH DUE ATTENTION TO THE ESTABLISHMENT OF HARMONIOUS EXTERNAL ECONOMIC RELATIONS AND WILL CONTINUE TO TAKE, IN THE MEDIUM AND LONG TERM AS WELL, THE POLICY OF BASICALLY PURSUING A GROWTH PATTERN CENTERING UPON DOMESTIC DEMAND. FURTHERMORE, THE GOVERNMENT OF JAPAN WILL CONTINUE TO ADVISE PRIVATE ENTERPRISES NOT TO EXPORT SPECIFIC GOODS TO THE MARKET OF ANY REGION IN A TORRENTIAL MANNER.

5. THE GOVERNMENT OF JAPAN BASICALLY APPRECIATES THE NEW INITIATIVE BEING TAKEN BY THE COMMISSION OF THE EUROPEAN COMMUNITIES ON TRADE POLICY TOWARD JAPAN FOR IMPROVING THE ECONOMIC RELATIONS BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES TO BE MORE OPEN. IF THE COMMISSION OF THE EUROPEAN COMMUNITIES WILL MAKE A CONCRETE PROPOSAL IN THIS REGARD, THE GOVERNMENT OF JAPAN IS PREPARED TO STUDY IT.

6. THE GOVERNMENT OF JAPAN WISHES IN FUTURE TO EXPAND ITS COOPERATION WITH THE EUROPEAN COMMUNITIES IN FIELDS SUCH AS INDUSTRIAL COOPERATION AND NORTH-SOUTH DIALOGUE AS WELL AS IN THE FIELD OF TRADE, THEREBY CONSTRUCTING A BROADER RELATIONSHIP BETWEEN JAPAN AND THE EUROPEAN COMMUNITIES.

FCO PLEASE PASS SAVING ADDRESSEES

FCO COPY TO:
FCO-MCLAREN (FED), FITZHERBERT (EID(E))
DOI-GENT (IC(A))
DOT-DUNNING FOSTER (CRE2)
CORTAZZI

FRAME EXTERNAL
ECD (E)
FED
SIRE YOUDE
MR DONALD

[REPEATED AS REQUESTED]

COPIES TO
MR GENT (IC(A))
DEPT OF INDUSTRY
DUNNING FOSTER
CRE2 DOT

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 1

EHG(L2)(80)4 Addendum 2

28 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

PROBLEMS OF INDUSTRY AND TRADE

Addendum to Brief by the Foreign and Commonwealth Office

Japan

1. In paragraph 8 of the brief reference is made to the political aspects of Europe's relations with Japan as well as the trade aspects. The European Council straddles both the business of the Community under the Treaties and the business of the Nine member states acting together on foreign policy questions in Political Cooperation. It therefore offers an ideal opportunity for the Europeans to reaffirm to the Japanese that EC/Japan relations are not exclusively about trade and that they also have an important political element (to which the Japanese attach considerable importance).

POINTS TO MAKE

2. There is an important political dimension to the Community's relations which with Japan, in addition to the trade dimension. Japan has made clear that she wants to build up a closer relationship with Europe, and in particular with the work of the Nine in Political Cooperation on international political issues.

3. It is in Europe's interest to encourage the Japanese in this since thereby the influence of Europe in the world will be increased.

/4.

CONFIDENTIAL

CONFIDENTIAL

4. There is a strong case therefore for clear recognition by European Council of importance of political aspect of EC/Japanese relations and confirmation of readiness of Nine in Political Cooperation to work closely with Japan wherever possible (as happened eg. over sanctions against Iran where the Japanese Foreign Minister of the day went to Luxembourg at the time of the meeting of EC/Foreign Ministers which decided on sanctions in April this year.

5. Such confirmation would be welcome to the Japanese and would balance the unwelcome things that have to be said by the Community about trade.

Foreign and Commonwealth Office

28 November 1980

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)5 Revise

COPY NO **1**

27 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

RESTRUCTURING OF COMMUNITY BUDGET

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. The European Council is unlikely to have a detailed discussion on restructuring - it is far too early for that - and the Prime Minister will probably not wish to go beyond the Main Points to Make below. The Reserve Points to Make are included in case there is more detailed discussion, either in the European Council itself (possibly proposed by Chancellor Schmidt), or in the margins of the meeting.

OBJECTIVES

(i) to seek confirmation from Heads of Government that they see restructuring as the Community's next major task and that the timetable should be observed; in particular the Commission's paper is of central importance and we want to ensure that they will seek views and reactions of Member States bilaterally before presenting formal proposals.

(ii) to emphasise our view that restructuring should be carried out within the 1% VAT ceiling;

(iii) to seek agreement that decisions taken before restructuring discussion begins should not jeopardise its success (ie. indirect reference to need to limit cost of 1981/2 price fixing).

MAIN POINTS TO MAKE

2. Hope that European Council can get restructuring exercise off to a good start with general statement on importance of the exercise.

CONFIDENTIAL

3. 30 May commitment to a review major turning point in Community development. Valuable opportunity to set house in order. Cannot be shirked. Triple challenge of:

- (a) 1% ceiling;
- (b) enlargement;
- (c) commitment to avoid unacceptable situation.

4. Must keep to timetable ie Commission paper by June 1981, aim at solution by end 1981, otherwise likely dislocation of Community business. UK preliminary thought - approach open-minded. Committed to finding Community solutions to Community problem. Hope that Commission in preparing paper will seek views of Member States bilaterally.

5. Fundamental problem, rapid growth/dominance of CAP and stunted growth of other policies. Former must be controlled to make way for latter.

6. Must find solution within 1% ceiling. To raise would be unacceptable to several Member States and would only make problem worse. If raised no effective restraint on CAP spending, no limit on cost of enlargement; and UK problem would get worse.

7. Noted with interest German Government's statement on need for prudent price policy, in context of growing structural surpluses; and on need for growth in agricultural expenditure to be markedly under growth in own resources. Agree price restraint a central element in CAP reform. Support idea of setting a ceiling on agricultural expenditure.

8. Must ensure that we do not take decisions, eg in 1981 price fixing which will make the problems worse and thus risk jeopardising the success of the restructuring exercise before it has started. Hope we can all agree on this. Specifically, should ask Finance Ministers to explore ways of setting a ceiling on agricultural expenditure for 1981.

RESERVE POINTS TO MAKE

Agriculture

9. We do not have any specific proposals to put forward - far too early for that and we need the Commission's report. But preliminary

CONFIDENTIAL

thinking shows that there are a number of ways of approaching the problem and we shall have to examine them all. None are necessarily excluded at this stage.

10. The CAP must be a main area to consider. We confirm our support of the principles and objectives of the policy. But in the restructuring context we must look at the way it works. The surpluses it creates and the high cost of the policy undermine Community finances and political support. We must move towards a more market-orientated CAP with prices less likely to encourage surpluses.

11. Our aim should be:-

- (a) elimination of structural surpluses, especially milk;
- (b) reduction in CAP's share of budget;
- (c) progress towards prices which will not generate structural surpluses;
- (d) preservation of healthy agricultural industry.

12. Believe central element must be policy of severe price restraint, especially on products in structural surplus. Do not exclude combining it with direct income aids to help those hardest hit, provided suitable aids, unrelated to production, can be devised.

13. Recognise price restraint by itself unlikely to be sufficient in short term. Will need to be supplemented by action which bears directly on increases in production particularly of surplus products.

14. Across the board extension of basic co-responsibility levy principle does not tackle essential problem. It is a way round the 1% ceiling, is likely to become a tax on consumers and does not help over resource costs of surpluses.

15. If we can reduce CAP share of Community budget, there should be room for expansion of non-agricultural expenditure (Social and Regional funds, possible new policies such as coal, transport,

/fisheries

CONFIDENTIAL

fisheries, energy, urban decay). But this cannot by itself solve the restructuring problem.

16. We may have to look at other approaches, perhaps on the revenue side.

17. In all this, we must be guided by the need to:

- (a) provide permanent solution to problem of unacceptable situations;
- (b) deal with financial problems of enlargement.

BACKGROUND

18. Ministers agreed our general preliminary strategy on restructuring in OD on 13 October. They also decided at their 3 November meeting how the 1981 CAP price fixing might be played in relation to our long term restructuring objectives.

19. At the European Council there is likely to be resistance to any detailed discussion of this subject. We do not wish to press for this. Initial indications from the French were that they do not wish to discuss it at all. However, Presidency have helpfully included it in message to Heads of Government, so subject cannot be avoided altogether.

20. In bilateral contacts general impression has been that, with possible exception of Germans, others' work much behind our own. It would therefore not be realistic to seek agreement on detailed conclusions. But it will be helpful if Heads of Government emphasise the importance of this exercise.

21. Discussion will give opportunity to stress need to keep to timetable set by Foreign Affairs Council ie Commission proposal by June, aim at solution by end of 1981 (though others recognise privately that discussion likely to go on into 1982).

22. Only French and Germans share our firm views on need to maintain ceiling, although others particularly the Dutch, recognise that it is important lever in restructuring. The Italians and Irish are in favour of going over the ceiling. However, if we can make clear our view that the restructuring exercise must be

CONFIDENTIAL

carried out within the framework of the 1% VAT ceiling, and seek support for it, this should help to ensure that the Commission paper restricts itself to solutions which are feasible within the ceiling.

23. On CAP President Giscard is likely to be particularly sensitive. Chancellor Schmidt said in his statement of Government policies on 24 November (as he had previously told the Prime Minister) that the cost of the CAP should increase by considerably less than the growth in own resources. He also called for 'a stronger application of free market principles' to deal with CAP structural surpluses and for 'a prudent price policy which must be aimed principally at the restoration of market equilibrium'. It remains to be seen whether Schmidt will be willing to annoy Giscard by launching into a detailed discussion on CAP reform. The Prime Minister may wish to adjust her own interventions in the light of the German position. But it should be possible, with Schmidt's support, to press for agreement in principle that decisions affecting restructuring (eg. 1981 price fixing) before June 1981 should not jeopardise its success. More specifically we might aim for agreement to ask Finance Ministers to explore ways of setting a ceiling on the growth of agricultural expenditure in 1981.

24. The Prime Minister might also emphasise the need for greater budgetary discipline in the CAP and support any proposal for a ceiling on CAP expenditure. There are three main alternatives:-

- (a) a ceiling set at the level of CAP expenditure contained in the 1981 Budget;
- (b) that CAP expenditure should only be allowed to grow at a rate below the growth in own resources;
- (c) that CAP expenditure should be kept within the headroom permitted by the 1% ceiling.

The Prime Minister will be familiar with the pros and cons of these alternatives from her discussions with colleagues on 12 November.

/25.

CONFIDENTIAL

25. We accepted in the text of the 30 May Agreement that the 1981 review would not call into question 'the basic principles of the CAP'. The principles enshrined in the Treaty are the objectives of the CAP contained in Article 39. Others, especially the French, argue that the principles are: Community preference, market unity and financial solidarity and try to interpret them in a highly specific fashion. While such principles are implicit in the operation of the CAP and we can accept them provided that they are interpreted flexibly it would be essential to avoid language in any communique which implied our acceptance of total Community financing of CAP (and thereby precluded any move towards national financing).

26. It would not be sensible to discuss the 1981 price fixing in any but the most general terms: the Commission's proposals will not emerge before January. They may or may not be accompanied by a package of economy measures aimed at extending the principle of co-responsibility. We have so far only had brief, generalised indications of Commission ideas on the latter. But happily they do not seem to be restricting their approach to a simple extension of the basic co-responsibility levy which we should have to oppose. On prices, most Governments except the German and ourselves seem to be contemplating increases of the order of 8-12%. Farming organisations including the NFU, are pressing for around 16%. Mr Jenkins told the Prime Minister on 3 November that the Commission would propose 'moderate price increases just in double figures.'

27. On non-agricultural policies, provided CAP share of budget can be cut, there will be scope for expansion. UK approach would be positive. But non-agricultural expenditure in itself cannot solve restructuring problem. If it is to play a useful role, new expenditure would have to provide disproportionate net benefit to UK (or any other Member State in an unacceptable situation).

28. May be some mention of idea originally mooted by Schmidt and Giscard of ceiling on net benefits/contributions. Schmidt reiterated to Prime Minister on 16/17 November need to bring this subject out into open. Our line is that we hope the Commission will consider this along with other ideas in the preparation of its paper

/on

CONFIDENTIAL

on restructuring (due in June 1981). As Schmidt himself recognised, the smaller States are unlikely to find this attractive. There might be some benefit in it for us, although it would depend how it worked.

FOREIGN AND COMMONWEALTH OFFICE

27 November 1980

7.

CONFIDENTIAL

EHG(L2)(80)6

COPY NO

1

21 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

FISHERIES

Brief by Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To avoid substantive discussion.

POINTS TO MAKE

2. We are all agreed on the importance of the end of year deadline we endorsed in Venice. Fisheries Ministers are making good progress towards a fair CFP settlement. Most difficult issues remain access and quotas: Fisheries Ministers should keep up their work so as to reach a settlement on these and other outstanding issues.

(If necessary)

2. The Council has already adopted the necessary guidelines and timetable for a settlement in its Declaration of 30 May. No objection to the European Council reaffirming the Declaration as a whole but difficult to see what useful contribution any other statement could make.

BACKGROUND

3. There is no need to discuss the substance of the negotiation at the European Council, other, perhaps, than to note the progress already made by Fisheries Ministers and to reaffirm the importance of the deadline. Certain delegations could conceivably wish to include the issue in a general statement on the need to resolve Community problems. We need not object to this, provided the statement makes no explicit linkages to other issues and does not attempt to introduce criteria or a timetable differing from those adopted by the Council on 30 May.

CONFIDENTIAL

We are not, however, in favour of the Presidency conclusions covering everything the Heads of Government discuss.

4. Discussions in the Fisheries Council have continued to make progress. On 29 September, the Council adopted a comprehensive conservation regulation. On 28 October, the Council agreed in principle to Community control and enforcement measures. At the last meeting on 17/18 November, the Council agreed that access must be settled with quotas. The Presidency also produced compromise quota proposals which made a significant movement towards United Kingdom objectives by allocating to us a share of the seven principal species nearer to our average catch over recent years. In order to maintain momentum, whilst allowing further opportunities for bilateral contacts, the Luxembourg President suspended the 17-18 November meeting which is still formally in session. The main difficulty on quotas has been that the Commission's proposals have so far been too generous to Denmark and less than generous to the United Kingdom, France and Germany. The French have reacted strongly to the quota proposals which they claim limit them more than anyone else. On access several member states remain suspicious of our demands, but United Kingdom Ministers are seeking to make progress bilaterally on our demands for an essentially exclusive 12-mile limit and some preference beyond. A new, formal, Commission proposal on this element is perhaps unlikely to be put forward until the last moment.

5. No firm date has yet been fixed for the resumption of the November meeting. The next formal meeting is scheduled for 15-16 December.

Ministry of Agriculture, Fisheries and Food

21 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

7

27 NOVEMBER 1980

COPY NO 1 of 30

EUROPEAN COUNCIL LUXEMBOURG
1/2 DECEMBER 1980
ENERGY

Brief by Department of Energy

OBJECTIVES

1. To secure endorsement by Heads of State of what was agreed at the Energy Council of 27 November on the handling of the oil supply situation.
2. To ensure that the situation is kept flexible for the IEA Ministerial meeting on 9 December as it is essential to involve US and Japan in collective action (if a further meeting of the Energy Council is required and necessary before 9 December, so be it).
3. To keep discussion of energy implications of Iraq/Iran conflict calm and constructive.
4. In any wider discussion of energy issues, to indicate contribution UK is making towards achievement of agreed Community energy objectives.

POINTS TO MAKE

5. Energy Ministers have agreed an approach to the oil supply situation to which we are all party. This approach is sound and we should endorse it. The next stage is the IEA Ministerial on 9 December.

Iran/Iraq and the Oil Market

6. Important to avoid panic in oil market. Serious price escalation, prompted by pressure on spot market, would have damaging effect on world economy

CONFIDENTIAL

CONFIDENTIAL

7. While, overall, the situation has deteriorated since the measures agreed in the IEA on 1 October, there have been signs in the last week that the spot market is softening. Nevertheless, if the war goes on we may still be faced with another big increase in oil prices. The agreement on measures reached at the Energy Council should be sufficient to hold the position at the moment and we should use the present lull in the spot market to plan any further action, but such action will be acceptable only if

- (i) there can be confidence that the measures adopted will have the intended effect and not simply introduce new rigidities into the market; and
- (ii) there is unanimous commitment to them by the consumers (ie EC and IEA).

8. (Defensive) If any Heads of State suggest reopening the Conclusions reached at the Council of Energy Ministers this should be resisted. The results of the Energy Council involve technical and complex issues. Any further work on this would need to involve Energy Ministers and would have to be completed before the IEA Ministerial on 9 December.

9. Note that IEA Ministers will be meeting on 8/9 December; and that there is likely to be strong US pressure for import ceilings. We have reservations, but if the question of ceilings arises as a necessary part of an otherwise beneficial package, and if all consuming countries were committed to it, we would be prepared to consider it constructively. We must all keep in close touch. Right for Community to keep situation under review.

10. (Defensive, if there is pressure for specific commitments over supply of UKCS oil) UK fully committed to IEA and Community arrangements for sharing in supply crisis. UKCS production currently at or very near the maximum consistent with good oilfield management: virtually no scope for increasing production in short term.

CONFIDENTIAL

CONFIDENTIAL

Achievement of Wider Energy Objectives

11. Need to shift the balance within energy economies widely recognised (eg May Council of Energy Ministers). Public opinion will expect vigorous policy measures by Governments.

12. Main contribution towards the process will come from national energy programmes complemented where appropriate by action at Community level and by international collaboration. Community has valuable role to play in ensuring convergence of national energy programmes to meet agreed objectives.

13. UK is playing its part in reducing oil dependence by the Community through its nuclear programme and coal production. Development of UK oil reserves making substantial contribution to reduction of Community dependence on imported oil; in first 8 months of 1980, two-thirds of total UK crude oil exports (some 16.1m tonnes) went to other EC Member States.

14. We continue to believe that economic pricing is key to rational and efficient use of energy. UK is pressing ahead with realistic energy pricing policies.

15. US energy prices still at unrealistically low levels. This is undesirable in energy terms, and has damaging consequences for European industry, especially textiles. The Community should press the new US administration to deregulate gas prices rapidly.

Community Energy Initiative (if raised)

16. Commission ideas interesting but complex. We will continue to participate constructively in examination of particular aspects (eg scope for additional Community investment in energy projects).

17. Increased Community investment in coal production would help reduce Community dependence on imported energy and on oil. Could also make a useful contribution to budget restructuring by expanding non-agricultural expenditure. Particularly important that Community move quickly to provide support for increased indigenous coal production.

CONFIDENTIAL

CONFIDENTIAL

Oil Import Levy (Do not raise)

18. We should need to consider carefully the implications of a Community oil levy and the wider issues that might be involved. We await clarification of Commission's ideas.

ESSENTIAL FACTS

Impact of Iran/Iraq Crisis

19. When the war started OPEC oil production was running 2 mbd above demand. The loss of supply from Iran and Iraq amounts to some 4 mbd which has been offset by about 1 mbd extra OPEC production, mainly from Saudi Arabia and Kuwait. It has also been offset by the suspension of the 10% cut in OPEC production generally which had been agreed by OPEC Ministers at their last meeting before the war broke out. These figures suggest that, provided the recent reduction in demand continues and we do not have an exceptionally severe winter, the supply/demand balance is only about 1 mbd worse than would have existed if the war had not occurred.

20. The loss of Iranian and Iraqi oil has hit certain countries and companies severely, others not at all. Within IEA, Turkey and Portugal have been particularly badly hit as have France, Brazil and India amongst non-IEA countries. Spain, Greece, Ireland, Austria, Italy and Japan together with a number of LDCs have been significantly affected. Some companies, notably ARAMCO partners have not suffered at all: others, including some national oil companies as well as BP and Shell (already crude short) have lost a good deal.

21. IEA's most recent assessment is that, given present expectations of little oil from Iran or Iraq until the beginning of Q2 1981 at the earliest, stock levels in the IEA will fall from 460m tonnes at end September 1980 to 440m tonnes at end December (a level somewhat higher than that of 1 January 1980).

CONFIDENTIAL

CONFIDENTIAL

22. Key problem is price rather than supply. IEA on 1 October agreed measures to meet the gap between supply and demand by using some stocks while retaining adequate strategic reserves, and to discourage abnormal purchases on spot market. These may need reinforcement if the increases in spot prices resume and the OPEC producers are tempted to lift official prices.

23. There are strong indications that, at the IEA Governing Board at Ministerial level on 8/9 December, the US will press hard for import ceilings as a necessary political quid pro quo for the use of oil presently in the hands of US companies to rectify local and company supply imbalances brought about by the cessation of Iranian and Iraqi exports. There is likely to be support for this approach and, if a consensus was clearly developing, the UK could support it, although we have reservations about the value of the measure. There are clear signs that we could negotiate a net import ceiling for the UK which would not require us to introduce measures of demand restraint, and it would be a sine qua non of any measures which the UK accepted that their impact on the British consumer would be less severe, less immediate and less visible than for our European and IEA partners.

Energy Councils

24. The Energy Council on 27 November reached agreement on how to handle the oil supplies situation. These Conclusions (Annex 1) represent a sound approach to the problems we face and the European Council should endorse them.

The important paragraphs of the Conclusions are 6 and 7. The preamble to Para 6 acknowledges the importance of involving other industrialised consumer countries (ie the USA and Japan) in collective action. The measures set out in the indents to para 6 are useful but not over-restrictive - these steps keep the situation flexible for the IEA Ministerial on 9 December. The thinking behind para 7 is a valuable recognition of our main objective and can be developed in the light of changing

CONFIDENTIAL

CONFIDENTIAL

circumstances if necessary. Above all, the Conclusions contain no reference to import ceilings.

25. The 13 May Energy Council agreed:

- to reduce oil consumption in EC to about 40% of gross primary energy consumption in 1990;
- to cover 70 to 75% of primary energy requirements for production of electricity in 1990 by means of solid fuels and nuclear energy;
- recognised importance of energy pricing policy reflecting representative conditions on world market, longer-term trends, costs of replacing and developing energy resources.

Venice Summit

26. Recognised importance of breaking existing link between economic growth and oil consumption; maximum reliance to be placed on price mechanism.

UK Record

27. A good record - about 43% of UK's gross primary energy consumption in 1979 came from oil;
- UK coal production 1979 122m tonnes - substantial contribution to EC energy supplies;
 - nuclear provides about 12% of our electricity. Its contribution expected to increase to about 20% in early 1980s. Secretary of State for Energy announced in December 1979 that electricity supply industry expect to order at least 1 nuclear station a year in decade from 1982 (15GW of new capacity by 2000).

CONFIDENTIAL

CONFIDENTIAL

Commission Energy Initiative

28. Commission presented Communication to Luxembourg European Council in April on need for increased energy investment in Community and proposing Community programme to support investment in energy savings, oil substitution, coal and development of alternative energies. Commission also put forward proposals on energy price and tax harmonisation in Community and on ways of raising Community funds from energy (eg import levy, production/consumption taxes).

Energy Council, 13 May, asked Commission to consult Member States to assess whether there was a need for Community support for energy investment. Officials have had useful discussions with Commission on investment opportunities in UK (Cross-Channel link, Heysham II, Selby, PWR). Ministers have agreed that the UK would be a net beneficiary of a scheme to encourage investment in coal production and possibly other energy sources. Much will depend on what the Commission proposes. The expansion of non-agricultural expenditure could make a useful, if modest, contribution to our budget restructuring objectives. Presentationally it is important to press for policies which will yield us a net benefit and which fit into Community objectives and policies.

Oil Import Levy (Not for disclosure)

29. OD on 13 October agreed the UK should not advocate an oil levy but that internal studies of its feasibility should continue. A scheme could be devised which would bring us benefit, but many issues (industrial competitiveness, length of negotiations, energy policy effects). to be considered before we can reach a view.

US Energy Prices

30. The Natural Gas Policy Act of 1978 provides continued controls on prices till January 1 1985 with possible extension after 6-month period until January 1978. The controls allow for increase in price on new gas.

CONFIDENTIAL

CONFIDENTIAL

Community Support for Coal Production

31. The Secretary of State for Energy wrote to Commissioner Brunner on 4 October¹⁹⁷⁹ proposing a Community fund of 250 meua, initially over 3 years, to support coal production in the Community. Its prospects seem poor, but our initiative may improve our chances of coal production support in the context of Community Budget Restructuring.

Potential for increasing UKCS production in short-term

32. The UK provided the Community's Oil Group with a paper on the potential for increasing production in the short-term. There is no real scope - operators are already trying to use their capital equipment to maximum advantage. There may, for technical reasons, occasionally be times when some very limited production increases might be possible. But even then the economic cost would be high, both in terms of gas lost by flaring and in possible reservoir damage, which would lead to a loss in ultimately recovered reserves. This would raise the question of at what price any such oil should be made available.

Department of Energy
28 November 1980

CONFIDENTIAL

CONFIDENTIAL

CONCLUSIONS OF ENERGY COUNCIL

27 NOVEMBER ON OIL SUPPLIES

OIL SUPPLIES

The Council held an exchange of views on the oil supply situation as a result of the stoppage of deliveries from Iraq and Iran.

2. Demand has been reduced considerably, particularly because of the present levels of economic activity, but also owing to the results obtained as regards oil savings and the substitution of alternative energy sources. For this reason, and taking into account the withdrawals which will be made against the large stocks held, there is no overall oil shortfall, even though there may be some limited difficulties for certain countries and certain companies.

3. The Council welcomes the increase in oil production decided on by certain OPEC governments in order to prevent the situation from deteriorating and to help the consumer countries which are most affected.

4. In the present circumstances, price increases on the oil markets are unjustified and both producer and consumer countries have a common responsibility for and interest in preventing speculative upward trends.

5. The Council expresses its determination to do everything in its power to prevent tension on the oil markets during the coming months. Bearing in mind the very rapid rate of increase which has occurred over the past few years, a further price increase would seriously handicap world economic prospects and, in particular, would heighten the problems of the oil-importing developing countries.

6. Provided that other industrialised consumer countries do likewise, the Member States of the Community undertake to adopt the following course of action:

- (A) Ask oil companies to use stocks in excess of regulation reserve obligations. The significant measures which they have agreed on will be implemented in a comparable and equitable manner insofar as they are necessary to avoid tension on the market.

The Member States and the Commission will collaborate on the co-ordination and verification of these measures.*

- (B) - Take all the necessary measures, in conjunction with the oil companies, to prevent import prices varying from normal prices.
- Or ask the oil companies to refrain from making abnormal purchases.

* It is understood that the United Kingdom will not be required to reduce stocks to a level lower than that required of the other member states.

CONFIDENTIAL

- (C) Encourage adjustment of supplies in such a way as to correct imbalances which pose particular problems for some Member States and encourage the relevant international organisations to assist the oil companies in remedying specific imbalances which may occur between them.
- (D) Further encourage the saving of oil and its replacement by other forms of energy in both the public and the private sector in order to reduce consumption.
- (E) Support domestic production at a high level.

7. The main objective will be to avoid an overall demand for imported oil at a higher level than that which can be made available by the producing countries. Trends in supply and demand and in stocks will be closely followed by the Commission in conjunction with the member states. If necessary, policies will be adapted to moderate import requirements, taking account of the various degrees of dependence vis-a-vis these policies.

The Council has invited the member states to take appropriate measures in close co-operation with the Commission.

CONFIDENTIAL

CONFIDENTIAL

EEC OIL SHARING SCHEME

I The scheme is embodied in Council Decision 77/706 EEC of 7 November 1977 and Commission Decision 79/639/EEC of 15 June 1979. It would operate in 3 stages:

- (i) in stage 1, each Member State would be required to reduce consumption of all petroleum products by a maximum of 10% for up to 2 months;
- (ii) in stage 2, each Member State would be required to reduce its consumption of fuel oil used in electricity generation on a variable basis, according to the total amount of energy consumed by that State for electricity generation coupled with its practical capacity for fuel-switching in power stations; demand restraint of other petroleum products would continue on a uniform basis. A Member State which had capacity for substituting other fuels for the oil normally burned in power stations, and which could thereby reduce its consumption of oil by more than the Community average, would have an obligation to allocate the excess into the Community for distribution to those Member States less well placed;
- (iii) in stage 3, which is likely to be introduced only in the event of a shortfall exceeding 12%, overall EEC consumption of petroleum products would be reduced by more than 10%; the reduction would be on a variable basis amongst Member States according to each Member State's total consumption of energy. As under stage 2, a Member State which reduced consumption by more than the average would allocate the excess into the Community.

Interface with the IEA Allocation Scheme

2. The EEC scheme would be implemented in a "period of supply difficulties"; the Commission has said that by this is meant a shortfall of over 7% for the group as a whole, i.e. a shortfall comparable to one in which the IEA general trigger would be pulled to activate IEA sharing arrangements. The IEA allocation system would then operate

CONFIDENTIAL

CONFIDENTIAL

parallel with stage 1 and subsequently stage 2 of the EEC scheme. The interface of stage 2 of the EEC scheme with the IEA system has been worked out in detail. The interface of stage 3 with IEA arrangements has not yet been as clearly defined, but the Commission's thinking is that stage 3 would be introduced only when the IEA decided, in view of a seriously declining level of stocks, that countries' supply rights under its allocation scheme would have to be substantially reduced.

Implications for the UK

3. Under stage 1 of the scheme the UK would be required to reduce its consumption of petroleum products, although the extent of the reduction would depend on how quickly we wished to draw down stocks above the obligatory emergency reserve level. Under stage 2, where actual oil allocation is involved, it is likely that in addition to restraining consumption the UK would have a small allocation obligation to other Member States. The exact amount would depend on the UK's capacity at the time to substitute other fuels for oil in the generation of electricity; it has, however, been agreed that the UK's obligation will not normally exceed 50,000 tonnes per month. This amount would be in addition to any obligation the UK might incur under the IEA sharing system. If stage 3 of the scheme were activated the UK's allocation obligation, again additional to its IEA commitments, might be substantially greater.

OPH

13 November

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)8
18 November 1980

COPY NO **1**

EUROPEAN COUNCIL, LUXEMBOURG
1/2 DECEMBER 1980

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

OBJECTIVE

1. To agree a cosmetic package suggesting progress towards the second stage of the EMS.
2. /If necessary/. To explain and defend the UK's position.

POINTS TO MAKE

3. Right to recognise that Community not ready for a major step forward. Agree that Council should make token moves to demonstrate continuing wish to develop EMS.
4. /If necessary/. UK has participated fully in all studies on second stage. No technical reason why sterling's absence from exchange rate mechanism should affect progress to second stage. Other important considerations have led to the unanimous view that it is not realistic for the second stage to begin next March.
5. /If raised/. Would like to join exchange rate mechanism in right circumstances, in particular when we have gained control of our own monetary situation. However, if market is trying to push sterling strongly up or down relative to other EMS currencies, membership could be bad for UK and for the system.

CONFIDENTIAL

BACKGROUND

References Draft Commission conclusions (not yet circulated).

The EMS

6. The European Council's EMS Resolution of December 1978 set a two year deadline for moving to the second stage of the system with a European Monetary Fund (EMF) and "full utilisation" of the ECU as a reserve asset and a means of settlement. This is the last European Council meeting before the deadline expires in March 1981.

7. No desire on part of any member state (except occasionally Luxembourg) to progress rapidly to second stage: no obvious national advantage would result. Definitive transfer of gold to EMF also poses political problems for France, which are unlikely to be eased before the presidential election (April/May 1981). Technical studies continuing.

