

PREM19

51

EUROPEAN POLICY

(Strasbourg

European Council,

June 1979)

PART 1.

Confidential Filing

European Council Meeting in  
Strasbourg 21-22 June 1979  
(Policy)

EUROPEAN POLICY

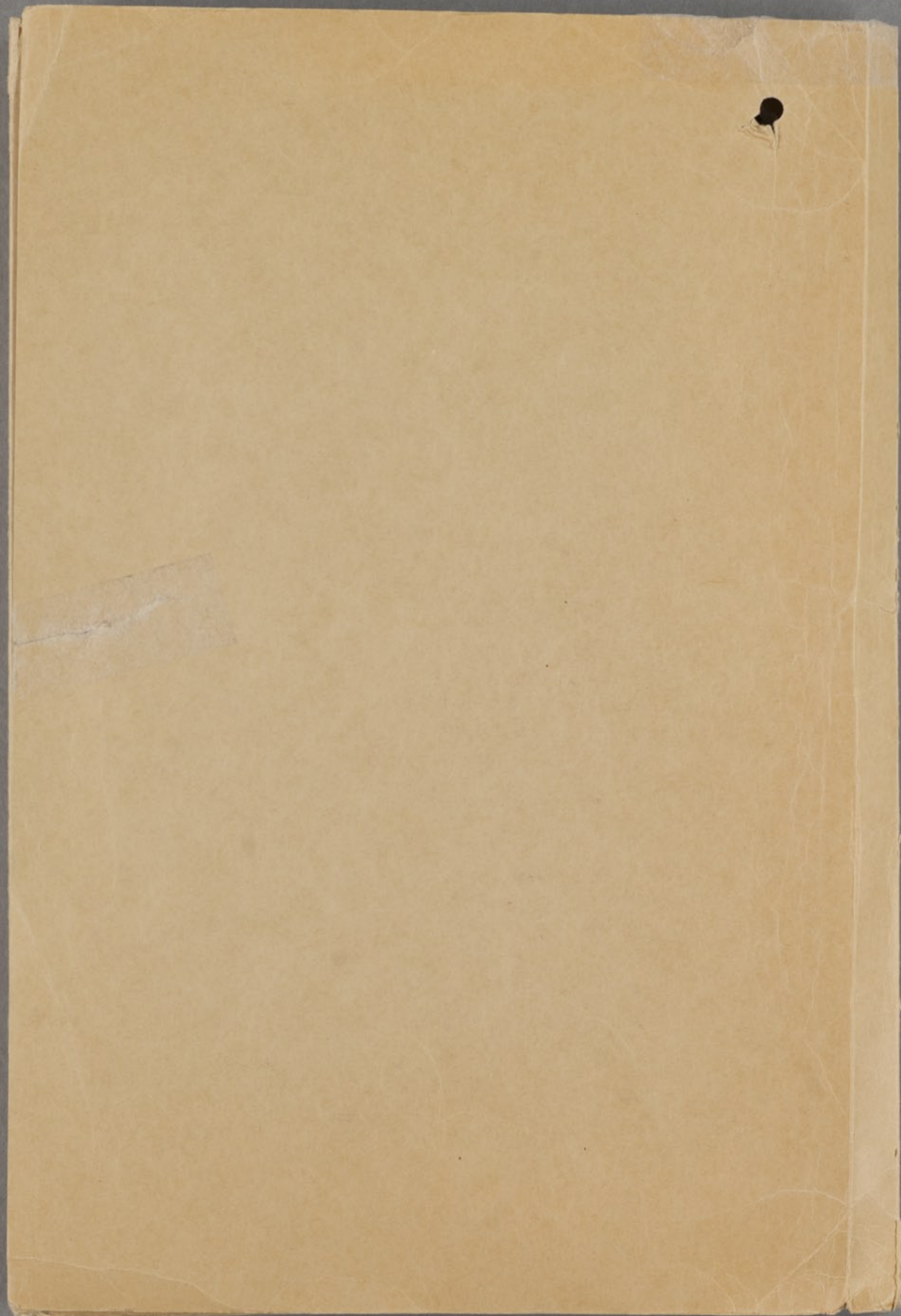
[Briefing at back of file]

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>30.5.79</del>							
<del>12.6.79</del>							
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27.6.79							

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FM THE HAGUE 271617Z JUN 79.

TO IMMEDIATE FCO

TELEGRAM NUMBER 172 OF 27 JUNE.

INFO PRIORITY UKREP BRUSSELS

INFO ROUTINE EEC POSTS.

## EUROPEAN COUNCIL: NETHERLANDS REACTIONS

1. THE NETHERLANDS FOREIGN MINISTER STRESSED AT LUNCH TODAY THAT THE DUTCH GOVERNMENT WAS IN GENERAL WELL PLEASED WITH THE OUTCOME, PARTICULARLY THE DISCUSSIONS ON ENERGY, ON CONVERGENCE/ BUDGETARY CONTRIBUTIONS VAN DER KLAUW SAID THAT THE EXISTENCE OF A PROBLEM HAD STILL TO BE DEMONSTRATED TO THE SATISFACTION OF THE NETHERLANDS. IN PARTICULAR, IN THE DUTCH VIEW, THERE WAS NO DIRECT CONNECTION BETWEEN THE OPERATION OF THE CAP AND POSSIBLE IMBALANCES IN NATIONAL BUDGETARY CONTRIBUTIONS. THE EXISTENCE OF THE CAP WAS AN ARTICLE OF FAITH TO THE NETHERLANDS AND A FUNDAMENTAL ELEMENT IN THE TREATY. HE HOPED OTHERS WERE NOT DISPOSED TO QUESTION IT OR SEEK TO RE-NEGOTIATE WHAT HAD ALREADY BEEN AGREED.

2. I POINTED OUT THAT THE PRINCIPLE OF THE CAP WAS NOT AT ISSUE: IT WAS ENSHRINED IN THE TREATY, NOR WAS THERE ANY QUESTION OF A FURTHER RENEGOTIATION OF THE TERMS OF OUR ENTRY. BUT IT WAS CLEAR THAT A SITUATION COULD NOT CONTINUE IN WHICH 70% OF THE COMMUNITY'S FINANCIAL RESOURCES WERE DEVOTED TO THE MAINTENANCE OF THE CAP, WITH 9/10THS OF THAT 70% BEING SPENT ON DISPOSING OF AGRICULTURAL SURPLUSES. HE WOULD KNOW THAT ON ANY FIGURES WE WERE ABOUT TO BECOME THE LARGEST NET CONTRIBUTOR TO THE BUDGET WHEREAS IN TERMS OF GDP WE STOOD SEVENTH. AS CONCERNED A LINK BETWEEN THE CAP AND THE BUDGET, THE REVENUE AND EXPENDITURE SIDES COULD NOT BE DIVORCED. ONE HAD TO ASK ONESELF FROM WHERE THE FUNDS CAME ON WHICH THE MAINTENANCE OF THE CAP IN ITS PRESENT FORM DEPENDED. THE REPORT NOW TO BE PRODUCED BY THE COMMISSION AS A RESULT OF THE COUNCIL'S INSTRUCTIONS AT STRASBOURG WOULD NO DOUBT MAKE CLEAR THE FACTS IN AN OBJECTIVE AND DISPASSIONATE WAY AS WELL AS EXAMINING THE EXTENT TO WHICH THE 1975 CORRECTIVE MECHANISM WAS PLAYING THE PART FOR WHICH IT HAD BEEN DESIGNED.



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3. VAN DER KLAUW DID NOT DISSENT, BUT STRESSED THAT IN THE DUTCH VIEW THE COMMISSION'S PAPER WOULD HAVE TO TAKE THE FORM OF WHAT HE DESCRIBED AS A TECHNICAL RATHER THAN A POLITICAL EVALUATION. TO THIS EXTENT HE AGREED THAT THERE WAS A PROBLEM WHICH THE DUBLIN COUNCIL WOULD HAVE TO RESOLVE.

4. IT IS CLEAR FROM WHAT VAN DER KLAUW SAID AND OTHER SOUNDINGS WE HAVE TAKEN HERE THAT, DESPITE THE LORD PRIVY SEAL'S VISIT EARLIER THIS MONTH AND SUBSEQUENT MINISTERIAL CONTACTS, THERE IS STILL CONSIDERABLE SUSPICION ON THE DUTCH SIDE ABOUT OUR MOTIVES. AGAINST THIS BACKGROUND THE DUTCH ARE UNLIKELY TO BE PARTICULARLY HELPFUL AT THE NEXT COUNCIL MEETING IN DISCUSSING THE GUIDE LINES TO BE GIVEN TO THE COMMISSION ON WHICH TO DRAFT THE PROPOSALS TO BE CONSIDERED IN DUBLIN. REGRETTABLY THE PROBLEM OF EDUCATION MENTIONED IN MY TELNO 153 IS STILL WITH US.

5. FOR DISCUSSION OF VIETNAMESE REFUGEES AND ARRANGEMENTS FOR EUROPEAN PARLIAMENTARIANS IN STRASBOURG PLEASE SEE MY TWO I.F.T.S.

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## Published Papers

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

House of Commons Hansard

26 June 2009

Columns 288-299

European Community Council (Strasbourg Meeting)

Signed *A Wayland* Date *31 October 2009*

**PREM Records Team**



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GRS 33φ

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FM LUXEMBOURG 2615φφZ

TO PRIORITY FCO

TELEGRAM NUMBER 145 OF 26 JUNE 1979

INFO ALL EEC POSTS WASHINGTON AND TOKYO.

EUROPEAN COUNCIL: LUXEMBOURG REACTION

1. BOTH M THORN AND M HAMILIUS HAVE SPOKEN TO ME WITH ADMIRATION OF THE PRIME MINISTER'S CONTRIBUTION TO THE EUROPEAN COUNCIL DISCUSSIONS. M THORN COMMENTED THAT THE OUTCOME OF THE DISCUSSION ON THE BUDGET WOULD OBVIOUSLY HAVE PLEASED US MORE THAN HIM, BUT ADDED THAT HE HAD FOUND THE DISCUSSION ON BOTH THIS AND OTHER SUBJECTS AMONG THE BEST HE HAD EVER KNOWN AT A EUROPEAN COUNCIL. M HAMILIUS COMMENTED THAT THE PRIME MINISTER HAD CLEARLY MADE A VERY CONSIDERABLE IMPRESSION ON ALL HER COLLEAGUES.

2. THE LUXEMBOURG PRESS ECHOES THESE COMMENTS IN REMARKING ON THE EXCELLENT IMPRESSION GIVEN BY THE PRIME MINISTER AT HER FIRST EUROPEAN COUNCIL. TAGEBLATT (SOCIALIST) COMMENTS THAT SHE PROVED TO BE MASTERFUL IN PUTTING FORWARD BRITISH VIEWS AND DEMANDS. LUXEMBURGER WORT (CHRISTIAN SOCIAL) REMARKS THAT MRS THATCHER MADE A GOOD ENTRY WITH GOODWILL GESTURES, AND ALL THE PRESS OBLIQUELY LINK OUR FLEXIBLE ATTITUDE ON FARM PRICES WITH THE OUTCOME IN STRASBOURG ON THE BUDGET. REPUBLICAIN LORRAIN (INDEPENDENT) NOTES THAT BRITISH AGREEMENT ON FARM PRICES WAS GAINED WITHOUT POLITICAL PRESSURE, AND THAT THE BRITISH ARE NO LONGER JEOPARDISING THE COMMON AGRICULTURAL POLICY. THE PAPER EXPRESSED THE HOPE THAT THE UK, AS THE ONLY OIL PRODUCER IN THE COMMUNITY, MIGHT NOW PLAY A GREATER ROLE IN THE FORMATION OF AN ENERGY POLICY AND CONCLUDES QUOTE MRS THATCHER IS QUITE AWARE OF THIS, AND HER WILLINGNESS TO CO-OPERATE IN A MORE INTEGRATED EUROPEAN COMMUNITY WAS UNDENIABLE AT STRASBOURG DURING THIS EUROPEAN COUNCIL WHICH MR JENKINS..... CONSIDERS AS ONE OF THE MOST IMPORTANT FOR A LONG TIME UNQUOTE .

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/ 3. ALL PAPERS

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3. ALL PAPERS CONCENTRATE ON THE ENERGY DISCUSSION, WITH TWO OF THEM INTERPRETING THE CALL FOR BILATERAL AND MULTILATERAL CONSULTATIONS ON NUCLEAR SECURITY QUESTIONS AS A THINLY VEILED REFERENCE TO FRENCH PLANS FOR A NUCLEAR PLANT AT CATTENOM ON THE FRENCH/LUXEMBOURG/GERMAN BORDER , BOTH PAPERS EXPRESS THEIR HOPE THAT THE FRENCH HAVE UNDERSTOOD THIS CALL IN THE SAME WAY AS CHANCELLOR SCHMIDT AND M THORN.

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MR J THOMAS } CABINET OFFICE



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FM BONN 251600Z JUN 79

TO PRIORITY FCO

TELEGRAM NUMBER 325 OF 25 JUNE

INFO PRIORITY UKREP BRUSSELS PARIS

INFO ROUTINE OTHER EEC POSTS WASHINGTON TOKYO

Prime Minister

6/26/79

EUROPEAN COUNCIL: FRG REACTIONS

1. THE FEDERAL CHANCELLOR'S ECONOMIC ADVISER ( SCHULMANN ) AND HIS DEPUTY POLITICAL ADVISER ( VON DER GABLENTZ ) HAVE BOTH TOLD US THAT SCHMIDT WAS PLEASED WITH THE MEETING AND IMPRESSED BY THE PRIME MINISTER'S CONSTRUCTIVE CONTRIBUTION.
2. THEY SAID THAT THE OUTCOME ON ENERGY WAS PARTICULARLY SATISFACTORY. THE FRENCH ATTEMPT TO IMPOSE NON-MARKET SOLUTIONS HAD BEEN EFFECTIVELY CONTAINED. IT HAD BEEN QUITE RIGHT TO GO FOR GENERAL CONCLUSIONS AT STRASBOURG, INTO WHICH THE COMMUNITY COULD HOPE TO SLOT THE US AND JAPAN AT THE TOKYO SUMMIT. SCHULMANN SAW A QUOTE COALITION UNQUOTE ON ENERGY BETWEEN THE FRG AND UK WHICH HE GREATLY HOPED WOULD CONTINUE.
3. THE SAME SOURCES SAID THAT THE CHANCELLOR WAS HAPPY ABOUT THE OUTCOME ON THE COMMUNITY BUDGET.
4. THERE HAS BEEN LITTLE SIGNIFICANT PRESS COMMENT.

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.... SOMETHING HER LABOUR PREDECESSOR HAD LONG FOUGHT FOR : TO NINE  
CONSIDERED LOWERING BRITAIN'S CONTRIBUTION TO THE COMMUNITY BUDGET.  
TO DO SO, MRS THATCHER LAID 20 PER CENT OF BRITAIN'S GOLD AND  
CURRENCY RESERVES IN THE COMMUNITY BASKET''. DELARUE IN LE MONDE  
AIRD A FAMILIAR FRENCH ARGUMENT: ''THE SIZE OF BRITAIN'S  
CONTRIBUTION IS EXPLAINED ABOVE ALL BY BEHAVIOUR THAT DOES NOT  
CONFORM WITH THE AIMS OF THE COMMON MARKET: BRITAIN LARGELY IGNORES  
EEC AGRICULTURE AND CONTINUES TO BUY MORE THAN HALF HER FOOD SUPPLIES  
OUTSIDE THE COMMUNITY. THIS MEANS SHE HAS TO PAY SIZEABLE IMPORT  
DUTIES''.

4. THE MEETING HAS IN FRENCH EYES BEEN A VINDICTION OF STRASBOURG'S  
CLAIM TO BE THE SEAT OF THE EUROPEAN ASSEMBLY. THERE HAS BEEN  
VIRTUALLY NO SUGGESTION THAT THIS MIGHT BE A MATTER FOR DISPUTE.  
FIGARO QUOTES PRESIDENT GISCARD'S ANNOUNCEMENT IN HIS FINAL  
PRESS CONFERENCE OF A THREE-YEAR CONTRACT BETWEEN THE FRENCH  
GOVERNMENT, STRASBOURG AND ALSACE AND BAS RHIN DEPARTMENTAL  
AUTHORITIES TO GIVE THE CITY THE NECESSARY MEANS TO PLAY ITS ROLE  
AS '' THE CAPITAL OF DEMOCRATIC EUROPE''.

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10 DOWNING STREET

*From the Private Secretary*

25 June 1979

*Dear Paul!*

STRASBOURG : PRIME MINISTER'S STATEMENT

I attach a copy of a further draft of the Prime Minister's Statement on the European Council in Strasbourg. This is the draft which is being submitted to her overnight.

If anyone has any comments on it, we should have them as early as possible tomorrow morning, and not later than 1100.

I am sending a copy of this letter and its enclosure to Garth Waters (MAFF), Martin Hall (HM Treasury), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

*Yours ever*

*Nick Sanders*

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

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*JS*

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PARLIAMENTARY STATEMENT (THIRD DRAFT)

European Council, Strasbourg

With my rt. hon. Friend the Foreign and Commonwealth Secretary, I attended the European Council in Strasbourg at the end of last week. Among the matters we discussed were:-

First, contributions to the Community Budget. I made our dissatisfaction with the results of the present system very plain. The European Council called for action by the Commission to assess the facts about how the Budget transfers are likely to affect each Member State in 1979 and 1980 and whether and how the 1975 Financial Mechanism, intended to reduce our contribution, will work. That report will go first to the Finance Council of Ministers who will have the opportunity to put forward practical ideas to solve the problem. Taking those views into account, the Commission have been asked to formulate proposals in time for decisions to be taken at the next meeting of the European Council in November in Dublin. At last, therefore, we have agreement to tackle the inequitably high contribution that Britain at present makes to the European Budget. The time for decisions will be at the next Council.

Second, on energy and the oil shortage, we agreed to reinforce our efforts to reduce consumption of oil and to achieve the objectives the Community has set itself.

/ We also emphasised

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We also emphasised the part which alternative sources of energy must play - nuclear power and coal in particular. We recognised the need for consumer and producer countries to work together to reduce demand and increase supply and made clear the readiness of the Community and Member States to establish contacts with producer countries to that end. We had in mind the Tokyo Economic Summit meeting this week and that by showing the Community was ready to shoulder its own responsibilities we should be in a good position to call on other industrialised countries to make comparable efforts to reduce oil consumption and imports. We agreed that higher oil prices will adversely affect the outlook for growth, though prices will only steady if demand and supply balance.

Third, the Council reviewed the early operations of the European monetary system. I also told them of the Government's intention, about which the House has already been informed, to deposit part of our reserves against ECUs.

Fourth, the Council were anxious to help refugees from Vietnam and supported the proposals for an international conference.

/ Finally,

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Finally, we noted with satisfaction the first direct elections to the European Assembly and welcomed the intention of the Irish Prime Minister to represent the Council at the inaugural meeting of the new Assembly on 18 July.

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bc: Mr. Sanders



10 DOWNING STREET

From the Private Secretary

25 June 1979

Mr Paul,

EUROPEAN COUNCIL, STRASBOURG 21/22 JUNE : PRIME MINISTER'S STATEMENT

Michael Franklin sent me, with his minute of 22 June, the first draft of the Prime Minister's Statement to the House of Commons about the meeting of the European Council which she attended in Strasbourg on 21/22 June. The Prime Minister will now be making the Statement tomorrow, 26 June.

The Prime Minister has made a number of amendments to the draft text which Michael Franklin supplied and I enclose the revised version. I should be grateful if you, and the other recipients of this letter, would let me have any comments on the new text by telephone before 1800 this evening. I understand that additional notes for supplementaries are in preparation.

I am sending copies of this letter to Martin Hall (HM Treasury), Bill Burroughs (Department of Energy), Garth Waters (MAFF) and Martin Vile (Cabinet Office).

Yours ever,  
Bryan Cartledge.

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

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PARLIAMENTARY STATEMENT (REDRAFT)

European Council, Strasbourg

With my rt. hon. Friend the Foreign and Commonwealth Secretary, I attended the European Council in Strasbourg at the end of last week. Among the matters we discussed were:-

First, contributions to the Community Budget. I made our dissatisfaction with the results of the present system very plain. The European Council called for action by the Commission to assess the facts about how the Budget transfers are likely to affect each Member State in 1979 and 1980 and whether and how the 1975 Financial Mechanism, intended to reduce our contribution, will work. That report will go first to the Finance Council of Ministers who will have the opportunity to put forward practical ideas to solve the problem. Taking those views into account, the Commission have been asked to formulate proposals in time for decisions to be taken at the next meeting of the European Council in November in Dublin. At last, therefore, we have agreement to tackle the inequitably high contribution that Britain at present makes to the European Budget. The debate on solutions, and it will be a hard one, will continue at the next Council.

