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EUROPEAN COUNCIL: OPENING SESSION: POSSIBLE ADDITIONAL POINTS

You will want to be ready to deal with the following points which may come up at the opening session:

(i) **Danish travellers allowances** Mr. Schluter will raise this.

You will want to say that this is clearly an important question for Denmark. You understand that other countries have similar concerns and the Commission has put forward ideas. You could conclude that the issue will need to be on the agenda of the Finance Council on 8 December.

(ii) **ERASMUS** M. Delors may raise this. (It is a programme to enable university students to study part of their course in another member state.)

You could say that the proposal had much merit but several member states had difficulties over the financing costs of the student grants element. If the Commission decide to bring forward new proposals they will be re-examined urgently by Permanent Representatives.

(iii) **Greek loan** This is all too likely to be raised by Mr. Papandreou, seeking support for release of the second instalment of the Community's loan to Greece.

You could say that we recognise Greece's economic problems but also the great efforts which have been made to help with these, notably the Integrated Mediterranean Programmes. But cohesion also implies respect for Community obligations. You understand the Commission have been discussing with Greece concerns about the export subsidies. The Finance Council will be discussing the loan on 8 December.

(iv) **EC/US trade issues** This could be raised by anyone. You could say that management of EC/US trade relations will continue to require firmness in defence of our interests. We are all concerned by recent discriminatory trade measures passed by the US Congress and call on the Administration to rescind these measures. The Council reaffirms our commitment to work for agreement by the end of the year in the current negotiations with the US over the trade effects of enlargement. But unilateral action by the US would meet with a response from the Community.

Council begins about 1520 - 1530

EHGG(L)(86)1

27 November 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

ECONOMIC AND SOCIAL SITUATION

Objective

- To get support for our initiative on employment.

- To secure a commitment on the need for progress on the Internal Market by the end of our Presidency (the conclusions we shall be aiming for are attached).

- To avoid attempts to settle a figure for the new five year framework for R&D expenditure, since we shall not get agreement on a figure low enough for us to accept. This must be referred to the Research Council on 9 December.

Others' objectives

a) Job Creation

Ireland and Italy as co-sponsors of our Employment Resolution, together with Denmark, can be expected

to give strong support. Most other member states have little difficulty with the proposals. The Germans have been told that we do not envisage an enlarged Social Fund. The Commission, with some other member states (Belgium, Spain, Greece) may stress the need for dialogue with the social partners and refer to The Hague European Council conclusions abut cooperative growth strategy. M. Delors has been generally supportive.

b) Small businesses

All member states and the Commission are likely to welcome the emphasis given to small business.

c) Internal Market

Most member states and the Commission are likely to support in principle the need for continued pressure to reach decisions (the Commission's own report on the Internal Market is mainly helpful). But there will be resistance in particular sectors eg air transport. Greece, with possible support from Spain and Portugal will argue for a parallel emphasis on

measures to promote cohesion (eg expansion of the structural funds).

d) Burdens on business

This is likely to have general support. We should allow the Commission to report on the new system whereby new proposals have to be supported by a note ("fiche") assessing the impact on business and want to ensure that this is fully put into affect.

e) Research and Development Framework Programme

The Netherlands, Italy and most other member states may stress the need for early agreement on the new five year framework programme for research and development and will support the Commission's figure of 7.7 becu. France and Germany want a programme at 5 becu and, like us, will want to head off any suggestion that the European Council should decide the level of R&D finance.

Handling

Covered in attached speaking note.

Arguments

Specific points for use in reply to others' arguments are attached on separate sheets.

Handling

Invite other Heads of Government to comment on items of particular interest to them in Presidency report.

ADDENDUM TO BRIEF NO EGH(L)(86)1 - ECONOMIC AND SOCIAL SITUATION

EUROPEAN COUNCIL, LONDON: 5/6 DECEMBER 1986

Tax Approximation [If raised]

Points to make

- Have made progress during UK Presidency on eight VAT and excise structural proposals and reached agreement on 13th VAT Directive which covers tax exemptions for non-EC businessmen.

- Further work awaits Commission proposals. Ecofin asked the Commission to produce these by 1 April next year.

- [If necessary] Member states regard VAT and excise standstill proposals as linked to general question of tax approximation. Discussion has shown the difficulties this poses for member states.

Background

1. The Milan European Council remitted tax aspects of the Commission's internal market White Paper to the Ecofin Council, which in turn set up an ad hoc expert group. The group's conclusion was that the Commission's proposals as they stand are inadequate and that until they are elaborated further the Council cannot take decisions of priniciple on tax approximation (nor on the linked Commission proposal) for a standstill on existing tax rates and structures). The June Ecofin Council therefore invited the Commission to produce more detailed proposals by 1 April 1987, and in the meantime asked Coreper to deal with the more modest VAT and excise duty proposals already on the table (affecting tax coverage and procedures but not rates).

2. The UK Presidency has thus fulfilled its remit, but the Commission are still unhappy. Their report to the European Council on the internal market complains that their standstill proposal on VAT and excise duty structures has not even been discussed. The fact is that all Member States consider the principle of a standstill to flow from acceptance of the Commission

case for tax approximation, and are not prepared to discuss the former until there is political agreement on the latter. Among the difficulties of the Commission's proposals (which are based on VAT and exise being levied in the country of origin rather than, as happens now, in the country of destination) are the large potential revenue losses for net importing countries like the UK. To overcome this problem, the Commission has proposed a clearing-house (ie revenue balancing) system, but this suffers from a number of technical difficulties. An origin based indirect tax system would also require approximation of tax rates to prevent revenue loss through cross-border shopping and this in turn gives rise to worries about fiscal sovereignty.

3. The Commission are proposing to announce their target ranges for approximated VAT and excise rates before Christmas. These are likely to be 16½% and 6½% for VAT (plus or minus 2½%) and a weighted average of EC rates for excise duties. There would be no VAT zero rates under their proposed scheme, and this is likely to be a major difficulty for the UK - our standard 15% VAT rate could stand under the Commission proposal. On excise duties the proposals would imply changes of the

following orders of magnitude:

- France: to increase duty on beer by 44%. On wine by 229% and on tobacco by 87%.
- Belgium: to increase all its main duties except for wine (by 51% for spirits and Derv and 117% for beer).
- Germany: to increase beer duties by 223%. Introduce duty on table wine.
- Denmark: to increase duty on Derv by 176%. Large losses in revenue on alcohol and tobacco amounting to over 1% of GNP.
- Greece: to increase duty on spirits by 2,578%, tobacco by 135% and to introduce tax on wine.
- Ireland: to impose large reductions in all duties (including 95% reduction on wine and 76% on beer). Revenue losses equal to 2.7%of GNP.
- Italy: to increase duty on Derv by 886%, spirits by 384% and to introduce tax on wine.
- Luxembourg: to increase duty on spirits by 285% on Derv by 131%, beer by 125% and to introduce tax on local wine.
- Netherlands: to increase duty on Derv by 76%, petrol by 24%.
- UK: reduce duty on wine by 94%, beer by 56% and tobacco by 36%. Revenue losses equivalent to 1.37% of GNP.

More detailed proposals on the Commission's "clearing house" schemes are due to be presented by 1 April 1987.

4. Under our Presidency the Council has reached agreement on the 13th VAT Directive covering exemptions for foreign businessmen. There have also been discussions of the 7th VAT Directive (second-hand goods), the 7th Customs Directive (duty free sales), the SME's Directive (Special Schemes for small business), the 16th VAT Directive (imports by final consumers), the 18th VAT Directive (abolition of certain derogations from the 6th VAT Directive), the 19th VAT Directive (miscellaneous amending provisions of the 6th VAT Directive), the Wine Duty Directive and the Alcoholic drinks duty package (harmonisation of the structure of excise duties on alcoholic drinks).

EHG(L)(86)2

27 November 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

SAFEGUARDING THE OPEN SOCIETY

(FRONTIER CONTROLS/IMMIGRATION/TERRORISM/DRUGS)

Objective

To reach agreement on the lines of our draft conclusions (attached).

Others' Objectives

Frontier Controls/Immigration/Terrorism

All member states and the Commission have agreed to consider tighter controls at the Community's external frontiers and on the need for closer cooperation on immigration and other issues. Chancellor Kohl is particularly concerned about the abuse of asylum. He has asked for discussion of these subjects. The Commission and Benelux may refer to the need for reductions in controls at internal frontiers in relation to the completion of the internal market by 1992.

RB2ACJ,1

All member states, with the possible exception of Greece, should be able to accept our draft conclusions on terrorism which reflect the agreement on principles reached at the 10 November meeting of Foreign Ministers on Syria.

Drugs

Member states and the Commission have already endorsed the Seven Point Action Plan proposed by the UK. The Commission may argue for much of the Plan to be implemented by Community action. But most of the action is for the member states. Italy and Belgium may call for a permanent secretariat to coordinate action by the Twelve.

Cancer and Aids

All Member States and the Commission should be able to accept our draft conclusions on cancer and Aids. Most of the action is for the Member States.

Handling

- As in attached Speaking Notes, starting with Terrorism and frontier controls and moving onto Drugs, Cancer and AIDS.

Arguments

Specific points for use in reply to others' arguments are attached to speaking note. An oral report on People's Europe is also attached in case the subject is raised.

SAFEGUARDING THE OPEN SOCIETY

(Frontier controls/immigration/terrorism/drugs)

Second main session covering

- terrorism (no concessions under duress; concerted action)
- frontier controls and immigration (exclusion, expulsion, abuse of passports, asylum seekers: the better the control at the external frontier, the easier is freer movement for bona fide travellers within)
- drugs (seven point action plan)

Timing — If possible, start at or about 5.45 pm on afternoon of 5 December. If not, start over dinner. Continue on morning of 6 December.

References — UK Presidency paper

Handling — We recommend that you should take frontier controls, immigration and terrorism together and invite Chancellor Kohl to open the debate in view of his request to discuss asylum-seekers.

Drugs would be a separate debate and could be immediately followed by the discussion on cancer and AIDS.

Draft conclusions — below

EHG(L)(86)3

27 November 1986

EUROPEAN COUNCIL

5/6 DECEMBER 1986

OWN RESOURCES AND AGRICULTURE

Objectives

- To minimise discussion by inviting M Delors, over drinks before dinner on the Friday, to set out the timetable for presentation of the Commission's ex novo review of EC financing.

- To avoid a commitment to a spring 1987 European Council to discuss this.

Others' Objectives

- The Italians, Greeks, Irish and Spaniards will talk of the need for more resources. Kohl and Chirac will want to limit discussion. They expect a lengthy negotiation in which they want to concert closely with us, though they probably will in the end accept an increase in the 1.4% ceiling. The Commission will

cooperate in limiting discussion but will want to press ahead next year.

Handling

- For discussion before dinner. Other heads of government will want to speak, but the Prime Minister will want to avoid prolonging the discussion.

- On the ex novo review, we should avoid any formal conclusions. There could be no going beyond the text of Fontainebleau. We may reflect in the Presidency conclusions the Prime Minister's summing up, noting that the Presidency of the Commission has given an account of progress in bringing forward the Commission's report and that discussion will be scheduled once that report is available.

- On agriculture, in view of the German elections, we should avoid detailed discussion at heads of government level. We shall be tabling a passage for the conclusions underlining the need to reach early decisions in the Agriculture Council on milk and beef (the French may add a reference also to vegetable oils).

- On cohesion, if necessary, we can propose a text which would add nothing to what was agreed in the Single European Act.

- The draft conclusions which might be tabled later are annexed to the speaking notes.

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EHG(L)(86)4

COPY NO 1

27 November 1986

EUROPEAN COUNCIL, LONDON
5/6 DECEMBER 1986
POLITICAL COOPERATION

Our Objective

a) Heads of Government

- To have an exchange of views on East/West post-Reykjavik and present a broadly concerted public approach at the end of the Council.

- In particular, to get support for the points agreed between the Prime Minister and President Reagan at Camp David.

- To issue a short statement on Afghanistan.

- To steer other political cooperation issues, so far as possible, to Foreign Ministers, but again to be prepared to present a concerted position in the light of the discussion.

b) Foreign Ministers

- To discourage unnecessary criticism of the US over Iran and promote Western solidarity at this difficult moment for the US Administration.

- To avoid divisive discussion of import ban on South African coal. To resist a conditional coal ban.

VJ7AAZ

- To renew the commitment of the Twelve to seeking fresh political approaches, but resist pressure for any major policy statement/initiative on South Africa.

- To underline our active Presidency role in demonstrating European support for the Middle East peace process but avoid any commitment to new high profile European initiatives.

- To ensure the Twelve continue to exert effective pressure on Syria to discontinue support of Abu Nidhal and other terrorist groups.

- To exchange views on recent developments in the Philippines, and on what the Twelve can do to support democracy there.

Others' Objectives

East/West

- French, Greeks, Spanish and Irish will not wish to tie the Twelve to support for the Reagan Administration as such.

- Lubbers and Schluter will want to report on their recent Moscow visits.

South Africa

- (Dutch; Danes): discussion of coal ban at Head of State/Government level. (Dutch; Italians): agreement on a coal ban if no progress in stated period.

- (Danes; Irish): possibly to argue for further restrictive measures; (Italians) ban on agricultural imports.

Middle East

- The Mediterraneans will put the accent on mending fences in the Arab world after the Twelves' action against Syria, but are likely to hold back suggestions for a higher European profile in the peace process till after our Presidency.

- Most partners will be keen to discuss US/Iran.

Afghanistan Statement

- Partners unlikely to dissent.

Latin America

- Spain will wish to give account of Felipe Gonzalez's tour of Cuba, Peru and Ecuador. Gonzalez will press for more European attention/aid to the region.

- Germany wants less aid to Nicaragua. [So do we. I hope!]

Philippines

- General concern but no sign of pressure for further statement.

EHG(L)(86)4

POLITICAL COOPERATION

BACKGROUND

A. EAST/WEST.

B. SOUTH AFRICA.

A. EAST WEST

Reference papers

A. Camp David Statement.

Background

In meetings with Danish and Dutch Prime Ministers, and his television address of 22 October, Gorbachev spoke of difficulties of dealing with present US Administration, and President Reagan personally, citing the US attitude to SDI and US expulsions of Soviet personnel. Nevertheless, Gorbachev has left open option of doing business: on 10 November Shevardnadze said "we do not consider that it is impossible to conduct negotiations with President Reagan ... it is impermissible to waste time - not a single day, let alone two years".

Danish Prime Minister's visit to Moscow

Schluter visited Moscow from 20-24 October for talks with Gorbachev, Gromyko and Ryzhkov. Gorbachev gave him a detailed account of Reykjavik. He and Gromyko called for a greater "European voice" in arms control. Schluter stressed the humanitarian side of CSCE; Gorbachev spoke of a coming Soviet "counter-offensive" on human rights.

Dutch Prime Minister's visit to Moscow

Lubbers and van den Broek visited Moscow from 20-21 November. They both met Gorbachev and Prime Minister Ryzhkov; van den Broek also met Shevardnadze. Discussion covered arms control (no surprises), bilateral relations and human rights. Lubbers'

dinner remarks on human rights, Jewish emigration were omitted from the Pravda report to evident Dutch displeasure (cf. Mr Renton's interview in Pravda). EC/CMEA negotiations and the possibility of an EC/Soviet agreement were also discussed. Dutch businessmen participated in economic talks with Kamentsev (Chairman of External Economic Commission) and Minister of Foreign Trade, Aristov. Agreements were signed on industrial and agricultural cooperation and extending the existing bilateral economic and scientific cooperation agreement.

CSCE

Vienna meeting began 4 November; Secretary of State spoke on behalf of Twelve. No cut-off for meeting, though participants aim to complete business by July 1987. Twelve coordination has worked well so far. In opening speech Shevardnadze unexpectedly launched idea of conference in Moscow on Basket III (humanitarian) issues. Previously Russians had opposed a Danish idea of a semi-permanent conference on "human dimension". The Dutch have also proposed a consultative mechanism on human rights and contacts.

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PRIME MINISTER'S MEETING AT CAMP DAVID: ARMS CONTROL

The following text, agreed with the President at Camp David, was released by the Prime Minister at her press conference in Washington on 15 November:

"a. The President and I discussed the way forward on arms control after Reykjavik.

b. We agreed that priority should be given to:

- an INF agreement, with restraints on shorter range systems;

- a 50% cut over five years in US and Soviet strategic offensive weapons; and

- a ban on chemical weapons.

In all three cases, effective verification would be an essential element.

c. We also agreed on the need to press ahead with the SDI research programme which is permitted by the ABM Treaty.

d. We confirmed that NATO's strategy of forward defence and flexible response would continue to require effective nuclear deterrence, based on a mix of systems. At the same time, reductions in nuclear weapons would increase the importance of eliminating conventional disparities. Nuclear weapons cannot be dealt with in isolation, given the need for stable overall balance at all times.

e. We were also in agreement that these matters should continue to be the subject of close consultation within the Alliance.

f. The President reaffirmed the United States' intention to proceed with its strategic modernisation programme, including Trident. He also confirmed his full support for the arrangements made to modernise Britain's independent nuclear deterrent, with Trident."

VJ6AAU

B. SOUTH AFRICA

Reference Papers

A. The Hague European Council text.

BACKGROUND

Groups Areas Act

On 20 November, the Steering Committee of the President's Council referred back for further work the draft report of the Constitutional Affairs Committee of the Council of the Group Areas and Separate Emenities Act. The decision came as no surprise, given signs of disquiet about the report's recommendations within the National Party. It is, however, a further setback for the advocates of reform, and evidence of the South African Government's determination to give no signs of weakness.

EUROPEAN COUNCIL: THE HAGUE: 26/27 JUNE 1986

Statement on South Africa

1. The European Council is gravely concerned about the rapid deterioration of the situation and the increasing levels of violence in South Africa. The reimposition of the State of Emergency and the indiscriminate arrest of thousands of South Africans can only further delay the start of a genuine national dialogue on South Africa's future, which is so urgently needed if a peaceful solution of the country's problems is to be found. Furthermore extensive censorship has been imposed on the media. The European Council believes that the present policies of the South African government can only lead to increasing repression, polarisation and bloodshed.

2. Against this background, the European Council has re-examined the Twelve's policy towards South Africa. It reaffirms that the main goal of this policy is the total abolition of apartheid. To support the process of non-violent change in South Africa and to emphasise their deep concern about the recent course of events, the Heads of State and Government have decided to take additional action.

3. The European Council has declared itself in favour of a concerted European programme of assistance to the victims of apartheid, encompassing both Community and national action, in order to maximise the effectiveness of Europe's ocntribution in this field. In this connection the European Council has agreed on an increase in financial and material assistance to the victims of apartheid, in particular those affected by the disturbances in Crossroads and to political prisoners, including those arrested in connection with the recent reimposition of the State of Emergency.

4. The European Council is convinced that the commencement without delay of a national dialogue with the authentic leaders of the black population is essential to halt a further escalation of violence and allow negotations leading to a truly democratic and non-racial South Africa.

This dialogue cannot take place as long as recognized leaders of the Black community are detained and their organisations are proscribed.

In this context the European Council calls on the South African government:

- to unconditionally release Nelson Mandela and other political prisoners;

- to lift the ban on the African National Congress, the Pan Africanist Congress of Azania and other political parties.

5. In the meantime in the next three months the Community will enter into consultations with the other industrialised countries on further measures which might be needed covering in particular a ban on new investments, the import of coal, iron, steel and gold coins from South Africa.

6. The European Council decided to ask the future UK Presidency Foreign Minister to visit southern Africa, in a further effort to establish conditions in which the neccessary dialogue can commence.

EHG (L)(86)5

27 November 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

EC/TURKEY

[Contingency Brief]

Introduction

Greece or FRG may raise. Two current problems:

a) Turkish right to free movement of labour. November Foreign Affairs Council agreed common position which defers indefinitely Turkish right of access, but offers some improved conditions for those already in the EC.

b) Possibility of Turkish application for EC membership. Despite strong advice against from us and others, the Turkish Government still is considering whether to apply for membership.

German objective

- To reiterate their concern about free movement and the possibility of a Turkish application.

Greek objective

- To make clear their opposition to further normalisation.

Presidency Response

Free Movement

- Turks will not accept EC/common position (agreed at November Council) as final settlement of what they see as their entitlement to free movement.
- But exchange of messages with Professor Bozer suggests they may accept postponement, with a review after a few years.
- Even so, will need careful handling, otherwise Turks will conclude that free movement can only be dealt with in membership negotiation and opt for an application.

Normalisation

- Presidency made clear at Association Council that continued progress on restoring democracy/human rights an essential part of process of normalisation.
- But must be able to show that Association Council offers realistic way forward in EC/Turkey relations.

Membership [Only if necessary]

- I advised Ozal in February that a Turkish application for membership would be premature.

EHG(L)86(6)

24 November 1986

EUROPEAN COUNCIL

LONDON, 5/6 DECEMBER 1986

TRADE ISSUES

[CONTINGENCY BRIEF]

Introduction

Either EC-US or EC-Japan may be mentioned by other member states.

EC/US

Presidency Speaking Note

- Management of EC/US trade relations will continue to require firmness in defence of our interests. The last Congress passed some blatantly discriminatory measures - oil import tax, customs user fee, tax privileges for US aircraft. The new Congress likely to be more protectionist. Trade legislation will be an early priority. The EC must show that it will remain firm and united in response to any unilateral US action.

- Our own position will be the stronger if we can get agreement by the end of the year in the negotiations on the trade effects of enlargement. We all support the Commission's handling of these negotiations. Both sides have an interest in avoiding a trade war. We

must leave the Americans in no doubt that we will respond if the negotiations fail and they attack EC exports. But we must work to avoid that. That means impressing on the Americans that unreasonable demands cannot lead to a successful outcome and being prepared to show flexibility ourselves. We would all stand to lose in a major conflict. (US retaliation list targets $186 million of French brandy exports, $83 million of Italian wine, $70 million of Irish cordials, $42 million of German hops. There would be an equivalent response by the Community, but both EC and US producers would be hard hit.)

Possible conclusions

- We are all concerned by the recent discriminatory trade measures passed by the US Congress and call on the Administration to rescind these measures.
- We reaffirm our commitment to work for agreement by the end of the year in the current negotiations with US over the trade effects of enlargement, while making clear that unilateral action by US inevitably would meet with an equivalent response from the Community.

EC/JAPAN

Presidency Speaking Note

- Despite rise of the yen (nearly 50% against the dollar since September 1985 Plaza Agreement) Japan's global trade surplus likely to reach $80 billion this year; over $15 billion with the EC in first nine months of 1986, 70% increase in dollar terms over 1985, in spite of increase in EC exports. We must increase the pressure on Japan to correct these imbalances. EC must speak with one voice.

- The October Foreign Affairs Council decision to launch GATT action against Japan on alcoholic drinks was an important signal to Japanese Government that we are no longer prepared to tolerate blatant discrimination. We all support the Commission in pressing ahead vigorously with this in the GATT. We must make clear that we will not be satisfied if, as we suspect, the specific recommendations for reform of Japanese tax system (now imminent) suggest that discrimination against imports will not really be removed. It is not just a question of removing the ad valorem tax. Discrimination is primarily operated through the grading system.

- We look forward to hearing from the Commission in

due course which other sectors they recommend for similar treatement, and what additional measures might be taken. Anti-dumping actions where these are justified (as with the recent Commission action over photo-copiers) must be part of our response.

- The Foreign Affairs Council will review progress next month.

Possible conclusions

- We called on Japan to take urgent and effective steps both in restructuring the economy, and in specific market sectors, to reduce the massive, and still growing, trade imbalance with the Community; endorsed the action taken by the 27 October Foreign Affairs Council; and invited the Council to conduct a thorough review of other actions to achieve a more balanced trading relationship.

EHG(L)86(7)

25 November 1986

EUROPEAN COUNCIL

LONDON, 5/6 DECEMBER 1986

US/JAPAN ECONOMIC COOPERATION AGREEMENT

[Contingency Brief]

Introduction

There is a reference to this in the Commission's report on the Economic and Social Situation: the French may express concern at the US/Japanese tendency to do bilateral deals. Text of Baker/Miyazawa statement attached.

Presidency Speaking Note

- The US/Japan [Baker/Miyazawa] agreement was concluded just before US mid-term elections. Intention to damp down protectionist pressures in the US and promote greater exchange rate stability (which our Finance Ministers considered desirable, when they met at Gleneagles). Mr Baker repeated Administration's commitment to reduce US budget deficit.

- On holding the yen down and interest rates, the Japanese appear to have agreed to do little more than implement policies that they had already announced.

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- Agreement refers to the dollar/yen exchange rate but simply states that the rate is 'about right'. No commitment to intervene to maintain it or suggestion that agreement represents a first step towards a system of exchange rate target zones. Central banks (who would carry out any intervention) not explicitly involved.

- Discount rate cut not large (3.5% to 3%). Cuts in Japanese interest rates reduce pressure on the yen while scale of domestic expansionary impact uncertain - net effect on current account surplus may be negligible. We should continue to urge the Japanese to allow domestic demand to grow sufficiently to reduce the surplus.

- Agreement refers to supplementary budget implementing the 3.6 trillion yen package which had already been announced on 19 September. But effect on growth generally expected to be small and draft budget for 1987-88 looks unlikely to help.

- Suggestions that the agreement is a rebuff for Europe seem exaggerated. But certainly we must watch any trend towards bilateralism in US/Japan economic and

trade relations at our expense (e.g US/Japan semi-conductor agreement: aimed at opening up the Japanese market, but may lead to a global cartel in semi-conductor prices, and Japanese exports being diverted at increased prices from the US to the EC: hence our consultations with both the US and Japan in the GATT.)

US SECRETARY OF THE TREASURY, JAMES A. BAKER III, AND JAPANESE FINANCE MINISTER KIICHI MIYAZAWA TODAY ANNOUNCED THAT, AS PART OF THE ONGOING DIALOGUE BETWEEN THE UNITED STATES AND JAPAN ON ECONOMIC, TRADE AND FINANCIAL ISSUES, THEY HAD REACHED AGREEMENT ON COOPERATIVE ACTION AND UNDERSTANDINGS REGARDING A NUMBER OF ECONOMIC ISSUES OF MUTUAL CONCERN.

BOTH MINISTERS STRESSED THE IMPORTANCE OF CONTINUING COOPERATIVE ACTION BY JAPAN AND THE UNITED STATES TO ADDRESS GLOBAL ECONOMIC PROBLEMS. THEY AGREE THAT ACTION BY THE KEY INDUSTRIAL COUNTRIES IS CRITICAL AT THIS TIME TO PROMOTING WORLD ECONOMIC GROWTH, REDUCING IMBALANCES, AND RESOLVING INTERNATIONAL DEBT PROBLEMS.