8. Package likely to be proposed in Commission conclusions to give appearance of progress on second stage. This could involve:-

(i) Renewal of the existing arrangement for providing ECU's by swap operations (due to expire in March 1981).

(ii) Agreement to review the Community's Medium-Term Financial Assistance (medium-term credit for member states), which expires in December 1980.

CONFIDENTIAL

(iii) /Possibly/. Indefinite commitment to develop ECU in International Monetary System; reaffirmation of Community's commitment to eventual economic and monetary union.

9. We should not accept either a specific date for economic and monetary union or a commitment to developing the ECU regardless of market conditions.

UK Membership of Exchange Rate Arrangements

10. Sterling has continued to move very differently from other EMS currencies, partly because of petro-currency influences. Intervention to hold sterling down to the level of other EMS currencies would tend to expand the money supply. Intervention to hold sterling up could attract political criticism in UK from exporters. In either case pressure on sterling could cause strains in EMS (which has functioned smoothly so far, with only one major realignment).

HM TREASURY
18 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)9 REVISE

COPY NO **1**

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To appear constructive, defend realism, protect international financial institutions.

POINTS TO MAKE

2. Positive but realistic approach needed to North/South dialogue.
3. Importance of trade and private finance for developing countries. Greater contributions needed from OPEC surplus countries.
4. Global Negotiations not to undermine autonomy of IFIs. Ambiguity on procedures, and prejudicial agenda items dangerous.
5. Commission idea of security and predictability in North/South relations needs to be explained. Uncertain whether it provides basis for agreement.
6. Agree united Community voice needed in North/South discussions: but must reflect interests of all Member States and should be compatible with those of other OECD countries.

CONFIDENTIAL

7. (If raised) UK would accept invitation to North/South Summit. Accept case for Community presence but not in a position to influence choice of participants.
8. Oppose close link between North/South Summit and Global Negotiations.
9. (If appropriate) Support idea of dialogue with oil producers; but more internal preparation needed.

BACKGROUND

References/Annexes

- A: Commission paper (available in French)
- B: Minute by Secretary of State to Prime Minister of 14 November
- C: Chairman of UN Special Session's text on Procedures for Global Negotiations.
- D: President of the General Assembly's text on Procedures for Global Negotiations.

NORTH/SOUTH DIALOGUE

10. Commission paper (Annex A) reviews prospects for North/South dialogue. In urging a forward position for the Community it understates the difficulties and gives undesirable impetus to false consensus.
11. 'Security and predictability' in international relations identified as recurrent theme of Global Negotiations, and potential basis for agreement. This ignores pressure for structural change at expense of OECD countries. Commission ready to go too far in making any unrequited concessions, eg on indexation of OPEC financial assets.

CONFIDENTIAL

Commission argues strongly for common Community action. We can support this; but Community should not try to isolate the United States, which would be self-defeating.

NORTH/SOUTH SUMMIT

11. For latest position on North/South Summit see Annex B, a minute by Secretary of State to the Prime Minister. The Italians (in their own right) and Dutch (as next holders of the Presidency) may raise the question of their participation. We have supported Italian participation and should not dissent from the view that the Community as such should participate, if others press it. But the UK is not a co-sponsor and therefore has no say in choice of participants. The French and Germans as co-sponsors will bear the brunt of this discussion.

DIALOGUE WITH OIL PRODUCERS

12. The Commission paper suggests new impetus be given to European dialogue with the oil producers. We would regard detailed discussion of such an initiative as premature. Discussion should eventually be based on a balanced analysis of the components of such a dialogue. The Commission paper focusses exclusively on elements of interest to the producers.

GLOBAL NEGOTIATIONS

13. At UN Special Session UK joined the US and Germany in rejecting the text setting out Procedures for the Global Negotiations presented by the Chairman (Annex C). We opposed it on the grounds that the role it accorded the central negotiating body undermined the integrity of specialised bodies, in particular the International Financial Institutions. Our requirements remain that

CONFIDENTIAL

the central body should not:

- (a) by-pass the institutions by discussing matters which are their responsibility;
- (b) give instructions to the institutions on the solution to be found to the problems selected for consideration; and
- (c) renegotiate solutions sent back to them by the institutions, in the process of putting together a final package.

The text was ambiguous on these points. Other OECD countries shared our objectives but were prepared to live with this ambiguity. In the final Plenary of the Special Session, US, UK and FRG blocked attempts to have this text adopted as a consensus document.

Discussion on Procedures and Agenda has now restarted in the General Assembly. The American position remains very firm. They want changes in Procedures text which would make clear that the central body will not negotiate on matters which are the responsibility of specialised bodies. This is also our position. German Administration is known to be divided. Finance and Economic Ministers hold by their original stand, but Foreign Minister Genscher is anxious to secure a change in the German position and so escape from current isolation.

The German President of the General Assembly, Herr von Wechmar, has held informal consultations which have resulted in a new Procedures text (Annex D) which improves on the Special Session text. But we still have reservations; the Americans will not accept without further amendment; and we do not know how the developing countries will react. Under the influence of Wechmar, and Genscher,

CONFIDENTIAL

the Germans may now be disposed to accept this latest text, with an interpretative Community statement, rather than risk a complete breakdown. We have argued against such a course.

Foreign and Commonwealth Office

26 November 1980

- 5 -

CONFIDENTIAL

COMMISSION DES COMMUNAUTES EUROPEENNES

COM(80) 757 final

Bruxelles, le 20 novembre 1980

LE DIALOGUE NORD-SUD :
RECHERCHE DE LA SECURITE ET DE LA PREVISIBILITE

(Communication de la Commission au Conseil européen,
Luxembourg, 1er et 2 décembre 1980)

COM(80) 757 final

CONFIDENTIAL

Le dialogue nord-sud : recherche de la sécurité et de la prévisibilité

(Note de la Commission)

En 1981, les négociations nord-sud joueront un rôle important dans l'évolution des relations internationales. Cette année sera-t-elle marquée par une relance d'un véritable dialogue entre tous les pays industrialisés et tous les pays en développement y compris ceux de l'Opep ou verra-t-elle, en raison de l'aggravation de la crise et d'une détérioration croissante du climat des relations internationales, se développer des manifestations de désordre dans une ambiance de confrontation.

En tout état de cause, le calendrier sera contraignant tant au plan des Nations-Unies qu'au sein des enceintes spécialisées (1) ou encore au plan des discussions plus limitées entre l'Europe et diverses régions du monde.

Les occasions offertes ainsi par le calendrier - et à susciter le cas échéant - doivent permettre d'aborder sérieusement certains des sujets les plus importants pour l'évolution future des relations économiques entre pays du nord et du sud; elles offrent des possibilités de progresser dans la recherche d'une plus grande sécurité et d'une meilleure prévisibilité des relations entre toutes les parties.

Sécurité et prévisibilité : leitmotiv des négociations globales

A cet égard, le lancement effectif à New York des négociations globales revêt une importance certaine. D'abord parce qu'il serait de nature à favoriser le rétablissement d'un climat de confiance, actuellement gravement compromis de part et d'autre; ensuite et surtout parce qu'il apparaît maintenant que la recherche de sécurité et de prévisibilité constitue en quelque sorte le lieu commun aux objectifs de négociation de toutes les parties : dans le domaine du recyclage et du financement du développement comme dans celui des produits de base; dans le domaine de l'énergie comme en matière de sécurité alimentaire, dans le domaine de l'accès au marché comme dans celui de la valeur des actifs financiers des pays à surplus.

C'est dire la complexité du dialogue nord-sud que les négociations globales ont pour objet d'approfondir et de faire progresser.

(1) cf. calendrier en Annexe

Elles ne pourront progresser, elles n'auront même d'intérêt que si les acteurs principaux de la scène mondiale se sentent tous réellement concernés. Ceci signifie que les grands thèmes devront être tous abordés en liaison les uns avec les autres : cela doit être entrepris et peut l'être dans le respect des pouvoirs et des fonctions des différentes instances de décision spécialisées.

La Communauté, dont un des objectifs constants au cours de la préparation des négociations globales a été d'impliquer à la fois les grands pays industrialisés et les pays pétroliers dans la recherche de solutions d'intérêt mutuel aux problèmes économiques majeurs qui assaillent l'économie mondiale, devra donc déployer des efforts considérables pour convaincre les uns et les autres sur un ordre du jour équilibré et attrayant et sur des règles de procédure acceptables par tous.

Sans attendre le lancement effectif des négociations globales, et même dans l'hypothèse où celui-ci serait retardé, la Communauté doit dès maintenant préparer ses positions pour la reprise d'un dialogue nord-sud qui ne saurait - en tout état de cause - se limiter à l'enceinte des Nations Unies.

Le développement d'une action communautaire dans le Nord/Sud

La Communauté, les Etats membres, les entreprises ont en effet un intérêt évident à la définition progressive de règles assurant une meilleure sécurité et une plus grande prévisibilité dans les relations de tous ordres entre nord et sud; les conditions de nos approvisionnements en dépendent, ainsi que l'accès à des marchés dont l'élargissement rapide a été un des seuls éléments de croissance dans bien des secteurs de nos économies au cours des dernières années et doit le redevenir au plus tôt. Pour jouer un rôle actif dans ces négociations, la Communauté doit s'exprimer d'une voix. Depuis la Conférence de Paris en 1977, l'expérience a montré que le dialogue nord-sud ne progresse que lorsque la Communauté s'y présente unie et montre la voie : les négociations de l'accord sur le cacao en sont l'exemple le plus récent.

Mais elle doit aussi contribuer à la démonstration de la possibilité de progrès au niveau mondial à la fois dans les autres enceintes nord-sud et par ses actions propres.

CONFIDENTIAL

- 3 -

Au plan multilatéral, la Communauté doit jouer un rôle d'initiative et d'impulsion en priorité dans :

1. La négociation des accords de produits qui est prévue pour la fin de l'année 1980 et pour 1981 ainsi que dans la mise en oeuvre des accords récemment conclus.
2. Les travaux poursuivis au sein des institutions de Bretton Woods pour accroître rapidement leurs moyens d'action en faveur des pvd et diversifier leurs formes d'intervention afin de leur permettre de répondre efficacement aux problèmes qui se posent à ces pays en raison de l'aggravation considérable de leurs déficits extérieurs. A cet effet, plusieurs initiatives ont été lancées récemment par le Fonds comme par la Banque, en particulier la création d'une filiale énergie (1).

Au plan de l'action directe de la Communauté par ses moyens propres :

1. La participation des mécanismes communautaires au recyclage doit compléter l'intervention des organisations financières internationales (notamment par les actions de cofinancement entre les fonds communautaires et les fonds arabes).
2. En matière d'Aide publique au développement, notre action la plus caractéristique vis-à-vis des plus défavorisés s'inscrit notamment dans les relations de Lomé, dont la valeur démonstrative doit donc être accrue, notamment dans le développement des communautés rurales.
3. Notre contribution à la sécurité alimentaire doit être améliorée selon certaines des lignes enregistrées au Parlement européen après le débat sur la faim dans le monde et confirmées récemment par le Conseil.
4. Compte tenu de ses responsabilités d'ordre commercial, la Communauté, qui est attachée au développement d'un système d'échanges libres, doit progresser sur le plan du Système des préférences généralisées, du renouvellement de l'Accord multifibres. Elle doit multiplier les occasions de consultations avec ses partenaires du Sud, afin d'anticiper les développements attendus de part et d'autre.
5. Le renforcement du système monétaire européen permettra à la Communauté de jouer un rôle accru dans le recyclage des capitaux, de participer plus efficacement à l'effort nécessaire pour renforcer le système monétaire international et de répondre à certains des problèmes principaux que connaissent les pays en développement.

(1) Il faut noter que ces initiatives restent en suspens, notamment dans l'attente du règlement de la question du statut d'observateur de l'Olp.

- 9 -

CONFIDENTIAL

Des relations plus étroites entre la Communauté et ses partenaires dans le Nord-Sud

La capacité d'action de la Communauté dans le dialogue nord-sud est aussi très largement liée au développement de nos relations directes avec les Etats-Unis qui ont souvent une approche différente des problèmes nord-sud, ce qui est de nature à rendre plus difficile la cohésion communautaire. Il est donc essentiel, dans la période actuelle, que la position communautaire leur soit expliquée (par des contacts multipliés à tous les niveaux : Congrès, Exécutif, opinion) afin de les sensibiliser à l'importance pour l'Europe de la dimension nord-sud et de réduire les éventuelles divergences d'analyse. A cet égard, des pays industrialisés pourraient jouer un rôle utile dans le renforcement de la cohésion occidentale : la Communauté doit donc saisir toute occasion de confronter ses vues sur les relations nord-sud avec le Canada, le Japon, les pays scandinaves.

Par ailleurs, la négociation globale peut aider à engager la nécessaire discussion avec les pays pétroliers, mais elle n'y suffira pas. Des relations directes devront être nouées par la Communauté pour traiter certaines questions intéressant ces pays à des degrés divers : ceci couvre, d'une part, l'ensemble des questions liées à la sécurité et à la valeur réelle des avoirs financiers accumulés par certains au-delà de leur capacité de développement. Ceci vise, d'autre part, la recherche de sécurité et de prévisibilité dans la fourniture des éléments du développement pour ceux qui ont la capacité de se développer, à savoir le caractère suffisamment prévisible des livraisons de certains biens de consommation (produits alimentaires principalement), l'encouragement aux entreprises conjointes avec nos compagnies, l'accès prévisible de produits transformés à notre propre marché.

Enfin, parce que la dimension politique doit être sans cesse présente, il faut que les "Sommets" de toutes natures (entre pays du Nord, entre pays du Sud, entre Nord et Sud) en discutent, sans pour autant se substituer aux organes internationaux compétents.

La dimension de politique interne du Nord-Sud

Il ressort de tout ceci que le progrès dans les relations nord-sud se placera dans de multiples enceintes et à des niveaux divers; il y a complémentarité et interdépendance entre toutes ces négociations. Mais il y a aussi dépendance réciproque entre l'évolution de niveau international (ou inter-régional) et la situation intérieure de chacun de nos pays :

- nos économies gagnent à vendre plus et mieux, et à être assurées des conditions de leurs approvisionnements. Le développement de nos partenaires a des effets en retour qu'il faut mieux prévoir, discuter avec eux, inscrire parmi nos critères de restructuration. Ceci comporte dans chacun de nos pays et au niveau communautaire l'association des forces économiques et sociales.
- La motivation de l'opinion publique est donc déterminante. Elle doit avoir mieux conscience de l'interdépendance et de ses répercussions directes sur le niveau de l'emploi. Il convient de multiplier les discussions au niveau des Parlements, des syndicats, des associations non gouvernementales, des régions, d'utiliser les médias.

Annexe : calendrier Nord-Sud 1981

- au plan global : lancement des négociations globales sur la coopération économique internationale et tenue de plusieurs réunions restreintes de chefs d'Etats ou de Gouvernements du nord et du sud;
- au plan monétaire et financier : suites à donner aux orientations prises par le Comité intérimaire et le Directeur général du FMI, accroissement des ressources du groupe de la Banque mondiale (y compris la mise en place d'une filiale "énergie") selon les propositions de M. Mc Namara;
- au plan de la sécurité alimentaire : accord sur le blé, nouvelle convention d'aide alimentaire, stocks de sécurité, reconstitution du Fida, ...;
- au plan commercial : renégociation de l'accord multifibres, discussion au Gatt, à la Cnuccd, sur les politiques commerciales et les ajustements de structures;
- au plan des produits de base : accords à conclure sur le cacao, l'étain, le jute et mise en oeuvre de l'accord sur le Fonds commun;
- au plan de l'aide aux plus défavorisés : conférence sur les pays les moins avancés.

PM/80/78

PRIME MINISTER

North/South Summit

1. You may like to know where matters stand on preparations for a limited summit of developed and developing countries, after the meeting of 'sponsor' countries in Vienna on 7 and 8 November. The Canadian Foreign Minister, who was at Vienna, gave us an account when he passed through London earlier this week.

2. The sponsors agreed to work for a summit meeting in Mexico City in June 1981. The favoured dates were 4/5 June. This is rather earlier than we would have wished, since it will precede the Ottawa Summit. But no one in Vienna was prepared to press this point; and the French were satisfied with a decent interval after their Presidential elections. In my view, a date in June is not unreasonable and does allow time for the new American Administration to take a view on participation.

3. The main debate in Vienna was on who should attend. I attach a list of intended participants. It is firmly agreed that the United Kingdom should be invited; this is satisfactory. But neither Italy nor the Netherlands have been included; there was considerable resistance to adding more West Europeans. This will be unwelcome in the Community. It was agreed to

/invite

invite both the Soviet Union and China. The French and the Germans pressed for this, though there was some doubt whether the Russians would accept. There was also doubt whether Saudi Arabia would take part. But Trudeau will be visiting Saudi Arabia shortly and hopes to persuade them.

4. The next stage will be for the sponsors to sound out the other intended participants. Formal invitations will not be issued until after the next meeting of sponsors in March 1981, by which time the list should be firm. The March meeting of sponsors will also consider some form of agenda. But it was generally agreed in Vienna that the Summit should be an informal and unstructured meeting, which would not require detailed preparation and would not negotiate precise commitments. This suggests rather lighter preparation than we had envisaged. But both Canada and Germany argued strongly for informality. I believe their aim was largely to defuse excessive expectations of what might emerge from such a summit.

5. There was also long discussion in Vienna on relations between the Summit and the UN Global Negotiations. The Algerians - who were generally difficult participants - argued for a very close link. But this view did not prevail, so that the link between the two events remains imprecise. This is, I am sure, in our interest. We would not want the Summit to be regarded as a sort of 'court of appeal' from the Global Negotiations, nor to be limited to matters under discussion there.

/6.

6. Though much remains to be settled, I think the outcome of this preparatory meeting was satisfactory for us. I am sure that we should continue to make clear our readiness to attend a summit to be organised on the lines proposed.



(CARRINGTON)

cc: Chancellor of the Exchequer
Secretary to the Cabinet
Secretary of State for Trade
Secretary of State for Industry

Foreign and Commonwealth Office

14 November 1980

CONFIDENTIAL

NORTH/SOUTH SUMMIT: PARTICIPANTS

A. Basic List

Developed Countries

United States
Japan
West Germany
France
UK
Canada
Sweden
Austria

Developing Countries

Latin America:

Mexico
Brazil
Venezuela
Guyana

Africa:

Algeria
Nigeria
Ivory Coast
Tanzania

Asia:

Saudi Arabia
India
Bangladesh
Philippines
Yugoslavia

B. Possibles

USSR
Romania

China

Australia

A Portuguese-speaking African,
eg Angola



UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
LIMITED

A/S-11/AC.1/L.1/Rev.1
12 September 1980

ORIGINAL: ENGLISH

AD HOC COMMITTEE OF THE ELEVENTH
SPECIAL SESSION
Agenda item 7

ASSESSMENT OF THE PROGRESS MADE IN THE ESTABLISHMENT OF THE NEW
INTERNATIONAL ECONOMIC ORDER AND APPROPRIATE ACTION FOR THE
PROMOTION OF THE DEVELOPMENT OF DEVELOPING COUNTRIES AND
INTERNATIONAL ECONOMIC CO-OPERATION

Procedures and time-frame for the global negotiations

Revised proposal submitted by the Chairman of Working Group II

1. For the purpose of the global negotiations, the special session of the General Assembly decides to convene a United Nations conference for global negotiations on international economic co-operation for development.
2. The Conference should have universal participation, at a high political level, and will be the forum for co-ordinating and conducting the global negotiations with a view to ensuring a simultaneous, coherent and integrated approach to all the issues under negotiations. The Conference should result in a package agreement.
3. For the purpose of facilitating detailed negotiations, the Conference will, in the initial period which should not exceed eight weeks, establish objectives for and provide guidance on the agenda items or parts thereof. The Conference will indicate the time-frame for such negotiations.
4. The Conference will entrust the detailed negotiation of specific agenda items or parts thereof to specialized forums within the United Nations system in accordance with their competence or to such ad hoc groups as it will create.
5. The Conference will receive the results of the detailed negotiations from the specialized forums and ad hoc groups within the indicated time-frame, with a view to reaching a package agreement.
6. All parties to the package agreement will be committed to its implementation. Where such implementation involves action by specialized forums within the United Nations system, parties to the agreement will act through the intergovernmental bodies of these forums, in accordance with their competence and rules of procedure.

80-21684

/... :

CONFIDENTIAL

7. The Conference will function in accordance with the procedures of the General Assembly. However, it would reach agreement by consensus on all important matters, such as those referred to in paragraphs 2, 3, 4 and 5.

8. The Conference should meet throughout at United Nations Headquarters in New York.

9. The Conference should start functioning on 12 January 1981 and should make every effort to conclude by 11 September 1981.

10. The Conference should have the highest priority in respect of facilities and services, including interpretation and translation in all the official and working languages of the General Assembly and its Main Committees to be provided by the United Nations Secretariat. The necessary facilities and resources should also be provided for all preparatory arrangements, at United Nations Headquarters including regional and other group meetings, for the purpose of preparing the negotiations.

11. Appropriate arrangements would have to be made to ensure the provision and co-ordination of the inputs of the secretariats of the United Nations system to the Conference.

12. Upon request, the Conference may invite specialized, interregional, regional and subregional intergovernmental organizations relevant to the task of the Conference, to attend the Conference.

CONFIDENTIAL

CONFIDENTIAL

GLOBAL NEGOTIATIONS.

1. FOR THE PURPOSE OF THE GLOBAL NEGOTIATIONS, THE SPECIAL SESSION OF THE GENERAL ASSEMBLY DECIDES TO CONVENE A UNITED NATIONS CONFERENCE FOR GLOBAL NEGOTIATIONS ON INTERNATIONAL ECONOMIC CO-OPERATION FOR DEVELOPMENT.
2. THE CONFERENCE SHOULD HAVE UNIVERSAL PARTICIPATION, AT A HIGH POLITICAL LEVEL, AND WILL BE THE FORUM FOR CO-ORDINATING AND CONDUCTING THE GLOBAL NEGOTIATIONS WITH A VIEW TO ENSURING A SIMULTANEOUS, COHERENT AND INTEGRATED APPROACH TO ALL THE ISSUES UNDER NEGOTIATIONS. THE CONFERENCE SHOULD RESULT IN A PACKAGE AGREEMENT.
3. FOR THE PURPOSE OF FACILITATING THE NEGOTIATION OF THE ELEMENTS OF THE PACKAGE, THE CONFERENCE WILL, IN THE INITIAL PERIOD WHICH SHOULD NOT EXCEED EIGHT WEEKS, ESTABLISH OBJECTIVES FOR AND PROVIDE GUIDANCE ON THE AGENDA ITEMS OR PARTS THEREOF. THE CONFERENCE WILL INDICATE THE TIME-FRAME FOR SUCH NEGOTIATIONS.
4. THE CONFERENCE WILL ENTRUST THE DETAILED NEGOTIATION OF SPECIFIC AGENDA ITEMS OR PARTS THEREOF TO SPECIALIZED FORA WITHIN THE UNITED NATIONS SYSTEM IN ACCORDANCE WITH THEIR COMPETENCE OR TO SUCH AD HOC GROUPS AS IT WILL CREATE.
5. THE CONFERENCE WILL RECEIVE THE RESULTS OF THE DETAILED NEGOTIATIONS FROM THE SPECIALISED FORA AND AD HOC GROUPS WITHIN THE INDICATED TIME-FRAME, WITH A VIEW TO NEGOTIATE A PACKAGE AGREEMENT. WHERE SUCH RESULTS ARE JUDGED UNSATISFACTORY IN THE LIGHT OF THE INITIAL OBJECTIVES AND GUIDANCE, OR IN THE LIGHT OF ACHIEVEMENTS ON OTHER ISSUES THE RESULTS WILL BE RETURNED TO THE SPECIALISED FORA OR AD HOC GROUPS WITH RENEWED OR ADDITIONAL OBJECTIVES AND GUIDANCE FOR RESUMED CONSIDERATION.
6. IN CARRYING OUT ITS MANDATE, THE CONFERENCE SHALL RESPECT THE COMPETENCE, FUNCTIONS, AND POWERS OF THE SPECIALISED U N FORA AS WELL AS OTHER INSTITUTIONS CONCERNED. THIS DOES NOT PRECLUDE THE CONFERENCE FROM AGREEING ON ANY OBJECTIVES AND GUIDANCE FOR THE SPECIALISED FORA ON AGENDA ITEMS OR PARTS THEREOF ENTRUSTED TO THEM.
7. ALL PARTIES TO THE PACKAGE AGREEMENT WILL BE COMMITTED TO ITS IMPLEMENTATIONS. WHERE SUCH IMPLEMENTATION INVOLVES ACTION BY SPECIALISED FORA WITHIN THE UNITED NATIONS SYSTEM, PARTIES TO THE AGREEMENT WILL ACT THROUGH THE INTERGOVERNMENTAL BODIES OF THESE FORA, IN ACCORDANCE WITH THEIR COMPETENCE AND RULES OF PROCEDURE.

CONFIDENTIAL

/ 8 .

CONFIDENTIAL

8. THE CONFERENCE WILL FUNCTION IN ACCORDANCE WITH THE PROCEDURES OF THE GENERAL ASSEMBLY. HOWEVER, IT WILL REACH AGREEMENT BY CONSENSUS ON ALL IMPORTANT MATTERS, SUCH AS THOSE REFERRED TO IN PARAGRAPH 2, 3, 4, 5, AND 6.
9. THE CONFERENCE SHOULD MEET THROUGHOUT AT UNITED NATIONS HEADQUARTERS IN NEW YORK.
10. THE CONFERENCE SHOULD START FUNCTIONING ON 12 JANUARY 1981 AND SHOULD MAKE EVERY EFFORT TO CONCLUDE BY 11 SEPTEMBER 1981.
11. THE CONFERENCE SHOULD HAVE THE HIGHEST PRIORITY IN RESPECT OF FACILITIES AND SERVICES, INCLUDING INTERPRETATION AND TRANSLATION IN ALL THE OFFICIAL AND WORKING LANGUAGES OF THE GENERAL ASSEMBLY AND ITS MAIN COMMITTEES TO BE PROVIDED BY THE UNITED NATIONS SECRETARIAT. THE NECESSARY FACILITIES AND RESOURCES SHOULD ALSO BE PROVIDED FOR ALL PREPARATORY ARRANGEMENTS, AT UNITED NATIONS HEADQUARTERS INCLUDING REGIONAL AND OTHER GROUP MEETINGS, FOR THE PURPOSE OF PREPARING THE NEGOTIATIONS.
12. APPROPRIATE ARRANGEMENTS WOULD HAVE TO BE MADE TO ENSURE THE PROVISION AND CO-ORDINATION OF THE INPUTS OF THE SECRETARIATS OF THE UNITED NATIONS SYSTEM TO THE CONFERENCE.
13. UPON REQUEST, THE CONFERENCE MAY INVITE SPECIALIZED, INTERREGIONAL, REGIONAL AND SUBREGIONAL INTERGOVERNMENTAL ORGANIZATIONS RELEVANT TO THE TASK OF THE CONFERENCE, TO ATTEND THE CONFERENCE.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)10
20 November 1980

COPY NO

1

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

CIVIL AVIATION

Brief by Department of Trade

OBJECTIVE

1. To argue for a liberalisation of air services if criticised for alleged protectionism in other areas.

POINTS TO MAKE

2. We have taken a liberal attitude and sought to make progress under the Treaty in a number of areas. We have both initiated and supported a gradual liberalisation of the present tightly regulated system. Disappointed at the very restrictionist response of other Member States.

3. Air transport an area where the Common Market needs to be completed. We are not seeking US style total de-regulation but air traveller needs a better deal in Europe. Better to agree on sensible measures on fares and route entry now than to await a possible Court judgement on competition policy grounds.

4. Efficient air services essential to proper development of intra-Community trade and for our citizens to move freely. Airlines should be free to offer what the customer wants at a competitive price. Businessmen expect liberal regime in aviation to parallel Common market in goods.

5. Recognise work already accomplished. Needs to be accelerated. Important that there is early action on the measures currently under discussion in the Community.

BACKGROUND

References: None

6. The UK has been pressing for more liberal arrangements in the regulatory system for aviation in Europe both bilaterally with European countries and in the wider 22 National European Civil Aviation Conference, as well as in the Community. Nearly all European States are fundamentally against such liberalisation, as they see the role and profitability of their national airline as of prime importance. Because of the possibilities under the Treaty, the Community has been the prime area in which we have sought to make progress. We instigated last year a study of measures to improve services between regional areas in the different Community States and as a result of this the Commission is now putting a Draft Regulation to the Council for consideration, initially at the official level Transport Working Group. The UK's proposed Draft Directive to liberalise the carriage of low weight high speed parcels is also already under discussion in the same Group. We have had particular difficulty with the important question of air fares [on which public attention has focussed] but last June we succeeded in getting the Council of Transport Ministers to agree to an examination of this whole subject by the Commission in consultation with national experts. Our aim is to move from a system where fares have to be approved by both sides to one where the sending state only regulates fares.

7. We hope that these initiatives will come to the Council of Transport Ministers for decision either during the Dutch Presidency in the first half of 1981, or during the UK Presidency in the second half of the year when we shall have some influence over the timing and scope of subjects discussed. In that period the Commission is also likely to respond to complaints about route entry and high air fares made by a Danish airline and by Lord Bethell MEP. We believe that these and other activities may well result in due course in a ruling that the present system for restricting access to routes and that the practice of airlines agreeing European fares in the

/IATA

CONFIDENTIAL

IATA regional traffic conference and the refusal of other States to accept lower fares proposed by our airlines are contrary to the Treaty. This would not suit us because of the competence implications for both aviation and shipping. The prospect of this may give some incentive to other States to agree to some liberalising measures and we have urged them to do so by voluntary agreement in the Council so that Member States can retain control over the scope and pace of liberalising measures.

8. The Prime Minister does not think that there would be any profit in raising this matter directly in Luxembourg.

DEPARTMENT OF TRADE
20 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)11

COPY NO 1

20 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

INSURANCE

Brief by Department of Trade

OBJECTIVE

1. If the opportunity arises, to mention our interest in securing early agreement on the Insurance Services Directive.

POINTS TO MAKE

2. While a common market in goods has existed for years, we still do not have one for services, despite provision for it in the Treaty.

3. The Draft Directive on provision of insurance services across frontiers has been before the Council of Ministers since 1975 and is still not agreed. That is far too long.

4. Some Member States are determined to spin out discussion indefinitely and to litter the directive with exemptions and restrictions of the freedom to provide services which the Treaty gives. Need early agreement on this directive.

/BACKGROUND

References: None

5. The Prime Minister does not think that there would be any profit in raising this matter directly in Luxembourg.

6. The EEC Treaty gives freedom to providers of service, including insurers, to operate throughout the Community, and the direct effect of the relevant Articles (59 and 60) has been confirmed by judgments of the European Court. But this freedom is not yet effective for insurers; contrary national laws and discriminatory national control of insurance prevent it.

7. Since 1962, the Community has had a programme for establishing a common market in services, including insurance. It has gone very slowly. Work on right of establishment (eg. the right of a UK company to set up a branch or agency in France) is now well towards completion, but that work on freedom of services (eg. the right of a UK insurer to cover a French risk from the UK) is a long way from completion. There is freedom of services so far for some comparatively small areas. For general freedom for insurance we need the services directive. The UK industry estimate that they would gain some £50m net in the first year after the adoption of the directive.