Second, on energy and the oil shortage, we agreed to reinforce our efforts to reduce consumption of oil and to achieve the objectives the Community has set itself. We also emphasised

/the part



the part which alternative sources of energy must play - nuclear power and coal in particular. We recognised the need for consumer and producer countries to work together to reduce demand and increase supply and made clear the readiness of the Community and Member States to establish contacts with producer countries to that end. We had in mind the Tokyo Economic Summit meeting this week and that by showing the Community was ready to shoulder its own responsibilities we should be in a good position to call on other industrialised countries to make comparable efforts to reduce oil consumption and imports. We agreed that higher oil prices will adversely affect the outlook for growth.

Third, the Council reviewed the early operations of the European monetary system and I told them of the Government's intention, about which the House has already been informed, to deposit part of our reserves against ECUs.

Fourth, the Council were anxious to help refugees from Vietnam and supported the proposals for an international conference.

/Finally,

Finally, we noted with satisfaction the first direct elections to the European Assembly and welcomed the intention of the Irish Prime Minister to represent the Council at the inaugural meeting of the new Assembly on 18 July.



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FH FCO 222126Z JUN 79

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 740 OF 22 JUNE

IMMEDIATE

FOLLOWING TEXT IS CONCLUSIONS OF THE PRESIDENCY OF THE EUROPEAN COUNCIL, STRASBOURG 21 AND 22 JUNE AND IS SENT FOR AMBASSADOR'S INFORMATION AT REQUEST OF CARTLEDGE, NO 10.

## I. ELECTION OF THE ASSEMBLY OF THE EUROPEAN COMMUNITIES.

WISHING TO DEMONSTRATE THE IMPORTANCE AND SIGNIFICANCE WHICH IT ATTACHES TO THE FIRST ELECTION OF THE MEMBERS OF THE ASSEMBLY OF THE EUROPEAN COMMUNITIES BY DIRECT UNIVERSAL SUFFRAGE, THE EUROPEAN COUNCIL MET ON 21 AND 22 JUNE IN STRASBOURG, THEREBY UNDERLINING STRASBOURG'S EUROPEAN STATUS.

THE HEADS OF STATE AND OF GOVERNMENT NOTED WITH SATISFACTION THAT THE ELECTIONS HAD GONE SMOOTHLY AND THAT THEY HAD HELPED TO MAKE THE PEOPLES OF EUROPE MORE AWARE OF THEIR SOLIDARITY.

THEY WELCOMED THE INTENTION EXPRESSED BY THEIR IRISH COLLEAGUE OF TAKING PART, AS PRESIDENT-IN-OFFICE OF THE EUROPEAN COUNCIL, IN THE INAUGURAL MEETING OF THE NEW ASSEMBLY IN STRASBOURG ON 18 JULY.

THEY CHARGED HIM ON THAT OCCASION TO EXPRESS THEIR JOINT CONVICTION THAT THE NEWLY ELECTED ASSEMBLY, TAKING ITS RIGHTFUL PLACE AMONG THE COMMUNITY INSTITUTIONS, WILL SERVE THE HOPES AND THE AMBITIONS OF EUROPE.

## II. EUROPEAN MONETARY SYSTEM

THE EUROPEAN COUNCIL WAS INFORMED OF THE CONDITIONS UNDER WHICH THE EUROPEAN MONETARY SYSTEM HAD BEEN SET UP AND TOOK THE VIEW THAT THE INITIAL STOCK-TAKING, NOW THAT THE SYSTEM HAD BEEN IN OPERATION FOR THREE MONTHS, COULD BE REGARDED AS POSITIVE.

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IT ATTACHED PARTICULAR IMPORTANCE TO THE STRENGTHENING OF MONETARY CO-OPERATION AND THE DEVELOPMENT OF THE PROCEDURES FOR CONCERTED ACTION PUT IN HAND WITHIN THE APPROPRIATE COMMUNITY BODIES. IT EXPRESSED THE HOPE THAT THE PREPARATIONS FOR SETTING UP A EUROPEAN MONETARY FUND WOULD BE EXPEDITED, SO THAT THE LATTER MIGHT BE ABLE, BY THE PLANNED DEADLINES, TO MAKE AN EFFECTIVE CONTRIBUTION TOWARDS STABILIZING MONETARY RELATIONS AND EXCHANGE RATES WITHIN THE COMMUNITY.

IT STRESSED THE MAJOR POLITICAL SIGNIFICANCE WHICH THE INTRODUCTION OF AN AREA OF MONETARY STABILITY HAS FOR PROGRESS TOWARDS THE ORGANIZATION OF EUROPE.

### III. ENERGY

1. THE EUROPEAN COUNCIL HELD AN EXCHANGE OF VIEWS ON THE WORLD ENERGY SITUATION. IT STRESSED THE URGENT NEED FOR ACTION IN THE FACE OF THE SERIOUS STRUCTURAL SITUATION BROUGHT ABOUT BY THE DEVELOPMENT OF A LASTING IMBALANCE BETWEEN SUPPLY AND DEMAND FOR OIL AND THE PRECARIOUSNESS OF WORLD ENERGY SUPPLIES, NOT ONLY IN THE LONG TERM BUT ALSO IN THE IMMEDIATE FUTURE.

THE EUROPEAN COUNCIL CONSIDERS IT VITAL THAT THE CONSUMER AND PRODUCER COUNTRIES TOGETHER WORK OUT A WORLD ENERGY STRATEGY DESIGNED TO:

- ENSURE MORE MODERATE AND RATIONAL USE OF OIL AS A NON-RENEWABLE NATURAL RESOURCE;
- PERMIT CONTINUED ECONOMIC GROWTH NO LONGER DEPENDENT ON INCREASED CONSUMPTION OF OIL BUT BASED ON THE DEVELOPMENT OF OTHER ENERGY RESOURCES;
- ENSURE THAT THE DEVELOPING COUNTRIES ARE ALSO ABLE TO OBTAIN THE ENERGY NECESSARY FOR THEIR GROWTH.

IF SUCH A STRATEGY CANNOT BE WORKED OUT, THE WORLD WILL RAPIDLY MOVE TOWARDS A LARGE-SCALE ECONOMIC AND SOCIAL CRISIS.



2. THE EUROPEAN COUNCIL AFFIRMS THE COMMUNITY'S WILL TO PLAY AN EXEMPLARY ROLE IN THIS ACTION. IT RECALLS THE DECISIONS ALREADY TAKEN AT ITS MEETING IN MARCH 1979 AND, IN PARTICULAR, THE OBJECTIVE TO LIMIT OIL CONSUMPTION IN 1979.

THE COUNCIL ALSO EXPRESSES ITS RESOLVE TO CONTINUE AND STEP UP THIS EFFORT TO LIMIT OIL CONSUMPTION AND, THROUGH ENERGY SAVING, THE DEVELOPMENT OF INDIGENOUS PRODUCTION AND THE PROGRESSIVE USE OF ALTERNATIVE ENERGY, TO MAINTAIN COMMUNITY IMPORTS BETWEEN 1980 AND 1985 AT AN ANNUAL LEVEL NOT HIGHER THAN THAT FOR 1978.

IT WILL NOT BE POSSIBLE TO MAKE AN EFFORT OF THIS MAGNITUDE UNLESS AN EFFORT ON THE SAME SCALE IS MADE AT THE SAME TIME BY THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES, WHICH MUST ALSO RESTRICT THEIR OIL IMPORTS.

LASTLY, STEPS WILL HAVE TO BE TAKEN, IN CO-OPERATION WITH THE OIL COMPANIES, TO ENSURE THAT EACH COUNTRY CAN OBTAIN FAIR SUPPLIES OF OIL PRODUCTS, TAKING INTO ACCOUNT THE DIFFERING PATTERNS OF SUPPLY, THE EFFORTS MADE TO LIMIT OIL IMPORTS, THE ECONOMIC SITUATION OF EACH COUNTRY AND THE QUANTITIES OF OIL AVAILABLE.

3. THIS EFFORT WILL BE ACCOMPANIED BY MEASURES RELATING TO THE FREE MARKETS, WHERE PRICES BEAR NO RELATION TO THOSE CHARGED BY THE PRODUCER COUNTRIES.

THE COUNCIL WELCOMES THE MEASURES TAKEN IN THIS CONNECTION BY THE COUNCIL (ENERGY) TO IMPROVE MARKET SURVEILLANCE. AS REGARDS THE RECORDING OF INTERNATIONAL TRANSACTIONS, IT REQUESTS THE COUNCIL (ENERGY) TO TAKE THE STEPS FOR WHICH IT HAS LAID DOWN THE PRINCIPLES PROVIDED THAT THE OTHER INDUSTRIALIZED STATES ARE PREPARED TO TAKE SIMILAR ACTION. IT INVITES THE MEMBER STATES AND THE COMMISSION, WHICH WILL TAKE PART IN THE TOKYO SUMMIT, TO EXAMINE WITH THE OTHER PARTICIPANTS IN THAT MEETING WHAT ADDITIONAL STEPS SHOULD BE TAKEN. IN THE LIGHT OF THAT EXAMINATION THE COUNCIL (ENERGY) WILL ADOPT THE APPROPRIATE MEASURES.



IN THE IMMEDIATE FUTURE, THE MEMBER STATES DECLARE THEIR READINESS TO DISSUADE COMPANIES FROM LENDING THEMSELVES TO TRANSACTIONS ON THESE MARKETS AT EXCESSIVE PRICES.

4. SO THAT THESE EFFORTS MAY CONTINUE IN CONSONANCE WITH THE GROWTH OF THEIR ECONOMIES, THE COMMUNITY AND THE MEMBER STATES WILL CONTINUE AND EXTEND THE REDEPLOYMENT OF ENERGY WHICH HAS ALREADY BEGUN. THIS REDEPLOYMENT WILL BE BASED ON THE STRENGTHENING OF THE ENERGY-SAVING MEASURES ALREADY UNDER WAY AND BE SUCH AS TO ENLIST THE USE OF NUCLEAR ENERGY, COAL AND, AS SOON AS POSSIBLE, OTHER, ALTERNATIVE SOURCES OF ENERGY.

- THE COMMUNITY HAS ALREADY MADE A MAJOR EFFORT TO SAVE ENERGY. IT MUST STRENGTHEN NATIONAL AND COMMUNITY PROGRAMMES IN ORDER TO ENCOURAGE GROWTH COMBINED WITH LOW ENERGY REQUIREMENTS, IN PARTICULAR BY MEANS OF GREATER INVESTMENT EFFORTS IN THIS AREA.

- WITHOUT THE DEVELOPMENT OF NUCLEAR ENERGY IN THE COMING DECADES, NO ECONOMIC GROWTH WILL BE POSSIBLE. NUCLEAR PROGRAMMES MUST THEREFORE BE GIVEN STRONG FRESH IMPETUS.

NUCLEAR ENERGY MUST BE USED UNDER CONDITIONS GUARANTEEING THE SAFETY OF THE POPULATION. IN THIS CONNECTION, THE EUROPEAN COUNCIL, WHILST RECALLING THAT THIS MATTER IS ESSENTIALLY THE RESPONSIBILITY OF NATIONAL AUTHORITIES, CONSIDERS THAT EXISTING BILATERAL AND MULTILATERAL CO-OPERATION SHOULD BE STRENGTHENED AND DEVELOPED. IT HIGHLIGHTED THE ROLE OF THE INTERNATIONAL ATOMIC ENERGY AGENCY IN THIS AREA.

- IN VIEW OF THE NECESSARY CHANGE IN OIL IMPORTS, THE USE OF COAL IN POWER STATIONS MUST BE STEPPED UP WITHOUT DELAY: ITS USE IN INDUSTRY MUST ALSO BE ENCOURAGED. SPECIAL ATTENTION WILL BE GIVEN TO TECHNOLOGICAL PROGRAMMES TO DEVISE NEW PROCESSES FOR THE EXTRACTION, TRANSPORT AND PROCESSING OF COAL.

- THE EUROPEAN COUNCIL NOTES THAT THE SITUATION CALLS FOR NATIONAL AND COMMUNITY RESEARCH AND DEVELOPMENT EFFORTS IN THE ENERGY SECTOR TO BE STEPPED UP BY CO-ORDINATING NATIONAL ACTION AND JOINT PROGRAMMES SO THAT MORE TANGIBLE PROSPECTS



MAY SHORTLY BE FOUND FOR THE ECONOMICAL USE OF NEW RESOURCES, ESPECIALLY SOLAR AND GEOTHERMAL ENERGY. LIKE NUCLEAR ENERGY, THESE QUOTE CLEAN UNQUOTE FORMS OF ENERGY WILL CONTRIBUTE TO HALTING THE BUILD-UP IN THE ATMOSPHERE OF CARBONIC FUMES CAUSED BY THE USE OF FOSSILE FUELS.

SUCH RESEARCH WILL ALSO BE DIRECTED AT PROMOTING NEW TECHNIQUES FOR THE USE OF CONVENTIONAL RESOURCES AND ACHIEVING ENERGY SAVINGS.

5. THE DECISIONS ADOPTED TODAY BEAR WITNESS TO THE FACT THAT EUROPE IS READY TO SHOULDER ITS RESPONSIBILITIES. IT URGES THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES TO MAKE EFFORTS ON A SIMILAR SCALE AND TO DEVELOP THEIR NATIONAL ENERGY RESOURCES, FAILING WHICH THE COMMUNITY'S CONTRIBUTION TO THE WORLD ENERGY BALANCE CANNOT PLAY ITS FULL PART.

6. THE EUROPEAN COUNCIL APPEALS TO THE PRODUCER COUNTRIES TO TAKE ACCOUNT OF THE IMPORTANCE OF THE WORLD ENERGY BALANCE AND HARMONIOUS ECONOMIC DEVELOPMENT.

IN CONJUNCTION WITH THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES, THE COMMUNITY AND THE MEMBER STATES ARE PREPARED TO ESTABLISH CONTACTS WITH THE PRODUCER COUNTRIES IN AN ENDEAVOUR TO DEFINE IN COMMON SUPPLY AND DEMAND PROSPECTS ON THE WORLD OIL MARKET. TO ANALYSE THE SITUATION IN THIS WAY WILL BE TO MAKE IT POSSIBLE TO PINPOINT THE DIFFICULTIES AND WORK OUT WAYS AND MEANS OF REMEDYING THEM, WITH ALL PARTIES ACTING IN CONCERT. THIS ANALYSIS SHOULD MOST PARTICULARLY CONCENTRATE ON THE OIL-IMPORTING DEVELOPING COUNTRIES. TO CUT DOWN ON THE INDUSTRIALIZED COUNTRIES' IMPORTS WILL BE TO IMPROVE DEVELOPING COUNTRIES' SUPPLY PROSPECTS. FURTHERMORE, A MAJOR EFFORT WILL HAVE TO BE MADE TO BOOST THE OUTPUT OF THEIR ENERGY RESOURCES. ON THIS SCORE, THE EUROPEAN COUNCIL IS GRATIFIED AT THE ACTION UNDERTAKEN BY THE WORLD BANK AND DECLARES ITS WILLINGNESS TO EXAMINE FURTHER IMPROVEMENTS TO ITS OPERATIONS.

OVER AND ABOVE THESE FORMS OF ACTION, THE EUROPEAN COUNCIL CONFIRMS ITS INTEREST IN AN OVERALL APPROACH TO WORLD ENERGY PROBLEMS, ON WHICH THE PRESIDENT OF THE UNITED MEXICAN STATES HAS PUT FORWARD SOME SIGNIFICANT PROPOSALS.



7. THE EUROPEAN COUNCIL INSTRUCTS THE PRESIDENCY TO INFORM THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES AND THE PRODUCER COUNTRIES OF ALL THE DECISIONS ADOPTED TODAY.

#### IV. ECONOMIC AND SOCIAL SITUATION

THE ECONOMIC POLICIES INITIATED A YEAR AGO IN LINE WITH THE COMMON APPROACH DEFINED IN THE JULY 1978 EUROPEAN COUNCIL HAVE HELPED TO IMPROVE THE OUTLOOK FOR GROWTH AND PRICE TRENDS IN THE COMMUNITY.

THE RECENT SUBSTANTIAL CHANGES IN THE SUPPLY AND PRICE OF OIL HAVE HOWEVER NARROWED THE MARGIN FOR MANOEUVRE IN ECONOMIC POLICIES, AS REGARDS BOTH THE RATE OF GROWTH AND THE LEVEL OF INFLATION.

FACED WITH THIS SITUATION, THE COUNCIL ADOPTED THE FOLLOWING GUIDELINES:

- THE ECONOMIC POLICIES OF THE MEMBER STATES WILL BE EVEN , MORE CLOSELY CO-ORDINATED, IN ORDER TO MINIMIZE THE INFLATIONARY AND DEPRESSIVE EFFECTS OF THE INCREASE IN OIL PRICES AND ITS CONSEQUENCES FOR THE LEVEL OF GROWTH AND THE EMPLOYMENT SITUATION:
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- THE STRUGGLE AGAINST INFLATION WILL CONTINUE. THE MAJOR INTERNAL AND EXTERNAL ECONOMIC EQUILIBRIA ON WHICH THE COMPETITIVENESS AND GROWTH OF THE ECONOMIES OF THE MEMBER STATES DEPEND MUST BE RESPECTED. STEPS MUST BE TAKEN TO ENSURE THAT THE DRAIN ON REAL RESOURCES WHICH THE INCREASE IN OIL PRICES ENTAILS ARE NOT COMPENSATED BY NOMINAL INCREASES IN INCOMES.



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THE COMMISSION WILL PRESENT PROPOSALS SUFFICIENTLY EARLY TO ENABLE DECISIONS TO BE TAKEN AT THE NEXT MEETING OF THE EUROPEAN COUNCIL.

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CARRINGTON

FILES

EID(I)

PS

PS/LORD PRIVY SEAL

MR BUTLER

MR FRETWELL

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FRAME GENERAL

FM UKREP BRUSSELS 221820Z JUNE 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 3275 OF 22 JUNE

INFO IMMEDIATE PARIS, PRIORITY COPENHAGEN, THE HAGUE, ROME,  
LUXEMBOURG, DUBLIN, BONN, TOKYO, WASHINGTON, ROUTINE OTTAWA,  
INFO SAVING BRUSSELS, UKDEL NATO, UKDEL OECD.

EUROPEAN COUNCIL, STRASBOURG, 21/22 JUNE

PRESS CONFERENCE BY PRESIDENT GISCARD (WITH MR JENKINS PRESENT)

1. PRESIDENT GISCARD SAID THAT THIS HAD BEEN A VERY USEFUL  
MEETING WHICH WOULD ALLOW THE EEC TO MAKE A CONTRIBUTION  
TO THE WORLD PROBLEM OF ENERGY.

2. HE THEN WENT THROUGH THE PRESIDENCY CONCLUSIONS STRESSING THE  
FOLLOWING POINTS:

## (A) DIRECT ELECTIONS

HE UNDERLINED THE REFERENCE TO STRASBOURG'S EUROPEAN  
STATUS BUT LATER, IN REPLY TO A QUESTION, DENIED THAT THE  
PARLIAMENT'S SEAT HAD BEEN MENTIONED:

## (B) EMS

THE THREE MONTHLY STOCK-TAKING WAS VERY POSITIVE, TAKING  
ACCOUNT OF RECENT STRAINS IN WORLD CURRENCY MARKETS, ESPECIALLY  
OVER THE U.S. DOLLAR:

## (C) ENERGY

HE EMPHASISED THE IMPORTANCE OF CUTTING OIL CONSUMPTION  
AND OF A MORE RATIONAL USE OF ENERGY RESOURCES. GROWTH MUST NOT  
BE BASED ON OIL BUT ON OTHER FORMS OF ENERGY:

## (D) CONVERGENCE

GISCARD SAID THAT THE COMMISSION HAD BEEN ASKED TO  
PRODUCE A DOCUMENT ON THE WORKINGS OF THE 1975 FINANCIAL  
MECHANISM. DOES IT RESPOND TO ITS OBJECTIVES? IN REPLY TO  
A QUESTION, HE SAID IT WAS FAIR TO SAY THAT THE STUDY WOULD  
SHOW WHETHER THERE WERE EXCESSIVE CONTRIBUTIONS OR INEQUITIES.  
BUT THE PROBLEM WAS VERY DIFFICULT. FOR EXAMPLE, LUXEMBOURG'S  
OWN RESOURCES CONTRIBUTION WAS LOW BECAUSE OF HER CENTRAL  
GEOGRAPHICAL POSITION. THE ENCOURAGEMENT OF INTRA-TRADE WAS  
ONE OF THE AIMS OF THE SYSTEM. WE WOULD SEE WHETHER THE 1975  
CORRECTING MECHANISM WAS WORKING PROPERLY:

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/(E)

*Z*  
Prime Minister  
*Gu 21/22*



## (E) VIETNAMESE BOAT PEOPLE

GISCARD EMPHASISED THE URGENT AND DRAMATIC NATURE OF THIS PROBLEM AND SUPPORTED THE CALL FOR A UN CONFERENCE:

## (F) 1990 REPORT

NOT DISCUSSED IN DEPTH:

## (G) TOKYO

THE EEC NOW HAD A COMMON FRONT FOR TOKYO. THOSE EEC MEMBER STATES PRESENT WOULD EXPRESS THEMSELVES IN TERMS OF THE PRESIDENCY CONCLUSIONS.