IN THIS CONNECTION, MINISTER MIYAZAWA OUTLINED THE FOLLOWING ACTIONS BEING TAKEN BY JAPAN TO HELP FULFIL ITS RESPONSIBILITIES IN THE WORLD ECONOMY:

- THE GOVERNMENT OF JAPAN (GOJ) HAS DECIDED TODAY TO SUBMIT TO THE DIET A SUPPLEMENTARY BUDGET IN ORDER TO IMPLEMENT THE 3.6 TRILLION YEN PACKAGE ANNOUNCED IN SEPTEMBER, DESIGNED TO PROVIDE A SUBSTANTIAL STIMULUS TO THE JAPANESE ECONOMY. THIS STUMULUS WILL BE ACHIEVED THROUGH ADDITIONAL

SECRETARY BAKER WELCOMED THE ACTIONS AND PLANS OF JAPAN TO STUMULATE GROWTH AND TO REDUCE IMBALANCES. HE STATED THAT, FOR ITS PART, THE UNITED STATES:

- REMAINS FULLY COMMITTED TO SIGNIFICANT AND STEADY REDUCTIONS IN THE US BUDGET DEFICIT, CONSISTENT WITH THE GRAMM-RUDMAN-HOLLINGS ACT,

- HAS JUST ENACTED AN HISTORIC TAX REFORM WHICH WILL PROVIDE ADDITIONAL INCENTIVES TO INVEST AND TO WORK AND WILL PROMOTE GROWTH IN THE US ECONOMY, AND
- HAS CONTINUED TO RESIST PROTECTIONIST PRESSURES AND WORK TOWARDS FREE AND FAIR TRADE.

MINISTER MIYAZAWA AND SECRETARY BAKER AGREED THAT THESE ACTIONS WILL CONTRIBUTE SIGNIFICANTLY TO PROMOTING GROWTH IN JAPAN, THE UNITED STATES, AND THE REST OF THE WORLD,

INVESTMENTS IN KEY AREAS SUCH AS PUBLIC WORKS, HOUSING, AND CONSTRUCTION. THE GOJ WILL MONITOR PROGRESS IN IMPLEMENTING EXPEDITIOUSLY THE STIMULUS PACKAGE TO ASSURE THAT ITS EXPECTED IMPACT ON GROWTH IS REALISED.

- THE GOJ INTENDS TO PUT IN PLACE, AS SOON AS POSSIBLE AFTER DIET APPROVAL, A TAX REFORM PLAN, INCLUDING REDUCTIONS IN THE MARGINAL TAX RATES FOR BOTH PERSONAL AND CORPORATE INCOME. IN THIS CONNECTION IT WAS NOTED THAT ON OCTOBER 28 THE GOVERNMENT TAX COUNCIL RECOMMENDED, FOLLOWING ITS INTERIM REPORT, REDUCING THE EFFECTIVE TAX RATE FOR CORPORATIONS TO BELOW 50 PER CENT AND REDUCING THE HIGHEST MARGINAL TAX RATE ON PERSONAL INCOME. SUCH CUTS IN TAX RATES WILL INCREASE INVESTMENT AND GIVE INCENTIVE FOR MORE BUSINESS ACTIVITIES. MORE GENERALLY, THE TAX REFORM WILL PROVIDE A SYSTEM WHICH BETTER REFLECTS TAXPAYERS' CHOICE, UNLEASHING THE GROWTH POTENTIAL OF THE JAPANESE ECONOMY. THE STRUCTURAL AND IMPLEMENTATION OF TAX REFORM WOULD PROVIDE ADDITIONAL STUMULUS TO THE JAPANESE ECONOMY WHILE PROVIDING FOR NEEDED FINANCING TO CONTINUE THE PROCESS OF FISCAL CONSOLIDATION.

- THE BANK OF JAPAN HAS DECIDED TODAY TO REDUCE ITS DISCOUNT RATE FROM 3.5 PER CENT TO 3 PER CENT, EFFECTIVE NOVEMBER 1, 1986.

AS WELL AS TO REDUCING GLOBAL TRADE IMBALANCES. IN THIS CONNECTION, THEY SHARED THE VIEW THAT EXCHANGE RATE INSTABILITY CAN JEOPARDISE STABLE ECONOMIC GROWTH. THEY EXPRESSED THEIR MUTUAL UNDERSTANDING THAT WITH THE ACTIONS AND COMMITMENTS MENTIONED ABOVE, THE EXCHANGE RATE REALIGNMENT ACHIEVED BETWEEN THE YEN AND THE DOLLAR SINCE THE PLAZA AGREEMENT IS NOW BROADLY CONSISTENT WITH THE PRESENT UNDERLYING FUNDAMENTALS, AND REAFFIRMED THEIR WILLINGNESS TO COOPERATE ON EXCHANGE MARKET ISSUES.

SECRETARY BAKER AND MINISTER MIYAZAWA EXPRESED THEIR COMMON VIEW THAT THESE COOPERATIVE ACTIONS REPRESENT IMPORTANT STEPS IN FULFILLING THEIR COMMITMENTS FROM THE TOKYO SUMMIT, AND THE SEPTEMBER MEETING OF THE GROUP OF SEVEN FINANCE MINISTERS IN WASHINGTON, TO PURSUE CLOSE AND CONTINUOUS COORDINATION OF ECONOMIC POLICY. THEY AGREED TO STAY IN CLOSE TOUCH ON THESE MATTERS, AND CALLED ON OTHER MAJOR INDUSTRIAL COUNTRIES TO JOIN IN THESE EFFORTS TO PROMOTE GLOBAL GROWTH, REDUCE IMBALANCES AND PROMOTE OPEN MARKETS.

EHG(L)(86)8

27 NOVEMBER 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER

RHINE POLLUTION

[Contingency Brief]

Arguments

- Welcome resolution agreed by Environment Council.

- Commission has been invited:

(i) to review present Community preventive and remedial measures and

(ii) to examine the possibility of negotiating bilateral or multilateral agreements with European third countries.

[If necessary]: Agree we should reflect this in our conclusions.

MAlAJJ

BACKGROUND

1. The severe pollution of the Rhine last month resulted from a fire on 1 November at the Sandoz chemical plant in Basle, Switzerland. Toxic chemicals were discharged into the Rhine for about 12 hours. Immediately prior to the accident another Swiss firm (Ciba-Geigy) released 89 gallons of weedkiller into the Rhine.

2. Stretches of the Rhine in Germany have been severely damaged. The consequences further downstream in the Netherlands, and in the coastal waters of the North Sea have so far been negligible.

3. Following the accident, the Commission made a number of proposals for improving the existing alarm and notification systems in the EC and for closer harmonisation of legislation with neighbouring countries. The 24 November Environment Council agreed a Resolution (attached) which invites the Commission to review current measures and to examine the possiblity of extending the Seveso Directive to countries bordering the EC.

4. The Seveso directive provides for immediate notification of accidents to other member states.

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Draft Conclusions

The European Council expressed its concern at the accident which had led to recent pollution of the Rhine. It welcomed the rapid response of the Governments concerned and the resolution adopted by the Environment Council on 24 November. It asked the Environment Council to consider, on the basis of the review being conducted by the Commission, the possibility of negotiating with European third countries agreements covering the rapid exchange of information on the control and reduction of pollution caused by major industrial accidents.

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FRAME SOCIAL
CORRECTED VERSION

COUNCIL RESOLUTION ON THE POLLUTION OF THE RHINE.

THE COUNCIL WELCOMES THE SPEED WITH WHICH THE GOVERNMENTS CONCERNED HAVE REACTED TO COMBAT THE EFFECTS OF POLLUTION OF THE RHINE DUE TO RECENT INDUSTRIAL ACCIDENTS AND TO IMPROVE THE PROTECTION OF THE RHINE AGAINST SUCH POLLUTION IN THE FUTURE.

THE COUNCIL UNDERLINES THAT THE KEY ELEMENTS IN ACHIEVING BETTER ENVIRONMENTAL PROTECTION OF THE RHINE AND OTHER MAJOR WATERWAYS AFFECTING THE COMMUNITY, IN A BILATERAL COMMUNITY, OR MULTILATERAL FRAMEWORK, SHOULD BE THE FOLLOWING :

- IMPROVEMENT OF THE SYSTEM FOR ALARM AND INFORMATION IN CASE OF ACCIDENTAL DISCHARGE:

- CLOSER HARMONISATION OF LEGISLATION GOVERNING THE HANDLING OF DANGEROUS CHEMICALS :

- PROMPT CLEAN-UP AND RESTORATION, AND AN EQUITABLE LIABILITY OR COMPENSATION ARRANGEMENT FOR POLLUTION DAMAGE BY THOSE WHO ORIGINATED IT.

THE COUNCIL RECALLS, IN THIS CONNECTION, THAT THE COMMUNITY IS LEADING THE WAY IN THE PREVENTION AND LIMITATION OF THE CONSEQUENCES OF ACCIDENTS, NOTABLY HAVING REGARD TO THE DIRECTIVE ON MAJOR INDUSTRIAL ACCIDENT HAZARDS (DIRECTIVE 82/501/EEC).

THE COUNCIL INVITES THE COMMISSION :
1) TO REVIEW PRESENT COMMUNITY PREVENTIVE AND REMEDIAL MEASURES INCLUDING THE EXTENT OF THEIR IMPLEMENTATION AND IF NECESSARY PRESENT APPROPRIATE PROPOSALS:
2) TO EXAMINE THE POSSIBILITY OF NEGOTIATING BILATERAL OR MULTILATERAL AGREEMENTS WITH EUROPEAN THIRD COUNTRIES EXTENDING THE PROVISIONS OF DIRECTIVE 82/501/EEC AND OF DECISION 81/971/EEC (1).

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EHG (L)(86)9

27 NOVEMBER 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

DANISH TRAVELLERS' ALLOWANCES [MAY BE RAISED BY MR SCHLUTER]

Objective

To refer the Danish request for a continued derogation from the rules on travellers' allowances to the Ecofin Council on 8 December, for consideration as part of a compromise package on duty-free (including duty-free shops for the Channel Fixed Link).

Others' objectives

Denmark wants a firm promise of a Commission proposal before the end of the year extending their present derogation which permits a lower level of travellers' allowances than elsewhere in the Community. The

Commission are resisting, but may give way under pressure.

Speaking note [if Mr Schluter raises the matter]

- Clearly this is an important question for Denmark and I am sure that M Delors has noted carefully what Mr Schluter has said.

- I understand that when Finance Ministers looked at this on 17 November there was a general disposition to work towards a compromise covering this and all the other problems needing resolution in the 7th Directive on travellers' allowances.

- The Ecofin Council will return to this subject on 8 December.

- Hope we can agree to invite them to find a global solution as a matter of urgency.

Background

1. Mr Schluter wrote to the Prime Minister on 13 November explaining the background to the Danish problem and warning her that he may raise this question at the European Council. The Prime Minister's reply urged him not to do so on the grounds that Ecofin was still considering a package in which the Danish derogation was one element. The attached draft Council conclusions remit the question back to the Ecofin Council for urgent consideration.

DRAFT EUROPEAN COUNCIL CONCLUSIONS

The European Council noted the Danish request for an extension of their existing derogation in respect of the level of travellers' allowances. It invited the Council of Economic and Finance Ministers to give this question urgent consideration in the context of the draft 7th Travellers' Allowances Directive.

Copenhagen, November 13th, 1986

Dear Prime Minister Thatcher,

I look forward to meeting you in London during the forthcoming meeting of the European Council.

As usual the Britisk presidency has managed the business of the Community in a very able and target-oriented way. I am certain that the same will be the case for the forthcoming meeting of the European Council so that we all can look forward to a fruitful meeting pointing the way ahead for the Community.

Denmark has a special problem which I may be forced to raise though I hope that combined efforts by the Commission and the presidency will make it unnecessary.

Since 1973 Denmark has maintained a derogation from EEC provisions of travellers' allowances. This derogation is necessary because of the difference in taxation structure between the Federal Republic of Germany and Denmark. The Federal Republic finances social benefits by way of contributions from employers and employees. Denmark does it by way of indirect taxation.

Without this derogation Denmark would have to bring the tax rates on indirect taxation into line with the rates applied in the Federal Republic of Germany.

This would mean two things. Firstly that the Community would force us to change the Danish tax system thus imposing another policy on distribution of incomes than the Danish Parliament has decided. Secondly that the Danish national treasury would lose a revenue corresponding to approximately 1% of the Danish gross domestic product.

I am certain that you agree with me that this is intolerable for a member state. No member state can be expected to accept such a change in its tax system and policy of incomes distribution. No member state can be expected to forgo a revenue of 1% of its gross domestic product. May I remind you that the British net contribution to the Community amounted to approximately 0,4% of the British gross domestic product.

We have asked the Commission to forward a proposal for a further three-year unchanged prolongation. Until now the Commission has listened to our request, but no specific proposal has been put forward.

However much I regret it I will have to raise this issue in the European Council unless the matter seems to be in progress before our meeting.

For your information I enclose some material which illustrates the importance of this problem. I find it intolerable that it is so difficult to obtain a derogation which only encompasses citizens living in Denmark and has no bearing whatsoever on citizens living in other Community countries. Britain has helped to find a solution to this problem on previous occasions, and I hope that the British presidency and you yourself will lend support to a solution of the problem as it now stands.

Yours sincerely

Poul Schlüter.

The Honourable Margaret Thatcher
Prime Minister,
Downing Street 10
LONDON

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THE PRIME MINISTER

25 November 1986

26/11

27 NOV 1986

Dear Prime Minister,

Thank you for your letter of 13 November about an extension of Denmark's derogation from the Community provisions on travellers' allowances.

There was a general willingness at the Economic and Financial Council meeting on 17 November to work towards a solution covering all the problems of particular concern to individual member states which need to be resolved in the context of the 7th Directive on travellers' allowances. COREPER has been instructed to produce a package for further consideration at the next ECOFIN Council on 8 December, and this package would clearly have to include a further 3 year prolongation of Denmark's derogation.

In the light of the ECOFIN Council discussion, and the further work to be done by COREPER on 25 November, I hope you will agree that matters are now developing on the right lines and that it is not after all necessary for you to raise the issue at the European Council. But that must, of course, be for you to decide.

I look forward to seeing you next week.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Poul Schlüter

OPENING SESSION

For the opening session, in addition to brief No 1, which includes contingency notes on research and cohesion, the Prime Minister and Secretary of State will need to have available the contingency briefs on:

a) Danish travellers allowances
(brief No 9 - will be raised by Schluter)

b) ERASMUS
(brief No 10 - may be raised by Delors)

c) Greek Loan
(brief No 13 - might be raised by Papandreou)

d) EC/US trade issues (No 6))
)just in case
e) US/Japan Economic Cooperation Agreement (No 7))

Most of these points for use as necessary could be made by the Secretary of State.

The Secretary of State should have available the attached text of the draft resolution we have tabled for adoption by Employment Ministers on 11 December. This makes clear that points others may raise about the continuing need for social and employment protection and to take account of the views of the social partners are dealt with in that resolution.

The Prime Minister will also need to have available the frontier controls/terrorism/immigration brief No 2, with particular reference to the speaking note and draft conclusions on cancer and AIDS, which should be used before the end of the first session.

DISCUSSION OF HEADS OF GOVERNMENT OVER DINNER

In addition to the political cooperation brief No 3 and possibly also the frontier controls/terrorism/immigration brief No 2, the Prime Minister will need to have available the contingency briefs on:

a) Turkey (likely to be raised by Kohl and/or Papandreou).

b) EC/Hungary (may be raised by Kohl).

c) Food aid for Lebanon (will be raised by Chirac).

d) Mitterrand's ideas on a "Marshall Plan" for the Third World (new brief - No 14).

e) EC/Cyprus (may be raised by Papandreou - brief No 15).

OWN RESOURCES/AGRICULTURE (TO BE DISCUSSED OVER DRINKS/DINNER)

In his presentation, M. Delors may say that rather than tabling papers on Community financing/the ex novo review at the end of the year, he will first undertake a tour of capitals, then bring forward papers in February. The Prime Minister will wish to welcome this.

The Prime Minister will want to draw attention to the messages from MM. Pflimin and Cot (Chairman of the Parliament's Budget Committee) about the need to deal with the problem of agricultural expenditure. The briefs have been adjusted accordingly. We have circulated an additional note in case it is suggested that imports are the cause of CAP problems. We might try for firmer conclusions (attached) on agriculture. We should avoid these being negotiated over drinks/dinner. We would table them with the other conclusions - on the second day. The final sentence of the draft conclusions is important to the French and accceptable to us: following Spanish accession we also want to prevent over-production in this sector. But we should not go beyond this formulation, for the reasons given in the attached note.

In addition to brief No 3, the Prime Minister will need also to have available brief No 6, in case the discussion veers onto EC/US trade relations; and the attached notes on cohesion.

CAP

[DRAFT CONCLUSIONS - TO BE TABLED ON SATURDAY]

"The Prime Minister drew the attention of the European Council to the message received from the President of the European Parliament about agricultural expenditure. The heads of government reaffirmed the conclusions they reached at the European Council in The Hague on necessary adaptations of the CAP. They underlined the need to reach early decisions on the matters before the Agriculture Council, in particular on milk and beef. The European Council called also on the Commission to come forward with proposals for revision of the regime for vegetable oils and fats and on the Council to reach early decisions on this."

[As necessary]

- Agriculture Ministers are committed to reach decisions on revision of the beef regime by the end of the year.

- The Commission has emphasized the urgency of decisions in the milk sector.

- We agree on the need for reform of the vegetable oils regime, in particular through the introduction of guarantee thresholds as envisaged in the Accession Treaty. Otherwise there will be massive over-production in this sector as well.

- We could not agree to language which appeared to imply action against imports or agreement to a tax on certain vegetable oils.

EUROPEAN COUNCIL: OWN RESOURCES AND AGRICULTURE

SPEAKING NOTE

- The Fontainebleau agreement requires the Commission to bring forward to the Council a report on:

  - the results of budgetary discipline;

  - the Community's financial needs;

  - the breakdown of the budgetary costs between the member states.

- This is not the right moment for substantive discussion: that must await the Commission's report. But I welcome the opportunity to ask Jacques Delors to tell us how the Commission are getting on with their report and about the time-table for discussion.

[PRESIDENT OF THE COMMISSION TO SPEAK: OTHERS WILL THEN INTERVENE]

- As soon as we have the Commission's report, the Presidency will be arranging for discussion in COREPER

and the Council.

- I have received a message, which is being circulated, from the President of the European Parliament about the need to take decisions on agricultural expenditure.

- Not appropriate to deal with detailed decisions on agriculture among Heads of Government. Agriculture Ministers are meeting again in Brussels on 8/9 December. Should agree that they must take the necessary decisions, particularly on milk and beef.

[IF NECESSARY]

- We must now await the Commission's report. It is important that the budgetary control arrangements should operate satisfactorily. We shall be glad to hear how the Commission suggest that they should be improved and made more effective.

- As M. Pflimlin's message makes clear, a central question which will have to be addressed is the use we are making of the resources at present available to the Community. We are all committed to supporting our

agriculture. But at present over fifty per cent of the total Community budget and two-thirds of the agricultural budget is devoted to funding the storage and disposal of agricultural surpluses.

- We all accept the need to preserve the fundamental principles of the Common Agricultural Policy. But the intervention system was intended as a safety net and not as the normal outlet for production. And it is not helping farmers as it should: while the financial costs of marginal over-production are rising, farm incomes have been falling.

- The necessary changes have to be made progressively. A good deal has been done in the last three years. It is obvious that there will have to be further adaptations if the policy is to be preserved and we are to avoid annual budget crises. It is important that the Commission's report should include proposals for mechanisms which would ensure that the very large amounts of money we devote to agricultural support do not have the effect of encouraging production beyond what the Community can consume and what we can export. We shall look forward to seeing the Commission's proposals on this point.

- Two commodities, milk and beef, cause special concern. Despite the introduction of quotas on milk production in 1984, output remains far in excess of requirements. Stocks of butter in intervention have increased dramatically since the spring to a total of 1½ million tonnes - plus 1 million tonnes of skimmed milk powder. We have to decide on the mix of measures to bring production back into line with demand. The Commission have made proposals and it is urgent that they should be acted upon.

- For beef, we also have large stocks in intervention. Farmers must be encouraged to produce for the market, not for intervention. The Commission made proposals nearly a year ago and have recently elaborated them. The Agriculture Council must reach decisions.

[AS NECESSARY]

- Agree that decisions must also be taken to prevent similar problems of over-production of vegetable oils.

[If it is suggested that there should be two European Councils to discuss these matters in the first half of

1987]

- That will be a matter for the Belgian Presidency to decide. Once the Commission's report is available, there will need to be discussion in the Council. M. Martens will need to decide when the matter is right to be referred back to the heads of government. In my view, a great deal of preparation will be necessary.

[If there is general support for an earlier meeting to deal inter alia with agriculture]

- That will be for M Martens to decide. Clear that urgent decisions are necessary on agriculture. We are looking for them to be taken in the Agriculture Council next week.

EXTRACT FROM OWN RESOURCES DECISION 1985 AND FONTAINEBLEAU AGREEMENT 1984

"Whereas, by the terms of those conclusions, the maximum rate of mobilisation of value added tax own resources will be 1.4% on 1 January 1986; whereas this maximum rate applies to every member state and will enter into force as soon as the ratification procedures are completed and by 1 January 1986 at the latest; whereas the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures".

EXTRACT FROM FONTAINEBLEAU AGREEMENT

"One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline;
- the Community's financial needs;
- the breakdown of the budgetary costs among member states, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo."

KB4AQT,6

LETTER OF 4 DECEMBER FROM PRESIDENT PFLIMLIN TO THE SECRETARY OF STATE

"During its discussion on the second reading of the draft 1987 Budget of the European Communities, the Committee on budgets of the European Parliament expressed the wish that a solemn message be conveyed to the European Council and to the Council of Ministers on the problem of agricultural expenditure.

I am therefore forwarding to you this message and wish at the same time to underline the gravity of the problem which I hope will receive the full attention of the European Council and the Council of Ministers."

LETTER OF 3 DECEMBER FROM M. COT, CHAIRMAN OF THE EUROPEAN PARLIAMENT BUDGETS COMMITTEE, TO PRESIDENT PFLIMLIN

"On behalf of the Committee on Budgets, may I request you to draw to the attention of the European Council and of the Council of Ministers the importance that the European Parliament attaches to the proposed modifications which it adopted at its first reading of the draft 1987 Budget and which concern a supplementary

reduction of agricultural production, the creation of the necessary compensations and the reduction of the agricultural stocks which have built up over the past few years.

At its second reading, the Budgets Council made a token entry and referred the question to the Agriculture Council, which is due to meet next week. Both the budgetary perspectives for 1987 and the possibility of releasing the additional own resources needed for the future financing of the Community depend to a large extent on the course of action which is followed with respect to these agricultural questions.

The Committee on budgets therefore expressed the wish that a solemn appeal be made on this matter on the occasion of the meeting of the European Council in London."

CONCLUSIONS [Not for discussion at dinner: to be tabled as appropriate thereafter]

CAP

- The heads of government underlined the need to reach early decisions on the matters before the Agriculture Council, in particular in relation to the adaptation of the regimes for milk and beef.

EX NOVO REVIEW

[if necessary]

- The President of the Commission informed heads of government of his intention, in accordance with the Fontainebleau agreement, to bring forward by the end of the year a report to the Council on:

  - the result of budgetary discipline;
  - the Community's financial needs;
  - the breakdown of the budgetary costs among the member states, having regard to their relative prosperity.

KB4AQT,7

COHESION

[if necessary]

- The heads of government noted that the Commission, in accordance with Article 23 of the Single European Act, will bring forward in the near future a comprehensive proposal on the structure and operational rules of the structural funds.

If there are references to the attached Benelux text

- The subjects dealt with in these texts have been covered in the Presidency conclusions.

As necessary

- The Presidency has circulated conclusions on employment and on technology based on the discussion yesterday. We have also circulated conclusions on agriculture in the light of the discussion between the Heads of Government before dinner.

- The Presidency conclusions also draw attention to the need for ratification of the Single European Act by the end of the year. The only new point here is the reference to the implementing powers of the Commission and the Council's rules of procedure. These matters were not discussed yesterday. Good progress has been made in the discussions between Permanent Representatives. They will be dealt with by the Foreign Affairs Council.

BENELUX

Consequences of the entry into force of the Single European Act

The European Council notes with satisfaction that, as a result of the efforts made by the Member States in recent months, the Single European Act will enter into force on 1 January.

In order to make full use of the improvements in the decision-making process to be made at that time in order to implement the Single European Act, the European Council urges the General Affairs Council to reach agreement at its next meeting on the detailed arrangements for a significant transfer of implementing powers to the Commission of the European Communities. It will also be necessary in this connection to make appropriate amendments to the Council's Rules of Procedure in order to improve the decision-making process.

Finally, the European Council notes that the subsequent implementation of the Single European Act will require intensive and constructive co-operation with the European Parliament.

In general, the European Council urges both the Commission and the Council to make maximum use of the opportunities afforded by the Act for extending the Community's activities and improving the decision-making process.

BENELUX

8

TECHNOLOGY

In a desire to ensure that the Member States of the European Community are endowed with the technological dimension essential for the completion of the internal market - with particular reference to the opening up of public contracts - and for the international competitiveness of European undertakings, the European Council urges the Ministers for Research to adopt the framework programme for 1987-1991 at their meeting on 9 December.

This framework programme must be substantial, as it is the first demonstration of the political will of the Member States to give tangible substance to the Single European Act.

This means that it will have to make a real quantitative and qualitative leap in relation to the current framework programme, taking account in particular of Community enlargement and monetary erosion.

The European Council would recall the Resolution it adopted in Brussels (March 1985) on strengthening the technological base and competitiveness of Community industry, which was confirmed in June 1985 in Milan, in December 1985 in Luxembourg, at the time of the adoption of the Single European Act, and in June 1986 in The Hague.

BENELUX

The Common agricultural policy

On the basis of the European Commission's analysis, the European Council acknowledges that in some agricultural sectors there are imbalances between production and outlets. The European Council therefore confirms its determination and the urgent need to proceed with further adjustments to the common agricultural policy in order to establish it once more on a sound basis; the basic principles of the common agricultural policy, as laid down in Article 39 of the Treaty, will be observed. The Council is therefore urgently requested, as a first step, to act without delay on the Commission's proposals for adjustments for milk and beef and veal.

In the course of next year priority will have to be given to a fundamental review of the whole of the agricultural policy in conjunction with the problem of financing. The European Council notes that the European Commission intends to submit the necessary proposals by the end of this year.

BENELUX

Draft conclusions on unemployment/employment opportunities

The European Council noted that in various Member States unemployment was decreasing, albeit slowly. A further steady reduction in unemployment will have to remain one of the most important policy priorities both for the social partners and for the authorities, in constant dialogue with each other.

Since it has already been established that unemployment is a very complex issue, a complex set of measures will continue to be necessary in order to improve the situation. In addition to judicious support for growth in general, the most important features should be:

- the containment of labour costs
- the removal of obstacles to setting up and expanding undertakings
- training and recruitment programmes for various categories of unemployed people, viz. the poorly qualified and the long-term unemployed.

With the assistance of the Commission, experience with such programmes will have to be exchanged more extensively than hitherto.

EC/US

- Community committed to working for agreement by end of year in negotiations with US on trade effects of enlargement, while making clear to the US and EC will respond to any unilateral US action affecting EC exports.

EC/JAPAN

- European Council called on Japan to ensure that imported goods are able to compete freely in the Japanese market. Foreign Affairs council have rightly launched GATT Article XXIII action against Japan over blatant tax discrimination on alcoholic drinks. European Council endorsed this action. Action by Japanese to end this discrimination will be a test case of Japan's willingness to open its markets to foreign competition.

- European Council asked Commission to consider other sectors in which action should be pursued to remove barriers to trading in the Japanese market.