8. The non-life insurance services directive was proposed by the Commission in 1975 and was with a Council Working Party for over three years from 1977. The Commission, who share our impatience, asked COREPER to call for a report. This is an important step forward, which we are exploiting, but there is still a general lack of will to make progress.

9. The main generators of obstacles to progress have been, in descending order, the French, the Italians, the Belgians and the Germans. The French claim to be mainly concerned about possible loss of the revenue from their insurance premium taxes if business is done across frontiers. This is big money for them (1.6% of central budget revenue) and a legitimate concern; we, on the other hand, do not tax insurance. We are quite prepared to help ensure that the French get their taxes;

CONFIDENTIAL

but we are not prepared, as they want, to set up a Community-wide VAT regime for insurance premiums for the purpose.

The other Member States do not have as large or specific a problem. They have more restrictive supervisory traditions than we have, which they are reluctant to abandon, and are motivated by protectionist and exchange control considerations.

10. There is one other major area of disagreement: whether, in order to do services business into a Member State, an EC insurer should need the authorisation or consent of that State. We say categorically not. The Dutch and the Commission agree, not only because such a provision would enable Member States to deprive us of the benefit which we expect to get from the Directive, but also because any provision which purported to allow Member States to deny the exercise of a Treaty right would be invalid.

11. There is no question of a detailed discussion of the Draft Directive. But a political steer for early progress to have completed work on the Directive could make a big difference to our partners' readiness to discuss constructively .

DEPARTMENT OF TRADE
20 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)12: REVISE

COPY NO

1

27 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

NEW COMMISSION

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. This subject is unlikely to come up in the meeting itself but could arise at one of the meals or at bilateral contacts in the corridors.

POINTS TO MAKE

2. TUGENDHAT will be UK vice-President; he wishes to retain present responsibilities for Budget. We support.

3. RICHARD has expressed an interest in the Development, Industrial Affairs and Social Affairs portfolios. We hope he will get one of these.

BACKGROUND

References:

A Table of Commissioners'/Member States'
intentions

4. All the Member States are expected to have put forward their nominations for the new Commission at or before the European Council, though the French may hold back their nominees to the last minute.

5. On 15 December, the Foreign Affairs Council will take a 'suspended decision' on the Commission's appointment which will be confirmed by written procedure on 1 January to allow Greece to participate. The new Commission will take office on 6 January 1981.

CONFIDENTIAL

/Portfolios

CONFIDENTIAL

Portfolios

6. A tentative table of Member States' and Commissioners' intentions is attached. The position is that portfolios are decided by the new Commission itself under M Thorn's presidency, but there is likely to be some informal discussion at or in the margins of the 1-2 December meeting.

7. It is in the UK's interest for Mr Tugendhat to keep his responsibilities for the Budget, strengthened if possible to ensure he coordinates the Commission's work on restructuring; as he is the incumbent he is in a strong position.

8. Mr Richards's own priorities are:

- (i) Development
- (ii) Industrial Affairs
- (iii) Social Affairs

Development has been in French hands for the last 20 years and they will fight hard to keep it. If they re-nominate Cheysson we shall have little chance of wresting this portfolio from him. Industrial Affairs may likewise be beyond our reach, since the Germans have made clear that they want to keep Energy and Davignon may thus stay where he is. The Social Affairs post is being vacated by the departure of Vredeling and the only known rival is O'Kennedy.

9. If it would help to gain Italian support for our objectives we could lend our backing to their wish to add the Southern Mediterranean - at present part of the Development portfolio - to the Enlargement portfolio. But their other wish - to give the Regional Policy Commissioner oversight over all structural programmes - would be contrary to our interests, since it would undermine Mr Tugendhat's budgetary responsibilities and erode Mr Richard's position if he got the Social Affairs portfolio.

/Vice-Presidencies

CONFIDENTIAL

Vice-Presidencies

10. There are five vice-Presidencies. The larger Member States will expect one each, leaving one for the rest. An informal agreement of December 1976 divided the smaller Member States into two groupings of Netherlands with Belgium and Luxembourg, and Denmark with Ireland for rotating vice-Presidencies.

11. With a Luxembourg President it may be argued that the fifth vice-Presidency should go to the Netherlands/Belgium group. But if he stays, Mr Gundelach is unlikely to want to give up his vice-Presidency.

12. This is a small Member State issue. The UK's interest, if the subject comes up, is to keep our heads down but to maintain a solid front with the other three large Member States that we expect a vice-Presidency each, and leave the question of the fifth to be fought out between the smalls.

FOREIGN AND COMMONWEALTH OFFICE

27 November 1980

COMMISSION PORTFOLIOS - 1981

Member State	Present Incumbent(s)	Portfolio	Prospects	Member State's Preferred Portfolios
FRANCE	Ortoli (vice-President)	Economic and Financial	Leaving	Retain Economic and Financial
	Cheyssou	Development Aid	Still unclear	Retain Development
FRG	Haferkamp (vice-President)	External	Staying	Keep External Affairs
	Brunner	Energy, Research and Science, Education	Leaving to Bundestag	Keep energy
Italy	Natali (vice-President)	Environment nuclear safety, enlargement	Staying	Keep enlargement; add S. Mediterranean
	Giolitti	Regional policy, Coordination of Community funds	Staying	Keep. Want to extend to cover oversight of all structural instruments.
BELGIUM	Davignon	Industrial and internal market	Staying; would probably like Energy or External Affairs but settle for retention of industry	No information
LUXEMBOURG	Vouel	Competition	Leaving	Thorn President
NETHERLANDS	Vredeling	Employment and Social	Leaving; to be replaced by Andriessen	Would like Competition, Development or a financial portfolio
DENMARK	Gundelach (vice-President)	Agriculture and Fisheries	Intends to stay if fit; probably retain Agriculture	Agriculture, Finance or Competition or External Affairs
IRELAND	Burke	Taxation, Transport and Consumer	Leaving; likely replacement O'Kennedy	Social Affairs or Regional Policy
GREECE	-	-	New Commissioner: Kontogeorgis	Probably Transport (because of shipping interests)

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)13

COPY NO 1

18 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

REPORT OF THREE WISE MEN

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. Secure final endorsement and any remaining decisions on Report.

POINTS TO MAKE

General Attitude

2. Important to conclude discussion so that can act on as many proposals as possible. Hope it will bring new impetus to working of Community institutions. Can endorse report by Foreign Ministers and points in it on which consensus already reached.

Attendance of the President of the European Council at meetings of the European Parliament

3. Can accept; probably easiest if each Presidency could decide how it plans to do this.

Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council

4. Could agree on a case by case basis, but all Member States should agree in each case.

CONFIDENTIAL

CONFIDENTIAL

Attendance of other persons at meetings of the European Council

5. Decision for Heads of Government collectively, not Presidency alone. Can agree to presence of President of COREPER; doubt whether necessary for all delegations to have national note-takers but can accept majority view if consensus emerges in favour.

Number of Commissioners

6. Too late now to change on Greek accession but agree we should look at this again in context of accession of Spain and Portugal.

14 - 14
1 per country

Secretary General of the Council

7. Welcome appointment of new Secretary General (Ersbøell). Support modest strengthening of Council Secretariat, through its Secretary General, to give greater support to Presidency.

OTHER INSTITUTIONAL QUESTIONS

Relations with European Parliament

8. Must expect directly-elected Parliament to continue to put pressure on Council as it gains experience and expertise, especially in budgetary matters.

B 9. UK would like to see good relations with Parliament; accepted Wise Men's recommendation (Presidency Report p.5, Section D(a)) that should be better response to Parliament's Resolutions.

10. No need to amend powers of Parliament as laid down in Treaties.

/BACKGROUND

References:

- A Wise Men's own summary of Report
 [Report itself too long to duplicate
 but copies will be made available to
 those who need to have it]
- B Presidency Paper - Report of Ministerial
 examination of Report
- C 1977 Agreement on European Council
 Procedures

11. The Dublin European Council asked Foreign Ministers to examine the report with a view to preparing the discussion in the European Council. The meeting in Luxembourg in April agreed that the President of the Commission should be chosen six months before his term of office began but the remaining proposals in the Wise Men's Report were held over for discussion at Venice.

B 12. Foreign Ministers have now completed their discussion of the Report and the Presidency Paper identifies those questions on which a consensus has still to be reached and those on which there is broad agreement. The main points outstanding for decision are listed in the Points to Make.

Attendance of President of European Council at European Parliament

13. The Wise Men suggested that the President of the European Council should report on its meetings to the European Parliament. The Benelux governments would wish to do so. The French, however, have so far insisted that this is a question of principle for the European Council collectively and that as it is constitutionally impossible for President Giscard to do it no other President of the European Council should do so.

14. The proposal would cause the UK no difficulties and the European Parliament is anxious for a dialogue with the

/European

CONFIDENTIAL

European Council but we wish to avoid a row with the French. A possible solution would be for the French to send M Barre; this would be acceptable to the Parliament.

15. The European Council will also be invited to endorse those points on which Foreign Ministers have reached broad consensus. The most important of these are as follows:

(a) European Council

- (i) While it is for the European Council to give political impetus and guidance to the Community, there should not be a specific plan of priorities adopted by the European Council;
- (ii) meetings of the European Council must continue to be flexible and pragmatic;
- (iii) meetings of the European Council should be prepared by the Council of Ministers and COREPER where Community topics are concerned.

(b) Council of Ministers

- (i) It is for the Foreign Affairs Council to ensure co-ordination, consistency and continuity of Community work;

Voting

- (ii) there is no need for new principles to be laid down regarding the voting rules (ie Luxembourg Compromise preserved);

Delegation of powers to the Commission

- (iii) powers should be delegated more frequently to the Commission, but only on a case-by-case basis; the Council is to decide each time.

/OTHER INSTITUTIONAL QUESTIONS

Relations with European Parliament

16. The French are concerned about the Parliament's powers, in particular that a majority of the Parliament can legitimately propose cuts in obligatory (ie basically CAP) expenditure and that a blocking minority of the Council (eg. UK and Italy) can prevent the Council from rejecting these. It is possible that President Giscard could seek agreement that the Council should always stand united against the Parliament.

17. It would not be in the UK's interest to be tied down in this way; there may be occasions when we will wish to support Parliament's proposals if they are in our favour. More generally, we see no need at present to change the powers of the institutions as laid down by the Treaties (which would require the assent of Parliament in our case). We are also more concerned than the French about good relations with the Parliament particularly in the run-up to the UK Presidency.

FOREIGN AND COMMONWEALTH OFFICE

18 November 1980

We have prepared this summary solely for the convenience of readers of our report. It is not a part of the report.

Barend BIESHEUVEL
Edmund DELL
Robert MARJOLIN

The European Council has asked us to make proposals on adjustments to the machinery and procedures of the Community institutions. We are well aware that the most fundamental causes of weakness in the functioning of the Community do not arise from mechanisms and procedures. The latter play, in fact, only a secondary role. The more serious obstacles are the economic difficulties and divergences of interests and views among the Member States.

The Community is likely to find itself facing real and fundamental problems in the coming years. Moreover, the number of Member States is to be increased during the same period. We must at least ensure that the institutions, rather than aggravating the difficulties by their inefficiency and the dispersion of effort, provide all the conditions for tackling them with the maximum chance of success.

We have tried not so much to fix new detailed rules for the functioning of a Community of Twelve as to propose practical adjustments which can be made here and now to the activities of Community institutions. If these recommendations are adopted, we believe they will result in the new members entering a Community that is more dynamic, more efficient and better prepared to receive them.

.../...

Due credit must be given to the Community's achievements. The greater part of the Treaties has already been implemented. Co-operation among Member States has been extended well beyond the letter of the Treaties. But the Community faces difficulties in building new common policies, often without precise Treaty guidelines. Moreover, the multiplication of the Community's tasks and their growing diversity have considerably increased the "lourdeur" of the Community's institutional apparatus. The latter has become both more complex and less efficient.

Our proposal is to improve the functioning of the apparatus by means of the definition of priorities and the clear identification of responsibilities. In our report we have deliberately set aside any kind of ideological approach. The intention is not to modify the institutional balance. Instead we suggest practical ways of improving the functioning of each institution.

The creation of the European Council was in itself a pragmatic response to the Community's institutional difficulties. It has become an effective source of political guidance in the Community.

The task is to find the right balance between freedom and discipline in the European Council's proceedings. The operational solutions already developed to this end should be reaffirmed and reinforced: limited agendas, limited attendance, coherent preparation and follow-up, early circulation of documents, Presidency responsibility for drafting clear and accurate conclusions. We have examined the idea of a longer-term Presidency for the European Council and it seems to us that it would present real difficulties in the present state of the Community.

There is considerable scope for improvement in the European Council's relations with the Treaty institutions. Our specific suggestions for preserving the role of the Council of Ministers, strengthening the Commission in its collaboration with Heads of Government, and establishing direct relations between the European

- 3 -

CONFIDENTIAL

Council and Parliament, are designed to integrate the European Council so far as possible within the normal framework of inter-institutional relations. To make full use of its potential for political guidance, we propose that the European Council should adopt before 1981, in collaboration with the Commission, a master plan of priorities indicating the main tasks and directions for progress for the Community as a whole. This master plan must be precise and practical, a declaration of intent rather than a pious hope.

The European Council is responsible for reviewing the whole range of Member States' common action, whether it has a strictly Community character or not - as is the case notably for Political Co-operation. It has, therefore, a certain choice among the procedures to be used particularly for new actions. Priority must be given to the application of Article 235. But if it appears impracticable to apply this procedure, action in common by other methods which allow the Community to make progress should not be ruled out a priori.

The Council of Ministers in its various formations, and the associated machinery, are producing results which do not match up to the amount of effort deployed. The burden of work is becoming impossible to handle and the efforts of the various subordinate bodies and of the specialized formations of the Council are insufficiently co-ordinated. To tackle these problems, the clearer definition and more efficient execution of the responsibilities of the Presidency seem to us essential. Each Presidency should establish its work programme, respecting the priorities defined by the European Council, and should report on the execution of the programme at the end of its term. The authority of the Presidency in enforcing procedures, and in establishing the agenda, should be clearly recognized. The Presidency should be free to lighten its own load by entrusting particular dossiers to other members of the European Council, the Council of Ministers or subordinate organs. Other options, such as a change in the rotation of the Presidency and the "troika" formula, are rejected.

The Council itself must be free to concentrate on the genuinely political issues. This means making wider use of delegation to the Commission; and giving more room for manoeuvre to the Committee of Permanent Representatives and the lower-level bodies. We do not recommend altering the status of Permanent Representatives. Procedures for taking decisions must be as economical as possible. The "Luxembourg Compromise" has become a fact of life in the Community. Each State must be the judge of where its very important interests lie. But if all States feel sure they will not be overruled on matters involving such interests for them, they should all accept voting as the normal practice in all cases where the Treaty does not impose unanimity and no very important interests are involved.

The working groups below COREPER should not, as too often happens, be left to their own devices. The Presidency, helped by the Council Secretariat and in liaison with the Commission, has special responsibility for co-ordinating their work within the framework of agreed priorities and for avoiding unnecessary delays.

Horizontal co-ordination is also essential to counteract the fragmentation and dispersion of Community activities. While it cannot retrieve the dominant position it held in the early years, the Council of Foreign Ministers should continue to play a central role. Certain specialized Councils might hold less frequent meetings.

National administrations can make a further, very significant contribution to the proper functioning of the Communities. Co-ordination of Community affairs is carried out by very different methods from one capital to another. We do not seek to impose a single stock model on practices which have been shaped by tradition and on structures which are often highly diverse. But it is vital that the capacity should exist in all Member States to produce, in good time, instructions which are both considered and coherent. The Permanent Representative can play

.../...

CONFIDENTIAL

helpful role in this respect.

Finally, the Council does not operate in isolation. The Commission makes a contribution which is vital for its good functioning, and the Presidency should look after the quality of its relations with the Parliament.

The role and authority of the Commission have declined in recent years. The exercise of its right of initiative and its role as guardian of the Treaties, together with its management and implementing tasks, need to be made more effective and adapted to current circumstances. The number of Commissioners in the enlarged Community should be limited to twelve - one per Member State. The number of Directorates-General should be reduced and brought in line with that of Commissioners. The college of Commissioners should be more homogeneous and should act more as a collective body. Co-ordination between departments should be strengthened and the central services - budget, personnel, administration - grouped under the authority of the President. The President of the Commission's authority must be reinforced within the institution of which he is the head. He should be chosen by the European Council six months before the renewal of the Commission. He should be consulted by Governments on the selection of Members of the Commission, and should have the last word on the allocation of portfolios.

It is essential that the Commission should maintain an active role in the Community. It represents the interests of Europe as a whole and not a compromise between different points of view. It should set up at the start of its term of office a general programme which can be revised at least once a year, in harmony with priorities defined by the European Council. It should organize the application of its resources on the basis of this programme, taking account of the capacity of the Council machine. The production and handling of "harmonization" proposals need careful planning. The Commission should consult States, where necessary, at a high political level and should avoid repeated low-level consultations on the policy aspects of its drafts.

CONFIDENTIAL

It should participate actively in the work of the Council, modifying its proposals and suggesting compromises.

The Council, for its part, must delegate more of the implementation of new policies to the Commission. Ways must be found, for example by the development of stock formulae and political understandings between the institutions, to eliminate the obstacles which have blocked certain delegations in the past.

This report makes no claim to pronounce on the process of evolution which the European Parliament may go through following its election by direct universal suffrage. But we can suggest certain adjustments which are necessary in relations between the Parliament and the other institutions. In this context, closer contacts must be developed between the Parliament and the Commission. The latter must present its programme to the Parliament for debate. It must work out with the Parliament a six-monthly programme for consultative work. Above all, the Commission must make a more serious response to the Parliament's Resolutions. The Council, too, should take these Resolutions more seriously. It is up to the Presidency to draw them to Member States' attention and to develop personal contacts with the Parliament. The institutions should try to agree on practical improvements to tackle the difficulties arising in the implementation of the "conciliation" procedure. Finally, the President of the European Council should appear once every six months before the Parliament, so as to achieve a direct dialogue at the highest level between the two organs. In the interests of the Community, balanced relations need to be maintained between the three points of the Commission-Council-Parliament triangle.

The Court of Justice has presented suggestions itself for resolving its problems. Solutions should be found by discussion between the institutions. The same applies to the Court of Auditors. The Economic and Social Committee faces more serious difficulties. In these times of crisis, the Community needs an efficient mechanism for consultation with the social partners. We make some

Ab

.../...

CONFIDENTIAL

suggestions for reaffirming the Economic and Social Committee's role in socio-economic consultations in the Community, and also for increasing the effectiveness of the Tripartite Conference, the Standing Committee on Employment and the Joint Committee system.

In this whole study, we have taken account of the prospective enlargement of the Community to twelve members. Our technical proposals designed to improve the transparency, coherence and efficiency of the Community institutions are based on experience of a Community of nine members, but they can do much to ease the functioning of a Community of Twelve.

However, enlargement will not add only to the "lourdeur" of the institutions. It will also extend the range of differing circumstances and interests among Member States. Any system of a "two-speed" Europe which created differences of status between Member States must in our view be rejected. Differentiated solutions for the application to Member States of policies decided in common may however prove useful in some cases, as they have in the present-day Community. Certain safeguards should be applied whenever they are used.

The Community of Twelve will have nine official languages. Any attempt to limit systematically and by compulsion the use of any national language would be unjust as well as politically impractical. But the costs and complications will be on a scale to make it essential that pragmatic arrangements are found allowing the number of interpreters to be reduced according to the nature of each meeting.

We have also reflected on the problems likely to face Europe in the next few years. This period will be a difficult one for Europe. Everything points to a relatively low rate of economic growth, accompanied and aggravated by monetary disturbances and difficulties in the energy market. The unemployment problem will lead to social and political tensions. The prospects for the Community's future, and for progress towards European Union, will depend on how it copes with this continuing crisis. The

CONFIDENTIAL

Community's Member States must maintain their solidarity both in the active sense - i.e. mutual aid - and in the passive sense of abstaining wherever possible from action likely to cause problems for other members. Much resolve and political intelligence will be needed to counter the pressures for protectionism which are bound to arise both in the enlarged Community's internal trade and in its dealings with the outside world.

The priorities which the Community sets itself in dealing with these challenges must be flexible enough to allow adjustment to changing circumstances. They must be based on a realistic appreciation of the scope for Community action. The first and greatest task is the maintenance and consolidation of the acquis, with any adjustments that modern conditions may demand. In dealings with the outside world the Community and its Member States must act in the most united way possible both on the economic and on the political front. The solidarity between States must be given practical expression, whether it be in joint action to face up to the energy crisis, in mutual aid for other emergencies, or in the development of efforts for greater monetary stability such as are reflected in the European Monetary System. Priorities of this kind should help the Community not only to survive the immediate dangers, but also to lay the practical foundations for progress in the longer term.

OCTOBER 1979

AB

CONFIDENTIAL

GENERAL SECRETARIAT
OF THE COUNCIL

Brussels, 12 September 1980

Texts for Council, 15-16 June

MSE 021/2

Report

from the Ministers for Foreign Affairs
on the Report of the Three Wise Men

- 1. Be cc:
- Th. Godefruy, (at's Off.)
(Chair of 12/1 only)
- + n. include, Room 420
VI Victoria or, Dept of Trade
- 2. Enter

No Yes (8)

J.P. 16/3

In accordance with the instructions which they received from the European Council, the Ministers for Foreign Affairs have continued their examination of the report drafted by the Committee of Three.

The Ministers found that the profundity of the analysis of the institutional situation and the perspicacity of the solutions proposed - based as they were on a balanced assessment of the Community's problems and needs and of the appropriate means for dealing with them - made the report a rich source of ideas and suggestions for improving the machinery and procedures of the Community's institutional system.

For this reason, the results of the deliberations of the Ministers for Foreign Affairs and the concrete proposals arising therefrom so far do not entirely cover all the suggestions in the Report of the Three Wise Men, nor do they exhaust the matter. The Report provides and will continue to provide, irrespective of such decisions as may be taken in the

near future, a fertile seedbed of useful ideas and suggestions on which the Institutions and the Member States may draw in their reflections on the Community's institutional system.

Now that they have completed the examination they were asked to make, the Ministers for Foreign Affairs are submitting the results of all their discussions for consideration by the European Council so that this body may either discuss the matter itself with a view to taking the appropriate decisions or, alternatively, give the Foreign Ministers the necessary directives on the basis of which a further position may be prepared.

The Ministers for Foreign Affairs found that some of the suggestions made in the Report of the Three Wise Men came within the province of the European Council itself.

The Ministers for Foreign Affairs reached a broad consensus on a number of the suggestions contained in the Report of the Three Wise Men. These are set out in Annex I. The points covered by this consensus have already been put into effect or will be as soon as possible on the initiative of the Institutions and bodies concerned.

Finally as far as the other points, contained in Annex II, are concerned, the Ministers for Foreign Affairs intend to give further consideration to them when decisions have to be taken in the areas in question, in the light of any directives which the European Council may see fit to issue to them.

Points on which broad consensus has been reachedA. The European Council

- The role of the European Council is mainly to give such general policy guidelines as will facilitate solutions to the problems facing the Community.
- Consequently, the preparation of a specific plan of priorities for Community action should not be a task for the European Council. The preparation of any such master plan should rather be a task for the Council in accordance with institutional procedures.
- Meetings of the European Council must continue to be flexible and pragmatic, as at present.
- Preparation of meetings of the European Council and implementation of its conclusions are matters for the Council and the Permanent Representatives Committee, where Community topics are concerned.

B. The Council1. (a) Role of the Council

As agreed by the Heads of Government in December 1974 in Paris and the European Council in December 1975 in Rome when approving the "Marlia procedure", the Council of the European Communities (Ministers for Foreign Affairs) is entrusted with the role of providing the impulse and coordination required to ensure consistency in the activities of the Community and continuity in its work.

(b) Consistency of Community action

Such consistency of Community action could be more readily achieved if, in each Member State, there were better co-ordination among the departments involved in the various dossiers handled by the Council in its different formations. The suggestion was made that, in those countries where this did not already exist, an appropriate body should be set up to carry out such co-ordination. In this connection, Permanent Representatives should take part in the process culminating in definition of the position to be adopted by the State they represent.

(c) Delegation of powers to the Commission

It is desirable that powers should be delegated more frequently to the Commission, with the latter being asked to submit stock formulae (as the "Wise Men" suggested) for the principal eventualities, on the understanding that it remains for the Council to decide, on a case-by-case basis, when the appropriate conditions are fulfilled for recourse to such delegation of powers.

(d) Organization of Council proceedings

Council agendas should contain only a limited number of items raising important problems. Informal meetings of the members of the Council should be held only if strictly necessary.

2. The Permanent Representatives Committee

- As provided by the Treaty establishing a single Council and a single Commission of the European Communities, the Permanent Representatives Committee "shall be responsible for preparing the work of the Council" for each of its meetings, regardless of the Council's composition. The Committee should to this end be able to co-ordinate better the activities of the various Working Parties or specialist Committees.

- If it is to perform effectively this work of preparing all Council meetings and be able to relieve the Council of a certain number of dossiers, the Permanent Representatives Committee must have wider powers of decision and to this end the Permanent Representatives must be given broad and flexible instructions to enable them, at their level, to resolve the greatest possible number of problems. To this end, instructions such as would enable a common position to be found should be given by each Member State as early as possible in the examination of a dossier, so that meaningful negotiations culminating in agreement may begin within the Permanent Representatives Committee.

To this end:

- (a) The Permanent Representatives Committee should aim to submit to Ministers the main problems of principle and then, in the light of guidelines laid down by the Council, to prepare agreed texts for the Council's approval;
 - (b) The Council should instruct the Permanent Representatives Committee to solve outstanding problems within a certain time limit and Ministers should then give Permanent Representatives appropriate instructions;
 - (c) The Presidency should announce in advance its plans for reaching agreement in the Permanent Representatives Committee so that Permanent Representatives can obtain instructions in time.
- The Permanent Representatives Committee, which has the power to set up working parties, should exert closer control over the activities of these bodies and may itself discuss at any time the dossiers which are before the working parties.
- The Permanent Representatives Committee is invited to examine the points on which its working methods might be improved, taking as its basis the various suggestions made during examination of the Report of the Three Wise Men.

3. The Presidency

The prime role of the Presidency, assisted at all levels by the General Secretariat, involves in particular organizing work, preparing Council agendas, monitoring progress in discussions within working parties and co-ordinating the work done within the different

bodies with a view to ensuring the consistency of Council decisions.

C. The Commission

- The importance of the Commission's role and the need to maintain both the balance established among the Institutions by the Treaties and the powers allocated to each Institution were recognized by all the representatives.
- The President of the Commission should be appointed a sufficiently long time in advance of taking up his duties and before the process of appointing the other members of the Commission begins.

D. Relations between the European Parliament and the Council

(a) Relations with the European Parliament

- While the allocation of powers among the Institutions as laid down by the Treaties should be maintained, the development of relations between the European Parliament and the Council should be continued, particularly as regards the response to European Parliament Resolutions and keeping Parliament better informed.

(b) Conciliation procedure

- Implementation of this procedure appeared to give rise to two major problems:

.../...

- that of finding ways to improve the procedure's efficiency by first seeking solutions acceptable to all sides. In this connection, the need for improved preparation of the meetings of the Conciliation Committee was underlined. To this end, the Presidency-in-Office might be responsible, in collaboration with the Commission, for making informal contact with the European Parliament before formal meetings of the Conciliation Committee.

- that of setting a time limit for the completion of the conciliation procedure so that it does not protract the Community's decision-making process. As regards this problem, the Presidency intends to ascertain from the European Parliament whether it can agree to the detailed rules for implementing the conciliation procedure proposed by the "Wise Men" with respect to the termination of the procedure, viz.:

- "(a) when the Council's common position on a conciliable measure has been sent to the Parliament, the latter should indicate within a set period (e.g. six weeks) whether it wants to hold a conciliation meeting;
- (b) the time limit for completion of the procedure runs from the date of the first meeting;
- (c) the procedure should stop after either three months or three meetings between the institutions, whichever is the shorter;

- (d) If, when the deadline is reached, either institution wants to go on, the Presidencies of the Council and the Parliament should try to reach agreement on a suitable extension. If the institutions cannot agree on an extension, the procedure is terminated."
-

Matters which require further consideration

A. European Council

- (a) Attendance of the President of the European Council at meetings of the European Parliament
- (b) Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council
- (c) Attendance of other persons at meetings of the European Council.

B. Commission

- (a) Number of members of the Commission
- (b) Involvement of the European Parliament in the process of appointing the President of the Commission

C. General Secretariat of the Council

Bb

ORGANISATION OF EUROPEAN COUNCIL MEETINGS

1. Prior to the European Council meeting in Rome at the end of March, the Presidency circulated a paper (COREU NO. CPE/MUL/ETR 1160 of 23 March 1977) which sought to establish points of agreement which had emerged from the correspondence between Heads of Government about the ways in which the organisation of European Council meetings might be improved. In the light of the discussion at that meeting, which was followed up by Foreign Ministers on 5 April, the following points are understood to represent a generally acceptable framework for the organisation of future meetings:

(A) TYPES OF DISCUSSION

There is general agreement that the European Council should have both:

- (i) Informal exchanges of view of a wide-ranging nature held in the greatest privacy and not designed to lead to formal decisions or public statements.
- (ii) Discussions which are designed to produce decisions, settle guidelines for future action or lead to the issue of public statements expressing the agreed view of the European Council.

It is also recognised that the European Council will sometimes need to fulfil a third function, namely to settle issues outstanding from discussions at a lower level. In dealing with matters of Community competence the European Council will conform to the appropriate procedures laid down in the Community Treaties and other agreements.

(B) ADVANCE PREPARATION OF THE AGENDA

For informal exchanges of view, it is generally agreed that little preparation is necessary, although some limited prior clarification of the questions is not to be excluded if it would facilitate discussion. Heads of Government should inform each other or the Presidency, a few days beforehand, of the subjects which they will wish to discuss. There is

CONFIDENTIAL

general agreement that there should be adequate preparation of those discussions which are aimed at reaching decisions or issuing statements. Foreign Ministers should have responsibility for such preparation, which could take place in the Council or the Political Cooperation machinery as appropriate, and will wish to meet at an appropriate time, and if necessary to hold a special meeting before the European Council, for this purpose.

(C) THE ISSUING OF STATEMENTS

It is generally agreed that the European Council will wish to make public its decisions on some subjects or sometimes to issue a statement registering a concerted Community opinion on a topic of international concern. Such statements should not, other than in exceptional circumstances, be issued without advance preparation. A list of the subjects on which it is proposed statements should be issued should be drawn up 2-3 weeks in advance.

(D) THE RECORDING OF CONCLUSIONS

There should be no record of the informal exchanges of view between Heads of Government. For the discussions aimed at reaching decisions or issuing statements there should be a written record of conclusions, which should be issued on the authority of the Presidency.

(E) ATTENDANCE OF OFFICIALS

There is general agreement that the exchanges of views should be as intimate as possible and that attendance should be restricted as at present.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)14

COPY NO

1

18 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

SEAT OF INSTITUTIONS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. Avoid any substantive discussion; remit discussion to conference of Member States.

POINTS TO MAKE

2. Agree Treaty provides for definitive decision. Should try to end waste of time, money and energy caused by present arrangements.

3. Discussion should be taken up in conference of Member States. Decision is for Member States to take by common accord.

4. It would lead to unnecessary confrontation for decision to be simply imposed. Parliament's view should be sought now, even though it is for us alone (Member States) to decide.