3. AFTER HE HAD FINISHED GISCARD GAVE THE FLOOR TO THE PRESIDENT OF THE COMMISSION, WHO MADE THREE BRIEF POINTS:

(A) THIS WAS AN IMPORTANT COUNCIL, HELD SYMBOLICALLY AND APPROPRIATELY IN STRASBOURG. THE NEED FOR COLLECTIVE EEC ACTION OVER ENERGY HAD BEEN RECOGNISED:

(B) THE COMMISSION WOULD BE PRODUCING SUPPORTING STUDIES ON THE 1990 REPORT FOR THE DUBLIN EUROPEAN COUNCIL. HE SINGLED OUT THE PROBLEM OF MICRO-TECHNOLOGIES AS ONE THAT THE EEC NEEDED TO TACKLE IF IT WAS NOT TO FALL BEHIND THE JAPANESE:

(C) HE STRESSED THAT ON CONVERGENCE, THE COMMISSION WOULD COME UP WITH A TRULY OBJECTIVE STUDY OF THE EEC BUDGET PROBLEM.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/PUS, BUTLER, BULLARD, FRETWELL,  
PETRIE, FITZHERBERT

CAB - FRANKLIN, ELLIOTT, THOMAS

D/EN - PS/S OF S, RAMPTON, JONES

NO 10 - CARTLEDGE

TSY - PS/CHANCELLOR, PS/CHIEF SECRETARY, SIR D. WASS,  
SIR K. COUZENS, JORDAN-MOSS, MRS HEADLEY-MILLER

FCO PASS SAVING UKDEL OECD

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RM 1/59 OLD ADMIRALTY BUILDING

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GR 3200

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FRAME GENERAL

FM UKREP BRUSSELS 221816Z JUN 79

TO IMMEDIATE FCO

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*per*  
*21/22*

MIPT: EUROPEAN COUNCIL, STRASBOURG, 21/22 JUNE

CONCLUSIONS OF THE PRESIDENCY OF THE EUROPEAN COUNCIL

### I. ELECTION OF THE ASSEMBLY OF THE EUROPEAN COMMUNITIES

WISHING TO DEMONSTRATE THE IMPORTANCE AND SIGNIFICANCE WHICH IT ATTACHES TO THE FIRST ELECTION OF THE MEMBERS OF THE ASSEMBLY OF THE EUROPEAN COMMUNITIES BY DIRECT UNIVERSAL SUFFRAGE, THE EUROPEAN COUNCIL MET ON 21 AND 22 JUNE IN STRASBOURG, THEREBY UNDERLINING STRASBOURG'S EUROPEAN STATUS.

THE HEADS OF STATE AND OF GOVERNMENT NOTED WITH SATISFACTION THAT THE ELECTIONS HAD GONE SMOOTHLY AND THAT THEY HAD HELPED TO MAKE THE PEOPLES OF EUROPE MORE AWARE OF THEIR SOLIDARITY.

THEY WELCOMED THE INTENTION EXPRESSED BY THEIR IRISH COLLEAGUES OF TAKING PART, AS PRESIDENT-IN-OFFICE OF THE EUROPEAN COUNCIL, IN THE INAUGURAL MEETING OF THE NEW ASSEMBLY IN STRASBOURG ON 18 JULY.

THEY CHARGED HIM ON THAT OCCASION TO EXPRESS THEIR JOINT CONVICT-ION THAT THE NEWLY ELECTED ASSEMBLY, TAKING ITS RIGHTFUL PLACE AMONG THE COMMUNITY INSTITUTIONS, WILL SERVE THE HOPES AND THE AMBITIONS OF EUROPE.

### II. EUROPEAN MONETARY SYSTEM

THE EUROPEAN COUNCIL WAS INFORMED OF THE CONDITIONS UNDER WHICH THE EUROPEAN MONETARY SYSTEM HAD BEEN SET UP AND TOOK THE VIEW THAT THE INITIAL STOCK-TAKING, NOW THAT THE SYSTEM HAD BEEN IN OPERAT-ION FOR THREE MONTHS, COULD BE REGARDED AS POSITIVE.

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/IT ATTACHED



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IT ATTACHED PARTICULAR IMPORTANCE TO THE STRENGTHENING OF MONETARY CO-OPERATION AND THE DEVELOPMENT OF THE PROCEDURES FOR CONCERTED ACTION PUT IN HAND WITHIN THE APPROPRIATE COMMUNITY BODIES. IT EXPRESSED THE HOPE THAT THE PREPARATIONS FOR SETTING UP A EUROPEAN MONETARY FUND WOULD BE EXPEDITED, SO THAT THE LATTER MIGHT BE ABLE BY THE PLANNED DEADLINES, TO MAKE AN EFFECTIVE CONTRIBUTION TOWARDS STABILIZING MONETARY RELATIONS AND EXCHANGE RATES WITHIN THE COMMUNITY.

IT STRESSED THE MAJOR POLITICAL SIGNIFICANCE WHICH THE INTRODUCTION OF AN AREA OF MONETARY STABILITY HAS FOR PROGRESS TOWARDS THE ORGANIZATION OF EUROPE.

III. ENERGY

1. THE EUROPEAN COUNCIL HELD AN EXCHANGE OF VIEWS ON THE WORLD ENERGY SITUATION. IT STRESSED THE URGENT NEED FOR ACTION IN THE FACE OF THE SERIOUS STRUCTURAL SITUATION BROUGHT ABOUT BY THE DEVELOPMENT OF A LASTING IMBALANCE BETWEEN SUPPLY AND DEMAND FOR OIL AND THE PRECARIOUSNESS OF WORLD ENERGY SUPPLIES, NOT ONLY IN THE LONG TERM BUT ALSO IN THE IMMEDIATE FUTURE.

THE EUROPEAN COUNCIL CONSIDERS IT VITAL THAT THE CONSUMER AND PRODUCER COUNTRIES TOGETHER WORK OUT A WORLD ENERGY STRATEGY DESIGNED TO:

- ENSURE MORE MODERATE AND RATIONAL USE OF OIL AS A NON-RENEWABLE NATURAL RESOURCE:

- PERMIT CONTINUED ECONOMIC GROWTH NO LONGER DEPENDENT ON INCREASED CONSUMPTION OF OIL BUT BASED ON THE DEVELOPMENT OF OTHER ENERGY RESOURCES:

- ENSURE THAT THE DEVELOPING COUNTRIES ARE ALSO ABLE TO OBTAIN THE ENERGY NECESSARY FOR THEIR GROWTH.

IF SUCH A STRATEGY CANNOT BE WORKED OUT, THE WORLD WILL RAPIDLY MOVE TOWARDS A LARGE-SCALE ECONOMIC AND SOCIAL CRISIS.

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2. THE EUROPEAN COUNCIL AFFIRMS THE COMMUNITY'S WILL TO PLAY AN EXEMPLARY ROLE IN THIS ACTION. IT RECALLS THE DECISIONS ALREADY TAKEN AT ITS MEETING IN MARCH 1979 AND, IN PARTICULAR, THE OBJECTIVE TO LIMIT OIL CONSUMPTION IN 1979.

THE COUNCIL ALSO EXPRESSES ITS RESOLVE TO CONTINUE AND STEP UP THIS EFFORT TO LIMIT OIL CONSUMPTION AND, THROUGH ENERGY SAVING, THE DEVELOPMENT OF INDIGENOUS PRODUCTION AND THE PROGRESSIVE USE OF ALTERNATIVE ENERGY, TO MAINTAIN COMMUNITY IMPORTS BETWEEN 1980 AND 1985 AT AN ANNUAL LEVEL NOT HIGHER THAN THAT FOR 1978.

IT WILL NOT BE POSSIBLE TO MAKE AN EFFORT OF THIS MAGNITUDE UNLESS AN EFFORT ON THE SAME SCALE IS MADE AT THE SAME TIME BY THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES, WHICH MUST ALSO RESTRICT THEIR OIL IMPORTS.

LASTLY, STEPS WILL HAVE TO BE TAKEN, IN CO-OPERATION WITH THE OIL COMPANIES, TO ENSURE THAT EACH COUNTRY CAN OBTAIN FAIR SUPPLIES OF OIL PRODUCTS, TAKING INTO ACCOUNT THE DIFFERING PATTERNS OF SUPPLY, THE EFFORTS MADE TO LIMIT OIL IMPORTS, THE ECONOMIC SITUATION OF EACH COUNTRY AND THE QUANTITIES OF OIL AVAILABLE.

3. THIS EFFORT WILL BE ACCOMPANIED BY MEASURES RELATING TO THE FREE MARKETS, WHERE PRICES BEAR NO RELATION TO THOSE CHARGED BY THE PRODUCER COUNTRIES.

THE COUNCIL WELCOMES THE MEASURES TAKEN IN THIS CONNECTION BY THE COUNCIL (ENERGY) TO IMPROVE MARKET SURVEILLANCE. AS REGARDS THE RECORDING OF INTERNATIONAL TRANSACTIONS, IT REQUESTS THE COUNCIL (ENERGY) TO TAKE THE STEPS FOR WHICH IT HAS LAID DOWN THE PRINCIPLES PROVIDED THAT THE OTHER INDUSTRIALIZED STATES ARE PREPARED TO TAKE SIMILAR ACTION. IT INVITES THE MEMBER STATES AND THE COMMISSION, WHICH WILL TAKE PART IN THE TOKYO SUMMIT, TO EXAMINE WITH THE OTHER PARTICIPANTS IN THAT MEETING WHAT ADDITIONAL STEPS SHOULD BE TAKEN. IN THE LIGHT OF THAT EXAMINATION THE COUNCIL (ENERGY) WILL ADOPT THE APPROPRIATE MEASURES.

IN THE IMMEDIATE FUTURE, THE MEMBER STATES DECLARE THEIR READINESS TO DISSUADE COMPANIES FROM LENDING THEMSELVES TO TRANSACTIONS ON THESE MARKETS AT EXCESSIVE PRICES.



4. SO THAT THESE EFFORTS MAY CONTINUE IN CONSONANCE WITH THE GROWTH OF THEIR ECONOMIES, THE COMMUNITY AND THE MEMBER STATES WILL CONTINUE AND EXTEND THE REDEPLOYMENT OF ENERGY WHICH HAS ALREADY BEGUN. THIS REDEPLOYMENT WILL BE BASED ON THE STRENGTHENING OF THE ENERGY-SAVING MEASURES ALREADY UNDER WAY AND BE SUCH AS TO ENLIST THE USE OF NUCLEAR ENERGY, COAL AND, AS SOON AS POSSIBLE, OTHER, ALTERNATIVE SOURCES OF ENERGY.

- THE COMMUNITY HAS ALREADY MADE A MAJOR EFFORT TO SAVE ENERGY. IT MUST STRENGTHEN NATIONAL AND COMMUNITY PROGRAMMES IN ORDER TO ENCOURAGE GROWTH COMBINED WITH LOW ENERGY REQUIREMENTS, IN PARTICULAR BY MEANS OF GREATER INVESTMENT EFFORTS IN THIS AREA.

- WITHOUT THE DEVELOPMENT OF NUCLEAR ENERGY IN THE COMING DECADES, NO ECONOMIC GROWTH WILL BE POSSIBLE. NUCLEAR PROGRAMMES MUST THEREFORE BE GIVEN STRONG FRESH IMPETUS.

NUCLEAR ENERGY MUST BE USED UNDER CONDITIONS GUARANTEEING THE SAFETY OF THE POPULATION. IN THIS CONNECTION, THE EUROPEAN COUNCIL WHILST RECALLING THAT THIS MATTER IS ESSENTIALLY THE RESPONSIBILITY OF NATIONAL AUTHORITIES, CONSIDERS THAT EXISTING BILATERAL AND MULTILATERAL CO-OPERATION SHOULD BE STRENGTHENED AND DEVELOPED. IT HIGHLIGHTED THE ROLE OF THE INTERNATIONAL ATOMIC ENERGY AGENCY IN THIS AREA.

- IN VIEW OF THE NECESSARY CHANGE IN OIL IMPORTS, THE USE OF COAL IN POWER STATIONS MUST BE STEPPED UP WITHOUT DELAY: ITS USE IN INDUSTRY MUST ALSO BE ENCOURAGED. SPECIAL ATTENTION WILL BE GIVEN TO TECHNOLOGICAL PROGRAMMES TO DEVISE NEW PROCESSES FOR THE EXTRACTION, TRANSPORT AND PROCESSING OF COAL.

- THE EUROPEAN COUNCIL NOTES THAT THE SITUATION CALLS FOR NATIONAL AND COMMUNITY RESEARCH AND DEVELOPMENT EFFORTS IN THE ENERGY SECTOR TO BE STEPPED UP BY CO-ORDINATING NATIONAL ACTION AND JOINT PROGRAMMES SO THAT MORE TANGIBLE PROSPECTS MAY SHORTLY BE FOUND FOR THE ECONOMICAL USE OF NEW RESOURCES, ESPECIALLY SOLAR AND GEOTHERMAL ENERGY. LIKE NUCLEAR ENERGY, THESE "CLEAN" FORMS OF ENERGY WILL CONTRIBUTE TO HALTING THE BUILD-UP IN THE ATMOSPHERE OF CARBONIC FUMES CAUSED BY THE USE OF FOSSIL FUELS.

SUCH RESEARCH WILL ALSO BE DIRECTED AT PROMOTING NEW TECHNIQUES FOR THE USE OF CONVENTIONAL RESOURCES AND ACHIEVING ENERGY SAVINGS.

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5. THE DECISIONS ADOPTED TODAY BEAR WITNESS TO THE FACT THAT EUROPE IS READY TO SHOULDER ITS RESPONSIBILITIES. IT URGES THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES TO MAKE EFFORTS ON A SIMILAR SCALE AND TO DEVELOP THEIR NATIONAL ENERGY RESOURCES, FAILING WHICH THE COMMUNITY'S CONTRIBUTION TO THE WORLD ENERGY BALANCE CANNOT PLAY ITS FULL PART.

6. THE EUROPEAN COUNCIL APPEALS TO THE PRODUCER COUNTRIES TO TAKE ACCOUNT OF THE IMPORTANCE OF THE WORLD ENERGY BALANCE AND HARMONIOUS ECONOMIC DEVELOPMENT.

IN CONJUNCTION WITH THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES, THE COMMUNITY AND THE MEMBER STATES ARE PREPARED TO ESTABLISH CONTACTS WITH THE PRODUCER COUNTRIES IN AN ENDEAVOUR TO DEFINE IN COMMON SUPPLY AND DEMAND PROSPECTS ON THE WORLD OIL MARKET. TO ANALYSE THE SITUATION IN THIS WAY WILL BE TO MAKE IT POSSIBLE TO PINPOINT THE DIFFICULTIES AND WORK OUT WAYS AND MEANS OF REMEDYING THEM, WITH ALL PARTIES ACTING IN CONCERT. THIS ANALYSIS SHOULD MOST PARTICULARLY CONCENTRATE ON THE OIL-IMPORTING DEVELOPING COUNTRIES. TO CUT DOWN ON THE INDUSTRIALIZED COUNTRIES' IMPORTS WILL BE TO IMPROVE DEVELOPING COUNTRIES' SUPPLY PROSPECTS. FURTHERMORE, A MAJOR EFFORT WILL HAVE TO BE MADE TO BOOST THE OUTPUT OF THEIR ENERGY RESOURCES. ON THIS SCORE, THE EUROPEAN COUNCIL IS GRATIFIED AT THE ACTION UNDERTAKEN BY THE WORLD BANK AND DECLARES ITS WILLINGNESS TO EXAMINE FURTHER IMPROVEMENTS TO ITS OPERATIONS.

OVER AND ABOVE THESE FORMS OF ACTION, THE EUROPEAN COUNCIL CONFIRMS ITS INTEREST IN AN OVERALL APPROACH TO WORLD ENERGY PROBLEMS, ON WHICH THE PRESIDENT OF THE UNITED MEXICAN STATES HAS PUT FORWARD SOME SIGNIFICANT PROPOSALS.

7. THE EUROPEAN COUNCIL INSTRUCTS THE PRESIDENCY TO INFORM THE OTHER INDUSTRIALIZED CONSUMER COUNTRIES AND THE PRODUCER COUNTRIES OF ALL THE DECISIONS ADOPTED TODAY.

#### IV. ECONOMIC AND SOCIAL SITUATION

THE ECONOMIC POLICIES INITIATED A YEAR AGO IN LINE WITH THE COMMON APPROACH DEFINED IN THE JULY 1978 EUROPEAN COUNCIL HAVE HELPED TO IMPROVE THE OUTLOOK FOR GROWTH AND PRICE TRENDS IN THE COMMUNITY.



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EUROPEAN COUNCIL: STRASBOURG : 21/22 JUNE 1979

1. THE SECOND EUROPEAN COUNCIL OF 1979 TOOK PLACE IN STRASBOURG ON THE AFTERNOON AND EVENING OF 21 JUNE AND THE MORNING OF 22 JUNE. PRESIDENT GISCARD PRESIDED. THERE WAS A FULL ATTENDANCE OF HEADS OF GOVERNMENT AND FOREIGN MINISTERS. THE NETHERLANDS PRIME MINISTER HAD TO RETURN TO THE HAGUE AFTER THE FIRST SESSION. MESSRS JENKINS AND ORTOLI REPRESENTED THE COMMISSION.
2. AFTER LUNCH AT THE PREFECTURE, THE FIRST SESSION WAS HELD AT THE HOTEL DE VILLE ON THE AFTERNOON OF 21 JUNE. HEADS OF STATE AND GOVERNMENT THEN DINED AT THE CHATEAU DE ROHAN. (THE FRENCH PRIME MINISTER WAS ALSO PRESENT.) FOREIGN MINISTERS DINED AT THE ORANGERIE. THERE WAS AN INNOVATION IN THAT FOREIGN MINISTERS MET FROM 8.15 A.M. TO 9.30 A.M. ON 22 JUNE TO CLEAR UP POINTS OUTSTANDING FROM THE WORK DONE OVERNIGHT BY OFFICIALSON THE DRAFT PRESIDENCY CONCLUSIONS.
3. THE MOST IMPORTANT ISSUES DISCUSSED BY THE EUROPEAN COUNCIL WERE CONVERGENCE I.E. THE PROBLEM OF THE NET BUDGET CONTRIBUTIONS OF THE UK AND ITALY, AND ENERGY.
4. THE MAIN CONCLUSIONS WERE:
  - (A) THE BUDGET:

THE COMMISSION WILL SUBMIT TO THE FINANCE COUNCIL A REFERENCE PAPER DESCRIBING THE CONSEQUENCES OF THE BUDGET FOR EACH MEMBER STATE, ESPECIALLY IN 1979 AND 1980. FOR 1980 THE STUDY WILL TAKE ACCOUNT OF THE AGRICULTURAL PRICES FOR THE 1979/80 MARKETING YEAR. THE COMMISSION WILL ALSO EXAMINE THE CONDITIONS UNDER WHICH THE 1975 CORRECTIVE MECHANISM COULD PLAY ITS PART IN 1980. THE FINANCE COUNCIL WILL DEBATE THIS REPORT. THE COMMISSION WILL TAKE ACCOUNT OF THIS DEBATE AND PRESENT PROPOSALS IN GOOD TIME FOR DECISIONS TO BE TAKEN AT THE NEXT EUROPEAN COUNCIL IN DUBLIN IN NOVEMBER.