LP8ADK

TERRORISM

Importance of free movement

- Fully committed to making travel easier for our citizens through internal frontiers. But this must remain compatible with need to combat terrorism and drugs.

- The work we have set in hand to tighten Community's external frontiers will make it easier to simplify internal procedures.

No practical steps taken against terrorism?

On safeguarding the open society we are the first Presidency to recognise the link between freer movement for bona fide travellers within the Community and essential protection against terrorism, drugs and illegal immigration through mutual cooperation and strengthening external frontiers. All the following measures spring from British initiatives in recent months:

- new concerted action against terrorism;

- greater attention to European Convention on the suppression of terrorism (France, Greece and Republic of Ireland will join);

- more effective arrangements for extradition;

- steps to ensure that provision for genuine asylum seekers is not abused;

- concerted action on theft and forgery of passports;

- exclusion of suspects now means that a suspect excluded from one member state can be excluded from all;

- secure hot line between security services;

- the seven point plan against drug abuse, including action to ensure that assets of illicit drug traffickers are liable to confiscation throughout the Community; exchanges of Drug Liaison Officers; concerted work on treatment and rehabilitation of drug addicts.

DRUGS

European Parliament Report

- Presidency welcomed the European Parliament's helpful report on drugs.

- Interior Ministers took account of it in formulating plan endorsed by European Council.

Next steps

- Work will be taken forward urgently. Understand Commission will bring forward first a proposal on cutting demand for drugs.

R&D

Why is Council cutting back Community research programme?

- Council remain committed to increasing proportion of budget devoted to R&D.

- The 1987 budget, as established by the Council, provides for an increase in expenditure of over 20% compared with 1986.

ENVIRONMENT

UK proposal on Acid Rain a step backwards?

- Neither original Commission draft Directive nor Dutch compromise proved basis for agreement. Our proposal designed to achieve agreement and ensure all member states share responsibility for achieving reductions. Would also be far-reaching, involving a reduction SO^2 emissions of 60% in the next 25 years and 30% by 1993.

NUCLEAR POWER

- UK safety record second to none. No nuclear emergency in any UK civil nuclear reactor in 25 years of operation.

- All discharges from Sellafield/power station subject to strict authorisation. Even minor releases to environment are made public.

DL1AFW

EMPLOYMENT

Coordinated growth strategy?

- All agreed on the importance of a non-inflationary growth strategy to create real jobs.

- The joint Employment Growth Strategy put forward by UK, with Ireland and Italy, will contribute to this.

- Past reflation has simply led to higher inflation and unemployment. We must not throw away the gains we have made.

Social dialogue?

- Social partners will be fully consulted on implementation of the employment plan.

- Fully support President Delors' initiative (to hold talks between unions and employees at European level)

- Standing Employment Committee (Management, Unions and Commission) met under our Chairmanship last month and agreed employment steps to maintain dialogue in interests of promoting.

UK opposed to social protection?

- UK believes all firms must provide social protection for their workers. But has to be such that it does not prevent the formation of new small firms.

- Social protection no help if you have no job.

- Deregulation in UK has abolished.

RB2AED

ERASMUS

- The European Council has reaffirmed its favourable view of encouraging student mobility and has asked Education Ministers to consider the subject further.

PEOPLE'S EUROPE

Neglected by UK Presidency?

- Our initiatives on cheaper air fares, cancer and AIDs just as much a part of the concept of People's Europe as the ideas put forward in the People's Europe Committee reports.

- All the points highlighted by The Hague European Council have been followed up and progress made even if final agreement not reached on all.

DL1AFW

AIDS

What can the Community do?

- Health Ministers have already adopted a resolution on exchange of information.

- The European Council called for further action which should include prevention and cooperation in research and training.

CANCER

Progress too slow?

- Understand Commission about to forward to Council proposals for an action programme.

- This will propose over forty detailed measures on cancer prevention, research, information and training for GPs and specialists.

Funding

- Commission submitted to Council a draft Regulation for the 4th EC Medical and Public Health Research Programme last month. A proportion of this earmarked for cancer and AIDS research.

Cancer Information Year?

Cancer kills three quarters of a million people in our countries each year. We must improve information about prevention and treatment. Better to do so together. European Safety Year (this year) has shown what can be done.

DL1AFQ

FOOD AID/FAMINE IN AFRICA

MORE EC FOOD TO FEED STARVING IN AFRICA?

- No evidence that further pledges of food aid to Africa required at present.
- Some countries, e.g Kenya, Zimbabwe have exportable surpluses.
- Main problems now relate to distribution of food within countries rather than additional supplies of food.

WHAT IS EC DOING TO REDUCE RISK OF FURTHER FAMINES?

- Major EC rehabilitation programme in famine affected acountries now almost complete.
- Africa will receive over 90% of 7.4 billion ecu available under sixth European Development Fund (EDF).
- Over 75% of this to be devoted to agricultural and rural development.
- Increasing local food production is priority in virtually every EDF programme in Africa.

M34ABR(1)

WHY NOT MAKE GREATER USE OF EC FOOD SURPLUSES?

- Food aid not complete or long term answer to food shortages.
- No alternative when people starving, but in more normal circumstances food from outside can distort local markets by depressing prices paid to farmers and remove their incentive to produce more.
- EC's aim should be to assist agricultural and other development, particularly in Africa, to make recipients better able to feed themselves and less dependent on external aid.
- Problem of EC food surpluses is separate matter: must be tackled separately.

WHAT REFORMS IN EC FOOD AID POLICY AGREED BY 11 NOVEMBER DEVELOPMENT COUNCIL?

- Food aid primarily to meet real needs of developing countries rather than simply a convenient means of disposing of EC food surpluses.
- Food aid to be better integrated with other forms of Community development assistance. Overall aim is to encourage developing countries to produce food for themselves.
- Procedures to be streamlined, particularly for emergencies.
- More scope for "triangular actions" i.e purchasing food in one developing country for shipment to another.
- Conciliation meeting with Parliament to consider outstanding institutional issues next week: hope new regulation can be adopted in time to serve as basis for 1987 food aid programme.

ANGLO-IRISH EXTRADITION
A PRIMA FACIE REQUIREMENT

BACKGROUND

1. For some months the Irish have been aware that they would face strong pressure in the Dail to amend their Bill to ratify the European Convention on the Suppression of Terrorism when it came to be debated. It began its second reading on 4 December. With one Fine Gael backbencher having already defected, and another threatening to follow, the Irish Government now claim that they need to make a concession in respect of a prima facie requirement if they are to gain the support of the Progressive Democrats and get the Bill through.

2. This subject has been under discussion at official level under the Intergovernmental Conference since the early summer. Originally the Irish proposed that a statutory requirement should be introduced into their legislation to the effect that no fugitive should be returned to the UK without an Irish court having been satisfied that a prima facie case existed against the accused. The British side resisted this strongly. They pointed out that the UK was on the brink of abolishing the prima facie requirement in its own legislation (through the Criminal Justice Bill) in order to bring the UK into line with practice elsewhere in Europe, where there is no such requirement. It would be a nonsense for the Republic to move in the opposite direction. The Irish accepted this.

3. Then the Irish suggested a certification procedure (that they have now revived). Under it, each warrant would be accompanied by a certificate (signed by the DPP or Attorney General) stating that there was a prima facie case in respect of the offence. Again the British side resisted. They argued that not only would each certificate be scoured in the Irish courts for technical defects (as are warrants at present) but the Irish courts would insist on going behind the certificate, calling for evidence from the signatory, and in effect conducting a prima facie hearing. This would introduce a substantial obstacle into the current backing of warrants procedure

which is designed to provide the smoothest possible extradition arrangements. Political opponents of the Anglo-Irish Agreement would rapidly point to the oddity of requirements in procedure between the UK and the Republic which we are legislating to abolish in our dealings with the rest of Europe.

4. Instead the British side offered a public statement by HMG to the effect that warrants would be sent to the Republic for backing only after the independent Crown Prosecution Service (or DPP in Northern Ireland) had been satisfied as to the sufficiency of the evidence in the case. This should offer reassurance that warrants would not be sent to get fugitives returned merely for the purpose of questioning them. This was accepted by the Irish. And on 8 November in Bridgwater Tom King made a speech in which he said that warrants would only be sent for backing when there was a clear expectation of a prosecution founded on a sufficiency of admissible evidence.

5. Until this week-end the Irish seemed satisfied that the public statement would be enough to enable them to resist pressure for a more formal prima facie requirement. The defections from Fine Gael have changed that. However the difficulties for the UK in the certification procedure to which the Irish have now returned remain great. It would make extradition from the Republic more difficult and would be hard to defend politically. While the matter could be raised at the meeting of the Intergovernmental Conference in Belfast on Monday, 8 December, there can be little hope that the British side will be able to see a way of going further than the statement that Tom King has already made, and that was designed to give the Irish precisely the reassurance that they need.

JR1AAC

POINTS TO MAKE

- Essential thing from our point of view is not to have a prima facie requirement in Irish courts via the back door.

- We think certification proposal would do this.

- By all means raise in IGC. But anything which allows prima facie hearing in Irish courts unacceptable to us.

EC1AAM

GROWTH.

← MAJOR FORCE for GROWTH. – Market – increased.

Inflation toward 5% years

Wage Moderation.

Interest Rates

All should be working for economic conditions to bring about lasting Christian Democratic opinion.

FRAMEWORK
Int Market
new. under
CONTROL OF
should go
Dialogue – to establish
changes required

TRADE.

Japan – Delta –

Further fall in dollar – EMS difficulties.

– Interest Rates – increased.

← Completion of Int. Market. – 1/6 of directives required.

(Cohesion that counts?) (Norway . Public Procurement
– Common Standards
No * – Approximation of Taxes

Capital movements

Common standards.

← FRAMEWORK PROGRAMMES for Research

← Small Firms Simplification of RULES. VAT

← Setting up small firms – via access to capital.

JOBS — Investment levels EMS rates. – or –

Studies for good.

– Social Fund — Reform of Social Fund

← Fight against long term unemployment.

Markets – compare with U.S.

← Long term unemployed

Flexibility of Labour market

Market

INTERNAL MARKET.

- Progress.
- still relevant employment.

← Lightening of burdens –

Related factors.
Current patterns favourable (fall in world prices

∴ Change ec policy
growth / production / employment
productivity up. U.S. down in Europe /
shorter employment consequences

① Wage moderation / Job-sharing provided no effects – unit costs
Many new jobs are part-time.

② Flexibility of labour market. Higher tech
Part-time work / training. training.

③ Encourage setting up own business.

COMMON STANDARDS.

④ Young People Unskilled – Training
Action Programme

NO MIRACLE CURE.
– COMPLEX of measures

Kohl

Climate ~~reasons~~ to Socialist change

- 1987 - not optimistic.

Job. - 2m unemployed - ? Some could have jobs

200 Reps - - Jewish Women in Parliament.

Support Small enterprises.

Many old towns

← MORE FLEXIBLE LABOUR MARKET (Markets)

Oil PRICES will CHANGE before LONG

Measures — Psychology - Choice?

On RIGHT need left ~~left~~ still some

problem - JOBS - not short term

Youth need more than WISDOM

Italy - ? Black Economy?

← Shrinking investment

PROTECTIONISM - Esp. Closed

Dialogue Community + Caucus

Crisis + Conflict - Political Change left

direct Democracy + Local

Economic body of more limited

axes.

Finance Ministers

Travellers Allowance

Today Environment

Ev / EC / Hungary

Ev Turkey

Ev. Erasmus.

Ev. SMEs

Reform / convergence Rev. Robust Growth could falter
middle next year

(1). E.C. - more favourable
- Montreal / U.S.

(2) Trade - INTERNAL MARKET.
Political Single to achieve one and - o - Trade

(3) Technology - Limits - Wider Applic.

(4) Employment - Lots low paying jobs.

(5). People. Europe. - Flight of capital abroad

Tobacco.

Asylum - Terrorism

Protection of Environment

Intellectual property.

Refused Swedish Nuclear Submarine

European Code of Conduct

Report 1-60

Guardian

Terrorism - Asylum

Work in Council of Europe.

Asylum Seekers - Not Political Refugees

~~Global~~ Lufthavn - Int. Rules

IMDG - Int. Maritime Transport

- Technological Change
- Standards
- Public Procurement

Internet - Standards
- Procurement
- Explanation
Public
Procurement

- Technology

Fitzgerald - Air Transport

Rail / Eyre Shaw

Marine programme

)

Asylum

EC/JAPAN

- Trade imbalance enormous and still growing. Japan's surplus with EC alone likely to exceed $20 billion in 1986.
- Council has repeatedly pointed out to Japan need for action to correct this. Foreign Affairs Council have rightly launched GATT Article XXIII action against Japan over blatant tax discrimination on alcoholic drinks.

We will be considering other sectors for similar treatment.

- The European Council in London called on Japan to take urgent and effective steps to ensure that imported goods able to compete freely in Japanese market, and, in specific market sectors, to reduce the massive and growing trade imbalance with the Community. It regarded the ending of discrimination of the type aplied to alcoholic drinks as a test case of Japan's willingness to open its markets to foreign competition.

JAPAN: AIRBUS

- Very glad to say that Air Nippon Airways have decided to place a substantial order for Airbus. [10 in first instance and 10 on option: formal decision at end of January].

D34AAR(2)

EC/Turkey

- Turkey has made no aplication.:
- Time not ripe: EC must first absorb Spain and Portugal.
- Priority is to develop our relations on basis of Association Agreement. That is what Presidency have been doing.

EC/Hungary

- Brief discussion.
- Council considering mandate for negotiations with Hungary.

EC/US

- EC commited to working for agreement by end of year in negotiations with US on trade effects of enlargement, while making clear to the US that EC will respond to any unilateral US action affecting EC exports. Fully support Commission's efforts.
- Trend in Congress increasingly protectionist (recent oil import tax, customs user fee, tax credits for US-produced aircraft).

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2 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

REAPPOINTMENT OF PRESIDENT OF COMMISSION

Introduction

For use at the start of meeting.

Presidency Speaking Note

(1) Delors

- I am very glad to announce that Jacques Delors has agreed to serve for a further two years as President of the Commission on the expiry of his present term on 5 January.

- Our Foreign Ministers can take the necessary formal decision at their December meeting. (1a)

(2) Single European Act

- I am glad to note that three member states (Denmark, Belgium and the United Kingdom) have already ratified the new Treaty - the Single European Act - which we agreed in Luxembourg. I hope that in our conclusions we can agree to state that all member states expect to be in a position to ratify by the end of the year.

(3) Replied to letter on agenda for the meeting Lee → Business + Jobs / Internal Market

RB2ADQ

Terrorism, Immigration, Asylum, Drugs
Finish Session at 6.30 p.

Just before dinner
ask Delors to give brief report on
Commission ~~Proposals~~ report as required in future
budgetary discussions etc.
D- Foreign Council on Saturday —

BUSINESS AND JOBS

Over Dinner. E/W open
but other F.As
issues.

OPENING SPEAKING NOTE FOR THE PRIME MINISTER

- You will all have seen the Presidency Report outlining the progress that has been made in the areas of job creation, small businesses, the internal market, consumer interests and burdens on business, together with the Presidency's recommendations for further action. And you will have read Jacques Delors' reports on the economic situation and the Internal Market.

- I do not think it necessary for me to repeat what is in the Presidency report, which is intended to provide a starting-point for our discussion this afternoon.

- I hope that you will not feel bound to comment on every aspect of the reports but only on those which are of particular interest to you.

- One of the subjects highlighted in our paper and in a helpful paper from the Commission is the question of employment and job creation. This is a matter of wide public concern in all our countries and it is right that we should be discussing it here. Of course we

know that there are no easy answers. The problem certainly cannot be solved by encouraging our industries to become reliant on ever more expensive national subsidies. That solution has been tried and failed.

- But that does not mean there is nothing we can do. Our Employment Ministers are discussing a wide range of practical measures to help small firms, improve training, encourage more flexible working patterns, and help the long-term unemployed. We must also compare our experiences and evaluate the various employment and training programmes we have all been undertaking nationally. And there is a crucial role for the Community to play in helping to create conditions favourable to the growth of wealth and employment.

- That is particularly the case in relation to small enterprises. Here the Commission have put forward some ideas and have recently tabled proposals on the application of VAT to small and medium businesses. The initiatives which have been taken to lighten the regulatory burden also will be helpful to small firms who have a crucial role to play in generating new employment.

- I hope that we can agree today that the work being conducted on these matters by our Employment and Industry Ministers is on the right lines, and encourage the Employment Ministers in particular to reach agreement on an action plan for employment later this month.

- Another main theme of our discussions must be progress on the internal market. Both the Dutch and the British Presidencies have given a high priority to work on this, and to sticking to the time-table agreed in the Single European Act which we signed in Luxembourg a year ago. We have made progress, and this has been more rapid this year than in any previous year. But we are clearly going to have to accelerate our work further if we are to achieve the completion of the internal market by 1992. Of course, the internal market is not just a matter of common rules, but also of persuading our companies to recognise the benefits of a single European market and to take decisions themselves accordingly.

- We must not forget that the internal market is a major ingredient of a people's Europe. That is why

getting agreement on air transport is so important. We have made good progress on some aspects but there is still no agreement on a more open approach to air fares, the issue that matters most to the millions of Europeans who fly on business or pleasure every year. We cannot prevent competition. The European Court has decided that the competition rules of the Treaty apply to air transport. It surely is in all our interests to take collective decisions which will benefit the traveller and give legal certainty to the airlines, rather than wait for the competition rules to be enforced by further legal action.

- In our report we cited Digital Cellular Radio, ie mobile radio telephones, as a test case for the Community's commitment to create a common market in high technology. We have a fast growing cellular radio market. But Europe's users will want their equipment to work across the whole of our present fragmented market. European industry must get itself into a position to win a substantial share of the world market which is potentially worth $10 billion. The advent of the next generation, of digital cellular radio, is Europe's opportunity to set the pace worldwide since this is an area where we have a technological lead. We

might consider giving this particular impetus so that the engineers who have to agree the standard and the telecommunications operators who must cooperate to get the new service going know that this is a political priority.

- I wrote to all of you last month about ways in which we could unblock decisions on the internal market. The Internal Market Council on 1 December made much more rapid progress as a result of your interventions, for which I am very grateful. When we discuss the Internal Market I shall have some further suggestions to make on what else we need to do before the end of the year to maintain this momentum and ensure that we adhere to the 1992 timetable.

- Completing the internal market is essential to our ability to compete effectively with Japan.

- We are all concerned at the continuing and growing imbalance in our trade with Japan ($20 billion with EC in 1986 - 70% increase over 1985) resulting in some sectors from unfair trade practices. Will ask the Presidency of the Commission to say a word about this.

- We pointed out at Punta del Este that there must be a balance of rights and obligations for countries which derive great benefits from the open world trading system, which we all are concerned to strengthen and preserve. M. Nakasone personally understands the need for change, and has promised that Japan will open up its market to our products as freely as most Japanese products are able to enter the Community. But insufficient real action has been taken.

- We have launched GATT action on alcoholic drinks. The Commission is examining other sectors where discriminatory practices affect our exports.

- In our conclusions, we should reflect the need to achieve such a balance and emphasise the special importance of early action by Japan to enable our exports of alcoholic drinks, and other sectors we identify, to compete on equal terms with Japanese products.

- Perhaps President Delors would like to open our discussion.

BUSINESS AND JOBS

First main session covering, in particular

- internal market (including capital movements and transport)
- technology (including reference to digital cellular radio)
- small and medium businesses (including VAT threshold)
- employment and job creation

Timing Desirable, if possible, to move on to second main theme (terrorism/immigration/drugs/frontiers) just before end of this session eg about 5.45 pm but, if not, second main theme could be opened up at dinner

References UK Presidency paper

Commission papers on

- macro economic situation
- small businesses and employment
- internal market ("completing an area without frontiers")

Handling We recommend that you should

- make an opening statement, introducing the whole of the Presidency paper
- make a second intervention when you judge that the discussion on the internal market is concluded
- sum up briefly on the main points at the end

Speaking notes are opposite.

After your first statement, invite M. Delors to open the debate, then invite heads of government to comment on items of particular interest to them in Presidency report. In any event M. Lubbers and M. Martens (last and next Presidencies) should be invited to speak on internal market. You could have either a single debate on the whole package or divide it into two: a debate on internal market and technology and a debate on employment and job creation and small and medium businesses.

Draft conclusions will be tabled on 6 December (text below)

25 November, 1986

A COMMUNITY CAMPAIGN FOR BUSINESS AND JOBS

(report by the Presidency on the Economic and Social Situation)

THE CHALLENGE

Among the main goals of the Community are economic and social progress and the constant improvement of the living and working conditions of the people of Europe.

The Community was a major force for growth in the 1960s. It must be so again in the 1980s and 1990s.

The problem of unemployment, particularly long-term unemployment, affects every member state. It can be tackled effectively only through the growth of business and enterprise.

Business will flourish only if barriers to trade are broken down throughout the Commmunity.

Enterprise can be encouraged if steps are taken to reduce burdens and open up opportunities in all the member states.

THE PROGRESS MADE

There is a growing convergence of economic policy in the member states.

This has been demonstrated in the policies we have adopted to reduce inflation.

The Commission expect inflation next year to fall to 3%, the lowest Community average for 20 years.

THE BRITISH PRESIDENCY HAS GIVEN PRIORITY TO:

- promoting long-term prosperity and job creation through the completion of the internal market;

- lightening burdens on business;

- an action programme for employment growth;

- helping small and medium-sized enterprises to make a dynamic contribution to the creation of prosperity and jobs.

CAPITAL MOVEMENTS

Finance Ministers agreed on 17 November on further measures to liberalise certain capital transactions. The Commission should be invited to bring forward as soon as possible proposals to achieve the free movement of capital throughout the Community by 1992.

THE SINGLE LARGE MARKET

Faster progress on the internal market has been achieved this year than under preceding Presidencies. But the pace of decisions remains too slow if the 1992 target is to be achieved. The Presidency invites the European Council to endorse the need for decisions by the end of this year on issues currently before the Council, in particular on:

- the first steps to be taken to achieve a single market in road haulage by 1992;

- creation of coherent Community policies, including the introduction of greater competition, in the fields of air and

sea transport;

- measures to open up public purchasing;

- measures in the fields of food law and plant and animal health;

The Presidency has proposed that agreement should be reached at the Internal Market Council on 1 December on a package of measures, including significant proposals on:

- counterfeit goods;

- pharmaceuticals;

- public procurement;

- standards in the fields of information technology and telecommunications;

- microcircuit designs.

The Presidency will make further recommendations to the European Council in the light of the progress achieved on 1 December.

To maintain the necessary rate of progress on the programme as a whole, the Presidency invites the European Council to endorse the need for decisions early next year on:

- the measures necessary for the further liberalisation of capital movements and to open up the market for financial services;

- the full arrangements for a Single Market in road haulage by 1992;

- further steps to open up public purchasing;

- the mutual recognition of tests and certificates.

TECHNOLOGY

A new industry-oriented basis for future Community action was agreed in the Single European Act. The new Framework Programme for R & D under discussion in the Research Council should give a clear signal of the Community's commitment to R & D as a component of industrial competitiveness.

To make this research effort effective and relevant to success in world markets, the Community must encourage wider cooperation between European firms. The involvement of several hundred European firms and research institutes in EUREKA projects has shown what can be achieved. Opening up public procurement to more effective competition is essential.

Decisions are imminent in the key area of digital cellular radio (mobile radio telephones). The potential world market over the next 10 years is worth $10 billion. Europe's capability in digital technology is now ahead of that of our main competitors. We need to be able to exploit this technical lead to seize a substantial share of that market. We must have a common standard European public telecommunications operators should join together to open a European service by 1991; and we must aim for a collaborative approach by industry.

ENCOURAGING ENTERPRISE

The Community has recognised the importance of lessening constraints on business to allow initiative to flourish and employment to expand.

This is essential for small and medium-sized enteprises which must play a role in creating new jobs.

- The Commission is examining all new proposed legislation for its impact on business costs and jobs;

- an assessment accompanying each proposal will enable the Council to take full account of the potential effects on business costs and jobs. This must now be put into effect;

- a special review is being carried out to assess the impact on business of existing Community legislation. The Commission will report with recommendations for action early next year;

- a Task Force has been set up to help ensure that the interests of SMEs are taken fully into account across the full range of Community policies affecting them;

The Council has endorsed the principles of the Commission's proposals on help for small businesses, and in particular steps to:

- ensure that existing schemes operate effectively for small firms;

- improve the administrative environment for small firms;

- create the conditions in which new small firms can be set up;

- improve the access of small firms to new technology;

- enable Member States to profit from each other's experience through an intensive exchange of information and mutual evaluation of initiatives, including schemes to help people to set up in business.

Agreement has been reached on new Community loan facilities of 1500 mecu which will enable the Community to support SMEs' efforts to invest, particularly in new technology.

The Council should consider urgently Commission proposals to raise the threshold limit for the payment of VAT by small firms.

AN ACTION PROGRAMME FOR EMPLOYMENT GROWTH

Social Affairs Ministers at their informal meeting in Edinburgh in September agreed on the need for an action plan for employment growth which the Council could formally adopt in agreement with the Commission. The Presidency will be seeking agreement in the Council on 11 December on an action programme designed to:

- help both young people and adults into employment;

- help the long-term unemployed back into jobs;

- promote the creation of self-employment and of small and medium sized firms;

- improve the workings of the labour market, including ways of increasing part-time and other flexible working patterns and providing better access to the labour market for disadvantaged groups.

CONCLUSION

These are all steps in our common battle to help create prosperity and employment for our citizens. The London European Council should be the occasion to decide on actions which would make a practical contribution to our ability to achieve those objectives.

EUROPEAN COUNCIL: COMMISSION PAPER ON ECONOMIC PROSPECTS

1. The Commission's paper includes a fairly standard analysis of the economic situation of the Community. It notes that growth prospects for 1986 and 1987 are reasonable, though not as favourable as they were a year ago. The debt problems of some LDCs and the United States' trade deficit present the main risks to a favourable development of the world economy. Europe is contributing to a reduction in world trade imbalances by steadily increasing domestic demand growth, but Japan is not doing enough to sustain world demand.

2. The paper argues that Europe must speak with one voice on international affairs, as it did at the launch of the GATT round and when Finance Ministers agreed at their informal meeting at Gleneagles that a period of exchange rate stability was appropriate. However, it attaches too much importance to the recent US-Japan agreement in making its case for Europe to be strongly involved in all international economic developments. The Commission fail to draw a distinction between trade matters, where they have authority to represent the Community, and international monetary matters, which are for individual countries. Europe is, of course, well represented in Group-of-Five and Group-of- Seven meetings.

3. The Commission believe that unemployment will fall only slightly between now and the end of 1987. Their paper refers to the need to implement the cooperative growth strategy, which was the main theme of the 1985-86 Annual Economic Report, and which is the basis for the policies propounded in the recent 1986-87 report. The strategy, which has the general support of all members of the Community, involves cooperation between governments and social partners on wage moderation and policies to improve the functioning of markets, alongside action by governments to maintain demand in the context of monetary stability and fiscal consolidation. There is a welcome reference in the Commission's paper to the need to improve labour markets and encourage the growth of small and medium-sized enterprises.