BACKGROUND

4. The Treaty (Article 216) lays down that the seat of the institutions shall be determined by common accord of the Member States. This has never been done and the present arrangements under which the Parliament meets in Strasbourg and Luxembourg, and its Committee meet in Brussels, is provisional.

CONFIDENTIAL

/5. The

CONFIDENTIAL

5. The Parliament has been becoming increasingly restive with these arrangements which are undoubtedly expensive, inefficient and inconvenient for MEPs. It was probably to pre-empt any move by the Parliament itself to change its arrangements to the disadvantage of Strasbourg that, on 16 September the French Government circulated a memorandum calling on Member States to enter into discussion without delay on fixing the seat of the Institutions. A conference of Member States, consisting of Permanent Representatives in Brussels has now been set up. The stated French aim is to establish Strasbourg as the Parliamentary capital of the Community, with Brussels the executive capital and Luxembourg the judicial/financial capital.

6. The French are therefore demandeurs. UK Ministers have previously agreed that our longer-term aim should be to see the Parliament located in Brussels but that we should play this long and avoid taking the initiative. We are considering further what our aims should be in the discussion which has now begun, but it remains desirable that we should not get in the lead on this subject and there should be no need to do so at the European Council.

7. The Dutch have proposed that the Parliament should be consulted before a decision is taken on its site. By supporting this suggestion, which is entirely reasonable in itself and will be welcomed by the Parliament, we shall gain time in the conference while the French decide whether to allow consultation, which would probably result in an opinion favouring Brussels, or to block it.

FOREIGN AND COMMONWEALTH OFFICE

18 November 1980

2.

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)15

COPY NO. 1

18 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

ENLARGEMENT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To make plain our views on enlargement if necessary.

POINTS TO MAKE

2. Continue to support accession of Spain and Portugal, in which Community and Europe have an important long-term political interest. Restructuring no reason not to proceed with entry negotiations. Two should progress in parallel.
3. Need to limit costs to Community of Spanish membership. Restructuring must take account of this. So should discussion of changes in arrangements before, in particular, Spain's accession.
4. Not possible to consult Spanish Government about restructuring, but Community should try to keep them informed.
5. Community should keep up pressure for better implementation of 1970 EC/Spain Agreement.
6. (If possibility of Portugal joining earlier than Spain is raised). Hypothetical at this stage. Likely to cause difficulties with Spain.

/ESSENTIAL

CONFIDENTIAL

CONFIDENTIAL

ESSENTIAL FACTS

1. All Member States still committed in principle to Spanish and Portuguese accession. Initial phase of negotiations over; substantive phase just beginning.
2. French want delay (as Giscard made plain in June) emphasizing need to complete review of budgetary and CAP arrangements before enlargement. We accept privately that this is realistic but have stressed in Community and to Spaniards that accession negotiations should progress in parallel with restructuring (while the French would like to hold them up).
3. Spain accepts postponement of accession beyond 1983 caused by Community's need to deal first with internal problems, but still wants January 1984 to be a firm target for entry. Portugal remains publicly committed to entry by 1983 but privately now recognises delay likely.
4. Spaniards accept that Community has genuine internal problems which it must resolve before enlargement; but want to be informed and if possible consulted about changes in acquis, which they fear could diminish advantages of membership.
5. Unless changes made in existing acquis, cost to Community of Spanish membership, particularly of aids for Mediterranean agricultural products, would be large. Potential problem of surpluses in olive-oil, wine, vegetables, citrus.
6. British exporters increasingly critical of Spanish performance under 1970 EC/Spain Agreement, especially lack of transparency in handling of quotas and use of discriminatory taxes. UK wants the Community to review these problems with Spain. Spaniards have told EC Commissioner Natali that they will consider a list of complaints to be drawn up by the Community.

Foreign and Commonwealth Office
18 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)16

COPY NO. **1**

20 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Briefing on Political Cooperation subjects is provided as follows:

- ANNEX A Middle East
- ANNEX B Iran/Iraq
- ANNEX C East/West relations
- ANNEX D Europe/United States relations
- ANNEX E Korea: trial of Kim Dae Jung

Foreign and Commonwealth Office

20 November 1980

CONFIDENTIAL

CONFIDENTIAL

EHG(L2)(80)16

ANNEX A: MIDDLE EAST
REVISE

Objectives

- i) Agreement that systematic contacts with the parties should be resumed on the basis of the Working Group report.
- ii) Agreement on a short statement demonstrating the Nine's continuing concern and determination to contribute to a settlement without revealing details of the Nine's current ideas.

Points to Make

1. Clearly not auspicious moment for major new initiative (Iran/Iraq war, new US Administration, future Israeli elections). But Nine must not give impression that they have lost interest.
2. Nine must seek to influence new US Administration towards a policy with which we can work. Nine's role must be independent but complementary.
3. Working Group report provides basis for further contacts with the parties. Major areas of uncertainty are methods of self-determination and transitional arrangements. Must aim to test out ideas, which will otherwise remain academic. But must also remember that basic goodwill and acceptance of rights still do not exist on either side.
4. Presidency should take the lead in these contacts. [If appropriate] Constant problem of continuity could be eased by establishment of a small group - Troika
5. Detailed new statement now would alienate those with whom Nine must work. Must say enough to convince that we are serious, but without breaking new ground.

/Background

CONFIDENTIAL

Background

6. The English version of the report of the Middle East Working Group on the practical implications of the Venice principles is attached. It is long and reflects in full the difficulty of drafting concisely and elegantly à neuf. But it contains a good deal of substance, much of it delicate. A short guide to the main ideas contained in it is also attached. The report demonstrates the extent to which the Nine are now able to agree on the possible shape of an eventual peace settlement. It is a document strictly for internal use only. It is not intended to be in any sense a peace plan in itself but to elaborate practical ideas in some detail and point to areas of uncertainty. It has been broadly endorsed by Foreign Ministers.

7. There is general agreement that the Nine are not currently in a position to make a specific initiative and that in any case the circumstances are particularly unfavourable at present. It is also agreed that it is important to try to influence US policy at an early stage before it becomes too firmly established. In the meantime, the Nine should continue to work on their ideas. The report will inevitably remain an academic exercise unless the material contained in it can be discussed with the parties, without necessarily committing the Nine to a particular view. It is therefore proposed that systematic contacts with all the parties, which have been in abeyance since the end of the Thorn mission, should be resumed. This may disappoint the Arabs as being no more than a repeat of the Thorn mission but will be a concrete demonstration of the Nine's determination to remain active despite the uncertainty in US policy and the new problems posed by the divisions in the Arab world.

8. The question of how the contacts should be carried out may be problematical. The Dutch (Presidents from 1 January) have said that they will do everything necessary to carry out

/any

any contacts agreed on (eg their ministers will talk to the PLO) and have made very clear their desire to be left to carry them out in their own way. The French suspect that the Dutch will lack credibility in the Arab world and will try to dodge some of the more delicate issues inevitably involved. They have therefore proposed a small permanent group of experts to assist the Presidency. This picks up ideas which we had put forward earlier, but it is difficult to support the French proposal in the face of very strong Dutch views. We explored bilaterally with the Dutch the possibility of an arrangement which would associate the past and future Presidencies (ie from 1 January Luxembourg and ourselves) with the Presidency (the so-called Troika formula) in carrying out the contacts. They were strongly opposed. Nevertheless, if the French persist with their proposal, the troika may prove a useful compromise.

9. The Council will need to make a public statement in one form or another. We have argued that this should be reasonably short and in essence do little more than reaffirm the Venice principles, refer to the Thorn mission and subsequent detailed work, and announce the resumption of contacts. An initial Presidency draft (attached), based on a draft given privately to them by us, was generally acceptable, except to the French, who produced their own more explicit text (attached). (The French language versions of these drafts are also attached, together with a copy of the original Venice Declaration.) The Presidency are to circulate a fresh draft taking all views into account before the Council meets.

CONFIDENTIAL

Luxembourg, 20 November 1980

STRICTLY LIMITED

CIRCULATION

COPY No *9*

LUXEMBOURG REPORT ON
THE PRINCIPLES OF THE VENICE DECLARATION
ON THE MIDDLE EAST

CONTENTS:

- INTRODUCTION
- WITHDRAWAL
- SELF-DETERMINATION
- SECURITY IN THE MIDDLE EAST:
CONDITIONS AND GUARANTEES
- JERUSALEM
- ANNEX: LEBANON

CONFIDENTIAL

Introduction

In accordance with the instructions of the Foreign Ministers on 15 September, the Political Committee, during its 100th meeting on 7 October, instructed the Middle East Working Group to give tangible form to the principles of the Venice Declaration and to pinpoint questions suitable for further discussion before the next European Council.

The Working Group based its report, with a view to a comprehensive settlement, on the two fundamental principles laid down in the Venice Declaration: the right to existence and to security of all the States in the region, including Israel, and justice for all the peoples, which implies the recognition of the legitimate rights of the Palestinian people. The Group concentrated on the questions of substance posed by the Arab-Israeli conflict and not on the procedural aspects of negotiations intended to lead to a settlement. However, the Group is aware that, if all the problems, i.e. questions of both substance and procedure, were to be considered, account must be taken of the development of the Middle East situation (including the state of the negotiations arising from the agreements signed by Egypt and Israel in March 1979) and of the fact that the agreement of all the parties concerned is essential for a comprehensive settlement.

As the President-in-Office of the Council of Ministers made clear in his speech to the 35th UN General Assembly, "It is pointless to seek to resolve these two problems (that of Israel and that of the Palestinian people) independently. That is why the Nine believe that Israel must demonstrate clearly its intention to put an end to the territorial occupation which it has maintained since 1967 ... In parallel the Arab countries and the Palestinians should recognize explicitly Israel's right to exist."

CONFIDENTIAL

- 2 -

In its work on the present report the Working Group has taken account of the results of the contact mission undertaken by the President-in-Office of the Council.

The report is based on the two fundamental principles referred to above and centres on the following key points of the Venice Declaration: withdrawal, self-determination, security and guarantees, Jerusalem. An annex deals with the question of Lebanon.

It is understood that the vital link which exists between these elements constitutes a crucial point of any comprehensive settlement. The establishment of a general climate of confidence between the parties would be a prerequisite for the acceptance of this link by the parties concerned. The Group believes that the Nine should give particular attention to this point. To this end it would be useful to sound out the parties on their political desire to recognize each other's rights to existence and security. The soundings should also cover, where necessary, the key points dealt with in this report (withdrawal, self-determination, security and guarantees, and Jerusalem).

In the view of the Working Group, the report, which is a working document for internal use, is intended to clarify for the European Council the problems posed by the application of the principles contained in the Venice Declaration, with a view to the future activity of the Nine and any initiative they might take.

CONFIDENTIAL

WITHDRAWAL

The demand for withdrawal from the occupied territories, which is a prerequisite for any peaceful solution, has unanimous support in the international community. For the Arabs it represents a deeply felt demand for justice.

It is withdrawal which, in the context of a comprehensive settlement and on the basis of Resolution 242, can reconcile the two fundamental rights, i.e. that of Israel to existence and to security and that of the Palestinian people, which is conscious of its existence as such, to exercise fully its right to self-determination under the terms of the peace settlement.

The conditions for withdrawal and the guarantees accompanying it would be negotiated by the parties concerned. These negotiations should, at the same time, lay down a timetable for withdrawal, specify the territories to be evacuated and decide on the transitional authority which would be required to take control of the territories as they are evacuated. In order to reduce the risks of breakdown, the negotiations should preferably cover all these points simultaneously.

I. Beginning of negotiations

The starting point is the will and desire of the parties concerned to reach, through negotiations, mutual recognition of their rights to existence and to security.

They would recognize, in particular, that negotiations require the renunciation of force and of the threat of the use of force, as well as

CONFIDENTIAL

of all acts of hostility. This would create the atmosphere of trust essential to the furtherance of the negotiations.

At the same time or at a later stage in the negotiations, a Security Council resolution could usefully assist the negotiations by marking the agreement of the international community and the parties concerned on the mutual and balanced obligations between the parties. (Right of all the countries in the region, and in particular Israel, to live in peace within secure, recognized and guaranteed borders; right of the Palestinian people to self-determination within the framework of the peace settlement.).

II. The parties concerned must agree on a timetable for withdrawal.

The international community would be required to monitor its implementation.

1) The withdrawal would take place in stages, following a timetable and procedures established by the negotiations. A transitional period is therefore essential. The timetable would be a security factor for each of the parties since it would permit monitoring, at each stage of the withdrawal, of each other's honouring of their obligations: there would be a parallelism between the withdrawal and the progressive normalization of relations between Israel and its neighbours, which would reinforce the atmosphere of mutual trust. This is what happened between Egypt and Israel.

The implementation of the first stage of the withdrawal presupposes that the parties are agreed on the principles of a settlement, in particular on guarantees and security measures. Several stages for the withdrawal would be advisable. To ensure the credibility and momentum of the process, it would also be advisable for substantial withdrawals to take place sufficiently soon after the initial implementation of the

CONFIDENTIAL

agreement. (The whole of the withdrawal period should not exceed 2 years). (The overall withdrawal period will need to be short enough to be acceptable to the Arab side but at the same time long enough to allow the progressive development of trust on the Israeli side. The Nine cannot at this stage recommend an appropriate length for this period).

The question arises of the advisability of 'security points' in the evacuated areas (cf. the Five's plan for Namibia). This possibility cannot be ruled out, during the transitional period and provided it were acceptable to the Arab countries and the Palestinians. At the end of the transitional period, these security points would be removed, in the light of the guarantees and bilateral and multilateral security measures established.

- 2) The international community would be required to impose sanctions in the event of non-observance by either party of the different stages of the withdrawal

Several formulas as possible:

- The UN Secretary General could be asked to prepare a report on the implementation of the timetable.
- One or more bilateral or multilateral commissions could be set up to monitor the parties' honouring of their mutual obligations and to report to the Secretary General or to the Security Council.
- The Security Council would be required, in the last resort, to decide the arrangements and measures which would be necessary if one of the parties did not honour its commitments.

CONFIDENTIAL

III. The parties should also agree on the territories from which withdrawal should take place.

Security Council Resolution 242 of 22 November 1967 remains in this respect the only point of reference generally accepted by the international community. It stresses the 'inadmissibility of the acquisition of territories by war'. It provides for the 'withdrawal of Israeli armed forces from territories occupied in the recent conflict'. ("retrait des forces israéliennes des territoires occupés lors du récent conflit")

It follows that the Israeli armed forces should withdraw to the borders obtaining on 4 June 1967, on the understanding that minor territorial adjustments could be made on either side insofar as these could be mutually agreed by the parties. The possibility cannot be excluded of the negotiation of a continued Israeli military presence for agreed periods in particularly sensitive areas after the end of the period laid down for the withdrawal. This would be without prejudice to the question of final sovereignty over these areas.

The application of Resolution 242 raises two problems in particular: the settlements and Jerusalem.

1) Settlements

The Venice Declaration states that the settlements, as well as modifications in population and property in the occupied Arab territories, are illegal under international law.

During the transitional period there should be a freeze of the settlement process, covering the creation of new settlements and the development of existing ones.

CONFIDENTIAL

Transitional arrangements, involving different phases, would be necessary as a prelude to the final resolution of the settlements problem. As far as their definitive future is concerned, the peace treaty between Egypt and Israel, which provides for the dismantling of the Sinai settlements, constitutes a precedent. Nevertheless, a distinction may be possible, particularly in the West Bank, between very old settlements predating the establishment of Israel and newer ones which, in contrast to the former, appear as the manifestation of Israel's desire to maintain its presence for an indefinite period in, and to claim sovereignty over, the occupied territories. The former could remain. For this purpose a special status would need to be worked out, for the settlers rather than for the land settled: some settlers would be allowed to remain in Palestinian territory. They would retain Israeli nationality and would therefore have the status of foreigners, but this status could be modified somewhat. The settlers should in any event be able to choose between the different possible nationalities. This question should be resolved in the context of the negotiations, with the possibility of a link being established at some stage with the position of the 600 000 Palestinian Arabs living in Israel.

2) Jerusalem

The principle of withdrawal applies to East Jerusalem. The application of this principle is particularly difficult in this case. The problem should be resolved in the context of the status of Jerusalem, which should be negotiated between all the parties concerned and should in particular guarantee freedom of access to the Holy Places (see Section IV of the report).

IV. The final hand-over of the territories will not take place until the end of the transitional period, depending on the results of the Palestinians' self-determination. It will therefore be necessary to decide on a transitional authority which would be required to take control of the territories as and when they are evacuated. The designation of this authority is therefore an equally vital aspect of the negotiations. It has considerable significance for the implementation of withdrawal.

Various solutions are possible:

- The United Nations: this is a formula envisaged by the PLO and Jordan: the territories would be handed over to the UN, probably to the Security Council. In this case an interim administration, established under the aegis of the UN, could draw on UNWRA personnel. However, this formula would risk running into an Israeli refusal to accept direct UN control. Its functioning could also in practice be disrupted by disagreements among Security Council members.

- Jordan: some Arab leaders do not rule out this arrangement. It could be contemplated if there was a consensus between the Palestinians on both banks of the Jordan, giving priority to an end to the occupation on the understanding that the future of the territories would be finally decided at a later stage. Jordan for its part could no doubt agree to such a formula if it could be assured of a measure of support from the Arab countries and at least the assent of both the Palestinians and the PLO. However, a territorial compromise on the lines envisaged by the Israeli Labour Party (Allon Plan) is not acceptable to the Arabs.

CONFIDENTIAL

-9-

- The inhabitants of the occupied territories: an administration composed of mayors and other leading citizens would be set up to run the territories until the implementation of self-determination. This would be a form of autonomy.

- A mixed formula: the administration of the territories would be entrusted to a body composed of representatives of Jordan, the Palestinians (PLO and inhabitants of occupied territories), and even Israel. It would be placed under the authority of the UN. A solution of this kind, which would leave open the results of self-determination, i.e. the future of the territories, should be more acceptable both to Israel and to the Arab countries and Palestinians.

CONFIDENTIAL

CONFIDENTIAL

-10-

SECTION II

SELF-DETERMINATION

The Palestinian people must be placed in a position, by an appropriate process defined within the framework of the comprehensive peace settlement, to exercise fully its right to self-determination. The implementation of the right to self-determination presents particular difficulties in the case of the Palestinians, since there is no agreed definition of the Palestinian people and of the territories whose future is to be determined. In the view of the Nine the territories in question consist of the occupied territories of the West Bank and Gaza. The question of the definition of the Palestinian people is considered below. There is also no agreement on the details of how the Palestinians should exercise their right to self-determination. The Arabs themselves, including the Palestinians, appear to have given it little practical thought, arguing that it is an internal matter for the Palestinians themselves. While this position may be sound in principle, in practice if sufficient confidence in future security to make possible Israeli withdrawal is to be established, an outline will need to be agreed in negotiations. The practical aspects of self-determination, discussed below, are an area which it would be particularly useful for the Nine to explore in contacts with the parties concerned, the basic questions being:

- I) Which Palestinians should be consulted?
- II) How should they be consulted? and
- III) When?

CONFIDENTIAL

CONFIDENTIAL

-11-

While there seems little doubt that the PLO and the Palestine National Council enjoy the support of a large proportion of the Palestinian people, a wider electoral consultation is nevertheless necessary to enable the Palestinian people fully to exercise their right to self-determination. It is unrealistic to think of only the present inhabitants of the West Bank and Gaza being allowed a say, or to imagine that the whole of the Palestinian diaspora could be involved on an equal basis. The Palestinians, who are currently estimated to number between 3.5 and 4 million, can be roughly divided into five groups (although there is considerable overlap between them):

- I) The present inhabitants of the West Bank and Gaza (approximately 1.1 million)
- II) The refugees from 1948 registered with UNWRA (approximately 1.4 million, of whom some 0.5 million remain in camps)
- III) The displaced persons of 1967 (approximately 0.3 million, of whom an unknown proportion remain in camps)
- IV) Palestinians living and working in Arab countries outside the immediate area or elsewhere, who are more or less integrated into the societies in which they live (approximately 0.6 million)
- V) The Palestinian inhabitants of Israel (approximately 0.6 million) who have Israeli citizenship and pose a special problem.

It should be noted that approximately 1.1 million Palestinians are part of the population of Jordan, some of them in camps, and that 0.4 million live in Lebanon.

CONFIDENTIAL

Whatever method is used to test the views of the Palestinians, and whatever criteria are devised to allocate rights to the various groups, the interests of the inhabitants of the West Bank and Gaza must be fully protected: they will form the majority in the new Palestinian entity, whatever its ultimate population. Their broad consent to its future political form will be needed.

It follows that the allocation of voting rights amongst the various groups is connected with the problem of the resettlement of Palestinian refugees in the West Bank and Gaza.

RESETTLEMENT

While the capacity of the West Bank and Gaza to absorb extra population is inevitably limited, peace will need to involve provision for the settlement there of a significant number of Palestinians currently in exile. A large proportion of the diaspora, particularly those working in Arab countries outside the immediate area, may have little desire to settle in this way (although they will wish to retain at least the theoretical right to do so and to have a form of citizenship involving at least provision of a passport). Nevertheless, the numbers wishing to live in a new Palestinian entity are likely to be considerable.

A system will need to be devised to regulate the rate of resettlement in the West Bank and Gaza during the transitional period (depending on the economic circumstances of the territories following Israeli withdrawal). It is not possible to lay down in advance from outside the details of such a system, but it would need to include:

- a) an upper limit for the numbers allowed to settle during the transitional period;
- b) strict criteria to establish those eligible to settle and a priority between them;
- c) the establishment of an authority to administer resettlement in general if the overall transitional authority were not to perform the task itself. In the latter case the relationship between these two authorities would need to be defined but would necessarily be close. UNWRA's experience could be used.

The resettlement of Palestinians after the end of the transitional period need not necessarily be defined in advance. This would be the responsibility of the authorities of the new Palestinian entity, in accordance with normal international practice.

ECONOMIC AID

Both during the transitional period and afterwards, large-scale economic aid would be needed. An obvious source would be the Arab States, but Western and other States as well as appropriate international organizations are also likely to be called on to contribute. The new entity would not be economically self-sufficient for a lengthy period, if ever, but need not be more dependent in the long term on outside aid than other comparable small States, including some in the immediate area.

Economic aid would also be needed to tackle in some measure the problems of compensation and of resettlement and integration for Palestinians unable or unwilling to settle in the West Bank and Gaza. A special fund could be set up for this purpose. Resettlement would take place principally in the countries where those concerned now live, but account would need to

be taken of special considerations, such as the effect on the political balance in Lebanon. Consideration might also be given to resettlement of refugees in other countries prepared to accept them.

PROCEDURES FOR SELF-DETERMINATION

As far as the exercise of the right to self-determination itself is concerned, two main formulas can be envisaged:

- I) the election of a consultative assembly
- II) a referendum.

Whatever procedure is adopted the Palestinians would choose between various political options: wholly independent state, self-governing territory linked to Jordan in a federal or confederal relationship, entity linked to both Jordan and Israel.

The establishment of a democratically elected consultative assembly can be envisaged. This might provide a useful intermediate stage in the self-determination process. The electoral system would need to be carefully considered. The assembly could organize a referendum and define the terms of the choice. Depending on the results of the referendum this assembly could become a constituent assembly.

It is possible that the assembly could, without a referendum, itself decide between the various options. However, this procedure might have less political impact than holding a referendum.

A referendum would have considerable weight. Electoral methods would need to be considered in detail: in particular, while as great a number of Palestinians as possible should have the opportunity to express their views, a weighted system of voting would need to be devised, taking into account the various categories of Palestinians identified above to ensure that the result of a referendum would be broadly acceptable to those living in the territories. The terms of the choice to be presented in the referendum would need to be defined. For example, the different options could be determined by a procedure fixed by the Security Council and applied by the Secretary General in agreement with the transitional authority.

In any of the above options it would be necessary to define precisely the role and responsibilities which would fall to the transitional authority: organization of elections, administration, security. Its role would clearly be more important in the second of the options set out above. Whatever procedure is adopted, the timing of the process of self-determination would need to be agreed in the context of the negotiations. The timing would have significance for the outcome of the process.

RIGHT TO RETURN

The right of return poses a particular problem. UN resolution 194 (III), passed by the General Assembly in 1948, accepts the right of the Palestinian refugees to return to their homes if they choose or to receive compensation if they do not wish to do so. This resolution had Western support and is still valid. The right to return cannot be easily denied in principle by the Nine. Its application must be subject

CONFIDENTIAL

-16-

to negotiated agreement between the parties. In practice it must be doubtful in all the circumstances whether more than a small number of Palestinians will wish or be able to return to Israel proper.

CONFIDENTIAL

SECTION III

SECURITY IN THE MIDDLE EAST

Conditions and guarantees

Security is one of the essential conditions for a just and lasting peace, and the need for security is a major concern for all the countries of the region. In Israel, this need goes beyond a strictly military concept and takes the form of a deeply felt desire to be accepted by its Arab neighbours.

It therefore follows that security will be one of the fundamental elements in any negotiations: security guarantees must be negotiated by the parties concerned, accepted by them and not imposed.

Security is born of reciprocal political commitments and technical guarantees, the two being closely linked. It presupposes also that the international community, including the Nine, plays its role to the full.

I. There cannot be a lasting peace without political commitment

1. There must be parallelism between political commitments of an increasingly binding nature and the timing of the withdrawal. Peace is not simply the end of the state of war, but the desire of the parties to live in peace. Resolution 242 establishes a close link between this desire for peace and the end of territorial occupation. ("The Security Council ... underlining the inadmissibility of the acquisition of territory by war and the need to work for a just and lasting peace allowing each state of the area to live in security").

The political commitments could include:

- an end to all declarations and states of belligerence;
- respect for, and mutual recognition of, the sovereignty, territorial integrity and political independence of each of the parties;
- respect for, and mutual recognition of, the right of each of the parties to live in peace within secure and recognized borders;

CONFIDENTIAL

- 18 -

- the renunciation by the parties of the use of force and the threat of such use;
- the responsibility of each party to take all necessary measures, according to a timetable still to be fixed, to ensure that no act of hostility or interference originates in, or is committed from, its territory against the people or the property of the other party (e.g. hostile propaganda, armed incursions, acts of terrorism, boycotts, obstacles to the free movement of people and goods, appropriation of water resources);
- the commitment of the parties to establish, according to a timetable still to be fixed, normal peaceful relations with their neighbours: political, economic and involving cooperation.

2. The recognition of borders is an essential political commitment being an important element of mutual recognition.

- Mutual recognition of borders by the parties must form part of any negotiations. This naturally presupposes the recognition by the parties concerned of their mutual rights to existence and security. It is in practice closely linked to the elements of negotiations: the end of territorial occupation and the rights of the Palestinian people. Mutual recognition of borders is an essential guarantee of security for the parties concerned, but secure and recognized borders cannot include occupied territories. This recognition can thus be considered as one of the gains which Israel would receive in exchange for withdrawal and the implementation of the Palestinians' right to self-determination. This link between the different elements of the peace settlement was brought out clearly in negotiations between Egypt and Israel: there is a clear parallelism between the withdrawal and the timetable for withdrawal, on the one hand, and the progressive normalization of relations between the two countries on the other.

The mutual recognition of borders between Israel and its neighbours will therefore have to form part of the process to be defined by the comprehensive peace settlement. This raises the question of the timetable for withdrawal and the definition of borders which should be based on Security Council Resolution 242 (see Section I)'

CONFIDENTIAL

- The international community will also be required to recognize the borders thus agreed.

In according recognition to the borders between Israel and its neighbours, the Security Council will give to both sides an assurance not accorded to any other UN member. This recognition should be based on the resolution of 11 May 1949 admitting Israel to the UN.

II. Security guarantees are an essential condition for the normalization of relations between Israel and its neighbours.

Respect for political commitments is closely linked to the implementation of guarantees on the ground. A whole range of technical measures is available and it will have to be decided whether a choice needs to be made from this range, and if so, how:

1) Demilitarized zones

These are provided for in Resolution 242 and should be established on both sides of the borders in the West bank, Gaza and Golan. Their extent and status will have to be decided in the negotiations. Their depth would depend on the relative importance of the territories in question and the different types of zone status:

- buffer zone with contingents of international forces (this could be continuous or discontinuous);
- totally demilitarized zone, with international observers present;
- zone involving graded restrictions on personnel, weaponry and the movement of military or paramilitary forces which could be stationed there.

Other measures would cover:

- the control and limitation of, if not a ban on, military planes and ships;
- the control and limitation of, if not a ban on, construction of military air bases and ports and their use.

2. Limitation or reduction of forces

There are two possibilities here: either general measures to limit or reduce armaments, or zones - other than the demilitarized zones - subject to special administration agreed by the parties on the quantitative or qualitative limitation of arms. These measures should be extended to nuclear weapons.

Limitation of forces would also be achieved through a commitment on the part of arms-supplying countries to oppose the development of the arms race in the region (by way of bilateral or multilateral agreements).

3. Monitoring systems

The process of demilitarization should include an early warning system to facilitate the detection of movements of land, sea or air forces, and other monitoring systems covering land, sea and air forces.

4. Confidence building measures, Mutual information and consultation system.

These measures, of an essentially military nature, should provide particularly for a prior notification procedure for all movements of land or air forces as well as a reduction in the scale of manoeuvres, mobilization exercises and movements of forces (men and equipment).

These measures would complement the arrangements regarding demilitarized zones and would contribute to the creation of a zone of peace.

The choice to be made from this range of measures raises two major problems:

- The difficulty of balancing guarantees in such a way they apply not only to the West Bank and Gaza but also to a very narrow strip of Israeli territory, given the narrow extent of this territory and the probable opposition of Israel. A significant degree of demilitarization will be necessary in the whole of the West Bank and Gaza if peace is to be achieved. It would be unrealistic to imagine that such measures could be matched by similar measures in Israel.

- The difficulty of the small area of the future Palestinian entity, which means that a choice has to be made between the different types of demilitarized zones (graduated zones would be impossible).

III. A commitment on the part of the international community must be entered into an agreement with the parties concerned; this will involve defining the international community's responsibility at multilateral and bilateral levels (E.G. United Nations, individual contributions, the Nine).

1. It is the responsibility of the international community to guarantee the peace settlement.

- A guarantee of the peace agreement would consist of the endorsement of the Security Council of the documents which would be deposited at the UN. Ratification by the Council would take the form of one or more resolutions once the agreements were deposited and before the implementation phase got under way .

The Council should certify that the peace settlement was not obtained by forces in contradiction to UN principles. In the absence of this, the peace settlement could in practice be attacked later by one of the parties as having no legal force under international law.

- As far as the settlement of differences is concerned, only major violations of the agreements would be referred directly to the Security Council, in which case it would be able to decide what measures were appropriate. By virtue of Article 29 of the Charter, one or more subsidiary bodies could be created to receive the complaints lodged by the parties. They would then pass on to the Council any difference which they could not settle themselves.

2. It is also the responsibility of the international community to assure the implementation and proper functioning of the guarantees on the ground

An international force is essential, and should be placed under the responsibility of the Security Council, which would decide on its creation, continuation or withdrawal. The establishment of such force would be linked to the Security Council resolution which would constitute the basis of the peace settlement .It could not be withdrawn without a new Council resolution and not before a minimum period of 5 years (a repeat of the events of 1967 must be avoided.).

CONFIDENTIAL

- 22 -

This force, whose size would be determined by the Council, would be composed of contingents from different countries. It could be placed under the command of a general staff designated by the Council.

The international force, whose mandate would have to be clearly defined, would have a dual task:

- observation and monitoring (observing compliance with the terms of de,militarization and monitoring the withdrawal);
- interposition between the sides in a buffer zone.