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(B) ENERGY:

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A COMMON POSITION FOR THE TOKYO SUMMIT WAS DRAWN UP. THE MAIN EMPHASIS IS ON REDUCING DEMAND AND ON PERSUADING THE OTHER MAIN INDUSTRIALISED COUNTRIES TO ADOPT POLICIES SIMILAR TO THE COMMUNITY'S. IN PARTICULAR, THE COUNCIL AGREED THAT COMMUNITY IMPORTS BETWEEN 1980-85 SHOULD BE MAINTAINED AT AN ANNUAL LEVEL NOT HIGHER THAN THAT FOR 1978. NUCLEAR PROGRAMMES SHOULD BE GIVEN A STRONG, FRESH IMPETUS.

(C) EMS:

THE CHAIRMAN OF THE CENTRAL BANK OF GOVERNORS REPORTED ON PROGRESS. THE PRIME MINISTER ANNOUNCED THAT THE UK INTENDED TO DEPOSIT A PROPORTION OF OUR GOLD AND DOLLAR RESERVES WITH THE EUROPEAN MONETARY COOPERATION FUND IN RETURN FOR ECUS.

(D) JAPAN:

THE COUNCIL LOOKED FOR HELP FROM THE JAPANESE IN REDRESSING THE CURRENT SITUATION. THE COUNCIL HOPED FOR WIDER OPENINGS FOR EEC EXPORTS IN JAPANESE MARKETS.

(E) REFUGEES FROM INDO-CHINA:

FOREIGN MINISTERS WERE ASKED TO ENSURE THAT THEIR INITIATIVE ON AN INTERNATIONAL CONFERENCE UNDER UN AUSPICES TO DISCUSS THIS PROBLEM WAS SUCCESSFUL.

OTHER SUBJECTS GIVEN SUBSTANTIAL TREATMENT INCLUDED THE ECONOMIC SITUATION IN THE COMMUNITY; SOCIAL QUESTIONS INCLUDING WORK-SHARING; AND THE PROSPECTS FOR THE COMMUNITY IN THE 1990S.

(THIS LATTER SUBJECT WILL BE STUDIED FURTHER BY THE COMMISSION.)

5. AT THE DINNER AT THE CHATEAU DE ROHAN, HEADS OF STATE AND GOVERNMENT DISCUSSED THE MIDDLE EAST, RHODESIA, SOUTH AFRICA, SINO-SOVIET RELATIONS AND ENERGY, WITH PARTICULAR REFERENCE TO THE PRODUCER/CONSUMER DIALOGUE. CHANCELLOR SCHMIDT GAVE AN ACCOUNT OF HIS RECENT VISIT TO THE UNITED STATES. AT THEIR DINNER FOREIGN MINISTERS DISCUSSED THE MIDDLE EAST AND REFUGEES FROM INDO-CHINA.

6. FOR THE UK THE OUTCOME OF THIS EUROPEAN COUNCIL WAS SATISFACTORY. EVEN THOUGH SOME MEMBERS OF THE EUROPEAN COUNCIL ARE STILL NOT FULLY PERSUADED BY OUR ARGUMENTS ON THE BUDGET, THE COUNCIL AS A WHOLE AGREED ON THE PROCEDURE WE WANTED FOR FURTHER WORK WITH A VIEW TO DECISIONS AT DUBLIN. ON ENERGY, TOGETHER WITH THE GERMANS AND THE DUTCH, WE WERE INSTRUMENTAL IN REMOVING FROM THE PRESIDENCY'S DRAFT CONCLUSIONS OBJECTIONABLE PROPOSITIONS LEFT IN SUSPENSE AT THE END OF LAST MONDAY'S ENERGY COUNCIL IN LUXEMBOURG. NONE OF THIS WAS ACHIEVED WITHOUT MUCH EFFORT AND ARGUMENT.

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7. THE FRENCH PRESIDENCY ARE UNLIKELY TO BE PLEASED AT THE OUTCOME. DESPITE THEIR DELAYING TACTICS AT OFFICIAL LEVEL AND THE FINANCE COUNCIL, IN THE END THEY HAVE HAD TO ACCEPT OUR PROPOSAL FOR FURTHER WORK ON THE BUDGET PROBLEM. MOREOVER, THEY MUST HAVE HOPED AT THE EUROPEAN COUNCIL TO WIN SOME AT LEAST OF THE POINTS THEY HAD ADVOCATED UNSUCCESSFULLY AT THE ENERGY COUNCIL.

8. MY TWO IFTS CONTAIN:

- (A) THE PRESIDENCY CONCLUSIONS AS DISTRIBUTED AT PRESIDENT GISCARD'S PRESS CONFERENCE. THIS FINAL VERSION CONTAINS A FEW MINOR AMENDMENTS TO THE ENERGY AND ECONOMIC AND SOCIAL SECTIONS AS COMPARED WITH THE VERSION DISTRIBUTED AFTER THE FOREIGN MINISTERS' MEETING THIS MORNING. THIS ALSO INCLUDES A PASSAGE ON REFUGEES FROM INDO-CHINA:
- (B) A REPORT OF THE PRESS CONFERENCE GIVEN BY PRESIDENT GISCARD, AFTER WHICH THE PRESIDENT OF THE COMMISSION ALSO ADDRESSED THE PRESS.

A REPORT OF THE PRIME MINISTER'S PRESS CONFERENCE WILL BE DISTRIBUTED FROM LONDON.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/PUS, BUTLER, BULLARD, FRETWELL,  
PETRIE, FITZHERBERT

CAB - FRANKLIN, ELLIOTT, THOMAS

D/EN - PS/S OF S, RAMPTON, JONES

NO 10 - CARTLEDGE

TSY - PS/CHANCELLOR, PS/CHIEF SECRETARY, SIR D. WASS, SIR K.  
COUZENS, JORDAN-MOSS, MRS HEADLEY-MILLER

FCO PASS SAVING UKDEL OECD.

MAITLAND

[ADVANCED/REPEATED AS REQUESTED]

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CONCLUSIONS  
OF THE PRESIDENCY OF  
THE EUROPEAN COUNCIL

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(Strasbourg, 21 and 22 June 1979)

1. Election of the Assembly of the European Communities

Wishing to demonstrate the importance and significance which it attaches to the first election of the members of the Assembly of the European Communities by direct universal suffrage, the European Council met on 21 and 22 June in Strasbourg, thereby underlining Strasbourg's European status.

The Heads of State and of Government noted with satisfaction that the elections had gone smoothly and that they had helped to make the peoples of Europe more aware of their solidarity.

They welcomed the intention expressed by their Irish colleague of taking part, as President-in-Office of the European Council, in the inaugural meeting of the new Assembly in Strasbourg on 18 July.

They charged him on that occasion to express their joint conviction that the newly elected Assembly, taking its rightful place among the Community institutions, will serve the hopes and the ambitions of Europe.

## II. European Monetary System

The European Council was informed of the conditions under which the European Monetary System had been set up and took the view that the initial stock-taking, now that the system had been in operation for three months, could be regarded as positive.

It attached particular importance to the strengthening of monetary co-operation and the development of the procedures for concerted action put in hand within the appropriate Community bodies. It expressed the hope that the preparations for setting up a European Monetary Fund would be expedited, so that the latter might be able, by the planned deadlines, to make an effective contribution towards stabilizing monetary relations and exchange rates within the Community.

It stressed the major political significance which the introduction of an area of monetary stability has for progress towards the organization of Europe.



### III. ENERGY

1e The European Council held an exchange of views on the world energy situation. It stressed the urgent need for action in the face of the serious structural situation brought about by the development of a lasting imbalance between supply and demand for oil and the precariousness of world energy supplies, not only in the long term but also in the immediate future.

The European Council considers it vital that the consumer and producer countries together work out a world energy strategy designed to:

- ensure more moderate and rational use of oil as a non-renewable natural resource;
- permit continued economic growth no longer dependent on increased consumption of oil but based on the development of other energy resources;
- ensure that the developing countries are also able to obtain the energy necessary for their growth.

If such a strategy cannot be worked out, the world will rapidly move towards a large-scale economic and social crisis.

2. The European Council affirms the Community's will to play an exemplary role in this action. It recalls the decisions already taken at its meeting in March 1979 and, in particular, the objective to limit oil consumption in 1979.

The Council also expresses its resolve to continue and step up this effort to limit oil consumption and, through energy saving, the development of indigenous production and the progressive use of alternative energy, to maintain Community imports between 1980 and 1985 at an annual level not higher than that for 1978.

It will not be possible to make an effort of this magnitude unless an effort on the same scale is made at the same time by the other industrialized consumer countries, which must also restrict their oil imports.

Lastly, steps will have to be taken, in co-operation with the oil companies, to ensure that each country can obtain fair supplies of oil products, taking into account the differing patterns of supply, the efforts made to limit oil imports, the economic situation of each country and the quantities of oil available.



5. This effort will be accompanied by measures relating to the free markets, where prices bear no relation to those charged by the producer countries.

The Council welcomes the measures taken in this connection by the Council (Energy) to improve market surveillance. As regards the recording of international transactions, it requests the Council (Energy) to take the steps for which it has laid down the principles provided that the other industrialized States are prepared to take similar action. It invites the Member States and the Commission, which will take part in the Tokyo Summit, to examine with the other participants in that meeting what additional steps should be taken. In the light of that examination the Council (Energy) will adopt the appropriate measures.

In the immediate future, the Member States declare their readiness to dissuade companies from lending themselves to transactions on these markets at excessive prices.



So that these efforts may continue in consonance with the growth of their economies, the Community and the Member States will continue and extend the redeployment of energy which has already begun. This redeployment will be based on the strengthening of the energy-saving measures already under way and be such as to enlist the use of nuclear energy, coal and, as soon as possible, other, alternative sources of energy.

- The Community has already made a major effort to save energy. It must strengthen national and Community programmes in order to encourage growth combined with low energy requirements, in particular by means of greater investment efforts in this area.
- Without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes must therefore be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. In this connection, the European Council, whilst recalling that this matter is essentially the responsibility of national authorities, considers that existing bilateral and multilateral co-operation should be strengthened and developed. It highlighted the role of the International Atomic Energy Agency in this area.

- In view of the necessary change in oil imports, the use of coal in power stations must be stepped up without delay; its use in industry must also be encouraged. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.



- The European Council notes that the situation calls for national and Community research and development efforts in the energy sector to be stepped up by co-ordinating national action and joint programmes so that more tangible prospects may shortly be found for the economical use of new resources, especially solar and geothermal energy. Like nuclear energy, these "clean" forms of energy will contribute to halting the build-up in the atmosphere of carbonic fumes caused by the use of fossile fuels.

Such research will also be directed at promoting new techniques for the use of conventional resources and achieving energy savings.



5. The decisions adopted today bear witness to the fact that Europe is ready to shoulder its responsibilities. It urges the other industrialized consumer countries to make efforts on a similar scale and to develop their national energy resources, failing which the Community's contribution to the world energy balance cannot play its full part.

6. The European Council appeals to the producer countries to take account of the importance of the world energy balance and harmonious economic development.

In conjunction with the other industrialized consumer countries, the Community and the Member States are prepared to establish contacts with the producer countries in an endeavour to define in common supply and demand prospects on the world oil market. To analyse the situation in this way will be to make it possible to pinpoint the difficulties and work out ways and means of remedying them, with all parties acting in concert. This analysis should most particularly concentrate on the oil-importing developing countries. To cut down on the industrialized countries' imports will be to improve developing countries' supply prospects. Furthermore, a major effort will have to be made to boost the output of their energy resources. On this score, the European Council is gratified at the action undertaken by the World Bank and declares its willingness to examine further improvements to its operations.

Over and above these forms of action, the European Council confirms its interest in an overall approach to world energy



problems, on which the President of the United Mexican States has put forward some significant proposals.

7. The European Council instructs the Presidency to inform the other industrialized consumer countries and the producer countries of all the decisions adopted today.

#### IV. ECONOMIC AND SOCIAL SITUATION

The economic policies initiated a year ago in line with the common approach defined in the July 1978 European Council have helped to improve the outlook for growth and price trends in the Community.

The recent substantial changes in the supply and price of oil have however narrowed the margin for manoeuvre in economic policies, as regards both the rate of growth and the level of inflation.

Faced with this situation, the Council adopted the following guidelines:

- the economic policies of the Member States will be even more closely co-ordinated, in order to minimize the inflationary and depressive effects of the increase in oil prices and its consequences for the level of growth and the employment situation;
- co-ordination of budgetary policies for 1980 is of particular importance in this context. Priority should be given to measures which enable a satisfactory level of growth to be attained in the Community through investment, while promoting modernization of economic structures;
- the struggle against inflation will continue. The major internal and external economic equilibria on which the competitiveness and growth of the economies of the Member States depend must be respected. Steps must be taken to ensure that the drain on real resources which the increase in oil prices entails are not compensated by nominal increases in incomes.



IV. (continued)

The European Council took note of the discussions which had taken place in the Council and Commission pursuant to the guidelines adopted at its meeting on 12 and 13 March, to contribute, by Community action, to improving the employment situation.

It took note of the Commission's interim communication on the discussions regarding work sharing.

It confirmed the importance it attached to the active continuation, with the collaboration of both sides of industry, of the work it had asked be undertaken, so that concrete proposals might be worked out rapidly.

## CONVERGENCE

The European Council noted the report submitted to it by the Council (Economic and Financial Affairs) on the convergence of Member States' economic performances.

Following comments from a number of delegations, it asked the Commission to submit to the Council a reference paper describing the financial consequences of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission will submit its study to the Council so as to enable the Member States to give their opinions and present their requests in concrete form. In the light of the debate and of any guidelines which may emerge from the Council the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council.



## VI. JAPAN

The European Council noted that the imbalance in trade relations between the Community and Japan was continuing and deepening. Wishing to expand and strengthen co-operation with Japan in all fields, it expressed the wish that the Japanese Government, bearing in mind the place and the responsibilities of Japan in the world economy, would help by means of appropriate measures to redress a situation which gave particular cause for concern. It hoped that the regular consultations between the Commission and Japan would rapidly result in wider openings for EEC exports on the Japanese market and enable broader and more equitable relations to be envisaged.

REFUGEES FROM INDOCHINA

The Ministers for Foreign Affairs reported on the initiative which they had taken in proposing that an international conference meet under the auspices of the United Nations to discuss the problem of refugees from Indochina.

Stressing the dramatic nature of the problem and the urgent need to find an effective and humane solution, the European Council requested the Ministers to see to it that their initiative is successful and that in the meantime no decision is taken that might aggravate the situation.



CONCLUSIONS  
DE LA PRESIDENCE  
DU  
CONSEIL EUROPEEN

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Strasbourg, les 21/22 juin 1979

I. Election de l'Assemblée des Communautés européennes

Désireux de manifester l'importance et la signification qu'il accorde aux premières élections au suffrage universel direct des membres de l'Assemblée des Communautés européennes, le Conseil européen s'est réuni les 21 et 22 juin à Strasbourg, dont il a souligné ainsi la vocation européenne.

Les chefs d'Etat et de gouvernement ont noté avec satisfaction que ces élections s'étaient déroulées dans de bonnes conditions, et qu'elles avaient contribué à rendre plus sensible aux peuples européens la conscience de leur solidarité.

Ils ont salué l'intention manifestée par leur collègue irlandais de participer, en sa qualité de président en exercice du Conseil européen, à la séance inaugurale de la nouvelle Assemblée le 18 juillet prochain à Strasbourg.

Ils l'ont chargé, à cette occasion, d'exprimer leur conviction commune que l'Assemblée nouvellement élue servira, à la place qui est la sienne parmi les institutions de la Communauté, les espoirs et les ambitions de l'Europe.

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## II. Système monétaire européen

Le Conseil européen a été informé des conditions dans lesquelles s'est effectuée la mise en place du système monétaire européen et a estimé que le premier bilan que l'on pouvait dresser à l'issue de trois mois de fonctionnement du nouveau système était positif.

Il a attaché une importance particulière au renforcement de la coopération monétaire, et au développement des procédures de concertation mises en oeuvre au sein des instances appropriées de la Communauté. Il a exprimé le souhait que les travaux préparatoires à l'établissement du Fonds monétaire européen soient activement poursuivis afin que ce dernier soit en mesure de contribuer avec efficacité et dans les délais prévus à la stabilité des relations monétaires et des taux de change au sein de la Communauté.

Il a souligné la signification politique majeure que l'instauration d'une zone de stabilité monétaire revêt pour le progrès de l'organisation de l'Europe.

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### III. ENERGIE

1. Le Conseil européen a procédé à un échange de vues sur la situation énergétique mondiale. Il a souligné l'urgence d'agir face à la grave situation structurelle créée par le développement d'un déséquilibre durable entre l'offre et la demande de pétrole et la précarité de l'approvisionnement énergétique mondial, à long terme aussi bien que dans l'immédiat.

Le Conseil européen considère qu'il est indispensable que soit définie entre les pays consommateurs et les pays producteurs une stratégie énergétique mondiale visant à :

- assurer une utilisation plus modérée et plus rationnelle du pétrole en tant que ressource naturelle non renouvelable ;
- permettre la poursuite d'une croissance économique ne dépendant plus de l'augmentation de la consommation de pétrole mais fondée sur le développement des autres ressources énergétiques ;
- assurer que les pays en voie de développement disposent aussi de l'énergie nécessaire à leur croissance.

Si une telle stratégie ne peut être mise au point, le monde s'acheminera rapidement vers une crise économique et sociale d'une grande ampleur.

2. Le Conseil européen affirme la volonté de la Communauté de prendre une part exemplaire dans cette action. Il rappelle les décisions déjà prises lors de sa session de mars 1979 et en particulier l'objectif de limiter la consommation de pétrole en 1979.

Le Conseil européen exprime en outre sa volonté de poursuivre et d'intensifier cet effort de limitation de la consommation de pétrole et, grâce aux économies d'énergie, au développement des productions propres et à l'utilisation progressive des énergies de remplacement, de maintenir, au cours de la période 1980 - 1985 les importations de la Communauté à un niveau annuel égal ou inférieur à celui de 1978.

Un effort de cette ampleur ne pourra être poursuivi que si un effort simultané, d'une portée comparable, est consenti par les autres pays consommateurs industrialisés qui doivent eux aussi limiter leurs importations de pétrole .

Il conviendra enfin de s'assurer, en coopération avec les compagnies pétrolières que chaque pays disposera d'un approvisionnement équitable en produits pétroliers, compte tenu des structures d'approvisionnement différentes, des efforts accomplis pour limiter les importations pétrolières, de la situation économique de chaque pays et des quantités de pétrole disponibles.

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3. Cet effort sera accompagné d'une action à l'égard des marchés libres où sont pratiqués des prix sans rapport avec ceux pratiqués par les pays producteurs.

Le Conseil se félicite des dispositions prises à cet égard par le Conseil (Energie) en ce qui concerne l'amélioration de la surveillance du marché. En ce qui concerne l'enregistrement des transactions internationales, il invite le Conseil (Energie) à mettre en oeuvre les dispositions dont il a posé les principes si les autres Etats industrialisés sont prêts à adopter des mesures analogues. Il invite les Etats membres et la Commission, qui participeront au Sommet de Tokyo, à examiner avec les autres participants à cette réunion les dispositions complémentaires qui devraient être prises. A la lumière de cet examen le Conseil (Energie) arrêtera les mesures appropriées.

Dans l'immédiat, les Etats membres se déclarent prêts à dissuader les compagnies de participer à des transactions sur ces marchés à des prix excessifs.

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4. Pour que ces efforts demeurent compatibles avec la croissance de leur économie, la Communauté et les Etats membres poursuivront et amplifieront le redéploiement énergétique déjà amorcé. Ce redéploiement reposera sur un renforcement des actions engagées pour les économies d'énergie et mettra en œuvre l'énergie nucléaire, le charbon et, dès que possible, les autres sources d'énergie de remplacement.

- La Communauté a déjà entrepris un important effort d'économie d'énergie. Elle doit renforcer les programmes aux niveaux national et communautaire, afin d'encourager une croissance économe en énergie, notamment par un effort accru d'investissement dans ce secteur.
- Sans développement de l'énergie nucléaire au cours des décennies à venir, il n'y aura pas de croissance économique possible. Les programmes nucléaires doivent donc être vigoureusement relancés.

Le recours à l'énergie nucléaire doit s'effectuer dans des conditions assurant la sécurité des populations. A cet égard, le Conseil européen, tout en rappelant que cette question relève essentiellement de la responsabilité des autorités nationales, estime utile de renforcer et de développer la coopération internationale qui existe déjà sur le plan bilatéral et multilatéral. Il a noté le rôle de l'Agence internationale de l'Energie atomique dans ce domaine.