LP8ACV

MR. SAWYE

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 689 final
Brussels, 26 November 1986

EUROPEAN COUNCIL OF 5-6 DECEMBER 1986

SHORT-TERM ECONOMIC PROSPECTS AT INTERNATIONAL LEVEL AND FOR THE COMMUNITY

COMMISSION NOTE

SHORT-TERM ECONOMIC PROSPECTS AT INTERNATIONAL LEVEL AND FOR THE COMMUNITY

At the last European Council meeting, held in The Hague in June 1986, participants were somewhat perplexed by the contrasting pattern of economic developments. On the positive side, firms and consumers had become more confident and purchasing power and incomes in the industrialized countries had risen following the sharp fall in the dollar and in oil prices. On the negative side, world trade had contracted between the autumn of 1985 and the spring of 1986 while the pace of domestic economic activity in the Community's large countries had remained modest in some cases and mediocre in others. Two main explanations were put forward:

- faced with rapid and far-reaching changes in their environment (energy prices, fluctuations in the dollar), firms and consumers, especially in Europe, had adopted a wait-and-see attitude,

- the persistent imbalances in international monetary and financial relationships were preventing a return to rapid growth in world trade.

What is the situation today?

According to the studies conducted by the leading economic research institutes, growth prospects at the end of 1986 are slightly worse than the forecasts made a year ago, notably in the case of the Community.

First, the world economic environment as it affects the Community is characterized by what could be termed semi-controlled disorder.

The main recessionary risks appear to be receding in the short term. However, the situation in the United States must be watched with the utmost vigilance. Together with the debt crisis, this is probably the main source of uncertainty.

For one thing, the sharp plunge in oil prices brought with it the danger that a large number of oil-producing countries might suddenly end up insolvent. For the moment, mainly because of the upturn in world oil demand (some 2% a year), a compromise situation has been restored within OPEC. After falling to US $ 10 a barrel, the price of crude oil is expected to stabilize at between US $ 12 and US $ 15 next year, depending on the degree of cohesion within OPEC. However, there would seem to be no prospect of sufficient discipline being exercised to bring the price back to around US $ 20 a barrel.

Second, there is hope that the deterioration in the terms of trade since 1983 of the countries producing raw materials other than oil will be arrested. The volume of imports by the developing countries, with the exception of those in Africa and the OPEC countries will probably show a small increase next year of around 3%.

Turning to the world's dominant economy, that of the United States, whose performance exerts a strong influence on the world economic trend, both qualitatively and quantitatively, we should remember that views of the situation differ widely between Europeans and Americans.

In the Europeans' opinion a further fall in the dollar against the ECU and the yen, even a very sharp one, would not rapidly eliminate the US trade deficit, no more than would a reduction in interest rates in Europe. The point must also be made that faster growth in Europe would have only a very small impact on US exports. This is because 60% of US exports go to, and 55% of imports come from, countries whose currencies move in line with the dollar. If we also bear in mind that US fiscal policy will remain accommodating next year (with a deficit approaching US $ 190 000 million), the conclusion cannot be avoided that the performance of America's domestic economy is not very encouraging in the short term, especially as the structural weaknesses of part of the productive potential are now more clearly visible.

Economic growth in Japan has slowed down and the country is continuing to do little to help sustain world demand. What is more worrying for us Europeans, its industries are continuing their forceful marketing drive in Europe in a bid to offset the decline in their exports to the United States.

Overall, the expected growth of world trade is seen to be insufficient to help resolve the problems facing both the developing countries and the debt-burdened countries.

For the growth of world trade to show a permanent improvement, further progress must be made in international cooperation on the monetary, financial and trade fronts.

Recognition of this need would be a renewed source of hope for us all. But such progress is very difficult to secure as two recent events show:

- Even though there may be doubts about how far the US/Japan monetary agreement can be carried through in practice, it does reveal an attempt to establish a hegemony based on an understanding between the two powers on either side of the Pacific;

- In Lima, on 15 November, thirty-five of the most heavily indebted countries repeated their doubts about an orderly settlement of the debt problem on a multilateral basis with the IMF and the World Bank as the main actors.

These two examples remind us just how urgent it is for Europe to speak, propose and act with a single voice. It did so successfully at Punta del Este, where a new round of trade talks was launched. It also showed it was capable of doing so at the meeting of Economic and Finance Ministers at Gleneagles when faced with the possibility of a sharp drop in the dollar. It will have to continue to do so in the fields of monetary cooperation, aid for developing countries and the search for stronger, more employment-intensive growth. What are the prospects for such growth?

Most Community countries are currently experiencing a recovery fuelled by private consumption, which is helping to sustain the previous expansion in investment.

In those countries where external performance picked up fastest, this development is reinforcing the existing growth of investment.

In the countries where the external adjustment is more recent, the expansion in investment will probably accelerate next year.

In all, economic growth in the Community in 1987 is expected to be in the region of 2.5-3%, slightly up on 1986 (around 2.5%).

However, it would appear that this momentum has now reached its maximum strength. The growth rate will probably decline again to between 2% and 2.5% during the second half of 1987, for two reasons: a number of countries have already taken very stringent measures in 1986 to curb activity, notably with a view to rectifying persistent

imbalances in public finances; more generally, however, the stimulus provided to private incomes and consumption by falling energy and commodity prices will gradually diminish while the prospects for export volumes will remain very poor.

Thus, at the time when the improvement in the external terms of trade is producing its maximum effect, growth in the Community will next year permit only a very slight reduction in unemployment.

This could not be tolerated. Hence the guidelines issued by the European Council in The Hague concerning practical implementation of the cooperative growth strategy and steps to improve the operation of the labour market and encourage the setting up and expansion of small and medium-sized businesses. As requested by the current Presidency of the Council, these two matters are dealt with in a separate document.

The cooperative growth strategy, the details of which have been updated by the Commission's latest annual economic report, has the support of both the employers' organizations and the trade union organizations in the Community, which adopted a joint statement on 6 November (see annex).

The strategy is based not on the so-called locomotive theory, but on the contribution that all Member States can make to growth in the Community, with some exploiting the room for manoeuvre secured through their excellent performances in restoring domestic stability and earning external surpluses, and with others continuing their adjustment policies while, at the same time, all of them encourage the investment that is absolutely essential to any improvement in the quality and size of productive potential in the Community.

JOINT OPINION ON THE COOPERATIVE GROWTH STRATEGY FOR MORE EMPLOYMENT

An in-depth exchange of views on the economic situation and employment in the Community was held at the meetings of the Macroeconomics Working Group (set up after the meeting between UNICE, CEEP and ETUC with the Commission on 12 November 1985), and the Commission's Annual Economic Report 1986-87 was discussed.

UNICE, CEEP and ETUC confirm their agreement on the basic principles of the Community's "Cooperative growth strategy for more employment" and support the general thrust of the economic policy proposed by the Commission in its Annual Economic Report 1986-87.

They call on the Governments of the Member States to make a greater effort to ensure that the cooperative strategy is effectively implemented and declare their willingness to cooperate.

Full or broad agreement was reached on the following points:

1. In spite of the progress made on the employment front, unemployment is still too high. Unless additional efforts are made, it will not fall sufficiently in the medium term. The aim in implementing the cooperative growth strategy is to bring about a significant and lasting reduction in unemployment over a period of several years. In order to do this, more jobs must be created through increased investment based on improved business profitability and reinforcing the competitiveness of the European economy. Public investment also has an important role to play in this respect, without jeopardizing the medium-term consolidation of public finance.

2. The creation of durable jobs will be threatened if inflation rates are not kept low. A stable financial environment encourages the propensity to invest. Monetary and budgetary policies should be managed in such a way as to ensure that inflation rates remain low or continue to fall. The social partners also share some responsibility for containing inflation.

3. Real interest rates should fall further, with account being taken of the world economic situation and savings behaviour. The liberalization of capital movements should help direct savings towards productive investment.

.../...

4. The internal market must be completed rapidly. This will make it possible to release considerable growth potential which will reinforce the positive effects which the implementation of the cooperative strategy will have on investment and growth. Completion of the internal market should be accompanied by taking account of social policy and by the development of structural policies to strengthen the Community's economic and social cohesion as it is defined in the Single European Act.

5. Research and development must be promoted so that the Community maintains or regains its technological competitiveness, particularly in high-tech sectors. The Community should also encourage the implementation of the major "mobilising programmes" which are such as to promote growth and employment.

6. Improving the level of skills in the labour force and vocational retraining are important elements in developing employment and the competitiveness of the European economy. Training costs represent an investment. Employees at every level should be encouraged to take training courses.

7. The freedom of world trade should be maintained and developed within the framework of GATT. The Community has a special responsibility in this respect. Generally, an effort must be made to continue to combat protectionist trends, unfair practices and escalating subsidies, the effect of which is to distort the conditions of competition. In certain cases, temporary bilateral or multilateral agreements could help to overcome specific problems.

8. In the framework of the cooperative strategy, moderate growth of real per capita wage costs below productivity gains should be maintained for some time to come in the countries in which it is already practised, and it should be applied in the other countries. But the other elements of the strategy must be implemented simultaneously. This will make an important contribution to improving business profitability and competitiveness as well as speeding up the implementation of job-creating investment. It is important here to highlight the link that exists between the moderation of wage costs - factor for increased profitability - and higher employment.

9. Appropriate tax measures, the development of new forms of financing, and easier access to risk capital can also strengthen investment and employment, notably in small and medium-sized firms.

10. Public investment and infrastructure investment have suffered under the process of budgetary consolidation, and there is at present some leeway to be made up here. Stronger expansion of such investment will make

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an important contribution, on both the supply and the demand sides, to achieving higher and sustained growth. Such investment should be regarded not as a way of compensating for the lack of private investment, but as complementary investment undertaken in the general interest. Its financing could be achieved in the framework of a healthy budgetary policy through the restructuring of budgets and through the use of budgetary headroom that already exists or will be created by the growth process; furthermore, in a number of major instances, reliance on private financing seems possible and desirable. In this connection, the following distinctions were made:

a.) public investment or infrastructure investment which is profitable in itself but which, without public initiatives, would not be carried out at the appropriate time because of its scale or because of its long pay-off period (for example, the Channel tunnel and the high-speed-train link between Paris, Brussels and Cologne); in the case of this type of investment, private financing can most easily be envisaged;

b.) public investment or infrastructure investment which is economically profitable in overall terms because it represents a precondition for private investment or for the development of certain countries or regions; in the case of this type of investment, on the basis of rigorous economic calculation, certain forms of cofinancing by the private sector can be examined;

c.) public investment intended to meet justified public or social needs; its profitability must not be seen solely in economic terms; deciding on the priority projects in this area is also a matter of political judgement; cofinancing by the private sector is more difficult to envisage, but not to be ruled out in all cases.

UNICE, CEEP and ETUC are convinced that dialogue is an important element in the effective implementation of the Community's cooperative growth strategy for more employment. They are prepared to continue the dialogue, especially on questions not yet resolved (e.g. reduction in government spending and in taxes and social security contributions, the adaptability of financial, commercial and labour markets, revision of certain regulations, more flexible wage formation, reorganisation and duration of working time, etc.).

EUROPEAN COUNCIL: COMMISSION PAPER ON THE INTERNAL MARKET ("COMPLETING AN AREA WITHOUT FRONTIERS")

1. The paper expresses concern at the slow rate of progress since June, but recognises the UK Presidency's efforts to inject greater impetus and strongly supports the Prime Minister's initiative to get early agreement on issues now before the Internal Market Council. It also refers to the need for progress on internal market measures in other specialist Councils (Transport, Agriculture, ECOFIN).

2. The term "area without frontiers" was defined in the Single European Act as applying for the purposes of the EC Treaty. It was explicitly agreed that nothing in this could affect the ability of member states to take the action necessary to deal with terrorism, drugs, immigration etc. The Commission paper welcomes the work of Interior Ministers in these fields during the UK Presidency.

3. The paper urges that attention should be paid to measures in the fiscal area in 1987, including the approximation of VAT; but handling of this in ECOFIN has shown that few member states are prepared to take action in this direction at present.

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 690 final
Brussels, 26 November 1986

REPORT TO THE EUROPEAN COUNCIL

of 5 and 6 December 1986

COMPLETING AN AREA WITHOUT FRONTIERS

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 689 final

Brussels, 26 November 1986

EUROPEAN COUNCIL OF 5-6 DECEMBER 1986

SHORT-TERM ECONOMIC PROSPECTS AT INTERNATIONAL LEVEL AND FOR THE COMMUNITY

COMMISSION NOTE

COM(86) 689 final

SHORT-TERM ECONOMIC PROSPECTS AT INTERNATIONAL LEVEL AND FOR THE COMMUNITY

At the last European Council meeting, held in The Hague in June 1986, participants were somewhat perplexed by the contrasting pattern of economic developments. On the positive side, firms and consumers had become more confident and purchasing power and incomes in the industrialized countries had risen following the sharp fall in the dollar and in oil prices. On the negative side, world trade had contracted between the autumn of 1985 and the spring of 1986 while the pace of domestic economic activity in the Community's large countries had remained modest in some cases and mediocre in others. Two main explanations were put forward:

- faced with rapid and far-reaching changes in their environment (energy prices, fluctuations in the dollar), firms and consumers, especially in Europe, had adopted a wait-and-see attitude,

- the persistent imbalances in international monetary and financial relationships were preventing a return to rapid growth in world trade.

What is the situation today?

According to the studies conducted by the leading economic research institutes, growth prospects at the end of 1986 are slightly worse than the forecasts made a year ago, notably in the case of the Community.

First, the world economic environment as it affects the Community is characterized by what could be termed semi-controlled disorder.

The main recessionary risks appear to be receding in the short term. However, the situation in the United States must be watched with the utmost vigilance. Together with the debt crisis, this is probably the main source of uncertainty.

For one thing, the sharp plunge in oil prices brought with it the danger that a large number of oil-producing countries might suddenly end up insolvent. For the moment, mainly because of the upturn in world oil demand (some 2% a year), a compromise situation has been restored within OPEC. After falling to US $ 10 a barrel, the price of crude oil is expected to stabilize at between US $ 12 and US $ 15 next year, depending on the degree of cohesion within OPEC. However, there would seem to be no prospect of sufficient discipline being exercised to bring the price back to around US $ 20 a barrel.

Second, there is hope that the deterioration in the terms of trade since 1983 of the countries producing raw materials other than oil will be arrested. The volume of imports by the developing countries, with the exception of those in Africa and the OPEC countries will probably show a small increase next year of around 3%.

Turning to the world's dominant economy, that of the United States, whose performance exerts a strong influence on the world economic trend, both qualitatively and quantitatively, we should remember that views of the situation differ widely between Europeans and Americans.

In the Europeans' opinion a further fall in the dollar against the ECU and the yen, even a very sharp one, would not rapidly eliminate the US trade deficit, no more than would a reduction in interest rates in Europe. The point must also be made that faster growth in Europe would have only a very small impact on US exports. This is because 60% of US exports go to, and 55% of imports come from, countries whose currencies move in line with the dollar. If we also bear in mind that US fiscal policy will remain accommodating next year (with a deficit approaching US $ 190 000 million), the conclusion cannot be avoided that the performance of America's domestic economy is not very encouraging in the short term, especially as the structural weaknesses of part of the productive potential are now more clearly visible.

Economic growth in Japan has slowed down and the country is continuing to do little to help sustain world demand. What is more worrying for us Europeans, its industries are continuing their forceful marketing drive in Europe in a bid to offset the decline in their exports to the United States.

Overall, the expected growth of world trade is seen to be insufficient to help resolve the problems facing both the developing countries and the debt-burdened countries.

For the growth of world trade to show a permanent improvement, further progress must be made in international cooperation on the monetary, financial and trade fronts.

Recognition of this need would be a renewed source of hope for us all. But such progress is very difficult to secure as two recent events show:

- Even though there may be doubts about how far the US/Japan monetary agreement can be carried through in practice, it does reveal an attempt to establish a hegemony based on an understanding between the two powers on either side of the Pacific;

- In Lima, on 15 November, thirty-five of the most heavily indebted countries repeated their doubts about an orderly settlement of the debt problem on a multilateral basis with the IMF and the World Bank as the main actors.

These two examples remind us just how urgent it is for Europe to speak, propose and act with a single voice. It did so successfully at Punta del Este, where a new round of trade talks was launched. It also showed it was capable of doing so at the meeting of Economic and Finance Ministers at Gleneagles when faced with the possibility of a sharp drop in the dollar. It will have to continue to do so in the fields of monetary cooperation, aid for developing countries and the search for stronger, more employment-intensive growth. What are the prospects for such growth?

Most Community countries are currently experiencing a recovery fuelled by private consumption, which is helping to sustain the previous expansion in investment.

In those countries where external performance picked up fastest, this development is reinforcing the existing growth of investment.

In the countries where the external adjustment is more recent, the expansion in investment will probably accelerate next year.

In all, economic growth in the Community in 1987 is expected to be in the region of 2.5-3%, slightly up on 1986 (around 2.5%).

However, it would appear that this momentum has now reached its maximum strength. The growth rate will probably decline again to between 2% and 2.5% during the second half of 1987, for two reasons: a number of countries have already taken very stringent measures in 1986 to curb activity, notably with a view to rectifying persistent

imbalances in public finances; more generally, however, the stimulus provided to private incomes and consumption by falling energy and commodity prices will gradually diminish while the prospects for export volumes will remain very poor.

Thus, at the time when the improvement in the external terms of trade is producing its maximum effect, growth in the Community will next year permit only a very slight reduction in unemployment.

This could not be tolerated. Hence the guidelines issued by the European Council in The Hague concerning practical implementation of the cooperative growth strategy and steps to improve the operation of the labour market and encourage the setting up and expansion of small and medium-sized businesses. As requested by the current Presidency of the Council, these two matters are dealt with in a separate document.

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UNICE, CEEP and ETUC confirm their agreement on the basic principles of the Community's "Cooperative growth strategy for more employment" and support the general thrust of the economic policy proposed by the Commission in its Annual Economic Report 1986-87.

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UNICE, CEEP and ETUC are convinced that dialogue is an important element in the effective implementation of the Community's cooperative growth strategy for more employment. They are prepared to continue the dialogue, especially on questions not yet resolved (e.g. reduction in government spending and in taxes and social security contributions, the adaptability of financial, commercial and labour markets, revision of certain regulations, more flexible wage formation, reorganisation and duration of working time, etc.).

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 690 final
Brussels, 26 November 1986

REPORT TO THE EUROPEAN COUNCIL

of 5 and 6 December 1986

COMPLETING AN AREA WITHOUT FRONTIERS

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Report to the European Council

COMPLETING AN AREA WITHOUT FRONTIERS

1. At its meeting at the Hague in June the European Council emphasised - as it had at Milan and at Luxembourg - the importance of the "perfection of the internal market"; "the urgent need to make progress"; to "improve ... the decision-making process ... substantially"; and "to give high priority to the measures ... based on the Commission's White Paper".

   It singled out as "Areas of Special Interest" the liberalisation of land, sea and air transport; the removal of fiscal barriers at frontiers; the opening up of public contracts; and the general area of "People's Europe".

2. Progress since June has been disappointing. Work has intensified on Commission proposals in two of these areas (transport and public contracts), but no measures have yet been adopted by the Council. As far as public contracts are concerned, the Commission proposal on public services has made useful progress, though an opinion from the European Parliament is still awaited ; and a further proposal on public works, together with a new impetus on the monitoring of this policy, will be forthcoming from the Commission by the end of the year. Similarly with transport, a major effort by the Council could see valuable proposals adopted soon in the aviation and road haulage sectors. The Council (Economic and Financial Affairs) has, by contrast, devoted little time to fiscal questions and has not even discussed the Commission's "standstill" proposal, which has been

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on its table since November 1985; and those parts of the Adonnino Report on People's Europe particularly highlighted by the Hague European Council (border area passenger traffic restrictions; and right of residence) have seen no progress.

3. The importance to industry and to the peoples of Europe of the programme to create an "area without internal frontiers" by 1992 needs no emphasis. The Intergovernmental Conference, while adopting the Single Act, declared "its firm political will to take before 1 January 1993 the decisions necessary to complete the internal market.. and more particularly the decisions necessary to implement the Commission's programme described in the White Paper on the Internal Market.[1)]

The credibility of this programme has now entered a critical phase. The end of 1986 will be 18 months since the Milan European Council received and welcomed the Commission's White Paper, and the first "Three-Presidency" rolling programme established thereafter will have reached its end. With the Single European Act due to come into force at the beginning of 1987, important new provisions of direct relevance for the internal market will apply. For these to be translated, as they were intended, into more effective and speedier decision-making, the Community needs to be able to show that the programme is on course and the commitment to it, reaffirmed by each successive European Council since Milan, has real meaning. All this is of crucial importance to industry as well. If we can convince industry that we have the will and the means to complete the programme on time, it will be reflected in new attitudes and a new spirit of enterprise in industry. We must not allow industry to lose heart.

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1) Declaration on Article 8A of the Single European Act

4. With these factors in mind the Commission is making a particular effort to ensure that its contribution to the programme is brought substantially up to date by the end of the year. It welcomes the evidence that the Council, and the Presidency in particular, also recognise the importance of going into 1987 with the impetus of the programme restored and maintained in its entirety. This is of vital importance not just for the Community's own institutions, but also for public opinion, for industry and for all those who work in industry.

5. This European Council has a key role to play just as The Hague Council determined the rapid adoption of a major step in liberalising the capital movements. There are on the Council table a significant number of proposals within sight of adoption, and which could be adopted if only the minority of Member States - sometimes a single State only - which still appear to face difficulties were prepared to set the difficulties aside in the interest of the Community as a whole. If the European Council issues and follows up the necessary instructions to the relevant Councils to take the required decisions before the end of the year, the essential credibility of the programme will be re-affirmed.

Without such a renewed impetus during the remaining weeks of the year, the picture will be bleak ; and the incoming Presidency will inherit an unpromising background to the entry into force of the Single European Act. Hence the need for a more urgent momentum.

6. Annex II shows the state of play as of 20 November in terms of White Paper proposals submitted by the Commission, and proposals adopted by the Council measured against the timetable set out in the Annex to the White Paper. It also indicates the further proposals the Commission intends to adopt before the end of the year for transmission to the Council. Annex I lists a package of

proposals on which, in the Commission's view, the Council could take a decision by the end of the year if the necessary instructions were issued by the European Council and respected by the specialist Councils (Internal Market; Transport; Agriculture; Economics and Finance). From these Annexes certain conclusions can be drawn:

a). If the Commission meets its end-year target and the Council adopts the measures listed in Annex I, the picture would be dramatically improved;

b). The problems in the agricultural sector are serious, and will not get any easier by delaying action. If the area without internal frontiers is to be achieved by 1992, these very real problems must be addressed more systematically ;

c). the very important fiscal area will feature more prominently in 1987 than it has hitherto, in the sense that discussion in the Council will be moving from general debate to specific Commission proposals.

An important and encouraging recent development has been the universal recognition by the Community of the importance of the link between work on the internal market, particularly the free movement of people, and the needs of public security and protection against the dangers of terrorism and drugs. The meeting on 20 October of Interior Ministers has given an important impetus to this work which the Commission welcomes.

7. Against this background, the European Council could usefully include in its communiqué :

a). an instruction to the relevant Councils to adopt by the end of the year the measures listed in annex I.

b). a committment to take in 1987 fundamental decisions having a major impact on the economic environment specially in the field of the opening up of public contracts, approximation of VAT rates and the completion of the liberalization of capital movements programme.

Encl.

LIST OF PROPOSALS IN THE CONTEXT OF THE COMPLETION OF THE INTERNAL MARKET ON WHICH COUNCIL SHOULD REACH DECISION BY END 1986

BREAKDOWN BY COUNCILS

1. INTERNAL MARKET COUNCIL

- Easing of controls at intra-Community borders
  (1 Directive)
- Narrow wheeled tractors - agricultural and forestry
  (1 Directive)
- Measures in favour of biotechnology and high technology medicines
  (4 Directives, 1 Recommendation)
- Noise of hydraulic diggers and dozers
  (1 Directive)
- Counterfeit goods
  (1 Regulation)
- Forklift trucks
  (1 Directive)
- Good laboratory practices
  (1 Directive)
- Public procurement : supplies
  (amending Directive)
- Standardisation I.T. and Telecommunications
  (1 Directive)
- Legal protection of micro circuits
  (1 Regulation)
- Right of Residence
  (1 Directive)

2. TRANSPORT COUNCIL

- Air transport fares
  (1 Directive)
- Market access, air transport
  (1 Decision)
- Air transport competition
  (2 Regulations)

.../...

- Community quotas on carriage of goods by road
(1 Regulation)

3. ENVIRONMENT COUNCIL

- Pollution by gaseous emissions from motor vehicles
(1 Directive)

- Gaseous emissions from heavy vehicles
(1 Directive)

- Emission of particulates from diesel cars
(1 Directive)

4. AGRICULTURE COUNCIL

- Eradication of African swine fever
(2 Directives)

- Semen of animals
(1 Directive)

- Extraction solvents
(1 Directive)

- Flavourings
(1 Directive)

5. ECO/FIN COUNCIL

- Accounts of banks
(1 Directive)

- Arbitration procedure - elimination of double taxation
(1 Directive)

- Common system of taxation application to parent companies and subsidiaries
(1 Directive)

- Common system of taxation of mergers, divisions and contributions of assets
(1 Directive)

PROGRESS AS AT 20 NOVEMBER 1986 IN IMPLEMENTING THE COMMISSION'S WHITE PAPER ON THE COMPLETION OF THE INTERNAL MARKET

COMMISSION

Proposals due to be submitted by the end of 1986		99
Proposals submitted to the Council to date		42
Proposals outstanding as at 20.11.1986		57
Proposals which the Commission intends to approve between now and the end of 1986		34
Number of Commission proposals likely to be outstanding at the end of 1986	TOTAL	23

COUNCIL

Proposals due to be adopted by the end of 1986		134
Proposals adopted - in first half of 1985		4
- in second half of 1985		21
- in first half of 1986		6
- in second half of 1986 to date		9
		40
Proposals outstanding as at 20.11.1986		94
Additional proposals capable of adoption by the Council between now and the end of 1986		21
Number of proposals likely to be awaiting adoption by the Council at the end of 1986	TOTAL	73

COMMISSION OF THE EUROPEAN COMMUNITIES

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EUROPEAN COUNCIL OF 5-6 DECEMBER 1986

RELAUNCHING COMMUNITY ACTION FOR SMEs AND THE LABOUR MARKET

COMMISSION NOTE

RELAUNCHING COMMUNITY ACTION FOR SMEs AND THE LABOUR MARKET

On examining the economic and social situation, the Heads of State and of Government have stressed that direct action to promote employment and the development of enterprises is an essential accompaniment to cooperation in the macroeconomic field.

The European Council, meeting in the Hague on 26 and 27 June 1986, laid down specific guidelines in two fields: action to combat long-term unemployment; action to be taken at Community level "to enable business to maximise its capacity to create prosperity and jobs".

These, and other themes, are included in the memorandum presented by the United Kingdom Presidency at the recent informal meeting of the Social Affairs Council.

The Commission for its part has continued its work, giving priority to the above-mentioned guidelines. It has forwarded a series of proposals to the Council of Ministers concerning:

(a) the creation of an environment favourable to the setting-up and development of small and medium-sized enterprises (action programme of August 1986);

(b) an analysis, by the Council of Ministers for Social Affairs, of the preconditions, based on national experiences, for job creation (action at the level of local labour markets, to encourage closer cooperation between employment services, those responsible for training and the representatives of firms and unions, determination of wages and social charges, occupational integration of young people, action to counter long-term unemployment, more effective work organization procedures, etc.).