3. Bilateral or multilateral guarantees, outside the U.N. framework could also be considered.

These would be necessary in view of the suspicions which either side may entertain towards UN guarantees, and could take various forms , e.g.

- guarantee of the peace agreement itself;
- participation in a multinational peacekeeping force;
- commitment to limit the supply of armes to the Arab countries and Israel;
- guarantee by the principal maritime powers of respect for freedom of navigation in international waters (Strait of Tiran, Gulf of Aqaba);
- bilateral guarantees (possibly).

4. Role and responsibility of the Nine.

The Nine believe they have a special role to play in maintaining peace in the Middle East. They are ready to participate in specific and binding guarantees, including guarantees on the ground. Their involvement could take various forms

At the UN: active support by the Nine for the peace settlement guaranteed by the Security Council and participation in subsidiary bodies set up to deal with certain questions (e.g. settlement of differences, freedom of navigation).

Outside the UN framework: (see (iii) above).

CONFIDENTIAL

CONFIDENTIAL

-23-

On the ground, participation of national contingents, (made available for these purposes,*) in the UN force. The possibility of various specialist European contributions could be studied and a concerted approach should be established. Study of the functioning of UNIFIL (in which France, the Netherlands, Ireland and Italy participate) would be very useful.

Economic, industrial and financial guarantees designed to encourage inter-regional cooperation, which would constitute the best possible evidence of the desire for peace on all sides. The European Community could, on the basis of the agreements which already exist between the Community, Israel and other countries of the Middle East, formulate a development plan for the whole of the region, including Israel. The principal aim of this plan would be to facilitate the integration of the Palestinians in the region, particularly in the West Bank and Gaza, and to encourage cooperation between the Palestinian entity and its neighbours. Initially, it could be co-ordinated with the UNWRA, and would consist essentially of infrastructure projects (e.g. construction of houses, schools and roads, agricultural development and irrigation works).

This plan would necessitate EC expert missions being sent out at the appropriate moment.

* (made available on the basis of national legislation)

CONFIDENTIAL

SECTION IVJERUSALEM

Although the question of Jerusalem is one of the elements in the wider Arab-Israeli dispute, there are certain aspects which give it a character of its own and make it stand somewhat apart from the rest. Among other things, it is characterized by a multitude of factors of an emotional and religious - as well as a political - nature. This explains why some feel that the question of Jerusalem should be excluded from the initial phase and left to be tackled at a later stage. However, others feel that, because of the complexity of the specific problem of Jerusalem, the reverse should be true: in other words, the most difficult problem - Jerusalem - should be tackled first of all in an attempt to remove one of the major obstacles to peace.

Disregarding for the time being the choice of the most opportune moment for consideration of the problem of Jerusalem, it is worth going into the various aspects of the problem in more detail to give some tangible form to the principles the Nine have espoused on this point. Clearly, the question of Jerusalem cannot be side-stepped by viewing it as part of the comprehensive settlement the Nine advocated in Venice. What is more, the importance of Jerusalem not only for the Arab countries but also for the whole Moslem world must be borne in mind with a view to furthering the process of reconciling Israel with its regional context.

The status of the city of Jerusalem in international law has not been clearly defined to this very day. Various resolutions passed by the United Nations General Assembly make specific reference to it, viz.

- No 181 of 29 November 1947, providing for the creation of a 'corpus separatum' under international control;
- No 303 of 9 December 1949, confirming the city's international status following its partition as a result of the Arab-Israeli War.

However, the majority of the UN Member States do not regard General Assembly resolutions as binding, unlike those passed by the Security Council. These latter resolutions refer simply to the 'special status' of Jerusalem without defining the term any further:

- No 252 of 21 May 1968;
- No 267 of 3 July 1969;
- No 271 of 15 September 1969

... right down to Resolution No 478 of 20 August 1980. The paradoxical conclusion from this is that, although the status of Jerusalem has not been clearly defined (as regards its nature and territorial application), it cannot be subject to unilateral changes. For this reason, the views of the international community should at any rate be taken into consideration.

In particular, the Nine's position on Jerusalem has been made clear by the views and attitudes adopted vis-à-vis specific developments. In particular, the Nine have not recognized:

- the partition of Jerusalem between Israel and Jordan (cease-fire agreement of 30 November 1948 - armistice agreement of 3 April 1949);
- the Knesset's proclamation of Jerusalem as the capital of Israel on 23 June 1950;
- the de facto annexation by Israel of the eastern part of the city in 1967. Most recently in their Venice Declaration, the Nine pointed out the need for Israel to put an end to the territorial occupation

which it has maintained since the conflict of 1967', this principle applying also to the eastern part of Jerusalem previously administered by Jordan;

- the basic law passed by the Knesset on 30 July 1980, proclaiming Jerusalem as the united and reunified capital of Israel.

The Venice Declaration stressed the special status of Jerusalem, recognizing the special importance of the role played by the city for all the parties concerned. The Nine stressed:

- a) that they would not accept any unilateral initiative designed to change the status of the city, and that
- b) any agreement on the city's status should guarantee freedom of access for everyone to the Holy Places.

The Venice Declaration also pointed out that 'modifications in population and property in the occupied Arab territories ... are illegal under international law'. This applies equally to Eastern Jerusalem.

Lastly, and in accordance with what was finally established by Security Council Resolution No 478 (1980), the embassies of the Member States of the Nine in Israel have been set up in Tel Aviv and not in Jerusalem.

It is worth noting that the three monotheistic religions traditionally enjoy equal rights with regard to the Holy Places. This is a particularly important point, and one which goes beyond the political aspects of the Jerusalem question.

CONFIDENTIAL

-27-

As regards the European effort outlined in the Venice Declaration, it is up to the Nine, whose civilizations are linked to the Christian tradition, not only to give tangible form to the principles they have formulated for an agreed solution to the Arab-Israeli conflict, but also to bring out their special interest in finding an equitable solution to the specific problem of Jerusalem and the Holy Places. It is important in these circumstances that an agreed settlement of the problem should give the various Christian denominations and their representatives and colonies in Jerusalem the guarantee of a status which takes more account of their interests.

Any equitable solution to the question of Jerusalem and the Holy Places necessarily involves concessions by both sides - and hence separations both in Israel and the Jewish diaspora and in the Arab and Moslem communities. An effort should be made, however, to reach a settlement which will enable public opinion on both sides to withstand the inevitable shock. This would mean excluding any formula purporting to resolve all the issues at one fell swoop; instead, preference should be given to solutions allowing for the deferment of basic decisions and decisions on sovereignty, concentrating instead on the practical problems of the civil administration of the city and freedom of access to the Holy Places.

A number of alternative solutions could accordingly be considered in principle:

- a) The internationalization of the entire city of Jerusalem, which would mean reverting to the 'corpus separatum' status of 1947. This solution does not, however, seem appropriate to the realities of the present situation.

CONFIDENTIAL

CONFIDENTIAL

-28-

- b) A new plan for the straightforward partition of Jerusalem. This solution would boil down very largely to the restoration of the situation obtaining between 1948 and 1967, but giving it legal validity. It would encounter opposition, particularly from Israel, which currently occupies the whole of the city.
- c) A condominium involving Israel and the Arabs. This solution would imply joint sovereignty of the two sides, and would consequently presuppose the existence between the two sides of peaceful relations in a spirit of mutual trust; such relations do not at present exist.
- d) A solution which would not prejudice the final status of the city and which would involve joint administration without any physical divisions. This solution would in turn open the way for two alternative settlements:
- maintenance of the de facto unity of the whole of the city, without specifying the different areas of sovereignty;
 - a division of sovereignties existing merely on a map of the city, and with no significance on the ground.

In these two cases, Jerusalem would be governed by a municipal authority comprising locally elected representatives. A modus vivendi along these lines would enable both Israel and the Palestinians to regard Jerusalem as their capital and as the site of their respective institutions and administrations.

Similarly, the Holy Places could be placed under the exclusive administration of the religious authorities.

CONFIDENTIAL

CONFIDENTIAL

e) The internationalization of the Old City. This would involve transferring the administration of the Old City (i.e. the whole area within the walls and including most of the shrines of the three religions) to a special representative appointed by the UN Security Council, for a number of years yet to be determined. This representative would exercise the full range of sovereign powers, but the parties would not be required to renounce their sovereign rights over the Old City. By emphasizing the religious aspect of Jerusalem, the Old City would acquire a character similar to that of the Vatican City. The same solution could apply to the religious sites outside the Old City, which could be subject to an extra-territorial form of government (as is the case in Rome for certain basilicas outside the walls of the Vatican).

A solution of this kind, compatible with the above hypotheses (c and d), could also involve a fresh partition of the whole urban area of Jerusalem - with the exception of the Old City - along similar lines to the situation obtaining between 1948 and 1967).

In this case, provision would have to be made for the creation of a body to ensure coordination and cooperation between the three authorities represented within the urban area of Jerusalem for the joint management of such municipal and social services as seemed to require it.

This solution would offer certain advantages to both the Arabs and the Israelis. Western Jerusalem would be accepted as the capital of Israel, while Eastern Jerusalem could become the capital of the Palestinian entity. However, the solution would require Israeli and Arab acceptance of the concept of partition.

CONFIDENTIAL

CONFIDENTIAL

-30-

It is worth emphasizing once again that the problem of Jerusalem is the most emotionally charged of all the problems in the Middle East. In the circumstances, there can be no question at the moment of deciding what should be the final solution to the problem of Jerusalem. A solution cannot simply be imposed, but would have to be accepted by the parties concerned as a result of negotiations, would have to comply with the principles formulated by the Nine for a comprehensive settlement of the Arab-Israeli conflict and would have to be endorsed by the international community.

The solutions and alternative proposals put forward in this report may give food for thought as regards future contacts between the Nine and the various parties concerned.

CONFIDENTIAL

LEBANON

The problem of Lebanon is closely linked with the problems of the Middle East as a whole.

An analysis of the difficulties facing the Lebanese government shows that internal differences (which it is not up to the Nine to comment on) are aggravated by external factors connected with the continuing Middle East conflict and the lack of a solution to the Palestinian problem. Clearly, a solution to the Lebanese problem would be greatly facilitated by progress towards a comprehensive, just and lasting settlement to the conflict between Israel and its Arab neighbours.

The Nine have frequently affirmed their desire to see full respect accorded to the independence, sovereignty, unity and territorial integrity of Lebanon and to the authority of its government. This point was made in particular in Venice on 13 June, in Luxembourg on 15 September and in New York on 23 September by the Grand Duchy of Luxembourg's Minister for Foreign Affairs.

The Nine believe that any peace settlement in the Middle East should include, in particular, arrangements for guaranteeing the security of Lebanon's internationally recognized boundaries, which make up one of the elements of security in the region.

However, it would be dangerous to wait for such a settlement (which is bound to be preceded by a long and difficult phase of negotiation) before attempting to do anything to bring about a solution to the Lebanese crisis. As time goes by, the respective positions have a

CONFIDENTIAL

-32-

tendency to harden, and the gulf between the two to widen up to a point where, if nothing is done, the situation will become irreversible and will be bound to adversely affect the equilibrium of the whole region.

In this spirit, the Nine have at various times demonstrated their genuine desire to provide assistance to Lebanon. They support the work of the United Nations Interim Force in Lebanon (UNIFIL), in which several of them are directly involved. On a number of occasions, they have stressed that UNIFIL should be allowed to implement to the full the mandate assigned to it by Security Council Resolution 425. They have expressed very serious concern at the gravity of the situation in southern Lebanon and called on all parties to exercise the greatest possible restraint. To this end, they have made representations (individually and collectively) to the Israeli government and to other parties involved, such as Syria and the PLO.

In view of the persistently worrying situation in Lebanon, the members of the international community should persevere with their efforts regarding Lebanon in close cooperation with the Lebanese government. As far as the Nine are concerned, this could be done more specifically at the level of the United Nations:

- by giving favourable consideration to the requests from the Lebanese government to call a meeting of the Security Council;
- by way of actions designed to enable UNIFIL to fulfil its mandate;
- by studying the possibilities offered by a resumption of the activities of the Lebanese-Israeli joint armistice commission provided for by the armistice agreement between the two countries.

CONFIDENTIAL

CONFIDENTIAL

-33-

These activities at the United Nations could be accompanied - as the circumstances require - by public declarations and diplomatic activity aimed at the parties directly concerned, as well as at other countries with an interest in maintaining peace and stability in Lebanon.

CONFIDENTIAL

LUXEMBOURG REPORT ON THE PRINCIPLES OF THE VENICE DECLARATION

Guide to contents

INTRODUCTION:

Basis of the report
Need to establish a climate of confidence between the parties
Confidentiality of the report

I WITHDRAWAL:

Need for withdrawal implemented through negotiations
Mutual recognition of rights to enable negotiations to begin
Timetable for withdrawal
Need for international monitoring of withdrawal
Definition of territories from which withdrawal should take place
Relationship of withdrawal to questions of settlements and Jerusalem
Possible formulas for transitional authority

II SELF-DETERMINATION:

U.K.

Uncertainties over practical aspects
Definition of Palestinians to be involved
Resettlement of Palestinians in West Bank and Gaza
Economic Aid
Possible procedures for self-determination
Palestinian right to return

III SECURITY: CONDITIONS AND GUARANTEES:

French

Political commitments required
Need for mutual recognition of borders
Possible technical guarantee measures: demilitarised zones, force limitation, monitoring, confidence-building measures
Responsibilities of the international community, particularly the UN
Role and responsibility of the Nine

IV JERUSALEM:

Problem of Jerusalem cannot be left
on one side
International status of Jerusalem
Nine's views on Jerusalem
Importance of Jerusalem for Christianity
Possible solutions: internationalisa-
tion, partition, condominium, joint
municipality, internationalisation of
Old City only

ANNEX: LEBANON:

Nine's desire to help Lebanon
Possible courses of action for the Nine

CONFIDENTIAL

MIDDLE EAST: DRAFT PRESIDENCY STATEMENT

The Nine Heads of State and Government have fully reviewed developments in the Middle East, including the state of negotiations resulting from the agreements signed between Egypt and Israel in March 1979. They believe that rapid progress towards a comprehensive settlement of the Arab/Israel dispute is urgently required, and they remain convinced that the Nine have a particular role to play in search for such a settlement.

They deeply regret the current difficulties and divisions in the region, which can only complicate efforts aimed at a settlement.

The Nine reaffirm in their entirety the principles and aims set out in the European Council declaration on the Middle East issued in Venice on 13 June 1980.

On the basis of the Venice Declaration and in accordance with its paragraph 11, the President of the Council of Ministers established contacts with the parties concerned. The Nine express their gratitude for the cooperation and interest shown to the contact mission by all concerned. The results of this mission confirm them in their belief that the principles of the Venice Declaration form a basis for a just and lasting peace settlement, to be negotiated by the parties concerned. They therefore urge all concerned to accept these principles, taken together, and to signify their willingness to enter into negotiations in good faith and without preconditions.

The results of the European contact mission, together with the principles of the Declaration, have formed the basis for further work within the Nine aimed at clarifying and giving substance to the key issues associated with a comprehensive settlement. These include the need for reciprocal recognition of rights to existence

/and

CONFIDENTIAL

CONFIDENTIAL

and to security; practical problems associated with the need for an end to Israel's territorial occupation through arrangement agreed by the parties concerned; implementation of the Palestinians' right to self-determination (rights of representation, electoral methods); the practical aspects of guaranteeing security in the area in the context of a comprehensive peace settlement; and religious and political aspects of the Jerusalem question.

In the view of the Nine the essential link between these different elements constitutes a crucial part of any comprehensive settlement.

In order to explore these difficult areas further, and with a view to creating a climate in which eventual negotiations might more easily take place, the Nine will pursue their contacts with the parties further in the coming weeks and months. To this end, the Heads of State and Government have instructed the President of the Council of Ministers to continue and complete the soundings (contacts), taking account of the internal work of the Nine and developments in the situation.

[To this end, the Heads of State and Government have instructed Foreign Ministers to work out the mandate for the modalities of the soundings (contacts) which the Presidency of the Council is called upon to continue and complete, taking account also of the internal work in the Nine and developments in the situation. The Presidency of the Council of Ministers will report to the European Council's next meeting.]

The Nine therefore remain determined to contribute to a comprehensive settlement.

In this context the Nine renew their appeal to all the parties to refrain from all violent or other acts and all policies incompatible with efforts to reach a negotiated peace.

/The

CONFIDENTIAL

CONFIDENTIAL

The Nine are also convinced that the time has come for all concerned to abandon rhetoric and to engage in practical discussion of the problems involved. The Nine wish to encourage a wide-ranging and well-informed public debate about the way forward to a settlement. They are convinced that this will encourage the necessary climate of mutual trust. The Nine will contribute to this debate at every suitable occasion.

CONFIDENTIAL

CONFIDENTIAL

FRENCH DRAFT OF STATEMENT OF THE EUROPEAN COUNCIL

I. The European Council has taken stock of the action taken by the Nine since the adoption of the Declaration of Venice.

The Council has heard the report of M. Thorn's mission with which he was charged on behalf of the Nine and in application of paragraph II of the Venice Declaration.

It noted that the mission brought out the great interest aroused by the position taken up by Europe and that it was in this respect a success.

Its results confirm that the Venice Declaration contains the necessary elements of a comprehensive, just and lasting settlement of the Middle East conflict.

They reinforce the determination of the Nine to contribute to the search for such a settlement.

In this spirit, the European Council approved the decision of the Ministers of Foreign Affairs to undertake consideration aimed at clarifying and giving substance to the Venice principles.

II. The European Council has considered in depth the report which the Ministers of Foreign Affairs submitted to them on this subject, covering the following sections: withdrawal from the occupied territories, self-determination of the Palestinian people, conditions and guarantees of security in the Middle East, Jerusalem.

The European Council is in broad agreement on the proposed approach. It has stressed that the measures provided for in these sections should form a coherent whole and therefore be carefully coordinated in the context of a timetable.

It has noted that different formulas were possible to give substance to the Venice principles, in particular on the duration of the transitional period preceding voting on self-determination,

CONFIDENTIAL

the definition of the provisional authority for the evacuated territories, the conditions and modalities of self-determination, and guarantees of security.

Before making its choice between these different formulas it has thought it necessary that new contacts should be undertaken with the parties concerned.

III The European Council has, in consequence, instructed the Ministers of Foreign Affairs to define precisely the list of interlocutors as well as the mandate and modalities of the contacts which will need to be undertaken to this end, under the aegis of the Presidency.

It has also asked the Ministers to pursue their considerations and to report to it at its session of

MOYEN-ORIENT

Les neuf Chefs d'Etat et de Gouvernement et les Ministres des Affaires Etrangères ont passé en revue les développements de la situation au Moyen-Orient, y compris l'état des négociations résultant des accords signés entre l'Egypte et Israël en mars 1979. Ils estiment que des progrès rapides vers un règlement global du conflit israélo-arabe sont indispensables et ils restent convaincus que les Neuf ont un rôle particulier à jouer dans la recherche d'un tel règlement.

Ils déplorent profondément les difficultés et les divisions actuelles dans la région qui ne peuvent que compliquer les efforts en vue d'un règlement global.

Les Neuf réaffirment l'ensemble des principes et des objectifs énoncés dans la déclaration du Conseil Européen sur le Moyen-Orient publiée à Venise le 13 juin 1980.

Sur la base de la déclaration de Venise et conformément à son par. II, le Président du Conseil des Ministres des Neuf a établi des contacts avec les parties concernées. Les Neuf expriment ici leur gratitude pour la coopération et l'intérêt que la mission de contact européenne a rencontrés auprès de tous les intéressés. Les résultats de cette mission les confirment dans leur conviction que des principes contenus dans la déclaration de Venise constituent une base valable pour un règlement de paix juste et durable à négocier entre les parties concernées. Par conséquent ils

adressent à celles-ci un appel pressant d'accepter ces principes, pris dans leur ensemble, et de se déclarer prêts à négocier sur l'avenir, en pleine bonne foi et sans poser des conditions préalables.

Les résultats de la mission de contact européenne, ensemble avec les principes de la déclaration de Venise, ont servi de base à des réflexions internes au sein des Neuf destinées à clarifier et à concrétiser les principaux problèmes en relation avec un règlement global. Ceux-ci comprennent la nécessité de la reconnaissance réciproque des droits à l'existence et à la sécurité; des problèmes pratiques relatives à la nécessité pour Israël de mettre fin à l'occupation territoriale par l'intermédiaire d'arrangements agréés par les parties concernées; la mise en oeuvre du droit à l'autodétermination du peuple palestinien; les aspects pratiques concernant les garanties de la sécurité dans la région dans le cadre d'un règlement global de paix, ainsi que les aspects religieux et politiques de la question de Jérusalem.]

Dans l'esprit des Neuf le lien indispensable qui existe entre ces différents éléments constitue un point crucial de tout règlement global.

En vue d'une exploration toujours plus approfondie de ces problèmes difficiles, et avec la volonté de créer un climat plus favorable à des négociations définitives, les Neuf vont poursuivre leurs

contacts avec les parties concernées au cours des semaines et des mois à venir. A cette fin, les Chefs d'Etat et de Gouvernement ont chargé la Présidence du Conseil des Ministres de continuer et de compléter ses sondages (contacts), en tenant compte à la fois du travail de réflexion des Neuf et des développements de la situation.

/A cette fin, les Chefs d'Etat et de Gouvernement ont chargé les Ministres des Affaires Etrangères d'élaborer le mandat concernant les modalités des sondages (contacts) que la Présidence du Conseil est appelée à continuer et à compléter en tenant compte aussi bien du travail de réflexion des Neuf que des développements de la situation. La Présidence du Conseil de Ministres fera rapport au Conseil Européen à l'occasion de sa prochaine réunion⁷

Les Neuf restent donc déterminés à apporter leur contribution à un règlement global.

Dans ce contexte, les Neuf renouvellent leur appel à toutes les parties de s'abstenir de toute action de violence et de toute prise de position incompatible avec les efforts pour parvenir à une paix négociée.

Les Neuf sont également convaincus que pour tous ceux qui sont concernés le temps est venu d'abandonner les exercices de rhétorique et de s'engager ensemble dans des discussions pratiques sur les problèmes en question. Les Neuf désirent encourager un large débat public, franc et bien informé, sur la meilleure voie à suivre pour aboutir à un règlement. Ils sont persuadés de favoriser ainsi la création d'un indispensable climat de confiance mutuelle. Les Neuf saisiront toute occasion possible pour contribuer à un tel débat.

FM LUX COPEU
TO ALL COPEU
IMMEDIAT
CPE/MUL/ETR 3971 (CPE/BIL/ETR 441 PARIS)
25.11.1980 19.00 HEUPES

CONFIDENTIAL

FROM PARIS COPEU
TO LUX COPEU IMMEDIAT
INFO ALL COPEU IMMEDIAT
CPE BIL ETR 441
25 11 80 17.30
DISTRIBUTION STRICTEMENT LIMITEE

OBJET : CONSEIL EUROPEEN - MOYEN ORIENT

LA FRANCE SOUMET A SES PARTENAIRES LE TEXTE D'UN PROJET DE COMMUNIQUE SUR LE PROCHE ORIENT QUI POURRAIT ETRE PUBLIE A L'ISSUE DU PROCHAIN CONSEIL EUROPEEN.

LES MEMBRES DE PHASE ENTRE CROCHETS QUI FIGURENT A L'AVANT-DERNIER PARAGRAPHE CORRESPONDENT A L'ALTERNATIVE DEFINIE PAR LES MINISTRES AU COURS DE LA REUNION DE COOPERATION POLITIQUE DU 24 NOVEMBRE.

CITATION :

I./ LE CONSEIL EUROPEEN A FAIT LE POINT DE L'ACTION MENEES PAR LES NEUF DEPUIS L'ADOPTION DE LA DECLARATION DE VENISE.

IL A ENTENDU LE RAPPORT DE M. THORN SUR LA MISSION DONT IL AVAIT ETE CHARGE AU NOM DES NEUF ET EN APPLICATION DU PARAGRAPHE 2 DE LA DECLARATION DE VENISE.

IL A CONSTATE QUE CETTE MISSION AVAIT FAIT RESSORTIR LE GRAND INTERET SUSCITE PAR LA PRISE DE POSITION DE L'EUROPE ET QU'ELLE AVAIT ETE A CET EGARD UN SUCCES.

SES RESULTATS CONFIRMENT QUE LA DECLARATION DE VENISE RENFERME LES ELEMENTS NECESSAIRES D'UN REGLEMENT D'ENSEMBLE JUSTE ET DURABLE DU CONFLIT DU PROCHE ORIENT.

ILS RENFORCENT LA DETERMINATION DES NEUF D'APPORTER LEUR CONTRIBUTION A LA RECHERCHE D'UN TEL REGLEMENT.

DANS CET ESPRIT, LE CONSEIL EUROPEEN A APPROUVE LA DECISION DES MINISTRES DES AFFAIRES ETRANGERES D'ENTREPRENDRE UNE REFLEXION DESTINEE A CLARIFIER ET A CONCRETISER LES PRINCIPES DE VENISE.

II./ LE CONSEIL EUROPEEN A CONSACRE UN EXAMEN APPROFONDI AU RAPPORT QUE LUI ONT SOUMIS A CE SUJET LES MINISTRES DES AFFAIRES ETRANGERES ET QUI PORTE SUR LES CHAPITRES SUIVANTS : EVACUATION DES TERRITOIRES OCCUPES., AUTODETERMINATION DU PEUPLE PALESTINIEN., CONDITIONS ET GARANTIES DE LA SECURITE AU PROCHE ORIENT., JERUSALEM.

LE CONSEIL EUROPEEN A ENREGISTRE UN LARGE ACCORD SUR L'APPROCHE PROPOSEE. IL A SOULIGNE QUE LES MESURES A PREVOIR AU TITRE DE CES QUATRE CHAPITRES DEVAIENT CONSTITUER UN ENSEMBLE COHERENT ET DONC ETRE SOIGNEUSEMENT COORDONNEES DANS LE CADRE D'UN CALENDRIER.

IL A NOTE QUE DIFFERENTES FORMULES ETAIENT CONCEVABLES POUR DONNER CORPS AUX PRINCIPES DE VENISE, NOTAMMENT EN CE QUI CONCERNE LA DUREE DE LA PERIODE TRANSITOIRE PRECEDANT LE SCRUTIN D'AUTODETERMINATION, LA DEFINITION DE L'AUTORITE PROVISOIRE SUR LES TERRITOIRES EVACUES, LES CONDITIONS ET MODALITES DE L'AUTODETERMINATION, LES GARANTIES DE LA SECURITE.

AVANT D'ARRETER SON CHOIX ENTRE CES DIFFERENTES FORMULES, IL A JUGE NECESSAIRE QUE DE NOUVEAUX CONTACTS SOIENT PRIS AVEC LES PARTIES CONCERNEES.

III./ LE CONSEIL EUROPEEN A, EN CONSEQUENCE, CHARGE LES MINISTRES DES AFFAIRES ETRANGERES DE DEFINIR PRECISEMENT// //ARRETE// A LISTE DES INTERLOCUTEURS AINSI QUE LE CONTENU ET LES MODALITES DES CONTACTS QUI DEVONT ETRE PRIS A CETTE FIN SOUS L'EGIDE DE LA PRESIDENCE.

IL A PAR AILLEURS INVITE LES MINISTRES A POURSUIVRE LEURS REFLEXIONS ET A LUI FAIRE RAPPORT A SA SESSION DE
F I N D E C I T A T I O N .

COPEU DIPLO PARIS
FIN DE TEXTE

LIMITED
NEWAD
ECD(E)
MFB
UIC

SIR J. GRAHAM
MR. BULLARD
LORD BRIDGES

MR. J. MOBERLY
MR. HANNAY
MR. FERLUSSON

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL THE EUROPEAN COMMUNITY JOINT DECLARATION ON THE MIDDLE EAST

The Heads of State and Government and the Ministers of Foreign Affairs of the Nine Member States of the European Community have exchanged views on all aspects of the present situation in the Middle East, including the state of negotiations resulting from the agreements signed between Egypt and Israel in March 1979. They agreed that growing tensions affecting this region constitute a serious danger and render a comprehensive solution to the Israeli-Arab conflict more necessary and pressing than ever.

2. The Nine Member States of the European Community consider that the traditional ties and common interests which link Europe to the Middle East oblige them to play a special role and now require them to work in a more concrete way towards peace.

3. In this regard, the Nine countries of the Community base themselves on Security Council Resolutions 242 and 338 and the positions which they have expressed on several occasions, notably in their declarations of 29 June 1977, 19 September 1978, 26 March and 18 June 1979, as well as in the speech made on their behalf on 25 September 1979 by the Irish Minister of Foreign Affairs at the 34th United Nations General Assembly.

4. On the bases thus set out, the time has come to promote the recognition and implementation of the two principles universally accepted by the international community: the right to existence and to security of all the states in the region, including Israel, and justice for all the peoples, which implies the recognition of the legitimate rights of the Palestinian people.

5. All of the countries in the area are entitled to live in peace within secure, recognised and guaranteed borders. The necessary guarantees for a peace settlement should be provided by the UN by a decision of the Security Council and, if necessary, on the basis of other mutually agreed procedures. The Nine declare that they are prepared to participate within the framework of a comprehensive settlement in a system of concrete and binding international guarantees, including on the ground.

CONFIDENTIAL

right to self-determination.

7. The achievement of these objectives requires the involvement and support of all the parties concerned in the peace settlement which the Nine are endeavouring to promote in keeping with the principles formulated in the declaration referred to above. These principles are binding on all the parties concerned, and thus the Palestinian people, and on the PLO, which will have to be associated with the negotiations.

8. The Nine recognise the special importance of the role played by the question of Jerusalem for all the parties concerned. The Nine stress that they will not accept any unilateral initiative designed to change the status of Jerusalem and that any agreement on the city's status should guarantee freedom of access for everyone to the Holy Places.

9. The Nine stress the need for Israel to put an end to the territorial occupation which it has maintained since the conflict of 1967, as it has done for part of Sinai. They are deeply convinced that the Israeli settlements constitute a serious obstacle to the peace process in the Middle East. The Nine consider that these settlements, as well as modifications in population and property in the occupied Arab territories, are illegal under international law.

10. Concerned as they are to put an end to violence, the Nine consider that the renunciation of force or the threatened use of force by all the parties can create a climate of confidence in the area, and constitute a basic element for a comprehensive settlement of the conflict in the Middle East.

11. The Nine have decided to make the necessary contacts with all the parties concerned. The objective of these contacts would be to ascertain the position of the various parties with respect to the principles set out in this declaration and in the light of the results of this consultation process to determine the form which an initiative on their part could take.

CONFIDENTIAL

EHG(L2)(80)16

ANNEX B : IRAN/IRAQ
(REVISE)

OBJECTIVES :

1. To exchange views on the Iran/Iraq conflict, including prospects for ending the fighting, the risks of escalation, and the implications of the release of the US hostages in Iran.

POINTS TO MAKE :

Attempts at Peace-making

2. How do partners assess Olaf Palme's prospects? Both sides still far apart. Little point in a European initiative, but should keep in mind possibility of a role for the Nine at the appropriate moment. Timing crucial.

Risk of Escalation

3. No sign that other powers in the region will join in. Fighting restricted to head of Gulf and territory of belligerents.

US Position

4. Shares objectives of ending the fighting, upholding principle of Freedom of Passage in the Gulf, and preventing disruption of oil supplies. New initiatives unlikely before 20 January.

Soviet Union's Position

5. Has consistently called for the two sides to end the fighting. Probably keeping all options open. Unlikely to pass up a real opportunity to enhance influence in Iran; or fail to react if US were to re-establish influence there.