- Dans la perspective de l'infléchissement nécessaire des importations pétrolières, l'utilisation du charbon dans les centrales thermiques doit être immédiatement accentuée ; son usage dans l'industrie doit être également encouragé. Les programmes technologiques visant à la mise au point de nouveaux procédés de production, de transport et de transformation du charbon seront accentués.



- Le Conseil européen constate que la situation exige d'accélérer les efforts nationaux et communautaires en matière de recherche et de développement dans le secteur de l'énergie, en coordonnant les actions nationales et les programmes communs afin de dégager, à court terme, des perspectives plus concrètes en vue de l'utilisation économique des nouvelles ressources, notamment de l'énergie solaire et de l'énergie géothermique. Comme l'énergie nucléaire, ces énergies "propres" contribueront à arrêter l'accroissement de la charge de l'atmosphère en gaz carbonique qui résulte de l'utilisation des combustibles fossiles.

Ces recherches auront également pour but de promouvoir des techniques nouvelles pour l'utilisation des ressources conventionnelles et pour la réalisation d'économies d'énergie.

5. Les décisions arrêtées aujourd'hui témoignent que l'Europe est prête à assumer ses responsabilités. Elle invite instamment les autres pays consommateurs industrialisés à entreprendre un effort de même ampleur et à développer leurs ressources énergétiques nationales, faute de quoi la contribution de la Communauté à l'équilibre énergétique mondial ne pourrait pas avoir toute sa portée.
  
6. Le Conseil européen fait appel aux pays producteurs pour qu'ils tiennent compte de l'importance de l'équilibre énergétique mondial et d'un développement économique harmonieux.

En liaison avec les autres pays industrialisés consommateurs, la Communauté et les Etats membres sont prêts à établir des contacts avec les pays producteurs afin de définir en commun les perspectives de l'offre et de la demande sur le marché mondial du pétrole. Une telle analyse permettra de cerner les difficultés et de définir les moyens susceptibles d'y remédier, de manière concertée. Elle devrait s'attacher tout particulièrement au cas des pays en développement importateurs de pétrole. La limitation des importations des pays industrialisés permettra d'améliorer les perspectives d'approvisionnement de ces pays. En outre, un effort important devra être fait pour faciliter la mise en valeur de leurs ressources énergétiques. A cet égard, le Conseil européen se félicite de l'action entreprise par la Banque Mondiale et se déclare disposé à examiner de nouvelles améliorations de ses interventions.

Au delà de ces actions, le Conseil européen confirme son intérêt pour une approche globale des problèmes



mondiaux de l'énergie au sujet de laquelle le Président des Etats Unis du Mexique a fait d'importantes propositions.

7. Le Conseil européen charge la Présidence d'informer les autres pays consommateurs industrialisés et les pays producteurs des décisions arrêtées aujourd'hui.

#### IV. SITUATION ECONOMIQUE ET SOCIALE

Les politiques économiques, engagées depuis un an dans la ligne de l'action concertée définie au Conseil européen de juillet 1978, ont contribué à améliorer les perspectives de croissance et d'évolution des prix dans la Communauté.

Les importantes modifications de l'offre et du prix du pétrole enregistrées récemment ont cependant diminué la marge de manoeuvre des politiques économiques, tant pour le rythme de croissance que pour le niveau d'inflation.

Devant cette situation, le Conseil a arrêté les orientations suivantes :

- les politiques économiques des Etats membres feront l'objet d'une concertation encore accrue, afin de réduire au minimum les effets à la fois inflationnistes et dépressifs de la hausse du prix du pétrole et ses conséquences sur le niveau de la croissance et la situation de l'emploi ;
- la coordination des politiques budgétaires pour 1980 revêt, dans ce cadre, une importance particulière. Il convient de privilégier les mesures permettant d'atteindre dans la Communauté, grâce à l'investissement, un niveau de croissance satisfaisant, tout en favorisant la modernisation des structures économiques ;
- la lutte contre l'inflation sera poursuivie. Il conviendra d'assurer le respect des grands équilibres économiques internes et externes qui conditionnent la compétitivité et la croissance des économies des Etats membres. Il conviendra de veiller à ce que le prélèvement sur les ressources réelles provoqué par la hausse du prix du pétrole ne soit pas compensé par des augmentations nominales de revenus.

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#### IV. (suite et fin)

Le Conseil européen a pris connaissance des travaux menés par le Conseil et la Commission conformément aux orientations retenues lors de sa session des 12 et 13 mars, pour contribuer par des actions communautaires à l'amélioration de la situation de l'emploi.

Il a pris acte de la communication intérimaire de la Commission sur les travaux effectués sur la question de l'aménagement de travail.

Il a confirmé l'importance qu'il attachait à ce que les travaux qu'il avait demandé d'entreprendre soient activement poursuivis en concertation avec les partenaires sociaux pour aboutir rapidement à des résultats concrets.

## V. CONVERGENCE

Le Conseil européen a pris acte du rapport qui lui a été soumis par le Conseil (Economie et Finances) sur la convergence des réalisations économiques des Etats membres.

A la suite d'observations formulées par plusieurs délégations, il a demandé à la Commission de soumettre au Conseil un document de référence décrivant les conséquences financières de l'application du système budgétaire sur la situation de chaque Etat membre, notamment en 1979 - 1980. Cette étude devra prendre en considération les effets économiques, financiers et sociaux de la participation de chaque Etat membre à la Communauté et le caractère communautaire des éléments qui concourent à la formation des ressources propres. Elle tiendra compte pour l'année 1980 des prix agricoles de la campagne 1979 - 1980.

La Commission examinera à cette occasion les conditions dans lesquelles le mécanisme correcteur décidé en 1975 pourra être appelé à jouer en 1980 et dans quelle mesure il répond aux objectifs qui lui étaient assignés.

La Commission devra soumettre son étude au Conseil de façon à permettre aux Etats membres d'exprimer leurs opinions et de présenter leurs demandes sous une forme concrète. A la lumière du débat et des orientations que pourrait dégager le Conseil, la Commission présentera des propositions en temps utile pour permettre que des décisions puissent être prises lors de la prochaine réunion du Conseil européen.



## VI. JAPON

Le Conseil européen a constaté que le déséquilibre des relations commerciales entre la Communauté et le Japon persistait et s'aggravait. Désireux d'élargir et de renforcer la coopération avec le Japon dans tous les domaines, il a exprimé le vœu que le Gouvernement japonais, compte tenu de la place et des responsabilités du Japon dans l'économie mondiale, contribue par les mesures appropriées à redresser une situation particulièrement préoccupante. Il souhaite que les consultations régulières entre la Commission et le Japon débouchent rapidement sur une plus grande ouverture du marché japonais aux exportations de la C.E.E. et permettent d'envisager des relations plus larges et mieux équilibrées.

## REFUGIES D'INDOCHINE

Les ministres des Affaires étrangères ont rendu compte de l'initiative qu'ils avaient prise de proposer la réunion d'une Conférence internationale dans le cadre des Nations unies sur le problème des réfugiés d'Indochine.

Soulignant le caractère dramatique de ce problème et l'urgence de lui trouver une solution efficace et humaine, le Conseil européen a invité les ministres à veiller à l'aboutissement de leur initiative et à ce que, dans l'intervalle, aucune décision ne vienne aggraver la situation.



22 juin - 8 h.45

PROJET DE CONCLUSIONS  
DE LA PRESIDENCE  
DU  
CONSEIL EUROPEEN

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Strasbourg, le 21/22 juin 1979

I. Election de l'Assemblée des Communautés européennes

Désireux de manifester l'importance et la signification qu'il accorde aux premières élections au suffrage universel direct des membres de l'Assemblée des Communautés européennes, le Conseil européen s'est réuni les 21 et 22 juin à Strasbourg, dont il a souligné ainsi la vocation européenne.

Les chefs d'Etat et de gouvernement ont noté avec satisfaction que ces élections s'étaient déroulées dans de bonnes conditions, et qu'elles avaient contribué à rendre plus sensible aux peuples européens la conscience de leur solidarité.

Ils ont salué l'intention manifestée par leur collègue irlandais de participer, en sa qualité de président en exercice du Conseil européen, à la séance inaugurale de la nouvelle Assemblée le 18 juillet prochain à Strasbourg.

Ils l'ont chargé, à cette occasion, d'exprimer leur conviction commune que l'Assemblée nouvellement élue servira, à la place qui est la sienne parmi les institutions de la Communauté, les espoirs et les ambitions de l'Europe.

.../...

## II. Système monétaire européen

Le Conseil européen a été informé des conditions dans lesquelles s'est effectuée la mise en place du système monétaire européen et a estimé que le premier bilan que l'on pouvait dresser à l'issue de trois mois de fonctionnement du nouveau système était positif.

Il a attaché une importance particulière au renforcement de la coopération monétaire, et au développement des procédures de concertation mises en oeuvre au sein des instances appropriées de la Communauté. Il a exprimé le souhait que les travaux préparatoires à l'établissement du Fonds monétaire européen soient activement poursuivis afin que ce dernier soit en mesure de contribuer avec efficacité et dans les délais prévus à la stabilité des relations monétaires et des taux de change au sein de la Communauté.

Il a souligné la signification politique majeure que l'instauration d'une zone de stabilité monétaire revêt pour le progrès de l'organisation de l'Europe.

.../...



### III. ENERGIE

1. Le Conseil européen a procédé à un échange de vues sur la situation énergétique mondiale. Il a souligné l'urgence d'agir face à la grave situation structurelle créée par le développement d'un déséquilibre durable entre l'offre et la demande de pétrole et la précarité de l'approvisionnement énergétique mondial, à long terme aussi bien que dans l'immédiat.

Le Conseil européen considère qu'il est indispensable que soit définie entre les pays consommateurs et les pays producteurs une stratégie énergétique mondiale visant à :

- assurer une utilisation plus modérée et plus rationnelle du pétrole en tant que ressource naturelle non renouvelable ;
- permettre la poursuite d'une croissance économique ne dépendant plus de l'augmentation de la consommation de pétrole mais fondée sur le développement des autres ressources énergétiques ;
- assurer que les pays en voie de développement disposent aussi de l'énergie nécessaire à leur croissance.

Si une telle stratégie ne peut être mise au point, le monde s'acheminera rapidement vers une crise économique et sociale d'une grande ampleur.

2. Le Conseil européen affirme la volonté de la Communauté de prendre une part exemplaire dans cette action. Il rappelle les décisions déjà prises lors de sa session de mars 1979 et en particulier l'objectif de limiter la consommation de pétrole en 1979.

Le Conseil européen exprime ~~en outre~~ sa volonté de poursuivre et d'intensifier cet effort de limitation de la consommation de pétrole et, grâce aux économies d'énergie, au développement des productions propres et à l'utilisation progressive des énergies de remplacement, de maintenir, au cours de la période 1980 - 1985 les importations de la Communauté à un niveau annuel égal ou inférieur à celui de 1978.

Un effort de cette ampleur ne pourra être poursuivi que si un effort simultané, d'une portée comparable, est consenti par les autres pays consommateurs industrialisés qui doivent eux aussi limiter leurs importations de pétrole .

Il conviendra enfin de s'assurer, en coopération avec les compagnies pétrolières que chaque pays disposera d'un approvisionnement équitable en produits pétroliers, compte tenu des structures d'approvisionnement différentes, des efforts accomplis pour limiter les importations pétrolières, de la situation économique de chaque pays et des quantités de pétrole disponibles.

.../...



3. Cet effort sera accompagné d'une action à l'égard des marchés libres où sont pratiqués des prix sans rapport avec ceux pratiqués par les pays producteurs.

Le Conseil se félicite des dispositions prises à cet égard par le Conseil (Energie) en ce qui concerne l'amélioration de la surveillance du marché. En ce qui concerne l'enregistrement des transactions internationales, il invite le Conseil (Energie) à mettre en oeuvre les dispositions dont il a posé les principes si les autres Etats industrialisés sont prêts à adopter des mesures analogues. Il invite les Etats membres et la Commission, qui participeront au Sommet de Tokyo, à examiner avec les autres participants à cette réunion les dispositions complémentaires qui devraient être prises. A la lumière de cet examen le Conseil (Energie) arrêtera les mesures appropriées.

Dans l'immédiat, les Etats membres se déclarent prêts à dissuader les compagnies de participer à des transactions sur ces marchés à des prix excessifs.

.../...

4. Pour que ces efforts demeurent compatibles avec la croissance de leur économie, la Communauté et les Etats membres poursuivront et amplifieront le redéploiement énergétique déjà amorcé. Ce redéploiement reposera sur un renforcement des actions engagées pour les économies d'énergie et mettra en œuvre l'énergie nucléaire, le charbon et, dès que possible, les autres sources d'énergie de remplacement.

- La Communauté a déjà entrepris un important effort d'économie d'énergie. Elle doit renforcer les programmes aux niveaux national et communautaire, afin d'encourager une croissance économique en énergie, notamment par un effort accru d'investissement dans ce secteur.
- Sans développement de l'énergie nucléaire au cours des décennies à venir, il n'y aura pas de croissance économique possible. Les programmes nucléaires doivent donc être vigoureusement relancés.

Le recours à l'énergie nucléaire doit s'effectuer dans des conditions assurant la sécurité des populations. A cet égard, le Conseil européen, tout en rappelant que cette question relève essentiellement de la responsabilité des autorités nationales, estime utile de renforcer et de développer la coopération internationale qui existe déjà sur le plan bilatéral et multilatéral. Il a noté le rôle de l'Agence internationale de l'Energie atomique dans ce domaine.

- Dans la perspective de l'infléchissement nécessaire des importations pétrolières, l'utilisation du charbon dans les centrales thermiques doit être immédiatement accentuée ; son usage dans l'industrie doit être également encouragé. Les programmes technologiques visant à la mise au point de nouveaux procédés de production, de transport et de transformation du charbon seront accentués.



- Le Conseil européen constate que la situation exige d'accélérer les efforts nationaux et communautaires en matière de recherche et de développement dans le secteur de l'énergie, en coordonnant les actions nationales et les programmes communs afin de dégager, à court terme, des perspectives plus concrètes en vue de l'utilisation économique des nouvelles ressources, notamment de l'énergie solaire et de l'énergie géothermique. Comme l'énergie nucléaire, ces énergies "propres" contribueront à arrêter l'accroissement de la charge de l'atmosphère en gaz carbonique qui résulte de l'utilisation des combustibles fossiles.

Ces recherches auront également pour but de promouvoir des techniques nouvelles pour l'utilisation des ressources conventionnelles et pour la réalisation d'économies d'énergie.

5. Les décisions arrêtées aujourd'hui témoignent que l'Europe est prête à assumer ses responsabilités. Elle invite instamment les autres pays consommateurs industrialisés à entreprendre un effort de même ampleur et à développer leurs ressources énergétiques nationales, faute de quoi la contribution de la Communauté à l'équilibre énergétique mondial ne pourrait pas avoir toute sa portée.
  
6. Le Conseil européen fait appel aux pays producteurs pour qu'ils tiennent compte de l'importance de l'équilibre énergétique mondial et d'un développement économique harmonieux.

En liaison avec les autres pays industrialisés consommateurs, la Communauté et les Etats membres sont prêts à établir des contacts avec les pays producteurs afin de définir en commun les perspectives de l'offre et de la demande sur le marché mondial du pétrole. Une telle analyse permettra de cerner les difficultés et de définir les moyens susceptibles d'y remédier, de manière concertée. Elle devrait s'attacher tout particulièrement au cas des pays en développement importateurs de pétrole. La limitation des importations des pays industrialisés permettra d'améliorer les perspectives d'approvisionnement de ces pays. En outre, un effort important devra être fait pour faciliter la mise en valeur de leurs ressources énergétiques. A cet égard, le Conseil européen se félicite de l'action entreprise par la Banque Mondiale et se déclare disposé à examiner de nouvelles améliorations de ses interventions.

Au delà de ces actions, le Conseil européen confirme son intérêt pour une approche globale des problèmes



mondiaux de l'énergie au sujet de laquelle le Président des Etats Unis du Mexique a fait d'importantes propositions.

7. Le Conseil européen charge la Présidence d'informer les autres pays consommateurs industrialisés et les pays producteurs des décisions arrêtées aujourd'hui.

#### IV. SITUATION ECONOMIQUE ET SOCIALE

Les politiques économiques, engagées depuis un an dans la ligne de l'action concertée définie au Conseil européen de juillet 1978, ont contribué à améliorer les perspectives de croissance et d'évolution des prix dans la Communauté.

Les importantes modifications de l'offre et du prix du pétrole enregistrées récemment ont cependant diminué la marge de manoeuvre des politiques économiques, tant pour le rythme de croissance que pour le niveau d'inflation.

Devant cette situation, le Conseil a arrêté les orientations suivantes :

- les politiques économiques des Etats membres feront l'objet d'une concertation encore accrue, afin de réduire au minimum les effets à la fois inflationnistes et dépressifs de la hausse du prix du pétrole et ses conséquences sur le niveau de la croissance et la situation de l'emploi ;
- la coordination des politiques budgétaires pour 1980 revêt, dans ce cadre, une importance particulière. Il convient de privilégier les mesures permettant d'atteindre dans la Communauté, grâce à l'investissement, un niveau de croissance satisfaisant, tout en favorisant la modernisation des structures économiques ;
- la lutte contre l'inflation sera poursuivie. Il conviendra d'assurer le respect des grands équilibres économiques internes et externes qui conditionnent la compétitivité et la croissance des économies des Etats membres. Il conviendra de veiller à ce que le prélevement sur les ressources réelles provoqué par la hausse du prix du pétrole ne soit pas compensé par des augmentations nominales de revenus équivalentes.



IV. (suite et fin)

Le Conseil européen a pris connaissance des travaux menés par le Conseil et la Commission conformément aux orientations retenues lors de sa session des 12 et 13 mars, pour contribuer par des actions communautaires à l'amélioration de la situation de l'emploi.

Il a pris acte de la communication intérimaire de la Commission sur les travaux effectués sur la question de l'aménagement de travail.

Il a confirmé l'importance qu'il attachait à ce que les travaux qu'il avait demandé d'entreprendre soient activement poursuivis en concertation avec les partenaires sociaux pour aboutir rapidement à des résultats concrets.

## V. CONVERGENCE

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La Commission examinera à cette occasion les conditions dans lesquelles le mécanisme correcteur décidé en 1975 pourra être appelé à jouer en 1980 et dans quelle mesure il répond aux objectifs qui lui étaient assignés.

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DRAFT CONCLUSIONS  
OF  
THE EUROPEAN COUNCIL

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I. Election of the Assembly of the European Communities

Wishing to demonstrate the importance and significance which it attaches to the first election of the members of the Assembly of the European Communities by direct universal suffrage, the European Council met on 21 and 22 June in Strasbourg, one of the cities in which the Assembly normally sits and where the newly elected Assembly will inaugurate its proceedings on 17 July 1979.

The Heads of State and of Government noted with satisfaction that the elections had gone smoothly and that they had helped to make the peoples of Europe more aware of their solidarity.

They welcomed the intention expressed by their Irish colleague of taking part, as President-in-Office of the European Council, in the inaugural meeting of the new Assembly in Strasbourg on 18 July.

They charged him on that occasion to express their joint conviction that the newly elected Assembly, taking its rightful place among the Community institutions, will serve the hopes and the ambitions of Europe.



## II. European Monetary System

The European Council was informed of the conditions under which the European Monetary System had been set up and took the view that the initial stock-taking, now that the system had been in operation for three months, could be regarded as positive.

It attached particular importance to the strengthening of monetary co-operation and the development of the procedures for concerted action put in hand within the appropriate Community bodies (Council of Ministers for Economic and Financial Affairs, Committee of Governors of the Central Banks, Monetary Committee). It expressed the hope that the preparations for setting up a European Monetary Fund would be expedited, so that the latter might be able, by the planned deadlines, to make an effective contribution towards stabilizing monetary relations and exchange rates within the Community.

It stressed the major political significance which the introduction of an area of monetary stability will have for progress towards the organization of Europe.

### III. ENERGY

1. The European Council held an exchange of views on the world energy situation. It stressed the urgent need for action in the face of the serious structural situation brought about by the development of a lasting imbalance between supply and demand for oil and the precariousness of world energy supplies, not only in the long term but also in the immediate future.

The European Council considers it vital that the consumer and producer countries together work out a world energy strategy designed to:

- ensure more moderate and rational use of oil as a non-renewable natural resource;
- permit continued economic growth no longer dependent on increased consumption of oil but based on the development of other energy resources;
- ensure that the developing countries are also able to obtain the energy necessary for their growth.