The action required in both these fields can take place at national and Community level.

The Community can help firstly by backing up and enhancing the impact of national initiatives: thus recent developments in the social dialogue at Community level - more especially as regards the introduction of new technologies - are such as to facilitate consultations and negotiations between the two sides of industry in line with particular national circumstances. Similarly, awareness of successful projects in other countries and the dissemination of information and technical aid through the organizations representing SMEs will increase the effectiveness of national policies.

In addition, proposals for specifically Community action might be adopted in the coming months.

First, as regards small and medium-sized enterprises, the priorities would be established as follows:

1. Further action to reduce administrative constraints in directives and regulations.

2. The adoption of draft directives aimed at simplifying and decreasing VAT (proposal submitted in September 1986) and simplifying the accounts of certain companies (proposal to be submitted in December 1986).

3. The implementation, by means of NCI IV and the efforts of the European Investment Bank, of a new programme of loans to SMEs.

4. The promotion, principally in backward regions or regions in difficulty, of financial innovations aimed primarily at increasing the venture capital essential to the development of SMEs.

Secondly, as regards the labour market, the current reform of the Social Fund would include several priorities to increase selectiveness and thus give more force to its action.

1. Action to combat long-term unemployment on the basis of overall programmes presented by the Member States which cover the entire range of measures that have proved successful, e.g.:

   - individual processing of the long-term unemployed by placement services;

   - incentives for employers who recruit the long-term unemployed and retrain them for available jobs;

   - direct job creation for work in the public interest;

   - training schemes adapted in particular to young persons affected by long-term unemployment.

2. Training in the new technologies, which implies a new conception of basic education (knowledge) and the ability to adjust to new production processes (knowhow).

3. The extension of pilot schemes aimed at less-favoured categories of the population (the handicapped, immigrants, etc.).

4. Training as a means of revitalizing backward or declining regions by including ad hoc plans in integrated development programmes.

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Brussels, 26 November 1986

EUROPEAN COUNCIL OF 5-6 DECEMBER 1986

"EUROPE AGAINST CANCER" PROGRAMME

COMMISSION NOTE

COM(86) 692 final

"EUROPE AGAINST CANCER" PROGRAMME

The Commission of the European Communities is putting the finishing touches, with the valuable assistance of the committee of cancer experts set up at the beginning of the year, to a detailed plan of action for the first three years of implementation of the "Europe against cancer" programme, which was approved in principle by the Milan European Council. The proposal, which will be sent to the Council by the end of the year, covers the following spheres of action: prevention; informing the general public; training health workers; and research.

I. CANCER PREVENTION

In July 1986, the Council adopted a resolution setting out the broad lines of the prevention part of the "Europe against cancer" programme. The 1987-89 plan of action will give substance to that resolution by identifying some forty proposals for Community projects aimed at:

- intensifying the combat that began as early as 1959 against carcinogenic agents, whether they be ionizing radiation or chemical carcinogens;

- striving to reduce tobacco consumption and improve eating habits. These new areas of work are important because smoking and diet are each thought to be involved in about one-third of cancer fatalities. From 1987 onwards, the European Community will help support national activities in the context of the internal market, the common agricultural policy and consumer

protection in particular (upward alignment of taxation arrangements for manufactured tobaccos, harmonization of the labelling of manufactured tobaccos and foodstuffs, redirection of production towards varieties least harmful to health, bans or restrictions on certain types of advertising, etc.).

If certain reservations are to be overcome, in particular with regard to anti-smoking measures, it is essential that the European Council reaffirm the Member States' determination to act quickly and effectively along these lines.

II. INFORMATION AND EDUCATION ON CANCER

Community activities in the cancer-prevention field will be effective only if they are backed up by a well-informed population and by adequately trained health workers. To that end, the European Community should give extra support to the indispensable national efforts in the public or private sector by launching over the period 1987-89 a number of projects aimed at:

- making Europeans aware that the pooling of efforts, resources and experience remains the surest guarantee of success in the fight against cancer. The elementary advice on cancer prevention being prepared by the committee of European cancer experts should thus acquire greater persuasive force;

- avoiding fruitless and costly duplication of work, through the joint development of basic modules for informing the public and training health workers;

- promoting exchanges of experience, in order to derive maximum benefit from the successes and failures encountered in different quarters in informing the public and training health workers.

In addition, the Commission supports the proposal put forward by the committee of cancer experts that 1989 be declared "European cancer prevention year" and recommends the other European institutions to follow suit. With this in mind, the prevention and research parts of the "Europe against cancer" programme should be supplemented by activities aimed at informing the public and training health workers, which should be set in hand in 1987 in order to culminate in 1989 with "European cancer prevention year". The European Council could take such a decision.

III. CANCER RESEARCH

The Commission recently sent the Council a proposal for a Decision adopting a fourth programme (1987-89) coordinating medical research. For the first time in its existence, the programme incorporates the objective of combatting cancer, to which one-third of its estimated budget should be allocated.

The programme covers the following areas: the award of European fellowships to promote the mobility of cancer researchers; the coordination of epidemiological research with a view to improving cancer prevention, with special reference to nutrition and passive smoking; the coordination of research to improve screening and early diagnosis, in particular by promoting research on computerized tissue analysis; and the coordination of European research on the monitoring of multi-centre therapeutic trials.

INTERNAL MARKET PACKAGE

[As necessary]

- We are agreed to work for adoption by the end of the year of three of the four outstanding items in the package of thirteen measures which I proposed to heads of government. These are the important draft directives on public purchasing, information technology and telecommunications standards and standards for fork-lift trucks.

- Would be unfortunate if the Directive on noise from hydraulic dozers and loaders were the only item to remain held up.

- Hope Denmark will be able to lift its reserve and allow the Directive to be adopted unanimously. Hope Mr Schluter can agree to reflect and let me know about this.

[Only if Mr Schluter remains adamant]

- We should note that a qualified majority in favour of the proposal exists and that it will therefore constitute the Council's common position as soon as the Single European Act enters into force.

LP7ADT

27 November 1986

A COMMUNITY CAMPAIGN FOR BUSINESS AND JOBS

DRAFT EUROPEAN COUNCIL CONCLUSIONS

THE CHALLENGE

Economic and social progress and the constant improvement of the living and working conditions of the people of Europe are central goals of the Community. The Community must be a major force for growth in the 1980s and 1990s as it was in the 1960s.

The scourge of unemployment, particularly long-term unemployment, can only be tackled effectively through the growth of business and enterprise.

To create the conditions for this, the Community must work to break down the remaining barriers to trade between member states, reduce burdens and open up opportunities so that European enterprise can flourish in all member states.

Other measures are also needed. The European Council decided to launch a campaign for business and jobs.

THE PROGRESS MADE

The European Council stressed the importance of the growing convergence of economic policy in all the member states over the last four years. This has led to reduced inflation, now estimated by the Commission to be likely to fall to 3% in 1987, the lowest Community average for 20 years.

The European Council welcomed the priority which has been given since its last meeting to work aimed at helping to create the conditions for establishing non-inflationary growth and a substantial growth in employment, including measures:

- to lighten burdens on business;

- to promote long-term prosperity and job creation through the completion of the internal market;

- to achieve sustained employment growth; and

- to help small and medium-sized enterprises make a dynamic contribution to the creation of prosperity and jobs.

The European Council agreed that strengthening the open world trading system on the basis of a fair balance of rights and obligations is crucial to this strategy. The Community played a leading role in the successful launch of the new round of Multilateral Trade Negotiations. The success of those negotiations will increase opportunities for EC exporters, making an important contribution to growth and employment, not least in the key new service industries.

The Council called on Japan to take urgent and effective steps to ensure that imported goods are able to compete freely in the Japanese market and, in specific market sectors, to reduce the massive and still growing trade imbalance with the Community. It approved the decision of the 27 October Foreign Affairs Council to initiate GATT action on alcoholic drinks under Article XXIII; invited the Council to conduct a thorough review of other actions to achieve a more balanced trading relationship; and called on the Commission to pursue action in other sectors to remove barriers to trading in the Japanese market.

SINGLE EUROPEAN ACT

The European Council welcomed the fact that those member states which have not already done so expect to be in a position to ratify the Single European Act in time for it to enter into force on 1 January 1987.

THE SINGLE LARGE MARKET

The European Council welcomed the steady acceleration of progress on the internal market over the last year, and looked forward to still faster progress when the Single European Act enters into force. It noted, however, that a substantial number of important issues were still under discussion in the Council. It underlined the importance which it attached to decisions being reached on these issues before the end of the year. The Heads of Government agreed to try to remove obstacles to agreement on measures where a qualified majority already exists and which will anyway be decided on that basis once the Single European Act comes into force.

The Heads of Government welcomed the decisions recently reached by the Internal Market Council on nine out of a package of thirteen measures proposed by the Presidency. They underlined the importance which they attached to agreement being reached on the remaining items in the package by the end of the year. They

asked the member states concerned to lift their outstanding reserves on two items. On the two remaining items concerning public purchasing and standardisation in the fields of information technology and telecommunications they agreed to instruct their Permanent Representatives to reach agreement before the end of the year.

[List following 1 December Intel

They called on the Agriculture Council to reach decisions on:

- food law measures and veterinary and plant health measures.

They called for agreement in the Transport Council on:

(i) a Community policy for civil aviation encouraging greater competition between airlines and improved services to their customers including a means of reducing the restrictions applying to cheaper air fares.

(ii) Measures to establish a common shipping policy for the Community, including the freedom to provide shipping services.

Heads of Government welcomed the liberalisation of

capital transactions decided in November. They called for decisions next year:

- to achieve the free movement of capital throughout the Community;
- to open up the market in financial services including insurance in the light of the judgments just given by the European Court of Justice;
- on mutual recognition of testing and certification;
- on the full arrangements for a single market in road haulage by 1992; and
- on a further opening-up of public purchasing.

The European Council urged Research Ministers, at their next meeting on 9 December, to reach early agreement on the Framework Programme for Community action in research and technological development, an important step towards enabling the Community to compete in the worldwide market for high technology products. They asked the Commission and the Council to make a special effort to secure the agreement on standards and the commitment of operators necessary to enable Europe to compete in the development and marketing of digital cellular radio in the 1990s.

ENCOURAGING ENTERPRISE

The European Council emphasised the priority it attaches to maintaining and building on the work which has begun

- to lessen fiscal, administrative and legal constraints on business;

- to encourage enterprise; and

- to promote employment.

The Council welcomed the conclusions of the 20 October Industry Council on reducing burdens on business and the steps taken by the Commission to assess the impact of all new proposals on business costs and jobs and similarly to review existing legislation.

The Council emphasised the importance it attaches to immediate implementation of the new arrangements whereby assessments accompany each new proposal for Comunity action. It looked forward to further recommendations by the Commission early next year on this system and on the review of existing legislation.

The Council welcomed the setting up of the Commission task force on small and medium sized enterprises to coordinate action to improve the environment for business.

The European Council also endorsed the principles of the Commission's proposals on help for small businesses, and in particular steps to:

- improve the administrative environment for small firms;

- ensure that existing schemes operate effectively for small firms;

- help the setting up of new small firms;

- improve the access of small firms to new technology;

- enable Member States to learn from each other's experience.

The European Council particularly welcomed the Commission's recent proposals on the application of VAT to small and medium businesses, and urged the Council to reach an early decision on them.

Heads of Government welcomed the agreement that has been reached to provide Community loans worth 1.5 billion ecu which will be available to small and medium sized enterprises and will help them invest in new technology.

AN ACTION PROGRAMME FOR EMPLOYMENT GROWTH

The European Council emphasised the importance of Community action on jobs designed to:

- encourage better training for both young people and adults;

- help the long-term unemployed back into jobs;

- promote the creation of self employment and of small and medium sized firms;

- improve the workings of the labour market,

including ways of increasing part-time and other flexible working patterns, providing better access to training for disadvantaged groups, and encouraging employment for such groups in inner city areas.

They called on the Social Affairs Council meeting next week to adopt an action plan for employment growth based on these priorities.

The European Council undertook to review progress at its next meeting.

COHESION

The European Council recalled the provisions of the Single European Act relating to economic and social cohesion. The Council took note of the Commission's intention to put forward in the near future comprehensive proposals on the structure and operational rules of the Structural Funds, in accordance with Article 23 of the Single European Act.

THE CONSUMER INTEREST

The European Council, recognising that economic growth and the encouragement of enterprise ultimately benefit all the Community's citizens as consumers through increased spending power, lower prices from more competition, and more choice, underlined the need to ensure that consumers' interests are fully taken into account in the formulation of Community policies.

RB2AAD,11

CONCLUDING REMARKS BY PRIME MINISTER

[When all have spoken should be able to sum up that]:

- all agree that main economic priorities are to sustain low inflation and promote growth. Agreed also on need to encourage small and medium enterprises ie both by reducing unnecessary administrative burdens and through positive measures of kind Commission has put forward;

- these are important for job creation but should be accompanied by a strategy for employment growth on lines which Employment Ministers should be able to agree next week;

- We agreed on need to take decisions this year on issues before specialist Councils if we are to demonstrate that we are on course to complete the internal market by 1992;

- We agreed in particular that four measures currently before the Internal Market Council should be agreed before the end of the year;

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- that the Agriculture Council should make a special effort to take decisions on outstanding Internal Market issues next week

- and that decisions on air transport need to include steps for reducing the restrictions on cheaper air fares so that they will be more widely available.

Arguments for use on particular points which may be raised on Presidency report

Job Creation

[If Papandreou or others call for reflation.]

- We agreed both at Luxembourg and The Hague on the importance of a non-inflationary growth strategy to create real jobs. Past reflation has led simply to increased inflation and unemployment. We must not throw away the gains we have already achieved.

[If Kohl expresses concern about budgetary implications]

- Employment Resolution is not seeking to establish new programmes or lines of expenditure at Community level. Great bulk of its proposals do not require spending but are concerned rather with removing obstacles to employment growth and encouraging Member States in their own efforts.

[As necessary]

- Resolution is not concerned with size of Social Fund which is wider issue. But it is appropriate to look at the priorities of the existing Fund.

Not size but Priorities

[In reply to Delors, Martens or others who may emphasise importance of consultation with Social Partners.]

- Employment Resolution stresses the imporance of consulting social partners fully in drawing up the detailed proposals for action.

- Fully support President Delors' Val Duchesse initiative (ie talks now underway between unions and employers at European level).

[In reply to Martens or Lubbers who may indicate opposition to any cuts in social protection for workers in SMEs]

- The UK does not want cuts in basic social protection for workers in establishments of any size.

- But we are all agreed on the need to encourage SMEs. Article 118A of the SEA makes clear that directives shall avoid imposing constraints in a way which would hold back the creation and development of SMEs.

- [For example, it may make sense for a multinational company to have its own doctor but it would not make sense to suggest that all firms should do so. It does however, make sense to ensure that a small firm operating dangerous machinery applies the same safety standards as a large firm.]

"Cohesion"

[if Greece, Spain or Portugal argues that action on cohesion must proceed in parallel with progress on internal market].

- Completion of the Internal Market is a treaty commitment we have all entered into and which, if achieved, will benefit all our economies. Crucial to our technological collaboration and ability to compete with US and Japan.

- Discussed cohesion last year in negotiations on Single European Act, which contains specific provisions both to improve coordination of structural funds and to ensure that the needs of member states with less developed economies are taken into account when deciding on new internal market measures. Await Commission proposals on reorganisation of structural funds. Jacques Delors may be able to say more about what he has in mind.

[If Portugal argues for special help for its industry]

- We stand by the commitments made to Portugal during the accession negotiations.

- I understand the President of the Commission has agreed to send a team to Portugal next month to evaluate your needs.

- We shall look forward to receiving their findings.

Regular reviews of progress

[If Lubbers suggests there should be progress reports on all Internal Market items, not just those dealt with by the Internal Market Council]

- Agree we should aim to make progress on all fronts. We will be giving priority to internal market decisions at the next meeting of the Agriculture Council. We have made regular oral reports covering progress on the action programme as a whole.

Wait for Single European Act

[In reply to anyone who argues that progress must wait, as most issues are too difficult to resolve now]

- Single European Act should speed up decisions. But no point in delaying now measures where a qualified majority in the Council exists.

- That was the aim when we all agreed to set up an Action Programme to maintain the pace of decision taking.

[In reply to Delors and Craxi who may suggest that only a research programme at the level proposed by the Commission (7.7 billion ecu) will do]

[The French and Germans who support the UK's objective of a programme of no more than 5 billion ecu, including 750 mecu already in the 1987 budget, can be called on in support.]

- We are all committed to the conclusions of the European Councils in Brussels in 1984 and 1985 [when we agreed to increase the proportion of Community expenditure going to research].

- Have asked Research Ministers to decide on the Framework Programme at the Research Council on 9 December. They are best qualified to evaluate the specific programmes. They must reach decisions (in which of course they will have to have regard to the available resources).

[If Denmark, France, Greece, Italy, Portugal or Spain argue that relaxing restrictions on cheaper air fares would damage their airlines by allowing widespread trading down from full fares]

- not suggesting that cheaper fares should be offered without conditions. Conditions distinguishing peak and off-peak traffic well tried in other forms of transport and make obvious economic sense. But cheap air tickets are generally subject to an minimum stay condition (6 nights or a Saturday night). This is highly restrictive and makes little sense. It does not discourage cheap fare traffic from using the busiest flights; but it does discourage travellers who want eg mid-week breaks from usefully filling up empty seats.

- no evidence to suggest minimum stay condition is essential to avoid slippage of full fare traffic to cheaper fares. Making fares more widely available should attract extra traffic and improve airlines' performance.

- not seeking to tell airlines to use or not to use any particular fare condition. The important point is to allow airlines to choose and to stop tying them into outdated conditions that are excessively restrictive.

- agreement on fares would complete a first (3 year) package for aviation on the path to 1992. It has been widely attacked as being too modest. If we cannot achieve even that our 1992 target will lose credibility.

Digital Cellular Radio

[if others ask why singled out]

- There have been too many examples of cases where Europe had the technology but USA and Japan have swept the market

- Next generation of cellular radio (mobile telephones) will be digital. Market worth billions of dollars. Europe technologically ahead. But differing standards prevent creation of single market. Common standard now under discussion. If we can agree soon on a common standard we will be able to develop both a Europe-wide network and products to exploit the single European market. Need to give political signal to public purchasing authorities and others of our determination to agree on a common standard.

25 November 1986

FRONTIER CONTROLS/TERRORISM/IMMIGRATION/DRUGS

(Presidency report to the European Council)

1. On signing the Single European Act and committing themselves to the completion of the internal market by 1992 we declared that:

'In order to promote the free movement of persons, the member states shall cooperate, without prejudice to the powers of the Community, in particular as regards the entry, movement and residence of nationals of third countries. They shall also cooperate in the combating of terrorism, crime, the traffic in drugs, and illicit trading in works of art and antiques.'

2. The United Kingdom Presidency has given priority to work designed to give practical effect to this Declaration.

Further terrorist attacks on the territory of member states and evidence of state sponsored terrorism have given this added urgency.

The Trevi Ministerial meeting on 25 September agreed on

further action to combat terrorism, including a secure communications link between national police forces and the regular exchange of threat assessments.

Foreign Ministers reached agreement on 10 November on concerted measures in response to the evidence revealed in the Hindawi trial.

We should decide what further action can be taken to deter terrorist activity on the territory of any member state and reaffirm our commitment to make no concessions to terrorist blackmail, and solidarity between the member states in our response to such actions.

3. Following the further agreements reached at the meeting of the Interior and Justice Ministers and Lord Cockfield on 20 October, work must be carried forward on:

- the arrangements for extradition of those accused of violent crimes;
- steps to ensure that provision for asylum seekers is not abused. We have to distinguish between those genuinely needing asylum in our countries

- because of a denial of democratic rights elsewhere, and attempts to abuse this right as a way of circumventing immigration controls;
- cooperation to counter the theft and forgery of passports;
- the coordination of visa regimes;
- concerted action to deal with illegal immigration.

4. At the same time the effort must be continued to simplify frontier procedures within the Community, without weakening our essential defences against terrorism, drugs and illegal immigration. This must include action to strengthen controls at the Community's external frontiers.

5. Interior Ministers have drawn up a plan for action on drugs by the Community and its member states. They have agreed on the need, in cooperation with the Pompidou Group, to:

- concert action against those who criminally traffic in illegal drugs;
- coordinate legal action, in particular in relation to confiscation of assets;
- consider exchanging Drugs Liaison Officers;
- ensure that bilateral and Community aid supports,

as appropriate, recipient countries efforts to combat drug abuse;

- draw on each other's expertise in reducing the demand for drugs, especially among the young and in the treatment and rehabilitation of drug addicts.

6. These are problems of concern to citizens in all our countries. Heads of Government are invited to give a further impetus to cooperation on these subjects and to reach conclusions on further action.

27 November 1986

EUROPEAN COUNCIL CONCLUSIONS

Heads of Government had a detailed discussion of how further to intensify their cooperation to combat terrorism, illegal immigration and drug trafficking. They agreed that concerted policies to deal with these problems were essential to the goal of achieving free movement within the Community.

Terrorism

They agreed that the following principles must govern their common fight and alliance against terrorism and those who sponsor terrorist acts:

- no concessions under duress to terrorists or their sponsors.

- solidarity between the Member States in their efforts to prevent terrorist crimes and to bring the guilty to justice.

- concerted action in response to terrorist attacks on the territory of a member state and to evidence of external involvement in such attacks.

S17AAW,1

The Heads of Government confirmed the decisions taken by the Twelve in April and November 1986 in response to evidence of state sponsored terrorism. The heads of government welcomed the intention of the governments of France, Greece and Ireland to ratify the European Convention on the suppression of terrorism

Cooperation Between Security Authorities

Heads of Government agreed that they must pool their resources to maximise their ability to prevent terrorist acts and to bring those responsible to justice. Actions to be taken include:

- More effective arrangements for extradition. They welcomed the changes being made by the UK to its extradition laws which will enable it to adhere to the European Convention on extradition.

- Steps to ensure that provision for genuine asylum seekers is not abused. While it must remain open for those seeking asylum from real persecution to find refuge in our democratic societies, these rights must only apply to genuine asylum seekers

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and not to those seeking to circumvent immigration rules. Interior Ministers have been asked to concert action to ensure that the right is not abused.

- Concerted action to deal with the theft and forgery of passports.

- Consideration of the role of coordination and possible harmonisation of visa regimes in tightening controls at the Community's external frontiers.

- Intensified cooperation on measures to prevent illegal immigration.

- Firm action on the exclusion of suspects so that a suspect excluded from one Community country will be excluded from all.

At the same time member states will be examining what further action they can take to simplify frontier procedures within the Community, without weakening their essential defences, for the benefit of all their citizens.

S17AAW,3

In order to strengthen their defences against terrorism while making travel easier for the Community tourist and businessman, they endorsed the action of Interior Ministers in setting in hand a study of how to strengthen controls at the Community's external frontiers. Heads of Government agreed to examine the progress made at their next meeting, determined that their solidarity in the face of the terrorist threat to the safety of their citizens should be put into practice at every level of cooperation.

E/PRES/HAG 583 of 14.04.1986

STATEMENT OF 14 APRIL 1986
BY MINISTERS OF FOREIGN AFFAIRS OF THE TWELVE
ON INTERNATIONAL TERRORISM AND THE CRISIS IN THE MEDITERRANEAN

1. The Twelve are gravely concerned by the increased tension in the Mediterranean created by the recent acts of terrorism. They met today to concert common action against this scourge.

2. They consider that states clearly implicated in supporting terrorism should be induced to renounce such support and to respect the rules of international law. They call upon Libya to act accordingly.

3. The Twelve are convinced that terrorist attacks do not serve whatever political cause the perpetrators claim to be furthering. Outrages like the ones recently perpetrated on the TWA aircraft and in a discotheque in Berlin can never be justified. The Twelve vigorously condemn these outrages, deeply deplore the loss of innocent life involved and express their sympathy with the victims and their families.

4. They also reject the unacceptable threats made by Libyan leaders against Member States which deliberately encourage recourse to acts of violence and directly threaten Europe. Any action of this sort will meet with a vigorous and appropriate response on the part of the Twelve.

5. The Twelve have decided to act according to the following lines regarding Libya and, where necessary, regarding other states clearly implicated in supporting terrorism:

   - restrictions on the freedom of movement of diplomatic and consular personnel;

   - reduction of the staff of diplomatic and consular missions;

   - stricter visa requirements and procedures.

6. In conformity with their declaration of 27 January 1986 they reaffirm that no arms or other military equipment will be exported to Libya. They will continue to do everything within their power in order to ensure that their nationals and industry do not seek any commercial advantage from measures in reaction to terrorist attacks and other terrorist activities. They reserve the right to consider whether further measures may need to be taken. No country which lends support to terrorism can expect to maintain normal relations with them.

7. They have instructed the experts concerned immediately to identify appropriate measures to be taken by the Twelve, in particular, security measures, the application of international conventions on diplomatic and consular privileges and immunities and the safety of civil aviation. The experts' report will be considered at the Ministerial meeting to be held next week.

8. The Twelve are increasing their cooperation with other states in the field of intelligence, the improvement of security measures and generally, to prevent acts of terrorism.

9. In order to contribute to eliminating international terrorism, the Twelve will use their joint influence in contacts with Libya and, where necessary, with other states concerned.

10. They have decided to inform the Arab States and the League of Arab States about their conclusions and to invite them to analyse jointly and urgently the issue of international terrorism.

11. Finally and in order to enable the achievement of a political solution, avoiding further escalation of military tension in the region with all the inherent dangers, the Twelve underline the need for restraint on all sides.

final

TERRORISM - PRESIDENCY PRESS STATEMENT : 10 November 1986

1. Following on from our discussion on 27 October of Syrian involvement in the Hindawi case, we have all agreed that further joint action is essential to protect our citizens from any possible repetition of such acts of terrorism.

2. No-one should be in any doubt about our unanimous condemnation of international terrorism and our resolve to curb terrorism in all its forms. We wish to send Syria the clearest possible message that what has happened is absolutely unacceptable.

3. We stand firmly by the commitments in previous statements and have therefore decided that the following additional action is required. In the present circumstances:

- we shall not authorise new arms sales to Syria;

- we shall suspend high-level visits to or from Syria;

- we shall each review the activities of Syrian Diplomatic and Consular missions accredited in our country and apply appropriate measures;

- we shall each review and tighten security precautions surrounding the operations of Syrianair.

4. Our Embassies in Damascus were instructed to make representations to the Syrian authorities. The Syrian government have delivered their reply. As far as the facts are concerned, this adds nothing to what was considered by the court which found Hindawi guilty, and to what the Embassies have presented to the Syrian authorities.

5. We shall continue to employ all the political means available to us in order to persuade the Syrian authorities to translate into concrete action their stated condemnation of international terrorism. In particular, we call on them to end all forms of support for those groups which have been clearly involved in terrorist acts and to deny them all facilities.

6. Our actions have a specific purpose. We look to the Syrian authorities for a constructive response. We have close and important links with all the countries of the Middle East which we remain determined to develop and strengthen. In this respect, we recall the proposals the Twelve have made to give a new impetus to the Euro-Arab dialogue, and the importance attached to this in the recent communication dated 6 November from the Secretary-General of the Arab League. We strongly reaffirm our commitment to contribute in every way we can to the search for just and lasting solutions to the region's problems.