US Hostages

6. Early release of the hostages still unlikely. Difficult for the US to meet all Iranian demands. There has been general agreement that when the hostages are released there will be an EC Presidential statement on the lifting of sanctions.

UK/Iran

7. Deterioration in relations led to withdrawal of Embassy staff from Tehran. Normal relations unlikely until British detainees in Tehran have been released.

Iraqi Message

8. Have other governments received message from Dr Hammadi setting out Iraq's case? Is any joint response called for?

CONFIDENTIAL

ESSENTIAL FACTS :

Situation on the Ground

1. Developing into a war of attrition. Iraqi ability to increase pressure depends upon halting oil supplies to Isfahan, Shiraz and Tehran refineries. Other states in the area show no sign of becoming involved at present. The Iranians have said that an alleged rocket attack on Kuwait was an accident and that they have no intention of allowing the war to be extended. No evidence that either side is prepared to compromise in order to end the fighting.

Role of the Nine

2. Foreign Ministers of the Nine issued a statement declaring their readiness to support any international initiative likely to end the fighting (copy attached). At Echternach on 25-26 October they further agreed on the need for strict neutrality. It was also agreed that decisions on arms supplies to the belligerents were a matter for national governments.

Shipping

3. ICRC attempts to arrange release of shipping trapped in the Shatt-al-Arab continue.
4. Shipping in the Straits of Hormuz remains normal.

Oil Supplies (see Brief 7)

CONFIDENTIAL

Security in the Gulf

5. We are maintaining a naval patrol outside the Gulf of Oman, while hostilities continue. Navy-to-navy talks between ourselves and allies with ships in the area are in train.

Views of Super-Powers

(a) United States

6. US shares our concern and has affirmed determination to maintain Freedom of the Straits. Release of the hostages might lead to supply of limited supplies of military equipment to Iran.

(b) Soviet Union

7. The Soviet Union has consistently called for both sides to end the fighting and seek a political settlement. It has maintained strict neutrality, at the risk of damaging its relations with Iraq. Although the Soviet Union recognises that continuation of the war might dangerously escalate the conflict, it would probably be prepared to throw its weight behind Iran if it believed that by so doing there was a real chance of establishing a permanent influence there.

US Hostages

8. The Iranian Parliament's conditions for release of hostages are :

- (i) US pledge of non-interference;
- (ii) transfer of Shah's wealth to Iran;
- (iii) release of blocked Iranian assets in US;
- (iv) dropping of US claims against Iran.

Conditions (ii) - (iv) present difficulties for the US.

UK/IRAN

9. Future UK policy to Iran and level and nature of representation in Tehran if hostages released, will need to take into account complicating bilateral factors.

Message from Dr Sa'doon Hamadi, Foreign Minister of Iraq

10. Dr Hamadi has sent a message to the Secretary of State (and no doubt to his EC colleagues also) 'on the occasion of the European Summit meeting'. The message (English text attached) sets out the Iraqi view of the war on predictable lines. It claims that the war was forced on Iraq (para 11), after persistent provocations by Iran. When diplomacy failed Iraq resorted to 'preventive strikes' (para 10). The message reiterates Iraq's readiness for a ceasefire followed by immediate negotiations under the auspices of the UN Secretary-General, but insists that any withdrawal of Iraqi troops must be accompanied by Iranian recognition of Iraqi sovereign rights (12). It also calls for Iranian withdrawal from the Gulf islands (13).

CONFIDENTIAL

STATEMENT ISSUED BY THE FOREIGN MINISTERS OF THE NINE
IN NEW YORK, 23 SEPTEMBER

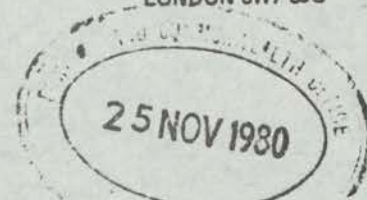
1. The Nine states of the European Community express their deep concern at the military confrontation between Iraq and Iran.
2. They note the bilateral nature of the present conflict and stress the need to avoid anything which might give it a broader dimension. In this connection, they look to other states, particularly the great powers, to maintain the restraint which they have shown.
3. They support the appeal of the Secretary-General of the Islamic Conference for an immediate ceasefire and, in connection with the consultations put in hand by Mr Waldheim, Secretary-General of the United Nations, declare themselves ready to support any international initiative likely to promote a political settlement of the dispute.
4. They recall the capital importance for the international community of freedom of navigation in the Gulf, which it is imperative not to infringe.
5. They decide to continue to follow closely developments in the situation and they hold themselves ready to support the search for a solution.

CONFIDENTIAL

01-584 7141-6

12
EMBASSY OF THE
REPUBLIC OF IRAQ

21, QUEEN'S GATE,
LONDON SW7 5JG



The Ambassador of the Republic of Iraq presents his compliments to the Foreign and Commonwealth Office and, upon instructions from his Government, has the honour to enclose herewith, the Arabic and English texts of a message from H.E. Dr. Sa'doon Hamadi, Minister for Foreign Affairs of the Republic of Iraq, to the Right Honourable the Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, on the occasion of the forthcoming European Summit meeting in Luxembourg on 1st-2nd December, 1980.

The Ambassador of the Republic of Iraq would be grateful if the aforesaid message is submitted to the Secretary of State.

The Ambassador of the Republic of Iraq avails himself of this opportunity to renew to the esteemed Foreign and Commonwealth Office the assurances of his high consideration.

24th November, 1980.



CONFIDENTIAL

CONFIDENTIALEMBASSY OF THE
REPUBLIC OF IRAQ21, QUEEN'S GATE,
LONDON SW7 5JG

24th November, 1980.

The Rt. Hon. The Lord Carrington, KCMG, MC,
Secretary of State for Foreign and Commonwealth Affairs,

25 NOV 1980

On the occasion of the convening of the meeting of the Heads of State and Government and relying upon the happily existing relations of friendship and cooperation between our two countries, I am pleased to send to Your Excellency this note which comprises the most important points that my Government would like to reiterate for the purpose of explaining my country's posture concerning the conflict with Iran.

- 1- When the Islamic Republic was established in Iran, the Government of the Republic of Iraq welcomed the new regime from the very early days in every sense. On 5th April, 1979, the President of the Republic of Iraq addressed to Khomeini a telegram of congratulations. Official contacts were established with the Bazargan Government, including an invitation to visit Iraq to discuss bilateral relations and basis for mutual co-operation. Although Prime Minister Bazargan was co-operative and tried to strengthen bilateral relations between Iran and Iraq, but all efforts to that end were frustrated by Khomeini.
- 2- After the resignation of Prime Minister Bazargan, Khomeini reached the point of unmasking the true intentions of his Islamic Revolution by deciding to export it to Iraq and the Arab Gulf region. Under his auspices, and with his blessing, a reactionary and a sectarian party, namely Al-Da'awa party which means the " Call Party " was organised with the objective of overthrowing the Iraqi Government through subversion, sabotage and terrorism. For that purpose, the so-called Jondi El-Imam (The Imam Soldiers) were recruited in Iran and from amongst Iranian residents in Iraq as well as first generation Iraqis of Iranian origin, acts of terrorism and sabotage of mounting magnitude were committed by the said militants in the central and southern parts of Iraq.

CONFIDENTIAL

As a result, many innocent lives were lost. The Terrorist acts even included attempts to assassinate high Iraqi officials. All those acts were directed from Qom, as daily instructions were issued to Al-Da'awa agents through Khomeini's Broadcasting stations from Tehran, Qasr Shirin, Ahwaz, Abadan and Kurdistan. Those stations also issued instructions to manufacture local bombs for use in killing innocents citizens. The Iraqi security forces seized considerable amounts of money, arms, bombs, poisons and explosive materials in the hideouts of the said criminal group.

In all those incidents, Iranian were caught who fit the description of Jondi El-Imam. Iraq reacted to those acts of terrorism by expelling Iranian residents in the interest of internal security.

- 3- It is worth noting that, parallel with the acts just mentioned, the Barazani followers—now harboured and supported by Iran—Began to commit similar acts in the northern part of Iraq. In addition, the Khomeini authorities began to prevent the the return of Iraqi Kurds from Iran to Iraq, and to prosecute any remnant of families when some members of families had succeeded in returning to their homeland.
- 4- The acts referred to above were accompanied by a formidable public media propaganda campaign unprecedented in its fanatical and sectarian religious overtones. Iraq, in fact, was not alone in witnessing such acts. Similar actions were attempted in Kuwait, Saudi Arabia, Bahrain and The United Arab Emirates. Khomeini's scheme through the so-called Islamic Revolution was to destabilize the region through inciting religious sectarian strife, a medieval ideology unacceptable to Iraq. Iraq's concept is secular in which affairs of state and religion are clearly disting. Iraq is bound to stand against Khomeini's theories and practices in defence of its security, well-being and independence. Otherwise, what inherent hostility could Iraq possibly have against Iran or Khomeini had it not been for the most dangerous of all forms of interference in internal affairs ?

- 5- The present conflict between Iraq and Iran should be looked upon in its proper perspective, otherwise no viable solution would be likely to emerge. The problem is neither new nor simple. It goes back over 460 years of History. It is not a mere border problem or a minor conflict over navigational rights. It is much wider than that. Historically, it is established that since 1520 , Eighteen Treaties have been concluded by the " Persian State" with its western neighbours on its relations therewith , including the question of borders, only to be terminated by the said state, whether by word or by deed. We have become convinced that the policies and actions of the successive regimes in Iran, regardless of their shape or colour , are clearly those of territorial expansionism. Those policies have always followed the same pattern: First, an Iranian Allegation, then a Denial of Legal Obligations, to be followed by a new Legal Instrument designed to secure a territorial gain for Iran, then the same sequence repeating itself.
- 6- The Algiers Agreement of 6th March, 1975, was no exception to that pattern. It will be recalled that the political situation in the region during the period prior to that date witnessed the emergence of the Shah in Iran as the policeman of the region. The expansionist plans and pretensions of the Shah were met by Iraq with a firm adherence to sovereignty, full independence and non interference in the internal affairs of states. Evidently, neither ideologically, nor pragmatically did Iraq fit into the picture. Hence, the reactionary rebellion of Barazani, behind which the Shah and Israel put their moral and material support, was adopted as the means for the solution. The Idea was to disrupt Iraq's National unity in order to overcome its resistance. The Iraqi people valiantly fought against the rebellion. When a new factor emerged in relation to the balance of the military situation. Namely the October 1973 war, Iraq decided to seek a political settlement with Iran through peaceful means with a view to creating the appropriate conditions that would enable the Iraqi forces to participate in the battle against Israel with their Arab Brethren.

Page No. 4.

So, when the late president of Algeria, Houari Boumedienne offered to mediate, Iraq accepted.

- 7- Against that political background, the Algiers Agreement was negotiated and concluded in the form of a package deal. It had both political and juridical aspects. The Agreement was concluded with a view to reaching a final and permanent solution to all the problems existing between the two countries. The arrangements agreed upon (which included definite demarcation of Land frontiers according to past legal agreement between the two countries, the thalweg line as a frontier in Shatt Al-Arab and strict security of borders) were in application of the principles of territorial integrity and inviolability of borders and non-interference in internal affairs. It is to be noted that the most fundamental obligation which the two parties assumed and which indicated the package deal nature of the agreement was paragraph 4 thereof, in which the parties considered the three elements of the arrangements agreed upon as integral elements of a comprehensive solution and , hence any impairment of any of their components shall naturally be contrary to the spirit of the agreement.

- 8- The technical details of the Algiers Agreement were worked out in a treaty, three protocols and a number of agreements. Upon their entry into force in 1976, Iran acquired sovereignty over half of the Shatt Al Arab, hence securing an early advantage. In return, Iraq did not receive the land areas that Iran had trespassed on contrary to its international obligations. This was the situation when the Shah was toppled from power. Despite the relatively long period of grace given to the new regime in Iran to fulfill its international obligations by completing the process of the return of Iraq's territories, the said regime instead displayed Iran's intentions of territorial ambitions and expansionism. Declarations began to emanate from official circles in Iran that Iran no longer considered itself bound by the Algiers Agreement, and this went parallel with Khomeini's destabilization through terrorism scheme mentioned above.

CONFIDENTIALEMBASSY OF THE
REPUBLIC OF IRAQ21, QUEEN'S GATE,
LONDON SW7 5JG

Page No. 5 .

9- Iraq persisted in its efforts through the diplomatic channel to secure a renewed recognition from Iran of the Algiers Agreement. But all those efforts went in vain. The turning point was reached when the Iranian Authorities resorted to military force against Iraq when Iranian terrorism failed to secure its ominous objectives. The border areas witnessed continuous shelling.

To mention but a few examples, there were more than 15 intensive Iranian bombardments between 26th August, 1979, and 3rd June, 1980, most of which originated from the Iraqi Lands withheld by Iran. As from the 4th of September, the Iranian military forces began to direct concentrated and continuous shelling on Iraqi towns like Khanaqin and Mendeli, as well as other border areas. During the period immediately following that date, Iraq exerted maximum self-restraint, falling back on reminding Iran of its obligations under international law including the 1975 Agreement. This was done in three diplomatic notes delivered to the Iranian Charge D'Affaires in Baghdad on the 7th, 8th, and 11th of September, successively.

Consequently, Iraq was left with no choice but to reassert its rights under international law by taking possession of its lands. In response to the intention of the Iranian Government, which it had made clear by word and deed, to terminate the Algiers Agreement of 6th March, 1975, the Government of the Republic of Iraq decided to consider the said Agreement as terminated on the grounds of the provisions of paragraph 4 thereof, to which reference is made earlier.

10- In announcing that decision on September 17, 1980, Iraq strongly emphasized that it had no territorial ambitions in Iran. Moreover, Iraq openly declared that it had no intention whatsoever of waging war on Iran or extending the scope of the conflict beyond the limits of defending sovereignty and legitimate rights. The response of the Government of Iran to this legitimate position was to escalate the situation to total war through indiscriminate hostile acts involving the use of force against Iraqi and foreign vessels in Shatt Al Arab, Civilian centres and economic installations in Iraq.

CONFIDENTIAL

In this connection again, Iraq exerted much self-restraint. From the 17th till the 22nd of September, the Iraqi military forces did not stop beyond the limits of defending Iraq's sovereignty and legitimate rights. Nevertheless, the Iranian aggression continued unabated.

Consequently, the Government of the Republic of Iraq was left with no choice but to direct preventive strikes against military targets in Iran . That position was adopted as from 22nd of September, 1980. The measures just indicated have been adopted by Iraq in the exercise of its lawful right of self-defence .

- 11- It is by now quite well-known that Iraq did not start the present conflict with Iran. The war was started, and forced upon Iraq, by Iran.

While Iraq did not fail to put its case clearly before the competent organs of the United Nations, it has cooperated from the outset with the security council. Iraq's response to the council's resolution 479 (1980) of 28th September, 1980, was prompt and positive. Iran, however, officially rejected the said resolution. Moreover, in response to Islamic conference goodwill mission, Iraq offered a unilateral cease-fire from 5th to 8th October, which actually went into effect on Iraq's part. But Iran's response was a large-scale attack on land and sea and in the air. In addition, Iraq has not failed to respond positively to the initiative of the group of non-aligned countries.

- 12- The position of the Republic of Iraq on the present conflict has been clearly stated on numerous occasions inside and outside the United Nations. The latest expression of that position was contained in the letter dated 24th October, 1980, from the Minister for Foreign Affairs of Iraq addressed to the Secretary-General and circulated in document S/14236. The said letter recalled once again that Iraq does not have any territorial ambitions in Iran and reaffirmed that Iraq does not desire anything but the restoration of its sovereignty and rights with effective guaranties.

On the basis of the considerations and facts contained therein, and from a position of responsibility and in order to reaffirm the principles of right and justice, the letter concluded that " The only possible, logical and practical resolution of the present situation which would not undermine the interests of either party is one which includes a cease-fire and immediate negotiations between them under the auspices of the Secretary-General of the United Nations with the goal of achieving a final solution to the conflict, by demarcating the frontiers between the two countries in a final manner, and the withdrawal of both parties from the territories and waters which do not fall within their territorial boundaries according to the frontier line. " specifically, on the question of withdrawal, the letter said the following:

" On the basis of military considerations and topography there may be better positions forward for defensive purposes but there are none backward. Consequently, no partial or total withdrawal should be practically contemplated unless it is supported by the achievement of the following:

- 1- The recognition by Iran of our sovereignty and rights which are in harmony with international law and custom, and its reaffirmation of the principle of the inadmissibility of her acquisition by force of Iraq territories and those of the neighbouring Arab States in the Arab Gulf and that this should be in word and deed.
- 2- The withdrawal should be guaranteed by practical arrangements which would make a surprise Iranian military aggression against Iraq materially impossible. In further clarification, we wish to point out that there is no longer any border agreement which delimits the frontiers between the two countries with the exception of the protocol for the delimitation of the turco-persian frontiers signed in 1913, the views of Iraq and Iran regarding that protocol notwithstanding.
- 13- At this juncture we should like to emphasize the importance of the fact that Iran's expansionist designs should not remain uncurtailed.

CONFIDENTIAL

01-584 7141-6

EMBASSY OF THE
REPUBLIC OF IRAQ

21, QUEEN'S GATE,
LONDON SW7 5JG

Page No. 8 .

Its continued aggressive occupation of the three Arab Islands (Abu Moussa, The Greater Tunb, and the Lesser Tunb) in the Arabian Gulf since 1971 serves to undermine, not only the security of Iraq, but the security and peace of the Arab countries of the region as a whole. In any eventually settlement of the conflict, therefore, it is imperative, in the interest of avoiding any future conflict, that the question of the Arab Islands be settled once and for all through effective Iranian withdrawas from them.

14- Iraq does not stand for war, nor does it believe in the use of force in international relations. Iraq, as its record proves and particularly in its frontiers relations with Iran, has always adhered strictly and honourably to the letter and the spirit of its international commitments. But at the same time Iraq does not accept any form of threat or aggression against sovereignty and dignity.

Hoping that this note has elucidated my country's posture concerning the conflict with Iran, I avail myself of this opportunity to express to Your Excellency my highest consideration.

Sa'doon Hamadi

Minister of Foreign Affairs of the
Republic of Iraq

CONFIDENTIAL

CONFIDENTIAL

EHG(L2)(80)16

ANNEX C: EAST/WEST RELATIONS (INCLUDING AFGHANISTAN)

POINTS TO MAKE

GENERAL

1. Russians sought before US Presidential Election to blame the United States for difficulties in US-Soviet relations focussing on non-ratification of SALT, TNF, and US policy in Middle East. They seem to be adopting a wait and see approach to Reagan, while expressing cautious hopes for constructive bilateral relations.
2. Russians still interested in detente as they define it because of its economic and political benefits (trade, credits, arms control agreements) but will not let this stand in way of more important national interests (eg Poland). Harder Soviet East-West line is reaction to continuing criticism over Afghanistan and anxiety about Eastern Europe.
3. We shall maintain distinction between our relations with Soviet Union before and after Afghanistan. East European countries not to blame. British Ministers have visited all of them during 1980.
4. Glad that procedural problems have been resolved in Madrid, but regret it took so long to reach agreement. Look forward to constructive meeting.

POLAND

5. In Poland, Supreme Court decision on 10 November on registration of 'Solidarity' trades union has reduced tension in short term, but continuing risk of further confrontations between Party and independent unions. Party remains demoralised and economic problems are severe.
6. Russians appear content for time being to leave it to Polish authorities themselves to try to resolve problems. They must be aware of costs of armed intervention (we have made clear it would mean an end to detente) but that would not deter them if Polish authorities were unable to control what Russians saw as fundamental challenge to Communist system in Eastern Europe.

/7. (If raised)

CONFIDENTIAL

7. (If raised) We are giving careful consideration to Polish requests for economic assistance.

8. (If statement by European Council is raised). Not in favour of European Council statement on Poland. Have emphasised that matters must be resolved by Poles themselves without outside interference. Any statement that went beyond simply rehearsing this point would risk looking like an attempt by the EC to interfere. But President of Council could make point about non-interference to press afterwards if asked whether Poland has been discussed.

AFGHANISTAN

9. Afghanistan remains a liability for Russians whilst international pressure continues and resistance effort is maintained.

10. UNGA debate served its purpose. Need now to encourage continuing pressure through 1981. We should encourage Non-Aligned Countries not to compromise at their January New Delhi meeting.

11. Key to continuing pressure is Pakistan. West should give what support it can. May need to do more for refugees if numbers continue to increase.

FOOD FOR POLAND : See Appendix 1.

CONFIDENTIAL

BACKGROUND (All can be freely used)

GENERAL

1. Warsaw Pact Foreign Ministers meeting in October issued communique which included hard line passage blaming West for increase in international tension, echoing sharply anti-American and anti-Western remarks of Soviet leaders over recent months. But it reiterated a commitment to principles of detente as expressed in Helsinki Final Act and supported Romanian request that next CSCE meeting after Madrid should be in Bucharest, thereby implying that CSCE process would continue.
2. Soviet reaction to the Reagan victory has been satisfaction at humiliating scale of Carter's defeat and cautious expressions of hope for constructive bilateral relations during Reagan Presidency. At Kremlin banquet for President Machel of Mozambique of 17 November, Brezhnev said the Soviet Union would react positively to any constructive moves by the new Administration.
3. Agreement was reached on 14 November on agenda and procedures for Madrid main meeting. Preparatory meeting, which lasted almost ten weeks, had failed to reach agreement on these points in face of Warsaw Pact opposition to adopting structure employed at Belgrade review meeting.
4. The compromise text adopted, while not ideal, effectively preserves West's interests. It permits review of implementation to continue until Christmas break, and drafting of document on presentation of proposals should act as constraint on early substantial discussion of these.

POLAND

5. We have told Poles we shall give sympathetic consideration to requests for economic assistance but have made no commitment on details. Poles have made approaches to a number of other Western countries, including US, France, FRG, Italy, Belgium, Sweden, Norway, Austria and Japan.
6. Lord Carrington warned the Soviet Ambassador on 10 November that internationalisation of the Polish crisis would spell the end of detente.
7. At the meeting of foreign ministers in Brussels on 25 November to prepare the European Council M. Francois Poncet suggested that it might be appropriate for the European

/Council

Council to issue a statement on Poland. Netherlands opposed this suggestion. We would almost certainly want to propose a statement by the Nine if a Soviet intervention appeared imminent. But this is not yet the case.

AFGHANISTAN

8. Pakistanis and others made effective and tough contributions to UN Debate but Russians dismissive of all proposals for settlement other than those of Babrak Karmal Regime.

9. Next few months could present various dangers: Russians might decide to increase military pressure before new American Administration takes office; they may intensify efforts to win Non Aligned support prior to New Delhi meeting.

10. Any continuation in the flow of refugees into Pakistan will probably necessitate additional appeal by UNHCR.

CONFIDENTIAL

EHG(L2)(80)16

Appendix 1 to Annex C

FOOD FOR POLAND

INTRODUCTION

1. The Commission have been asked to produce suggestions about how Community food could be made available to Poland.

OBJECTIVE

2. To avoid commitments being made by Community, while expressing sympathy and political support for Poles.

POINTS TO MAKE

3. Have understanding for Poland's situation. But not easy to see how Community as such can help.

(If necessary) Commission ideas will need careful study.

4. (If raised) Special export refunds for Poland could set undesirable precedent for Community policy on food exports. Poland in any case still likely to require concessionary credit to finance purchase of even specially subsidised food. This would have to come from individual Member States.

CONFIDENTIAL

ESSENTIAL FACTS

1. The Poles are short of the sort of food of which the Community has considerable surpluses (in particular cereals). But they have very little hard currency with which to pay for it. The French suggested in the margins of the Political Cooperation ministerial meeting on 24 November that the Community should look at this question. The Commission were asked to investigate ways of helping the Poles, perhaps on a 'lend/lease' basis, and to make their preliminary conclusions available in time for discussion at the European Council.

2. Two suggestions which may be made are:

(a) to apply extra large export refunds to food exports to Poland; and

(b) to extend concessionary credit to Poland to enable her to purchase food.

3. The MAFF see several disadvantages to extra export refunds. Such a system would entail extra CAP expenditure; it would also open the Community to criticism from other food exporters for subsidised food exports to below world market prices, although the US, Canada and Australia would probably accept the political argument for doing so; it would represent an adaptation of the mechanism for exporting agricultural surpluses, which could be used by the French in their efforts to institutionalise a long-term export policy in the CAP. There is no precedent for granting special export refunds except for economic reasons (eg the need to dispose of large intervention stocks).

CONFIDENTIAL

4. The provision of credit is a matter for national institutions and does not fall within the competence of the Community. Prior to the recent Polish request for economic assistance the UK had already agreed a certain amount of credit which the Poles are using to buy barley (the only foodstuff which we have available to export, apart from potatoes). But we have not yet reached a decision on the package of requests for economic assistance now put to us by the Poles.

5. (Not for use) We are discussing possible Western responses with a number of Poland's main Western creditors. This does not include all our Community partners.

EHG(L2)(80)16

Appendix 1 to Annex C - Corrigendum

28 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

FOOD FOR POLAND

Corrigendum to Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. The Commission have produced suggestions about how EC food could be made available to Poland. We understand that they are:

- a. special export refunds applicable only to Poland;
- b. some form of lend/lease;
- c. sales from intervention stocks at special prices, ie lower than usual subsidised export prices.

2. The Commission are understood to have rejected a. and b. and are expected to propose c. C also seems to us the best option entailing the fewest objections.

OBJECTIVE

3. To support a general consensus in favour of c.

POINTS TO MAKE

4. (If raised). Special export refunds for Poland would set undesirable precedent for Community policy on food exports.

5. (If raised). Lend/lease (an idea of Mr Jenkins). Difficult to see how it would work, Could not take a view unless full opportunity to consider operational and financial aspects.

CONFIDENTIAL

6. Sales from intervention stocks provide means of helping Poland in her uniquely critical situation. Must be presented as one-off operation which cannot be regarded as precedent for the future.

7. Our understanding is that a major priority for the Poles is grain. Any arrangements should take account of this priority.

8. The detailed arrangements will need careful scrutiny.

9. The operation of this proposal will depend on credit being available to Poland - a matter for individual member states.

ESSENTIAL FACTS

10. The Poles are short of the food of which the EC has considerable surpluses, especially cereals for both bread manufacture and animal feed. They also have an urgent political requirement for meat since they have introduced meat rationing and may not be able to provide the promised amounts.

11. The Commission's order of priority for disposal of intervention stocks is understood to be, 1. beef, 2, cereals, 3, butter. The UK has a national interest in selling barley to Poland. Credit to cover some 400,000 tonnes in 1980 is virtually exhausted. The Poles are interested in a further 350,000 tonnes provided credit is available.

12. Any of these proposals will represent an additional gross cost to the Budget. It is impossible to forecast the net effect. In some cases there might be savings to FEOGA on intervention costs. The provenance of Community funds is not likely to come up at the Council although it is likely to be discussed subsequently. If, as the Commission appear to be suggesting, the sales are to be

/handled

CONFIDENTIAL

CONFIDENTIAL

handled through Management Committee procedures, they would be a charge on FEOGA.

13. See Annex for illustrative hypothetical costs.

14. Although the current proposal might open the EC to criticism from other food exporters (especially grain exporters) USA, Canada and Australia at least might be reconcilable to the measure, given the unique political situation.

15. Despite UK disavowal, the proposal will represent an adaptation of the mechanism for exporting agricultural surpluses which could be used by the French in their efforts to institutionalise a long-term export policy in the CAP.

16. This is part of a much wider picture. Poland's economic plight is serious. She is seeking financial help from the West, of two kinds: some form of debt relief; and continued export credits and other loans (including food credits). France has taken the lead in organising private meetings of the major creditors. (Not all the Nine know this.) Some form of multilateral rescheduling or refinancing of Poland's accumulated debt seems very likely. Meanwhile no individual country wants to get out ahead. UK Ministers have not yet agreed their line: OD on 10 December will decide this, leading to another creditors' meeting in Paris on 11 December.

17. Poland cannot afford to pay for this food, even at a subsidised price. Export credit will be needed. There is no prospect of this being repaid in the next few years. This would therefore represent a further instalment of UK bilateral assistance to Poland in advance of a multilateral package.

CONFIDENTIAL

EHG(L2)(80)16

ANNEX D

EUROPE/UNITED STATES RELATIONS

Points to Make

1. New administration in Washington will offer a chance to put relations between Europe and the United States on a new and more satisfactory footing. No point in raking over past, but clear that there have been faults on both sides and that unnecessary misunderstandings have arisen. Suggest that Europe base itself on the following principles:
 - a. The United States must understand that it is not a part of the decision making process in Europe. It is Europe's closest ally, but Europe makes its decisions independently.
 - b. Mutual confidence depends on mutual information. Europe must not present the US with faits accomplis and vice versa. Each must take account of the other's views in establishing its own independent position.
 - c. Europe should therefore use all available means to maintain close contact with the USA, including:
 - i. Bilateral contacts (eg Chancellor Schmidt has recently returned from the United States).
 - ii. Full use should be made of the established "Gymnich" procedures. It should be automatic that when the Nine establish a position on an issue, they inform the United States. There should be regular contacts after all meetings of Ministers or Political Directors.
 - iii. The Commission's excellent arrangements for

/rapid

rapid consultation with the United States on trade problems should be maintained and developed. (See brief no 4, Problems of Industry and Trade.)

- iv. The useful practice developed in Washington of briefing Ambassadors of the Nine on important aspects of US policy (Linowitz has briefed recently on the Middle East) should be encouraged.

2. Using all of these means Europe should take early opportunities to brief key members of the new administration on important European policies, eg on the Middle East and on the Proposal for a European Disarmament Conference.

3. But relations between Europe and the United States will only be balanced and successful if Europe can speak with one voice. If Europe and the United States are to be "2 pillars", the European pillar must match the US pillar in coherence and strength. UK attaches importance to developing European positions and to improving effectiveness of Political Cooperation. Hence proposals put forward by Lord Carrington at Hamburg on 17 November.

BACKGROUND

1. The only firm prediction which can be made about President-elect Reagan's foreign policy is that it will be more hawkish in tone than that of his predecessors. How much more will depend largely on whom Mr Reagan appoints to his Cabinet and to the White House.

2. The former Treasury Secretary, Mr George Schultz, and Senator Henry Jackson have been tipped as possible Secretaries of State. General Alexander Haig seems likely to get some position; as do Dr Kissinger, his former deputy Mr Brent Scocroft, and the former Secretary of Defence, Mr Donald Rumsfeld. Mr Richard Allen is still tipped to succeed Dr Brzezinski. Definite announcements may not come until the end of November or even later.

/3.

CONFIDENTIAL

3. In the White House President-elect Reagan has announced that Mr James Baker will be Chief of Staff, responsible for directing the functions of the White House staff, including Congressional relations, administration, press relations and personnel. Mr Baker, a 51 year old Houston lawyer, was briefly Under-Secretary of Commerce under President Ford before becoming Mr Ford's campaign manager in 1976. He was George Bush's campaign manager this year. After the Republican convention, he was taken into the Reagan campaign organisation, where his professionalism and tactical and managerial skill quickly impressed Governor Reagan and gained him entry into Mr Reagan's inner circle of advisers. His appointment is seen as recognition of his competence and as an indication that the Reagan White House will not be run by an exclusive California mafia. Mr Reagan has also announced that Mr Meese will be Counsellor to the President, with Cabinet rank, responsible for overseeing both the national security and domestic policy staffs. He will also be a principal spokesman on policy. Mr Meese is a law professor from San Diego. He was Mr Reagan's Chief of Staff when the latter was Governor of California and his appointment to a senior White House position was regarded as a foregone conclusion. Both Mr Meese and Mr Baker will be members of the National Security Council.