If such a strategy cannot be worked out, the world will rapidly move towards a large-scale economic and social crisis.



2. The European Council affirms the Community's will to play an exemplary role in this action. It recalls the decisions already taken at its meeting in March 1979 and, in particular, the objective to limit oil consumption in 1979.

~~[The Council also expresses its resolve to continue and step up this effort, designed not only to limit oil consumption but also, through energy saving, the development of indigenous production and the progressive use of alternative energy, to stabilize and reduce the Community's oil imports.]~~

~~§ The Council also expresses its resolve to continue and step up this effort to limit oil consumption and, through energy saving, the development of indigenous production and the progressive use of alternative energy, to maintain Community imports between 1980 and 1985 at an annual level not higher than that for 1978.]~~

~~The Council emphasizes the need for the other industrialized consumer countries to make a similar effort at the same time, so that they too may succeed in limiting, and reducing, their consumption and imports of oil.~~

Lastly, steps will have to be taken, in co-operation with the oil companies, to ensure that each country can obtain fair supplies of oil products, taking into account the differing patterns of supply, the efforts made to limit oil imports, the economic situation of each country and the quantities of oil available.

An effort of this magnitude can be pursued only if a simultaneous effort, of comparable scope, is agreed to by the other industrialised consumers who must also limit their oil imports.

.../...

3. This effort will be accompanied by measures relating to the free markets, where prices bear no relation to those charged by the producer countries.

The Council welcomes the measures taken in this connection by the Council (Energy) to improve market surveillance. As regards the recording of international transactions, it requests the Council (Energy) to take the steps for which it has laid down the principles provided that the other industrialized States are prepared to take similar action. Lastly, it invites the Council to take whatever additional steps might prove necessary.

In the immediate future, the Member States declare their readiness to dissuade companies from lending themselves to transactions on these markets at excessive prices.



4. So that these efforts may continue in consonance with the growth of their economies, the Community and the Member States will continue and extend the redeployment of energy which has already begun. This redeployment will be based on the strengthening of the energy-saving measures already under way and be such as to enlist the use of nuclear energy, coal and, as soon as possible, other, alternative sources of energy.

- The Community has already made a major effort to save energy. It must strengthen national and Community programmes in order to encourage growth combined with low energy requirements, in particular by means of greater investment efforts in this area.
- Without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes must therefore be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. In this connection, the European Council, whilst recalling that this matter is essentially the responsibility of national authorities, considers that existing bilateral and multilateral co-operation should be strengthened and developed. It highlighted the role of the International Atomic Energy Agency in this area.

- In view of the necessary change in oil imports, the use of coal in power stations must be stepped up without delay; its use in industry must also be encouraged. Special attention will be given to technological programmes to devise new processes for the extraction, transport and processing of coal.

The European Council notes that the situation calls for national and Community research and development efforts in the energy sector to be stepped up by co-ordinating national action and joint programmes so that more tangible prospects may shortly be found for the economical use of new resources, especially solar and geothermal energy. Like nuclear energy, these "clean" forms of energy will contribute to halting the build-up in the atmosphere of carbonic fumes caused by the use of fossile fuels.

Such research will also be directed at promoting new techniques for the use of conventional resources and achieving energy savings.



5. The decisions adopted today bear witness to the fact that Europe is ready to shoulder its responsibilities. It urges the other industrialized consumer countries to make efforts on a similar scale and to develop their national energy resources, failing which the Community's contribution to the world energy balance cannot play its full part.
6. The European Council calls upon the producer countries to take account of the importance of the world energy balance and harmonious economic development.

In conjunction with the other industrialized consumer countries, the Community and the Member States are prepared to establish contacts with the producer countries in an endeavour to define in common supply and demand prospects on the world oil market. To analyse the situation in this way will be to make it possible to pinpoint the difficulties and work out ways and means of remedying them, with all parties acting in concert. This analysis should most particularly concentrate on the oil-importing developing countries. To cut down on the industrialized countries' imports will be to improve developing countries' supply prospects. Furthermore, a major effort will have to be made to boost the output of their energy resources. On this score, the European Council is gratified at the action undertaken by the World Bank and declares its willingness to examine further improvements to its operations.

Over and above these forms of action, the European Council confirms its interest in an overall approach to world energy

problems <sup>on which subject</sup> ~~along the lines advocated by the President of the~~  
United Mexican States ~~7.~~ *has made important proposals.*

7. The Council instructs the Presidency to inform the other industrialized consumer countries and the producer countries of all the decisions adopted today.



IV. ECONOMIC AND SOCIAL SITUATION

The economic policies initiated a year ago in line with the common approach defined in the July 1978 European Council have helped to improve the outlook for growth and price trends in the Community.

The recent substantial changes in the supply and price of oil have however narrowed the margin for manoeuvre in economic policies, as regards both the rate of growth and the level of inflation.

Faced with this situation, the Council adopted the following guidelines:

- the economic policies of the Member States will be even more closely co-ordinated, in order to minimize the inflationary and depressive effects of the increase in oil prices and its consequences for the level of growth and the employment situation;
- co-ordination of budgetary policies for 1980 is of particular importance in this context. Priority should be given to measures which enable a satisfactory level of growth to be attained in the Community through investment, while promoting modernization of economic structures;
- the struggle against inflation will continue. The major internal and external economic equilibria on which the competitiveness and growth of the economies of the Member States depend must be respected. Steps must be taken to ensure that the drain on real resources which the increase in oil prices entails are not compensated by nominal increases in equivalent incomes.

IV. (continued)

The European Council took note of the discussions which had taken place in the Council and Commission pursuant to the guidelines adopted at its meeting on 12 and 13 March, to contribute, by Community action, to improving the employment situation.

It took note of the Commission's interim communication on the discussions regarding work sharing.

It confirmed the importance it attached to the active continuation, with the collaboration of both sides of industry, of the work it had asked be undertaken, so that concrete proposals might be worked out rapidly.



It's as well you get  
the text sorted out - he  
isn't leaving us time to  
discuss it

and

V CONVERGENCE

The European Council noted the report submitted to it by the Council (Economic and Financial Affairs) on the convergence of Member States' economic performances.

Following comments from a number of delegations, it asked the Commission to submit to the Council a reference paper describing the financial consequences of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take account of the economic, financial and social effects of each Member State's participation in the Community and of the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices fixed for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission must submit its study to the Council under such conditions as to enable the Member States to give their opinions and present their requests in practical form. In the <sup>the details</sup> light of ~~dimensions~~ [and on the basis of the guidelines adopted by the Council] the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council.

and of any guidelines ~~and any~~ which may be adopted by the Council.



V JAPAN

The European Council noted that the imbalance in trade relations between the Community and Japan was continuing and deepening. Wishing to expand and strengthen co-operation with Japan in all fields, it expressed the wish that the Japanese Government, bearing in mind the place and the responsibilities of Japan in the world economy, would help by means of appropriate measures to redress a situation which gave particular cause for concern. It hoped that the regular consultations between the Commission and Japan would rapidly result in wider openings for EEC exports on the Japanese market and enable broader and more equitable relations to be envisaged.

PRIME MINISTER

Energy

P. 2. 6/11  
25/6

Sir Donald Maitland and I went through the Presidency proposals until 4 a.m. today. The drafts tabled by the Presidency under instructions were designed to recover ground Giraud lost at Luxembourg and paid scant regard to yesterday's discussions between Heads of State and Government.

In the event with strong support from the Germans and the Dutch we secured a final text which was totally acceptable in line with the instructions you gave us except on two points.

First the Chairman of the Group confessed that he was instructed to secure agreement to quantify targets for import ceilings. We secured the removal of all figures except those contained in the following paragraph:-

"The Council also expresses its resolve to continue and step up this effort to limit oil consumption and, through energy saving, the development of its own production and the progressive use of alternative energy, to stabilize and reduce the Community's oil imports so that, in the period 1980 to 1985, they will not exceed 1978 imports."

We made it clear that we could not accept this paragraph and insisted on an alternative version being circulated as follows:-

"The Council also expresses its resolve to continue and step up this effort both to limit oil consumption and, through energy saving, the development of Community production and the progressive use of alternative energy, to stabilize and reduce the Community's oil imports."

You can rely on the full support of the Germans at least for this latter text.

/Second



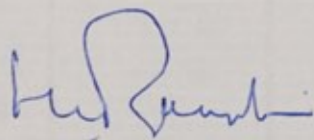
Second we felt obliged to accept the following:-

"In the short term the Member States declare their readiness to dissuade companies from taking part in transactions on these markets at excessive prices."

This was the price we had to pay to remove the objectionable passages from an almost wholly unacceptable text. This text is attached.

We know you believe this to be undesirable and ineffective. It is however not damaging to us and if it has any meaning at all it exerts pressure on other countries not ourselves.

The draft now contains no references to allocations or to price controls or import controls. It does however stress reduction of demand as you wished and also contains/strengthened page on nuclear power and a reference to the desirability of bilateral contacts with OPEC countries.



(M. Franklin)

22 June 1979

III. ENERGY

3. This effort will be accompanied by measures to regulate the free markets, where prices bear no relation to those charged by the producer countries.

The European Council expresses the will of the Community and the Member States to take, in conjunction with the other major consumer countries, the measures necessary to maintain on these markets prices in line with the official prices of the producer countries. It confirms the arrangements made by the Council (Energy) on 18 June regarding closer surveillance of prices and the recording of international transactions to ensure a greater degree of disclosure. It requests the Council (Energy) and the Commission to implement these measures and take whatever additional measures might prove necessary, including a ban on oil imports at prices abnormally high as compared with the official prices charged by the producer countries. In the short term, the Member States declare their readiness to dissuade the companies from lending themselves to such transactions and from thereby making excessive profits.



PRIME MINISTER

I attach the text of Mr. Walker's draft statement on the Agricultural Council meeting in Luxembourg, together with a telegram summarising the terms of the settlement.

I think it would be very helpful if, at the end of this session, you could come back to our delegation room so that Sir Donald Maitland, Sir Jack Rampton, Mr. Franklin and Mr. Butler can discuss with you the line which you might take at your meeting with the press on the budget, CAP and energy. This will give you a chance to clear your mind before leaving for the Palais de l'Europe.

You may like to know that we have now heard that Northolt is definitely inaccessible because of the air traffic controllers' strike and that we shall therefore be landing at the RAF station at Benson in Oxfordshire.

Would you like to drive to Chequers direct from Benson? If so, we shall make the necessary arrangements straightaway.

Yes Mr.

DM

22 June 1979

1) Cartledge

---



GPS

RESTRICTED

FM LUXEMBOURG 220630Z JUNE 79

TO FLASH UKDEL STRASBURG

TELEGRAM NUMBER 003 OF 22 JUNE

AND TO IMMEDIATE FCO, UKREP BRUSSELS.

INFO ROUTINE BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN  
PARIS, BONN.

FOLLOWING FROM UKREP BRUSSELS

CAP PRICE SETTLEMENT 1979

PRIME MINISTER'S PRESS BRIEFING

POINTS TO MAKE.

1. THERE IS A FREEZE IN THE MILK PRICE AND AN INCREASE OF 1 AND ONE HALF PERCENT IN ALL OTHER PRICES. THE AVERAGE INCREASE IN COMMON PRICES (1.2 PER CENT) IS THE LOWEST SINCE OUR ACCESSION TO THE COMMUNITY AND THE FREEZE IN MILK PRICES, DURING A PERIOD OF INFLATION, MARKS AN IMPORTANT STEP IN TACKLING THE CAP'S MOST SERIOUS PROBLEM.

2. WE HAVE SECURED A FURTHER 5 PER CENT DEVALUATION OF THE GREEN POUND IN ACCORDANCE WITH OUR COMMITMENT TO HELP OUR OWN PRODUCERS TOWARDS EQUAL CONDITIONS OF COMPETITION WITH FARMERS IN OTHER COMMUNITY COUNTRIES. THIS SHOULD STRENGTHEN OUR INDUSTRY AND LEAD TO SUBSTANTIAL IMPORT SAVINGS IN THE LONGER TERM. FOR CONSUMERS THE EFFECT OF THIS DEVALUATION ON THE RETAIL PRICE INDEX ONCE FULLY WORKED THROUGH IS ONLY 0.25 PER CENT.

3. WE SUCCESSFULLY RESISTED PROPOSALS FROM THE COMMISSION AND OTHER MEMBER STATES FOR A NEW AND HIGHER CO-RESPONSIBILITY LEVY FOR MILK AT VARYING RATES WHICH WOULD HAVE DISCRIMINATED UNFAIRLY AGAINST UK PRODUCERS.

4. FOR CONSUMERS WE HAVE SECURED A MUCH INCREASED BUTTER SUBSIDY FOR THE UK FINANCED WHOLLY BY THE COMMUNITY. THE SUBSIDY RISES FROM THE PRESENT 5 AND ONE HALF PER CENT 1B TO 12P. IN ADDITION COMMUNITY AID FOR SCHOOL MILK HAS INCREASED FROM 5P TO 7P PER PINT.

DEFENSIVE NOTE.

5. WHY INCREASE IN SURPLUS COMMODITIES SUCH AS SUGAR?

CLEARLY IT WOULD HAVE BEEN BETTER TO HAVE HAD A FREEZE ON THE SUGAR PRICE AS WELL AND WE DID INDEED URGE THIS ON OUR COLLEAGUES. BUT YOU CANNOT EXPECT TO SECURE AGREEMENT ON EVERY POINT AND THERE WAS CERTAINLY SOME MEMBER STATES WHO FOUND IT EXTREMELY DIFFICULT TO ACCEPT EVEN THE FREEZE ON MILK PRICES. THE 1 AND ONE HALF PRICE INCREASE CANNOT AFFECT THE LEVEL OF PRODUCTION FOR THE 1979 CROP AND WE HAVE INSISTED THAT NECESSARY STEPS BE TAKEN BEFORE NEXT YEAR TO ADAPT THE COMMUNITY REGIME AND THE SYSTEM OF PRODUCTION QUOTAS WHICH IS DUE TO BE RENEGOTIATED BEFORE NEXT YEAR, TO THE REALITIES OF THE MARKET.

PARLIAMENTARY STATEMENT.

7. TEXT OF DRAFT STATEMENT TO BE MADE BY MINISTER OF AGRICULTURE THIS MORNING IS IN MIFT.

8. UKDEL STASBURG PLEASE PASS THIS TELEGRAM AND MIFT URGENTLY TO FRANKLIN.

FCO PASS ADVANCE COPIES TO:-

FCO PS/SOFS, PS/LPS, PS/MR HURD, PS/PUS,  
HAZLE POSTON  
CAB WALSH  
MAFF PS/MINISTER, PS/MINISTER OF STATE (COMMON)  
HAYES, DAVIES, EVANS  
DAFS- CRAMMOND  
DANI - YOUNG  
TSY - ROBERTS.

WRIGHT.

NNNN

SENT AT 22/0707Z BD  
RECD AT 22/0707Z I.D.



GR 1207

RESTRICTED

FM LUXEMBOURG 220631Z JUN 79

TO FLASH UKDEL STRASBOURG

TELEGRAM NUMBER 4 OF 22 JUNE

AND TO IMMEDIATE FCO

INFO IMMEDIATE UKREP BRUSSELS ROUTINE BRUSSELS COPENHAGEN THE HAGUE  
ROME DUBLIN PARIS BONN.

FOLLOWING FROM UKREP BRUSSELS

CAP PRICE SETTLEMENT 1979

MIPT.

QUOTE FOLLOWING IS TEXT OF DRAFT PARLIAMENTARY STATEMENT UNQUOTE

QUOTE I ATTENDED A MEETING OF THE COUNCIL OF AGRICULTURE MINISTERS  
IN LUXEMBOURG FROM 18 TO 22 JUNE TO DISCUSS CAP PRICES FOR 1979/80.

1 THE SURPLUS IN DAIRY PRODUCTS HAS OVER RECENT YEARS BECOME BY  
FAR THE HEAVIEST BURDEN ON THE COMMON AGRICULTURAL BUDGET AND NOW  
TAKES MORE THAN 40 PER CENT OF THE TOTAL EXPENDITURE. I WAS  
DETERMINED TO SEE THAT THIS INCREASING BURDEN WAS TACKLED BY  
OBTAINING A PRICE FREEZE FOR MILK FOR THE COMING YEAR INSPITE OF  
INCREASING COSTS TO PRODUCERS THAT ARE TAKING PLACE THROUGHOUT  
EUROPE. AFTER PROLONGED DISCUSSIONS I AM PLEASE TO SAY THAT A PRICE  
FREEZE FOR MILK WAS AGREED FOR THE FIRST TIME SINCE WE JOINED THE  
COMMUNITY.

THE OTHER COMMODITY IN SUBSTANTIAL STRUCTURAL SURPLUS IS SUGAR,  
AND WHILST THE COST OF FINANCING THIS SURPLUS IS NOT OF THE  
PROPORTIONS OF THE COST OF THE DAIRY SURPLUS IT IS NEVERTHELESS  
A SIGNIFICANT BURDEN ON THE BUDGET.

2 I SUPPORTED WHOLE-HEARTEDLY THE PROPOSALS OF THE COMMISSION TO  
REDUCE THE QUOTE B UNQUOTE QUOTAS FOR I BELIEVE THAT THIS IS THE  
MOST EFFECTIVE WAY OF MAKING SIGNIFICANT PROGRESS IN REDUCING  
EUROPE'S SUGAR SURPLUSES. THE COMMISSION DECIDED NOT TO PRESS  
THESE PROPOSALS FOR THE CURRENT YEAR IN VIEW OF THE FACT THAT THIS  
YEAR'S CROP WAS ALREADY BEING GROWN. I THEREFORE URGED THAT THE  
COUNCIL OF MINISTERS SHOULD THIS AUTUMN CONSIDER THE QUOTAS FOR THE  
NEXT GROWING YEAR AND CERTAINLY I WILL BE ADVOCATING PROPOSALS THAT  
WILL MAKE A SIGNIFICANT STEP TOWARDS REDUCING THESE SURPLUSES. I  
ONLY REGRET THAT WE COULD NOT HAVE MADE A START THIS YEAR.

ON PRICES THE COUNCIL THEREFORE AGREED TO A FREEZE ON MILK AND  
A 1.1/2 PER CENT INCREASE IN PRICE ON OTHER COMMODITIES BUT IN  
THE CASE OF GERMANY THE 1.1/2 PER CENT INCREASE WOULD BE REDUCED TO  
A 1/2 PER CENT BECAUSE THE GERMANS AGREED AT THE COUNCIL MEETING  
TO REDUCE THEIR POSITIVE MCAS BY 1 PER CENT. IN THE CASE OF THE  
BENELUX COUNTRIES THE INCREASES WILL BE REDUCED TO 1 PER CENT AS  
A RESULT OF A 1/2 PER CENT REDUCTION IN THEIR POSITIVE MCAS.

THE COMMISSION, WITH SUPPORT FROM SOME MEMBER STATES, PRESSED  
FOR THE INTRODUCTION OF AN INCREASED MILK CO-RESPONSIBILITY LEVY  
WITH A REDUCED RATE FOR PRODUCTION BELOW A CERTAIN LEVEL, WHICH  
WOULD HAVE DISCRIMINATED HEAVILY AGAINST THE UK. I WAS NOT PREPARED  
TO ACCEPT THIS PROPOSAL AND THE COUNCIL EVENTUALLY AGREED THAT THE  
CO-RESPONSIBILITY LEVY SHOULD REMAIN UNCHANGED ON ITS PRESENT FLAT  
RATE BASIS OF .5 PER CENT THUS PREVENTING ANY DISCRIMINATION AGAINST  
BRITISH FARMERS.

AT MY REQUEST THE COMMISSION PUT FORWARD A PROPOSAL FOR A 5 PER  
CENT DEVALUATION OF THE GREEN POUND. THIS WILL TAKE EFFECT ON 2  
JULY FOR MILK, BEEF, PIGS AND SUGAR AND AT THE START OF THE NEXT  
MARKETING YEARS FOR ALL OTHER COMMODITIES. THE EFFECT OF THE  
DEVALUATION WILL BE TO MAKE BRITISH AGRICULTURE MORE COMPETITIVE  
BOTH AT HOME AND ABROAD.



AT MY REQUEST THE COMMISSION PUT FORWARD A PROPOSAL FOR A 5 PER CENT DEVALUATION OF THE GREEN POUND. THIS WILL TAKE EFFECT ON 2 JULY FOR MILK, BEEF, PIGS AND SUGAR AND AT THE START OF THE NEXT MARKETING YEARS FOR ALL OTHER COMMODITIES. THE EFFECT OF THE DEVALUATION WILL BE TO MAKE BRITISH AGRICULTURE MORE COMPETITIVE BOTH AT HOME AND ABROAD.