7. We shall follow developments closely and shall remain in regular contact on all these issues within the framework of European Political Cooperation.

27 November 1986

SAFEGUARDING THE OPEN SOCIETY
(TERRORISM/IMMIGRATION/DRUGS/FRONTIER CONTROLS):
EUROPEAN COUNCIL:
SPEAKING NOTE FOR THE PRIME MINISTER

TERRORISM AND FRONTIER CONTROLS

- Almost every one of our countries has suffered further from terrorist attacks in the past few months.

- There have been bomb outrages in Paris, Madrid, Berlin, and Athens. Rome There was the appalling murder of the German Political Director, Gerold von Braunmuehl. There have been a series of brutal sectarian murders in Northern Ireland. And there was the only just failed attempt to blow up an El Al civil airliner from London airport with nearly 400 passengers on board.

- There are no short cuts to a solution to the threat posed by terrorism in its various forms. Like other crimes, it has to be tackled primarily by patient, painstaking intelligence and police work.

- But as the evidence increases of the involvement of Governments so we must repond by intensifying our own cooperation, with all the resources of Government behind us, to defeat these threats to our people and to our societies.

- It sometimes is argued that terrorists, because their crimes are politically motivated: should somehow be accorded different treatment from other major criminals.

- To that, I would say two things. First, it is contrary to our whole system of values to accept that violence is a legitimate instrument of policy. Second, people who regard themselves as freedom fighters elsewhere are most certainly not freedom fighters in Europe.

AO4AEP,1

- Each of us represents a democratically elected Government. The object of terrorists in Europe is to defeat democracy.

- Our Governments have to take the lead in making clear our joint determination to resist the blackmail implicit in many terror campaigns.

- We have already made a number of significant joint commitments to this effect in the Twelve. I believe we should reaffirm the principles which will govern our collective response to a common threat: I believe these principles are:

  - No concessions under duress to terrorists or their sponsors;

  - Solidarity between the member states in their efforts to prevent terrorist crimes and to bring the guilty to justice.

- Concerted action in response to terrorist attacks on the territory of a member state. We cannot just do business as usual with states which support terrorism.

- In a Community such as ours, a threat against one is a threat against all. A terrorist attack on one partner involving the abuse of diplomatic status is an attack on all partners.

- I am glad that we have been able to agree on a range of practical measures in response to Syrian and Libyan state sponsored terrorism.

- An identical response by all is not always feasible. But we must ensure an appropriate coherent response if we are to be effective. Cannot protect ourselves or insulate ourselves by inaction.

- Not just a matter of responding whenever there is an attack. Need to be in position to prevent where possible and to respond quickly. Hence the importance of the additional measures we have set in train for the sharing of intelligence. And it is why the British Government is introducing legislation to ensure that we can respond more effectively to requests for extradition by other governments. This legislation will enable the UK to ratify the European Convention on Extradition.

- Only by uniting in a renewed effort can we ensure that criminals are no longer able to find refuge across international boundaries but are made to pay the penalty for their crimes.

- We should note that the three member states (France, Greece and Ireland) who have not already been able to ratify the European Convention on the suppression of terrorism have now announced their intention to do so.

- As we examine ways of simpliying frontier procedures within the Community, we have to do so in a manner which maintains our defences against terrorism; and we have to look also to the strengthening of our external frontiers.

- Terrorists do not respect frontiers. Indeed it is an essential part of terrorist strategy to hide behind international frontiers.

- But Interior Ministers have been discussing a number of extra practical steps we can take.

- We are setting up a secure communications network between our police forces.

- We are examining what more can be done together by concerting our visa, expulsion and exclusion arrangements.

- We must take steps to avoid the abuse of passports: this means making sure they are not issued to people under false pretences and where there is abuse we cooperate to minimise its effect.

- We must draw a distinction in granting asylum, between people who are genuinely seeking asylum, and those who seek to abuse the protection we offer so as to evade immigration controls.

- We cannot divorce this action from what we are trying to do to break down the barriers which still stand in the way of the free movement of goods and people for which the Treaty of Rome provides.

- We cannot allow terrorists to deflect us from that goal. In Britain, we are considering what further steps we can take to simplify travel arrangements for UK and EC citizens.

- The better our control at the Community's external borders, the easier it will be to encourage free movement within.

- The more effective our anti-terrorist cooperation, the faster we shall progress towards that goal.

HANDLING

Invite Chancellor Kohl to comment and to say something about problem of asylum seekers, of particular concern to Germany.

SUMMING UP

Should be possible for the Prime Minister to sum up that all agree on endorsing the action which is now in hand. Public concern in Community will expect us to have addressed issue of major concern. Believe we should reflect our agreed approach in conclusions we will now circulate.

AO4AEP,5

(If Kohl or Genscher refer to German ideas on asylum seekers and terrorism circulated in political cooperation)

- We were grateful for the German contributions and will be reflecting them (albeit in a much shorter form) in the draft conclusions.

Arguments in response to points which may be raised in discussion

a) Terrorism

Greek Problems

[If Papandreou raises difficulties.]

- We should all be agreed, in this domain especially, on solidarity between the member states. We have asserted that and other principles on dealing with terrorism before and should do so again today. I shall be circulating draft conclusions.

- Our Foreign Ministers agreed in April vis-à-vis Libya that the number of Libyan diplomats in Europe would be reduced to a minimum, that their freedom of movement would be restricted, that visa procedures would be strictly applied and that any Libyan excluded from one member state would be excluded from them all.

- In November, in response to the evidence in the Hindawi trial, it was agreed that there would be no new arms sales to Syria, high level visits would be suspended, the activities of Syrian diplomatic missions would be reviewed and that the operations of Syrian Air would be closely monitored.

- More generally, our Foreign Ministers agreed in these two cases that concerted action against terrorism was essential, that states clearly implicated in supporting terrorism should be induced to renounce such support, that violent action against one member state would meet with a vigorous response from the Twelve, and that the Twelve were resolved to curb terrorism in all its forms.

b) Frontier Controls/Immigration

[In reply to Kohl, Mitterrand, Lubbers and others who may call for visa harmonisation.]

- Agree on need for closer coordination of visa policies, particularly vis-à-vis problem countries. This must be pursued by high level working group on immigration reporting to Interior Ministers.

Asylum

[In reply to Kohl or Schluter who may call for urgent action.]

- Agree. High level group should examine urgently and reporting to Interior Ministers.

Action against carriers

[In reply to Kohl who may ask for Community action.]

- Sympathise with FRG. UK does not have system of fining carriers but already has legislation enabling government to charge carriers for persons held without visas. High level group should look urgently at this.

Importance of Frontier Controls

[In reply to countries like the Benelux who may point to role of post-entry checks.]

- Preventing illegal immigrants gaining admission more effective than relying on removing them once established. Post-entry checks difficult, particularly for countries like UK with no identity cards.

[If anyone suggests maintenance of intra-Community controls incompatible with "area without frontiers"]

At time we negotiated Single European Act we agreed that:

"Nothing in these provisions shall affect the right of member states to take such measures as they consider necessary for the purpose of controlling immigration from third countries, and to combat terrorism, crime, the traffic in drugs and illicit trading in works of art and antiques."

[If Delors asks us, Spain and Portugal to lift our reservations on the Frontier Controls Directive]

- UK supports objective of Frontier Controls Directive. We are also content for the Commission to continue holding exploratory talks with the Nordic Union.

- However, the discussions with the Nordic Union will inevitably touch on issues which go far beyond the simplification of controls at common land frontiers such as the combatting of terrorism, illegal immigration and drugs.

- Given that some of these issues go beyond the Commission's authority, it is important that the Presidency, as well as the Commission, should be involved in the conduct of any formal negotiations. Hope we can reach early agreement on this.

[If raised]

- It is impossible to judge now what the situation will be in relation to security and other problems at the time the Channel Fixed Link opens in the early 1990s.

RB2ADV

- We have to keep open the option, if it proves necessary, of conducting checks on all passengers entering the CFL. There will be no exit controls.

[If it is suggested that this too is a matter which needs to be resolved by the end of the year].

- We agree to that, provided these concerns are met.

[NB: The draft Frontier Controls Directive does not fall now or later under qualified majority voting. It will be adopted under Article 235 requiring unanimity.]

Drugs

CONCLUSIONS

Heads of Government decided that the Community and the member states must continue to contribute to the fight against drug abuse. They endorsed the Seven Point Action Programme of work agreed by Interior Ministers and noted that agreement had been reached for the Community to participate as an observer in the 1987 UN Conference on drugs.

They agreed on the need to work in close cooperation with the Council of Europe's Pompidou Group to:

- cooperate to thwart and to prosecute those who

criminally traffic in illegal drugs;

- coordinate legal action and, in particular, ensure that the assets of someone convicted of illicit trafficking in one Community country will be liable to confiscation throughout the Community;

- exchange Drugs Liaison Officers between EC countries and continue posting such officers to other countries;

- seek recommendations from EC ambassadors in drug producing countries of further ways in which the EC can help, including possible use of bilateral and Community aid to bolster those countries' own efforts to end drug production and trafficking;

- work closely with other friendly countries in the UN and the Council of Europe which provide for international cooperation in drugs matters;

- draw on each others' expertise in the treatment and rehabilitation of drug addicts and work

together to educate teachers, parents and children about the dangers of drug abuse.

Each member state has its own problems and ways of dealing with them but there are lessons which will apply to all. The European Council called for a report to be made to the next European Council with recommendations for action by the Community and its member states.

DRUGS

At our meeting in The Hague, Interior Ministers were asked to consider how the Community might contribute to the fight against drugs. There are a number of ways we can help each other, by

i) Uniting our efforts to thwart and prosecute the drug traffickers. Interior Ministers have agreed to:

- improve the exchange of information;
- continue posting of Drug Liaison Officers and improve coordination of their activities;
- explore better coordination of legislation eg mutual agreement covering confiscation of drug traffickers' assets.

ii) stepping up efforts to treat and rehabilitate addicts. In UK we have committed over £17 million to 184 projects which provide services for drug misusers. On top of that another £5 million a year is being devoted to the further expansion of services.

iii) working to educate teachers, parents and children about the dangers. All have own problems and ways of tackling them. Should pool experience and apply lessons.

iv) cooperating with other countries. Must not duplicate work of Pompidou Group or UN. Should use our embassies in third countries, especially drug producing and trafficking countries, to advise on how to help their governments eradicate illegal production and trafficking. Should use aid, bilateral and Community, where appropriate, to reinforce efforts of recipient governments.

Taken together these steps provide a basis for a coherent programme of action.

c) **Drugs**

Permanent Secretariat

[In reply to Craxi or Martens who may call for a Secretariat.]

- May be a role for such a body. But could lead to duplication of work already being done in Pompidou Group and UN. Should be considered in detailed work now in hand.

[In reply to Delors who may argue for enhanced Community role.]

- Recognise that the Community has a role to play. Grateful for positive contribution of the Commission in meetings so far. Much of the action must be for the member states. But need for best possible coordination. Interior Ministers will be pursuing, with the Commission fully involved.

[If M Delors suggests a campaign like that launched by President Reagan, involving privately funded efforts by business and the media]

- Interesting suggestion. The collective action we are agreed on by the member states could encourage action by others. Have no objection to private soundings of business leaders and the media to see what more they can contribute.

- Suggest President Delors might explore further what might be done with the emphasis on minimal bureaucracy and maximum effective action.

RB2ACJ,12

d) People's Europe

[If anyone asks why the Presidency did not submit a report of People's Europe]

We did not make a formal report to avoid too many papers. May be helpful to colleagues if I report orally on progress made. The European Council at The Hague asked that progress should be made in the implementation of the report on a People's Europe (Adonnino Report). The Presidency has ensured that each of the specific items identified at The Hague as being of particular importance has been discussed in detail. Significant advances have been made. Agreement has been reached on uniform border signs. Discussions on a Community right of residence for the economically non-active have cleared away all but a small number of outstanding issues. There has been rapid progress in identifying the principles of a general system of mutual recognition of diplomas for the purpose of professional establishment.

CANCER, AIDS

Issues to be dealt with immediately after drugs.

References — Commission paper on "Europe against cancer"

Handling — You might invite M. Delors to refer to his paper on cancer and M. Mitterrand to comment in view of his interest in this issue at earlier European Councils. You may wish to draw attention to the need for exchange of information and to the importance of manpower training in the face of the AIDS problem.

Draft conclusions — below

Cancer. Aids
Conclusions.

cooperative measures, in particular in the areas of research and training.

The European Council recalled that at their meeting in The Hague they had requested the Council of Ministers to reach agreement on an action programme against cancer, and agreed that 1989 should be designated European Cancer Information Year. The aim will be to develop a sustained and concerted information campaign in all the member states on the prevention, early warning and treatment of cancer.

The European Council expressed its deep concern about the rising incidence of AIDS. They noted what was already being done and stressed the importance of coordinating national campaigns to improve public awareness about the disease and prevent its spread.

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They asked the Council of Ministers to ensure the effective Community-wide exchange of information about the spread of the disease, prevention and treatment and to consider what further cooperative measures should be taken by all the member states.

EUROPEAN COUNCIL: COMMISSION PAPER ON "EUROPE AGAINST CANCER"

1. The paper draws attention to the action already taken following the Milan European Council conclusions on the value of launching a European action programme against cancer and outlines three areas for future action:

(i) Prevention: a programme to implement the Resolution which was adopted by Health Ministers in May. This will include action on tobacco and alcohol consumption and exposure to carcinogens at the workplace;

(ii) Information, Education and Training: the emphasis is placed on more training in oncology for GPs and specialists, public information campaigns and the declaration of 1989 as European Cancer Information Year;

(iii) Research into Cancer: this will be part of the fourth EC Medical and Public Health Research Programme for 1987-89.

2. We agree with the Commission's emphasis on the need to avoid duplication of activities with other international organisations. There may be issues of competence or substantive difficulties raised by some of the detailed measures the Commission propose. These will be for detailed resolution by Health Ministers. The paper refers to the idea of making 1989 European Cancer Prevention Year and suggests that this could be launched by the European Council. This is in line with the proposal which the Prime Minister has made in her letter to other heads of government.

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 692 final
Brussels, 26 November 1986

EUROPEAN COUNCIL OF 5-6 DECEMBER 1986

"EUROPE AGAINST CANCER" PROGRAMME

COMMISSION NOTE

"EUROPE AGAINST CANCER" PROGRAMME

The Commission of the European Communities is putting the finishing touches, with the valuable assistance of the committee of cancer experts set up at the beginning of the year, to a detailed plan of action for the first three years of implementation of the "Europe against cancer" programme, which was approved in principle by the Milan European Council. The proposal, which will be sent to the Council by the end of the year, covers the following spheres of action: prevention; informing the general public; training health workers; and research.

I. CANCER PREVENTION

In July 1986, the Council adopted a resolution setting out the broad lines of the prevention part of the "Europe against cancer" programme. The 1987-89 plan of action will give substance to that resolution by identifying some forty proposals for Community projects aimed at:

- intensifying the combat that began as early as 1959 against carcinogenic agents, whether they be ionizing radiation or chemical carcinogens;

- striving to reduce tobacco consumption and improve eating habits. These new areas of work are important because smoking and diet are each thought to be involved in about one-third of cancer fatalities. From 1987 onwards, the European Community will help support national activities in the context of the internal market, the common agricultural policy and consumer

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protection in particular (upward alignment of taxation arrangements for manufactured tobaccos, harmonization of the labelling of manufactured tobaccos and foodstuffs, redirection of production towards varieties least harmful to health, bans or restrictions on certain types of advertising, etc.).

If certain reservations are to be overcome, in particular with regard to anti-smoking measures, it is essential that the European Council reaffirm the Member States' determination to act quickly and effectively along these lines.

II. INFORMATION AND EDUCATION ON CANCER

Community activities in the cancer-prevention field will be effective only if they are backed up by a well-informed population and by adequately trained health workers. To that end, the European Community should give extra support to the indispensable national efforts in the public or private sector by launching over the period 1987-89 a number of projects aimed at:

- making Europeans aware that the pooling of efforts, resources and experience remains the surest guarantee of success in the fight against cancer. The elementary advice on cancer prevention being prepared by the committee of European cancer experts should thus acquire greater persuasive force;

- avoiding fruitless and costly duplication of work, through the joint development of basic modules for informing the public and training health workers;

- promoting exchanges of experience, in order to derive maximum benefit from the successes and failures encountered in different quarters in informing the public and training health workers.

In addition, the Commission supports the proposal put forward by the committee of cancer experts that 1989 be declared "European cancer prevention year" and recommends the other European institutions to follow suit. With this in mind, the prevention and research parts of the "Europe against cancer" programme should be supplemented by activities aimed at informing the public and training health workers, which should be set in hand in 1987 in order to culminate in 1989 with "European cancer prevention year". The European Council could take such a decision.

III. CANCER RESEARCH

The Commission recently sent the Council a proposal for a Decision adopting a fourth programme (1987-89) coordinating medical research. For the first time in its existence, the programme incorporates the objective of combatting cancer, to which one-third of its estimated budget should be allocated.

The programme covers the following areas: the award of European fellowships to promote the mobility of cancer researchers; the coordination of epidemiological research with a view to improving cancer prevention, with special reference to nutrition and passive smoking; the coordination of research to improve screening and early diagnosis, in particular by promoting research on computerized tissue analysis; and the coordination of European research on the monitoring of multi-centre therapeutic trials.

COMMUNITY PERSPECTIVES FOR 1987

The President of the Commission informed Heads of States and Government of the reflexions ~~which~~ of the Commission had ~~undertaken~~ in the framework of the guidance foreseen by the Fontainebleau European Council and by the single European Act. He covered the financing of the Community, the CAP, and the realisation of cohesion.

It was agreed that M. Delors would visit the Heads of State and Governement to explain the work [and proposals] of the Commission.

CANCER AND AIDS

- I would now like to turn to two other issues I raised in my letter to you: Cancer and AIDS.

- I would draw particular attention to the proposal that we announce that 1989 will be European Cancer Information Year.

- You will remember that in our meeting in Milan, at Francois Mitterrand's initiative we emphasised the value of launching a European action programme against cancer. The proposal for an Information Year is one part of a broader programme which will also cover research into cancer, preventive steps and training for GPs and specialists.

- We need to pool our resources to mount a sustained publicity campaign. We must drive the message home that, by stopping smoking, by paying attention to what we eat, by looking out for early-warning signs, we can take preventive action and reduce our susceptibility to cancer. We look forward to receiving the Commission's proposals for the first action programme. This will implement the Resolution on Cancer Prevention which Health Ministers adopted in May and will include more detailed proposals about Cancer Information Year.

- Increasing public concern also about AIDS. An increasingly serious health hazard in all our societies. Since reports of positive tests results started, 4,000 sero-positive cases have been reported in the UK. This certainly an underestimate of those who may be affected. Similar concern in all our countries.

- We have launched a major public education campaign. There will be large-scale advertising in the media. Leaflets are being sent to every household.

- We strongly support the measures the World Health Organisation is taking to combat AIDS. We are contributing to the WHO programme and have been discussing further action with the Director-General.

- An EC working party has been considering measures which could form a major part of the proposed coordination programme of Medical and Health Research 1987-89.

- I propose we should now agree to press ahead with ensuring a systematic exchange of information and invite our Health Ministers to consider what further concerted action, without duplicating work being done elsewhere, could be undertaken; especially in the fields of prevention and of cooperation in research and training.

EX NOVO REVIEW AND AGRICULTURE

Issue on which we wish (1) to limit discussion of future financing and (2) to draw the conclusions on agriculture below.

References	None.
Handling	M. Delors to speak immediately before dinner on 5 December on state of this review.
Draft conclusions	below

Letter from President of the Parliament.

Oils and fats.

CONCLUSIONS [Not for discussion at dinner: to be tabled as appropriate thereafter]

CAP

- The heads of government underlined the need to reach early decisions on the matters before the Agriculture Council, in particular in relation to the adaptation of the regimes for milk and beef.

EX NOVO REVIEW

[if necessary]

- The President of the Commission informed heads of government of his intention, in accordance with the Fontainebleau agreement, to bring forward by the end of the year a report to the Council on:

  - the result of budgetary discipline;
  - the Community's financial needs;
  - the breakdown of the budgetary costs among the member states, having regard to their relative prosperity.

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COHESION

[if necessary]

- The heads of government noted that the Commission, in accordance with Article 23 of the Single European Act, will bring forward in the near future a comprehensive proposal on the structure and operational rules of the structural funds.

POSSIBLE LONGER TEXT OF CONCLUSIONS ON COHESION
[FOR USE IF NECESSARY]

The European Council recalled the agreement contained in the Single European Act that, in drawing up proposals to establish the internal market, the Commission "will take into account the extent of the effort that certain economies showing differences in development will have to sustain during the period of establishment of the internal market" and that it is open to the Commission to propose appropriate solutions.

The Heads of Government noted that, under Article 23 of the Single European Act, the Community "shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions". In this connexion, the Heads of Government noted that the Commission, in accordance with Article 23 of the Single European Act, will bring forward in the near future a comprehensive proposal on the structure and operational rules of the structural funds.

SRWAOJ

DISCUSSION BETWEEN HEADS OF GOVERNMENT BEFORE DINNER DURING EUROPEAN COUNCIL ON 5 DECEMBER 1986

Heads of Government had a brief discussion before dinner on 5 December of the future financing of the Community.

The Prime Minister suggested that M.Delors should give an indication of how the Commission's review of the Community's finances was progressing. This was of course intimately bound up with the future of the CAP. The Community would soon confront a very serious financial situation which it could not run away from. No decisions were required at this Council. But Heads of Government needed to know the dimensions of the problem.

M.Delors said that the Commission would present three reports on financial problems, agricultural problems and cohesion. These reports were required by the conclusions of the Fontainebleau European Council and by the Single European Act. These tasks could not be fulfilled without taking stock of the CAP. By way of introduction he wanted to put three simple propositions. First, the Community would not get through 1987 without a major financial crisis. Second, reform of the CAP had now become inevitable. Third, the Community had to choose between two concepts of cohesion: either one based on compensation through the budgetary mechanism; or an economic area based on convergence of economic policies. The Commission favoured the second.

Financial problems

M.Delors continued that the Community budget had been in deficit for years and had only been saved from disaster by a series of expedients. These were to let agricultural stocks build up; to let a gap develop between commitments and payments; and to carry over a deficit from one year to the next. But it was no longer possible to get by by using these devices. The Community's budget for next year provided for

39 billion ecu: a more realistic figure would be 43 billion ecu. The Community might get through until July but thereafter would have to impose savage cuts, particularly in agricultural payments and the structural funds. He had therefore decided to ring the alarm bell. Member states should face up to decisions in the course of next year. The Community needed a stable and guaranteed financial system under which the Commission did not need to keep coming back for topping up. The Commission needed to know exactly what it could expect by way of resources between now and 1992. The choice was between:

(i) increasing the VAT rate from 1.4 per cent to 1.6 per cent. But that was not really an option because a realistic budget for 1987 would already require a rate of 1.65 per cent; or

(ii) to set a precise ceiling for the Community's revenue expressed as a proportion of GDP which would on no account be breached up to 1992.

CAP

M.Delors said that the crisis in the CAP was due both to internal causes and international factors. Even if one carried out the most far-reaching reform, it would not actually decrease agricultural spending, simply stop it from rising so fast. Production was increasing all over the world and there was little prospect of the Community finding new markets. Indeed it had done better than most people realised, for instance by increasing its share of the world market for cereals from 14 to 17 per cent. Going further down this course risked a trade war with the United States. He would therefore set out a number of measures which were, in the Commission's view, essential:

(i) steps must be taken to eliminate surplus stocks. The intervention system must return to the original concept of smoothing out market fluctuations. At

present the technical and financial costs of storing surpluses were three times what the Community spent on research and technology;

(ii) a more realistic pricing policy was needed;

(iii) farm incomes must be protected. The Commission were divided on how best to secure this. He personally favoured income support, although many farmers' organisations did not like this.

(iv) The Community must pursue a vigorous external agricultural policy.

Everything else was merely technical. The basic question here was whether one preferred quotas or co-responsibility levies. Personally he believed that quotas worked best.

Cohesion

M.Delors said that cohesion was part budgetary and part an economic problem. The choices for dealing with it were either through a compensation mechanism which related contributions to GDP, or by creating a single economic area. The Commission was firmly attached to the latter, but to achieve it there would need to be a doubling of the structural funds between 1987 and 1992. M.Delors identified a number of hallmarks for cohesion:

(i) dissemination of prosperity through the internal market and technological cooperation;

(ii) stimulation of small and medium sized businesses;

(iii) use of the mechanisms of the CAP;

(iv) Community action in favour of less-favoured regions. Here support for programmes rather than

projects was essential;

(v) reform of the social fund to enable it to concentrate on three or four major problems;

(vi) the Commission would propose setting up an environment fund.

Method

M.Delors said that he would be at the disposal of all heads of government in the early part of 1987 to visit them in their capitals, to explain the problems and to discuss with them the possible solutions.

The Prime Minister said that M.Delors' report had come as something of a shock. In plain terms, the Community was broke. Heads of government should have been told this before. They might have created an effective financial discipline. When you were broke there was no point in taking on increased expenditure. The most costly policies would have to be reduced. She agreed that it would be useful if M.Delors was to make his tour of Community capitals. The Commission should then set out options for the future with clear costings and the consequences spelled out. What had happened should not happen again.

Mr. Papandreou said that M.Delors had made a most important and significant statement. Clearly he wanted a united Europe. One would not get that by reducing spending. He agreed that it would be useful for M.Delors to visit capitals.

Chancellor Kohl said that M.Delors' report was shocking but not new. There was no point in belly-aching. Heads of government had to see how they could take matters forward. He agreed that it would be useful for M.Delors to make visits to capitals in January and February. After that the Commission should try and reach some conclusions and put forward options. On this he agreed with the Prime Minister. It would be necessary to devote a great deal of time to this problem. We

were setting the points for the future.

The Prime Minister said that it was agreed that M.Delors should make his tour and then set out options with costs spelled out. There was in addition an immediate problem. The Agriculture Council was meeting next week. Heads of Government should instruct their Agriculture Ministers to take decisions on the milk and beef regimes. She had received a letter from the President of the European Parliament stressing the need to take decisions on agricultural spending. She repeated that it was now for M.Delors to make his tour of capitals and report further.

(C. D. POWELL)
5 December 1986

9½%.
Difficult to get 2 yr deal.
French want only 3% next year

EUROPEAN COUNCIL: OWN RESOURCES AND AGRICULTURE

SPEAKING NOTE

- The Fontainebleau agreement requires the Commission to bring forward to the Council a report on:

  - the results of budgetary discipline;

  - the Community's financial needs;

  - the breakdown of the budgetary costs between the member states.

- This is not the right moment for substantive discussion: that must await the Commission's report. But I welcome the opportunity to ask Jacques Delors to tell us how the Commission are getting on with their report and about the time-table for discussion.

[PRESIDENT OF THE COMMISSION TO SPEAK: OTHERS WILL THEN INTERVENE]

- As soon as we have the Commission's report, the Presidency will be arranging for discussion in COREPER

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and the Council.