4. Mr Reagan will wish at the outset of his term to strike a distinctive note in his conduct of relations with the Soviet Union while professing belief in bipartisanship. Firmness and consistency of approach will be the aim. The super-power relationship will be restored as the central preoccupation of US foreign policy. Wider global perspectives will be viewed through the lens of the East/West confrontation. The commitment to regain military superiority is an important feature of the Republican Party Platform. But it is impossible to say how it will be pursued in practice.

5. In principle the Reagan administration will continue to find a place for SALT in relations with the Soviet Union. How much this counts for in practice will depend on the balance of internal debate in the USA, Soviet behaviour globally (linkage), and /the degree

the degree of flexibility shown by Moscow on arms control.

6. The administration will seek to tighten and widen controls on civil technologies with a military application. Election pledges to lift the grain embargo may be qualified in practice, but for sales of all other US agricultural products the free market may prevail. A review of other fields of cooperation is on the cards, to ensure strict reciprocity.

7. There is impatience with the Allies in the Republican camp. This could cause difficulty if the administration is misled into believing that Alliance problems are only a relic of uncertain Carter leadership and can be expected to vanish once the firm smack of the new administration makes itself felt. Republicans may nourish exaggerated expectations of what can be achieved in the name of the Alliance solidarity, particularly in regard to problems outside the NATO area, and where there are differences of interest. Equitable burden-sharing of NATO's defence effort and a wish to see Europe take up more of the slack as America moves to protect interest in SW Asia will continue to be high on the agenda.

8. The "Gymnich formula" is an agreement reached by Foreign Ministers in 1974 on consultations with the United States. This followed the strains in Europe/US relations during Kissinger's "Year of Europe" in 1973. The agreement is as follows (unofficial translation):

"As regards consultations by the Nine with friendly and allied States through the Presidency, the Ministers agreed to proceed on a pragmatic, case by case basis. If one partner raises the question of consulting a friendly or allied State, the Nine will discuss this and, following a consensus, authorise the Presidency to proceed on the basis of the consensus."

Interpreted strictly, this formula amounts to no more than that if all the Nine agree to consult the United States, the Presidency shall do so. In practice most of the Nine during their turn in the Presidency have used the formula as a fig

CONFIDENTIAL

leaf to cover thorough-going exchanges with the United States without seeking prior consensus among the Nine.

CONFIDENTIAL

ANNEX E

KOREA : KIM DAE JUNG

OBJECTIVES

1. a) To agree to a high level démarche in the name of the Nine in measured terms immediately after the Supreme Court reaches its verdict, assuming that it upholds the death sentence;
b) to resist any idea of sanctions; and to resist any proposal for a statement by the European Council.

POINTS TO MAKE

1. There is Parliamentary and press interest in the UK, but clearly less than in some Member states.
2. We fully support need for immediate démarche if Supreme Court upholds death sentence. Should be in measured terms and confidential if it is to have any chance of success.
3. Not appropriate for European Council to issue statement ; some merit in confirming at appropriate moment that démarche has been made.
4. Sceptical about desirability of démarche being in name of Heads of State and Government. Risks embarrassment if rebuffed [if pressed: Agree to associate self with an appeal if this is consensus view].
5. Sanctions in event of execution not an option we would favour. If imposed, what criteria would be used to decide when to lift them? No sanctions taken against Pakistan following Bhutto's execution, despite much greater public concern, at least in UK.

CONFIDENTIAL

BACKGROUND

1. Kim Dae Jung, a prominent South Korean opposition politician (who ran against President Park in 1971, subsequently went into exile, was kidnapped by the Korean CIA in Japan in 1973 and taken back to and imprisoned in Korea), was re-arrested this summer for his alleged involvement in serious disturbances centred in Seoul and the southern city of Kwangju. He was tried by a military court (Korea is under martial law) with other defendants in August/September on charges including plotting and inciting rebellion. He was sentenced to death in September. The sentence was confirmed by the Military Appeal Court on 3 November. The appeal has now gone to the Supreme Court. The appeal procedure could be completed by early December or could go over into January.

2. The Nine, acting through the Presidency representative in Seoul, have already made a number of démarches to the Korean Foreign Minister, first appealing for a fair and open trial (the Embassies of the Nine, who had observers in court, subsequently concluded that the trial was not fair since Kim and his co-defendants had insufficient opportunity to defend themselves); and, following the Court's verdict, appealing for the death sentence to be commuted. Similar appeals have been made by other governments, notably the United States and Japan.

3. The Political Directors agreed on 18 November that a further appeal at this time (favoured only by the Germans and Danes) would not be appropriate. It was agreed however that further representations by the Nine should be made immediately after a rejection of the appeal by the Supreme Court. While there is no specific provision in the Korean judicial system for the President to review such judgments, the internal and international importance of the Kim Dae Jung case makes it virtually certain that he would do so whether or not Kim makes a plea for mercy. The Nine's representations would therefore take the form of an immediate appeal for clemency to the President.

CONFIDENTIAL

4. The Germans, with some support from others, have argued strongly that the appeal by the Nine should be in the name of Heads of State and Government. We are not convinced that this is necessarily right. It risks embarrassment if the appeal is rebuffed. Nevertheless, if there is consensus in favour we would not recommend that we should stand out against it.

5. The Germans, with little or no support, are also arguing in favour of sanctions against Korea if Kim is executed; they propose withdrawal of Ambassadors and avoidance of high level contacts and other measures. Although clearly relations will cool if the Nine's appeal is ignored, we and others (notably the French) do not favour the German proposal. We have important commercial interests which would be at risk if we associated ourselves with any extreme reaction on the part of the Community. Moreover, it would be difficult to decide when to lift sanctions imposed in such circumstances; on what basis would the subsequent good behaviour of the Koreans be judged? In the case of Mr Bhutto the Community made a *démarche* appealing for his life before he was hanged. No joint Community action was taken after his execution though most members of the Nine made individual statements of condemnation. There was certainly much greater public interest in his case in the UK than there is about Kim.

6. Herr Genscher argued at the Ministerial Meeting of the Nine on 4 November that the European Council should consider making a Statement on the case of Kim Dae Jung. He received no support. We have all along argued that conspicuous public pressure is more likely to harden President Chun's attitude than to save Kim's life. But we agree that the fact that a *démarche* has been made (if the Supreme Court rejects the appeal) should be made public.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80) 17

COPY NO. 1

17 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1-2 DECEMBER 1980

COMMON JUDICIAL AREA

Brief by Foreign and Commonwealth Office

OBJECTIVE

To give no encouragement to any French attempt to revive interest in proposals for a European Common Judicial Area.

POINTS TO MAKE

1. UK not enthusiastic about possibility that draft Convention on Cooperation in Criminal Matters (basically extradition) should come into force with less than 9 ratifications. If others decide to go ahead with such a Convention, they should not count on UK joining; and should therefore not require a high number of ratifications.
2. UK is opposed to further work on Common Judicial Area (ie going beyond extradition). Difficulties in reconciling common law and continental legal systems will make future work increasingly unprofitable. In civil law field especially also danger of duplicating work of other bodies, eg Council of Europe, Hague Conference on Private International Law.

BACKGROUND

Reference

Correspondence between the Lord Privy Seal and the Home Secretary following the Dutch decision

/ 3. President

CONFIDENTIAL

CONFIDENTIAL

3. President Giscard launched the idea of a Common Judicial Area among the Nine at the European Council in December 1977: criminals should not be allowed to profit from the free movement between European countries provided for by the Treaty of Rome. The French later proposed that the Common Judicial Area should include civil law.

4. The Council agreed that President Giscard's proposals should be considered. A group of officials from the Nine met within the framework of Political Cooperation and negotiated a draft Convention on Cooperation in Criminal Matters. The Convention embodies the principle that States should either extradite or consider prosecution of suspected criminals. Initially the draft Convention seemed likely to raise serious problems for the UK. It would have required us to abandon some of the traditional features of our extradition system, eg the establishment of a prima facie case against the fugitive. However, the rest of the Nine proved accommodating on this and other points; and the draft Convention as agreed by officials is now acceptable to the UK. It would still, however, require us to take much wider extra-territorial jurisdiction than exists at present with consequent practical difficulties, because of the need to call witnesses in UK courts. As it stands, the treaty might have some value, but it is by no means essential to us.

5. The UK was ready to sign the Convention at Rome in June; but the Dutch, who had given no hint of this in the course of the negotiations, announced that they would not sign the Convention. Their stated objections to the Convention (and to whole concept of a Common Judicial Area) were that it was unnecessary, that it would reduce the credibility of the Council of Europe (where similar Conventions already exist), and that at the same time it would undermine Community institutions, as it does not give the European Court a role. (The UK is opposed to any such extension of the European Court's jurisdiction.) As it is drafted the Convention can only come into force when all Nine have ratified it. However, it has been suggested that the Convention could be modified so as to come into force with less than 9 signatures. The French

/preference

CONFIDENTIAL

preference is for a Convention which requires 8 ratifications. The Luxembourgers have said they would accept a Convention requiring 7 ratifications. No-one else is keen on this approach. While a Convention among the Nine could have been presented as a measure of European cooperation, it would be much harder to justify (eg to our Parliament) changes in fundamental legal principles for a Convention among a smaller group of countries.

6. The French have given no indication that they are going to raise the Common Judicial Area in the European Council. However, it would be logical for them to do so, since it was the European Council which gave the mandate to senior officials to elaborate the Convention on Cooperation in Criminal Matters. This also represents a last chance for the French to persuade the Dutch to change their minds, since a Convention which did not open for signature before 1 January 1981 would have to be renegotiated with the Greeks.

7. Alternatively the French may press for discussions in the field of civil law. However, there would be little point in trying to create a Common Judicial Area in matters of civil law, since this would duplicate the work of other bodies, eg the Council of Europe and The Hague Conference on Private International Law. So far French proposals in this field have also failed to take account of the existence of separate jurisdictions in England, Scotland and Northern Ireland, and are wholly impractical for the UK.

Foreign and Commonwealth Office
17 November 1980

EHG(L2)(80)17



REF

Foreign and Commonwealth Office
London SW1

17 October 1980

mx/051/1		
RECEIVED IN REGISTRY NO. 12		
21 OCT 1980		
DESK OFFICER	REGISTRY	
INDEX	PA	Action Taken
		JOB 22/10

POLITICAL COOPERATION AMONG THE NINE

One of the matters which will be considered at a meeting of the Political Directors of the Nine in Luxembourg on 27 October will be the future of a draft Convention on cooperation in criminal matters. This Convention, which is mainly about extradition, has been prepared by a working group of senior officials from the Nine on which both our Departments are represented. The purpose of this letter is to seek your agreement and that of colleagues to whom I am copying this letter for the line which I propose that our representative should take at this meeting.

The Convention is at present so drafted that it would come into effect only when all States which are Members of the Community when it is opened for signature have ratified it. It was originally intended that it should be opened for signature at a meeting of Ministers of Justice in Rome on 19 June. The Netherlands, however blocked this at the last minute by saying that they would not be prepared to sign. The Ministers of Justice thereupon asked the working group of officials to consider whether any of the Netherlands objections to the draft Convention could be met by technical changes to the text.

The working group met in Luxembourg last month and established that there were no technical changes that could be made to the text which would enable the Netherlands to change their position. The Netherlands are adamant that they will not

The Rt Hon William Whitelaw CH MC MP 4
Secretary of State for Foreign Affairs

/sign

CONFIDENTIAL



CONFIDENTIAL

sign the instrument. They have, indeed, gone further and made it clear that they are opposed to the whole concept of a European Common Judicial Area as originally proposed by France, and that their intention is to stop any further progress in that direction.

The working group gave some preliminary consideration to the possibility of amending the draft Convention so that it could come into force with fewer than 9 ratifications. But they concluded (rightly, in my view) that any decision to amend the draft in this way would essentially be a political one. Hence the forthcoming consideration of the matter by the Political Directors.

As you know, we were ready to sign this draft Convention in Rome on 19 June. But our support for the instrument had at least as much to do with its 'European' quality as a measure of Political Cooperation amongst all 9 Member States as with its value as an instrument for facilitating extradition to and from this country. Although our European partners were able to accommodate the United Kingdom position in a number of respects in the draft text, ratification of the instrument would not have been possible before Parliament had approved some important changes in our law. In particular, it would have been necessary to make a considerable extension to the scope of our hitherto somewhat limited extra-territorial jurisdiction. While such changes might have been acceptable to Parliament in the context of an agreement on legal cooperation with all our partners in the Nine I am not so sure of this in the case of an instrument that might come into force with only a selection of them.

I think, therefore, that our representative on the Political Committee should emphasise that our support for the draft Convention had been on the basis that it was an instrument reflecting cooperation between all 9 Member States and that we consider that its value would be greatly diminished if it were an instrument involving only some of the Nine. He might go on to indicate that while the United Kingdom would not want its own preference for a 'Nine-or-nothing' Convention to stand in the way of those States which might want to regulate their mutual extradition practice in accordance with the new Convention, the

6.

/UK

CONFIDENTIAL



UK did not expect that it would wish to join a Convention which would come into force with fewer than 9 ratifications. It would therefore be sensible for those States which still wanted the Convention to come into force to choose a threshold number of ratifications which did not depend on ratification by the United Kingdom. We are likely to be in good company in taking this line: the Danes have said clearly that they will follow the Netherlands in not signing the Convention. The Germans and Irish have indicated at official level that they expect to take a similar line to that which I am proposing.

I should, however, record that the French may demand a high number of signatures as the price for their agreement to ask their legislature to ratify the so-called 'Belgian Agreement' signed by all 9 Member States in Dublin last December. That Agreement would enable the Nine to apply the (Council of Europe) Convention on the Suppression of Terrorism between themselves in a modified way; but the Belgian Agreement can itself only come into force when it is ratified by all 9 Member States. I appreciate that my colleagues may have other views about this, but I myself am not yet persuaded that the advantages of bringing the Belgian Agreement into force (even if we could be certain that ratification by the French would achieve this) are such that it would be worth committing ourselves to the present Convention as a quid pro quo. In fact the Belgian Agreement would probably be of more use to the Irish, for whom it represents a passport to respectability, than it would be to us. As between us and the Irish it would add very little to the reciprocal criminal jurisdiction legislation already in force. Furthermore, there is no intrinsic link between the Belgian Agreement and the present draft Convention. Each instrument can stand on its own, and I propose that our representative should again make this point at the forthcoming meeting. It is only the French who insist on seeing the two matters as a package.

The line I propose largely depends on the one hand on our assessment of the value (or lack of it) of the Convention and the Dublin Agreement and on the other on how serious the Parliamentary difficulties might be when we came to give effect to the Convention. Subject to your views on these points I would see advantage in

CONFIDENTIAL



CONFIDENTIAL

making our position clear at the meeting of Political Directors and associating ourselves with those of our partners such as the Germans whose attitude is similar to ours.

I am sending copies of this letter to Quintin Hailsham, George Younger, Humphrey Atkins, Michael Havers and James Mackay and I would be grateful to know as soon as possible whether you and they are content that our representative at the meeting of Political Directors should take the line that I have suggested.

I am also sending a copy of this letter to Sir R Armstrong.

CONFIDENTIAL

CONFIDENTIAL



ECJ(E)

QUEEN ANNE'S GATE LONDON SW1H 9AT

PS/L/S
PS/L/S
Lord Bridges
Mr. Hawley

Mr Cooper

143

Thank you for your letter of 17th October about the draft Convention on co-operation in criminal matters.

I agree with the general line you propose that our Political Director should take, but I do not think we should go quite so far as to suggest that the United Kingdom did not expect that it would wish to join a Convention which would come into force with fewer than nine ratifications. I think you will agree that our principal object should be to keep our options as open as possible, and so on this point I think our position should simply be that as no decision has yet been taken the United Kingdom can not say whether or not it would wish to ratify under these circumstances.

As to the question of a threshold number of ratifications, I think our aim should be to encourage a low number, since this will help to ensure that our options remain open. Otherwise if the threshold were set at, say seven, we might find ourselves under intolerable pressure and our freedom of action curtailed when, in a couple of years time, six member states have fallen in line. There is, of course, logic in a low threshold in any event, since without Community wide status the Convention would become simply an agreement available for the convenience of those member states who want it, and it is difficult to see why those who do want it should be impeded by those who do not. On the other hand it strikes me that we could lose some freedom of action if in pursuing a low threshold we were understood to be saying that whatever the Government's position now, it was unlikely that we would ratify the agreement in the future. I think that some member states might read such an implication between the lines of the argument that the threshold should be low because the United Kingdom's position is at present undecided. But how to achieve our objects at Luxembourg is a matter for you and the Political Director, and I am, of course, entirely happy to leave it to you to judge how best to deploy the arguments so as to keep our options open.

I am sending copies of this letter to the recipients of yours.

The Rt. Hon. Sir Ian Gilmour, Bt., M.P.

8.

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 1

EHG(L2)(80)18

26 NOVEMBER 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

NEW ZEALAND BUTTER: POST 1980 ACCESS

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To pave the way for agreement at the 8/9 December Agriculture Council on terms acceptable to New Zealand.

POINTS TO MAKE

2. Decision long overdue.

3. New Zealand a friend to Europe, a Western ally and a factor for stability in South Pacific. Also good market for EC.

4. But in real terms less prosperous now than in 1973 (see Annex). Economy vulnerable. High level of net emigration. Economic problems due in large measure to difficulty of trading in dairy sector (accounts for 16% of total foreign exchange earnings). Access to traditional UK market already reduced to less than half 1973 level. Major effort of diversification already undertaken. But obvious alternative developed country markets such as US and Japan closed to New Zealand because of domestic agricultural policies of those countries.

5. Community has made commitments to New Zealand (Protocol 18 of Treaty of Accession; 1975 Dublin Declaration). We risk placing ourselves in breach of these commitments unless there is prompt agreement on acceptable arrangements.

6. Not appropriate for European Council to try to settle detailed provisions for post-1980 access. But interests of New Zealand cannot be brushed aside.

7. (If President Giscard tries to link New Zealand access with butter exports to Soviet Union.) These are separate issues.

CONFIDENTIAL

CONFIDENTIAL

BACKGROUND

References: A: Protocol 18 of UK Treaty of Accession
B: Extract from March 1975 Dublin Declaration

11. In July 1980 the Commission put forward a proposal for a new regulation which would have provided for New Zealand's quota to decline from 97,500 tonnes in 1981 to 90,000 for 1984; for the arrangement to run indefinitely thereafter; for a reduced levy and other improvements in the financial arrangements; and for access to be to the Community as a whole, instead of just the UK.

12. This proposal was discussed for the first time by the Agriculture Council at its meeting on 10/11 November. As expected, the main difficulty proved to be the question of duration. Only the UK supported the Commission's wish to provide for open-ended access. All other Member States wanted a limited term and all except France could accept three years. In order to increase French isolation Mr Walker indicated that the UK could reluctantly accept three years also.

13. At the Agriculture Council there was also some erosion of the Commission's proposals on quantities. A number of Member States said they could not accept the 2,500 tonne increase in 1981 over the figure of 95,000 tonnes already agreed for 1980. The Commission therefore indicated that it would reduce the quota levels it was proposing by 2,500 tonnes in each of 1981, 1982 and 1983, i.e., to levels of 95,000 tonnes in 1981, 92,500 in 1982 and 90,000 in 1983. We have not yet accepted this further cutback. Only France and Ireland are arguing for still lower figures. The Irish say they want a 1981 quota of 'less than 80,000 tonnes' and the French 65,000 tonnes.

14. The Agriculture Council agreed that in order to break the deadlock the key issues of quantities and duration should be referred to the 24/25 November Foreign Affairs Council. However France again held out for a one-year term and Germany (hitherto a strong supporter of New Zealand) unhelpfully suggested that under a 3-year arrangement quantities should be set for the first year only and that a decision on subsequent years should be taken only in the light of progress on restructuring.

CONFIDENTIAL

CONFIDENTIAL

15. In the UK the parliamentary position is that in a Scrutiny debate in July the Government accepted an opposition amendment calling for 'permanent access' and 'a quota for 1984 of not less than 90,000 tonnes' (ie the arrangements originally proposed by the Commission). Mr Walker suggested, and colleagues agreed, that acceptance of a new arrangement with a limited initial term could be justified to the House of the following grounds:

'(a) The arrangement has a continuing commitment to import New Zealand butter after the three or four years for which specific quantities will be laid down;

(b) It would have been more damaging to New Zealand to have no arrangement at all and the deal is in the terms which were the most favourable that could be obtained for New Zealand at the time.'

In view of this, it is extremely important from our point of view that any limited term arrangement should be accompanied by an adequate commitment to renewal.

16. The New Zealanders' position is that they would reluctantly be prepared to accept a decision which involves 'a term of at least three years with scope for renewal beyond 1983 and the other elements [of the original Commission proposal] remaining substantially unchanged'. They have confirmed to us that, as the last phrase suggests, they would accept the revised Commission proposals on quantity (starting at 95,000 tonnes in 1981). They have said that they are not ready to accept a term of less than three years. In the very last resort (ie towards the end of December) they would consider accepting a temporary roll-forward of the existing arrangements with no set time limit.

17. There have been hints that the French may in fact be prepared to move to two years, but they have as yet given no clear signal that they are definitely willing to do so. They are no doubt trying to get themselves into a position where they can link post 1981/82 access for New Zealand with restructuring.

18. Officials are urgently considering the tactical options against the possibility that the European Council is unable to reach agreement.

ANNEX

NEW ZEALAND ECONOMY

(a) Extracts from conclusions of March 1980 OECD survey.

'... The present outlook is for little growth in real GDP linked to a persistent current external deficit of about 3 1/2 per cent of GDP, relatively strong inflation and a high but stable level of unemployment ... In the short run the first priority of policy must be to reduce inflation while at the same time - especially in view of the expected deterioration in the terms of trade - ensuring steadier management of the economy than in the past. A major constraint on policy and structural adjustment is the widespread trade restrictions applying to New Zealand's agricultural exports which are inhibiting the growth of the farm sector. As argued in the last survey other countries could thus facilitate adjustment in New Zealand by improving market access and in this regard it is to be noted that some important decisions affecting products vital to New Zealand are expected in 1980 ...'.

(b) Change in real income per capita adjusted for terms of trade in selected OECD countries.

Percentage change from 1973 to 1977 (source OECD) and 1980 (source New Zealand Government statistics)

	<u>1973/1977</u>	<u>1973/1980</u>
New Zealand	-11.5%	-4.7%
France	+11%	N/A
Germany	+ 6.1%	N/A
Italy	+ 7.2%	N/A
UK	- 2.4%	N/A

/(c)

CONFIDENTIAL

(c) New Zealand Government Statistics

	Growth of real GNP per head (1) per cent	Balance of payments (1) (worldwide) NZ \$	Balance of payments (2) with EC NZ \$	Terms of trade (2) 1957=100
1973	2.1	+ 142	+134.5	113
1974	5.1	- 99	-123.6	112
1975	2.2	-1,364	-426.0	78
1976	-1.0	-1,016	-338.3	72
1977	-0.6	- 844	- 93.9	79
1978	-2.3	- 716	-118.2	78
1979	N/A	- 483	- 74.4	85

NOTES: (1) Years ending June

(2) Years ending March

NZ \$1 = US \$0.9783 (average 1979 rate)

PROTOCOL No. 18 — ON THE IMPORT OF NEW ZEALAND
BUTTER AND CHEESE INTO THE UNITED KINGDOM

The following is the text of Protocol 18 to the Treaty concerning the Accession of the Kingdom of Denmark, Ireland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland to the European Economic Community ... Brussels, 22 January 1972.

[See especially Article 5.2]

ARTICLE 1

1. The United Kingdom is authorised, as a transitional arrangement, to import from New Zealand certain quantities of butter and cheese on the following terms.

2. The quantities referred to in paragraph 1 shall be:

(a) in respect of butter for the first five years:

1973,	165,811 metric tons
1974,	158,902 metric tons
1975,	151,994 metric tons
1976,	145,085 metric tons
1977,	138,176 metric tons.

(b) in respect of cheese:

1973,	68,580 metric tons
1974,	60,960 metric tons
1975,	45,720 metric tons
1976,	30,480 metric tons
1977,	15,240 metric tons.

The Council, acting by a qualified majority on a proposal from the Commission, may make adjustments between those quantities of butter and cheese, provided that the tonnage expressed as milk equivalent corresponding to the total quantities laid down for those two products for the year in question remains unaltered.

3. The quantities of butter and cheese specified in paragraph 2 shall be imported into the United Kingdom at a price, the observance of which must be guaranteed at the CIF stage by New Zealand. That price shall be fixed at a level which enables New Zealand to realise a price representing the average price obtained by that country on the United Kingdom market during 1969, 1970, 1971 and 1972.

4. The products imported into the United Kingdom in accordance with the provisions of this Protocol may not become the subject of intra-Community trade or of re-exportation to third countries.

ARTICLE 2

1. Special levies shall be applied to imports into the United Kingdom of the quantities of butter and cheese specified in Article 1. Article 55 (1) (b) of the Act of Accession shall not be applicable.

2. The special levies shall be fixed on the basis of the CIF price referred to in Article 1 (3) and of the market price of the products in question within the United Kingdom, at a level such as to allow the quantities of butter and cheese to be effectively marketed without prejudicing the marketing of Community butter and cheese.

ARTICLE 3

The Council, acting by a qualified majority on a proposal from the Commission, shall adopt the measures necessary for implementing Articles 1 and 2.

ARTICLE 4

The Community shall continue its efforts to promote the conclusion of an international agreement on milk products so that, as soon as possible, conditions on the world market may be improved.

ARTICLE 5

1. The Council shall, during 1975, review the situation as regards butter in the light of prevailing conditions and of supply and demand developments in the major producing and consuming countries of the world, particularly in the Community and in New Zealand. During that review, among the considerations to be taken into account shall be the following:

- (a) progress towards an effective world agreement on milk products, to which the Community and other important producing and consuming countries would be parties;
- (b) the extent of New Zealand's progress towards diversification of its economy and exports, it being understood that the Community will strive to pursue a commercial policy which does not run counter to this progress.

2. Appropriate measures to ensure the maintenance, after 31 December 1977, of exceptional arrangements in respect of imports of butter from New Zealand, including the details of such arrangements, shall be determined by the Council, acting unanimously on a proposal from the Commission, in the light of that review.

3. After 31 December 1977, the exceptional arrangements laid down for imports of cheese may no longer be retained.

CONFIDENTIAL

N.Z. Butter
Ref B.

DUBLIN DECLARATION 1975

The Heads of Government meeting in Council in Dublin on 10 March [1975] underline the importance which they attach to Protocol 18 of the Act of Accession, as regards the relations of the Community with New Zealand, a traditional supplier of dairy products to a substantial part of the enlarged Community.

They invite the Commission to present a report in order to prepare the review provided for in Article 5 of the Protocol and to submit as soon as practicable a proposal for the maintenance after 31 December 1977 of special import arrangements as referred to in that Article. They observe that the institutions of the Community have already carried out certain price adjustments in the framework of the Protocol. In the same spirit the Community, which remains attached to a fair implementation of the Protocol, is ready to review periodically and as necessary to adjust the prices having regard to the supply and demand developments in the major producing and consuming countries of the world and also to the level and evolution of prices in the Community, including intervention prices and in New Zealand taking moreover into account cost developments in New Zealand and trends in freight charges. As regards the annual quantities to be established by the Community institutions in the framework of the special arrangements after 1977 these should not deprive New Zealand of outlets which are essential for it. Thus for the period up to 1980 these annual quantities depending upon future market developments could remain close to effective deliveries under Protocol 18 in 1974 and the quantities currently envisaged by New Zealand for 1975. They note that Protocol 18 provides that the exceptional arrangements for the import of cheese cannot be maintained after 31 December 1977 and that this situation and the problems which may arise from it will be given due attention with appropriate urgency taking into account also the considerations in the following paragraph.

/The

CONFIDENTIAL

The Heads of Government note moreover that New Zealand and the Community together provide the major part of world exports of dairy products. They therefore express the wish that in the same spirit with which the Community approaches the application of Protocol 18, an ever closer cooperation be developed between the institutions of the Community and the New Zealand authorities with the objective of promoting in their mutual interest an orderly operation of world markets. Such a cooperation apart from its intrinsic value should provide a basis from which to achieve in a wider framework the conclusion of an effective world agreement such as is envisaged in Protocol 18.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80) 19 REVISE

COPY NO 1

26 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

EUROPEAN REGIONAL DEVELOPMENT FUND

Brief by the Foreign and Commonwealth Office

OBJECTIVE:

1. To sympathise with the Greeks but to avoid giving commitment.

POINTS TO MAKE

2. Fully understand Greek need to stress economic benefits of accession. Have a common interest in promoting convergence.
3. Our representatives in Brussels are taking part in discussions on the precise quota to be allocated Greece and how existing quotas should be amended to accommodate it. Cannot take a view on the precise quota until these discussions are completed.
4. Provision for Greece should not be at the expense of other less prosperous Member States.

BACKGROUND

References None

5. Community needs to make provision for Greece to benefit from ERDF on accession. Quota section 95% of Fund. Commission proposed 15% quota, with consequent reductions in the quotas of the nine based on relative GDP. Under Commission proposals UK quota would fall from 27.03% to 23.34%.
6. We have argued that provision for Greece must be at the expense of the six more prosperous Member States but have taken no position on the Greek share. Instead we have asked the Commission to justify the figure. The growing consensus in Brussels is that the 15% should be reduced perhaps to 12-13% with the exclusion of Athens from

CONFIDENTIAL

the calculations. The arrangements made for Greece will set a precedent in view of the impending accession of Spain and Portugal. The Greeks raised the question of their quota share with the Prime Minister in September. We have made clear that there is no linkage between this question and any bilateral subjects. We have taken a constructive attitude in considering the Greek Regional Development Programme, and will do likewise with their ERDF applications so that they can receive ERDF assistance as soon as they are eligible.

Affairs

7. The Foreign/Council on 25 November failed to agree on Presidency proposals which would have given Greece 13% and the UK 23.84%. Seven Member States were able to agree but the proposals were blocked by Belgium (on the grounds that they wanted the provision for Greece to be borne linearly by the other Member States) and Germany (because they favoured a Greek quota of 15% and could not accept that an extra provision for Denmark should be borne by France, Germany and the Netherlands). Discussion will continue at Coreper.

FOREIGN AND COMMONWEALTH OFFICE

26 November 1980

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(42)(80)20

COPY NO

1

19 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

PROGRESS TOWARDS EUROPEAN UNION

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To have the European Union Reports noted without discussion.

POINTS TO MAKE

2. No comment on Foreign Ministers and Commission reports on European Union. Assume they will be published as in previous years.

BACKGROUND

References:

- A - November 1976 Declaration of Heads of Government
- B - Foreign Ministers Report on Progress towards European Union [English version not yet received].
- C - Commission Report on Progress towards European Union 1980.

3. When the European Council adopted its Declaration winding up work on the Tindemans Report in November 1976 it asked that Foreign Ministers and the Commission report back to Heads of Government annually on progress towards European Union. The European Council will be invited formally to take note of both reports.

4. The Council's report will have been approved by Member States before the European Council.

/5. There

CONFIDENTIAL

CONFIDENTIAL

5. There is no need to comment on the Commission's report, which is produced on their own responsibility and reflects their own views.