I ARGUED STRONGLY THE CASE FOR AN ADDITIONAL 5 PER CENT GREEN POUND DEVALUATION IN PIGMEAT MCAS BUT AS I WARNED THE HOUSE WHEN WE DEBATED THE CAP PRICE NEGOTIATIONS LAST FRIDAY, THE COUNCIL REFUSED TO GIVE A SPECIAL GREEN POUND DEVALUATION AGAIN FOR A SPECIFIC COMMODITY. HOWEVER THE DEVALUATION THAT I WAS ABLE TO SECURE WILL ASSIST OUR PIGMEAT PRODUCERS AND PROCESSORS FROM SUBSIDISED IMPORTS BECAUSE THE DEVALUATION OBTAINED WILL REDUCE THE MCA ON BACON BY OVER 40 PER CENT.

THE COUNCIL ALSO AGREED ON SMALL DEVALUATIONS OF THE GREEN FRENCH FRANC AND THE ITALIAN LIRA. IT WAS AGREED THAT THE GENERAL PRICE INCREASE SHOULD BE REDUCED IN GERMANY AND THE BENELUX COUNTRIES BY REDUCTIONS OF 1 PER CENT AND 0.5 PER CENT RESPECTIVELY IN THEIR POSITIVE MCAS. THE COUNCIL AGREED TO REGULATION CONFIRMING THE USE OF THE ECU UNDER THE CAP.

ONE OF MY MAIN OBJECTIVES AT THIS MEETING WAS TO LIGHTEN THE BURDEN OF THE CAP ON THE UK AND TO BRING SOME SUBSTANTIAL BENEFIT TO CONSUMERS. THE COUNCIL AGREED TO A SPECIAL UK BUTTER SUBSIDY WITH 100 PER CENT COMMUNITY FINANCE AT A RATE OF 38 UA PER 100 KG. THIS SUBSIDY WHICH WILL TAKE EFFECT IMMEDIATELY IS EQUIVALENT TO 12 PENCE PER LB AT THE RETAIL STAGE. THE COUNCIL ALSO AGREED WITH MY PROPOSAL THAT THE COST OF REDUCING THE PRICE OF NEW ZEALAND BUTTER BY THE EQUIVALENT AMOUNT SHOULD BE BROUGHT ABOUT BY A REDUCTION IN THE SPECIAL LEVY RATHER THAN A DIRECT UK EXCHEQUER SUBSIDY. THE COUNCIL ALSO AGREED TO AN INCREASE IN THE COMMUNITY SUBSIDY ON SCHOOL MILK TO 100 PER CENT OF THE FULL TARGET PRICE OF 7 PENCE A PINT. THE BUTTER SUBSIDY IS BY FAR THE HIGHEST ONE THAT THE UNITED KINGDOM HAS EVER RECEIVED FROM THE COMMUNITY AND MORE THAN DOUBLE THE SUBSIDY THAT ENDS IN JUNE. IT WILL NOT ONLY MORE THAN OFFSET THE EFFECT ON BUTTER PRICES OF THE 5 PER CENT GREEN POUND DEVALUATION BUT WILL ALSO MET THE INCREASE IN BUTTER PRICES RESULTING FROM THE DEVALUATION OBTAINED BY THE LAST GOVERNMENT IN MARCH. A SUBSIDY OF 12 PENCE PER LB ON BUTTER REDUCES THE FOOD PRICE INDEX BY .56 PER CENT.

THE COUNCIL AGREED TO AUTHORISE FOR A FURTHER YEAR THE PAYMENT OF A SPECIAL SUBSIDY TO NORTHERN IRELAND MILK PRODUCERS.

THIS IS THE MOST SATISFACTORY OUTCOME OF THE PRICE NEGOTIATIONS SINCE WE JOINED THE COMMUNITY. THE AVERAGE PRICE INCREASES OF 1.2 PER CENT ARE BY FAR THE LOWEST THAT WE HAVE EVER ACHIEVED. THE FREEZE ON MILK PRICE IS AN IMPORTANT FIRST STEP TOWARDS REDUCING THE SURPLUS PRODUCTION WHICH HAS GROWN OUT OF HAND IN RECENT YEARS. WE SUCCEEDED IN THE NEGOTIATIONS IN PREVENTING DISCRIMINATORY ARRANGEMENTS PROPOSED BY THE COMMISSION AS FAR AS THE MILK CO-RESPONSIBILITY LEVY WAS CONCERNED. THE NEGOTIATIONS PRODUCED SUBSTANTIAL BENEFITS FOR THE UNITED KINGDOM, SUBSTANTIAL BENEFITS FOR OUR AGRICULTURAL INDUSTRY THROUGH THE GREEN POUND DEVALUATION AND SUBSTANTIAL IMPROVEMENTS FOR THE CONSUMERS THROUGH THE DOUBLED BUTTER SUBSIDY. UNQUOTE

FCO ADVANCE TO:

FCO - PS/SOFS PS/LPS PS/MR HURD PS/PUS HAZLE  
CAB - WALSH  
MAFF - P.S. MINISTER HAYES DAVIES EVANS

F.C.O. - PLEASE SEND BY HAND TO MINISTERS OFFICE, MAFF FOR  
0800Z 22/6.



PRIME MINISTER

cc Lord Carrington

Budget

If the intention is to have only a brief discussion tonight, it is all the more important that our text is circulated so that it can form the basis not only of any discussion this evening but the subsequent work in the drafting group of officials.

Don't give away  
to me than I.

(M. Franklin)

21 June 1979

Under 47 June

I will get copies

PRIME MINISTER

E C U Swap

We have established with the Treasury that there is an arranged PQ down for the Chief Secretary this afternoon, for written answer, about the last meeting of the Finance Ministers Council. This would be an entirely appropriate vehicle for an announcement of the Government's position on the ECU swap. Whatever formulation you decide to use in your opening statement this afternoon, therefore, can if you wish be embodied in the Chief Secretary's written answer; and the Treasury can hold the answer until 1900 Strasbourg time.

If, therefore, you decide to say that "The UK Government intend to participate in the deposit of res<sup>erve</sup>~~erve~~s ..... etc", this intention can be announced to Parliament as a decision ~~take~~ by the Chief Secretary this evening. As you know, Mr Franklin believes that if this card is to have any value as a gesture, it is worth playing now: Clive Whitmore and I both agree with him - you lose nothing by making the announcement at the outset of this session and you are likely to gain good-will, especially with the Benelux, which could be useful in the discussion of the budget issue.

*mu.*

21 June 1979



Prime Minister :

Budget

1. Christopher Tugendhat's comments on our formula are:
  - (a) it welds Italy and the UK too firmly together; this could cause us problems if the Italians are bought off;
  - (b) more emphasis should be placed on the equity argument, less on the hindrance to convergence;
  - (c) the Commission should be asked specifically to study the net transfers implicit in the 1980 Budget;
  - (d) the request to the Commission should be in two stages (i) actual analysis by end September (ii) proposals presented in good time before Dublin.
  
2. My comments are:
  - (a) I am doubtful about Tugendhat's (a). In the initial stages you will need Andreotti's support;
  - (b) in any case the Commission study proposed in Christopher's (c) will show that the Italian budgetary problem will not exist next year;
  - (c) his (b) and (d) seem reasonable.

cc Lord Carrington  
Sir K Conzenr  
Mr Franklin  
Mr Butler

Donald Maitland  

---

21  
6

Prime Minister

Agriculture Council : Luxembourg

1. At one point last night it seemed likely that the issues under discussion would be referred to the European Council.
2. The situation changed at 2 am when a new proposal was tabled. The components are:
  - (a) 2% price rise on all products except milk;
  - (b) this means an adjustment of 1% in the German MCAs (except milk) and  $\frac{1}{2}$ % in BENELUX MCAs (except milk);
  - (c) no date is set for a German commitment on the milk MCA;
  - (d) 1% on the co-responsibility levy for everyone. (The Commission wanted 3%.) But there would be a commitment to a higher percentage if milk production increased.
3. Of course Mr Walker fully reserved his position on this proposal. Hard negotiation will take place today; the Council was due to resume at 10.30 am.
4. On the face of it there is no reason for these issues to be raised at Strasbourg, at any rate today.
5. We will continue to monitor progress at Luxembourg.

cc Lord Carrington

Mr Franklin

Donald Maitland 21  
6



PRELIMINARY DRAFT CONCLUSIONS  
OF  
THE EUROPEAN COUNCIL

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I. Election of the Assembly of the European Communities

Wishing to demonstrate the importance and significance which it attaches to the first election of the members of the Assembly of the European Communities by direct universal suffrage, the European Council met on 21 and 22 June in Strasbourg, where the Assembly normally sits. *Dr Thom,*

The Heads of State and of Government noted with satisfaction that the elections had gone smoothly and that they had helped to make the peoples of Europe more aware of their solidarity.

They welcomed the intention expressed by their Irish colleague of taking part, as President-in-Office of the European Council, in the inaugural meeting of the new Assembly in Strasbourg on 18 July.

They charged him on that occasion to express their joint conviction that the newly elected Assembly, taking its rightful place among the Community institutions, will serve the hopes and the ambitions of Europe.





III. ENERGY

1. The European Council held an exchange of views on the world energy situation. It stressed the exceptional gravity of the situation brought about by the current imbalance between supply and demand for oil. This has highlighted the precariousness of short- and medium-term world energy supplies and increased the pressures towards excessively high prices, dangerous to the world economy.

Resolution  
- to reduce consumption (in 1979)

Under these circumstances, the European Council considers it vital that the consumer and producer countries together work out a world energy strategy designed to:

- husband the use of oil as a non-renewable natural resource;
- enable world economic growth to be pursued by means of development of energy resources other than oil;
- ensure that the developing countries are able to obtain the energy necessary for their development.

If such a strategy cannot be worked out the world will move rapidly towards a large-scale economic and social crisis.

2. The European Council affirms the will of the Community to play an exemplary role in this action. To that end, it confirms the objective set at its last meeting in Paris of limiting the Community's oil consumption to 500 million tonnes in 1979. This commitment will be fulfilled.

The Community is prepared to continue this effort beyond 1979. By limiting its consumption and developing its resources it will stabilize and subsequently reduce its oil imports; it is therefore embarking

I've said enough!



on a three-year programme to hold its imports down to the following levels:

- 1980
- 1981
- 1982

After 1982, the redeployment of energy presently under way in the Community will enable the latter to ensure growth without increasing its share in world demand for oil.

For the period 1980-1982, the individual Member States for their part are committing themselves to targets which will enable the Community objectives to be attained. The Council will regularly scrutinize these pledges.

The European Council calls upon the other major consumer countries to do likewise.

On the basis of these commitments steps will have to be taken, in co-operation with the oil companies, to ensure that each country can obtain fair supplies of oil products, taking into account the differing patterns of supply, the efforts made to limit oil imports, the global economic situation and the quantities of oil available.

3. This effort will be accompanied by measures to regulate the free markets, where prices bear no relation to those charged by the producer countries.

The European Council stresses the will of the Community and the Member States to take, in conjunction with the other major consumer countries, the measures necessary to maintain on these markets prices in line with the official prices of the producer countries.

It confirms the arrangements made by the Council (Energy) on 18 June regarding closer surveillance of prices and the recording of international transactions to ensure a greater degree of disclosure. It requests the Council (Energy) and the Commission to implement these measures and take whatever additional measures might prove necessary, including a ban on oil imports at prices



abnormally high as compared with the official prices charged by the producer countries. In the short term, the Member States declare their readiness to dissuade the companies from lending themselves to such transactions.

4. So that these efforts may continue in consonance with the growth of their economies, the Community and the Member States will continue and extend the redeployment of energy which has already begun, under conditions designed to ensure the safety of the population. This redeployment should be such as to enlist the use of nuclear energy, coal and, as soon as possible, the other alternative sources of energy, as and when conditions allow. Without the development of nuclear energy, in the decades to come, no economic growth will be possible. It is therefore of the essence to relaunch nuclear programmes, vigorously. What is more, the use of coal in power stations should be promoted forthwith and its use in industry encouraged.

The redeployment of energy also requires that the energy saving programmes which have already been adopted should be strengthened even more, and that the structural measures underway to improve the use of energy should be stepped up, hand in hand with the rise in the Gross National Products.

5. The decisions adopted today bear witness to the fact that Europe is ready to shoulder its responsibilities. It expects the other industrialized consumer countries to do likewise. It calls on the producer countries to manage their oil resources in a manner consistent with achieving a world energy balance and harmonious economic development.

In conjunction with the other major industrialized consumer countries, the Community is prepared to establish contacts with the producer countries in an endeavour to define in common supply and demand prospects on the world petroleum market. To analyse the situation in this way will be to make it possible to pinpoint the difficulties and work out ways and means of



remedying them, with all parties acting in concert. This analysis should most particularly concentrate on the oil-importing developing countries. To cut down on the industrialized countries' imports will be to improve developing countries' supply prospects. Furthermore, a major effort will have to be made to boost the output of their energy resources. On this score, the European Council is gratified at the action undertaken by the World Bank and declares its willingness to consider a further extension of its programmes and the setting up of a mechanism covering part of the exploration risk.

Over and above these forms of action, the European Council confirms its interest in an overall approach to world energy problems along the lines advocated by the President of the United Mexican States.

6. The Council instructs the Presidency to inform the other industrialized consumer countries and the producer countries of all the decisions adopted today.

IV. ECONOMIC AND SOCIAL SITUATION

1. The Council studied the consequences for the economic situation in the Community of the increases in the price of crude oil which had taken place since the beginning of the year.

Following the general improvement recorded in 1978, the outlook for growth and price trends in the Community for 1979 seemed favourable at the end of last year.

Today, the European economies are threatened by a marked slowing down in growth and an increase in their rates of inflation.

2. Faced with this situation, the Council set itself the objective of
  - preventing a new inflationary process from developing,
  - maintaining the Community's economic growth at the highest possible level.

The following guidelines were laid down:

- over the coming months, the Member States will refrain from making any changes to their economic and monetary policy which might accentuate the deflationary trends resulting from the increase in the oil levy;
- they will forthwith step up the co-ordination of their budgetary policies so that in 1980 its positive effect on the level of economic activity may be strengthened;
- in a broader context, they will closely co-ordinate their economic policies with a view to offsetting the effects of the oil levy and to protecting employment.



IV (continued)

3. The European Council took note of the discussions which had taken place in the Council pursuant to the guidelines adopted at its meeting on 12 and 13 March, to contribute, by Community action, to improving the employment situation.

It took note of the Commission's interim communication on work sharing.

It confirmed the importance it attached to the continuance of these discussions with both sides of industry so that concrete proposals might be drawn up rapidly.

VI. JAPAN

The European Council noted with great concern the steady worsening of the imbalance in trade relations between the Community and Japan. Wishing to expand and strengthen co-operation with Japan in all fields, it expressed the wish that the Japanese Government, bearing in mind the place and the responsibilities of Japan in the world economy, help to redress an abnormal and dangerous situation by means of appropriate measures. It hoped that the regular consultations between the Commission and Japan would rapidly result in wider openings for EEC exports on the Japanese market.



IV. ECONOMIC AND SOCIAL SITUATION

The economic policies initiated a year ago in line with the common approach defined in the July 1978 European Council have helped to improve the outlook for growth and price trends in the Community.

The recent substantial changes in the supply and price of oil have however narrowed the margin for manoeuvre in economic policies, as regards both the rate of growth and the level of inflation.

Faced with this situation, the Council adopted the following guidelines:

- economic policies will be even more closely co-ordinated so that the drain on the Community's real resources represented by oil does not have a deflationary effect on the level of employment;
- co-ordination of budgetary policies will be stepped up immediately in order to facilitate in 1980 measures which reduce to a minimum the possible effects on growth or which in the long term promote greater efficiency of the economies;
- the struggle against inflation will continue and, besides observance of the major internal and external macro-economic balances, will consist mainly in ensuring that the rise in the price of oil and certain raw materials is not reflected in or compensated by nominal rises in incomes.

POINTS TO MAKE TO PRESIDENT GISCARD  
DURING LUNCH ON 21 JUNE:

You will remember our discussion over lunch in the Elysée on 5 June about the British position on the new Lomé Convention. This has posed a difficult problem for us at a time when we are introducing very drastic cuts in public expenditure from which our aid budget is by no means exempt.

However, I told you in Paris that I would be willing to look at the matter again and I have done so. I am glad to tell you that we are willing to increase the UK contribution to Lomé to 850 million units of account and I hope that this will resolve the difficulty which has arisen. I must, however, make it clear that this is our final figure.

/ You will also



You will also recall that we discussed, in Paris, our wish to tackle, at this Council, the problem of the UK's net contribution to the Community Budget. There need be no long discussion of this matter since, as we also agreed in Paris, the objective need only be to give the Commission instructions to produce possible solutions before the next European Council. But I think it is important to tackle the matter this afternoon, so that our officials can be instructed to work overnight on a draft text which can be endorsed by the Council tomorrow morning. The Council will not itself have to act as a drafting group. I very much hope, therefore, that we can have a brief discussion on the Budget problem before we move on to the longer discussion on energy.

PRIME MINISTER

European Council in Strasbourg: 21/22 June

I resubmit below your briefs for the European Council in Strasbourg. In the front of the folder you will find:

- A redraft which I have prepared of your very first intervention in the Council, in response to the word of welcome which President Giscard can be expected to give;
- A note on the tactics of ensuring that the Budget is discussed on the first day;
- a revised speaking note on the substance of the Budget issue;
- the notes for which you asked on our balance of trade with other EEC countries and on the dispute between the Germans and the Dutch over North Sea gas.

You will first meet President Giscard at the lunch which he is giving for Heads of Government and Foreign Ministers at the Prefecture at 1300. I think that your best tactics would be to find an opportunity to raise with him, during the lunch, both the douceur of our increased contribution to Lomé and our strong wish to dispose of the Budget problem during the First Session, so that officials can get on with drafting. I therefore attach, in the buff folder, a speaking card with a possible form of words.

/ President Giscard's



President Giscard's response to you at lunch will give you some idea of what can be expected from him when the Council Session begins. It will be important to listen very carefully when he runs through his suggestions for the agenda, so as to check that the "Convergence" item has now been moved up ahead of "Energy" and preferably even higher. If it has not - ie, if "Energy" still comes before "Convergence", you should again interrupt and spell out to the Council as a whole the same arguments as you will have used with President Giscard at lunch for getting the Budget problem out of the way on the first day.

When the "Convergence" item is actually reached, you will wish to speak on the lines of the revised speaking note in the buff folder.

It would be very helpful to our drafting team if you could meet them immediately following the end of the first Session, before you go off to dinner with President Giscard, in order to tell them what has been agreed. This could probably best be done back in the Grand Hotel, since we do not have enough entry passes to the Hotel de Ville to enable all the drafting team to get in there at once.

The programme as a whole, with notes where necessary, will be as follows:

Thursday 21 June:

0800	Depart No. 10 for Northolt
0850	Depart for Strasbourg in RAF Andover, with other members of your delegation (flight takes just over 2 hours)
1155	Arrive Strasbourg
(local time)	Drive to the Grand Hotel (in Rolls, accompanied by Sir Reginald Hibbert)
1230	Arrive Grand Hotel 20 minutes free
1250	Depart for Prefecture (19 rue Brulée) Lunch given by President Giscard

- 1430 Depart from the Prefecture by car to the Cathedral:  
approx then disembark and walk, with other Heads of  
Government, through the old quarter to the Hotel de Ville.  
(NOTE: The old streets are paved with cobblestones  
and it is therefore suggested that you should have  
a pair of flat shoes in the Rolls into which you can  
change - your normal shoes would be taken ahead to the  
Hotel de Ville so that you can change back again on  
arrival.)
- 1500 First Session opens in the Hotel de Ville  
1830 First Session ends  
Return to Grand Hotel
- 1950 Depart for the Chateau des Rohan  
Dinner given by President Giscard for Heads of  
Government only.  
(I shall probably be stationed in an adjacent room  
in case you need anything or wish to send any messages.)