- Not appropriate to deal with detailed decisions on agriculture among Heads of Government. Agriculture Ministers are meeting again in Brussels on 8/9 December. Should agree that they must reach the necessary decisions, particularly on milk and beef.

[IF NECESSARY]

- We must now await the Commission's report. It is important that the budgetary control arrangements should operate satisfactorily. We shall be glad to hear how the Commission suggest that they should be improved and made more effective.

- A central question which will have to be addressed is the use we are making of the resources at present available to the Community. We are all committed to supporting our agriculture. But at present over fifty per cent of the total Community budget and two-thirds of the agricultural budget is devoted to funding the storage and disposal of agricultural surpluses.

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- We all accept the need to preserve the fundamental principles of the Common Agricultural Policy. But the intervention system was intended as a safety net and not as the normal outlet for production. And it is not helping farmers as it should: while the financial costs of marginal over-production are rising, farm incomes have been falling.

- The necessary changes have to be made progressively. A good deal has been done in the last three years. It is obvious that there will have to be further adaptations if the policy is to be preserved and we are to avoid annual budget crises. It is important that the Commission's report should include proposals for mechanisms which would ensure that the very large amounts of money we devote to agricultural support do not have the effect of encouraging production beyond what the Community can consume and what we can export. We shall look forward to seeing the Commission's proposals on this point.

- Two commodities, milk and beef, cause special concern. Despite the introduction of quotas on milk production in 1984, output remains far in excess of requirements. Stocks of butter in intervention have

increased dramatically since the spring to a total of 1½ million tonnes - plus 1 million tonnes of skimmed milk powder. We have to decide on the mix of measures to bring production back into line with demand. The Commission have made proposals and it is urgent that they should be acted upon.

- For beef, we also have large stocks in intervention. Farmers must be encouraged to produce for the market, not for intervention. The Commission made proposals nearly a year ago and have recently elaborated them. The Agriculture Council must reach decisions.

[AS NECESSARY]

- Agree that decisions must also be taken to prevent similar problems of over-production of vegetable oils.

[If it is suggested that there should be two European Councils to discuss these matters in the first half of 1987]

- That will be a matter for the Belgian Presidency to decide. Once the Commission's report is available, there will need to be discussion in the Council. M. Martens will need to decide when the matter is right

to be referred back to the heads of government. In my view, a great deal of preparation will be necessary.

[If there is general support for an earlier meeting to deal inter alia with agriculture]

- That will be for M Martens to decide. Clear that urgent decisions are necessary on agriculture. We are looking for them to be taken in the Agriculture Council next week.

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EXTRACT FROM OWN RESOURCES DECISION 1985 AND FONTAINEBLEAU AGREEMENT 1984

"Whereas, by the terms of those conclusions, the maximum rate of mobilisation of value added tax own resources will be 1.4% on 1 January 1986; whereas this maximum rate applies to every member state and will enter into force as soon as the ratification procedures are completed and by 1 January 1986 at the latest; whereas the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures".

EXTRACT FROM FONTAINEBLEAU AGREEMENT

"One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline;
- the Community's financial needs;
- the breakdown of the budgetary costs among member states, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo."

CONCLUSIONS [Not for discussion at dinner: to be tabled as appropriate thereafter]

CAP

- The heads of government underlined the need to reach early decisions on the matters before the Agriculture Council, in particular in relation to the adaptation of the regimes for milk and beef.

EX NOVO REVIEW

[if necessary]

- The President of the Commission informed heads of government of his intention, in accordance with the Fontainebleau agreement, to bring forward by the end of the year a report to the Council on:

  - the result of budgetary discipline;
  - the Community's financial needs;
  - the breakdown of the budgetary costs among the member states, having regard to their relative prosperity.

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COHESION

[if necessary]

- The heads of government noted that the Commission, in accordance with Article 23 of the Single European Act, will bring forward in the near future a comprehensive proposal on the structure and operational rules of the structural funds.

ADDENDUM TO BRIEF EHG(L)(86)3 (OWN RESOURCES AND AGRICULTURE)

EUROPEAN COUNCIL

[AS NECESSARY :
IF IT IS SUGGESTED THAT IMPORTS ARE THE CAUSE OF CAP PROBLEMS]

- The fundamental problem is overproduction due to high prices and rapid increases in productivity particularly in the main surplus commodities (milk, cereals, beef) while world demand remains static. Yield figures for each risen greatly over past ten years (milk 23%, cereals 28%, beef 7%,). These trends will continue, while countries like India and China are moving into surplus.

- For milk the Commission estimate that the Community is overproducing by 9.5 million tonnes beyond the 12 million tonnes we are exporting at highly subsidised rates. In the dairy sector (the most costly in the CAP) the US is not a major presence on the world market. 80% of the international butter and butter-oil

trade comes from the Community, New Zealand and Australia. New Zealand has suggested joint action by exporters to dispose of butter surpluses. The Community share of the world dairy market has risen from 40% to 55% since UK accession (exports have risen from 6 million tonnes to 12 million tonnes).

[As necessary]

- The Community is the largest market for US agricultural products (worth $7 billions). We need to remind the US of this fact and look for modus vivendi between us in containing an export subsidies war.

- Action against imports of oil seeds or cereals substitutes from the US certainly would provoke retaliation against our agriculture based exports from the Community. 22% of all Community exports go to the US: 16% of our agricultural exports. The US is the Community's single largest agricultural export market. EC exports of wine, brandy, spirits and cheese would be at risk. Wine accounts for one sixth of all Community agricultural based exports to the US.

DH5AAN

A. EAST/WEST

Opening Speaking Note for the Prime Minister

- Increasing evidence, despite official Soviet denials, that Gorbachev starting to look beyond Reagan Administration.

- West should urge Gorbachev to live up to stated willingness to do business with Reagan, not waste next two years.

- But no early prospect of another US-Soviet Summit. Difficult period ahead: premium on Western cohesion.

- In contacts with US and Soviet Union, Twelve must stand up firmly for European security interests.

Arms Control

- Camp David discussion national not Presidency occasion, but issues concern us all.

- President Mitterrand and I agreed on 21 November that priorities identified at Camp David (INF, 50% START, CW) correct and realistic. Valuable for us to endorse.

- Future course of arms control thereafter unclear. Soviet and US visions mutually unacceptable. Must not confuse propaganda and bluff for real world.

- Nor lose sight of need to redress conventional/chemical imbalances, as condition for moving beyond 50% cuts.

- Lack of realism also in US blithe assumptions: that Europe could afford to pay more for conventional defence; or that air-breathing systems would provide credible/effective deterrence after elimination of ballistic missiles.

- Must ensure US understands such arguments ignore political realities this side of Atlantic.

- Also, in search for arms control agreements, importance of nuclear weapons in preserving security must be recognised. Clear that alternative strategy not available in foreseeable future.

Bilateral Contacts

- I plan to visit Moscow next Spring. Interested to hear impressions from Lubbers and Schluter after their recent visits.

CSCE (Foreign Ministers) Vienna

- Western coordination satisfactory. Must continue to work together to ensure thorough review of implementation, especially on human rights. West must keep high ground on human rights as on arms control.

- Should find a way to build on small signs of greater Soviet readiness to discuss human rights/human contacts. Must not allow proposed Moscow humanitarian conference to sweep other ideas off the table: possibility that under right conditions, it could be turned to our advantage. But would Soviets play fair? Alternative suggestions by Denmark and Netherlands deserve full consideration: useful ideas on how we might pin East down on human rights.

EAST/WEST

Arguments

Should not tie progress specifically to life of present US administration?

- Despite Republican loss of Senate, and other recent difficulties, Reagan Administration is in office until 1988. Soviet leadership know they must deal with him. Shevardnadze said so in 10 November press conference. We must press them for early progress on arms reductions, not delaying tactics.

- But also European concerns about US proposals. Should make clear European point of view. Otherwise potential for misunderstanding in Washington and Moscow, and risk of damage to specific European security interests.

clear European ...
misunderstanding in Washington and Moscow, and risk of damage to specific European security interests.

If Irish object to summing up, especially mention of 'cohesion'

- We all recognise Ireland's position as non-NATO member. But not credible for Heads of State and Government to meet without discussing East/West. In present circumstances that means situation post-Reykjavik and CSCE. Central concerns for all of us, as Europeans. Must face up to them.

- Reference to 'cohesion' applies first to Twelve, then to "wider Western context": our basic values and interests are shared with others in the free world. And there are others in Western Europe besides the Twelve

- **(Only if Ireland dissociates itself from conclusions).** Hope we can agree all except para 3. On that, suggest I say there was broad support but European Council not the place to draw formal conclusions to that effect.

Summing up on East/West

[When others have spoken should be possible to sum up as follows]

- We are all determined to contribute to more stable and constructive relations between East and West. We shall maintain cohesion among ourselves and in the wider Western context.

- We agree that we should encourage the Soviet Union to make progress wherever possible towards balanced and verifiable arms control and disarmament agreements, with due respect for European security interests.

- At the same time, we recognise that reductions in nuclear weapons will increase the importance of eliminating disparities in conventional and chemical weapons. Nuclear weapons cannot be dealt with in isolation. A stable overall balance is needed at all times.

- We agree that security cannot be divorced from the political and human aspects of relations between states; and that respect for human rights is an essential factor in building confidence between East and West.

- We stress the importance of making progress on human rights, human contacts and regional questions. We shall insist at Vienna on full respect for the Helsinki commitments by all participating states, especially in the field of human rights.

B. US/IRAN

Speaking Note (Prime Minister)

US/Iran

- Not profitable to rake over coals of secret US dealings with Iran. Should resist any temptation to try and profit from US discomfiture. In longer term, Western cohesion and credibility is more important.

- Can all agree with longer term need for the West to open up contacts with Iran, without compromising stance on the ending of conflict. Should welcome US re-affirmation of no deals with hostage takers, and arms embargo against Iran.

- US actions will put policies of Member States under closer scrutiny. Should re-affirm our impartiality in conflict, our determination to see a negotiated settlement, and our firm anti-terrorist policy.

Press Handling

- Bound to be asked if we have discussed US/Iran affair.

- If necessary, suggest I make following points:

(1) . Welcome fact that US has re-affirmed arms embargo against Iran and no deals with hostage takers.

(2) . Essential to end wasteful and pointless conflict in Gulf by negotiation. Renew call on both sides to do so without delay. Twelve strictly impartial on war.

. If asked about aid to Contras or US domestic aspect, I would say that President Reagan had made a full statement of his position and this was not a matter for us.

US/IRAN

Arguments

Europe should adopt higher profile to repair damage from US/ Iran affair?

- Situation in Washington still fluid. We should avoid public criticism of an internal US matter. Iranians already revelling in US discomfort. Do not wish to provide further cause.

- US will need to re-establish credibility in the Middle East. Important for longer term Western interests that we help, not hinder, this process.

- British policy on arms sales to Iran and Iraq is not to supply any defence equipment that could significantly prolong or exacerbate the conflict. Our policy is strict, and adhered to rigorously.

Impact of revelations on Central America?

- Likely to weaken US standing in the region and increase domestic hostility to support for Contras.

- But clearly matter of highest sensitivity for President Reagan. Ill advised for us to offer comment or go beyond restating our well-known position of support for peaceful settlement in Central America.

C. SOUTH AFRICA (Heads of Government)

Arguments

If Partners wish to raise coal ban at Head of State/Government level

- Discussed this extensively at The Hague. Since then measures on coal, steel and new investment have been implemented. No consensus in favour of a ban on coal. Airing differences on the matter will not have effect we want on SAG. Sir G Howe discussing political programme with colleagues this evening.

If Dutch/Italians argue for conditional coal ban

- Should not start another divisive debate. Need to look for alternative approaches, and to allow time to assess impact of measures we have only just put in place. SAG will not respond to threats. To make them will reduce our chances of playing a political role.

- (If asked). Our position on coal ban remains as stated after August Commonwealth meeting: willing to impose one if there is a consensus among the Twelve to do so.

C. SOUTH AFRICA (Foreign Ministers)

Speaking Note (for use by Secretary of State)

Recent Developments

- No signs of progress in South Africa. Decision of South African Government to delay President's Council report on the Group Areas Act further indication that they are not susceptible to external pressure.

- Regional situation potentially unstable. Zambia and Zimbabwe still committed to applying sanctions against South Africa but more vulnerable to sanctions themselves. Risk of further ANC violence against white targets.

Political Programme

- Share sense of frustration that our ability to play constructive political role is limited. But believe we are agreed also, that timing is not right for a major new initiative by the Twelve.

- Must continue to consider how and when we can seize the opportunity to make an effective political contribution.

[For use with Genscher in the margins:]

- Welcome FRG's membership of Security Council next year. Presence of six of summit seven on Council will offer a unique opportunity to demonstrate strong, united stand by major Western industrial powers on South Africa. Must seek to vote together for what we believe.

D. MIDDLE EAST (AND SYRIA/HINDAWI)

Speaking Note (for Secretary of State)

Peace Process

- Poor prospects for early moves from the parties, Shamir less flexible than Peres, Jordan concentrating on Occupied Territories development, Palestinians in disarray.

- International Conference one way in which more progress might be made. We support this in principle, but no illusions as to difficulties (especially Palestinian representation, Soviet role and relationship between conference and working groups).

- Current policy of quiet diplomacy with parties on these and other issues demonstrates our willingness to help without raising expectations. Still think that self-determination in some kind of federation with Jordan most realistic option. EC/aid/access decision meanwhile a practical demonstration of concern for Palestinians in the Occupied Territories.

- Prime Minister stressed need for fresh impetus in talks with President Reagan: need for some international accompaniment to negotiations, importance of taking into account aspirations of Palestinians. No sign as yet of fresh US thinking.

Syria/Hindawi

- Welcome Twelve's unanimous agreement to take specific measures in response to conclusive evidence of Syrian official involvement with Hindawi.

- Demonstration of effective political cooperation. Clearest possible message to Syria. US measures of 14 November usefully reinforce our own.

- Trial of Ahmad Hasi in Berlin further evidence of Syrian involvement with terrorism. Understand FRG will be briefing partners on evidence.

- Underline importance of our measures and need to maintain pressure on Syria to stop support for Abu Nidhal and other terrorist groups.

- Must meanwhile resist Syrian attempts to divide us; weaken the effect of agreed measures.

- Arab reactions generally understanding of our action. But we must all continue to put across message that our measures are aimed at Syria and are NOT anti-Arab.

MIDDLE EAST

Arguments

Europe should take more of a lead in peace process?

- Believe more consultations with parties required first, and also with US: be realistic about what we can achieve: cannot substitute for more active and flexible approach by parties, but shall work to promote this.

- Can take satisfaction from announcement on 27 October of EC measures to provide preferential access for exports from the Occupied Territories and an enhanced aid programme. Understand the Commission is working with the governments directly involved on implementation. Need to be careful over Jordanian sensitivities: their cooperation essential.

If any sign of soft pedalling on action against Syria

- Must maintain constructive pressure on other "like-minded" (Scandinavians, Japan etc) to take action. Not give Syrians impression they can relax.

- Need to be seen to enforce our agreed measures to deter US, Israel from taking more extreme bilateral action.

- Important that all EC members fully briefed on evidence of Syrian official involvement with Arab-German Society bombing (the Hasi trial).

Hostages?

- British hostages in Lebanon as well. Signals that hostage-taking could lead to concessions dangerous, counter-productive.

US measures against Syria?

- Welcome US measures. Fully consistent with Summit Seven Declaration on 6 May. Reinforce EC measures. But important that economic measures should not affect our continuing, normal bilateral trade relations with Syria.

- We have expressed concern to US at extraterritorial implications of US measures and at potential for causing bilateral problems with EC members trading with Syria.

(When others have spoken it should be possible to sum up as follows)

- We remain concerned at the continued stagnation in the Middle East peace process and agreed that we should remain in close touch with the parties to identify ways of promoting progress towards negotiations.

- Our recent measures for aid to the Occupied Territories and preferential access for products from them are an important practical demonstration of our concern to help the Palestinians and improve their economic conditions.

- We agreed on the need to continue to press Syria to discontinue its support for Abu Nidhal and other terrorist groups.

D. AFGHANISTAN

Speaking Note for Foreign Secretary

- Text has been agreed with partners.

- Important to signal continuing concern over situation in Afghanistan at time of increasing Soviet political/propaganda offensive.

- Need to maintain pressure for complete Soviet troop withdrawal as real key to peace.

- Human rights situation remains dismal.

- Useful for Heads of Government to issue short statement. Text already incorporates comments received by COREU. Hope we can agree to recommend it to Heads of Government

Arguments

- Russians would draw conclusions if we remained silent.

DRAFT EUROPEAN COUNCIL STATEMENT

AFGHANISTAN

- As the seventh year of Soviet occupation comes to a close, Heads of Government again draw attention to the very serious situation facing the people of Afghanistan and neighbouring countries as well as to the ever worsening human rights problems which the Soviet presence has caused.

- Over 110,000 Soviet troops remain in Afghanistan to prosecute a bitter and repressive war. Their presence violates international peace and security and endangers the stability of the region. Five million Afghans have been forced to flee their country. The Afghan people are still denied their freedom and independence.

- Heads of Government support the United Nations Secretary General's search for a political settlement based on principles overwhelmingly endorsed by the international Community. They call again on the Soviet Union to end the agony of the Afghan nation by agreeing to a rapid and complete withdrawal of Soviet forces.

CONFIDENTIAL

F. LATIN AMERICA (if raised)

Follow-up to Hague European Council?

- The importance of the Community's relations with Latin America was acknowledged in our conclusions at The Hague. The Commission were asked to submit a document on the strengthening of relations with Latin America. Their report has only just appeared, and I understand discussion of it is due to begin promptly next week in Brussels.

- No time yet to study the Commission report. Suggest Foreign Ministers do so urgently, once the necessary preparatory work has been completed, to see what can be done in practice to strengthen relations with Latin America.

- Work also underway in Political Cooperation. Valuable papers by Spain and Portugal. Wide-ranging study under UK Presidency. Belgian Presidency will carry forward.

Twelve's role in Central America?

- Situation in Central America has worsened recently. Latin Americans rightly concerned over domestic impact if fighting escalates.

- Prospects for Contadora initiative poor. San Jose III (Guatemala City, 9-11 February 1987) will demonstrate our support for peaceful settlement to region's problems. Central Americans have all said they will attend and attach importance to the meeting.

San Jose III: attendance by Contadora Support Group (includes Argentina)

- Understand Guatemala favours attendance of Contadora Support Group. But Honduras/Costa Rica not in favour. Present format works well. Prefer not to widen attendance. Would alter nature of EC/Central America dialogue.

- (If necessary). Presence of Argentina would be difficult for UK. Would inject quite separate bilateral problem into already complex meeting.

Aims for San Jose III?

- Should seize opportunity to encourage further democratic development and observance of human rights in region. Must use meeting for frank talking, especially to Nicaragua.

- Should encourage use of Community aid on projects designed to promote intra-regional cooperation and trade. Would help create climate of practical cooperation.

- Wrong that 50% of all EC aid has gone to one country (Nicaragua). Such imbalance sends wrong signals. Understand amount of EC aid to Nicaragua now less. Hope partners agree that more equitable distribution and more emphasis on regional projects best way to proceed.

Chile?

- We all want peaceful and orderly restoration of democracy in Chile. We have repeatedly made our views clear on this and on human rights abuses. Chilean opposition look to us for help and encouragement: must go on giving it, though up to them to make their efforts effective. Opposition have not made much impression yet on Pinochet, who remains in control.

- (If necessary). Do not believe more public statements will help. Could be counter-productive. Chilean Government well aware of our strong feelings.

- (If raised by Dutch). Oppose any form of sanctions: would do nothing to hasten return to democracy.

- (If raised). Note different pattern of votes by Member States over World Bank loan to Chile last month. Human rights abuses in Chile made this a difficult issue. UK voted (in favour) purely on technical grounds. Glad EC able to vote unanimously for critical UNGA human rights resolution.

[Possible summing up, if required] SUMMING UP

- In view of the increasing tension in Central America we all express the hope that San Jose III will make a positive contribution to the search for solutions in the region.

- We discussed our wider relations with Latin America. We agreed that Foreign Ministers should give urgent study to the report just produced by the Commission. And work in political cooperation will be carried forward in parallel.

Falklands (if raised)

a) Fisheries

- Urgent need for conservation of fish stocks around the Falklands. First draft FAO report confirms this.

- From the outset we sought a collaborative solution. Argentina undermined that approach. Attacks on foreign fishing vessels; bilateral agreements with Soviet Union and Bulgaria.

- Argentina appears to give a higher priority to pursuit of its sovereignty claim than to progress on conservation and cooperation with the UK.

- UK left with no option but to take action to safeguard stocks. But FICZ is an interim measure. We still prefer a multilateral solution and remain ready to work for it.

b) UNGA Debate

- UN Resolution not neutral. Ignores Islanders' right to self-determination. Calls for negotiations to "all aspects" of the future of the Islands - a euphemism for sovereignty.

- UK determined to uphold its commitment to Islanders and work for better relations with Argentina. We have taken or proposed a whole series of confidence-building measures from finance to fish: all remain on the table.

- Unfortunately these initiatives have been either ignored; or rejected; or made conditional on negotiations on sovereignty. Argentina's position unchanged: negotiations must lead to transfer of sovereignty irrespective of the wishes of the Islanders.

- Regret that some partners thought vote for resolution would promote dialogue and bolster Alfonsin's position. Wrong to confuse support for Argentine democracy (which we share) with support for Argentina's position on the Falklands, which has become increasingly irresponsible.

G. PHILIPPINES (if raised)

More action needed by Twelve?

- All anxious to see President Aquino succeed. In our interests for the Philippines to remain stable and pro-Western.

- Our 10 November statement of support for Mrs Aquino delivered to her personally by Ambassadors in Manila. She was most grateful.

- Further statement now would be repititious. Should not convey impression of interference in internal affairs.

- European aid - Community and bilateral - has increased. But cannot match US contributions.

EHG(L)86(6)(Revise)

1 December 1986 Copy No: 1

EUROPEAN COUNCIL

LONDON, 5/6 DECEMBER 1986

EC/US TRADE ISSUES

[CONTINGENCY BRIEF]

Introduction

EC-US trade issues may be raised by other member states. EC-Japan trade is dealt with in Brief No 1.

Presidency Speaking Note

- Management of EC/US trade relations will continue to require firmness in defence of our interests. The last Congress passed some blatantly discriminatory measures - oil import tax, customs user fee, tax privileges for US aircraft. The new Congress likely to be more protectionist. Trade legislation will be an early priority. The EC must show that it will remain firm and united in response to any unilateral US action.

- Our own position will be the stronger if we can get agreement by the end of the year in the negotiations on the trade effects of enlargement. We all support the Commission's handling of these negotiations. Both sides have an interest in avoiding a trade war. We must leave the Americans in no doubt that we will respond if the negotiations fail and they attack EC

exports. But we must work to avoid that. That means impressing on the Americans that unreasonable demands cannot lead to a successful outcome and being prepared to show flexibility ourselves. We would all stand to lose in a major conflict. (US retaliation list targets $186 million of French brandy exports, $83 million of Italian wine, $70 million of Irish cordials, $42 million of German hops. The Community would respond but both EC and US producers would be hard hit.)

Possible conclusions SUMMING UP.

- We are all concerned by the recent discriminatory trade measures passed by the US Congress and call on the Administration to rescind these measures.

- We reaffirm our commitment to work for agreement by the end of the year in the current negotiations with US over the trade effects of enlargement, while making clear that unilateral action by US inevitably would meet with a response from the Community.

EHG(L)(86)5 Revise

2 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

EC/TURKEY

[Contingency Brief]

Introduction

Chancellor Kohl is likely to raise need to make further progress in normalising relations with Turkey. This will trigger an argument with Greece.

German objective

- To stress importance of normalisation.

Greek objective

- To make clear their opposition to further normalisation.

Presidency Response

- Agree with Chancellor Kohl that further gradual progress necessary in relations with Turks.
- Turks have made real progress in restoring democracy and respect for human rights.
- Presidency made clear at Association Council that continued progress in these areas is an essential part of the normalisation of relations.
- Must be able to show that Association Agreement

offers realistic way forward in EC/Turkey relations.

- We have all just agreed a Community position which means deferment of movement of workers.

- Important that we continue to make progress on other subjects covered by the Association Agreement.

Membership [Only if necessary]

- Not in our interests to have formal application.

- I advised Ozal in February that a Turkish application for membership would be premature.

EHG(L)(86)9 (Revise)

2 DECEMBER 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

DANISH TRAVELLERS' ALLOWANCES [WILL BE RAISED BY MR SCHLUTER]

Objective

To refer the Danish problem on travellers' allowances to the Ecofin Council on 8 December, for consideration along with other outstanding problems on duty-free (including duty-free shops for the Channel Fixed Link).

Others' objectives

The Commission on 28 November withdrew the draft 7th Customs Directive which had been the basis of discussions in the Community designed to give a legal basis to duty free allowances which have no such clear legal base at present. The Commission withdrew the

proposal on the grounds that it had been overly amended in a Presidency compromise. Four member states are affected: Denmark wants a continuation of the existing derogation from the rules on travellers' allowances so that it can carry on permitting a lower level of travellers' allowances than elsewhere in the Community. The Germans want provision for "butterships" ie duty free on cruises not making an international connection; the Irish want lower allowances on imports of beer; we want a provision allowing duty free shops at the CFL terminals. The Commission have promised initiatives bilaterally to guarantee the legitimate interests of member states, and have told us and the French privately that they will ensure equal treatment for ferries and the CFL. The Danes regard what they have been offered (a one year derogation with only a partial derogation thereafter from existing EC rules) as inadequate.

A05ABR,2

Background

1. The draft 7th customs directive would regulate the coverage of travellers' allowances and provide a clear legal basis for duty-free shops. In an effort to resolve outstanding problems on the directive the UK Presidency proposed a compromise package to the Ecofin Council last month, incorporating an extension of the existing Danish derogation on the level of travellers' allowances for Danish residents, legalisation of duty free shops at the CFL terminals, a derogation on German butterships and lower beer import allowances for Ireland. This was favourably received except by the Commission, who argued that the draft directive as amended conflicted with the Community's stance on the internal market.

A 2. Mr Schluter wrote to the Prime Minster on 13 November explaining the background to the Danish problem and warning her that he may raise this question
B at the European Council. The Prime Minister's reply urged him not to do so on the grounds that Ecofin was still considering a package in which the Danish derogation was one element.

AO5ABR,4

3. The Commission has undermined our efforts by subsequently withdrawing the draft 7th customs directive which formed the basis of this package. Instead they have offered the Danes a derogation which, in their view, does not go far enough. They have offered compromises to the Germans and Irish as well although the details have not been revealed. We have also been offered (Lord Cockfield's letter to the Chancellor) a less than completely satisfactory assurance from the Commission on the Channel Fixed Link.

4. We recognise that a new directive covering travellers' allowances is no longer on the cards. Nonetheless, our aim is to keep the original package of concessions together in the hope of salvaging something more satisfactory at the 8 December Ecofin Council. In particular, we would like recognition by the Council of the principle enshrine in Lord Cockfield's letter to the Chancellor ie equality of treatment on duty-free between the CFL and the ferries. We also want the Commission to undertake to put forward a proposal for a directive in this sense if this should prove necessary to safeguard the CFL competitive position.