Foreign and Commonwealth Office

19 November 1980

EUROPEAN COUNCIL THE HAGUE 29/30 NOVEMBER 1976

TEXT OF EUROPEAN COUNCIL STATEMENT ON TINDEMANS REPORT:

1. The European Council examined the report on European Union submitted to it by Mr Tindemans at its request, it heard an account given by the Chairman of the work carried out, and approved the general lines of the comments by the Ministers for Foreign Affairs on the various chapters of the report.
2. The European Council implicated its very great interest in the analyses and proposals put forward by Mr Tindemans. It shared the views expressed by the Belgian Prime Minister on the need to build European Union by strengthening the practical solidarity of the 9 Member States and their peoples, both internally and in their relations with the outside world, and gradually to provide the Union with the instruments and institutions necessary for its operation. It considered that European Union should make itself felt effectively in the daily life of individuals by assisting in the protection of their rights and the improvement of the circumstances of their life.
3. On this occasion the European Council had a wide-ranging discussion of the principles which must underlie the construction of European Union over the coming years. European Union will be built progressively by consolidating and developing what has been achieved with the Community, with the existing treaties forming a basis for new policies. The achievement of Economic and Monetary Union is basic to the consolidation of Community solidarity and the establishment of European Union. Priority importance must be given to combating inflation and unemployment and to drawing up Common Energy and Research Policies and a genuine Regional and Social Policy for the Community.
4. The construction of Europe must also make the best use of possibilities for co-operation between the 9 Governments in these areas where the Member States are prepared to exercise their sovereignty in a progressively convergent manner. This form of co-operation in the field of Foreign Policy must lead to the search for a common external Policy.

5. In the light of future developments as defined by the Report on European Union, the Heads of Government, with the intention of establishing a comprehensive and coherent common political approach, reaffirm their desire to increase the authority and efficiency of the Community institutions, as well as the support of the peoples for them, and confirm the role of the European Council as a driving force.

6. On the basis of the conclusions reached by the Ministers for Foreign Affairs, the European Council invites them, and the Commission in the sectors for which it is competent, to report to it once a year on the results obtained and the progress which can be achieved in the short-term in the various sectors of the Union, thus translating into reality the common conception of European Union.

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)20 Addendum
27 November 1980

COPY NO **1**

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

NOTE BY FOREIGN AND COMMONWEALTH OFFICE

PROGRESS TOWARDS EUROPEAN UNION

The attached Report on European Union from the
Ministers for Foreign Affairs to the European
Council is REF B to the Brief.

Foreign and Commonwealth Office

27 November 1980

CONFIDENTIAL

Report
on European Union
from the Ministers for Foreign Affairs
to the European Council

I.

Introduction

If the major decisions taken in the year now drawing to a close are analysed with some measure of detachment, it will be seen that they accord with the aims set by the European Council on 29 and 30 November 1976 when it requested the Ministers for Foreign Affairs to report to it once a year on results achieved and on the short-term progress achievable in the various areas of European Union. These aims are as follows:

- to construct European Union by strengthening the practical solidarity of the nine Member States and their peoples, both internally and in their external relations;
- to provide European Union progressively with the instruments and institutions necessary for its action. Union should also be reflected in everyday life.

Strengthening of the practical solidarity of the nine Member States fits into the context of ever-increasing convergence of the economic performances and policies of the Member States and of the Community, the co-ordination of which must be ensured.

Budget

In this spirit of solidarity the Council, in conjunction with the Commission adopted conclusions on 30 May 1980 regarding the unacceptable situation facing one of its Member States and on 27 October 1980 adopted two Regulations, one instituting supplementary measures in favour of the United Kingdom and the other amending Regulation (EEC) No 1172/76 setting up a financial mechanism.

The Council also undertook on 30 May 1980 to adopt, in parallel with the application of the decisions which would be taken in other areas, the decisions necessary to ensure that a common fisheries policy was put into effect at the latest on 1 January 1981.

In addition the Commission was entrusted with the task of carrying out an examination of the development of Community policies by the end of June 1981 without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, or the basic principles of the common agricultural policy; taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them.

As noted in the Presidency's conclusions at the European Council meeting in Venice, the Community's commitment to implement structural changes is a fundamental pre-requisite, with enlargement in prospect, if the Community is to be able to meet its internal and international responsibilities authoritatively and effectively; if it is to respond to the hopes of the people of Europe who long for ever greater solidarity between Member States in the various areas of political, economic and social activity; if it is to promote greater convergence between the economies and their harmonious development, and reduce inequalities between the various regions and the backwardness of the least-favoured regions; finally, if it is to achieve fully the objectives laid down in the Treaties in complete conformity with the ideals which inspired the farsighted scheme of European unification.

Progress towards European Union involved both defending existing policies and defining new common policies, taking into account the challenges which the Community must meet. This can provide the framework for a large number of decisions.

Sheepmeat

In furtherance of the introduction of common policies for which the Treaties provide, the Council agreed, on 30 September 1980, to the introduction of a common policy on sheepmeat.

On 21 July 1980 the Council adopted the Decision applying for the second time the Decision empowering the Commission to contract loans for the purpose of promoting investment within the Community.

.../...

Regional

On 21 July 1980 the Council also adopted Regulations setting up specific Community regional development projects (quota-free projects) with a view to remedying regional problems connected with the implementation of certain Community policies.

Social Affairs

On the grounds that the Community's response to economic and social problems must be part of an overall strategy aimed in a non-inflationary manner at increasing growth potential, competitiveness and innovation, improving the employment situation and responding to the emergence of new social needs, the Council considered that, in this context, a more co-ordinated approach to employment problems should be arrived at with a view to achieving an employment policy at national and Community level which will reinforce the fight against unemployment. To this end, the Council adopted on 5 June 1980 a Resolution which determined the objectives of Community labour market policy and defined the measures to be taken and the means to be implemented within the framework of such policy.

Steel

The attitude of active solidarity adopted by the Member States when faced with a serious crisis affecting the whole Community, even though individual Member States may be affected differently, is illustrated by the assent which, at the request of the Commission, the Council gave, under Article 58 of the Treaty establishing the ECSC, to the establishment of a system of production quotas for the Community steel industry. The Council took that opportunity to stress the importance it attaches to continued restructuring of the steel industry in the Community.

Energy

Developments in the economies of the Member States depend closely on the way in which they react to the impact of the oil crisis, which is now hitting Europe with full force. The Council discussed this problem on 13 May 1980 and on that occasion adopted

two important Resolutions, one on Community energy objectives for 1990 and on convergence of the policies of the Member States, and the other on new lines of action by the Community in the field of energy. The Council and the Member States hope, by means of these texts, to reduce both the ratio between the growth in GDP and the increase in energy consumption, and the proportion of the Community's energy bill accounted for by oil.

Nevertheless, as noted in the conclusions of the Presidency at the European Council meeting in Venice, it must be stressed that the repetition of increases in oil prices constitutes an obvious threat to international stability. Their effects upon inflation and consequently upon economic expansion, investment, employment and the balance of payments give rise to intolerable burdens for the industrialized regions and even more so for the emergent countries, the latter being confronted with truly insoluble problems of readjustment which can clearly not be resolved by recycling alone.

Summer time, driving licences

In addition to all these major problems, the Community has also applied itself to reflecting European Union in everyday life. The Decisions on summer time and driving licences should be noted in this connection.

Institutions/Three wise men

While progress towards European Union implies the adoption of instruments such as those referred to above, care must also be taken to endow the Union with the institutions necessary for it to function. It was with this in mind that in December 1978 the European Council invited a Committee of "Three Wise Men" to consider the adjustments to the machinery and procedures of the Institutions which are required for the proper operation of the Communities on the basis of and in compliance with the Treaties, including their institutional arrangements, and for progress towards European Union.

The Ministers for Foreign Affairs studied this report and submitted the outcome of their discussions to the European Council, so that it could itself discuss it with a view to taking the appropriate decisions or to giving the Ministers for Foreign Affairs the necessary directives on the basis of which a subsequent position could be prepared.

Many of the problems faced by the Member States and the Community are not peculiar to them. Thus, at the European Council in Venice, given the slow-down in major economic areas, stress was laid on the importance of action to ensure that the risk of a general recession was averted through appropriate international collaboration.

External

With this in mind, the Community has always affirmed its determination to strengthen the open world trading system through joint efforts. The expansion of world trade, the improvement of the international division of labour and sustained economic growth are closely linked and are mutual pre-requisites. The Community has always demonstrated its intention of taking steps against protectionism in international trade and accordingly calls for increased international co-operation and consultation.

It is in this spirit that the Community has continued to implement its policy of open relations with the outside world.

Turkey

As regards the countries associated with the Community, stress should be placed on the reactivation of the Association and the development of relations between the Community and Turkey as agreed at the Association Council meeting on 30 June 1980, and in line with the statement adopted by the Ministers for Foreign Affairs meeting in the context of political co-operation on 15 September 1980.

Lomé

Several countries have acceded to the second ACP-EEC Convention which should shortly enter into force. All the partners in the Lomé Convention were receptive to the fact that one of the first international acts of independent Zimbabwe had been to request accession to this Convention, thereby marking a clear preference for this type of co-operation between Europe and the ACP States.

The Community has also pursued an active policy of relations with third countries.

EC/ASEAN

Thus, the EEC-ASEAN Co-operation Agreement was signed on 7 March 1980. This Co-operation Agreement, the initiative for which was taken at the first ministerial meeting between the EEC and ASEAN in Brussels in November 1978, is the first agreement of this type, with a non-preferential character, made between the Community and a regional group of countries. It covers trade co-operation and economic and development co-operation.

Yugoslavia

On 2 April 1980 the Co-operation Agreement between the EEC and the Socialist Federal Republic of Yugoslavia was signed in Belgrade. This Agreement constitutes the fulfilment of the intentions manifested by Yugoslavia and the European Communities in their Joint Declaration of 2 December 1976, in which they expressed their wish to

.../...

strengthen, consolidate and diversify co-operation between them in their mutual interest. The Co-operation Agreement is of the "sui generis" type, in view of Yugoslavia's position as a non-aligned, European and Mediterranean State which is a member of the Group of Seventy-seven Developing Countries.

Romania

On 28 July 1980, in Bucharest, the EEC and the Socialist Republic of Romania signed two agreements giving a new dimension to co-operation between the EEC and Romania. This co-operation is based on the principle of mutual advantages and obligations but takes fully into account the respective levels of development of the Parties and in particular Romania's membership of the Group of 77.

Brazil

Reference should also be made to the Co-operation Agreement between Brazil and the EEC signed on 18 September 1980. This Agreement, which is intended to replace the 1974 Trade Agreement, introduces a new dimension into EEC-Brazil relations in that it is designed to encourage the expansion and harmonious development of commercial and economic co-operation in general between the two Parties.

Enlargement

The Community is on the eve of expansion for the second time. On 1 January 1981, the accession of Greece to the European Communities will take effect. This accession is doubly symbolic in that, firstly, the Community is embracing a country which has had such a formative influence on the ideas of the whole of Europe. Secondly, the objectives set out in the Treaties establishing the European Communities remain valid today,

as is shown by the fact that other countries aspire to join us to continue our joint endeavour to achieve these objectives.

This has clearly been the case for Portugal and Spain, whose accession negotiations are continuing. With a view to Portugal's accession, an agreement has been reached on pre-accession aid from the Community for that country.

II

[Political co-operation]

EH 9 (L2) (80) 20

REF C

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 754 final

Brussels, 17 November 1980

EUROPEAN UNION

(Commission Report for 1980)

(Communication from the Commission to the European Council
Luxembourg, 1 and 2 December 1980)

COM(80) 754 final

COMMISSION REPORT ON EUROPEAN UNION, 1980

1. This report on the progress of the Community towards European Union is the fourth of its kind from the Commission to the Council and the Member States since the Tindemans Report in December 1975.

2. European Union, to whose establishment the Member States have pledged themselves, remains a Community objective, despite the difficulties which the Community is encountering and the crises it is having to face.

1980 witnessed important and serious developments which, without a strong sense of Community spirit, could have shaken the whole basis of the Community. The solution to the crisis over Britain's budgetary contribution and budgetary problems may in the future be seen as proof of the determination of Member States to continue to move towards European Union, whatever the obstacles.

POLITICAL AND INSTITUTIONAL EUROPE

3. The European Community is seen by the world outside as a coherent political structure playing its part on the international stage. Thus in 1980, a year of serious international tensions, the Member States showed their cohesion, both in their careful elaboration of common positions on external questions within political co-operation, and at major international meetings such as the Venice Western Summit.

4. Internally a feature of the Community's institutional affairs has been the vigour of the European Parliament. The new sense of purpose resulting from the European elections has been translated into the reality of the daily life of a Parliament which has become the forum where all shades of political opinion can be heard on the main Community issues.

The question of the 1980 budget was a major issue in the first part of the year. After the rejection of the draft budget by the Parliament in December, the task of the Council and the Commission was made all the more complicated by the fact that this year's budget was connected with the problems of the British contribution, farm prices and the organisation of the market for sheepmeat.

After the Council session of 30 May the Council was in a position to present a draft budget which the Parliament adopted at its part-session in July. The proceedings on 30 May had produced a solution to the problem of Britain's contribution under which this was to be reduced for the next two years and transfers of funds were to be made through an active policy of structural investment in favour of Britain. Arrangements were also devised for dealing with the problems of farm prices, sheepmeat and fisheries.

In the context of the overall solution the Community agreed to put in hand structural reforms aimed at a more balanced development of those common policies designed to bring about convergence between the Member States' economies and their harmonious development. The Commission was given a mandate to make a study by the end of June 1981 of the scope for adjusting and developing Community policies without calling into question either common financial responsibility based on own resources or the basic principles of the common agricultural policy. This study is to take account of the situations and interests of all the Member States, and to be aimed at ensuring that unacceptable situations do not recur in the future for one or more Member States.

ECONOMIC AND SOCIAL EUROPE

5. The crisis in the world economy inevitably had its impact on the Community, but by and large the Community mechanisms made it possible to withstand or at any rate to mitigate it. Thus the level of productive activity enabled the estimates of the growth in gross domestic product in 1980 to be revised slightly upward, and unemployment to be contained.

6. On the monetary side, despite steadily rising oil prices, the Community reacted fairly well to movements which, had it not been for the solidarity established by the European Monetary System, would have caused major alterations in exchange rates. It took steps to prevent erratic capital movements resulting from the surpluses run by the oil-producing countries, one of its immediate aims being the recycling of this capital or its mobilisation in operations for the benefit of developing countries.

Unfortunately inflation remains worrying, particularly as it is unevenly distributed and could lead later on to balance of payments disequilibria and pressures on exchange rates.

7. Among the Institutions' main concerns remains the creation of the genuine Community-wide internal market which was one of the Community's initial objectives. The Commission has been concerned by developments in the Community in the last few years as regards technical obstacles to trade and has accordingly taken a recent Court of Justice judgment as basis for a new departure in its drive against impediments to the free movement of goods. It expects the Council to reach a decision without delay on its proposed information procedure on technical standards and regulations. It hopes that a joint effort by its own and the Member States' officials will halt the return of protectionism that has been noticeable in recent years and which could eventually result in renewed divisions into national markets.

8. The oil crisis is still weighing very heavily on the Community economy. The Council has made a notable contribution to the launching of a common energy policy by fixing the Community's energy targets for 1990 and agreeing on the convergence of the Member States' energy policies. Another contribution has been its decisions on an energy-saving policy, whose importance in present circumstances hardly needs to be stressed.

In pursuit of its objective of scientific and technical progress, the Community has adopted a new multi-annual Joint Research Centre programme for 1980-83, which provides for the continuation of projects begun under the current programme and which contains in addition a number of new points, several of them closely connected with energy, environment and agriculture policy.

9. The state of the European steel industry this year caused the Community serious concern. When voluntary restraints on sales proved unworkable, the Commission, for the first time in the Community's history, announced a state of manifest crisis and instituted a system of production quotas. It took administrative steps to monitor the implementation of directives issued to the steel enterprises under Article 58 of the ECSC Treaty in order to bring the market back into balance.

10. The common agricultural policy was the focus of attention in the early part of the year. It was in order to influence the CAP that the European Parliament rejected the budget, and it was the CAP that was at the centre of the debate over Britain's contribution. Nonetheless the management of the agricultural and the fisheries policies was pursued this year, once the hurdle of the price-fixing had been cleared. It is obvious, however, that the adjustments which the incoming Commission will be proposing to the Council will be of great importance for the future of this sector.

11. The social situation in the Community has been directly affected by economic developments. With six million unemployed at the end of 1979, a dynamic Community employment policy is of the highest priority. The European Council meeting in Venice strengthened the resolve of the Community institutions to launch such a policy by both cyclical and structural action. It was for example agreed that the employment implications of Community policies should always be assessed when they were being drawn up. To the extent that funds are available every effort is also being made to see that social measures are put into effect in conjunction with the restructuring of certain crisis-hit sectors of industry. Conciliation with the two sides of industry, to which the Council has given fresh momentum, should enable the achievement of certain specific objectives in a number of the particularly sensitive industrial sectors.

EUROPE IN THE WORLD

12. The solidarity of the Community has over a number of years developed more rapidly externally than internally. Whereas in many areas the introduction of common policies is making little progress, the Community continued to turn a dynamic face to the outside world during 1980 and to give the appearance of being well established on the international scene.

The impending accession of three more countries shows that the Community continues to exercise an attraction. The entry of Greece is fixed for 1 January 1981 and negotiations with Spain and Portugal are proceeding, despite public apprehensions to which the prospect of their accession has given rise in some Member States. The Community is nonetheless going ahead with negotiations which cover many questions and which have already enabled it to provide Portugal with immediate financial aid designed to assist the Portuguese economy in meeting the problems of accession.

13. The Community's open policy towards third countries has also led it to strengthen relations with Yugoslavia, and, in another form, with Romania.

The cooperation agreement with Yugoslavia is a new departure in Community/Yugoslav relations, and a particularly important one in the period through which Yugoslavia is passing. The agreement, which is sui generis, is of unlimited duration and takes account of Yugoslavia's position as a European, non-aligned, Mediterranean country belonging to the Group of Seventy-Seven developing countries.

The agreement with Romania on trade in manufactures completes the earlier agreements on textiles and steel products, and covers 90 % of the Community's trade with Romania. The fact that it provides for a Joint Committee gives Community/Romanian relations a dimension which the technical understandings with Bulgaria, Hungary, Czechoslovakia and Poland do not have.

14. The Community has pursued its policy of cooperation agreements with a number of countries further afield. Its agreement with Brazil marks a new stage in relations between the Nine and Latin America : this instrument, an outline agreement on economic and trade cooperation on the lines of that with Mexico constitutes a new dimension in Europe's economic and political relations with Latin America.

15. The Community has continued its endeavours this year to pursue an open and dynamic commercial policy while safeguarding the vital interests of Community industries. Following the GATT negotiations, it embarked on a review of its commercial policy towards the major industrialized countries, of which Japan is one of the most important.

As regards the United States the Community remained vigilant. Those problems which arose - man-made fibres, steel, etc. - were settled bilaterally, and without damaging relations between the two biggest trading partners in the world.

16. As in the past, the Community pursued in 1980 a dynamic policy of aid to the developing countries. The Second Lomé Agreement was ratified during the year by a great many of the contracting parties, and was also extended to include newly-independent developing countries : the accession of Zimbabwe is obviously a political and economic event of great significance given Zimbabwe's importance and recent history. The accession of St Vincent and Vanuatu should also be noted.

EUROPE AND THE EUROPEANS

17. There has been decidedly little progress by the Community this year on matters directly affecting the private citizen. This intermediate area of activity, which is on occasion pursued outside the limits within which the Community normally operates, has doubtless been adversely affected by the gloomy economic situation and a general disinclination to introduce new policies.

However the Council agreed on the introduction of a European driving licence, to be first issued in 1983. The starting date for Summer Time in the countries using it was also finally arranged.

1980 was certainly a good year for the consumer associations, which successfully aroused public opinion over the use of hormones in veal production. This led the Council to agree to draw up Community rules in this area. The Community also adopted quality standards for air and drinking-water, which will be much to the benefit of the health of Europe's citizens.

Unfortunately little progress was made in the matter of the European passport, or of the abolition of checks at internal Community frontiers.

18. On balance, 1980 cannot be said to have been a year of much progress by the Community towards European Union. However, it certainly was not a year of retreat. The Community is facing the world crisis in the same way as the other industrialized powers, and has managed to pursue its policies, including its financial assistance, towards the developing countries. Moreover there can be no doubt that had each State been acting on its own, it would have suffered even more severely from the world economic situation.

Common policies do of course take a long time to establish. There have been clear indications of a possible resurgence of protectionism within the Community, but the essential has been preserved.

What matters most, now as in the past, is to maintain the political will of the nine Member States - soon to be ten - to go forward towards the goal they have set themselves.

19 November 1980

EUROPEAN COUNCIL, LUXEMBOURG
1-2 DECEMBER 1980

EURO/ARAB/AFRICAN "TRILOGUE"
Brief by Foreign and Commonwealth Office

POINTS TO MAKE

French ideas imaginative and interesting, but they have obviously developed since first put to us and we are now examining the information provided at a recent meeting of Political Directors. Have meanwhile instructed our Embassy in Paris to discuss French plans in greater detail with M Jean-Baptiste.

BACKGROUND

1. President Giscard proposed the idea of intensifying trilateral cooperation between Western Europe, the Arab world and Africa at the European Council in March 1979. It aroused little interest at the time, but it was agreed that Heads of Government would reflect on the idea. It is possible that President Giscard will raise this subject at the European Council and enquire what the results have been of his colleagues' reflection.
2. The French have now worked out their ideas in greater detail. They have explained that they see the "Trilogue" as reflecting historical, geographical and commercial ties between the 3 continents. They propose to develop trilateral contacts over the long term, particularly in the following areas:
 - a. In the field of culture the French are proposing a "high level cultural colloquium" and have suggested also the eventual establishment of institutions such as a foundation to support cultural exchange between the 3 continents or a standing symposium on the lines of the Club of Rome; they have indicated that work might be sponsored in European universities to re-evaluate African and Arab culture,

/science

science and technology; there might also be travelling exhibitions and a tri-continental encyclopaedia. They have many other similar ideas.

- b. It is also proposed that the Trilogue could become a forum for discussion on economic and financial questions. The French view is that this would be a contribution to the North/South dialogue, but would provide a more concrete regional focus than the framework of the global negotiations.
- c. The Trilogue could provide a framework for development projects in particular countries. At its crudest the French idea is African needs being met by Arab money and European technology; but other permutations will also be possible.
- d. The above elements might be brought together in a political framework. The French have suggested that there might eventually be a meeting of Foreign Ministers and have suggested that this could endorse a "charter for development and security".

3. Our most recent information on French proposals comes from a presentation given by M Jean-Baptiste (economic adviser to President Giscard) at the Political Committee on 18 November. It appeared from his explanation that the French have had some success in selling this idea, at least in Francophone countries, both in Africa and in the Middle East. The French expect that at their next meetings both the Arab League and the OAU will mandate their Secretary Generals (by coincidence they are both French speaking) to explore the French proposals further. There is therefore a possibility that the project may eventually get off the ground. The French have not made known their views on how the European side of the triangle would be organised. Their proposal is to include all "liberal democratic European" (ie presumably Council of Europe) countries, and they have suggested that ad hoc machinery could be set up to represent them in dealings with the Secretariat of the Arab League and the OAU.

/One

One advantage of ad hoc machinery from the French point of view is that it would enable them to keep close control of developments. Although at this stage the French proposals may have few practical advantages, and appear in many respects to be an attempt to replace substance by form, it is possible that they might be attractive to countries in Africa and the Middle East, who could be flattered by an invitation to participate in a grand design of this kind which set their continents on an equal footing with Europe.

4. The UK approach so far has been to avoid close involvement or commitment. There could, however, be advantages in the idea from the British point of view if it were to get off the ground with the active participation of the Anglophone African and Arab States. We should at least take steps to ensure if necessary that Anglophone African countries are included in the plan on the one hand and that UK industry shares fully in any commercial opportunities that may arise from it on the other. However, our basic attitude remains one of considerable scepticism about the likely practical value of what seems on the face of it to be a proposal of mainly rhetorical content. But if it began to make progress we should not want to be left on the sidelines.

Foreign and Commonwealth Office
19 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)22

COPY NO 1

27 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

1981 BUDGET

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. Unlikely to be any discussion of this in the Council itself, but the Prime Minister may wish to be aware of background, especially outcome of 24 November Budget Council in case there is discussion in margins.

POINTS TO MAKE (if raised)

2. Outcome of Budget Council was satisfactory compromise. Will be necessary to offer Parliament further margin in December to secure smooth adoption.

BACKGROUND

3. Overall UK aim is to assure smooth and timely adoption of 1981 Budget in order that we can receive refunds on time.

4. 1981 draft budget has now reached final stage of procedure. Council have completed second reading and will hand draft back to Parliament for their second reading (and, we hope, adoption). Deadline set in Treaty for adoption is 15 days after draft is passed back to Parliament. In their final session, Parliament has right to reinstate amendments (ie to non-obligatory expenditure) but discussion of modifications (ie to obligatory - mainly agricultural - expenditure) is now closed.

CONFIDENTIAL

1.

/5.

CONFIDENTIAL

5. Constraint on Parliament is the "maximum rate", ie percentage increase in non-obligatory expenditure over previous year's budget. Remains at 12.2% for commitments (ie commitments into which the Commission may enter for given items); but for payments (ie that which is actually to be financed in 1981) Council has now agreed to an increase in maximum rate originally set by Commission to 19.9%. Council and Parliament are not in agreement about what exactly this leaves for latter at their second reading. What has happened in the past is a haggle over the lump sums involved.

6. 24 November Budget Council : outcome broadly satisfactory for UK. In the light of our need to adopt sympathetic approach to the Parliament's wishes, our major aims were

- a) to ensure Parliament's two modifications to agricultural expenditure were not rejected;
- b) to break through maximum rate on payments.

Successful in both aims. On first, Franco/German axis was broken. Germans supported Parliament's modifications; the French voted against. This reflects French concern about increasing tendency for Parliament to involve itself in CAP debate.

7. The Financial Secretary successfully protected UK interests by ensuring that the lion's share of the extra payments and commitments agreed at the Budget Council would go to the Regional and Social Funds (Social Fund plus 40mEUA commitments, plus 60mEUA payments; Regional Fund plus 140mEUA commitments, plus 120mEUA payments).

8. The Financial Secretary made clear at his press conference on 25 November (and Presidency representative made the same point to the Budget Committee of the

/Parliament

CONFIDENTIAL

Parliament) that this was not Council's last word and that the dialogue between the two institutions would continue. The Germans have recognised privately that some extra money will have to be offered to the Parliament and it is possible that the Budget Council may meet in the margins of the final Budget session of the Parliament in the week beginning 15 December. The French, though likely to be reluctant to offer the Parliament anything more, have a more pressing need than the Germans to see the budget adopted in a way acceptable to both institutions and on time, given their concern about agricultural disbursements in run-up to Presidential election.

Foreign and Commonwealth Office

27 November 1980

3.

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80)23 (REVISED)

COPY NO

1

28 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER

EXPORT CREDIT CONSENSUS

Brief by HM Treasury

OBJECTIVE

To agree a new Community position for the Consensus talks to be resumed on 18-19 December.

POINTS TO MAKE

2. Clear from the Consensus talks in Paris on 26-27 November that the present Community position (an immediate increase in minimum interest rates coupled with further talks in 1981) will not satisfy the US and others. Danger now of Consensus starting to breakdown at great cost to all EEC countries, especially since the deadline of 1 December for a mutually acceptable solution set by the Venice Summit has not been met.

3. France should therefore now accept the Commission proposal of the uniform moving matrix, which has long been accepted by all other member states.

4. If despite the dangers France still cannot accept principle of automatic changes in Consensus interest rates, then Community should agree now to consider a further increase in minimum rates in 1981 and accept a commitment to annual reviews thereafter. Talks should continue on how to accommodate low interest rate countries within the Consensus.

BACKGROUND

5. The Consensus on export credit (also known as the Arrangement) sets minimum interest rates and maximum repayment periods for officially supported credits with

1.
CONFIDENTIAL

CONFIDENTIAL

a term of 2 years or over. The minimum interest rates are the same for all currencies and have hitherto been agreed in negotiation amongst the participants. However, for the last 2 years the US (with support from smaller countries like Austria and Switzerland) has been pressing for the minimum rates to be linked automatically to market rates. A technical report on the options (the Wallen report) has identified two possibilities: the uniform moving matrix (UMM) and the differentiated rate system (DRS).

6. The Community has found it difficult to reach a common position on these options. The Commission proposed in the summer that the EEC should support the UMM and this was accepted by 8 member states (including the UK). But France has throughout refused to agree to any automatic linkage of Consensus rates with market rates.

7. Thus, in order to meet the deadline set at the Venice Summit of agreement on a solution by 1 December, it was agreed at the Finance Council on 17 November that the Community should suggest to other Consensus participants an immediate increase in minimum rates with talks continuing later in 1981 on the idea of an automatic linkage.

8. At the meeting of the Consensus group in Paris on 26-27 November, the Community proposal was rejected as unacceptable by the US and other participants. Senior US Treasury officials have criticised the Community position publicly as "grossly inadequate". The Americans see some linkage between market and consensus rates as now essential and they see the particular increases suggested by the Community (0.6% - 1%) as too small given the gap between market rates (averaging 10-11%) and Consensus rates (7.5 - 8.75%).

9. As there was no possibility of agreement in Paris on 26-27 November, the talks were adjourned until 18-19 December in the hope that the Community can agree in the interim a

CONFIDENTIAL

more forthcoming line. There will be an opportunity for further Ministerial discussion at the Finance Council on 15 December, but the opportunity of the European Council should be taken to impress on the French the importance of their allowing the Community to put forward a proposal more likely to ensure the Consensus is maintained.

HM Treasury
28 November 1980

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L2)(80) 24

COPY NO 1

28 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

ITALIAN EARTHQUAKE

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To endorse the principle that further aid be allocated to Italy.

POINTS TO MAKE

2. Support principle of further aid from the Community. Must reach quickly to the enormous problems. Have greatest sympathy for the plight of those suffering. Detailed proposals should be remitted to the appropriate Council body for early approval.

BACKGROUND

References : A Commission document setting out their proposals will be available in Luxembourg.

3. Commission has already agreed 1.5mEUA to help Italy

1

NOTE : THIS IS AN ADDITIONAL BRIEF.
PLEASE ADD TO INDEX.

/(the

CONFIDENTIAL

CONFIDENTIAL

(the large portion of the unspent Emergency Aid Provision). The Commission is meeting today to adopt proposals for further measures to help Italy. Telegram comment on these will be sent to Luxembourg on Monday when they have been considered by departments.

4. The new proposals may involve a supplementary budget for 1980. This will be technically complex in the time remaining in 1980 but should not affect the advances we expect in respect of our budget refunds. An alternative would be to provide the funds through a transfer from unspent monies. This should be done by transferring from sums which would otherwise be unspent and carried forward into 1981. Otherwise the transfers could affect the UK advances under the Supplementary Measures Scheme which are to come from those unspent monies which cannot be carried forward.

5. There will probably be three parts to the proposals;
- a) financing of the supply of unspecified quantities of foodstuffs (cereals, meat and olive oil).
 - b) a Commission management committee ability to provide stocks of certain foodstuffs held in intervention.
 - c) reconstruction aid.

The financial scope of these measures is not yet known. The President of the European Council may raise this subject during the Council.

Foreign and Commonwealth Office

28 November 1980