AO5ABR,5

5. Tactically we need the support of others to obtain Ecofin Council conclusions in this sense, and the fact that the Danish Prime Minister will raise the issue at the European Council gives us the opportunity to push the Ecofin discussions in the right direction.

DRAFT EUROPEAN COUNCIL CONCLUSIONS Summit - 45.

The European Council noted the views of several Member States about current problems in the field of travellers' allowances. It invited the Council of Economic and Finance Ministers to give these questions urgent consideration with a view to finding a solution which takes account of these concerns.

AO5ABR,6

Copenhagen, November 13th, 1986

Dear Prime Minister Thatcher,

I look forward to meeting you in London during the forthcoming meeting of the European Council.

As usual the Britisk presidency has managed the business of the Community in a very able and target-oriented way. I am certain that the same will be the case for the forthcoming meeting of the European Council so that we all can look forward to a fruitful meeting pointing the way ahead for the Community.

Denmark has a special problem which I may be forced to raise though I hope that combined efforts by the Commission and the presidency will make it unnecessary.

Since 1973 Denmark has maintained a derogation from EEC provisions of travellers' allowances. This derogation is necessary because of the difference in taxation structure between the Federal Republic of Germany and Denmark. The Federal Republic finances social benefits by way of contributions from employers and employees. Denmark does it by way of indirect taxation.

Without this derogation Denmark would have to bring the tax rates on indirect taxation into line with the rates applied in the Federal Republic of Germany.

This would mean two things. Firstly that the Community would force us to change the Danish tax system thus imposing another policy on distribution of incomes than the Danish Parliament has decided. Secondly that the Danish national treasury would lose a revenue corresponding to approximately 1% of the Danish gross domestic product.

I am certain that you agree with me that this is intolerable for a member state. No member state can be expected to accept such a change in its tax system and policy of incomes distribution. No member state can be expected to forgo a revenue of 1% of its gross domestic product. May I remind you that the British net contribution to the Community amounted to approximately 0,4% of the British gross domestic product.

We have asked the Commission to forward a proposal for a further three-year unchanged prolongation. Until now the Commission has listened to our request, but no specific proposal has been put forward.

However much I regret it I will have to raise this issue in the European Council unless the matter seems to be in progress before our meeting.

For your information I enclose some material which illustrates the importance of this problem. I find it intolerable that it is so difficult to obtain a derogation which only encompasses citizens living in Denmark and has no bearing whatsoever on citizens living in other Community countries. Britain has helped to find a solution to this problem on previous occasions, and I hope that the British presidency and you yourself will lend support to a solution of the problem as it now stands.

Yours sincerely

Poul Schlüter

The Honourable Margaret Thatcher
Prime Minister,
Downing Street 10
LONDON

for action
APS
PS/Mrs Chalkes
Mr Lenwick
WED

Russell Dixon
AAS

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

25 November 1986

26/11

27 NOV 1986

Dear Prime Minister,

Thank you for your letter of 13 November about an extension of Denmark's derogation from the Community provisions on travellers' allowances.

There was a general willingness at the Economic and Financial Council meeting on 17 November to work towards a solution covering all the problems of particular concern to individual member states which need to be resolved in the context of the 7th Directive on travellers' allowances. COREPER has been instructed to produce a package for further consideration at the next ECOFIN Council on 8 December, and this package would clearly have to include a further 3 year prolongation of Denmark's derogation.

In the light of the ECOFIN Council discussion, and the further work to be done by COREPER on 25 November, I hope you will agree that matters are now developing on the right lines and that it is not after all necessary for you to raise the issue at the European Council. But that must, of course, be for you to decide.

I look forward to seeing you next week.

Yours sincerely

Margaret Thatcher

His Excellency Mr Poul Schlüter

The Right Honourable
Lord Cockfield
Vice-President of the Commission
of the European Communities

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B-1049 Brussels
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M Kennett
FCO
M Gale
M Holroyd,
Cabinet Office
M Knox, C+E
Ms Lambert, OTP
M Beckham, MAFO

28 November 1986

Dear President, - M Stanfield ✓ - For urgent action. Appeal shall VAT

The purpose of this letter is to inform you formally that the Commission has decided to withdraw as from the date of this letter its proposal for a Seventh Council Directive amending Directive 69/169/EEC. This concerns the harmonisation of provisions laid down by law, regulation, or administrative action relating to exemption from turnover tax and excise duty on imports in international travel (COM(83)166) which it submitted to the Council on 11 April 1983.

I should perhaps explain the reasons which led to the Commission's decision.

At its meeting on 27 November 1986, the Committee of Permanent Representatives engaged for the first time in discussion of a text put forward by the Presidency as an alternative to the proposal submitted by the Commission. The Presidency's text is unacceptable to the Commission for a number of reasons.

First, it would have deleted the Commission's proposed requirement that operators of tax-free shops should issue sales invoices indicating the origin, quantity and value of goods sold. The deletion of this requirement resulted in the loss of a primary objective of the Commission's proposal, namely to simplify checks at internal Community frontiers.

Second, the Presidency's text introduced various new provisions in Articles 5(a), 5(b), 7(b), 7(c)1(b) and 7(d), whose substance the Commission cannot accept. In any event, some of these provisions fall outside the scope of the Commission's proposal and others change its nature.

Finally, I should add that the new provisions of the Presidency's text are unnecessary, since the Commission will shortly be taking separate initiatives to meet any legitimate concerns of the Member States.

For these reasons, the Commission is left with no alternative but to withdraw its proposal.

Yours sincerely,

Cockfield

The Right Hon. Sir Geoffrey Howe, MP
President of the Council of the European Communities
170 rue de la Loi
1048 Brussels

The Right Honourable
Lord Cockfield
Vice-President of the Commission
of the European Communities

Rue de la Loi 200
B-1049 Brussels
Tel. 235.25.14 - 235.26.10

28 November 1986

Dear Nigel,

As you know, I have written to the President of the Council of Ministers informing him formally of the Commission's decision to withdraw with effect from 28 November 1986 its proposal for a Seventh Council Directive amending Directive 69/169/EEC on the harmonisation of provisions laid down by law, regulation or administrative action relating to exemption from turnover tax and excise duty on imports in international travel (COM(83) 166).

In my letter to the President I stated that the Commission would be taking initiatives which should meet any legitimate concerns of the Member States. One such concern is that of the United Kingdom over tax-free shops and the Cross-Channel Fixed Link.

On this point I would assure you first that the Commission's policy, as evidenced by its proposal for amendment of the 6th VAT Directive to provide by derogation for exemption from VAT of tolls, remains that the principles of non-discrimination and equal fiscal treatment between competing operators across the Channel should apply to the fixed link as to the existing operators; and second that should the need arise at some time in the future the Commission will not hesitate to take further appropriate action consistent with the principles of the Single European Act.

Yours, Arthur.

The Right Hon. Nigel Lawson MP
Treasury
Parliament Street
LONDON
SW1P 3AG
UK

EHG(L)(86)11

3 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

EC/LEBANON

[Contingency Brief]

Introduction

We understand that M. Chirac intends to raise EC food aid to Lebanon, probably over dinner.

Presidency Response

- Sure all member states share French concern for plight of ordinary Lebanese people.
- We should get our experts to look urgently at this in the Food Aid Committee.

M34ABJ(1)

Background

Details of EC food aid to Lebanon (excluding aid for Palestinian refugees through UNRWA and food aid sent by other international agencies out of amounts allocated to them by EC):

1984	8000 tonnes	cereals	1.9 mecu
	600 tonnes	milk powder	
1985	1300 tonnes	cereals	
	370 tonnes	milk powder	
	200 tones	butter oil	4.6 mecu
	800 tonnes	sugar	
	1000 tonnes	pulses	
1986	10,000 tonnes	cereals	
(to date)	300 tonnes	milk powder	2.3 mecu
	200 tonnes	butter oil	

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2 DECEMBER 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

ERASMUS [if raised by M Delors or others]

Student Mobility

Part 1 dupes in other Notes

Objective

- To secure agreement that further work on ERASMUS is required before it can be adopted.

[If necessary]

- To secure agreement to conclusions calling for early consideration, but not adoption, of ERASMUS.

Others' objectives

- The Commission are likely to call for a renewed commitment from the Council that ERASMUS should be adopted as soon as possible or that early consideration be given to an alternative proposal the Commission will put forward. Most member states are likely to support the Commission. Only France and Germany can be expected to give the UK some support.

LP8ACW,1

Speaking Note

- The ERASMUS student mobility proposal contains much of merit. However, it became clear at the Education Council on 28 November that some further work was required before it could be adopted.

- France, Germany and the United Kingdom all had outstanding difficulties, over the financing costs of the student grants element, which depends on the size of the programme.

- As Presidency, we were disappointed that the Commission choose to withdraw the proposal as we believed that the scope for a possible compromise had not yet been exhausted.

- If the Commission has decided to bring forward new proposals, they will need to be given very early consideration.

- If the Commission reinstates ERASMUS, it will need to be re-examined urgently by Permanent Representatives.

Draft European Council Conclusions

The European Council called for further early consideration of the ERASMUS student mobility programme.

Or:

The European Council called for early consideration of the Commission's forthcoming proposal on university cooperation.

Background

1. The ERASMUS student mobility programme, which is included in the internal market action programme, provides for joint study programmes and independent arrangements to enable university students to study part of their course in another member state. It also provides money for grants for students taking part in such courses. The Commission have proposed that the initial size of the programme should be 175 mecu over three years.

2. The UK supports the principle of an expansion of joint study programmes but not at the level proposed by the Commission. We also have reservations about the resources that the programme would devote to student grants, the Advisory Committee and the legal base.

3. Since endorsing conclusions calling for the early adoption of ERASMUS at The Hague European Council, it has become clear that the DES cannot provide PES cover from their agreed provision for the programme in 1987/88 or subsequent years and Mr Baker is not prepared to divert funds from other areas. The

Treasury have indicated that additional resources are not available. At the Education Council, the UK, together with France and Germany (who have reservations about the student grant element of ERASMUS) blocked the programme. Apparently acting on instructions from M Delors, Commissioner Marin withdrew the proposal. He indicated that the Commission might put forward an alternative programme for university cooperation.

EHG(L)(86)12 CONFIDENTIAL

2 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

EC/HUNGARY

[Contingency Brief]

Introduction

- Chancellor Kohl may raise, possibly during East/West discussion over dinner.

- Commission's draft mandate for EC/Hungary trade and economic cooperation agreement suggests negotiation to abolish all member states' remaining Quantitative Restrictions against Hungary within lifetime of agreement (10 years?). Commission accept Hungarian case that maintenance of current QRs is in breach of GATT rules. UK has only 9 QRs, but these are justifiable in GATT. There is strong resistance from France, Italy and Greece who have many QRs, some with no economic justification. Long haul ahead in the Council.

German Objective

- To be seen to be pressing for early Council endorsement of mandate for EC/Hungary trade agreement.

Presidency Objective

- To endorse need for early agreement on mandate while recognising difficulties for some member states.

Presidency Response

- Politically important to respond to Eastern European keenness for normal relations with Community.

- Council has approved mandate for EC/Czechoslovakia trade agreement.

- Hope Foreign Affairs Council will endorse EC/Romania mandate on 15/16 December.

- Commission has now tabled draft EC/Hungary mandate. Obviously right to work for early start to negotiations.

- Strong case for recognising Hungarian uniqueness by concluding agreement on trade; but Hungarian expectations still unrealistically high.

- Understand difficulties for some member states over dropping remaining Quantitative Restrictions within a fixed timetable.

EHG(L)(86)13

2 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

GREEK LOAN

(Contingency Brief)

[If Papandreou seeks support for the release of the second tranche of the Community's 1.75 becu loan to Greece.]

[Once others have intervened]

- We recognise Greece's economic problems. Great efforts have been made to help with these - notably agreement at Brussels European Council last year on Integrated Mediterranean Programmes. But cohesion does imply solidarity and respect for Community obligations. Understand Commission has been discussing with Greece concerns about export subsidies. ECOFIN will be discussing loan on 8 December.

MAlAJZ

BACKGROUND

1. In November 1985 the Commission agreed to grant Greece a 1.75 billion ecu loan, in two tranches, as well as a number of safeguard measures, designed to protect the Greek economy. A decision is about to be taken, by the Commission taking into account the views of ECOFIN (which will meet on 8 December) on the release of the second tranche. The Greeks are worried that the second tranche will be blocked. A number of the safeguard measures are causing problems for the UK and other member states, notably export subsidies (on eg cement). These are due to be phased out on 31 December, but the Greeks are seeking an extension for one or two years. Other measures include an import deposit scheme, restrictions on capital movements, a regulatory tax, certain profit margin controls and a derogation from the requirement to levy VAT. The Greeks have announced they will phase out the import deposit scheme at the end of April 1987, and introduce VAT on 1 January 1987.

2. Since Greek accession in 1981 Greece has been a net beneficiary from the Community of 5.6 billion ecu, second only to Italy (7.3 becu) and Ireland (5.7 becu).

MA1AJZ

In the last three years (1984-86) Greece has benefitted more than any other member state (3.8 becu).

3. Because of Greek opposition, the Foreign Secretary on 10 November was only able to speak to the press on Syrian terrorism on behalf of 11 Member States. Greece also blocked an EC position for the Ministerial level Association Council with Turkey last September, refuses to sign protocol to apply EC/Turkey Association agreement to Greece, and is blocking EC aid promised to Turkey.

i) Net receipts from Community budget as % of GDP

	before UK abatement		after UK abatement	
	1985	1986	1985	1986
Belgium	0.6	0.6	0.6	0.5
Denmark	0.5	0.5	0.4	0.4
Germany	(-)0.4	(-)0.4	(-)0.4	(-)0.4
Greece	3.0	4.1	3.0	4.0
Spain	-	0.1	-	0.01
France	0.1	0	0	(-)0.1
Ireland	5.1	5.4	5.0	5.4
Italy	0.3	0.3	0.2	0.2
Luxembourg	6.3	7.7	6.3	7.6
Netherlands	0.3	0.2	0.2	0.2
Portugal	-	0.6	-	0.5
UK	(-)0.5	(-)0.6	(-)0.3	(-)0.2

ii) Gross receipts from Community budget as % of public expenditure

	1985	1986
Belgium	3.1	3.3
Denmark	2.1	2.4
Germany	1.1	1.1
Greece	8.3	11.6
Spain	-	2.9
France	1.6	1.6
Ireland	11.7	13.3
Italy	1.7	1.9
Luxembourg	14.0	17.5
Netherlands	2.3	2.4
Portugal	-	3.7
UK	1.3	1.4

Notes

1. Figures in the tables are based on

   (i) GDP figures for member states taken from Table 6 (p143) of July 1986 edition of European Economy
   (ii) 1985 budget outturn contributions as given in 1987 PDB
   (iii) 1986 budget contributions as in 1986 budget as adopted
   (iv) UK estimates of member states' receipts
   (v) figures for general government expenditure as a % of GDP given in Table 46 (p164) of July 1986 edition of European Economy

2. UK abatement is reckoned against year in which it is paid, not that to which it relates

3. (-) = net contribution

EHG(L)(86)14

4 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986:

NORTH/SOUTH DIALOGUE

[CONTINGENCY BRIEF]

Introduction

President Mitterrand has written to the Prime Minister suggesting that we should consider how to mobilise new resources for Third World development. He may wish to raise this at the Council.

Objectives

PRESIDENCY

- To limit discussion.
- If discussed, to sympathise with French analysis but not endorse proposed recommendations.

FRANCE

- To revitalise the North/South dialogue.

Presidency Speaking Note

- Thank President Mitterrand for his stimulating thoughts.

- Believe industrialised countries should maintain the momentum of their own growth, liberalise trade and create an international economic environment from which all can benefit.

- New realism in economic dialogue between North and South this year. Encouraged by UN Special Session on Africa, launching of new GATT round, first consensus resolution on debt at UN.

- Much still to be done. Adoption of economic policies and structures that promote growth are a task for all. When countries have serious debt problems and adopt stabilisation programmes with the support of the international financial institutions they deserve help. Each case different. Recognise mutual interest of North and South in conquering poverty.

- Much food for thought: colleagues will have taken careful note of President Mitterrand remarks.

P29ABT

Background

1. President Mitterrand's letter (Annex A) points to the growing gap between rich and poor countries as a source of internal and international disorder. His solutions centre on industrialised country action - institutionalising growth, providing more aid, fighting protectionism, resolving debt problems, switching money spent on arms to development.

2. France has an interest in increasing the flow of funds from the international community to poor Francophone client nations since help could also ease the financial burden on the French Exchequer which supports them heavily . French attempts to create a Commonwealth style group of Francophone countries would be strengthened if a French led initiative secured greater flows of aid to these nations. The French have had an interest in promoting a direct link between disarmament and the financing of development for some time. We do not share their enthusiasm for taking initiatives in this area.

3. Forty years of experience since the Marshall plan have shown that you cannot buy development. Capital resources are necessary, but they are not all that is

required. Adequate human resources, conducive policies (both domestic and international), appropriate economic structures all play their part. President Mitterrand appeals for reflection on resource mobilisation to assure the development of the Third World. The attraction of this to the poor is obvious. It is too glib an answer though.

4. We cannot afford to increase our aid programme yet. Recent decisions mean it will be at least maintained in real terms. 60% of British aid goes to the poorest countries. We are increasing our aid to Sub Saharan African countries undertaking adjustment. We support a substantial replenishment of IDA.

European Community Department (External)
Foreign and Commonwealth Office
4 December 1986

P29ABT

MESSAGE DE MONSIEUR FRANCOIS MITTERRAND
PRESIDENT DE LA REPUBLIQUE FRANCAISE

A

THE RT. HON. MARGARET THATCHER, M.P.,
PRIME MINISTER

Paris, le 2 décembre 1986

"Madame le Premier Ministre,

La treizième conférence des Chefs d'Etat d'Afrique et de France vient de se tenir à Lomé.

Cette conférence a été l'occasion d'approfondir la réflexion sur la situation présente du Tiers-Monde et sur l'avenir de la coopération entre Pays du Nord et Pays du Sud.

La crise économique mondiale est loin d'être achevée. Certes, il y a quelques mois encore, un certain optimisme prévalait. Tout y concourait : une croissance économique soutenue de plusieurs grands Pays du Nord, une décrue mondiale des taux d'intérêt, une baisse générale de l'inflation dans les pays de l'OCDE, le début d'une concertation pour réduire les fluctuations des monnaies, une prise de conscience accrue des dangers du protectionnisme et des problèmes posés par l'endettement du Tiers-Monde.

.../...

Mais, bien que tous ces facteurs positifs n'aient pas disparu, le monde développé reste confronté à des problèmes sérieux, en particulier de sous-emploi, alors même que l'écart entre pays industrialisés et pays en voie de développement ne cesse de s'accroître.

Bien sûr, depuis cinq ans, beaucoup a été fait, à commencer par une prise de conscience courageuse des pays du Tiers-Monde, qui ne cherchent ni à fuir leurs responsabilités, ni à masquer une réalité bien souvent douloureuse.

Mais tous nos efforts actuels ne sont pas à la hauteur de l'enjeu. Car en luttant contre le sous-développement il s'agit non seulement d'assurer la survie des pays du Tiers-Monde, mais d'éviter que l'ensemble de l'économie mondiale ne soit touchée par une augmentation des déséquilibres entre nations et entre continents.

L'endettement trop lourd, l'instabilité des cours des matières premières, la désertification et les fléaux naturels, la démographie galopante, charrient aujourd'hui le sinistre cortège de la famine et de la mort. Prenons garde qu'ils n'engendrent pas demain la violence, à l'intérieur des Etats comme au sein de la Communauté internationale.

On dit souvent que le dialogue Nord-Sud est aujourd'hui dans l'impasse. Faut-il l'accepter comme une fatalité, ou tout faire pour le relancer ?

.../...

La France, qui a résolument augmenté son action bilatérale et multilatérale d'aide au développement, n'a quant à elle cessé de plaider pour une reprise du dialogue.

J'ai fait à Lomé des propositions dans cinq directions :

. Les pays les plus riches doivent assurer une croissance auss élevée et durable que possible en résolvant leurs problèmes de structure et en remédiant aux déséquilibres de leurs finances publiques et de leurs comptes extérieurs ;

. L'aide publique au développement, celle des Etats comme cell des organismes internationaux, doit être augmentée. Elle doit être aussi orientée en priorité vers les pays les plus pauvres

. Le protectionnisme sous toutes ses formes doit être combattu notamment pour permettre aux pays en développement d'écouler leurs produits sur les marchés des pays industrialisés à des conditions acceptables ;

. Il faut faire preuve de plus d'imagination pour trouver de vraies solutions au problème de la dette. Aux efforts d'ajustement interne des pays endettés, doit sans doute correspondre dans l'avenir une vision plus généreuse de la consolidation de créances. Il appartient aux experts d'en proposer les modalité

. Enfin, le désarmement nous offre une autre piste de réflexio Si 5 % seulement des dépenses englouties dans les armes étaien consacrés au développement, on commencerait à sortir le monde de la misère et de la peur. La France est prête à en discuter comme je l'ai déjà dit à l'Assemblée Générale de l'O.N.U., il y a trois ans.

.../...

Tout en traçant ces cinq axes de réflexion et en souhaitant que le dialogue entre le Nord et le Sud s'inscrive dans un cadre aussi global que possible, j'ai évoqué, ainsi que le Président Eyadema, le Plan Marshall dont nous fêterons l'année prochaine le 40ème anniversaire.

Toute comparaison historique a évidemment ses limite Mais je crois le parallèle possible et j'estime que le moment est venu de réfléchir ensemble, à l'échelle de la planète, aux moyens de constituer et d'affecter des ressources nouvelles pour assurer le développement des pays du Tiers-Monde, dans l'intérêt réciproqu du Nord et du Sud.

Je souhaitais par cette lettre, Madame le Premier Ministre, vous soumettre ces réflexions et ces propositions, car j'attacherais beaucoup de prix à connaître votre sentiment.

Je vous prie de croire, Madame le Premier Ministre, à l'assurance de ma très haute considération et de mon souvenir personnel.

signé : François Mitterrand"/.

EHG(L)(86)15

4 December 1986

EUROPEAN COUNCIL, LONDON

5/6 DECEMBER 1986

EC/CYPRUS CUSTOMS UNION

[CONTINGENCY BRIEF]

Introduction

Greece may complain about difficulties being raised by some member states in the negotiations on customs union (though not the UK which, with Greece, is the main supporter of Cyprus within the Community). Netherlands and others may imply that their attitude will depend on Greece being more cooperative on EC/Turkey relations.

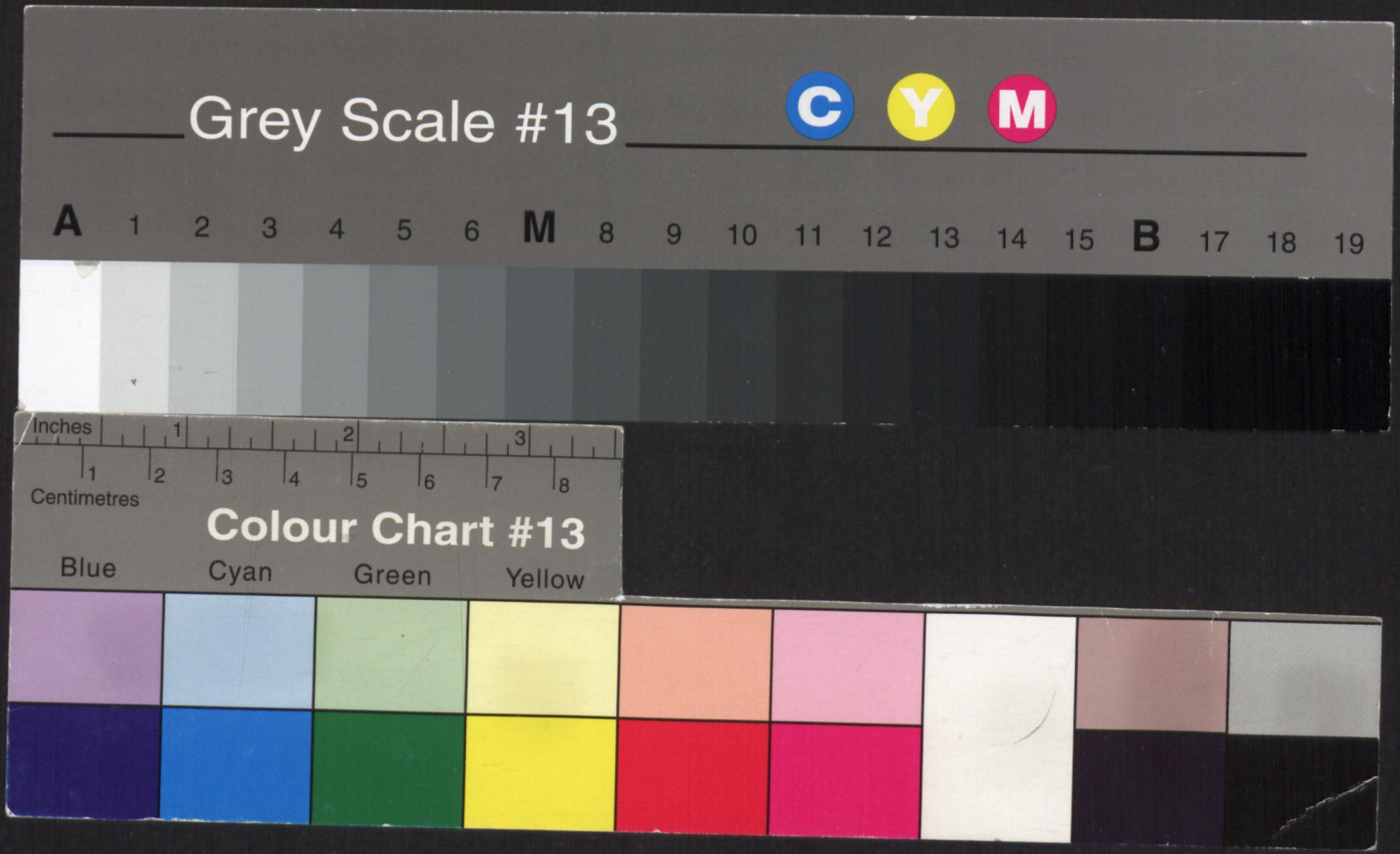
Presidency Speaking Note

- EC is committed to the negotiation of a customs union with Cyprus. Negotiations already in hand.
- Difficult and complex issues involved which cannot be discussed in detail here: both Community and Cyprus will need to show flexibility if early conclusion to be reached.

R28ABE

Background

- 1972 EC/Cyprus Association Agreement is in two stages, the first giving Cyprus duty free access to the EC market for industrial products and preferential access for agricultural produce; the second providing for establishment of a customs union.
- First stage ended in 1979 but, despite strong UK and Greek support, progress on customs union was stalled until 1984 mainly because of opposition from France and Italy to further concessions on Cypriot agricultural exports.
- At the EC/Cyprus Association Council in December 1984, the EC undertook to make proposals on customs union during 1985. A negotiating mandate was agreed in November 1985.
- Negotiations are in progress; main problems for Cypriots are a guaranteed date by which customs union would be achieved and abolition of quotas and calendars for agricultural exports to the Community. France, FRG and Netherlands are opposed to further changes in EC's mandate.
- An Association Council will be held on 15 December in the margins of the Foreign Affairs Council.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