Friday 22 June

- 0920 Leave Grand Hotel for Hotel de Ville  
0930 Second session begins in the Hotel de Ville  
1230 Second session ends  
President Giscard gives Press Conference at Palais  
de l'Europe (other Heads of Government do not attend)  
(This will be the best time for you to see British  
correspondents if you wished to do so)
- 1300 The Strasbourg Municipality are offering lunch to  
Heads of Government and senior members of their  
delegations. This is optional and we know that  
President Giscard himself does not propose to  
attend. You can therefore choose between going to  
the Strasbourg lunch or leaving earlier and having  
lunch on the Andover on the way home.
- Which would you like to do?
- 1330 or Depart Strasbourg for Northolt  
1500
- 1430 or Arrive Northolt.  
1600 Drive to No. 10  
(local time)

*I have also put in the front of  
Folder I some late telegrams relevant to the Council.*

We can discuss any of the above during the flight to Strasbourg  
if you wish. *John.*

20 June 1979



1.6      ~~2mbd~~

SPEAKING NOTE: THE BUDGET: "CONVERGENCE"

Came here - get European Council face up to inequitable burden Community budget places on UK.

Did not expect solutions today.

Wanted firm agreement - decisions will be taken before end of year which will deal with our problem.

A clear step-by-step drill for tackling this problem. Very specific instructions to Commission.

First, they describe in a reference paper the consequences of Budget for each member, looking forward to 1979 and 1980.

Secondly, they submit this report to Finance Council. Report can be debated there and if necessary members can make own proposals.

Thirdly, Commission to take account of this debate and to present proposals in good time for decisions to be taken at Dublin in November.

Believe now wide acceptance that there is major problem which has to be tackled.

People will look after own bargaining position. Will certainly do same for UK. But need for important change implicit in European Council conclusion.

GRS 220

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FM PARIS 201636Z JUN 79

TO IMMEDIATE FCO

TELNO 340 OF 20 JUNE 1979

INFO IMMEDIATE UKREP BRUSSELS AND ROME

INFO PRIORITY ALL OTHER EEC POSTS.

YOUR TELNOS 182 AND 183 TO BONN : COMMUNITY BUDGET.

OUTWARD

Prime Minister

A warning of what to  
look out for in any draft  
circulated by the Presidency.

See  
2/2

1. I SENT WAHL THE NEW TEXT FIRST THING THIS MORNING.

2. N(E) SUBSEQUENTLY GAVE COPIES OF THE TEXT TO ACHARD (SGCI) AND TO BOCHET (PAYE'S DEPUTY AT THE QUAI D'ORSAY) WHO WAS WITH ACHARD. IT EMERGED FROM WHAT ACHARD SAID THAT, AT OFFICIAL LEVEL, THE FRENCH STILL HANKERED AFTER DILUTING THE MANDATE TO THE COMMISSION WITH ADDITIONAL REQUESTS FOR FACT-FINDING, FOR EXAMINATION OF THE FUNCTIONING OF THE FINANCIAL MECHANISM AND FOR CONSIDERATION OF THE IMPACT ON BUDGETARY CONTRIBUTIONS OF THE ELIMINATION OF POSITIVE MONETARY COMPENSATION AMOUNTS THROUGH 'AN APPROPRIATE EVOLUTION' OF AGRICULTURAL PRICES IN UNITS OF ACCOUNT.

3. IT IS NOW CLEAR THAT NO FRENCH TEXT WILL BE MADE AVAILABLE BEFORE THE COUNCIL MEETS IN STRASBOURG. IT SEEMS THAT THE FRENCH RECOGNISE THAT PRESIDENT GISCARD (AND WAHL) WOULD BE OPEN TO A CHARGE OF ILL-FAITH IF THEY PUT FORWARD AN UNHELPFUL TEXT OF THEIR OWN, BUT THEY PROBABLY HOPE THAT THE TIDE OF THE DEBATE ON CONVERGENCE WILL EVOKE RESISTANCE FROM OTHER PARTNERS AND SO ENABLE THEM AS PRESIDENCY, RESPONSIBLE FOR COMPROMISE, TO TRY TO WRAP THE SIMPLE LANGUAGE WANTED BY THE UK IN AN ENVELOPE OF UNHELPFUL MATTER.  
HIBBERT.

NNNN

SENT PARIS 20/1650Z



- ① Kelvin
- ② E.M.S.
- ③ Energy.
- ④  $\text{P} \propto \text{Temperature}$   
= Celsius  
to "
- ⑤ G - type.
- ⑥.

June 1979



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

20th June, 1979

*Prime Minister*  
 ✓  
*21/6*

*Dear Bryan,*

ECU SWAP

At the Prime Minister's briefing meeting yesterday on the European Council in Strasbourg, I understand there was some discussion of the possibility that the Prime Minister would announce in Strasbourg the UK's decision to participate in the ECU Swap. If the Prime Minister decides to announce this decision in Strasbourg, the Chancellor suggests that the Prime Minister should use the following form of words, which has been agreed with the Bank and telephoned to the Cabinet Office:

||  
 "I can tell my colleagues that the UK Government have it in mind to participate in the deposit of reserves on a swap basis with the European Monetary Co-operation Fund in exchange for ECUs. This will make it clear that, whatever our decision in due course on participation in the exchange rate arrangements, we desire to be closely involved in the evolution of the European Currenty Unit and of European monetary institutions."

As you will see, this form of words will make it clear that the decision to participate in the ECU Swap should not be taken to mean that the Government have already decided to join the EMS exchange rate arrangements.

.....  
 I also enclose a technical note on the ECU Swap. You may like to draw the Prime Minister's attention in particular to paragraph 6 which explains that, in the last Parliament, there was considerable Parliamentary interest in the Government's decision on this point. On past form some Labour members are

/likely to

B.G. Cartledge, Esq.,  
 10, Downing Street



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likely to react adversely to the Government's decision and their hostility could be increased if the announcement were made outside Parliament. For this reason the form of words in paragraph 2 above stops short of announcing a firm decision, which could more wisely be left for the House of Commons, when the Prime Minister reports upon the Council meeting. In any case the Prime Minister will no doubt wish to have the Parliamentary background in mind, which could lead to pressure for a debate.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Lord President of the Council, the Minister of Agriculture, the Attorney General, the Governor of the Bank of England and Sir John Hunt.

*Yours sincerely,*

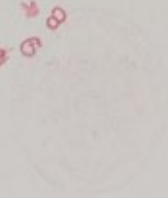
*A.M.W. Battishill*

(A.M.W. BATTISHILL)

CONFIDENTIAL

20 JUN 1979

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COMMISSIONER



## TECHNICAL NOTE ON THE ECU SWAP

The most obvious feature of the European Monetary System is its exchange rate arrangements. There are agreed cross rates between each pair of participating currencies, each of which has to keep within  $2\frac{1}{4}\%$  of every other currency, except for the Lira which has a special margin of 6%. When a gap of  $2\frac{1}{4}\%$  (6%) appears between any two currencies there is an obligation on both Central Banks concerned to intervene in the markets to prevent the gap exceeding  $2\frac{1}{4}\%$  (6%). The Central Bank of the weaker currency can borrow the currency of a stronger country for this purpose but has to settle such debts out of its reserves within three months. The European Monetary Cooperation Fund (EMCF) acts as the agent and the accounting body for such settlements.

2. The EMS has other elements beyond these exchange rate arrangements. They are enhanced medium term credit; an arrangement for depositing 20% of gold and dollar reserves with the EMCF and receiving ECUs in exchange; and a plan for the creation within two years of a European Monetary Fund which would, if it came about, be a step towards a European Central Bank.

3. If a full European Monetary Fund were ultimately established (after legislation in member countries) reserves would presumably be transferred to the Fund in a more permanent way. For the present, however, the "deposit" is a three-month revolving swap of 20% of gold and dollar reserves for ECUs (European Currency Units) issued by the EMCF. The gold and dollars remain physically with the "depositing" central bank which is free to invest the dollars as before and retain the income from them. The ECUs are used to settle intervention debts between EEC central banks arising out of exchange rate intervention but the underlying swaps are to be unwound after



the preliminary two-year period, before the EMF is set up.

4. If the UK participates in the ECU Swap, we would not reduce the liquidity of the reserves because we would have the right to withdraw the underlying gold and dollar assets from the EMCF in case of need. There would also be no loss of income to the reserves because we would continue to manage the assets we have deposited and the income on these would accrue to us direct. We would, however, have little or no use for our ECU holdings whilst we are a non-participant in the exchange rate arrangements. On present levels we would deposit around \$3½bn of our reserves and receive ECUs in exchange. There would also be an increase of around \$200 million in the published value of our reserves because the EMCF values gold deposited with it at a higher rate than the rate we use for valuing gold in our own reserves.

#### Legislative Implications

5. The Attorney-General in the previous Government advised that, although there were strong arguments that full participation in the EMS exchange rate arrangements would be lawful under existing legislation, equally there were strong arguments that it would be constitutionally improper to undertake a major new continuing commitment on this basis. Legislation might not be needed immediately but should be taken within a reasonable time after the UK entered fully into the EMS. The previous Attorney-General did not, however, think that legislation would be called for, either on legal or constitutional grounds, if participation were limited to the deposit of reserves with the EMCF on a swap basis.

#### Parliamentary Considerations

6. There has been some Parliamentary interest in the deposit of reserves with the EMCF. Mr Douglas Jay MP and other Labour backbenchers suggested that there should be legislation to



cover the deposit of reserves. In a Written Answer on 29 January 1979 to a Parliamentary Question, the then Chancellor informed Mr Jay that "on the basis of the present proposed arrangements for the deposit of reserves and the issue of ECUs legislation would not be required". Mr Healey had previously given an undertaking that legislation would be enacted if the UK were to participate when the full European Monetary Fund was set up in 2 years time. There is likely to be considerable Parliamentary interest in the decision to deposit reserves against ECUs, particularly amongst Labour backbenchers. Even if legislation is not required there could be pressure for a debate.

#### General Considerations

7. There are in the near future no significant financial advantages or disadvantages from depositing reserves with the EMCF. The main argument for depositing reserves is that it might help the Government in other dealings with the EEC, though it has to be regarded as a small and weak bargaining card. It could also do something to help the UK's position in any discussions on the working of the EMS, the future role of the ECU and the development of the European Monetary Fund. However if we do not join the exchange rate system and our partners proceed in due course with the European Monetary Fund, we could hardly legislate to join them in depositing reserves unless the ECU became a real transferable asset usable outside EMS intervention.

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Ref. A09822

MR. CARTLEDGE

---

European Council Strasbourg

Following the Prime Minister's briefing meeting, I attach:

- (a) Our text on the Community Budget as approved by the Prime Minister last night. This replaces Annex B to the Steering Brief and Annex A and B of Brief No. 6. Our Community partners and the Commission are being informed today that this is what the Prime Minister will want to have agreed. Copies will be available for the Prime Minister to distribute at the meeting.
- (b) A note on tactical handling so as to ensure that the item is discussed on the first day.
- (c) A revised speaking note on the Budget, together with speaking notes on our offer to increase our contribution to Lome and to deposit 20 per cent of our reserves against ECUs. However it may be more appropriate to make the latter gesture in her introductory speech (which you are revising). If the Prime Minister agrees, you can no doubt make the necessary addition. Finally there is a defensive note in case the French try to make a link with our attitudes in the current CAP price fixing.

2. These notes have been agreed with the FCO and Treasury as appropriate. A copy of the note on CAP prices is going to MAFF. In addition, the FCO will be letting you have the figures on our balance of trade with other EEC countries and a note on the Dutch/German legal dispute over North Sea gas. The Treasury will also send you a short background note on the ECU swap.

3. Copies of this minute and enclosures go to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to the Minister of Agriculture.

*John Hunt*  
JP  
(John Hunt)

20th June, 1979



COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community Budget <sup>and the Community policies as a whole</sup> create difficulties for two of the three Member States with below-average GDP per head. Solutions are urgently required to ensure that the Community Budget and its policies taken as a whole do not continue to hinder member States with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

- ① Equity - fair - This aspect to plus much out as limit
- ② Convergence
- ③ Political problem - not enough to justify
- ④ For three reasons
  - ① Political
  - ② Situation

CONFIDENTIAL

EUROPEAN COUNCIL, 21/22 JUNE 1979

TACTICAL HANDLING OF THE BUDGET ITEM

1. The Prime Minister is recommended to speak to President Giscard before or during the lunch to emphasise the importance of taking the budget/convergence item early. She might say that she does not see why this need be a long discussion since we are only looking for a remit to the Commission but there must be time for views to be expressed on the first day so that a text can be agreed overnight at official level for endorsement by the Council on the second day. The Council will not itself want to act as a drafting group.

2. If Giscard's response is negative or evasive the question should be raised when the agenda is discussed at the opening of the Council. It is normal for the Presidency to indicate what order they propose and for others to comment. If Giscard attempts to omit discussion of the agenda and to move straight to the first item, it would be in order for the Prime Minister to interject that she has a point to raise on the agenda.

3. A third possible alternative would be to make the point in the course of responding to Giscard's expected speech of welcome. But this might detract from the tone of what the Prime Minister wants to convey and would be less satisfactory than the above alternatives.

4. In an intervention on the agenda the Prime Minister might say that:

(a) her colleagues are aware of the problem and of the UK suggested text.  
A Council decision is required.

(b) This need not take long. It would be sensible to clear it out of the way quickly so that the Council can settle down to what could be a long discussion on energy.



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(c) If left till the second day, the Council could find itself doing the drafting which should be done by officials overnight. And if by any chance agreement did not emerge quickly that could be a very tough discussion indeed. So better get it dealt with straight away.

5. It might help to secure President Giscard's cooperation if, when she speaks to him at the lunch, she tells him that she is ready to move on Lomé aid. She might say:

(i) When we met, you asked me particularly to reconsider our position on aid for the new Lomé Convention. This is very difficult for me when the Government is cutting Government expenditure.

(ii) But I am willing to go up to 850mua for the UK contribution. That has to be the final figure and I shall not authorise UK representatives to go any further.

6. If this exchange takes place and has the desired effect the Prime Minister might prefer not to go into the Lomé point in any detail in her remarks on the Budget in the Council. The relevant paragraphs of the Speaking Note on the Budget could then be partly abbreviated.

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*W. J. ...  
P. ...*

EUROPEAN COUNCIL, 21/22 JUNE

REVISED SPEAKING NOTE FOR THE PRIME MINISTER'S USE ON COMMUNITY  
BUDGET/CONVERGENCE

1. We could have a long philosophical discussion on convergence but the plain fact is that we have basic imbalances in the Community which we must put right. Colleagues will know the vital importance that the United Kingdom attaches to this issue. Our budgetary problem is getting worse all the time. I hope all my colleagues have seen the Commission's figures for 1978 (if not I have copies here) they show our net contribution was 942.5 million EUA. In 1979 it is estimated at 1250m EUA. In 1980 it will have risen to 1500m EUA. We shall then be making the largest contribution to the budget regardless of how MCAs are attributed. I do not think we need discuss at this stage the rights and wrongs of how MCAs are attributed. Besides the problem is disappearing. It is quite clear that on any calculation our budgetary contribution is excessive.

2. We are not seeking a solution to a problem which concerns the UK alone. In 1978 I note that Italy made the second largest contribution to the Budget at 752.3m EUA. This is a problem for the whole Community.

3. The financial consequences of these contributions create real economic and political difficulties for both us and the Italians, two of the three member states with below average GDP per capita. The United Kingdom figure for average GDP per head is 73 per cent of the Community average while the Italian figure is 56 per cent.

4. Of course we agree that we in the UK are responsible for this relative decline. We are intending to put that right. Among other things that involves a determined attack on public expenditure; so the size of our net contribution to the Community is a serious economic problem as well as a major political liability for Government determined to co-operate fully in the Community.



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5. You may say that in the long term this situation could become less serious: that reductions in agriculture surpluses will reduce the cost of the CAP.

I agree that this is highly desirable, and should help to shift the balance of the budget so that a greater share is available to spend, eg on transport infrastructure projects in the UK, and on help for the Mezzogiorno in Italy. But this will take time. Meanwhile, the Community Budget produces an inequitable pattern of net contributions and hinders member states with below average GDP per head in their efforts to improve their economic performance.

6. What I should like to propose is that the European Council asks the Commission to make proposals before the end of September to deal with this problem so as to permit decisions to be taken at our next meeting in Dublin.

[I have arranged for the text of the form that such an invitation might take to be circulated.] We bring this problem to the European Council confident that the Community will respond by dealing with it. That it has done so is the message which I should like to be able to take home tomorrow.

[DEFENSIVE]

7. A fact finding remit is not enough. By all means ask the Commission to let us have their estimates of net Budget transfers for 1980, but the size of the budget problem is already clear for all to see and the area of dispute, if there is one at all, is very small. The time has come to move on to remedial action.

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LOME [Speaking Note]

1. I am aware of the concern of the Presidency and of other colleagues to bring the EEC/ACP negotiations for a new Lomé Convention to a successful conclusion. A difficulty has arisen over the size of the new EDF (European Development Fund) and over the shares which each Member State will pay. British representatives have argued consistently and clearly for the EDF to be carried on the Community budget and I do not think there can be any misunderstanding or doubt about our views. I can be frank about the reason: our marginal budget contribution is about 16.5 per cent, as against the 18.7 per cent we paid to the EDF under the first Lomé agreement. Given the critical nature of our budget problem that is a significant factor for us
  
2. I understand nevertheless that some of our colleagues wrongly assumed that when we accepted an increased figure of 4540mua for the new EDF this meant that we were at the same time willing in the last resort to pay an 18.7 per cent share, ie 850mua. That sort of assumption is not one I would recommend my colleagues to make in future because the budget problem is of major importance for us. The UK has not accepted, and does not accept, the principle of using the present Lomé key for the new EDF.
  
3. An increase in our contribution from the 750mua which we said we were ready to accept to 850mua is a serious matter because it has to come out of the existing UK aid budget which we have had to cut back in line with our general reduction of Government spending. I am nevertheless prepared to accept the figure of 850 mua because of the importance which I too attach to the EEC/ACP relationship and because I believe in settling these problems by agreement amongst ourselves. I must emphasise however that this is the maximum which the UK could in any circumstances accept.
  
4. This statement reflects the approach which I and my Government are taking to the Community. But it would be much easier to take it and to give expression to it across a wide range of issues if we did not start out with the crippling burden of a £1,000 million budget deficit around our necks.



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ECU SWAP /SPEAKING NOTE/

I can tell my colleagues that the UK Government have decided to participate in the deposit of reserves on a swap basis with the European Monetary Co-operation Fund in exchange for ECUs. This will make it clear that, whatever our decision in due course on participation in the exchange rate arrangements, we desire to be closely involved in the evolution of the European currency unit and of European monetary institutions.

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DEFENSIVE

CAP PRICES

1. It is possible that the Agriculture Council will reach deadlock in its price-fixing negotiations by Wednesday evening. If so, this will be because of French insistence on price increases, including products in surplus, which the UK cannot accept. (The French objective is to leave room for the Germans to reduce their positive mca's without cutting the return in deutschmarks to German farmers.) Most other Member States would be content to go along with either a near-freeze, as proposed by the Commission, or with 2-3 per cent price increases. The UK is supporting the Commission and is in a strongly communautaire position: our national interest in price restraint makes excellent sense for the Community as a whole.

2. If Giscard either privately or (less likely) in the Council, makes a link between UK requirements on the budget and French requirements for further increases in agricultural prices the Prime Minister might reply:

a. higher prices lead inexorably to more production, more surpluses, and higher CAP costs. This is bad for the whole Community as well as for the UK. Surely we are all agreed that on the contrary the surpluses must now be contained and reduced. Otherwise the CAP will bump up against the VAT ceiling and will not survive in its present form.

b. it is therefore no use Agriculture Ministers trying to solve their problems by pushing prices even higher. The European Council should tell them to find ways of reducing surpluses and cutting the enormous costs of the policy.

c. French proposals would make the UK budget problem even worse than it now is.



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d. the budget problem faces the UK and the Community with a critical situation which has got to be dealt with on the facts. It is not a bargaining process in which in return for acknowledging the need to do something about the problem others can expect to impose still further burdens on us.

e. so the Community must find a better way, which makes long term sense, to deal with the problem of the artificial stimulation of German production and exports by their positive MCAs.



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

20th June, 1979

*Der Bryan,*

OUR CONTRIBUTION TO THE COMMUNITY BUDGET  
AND THE COSTS OF ENLARGEMENT

The Chancellor has seen the briefing for the European Council in Strasbourg and would like - as a gloss on it - to draw the Prime Minister's attention specifically to the effect of Enlargement on our net contribution to the Community Budget. Brief No.18, which draws on studies by officials, shows that when the enlargement of the Community is complete, a considerable net budgetary burden will fall on the existing nine Member States because all three of the applicants will be net beneficiaries from the Budget. The UK share of this can be tentatively estimated at £110 million at today's prices.

Because all three applicants are poor, and will therefore benefit substantially from the Regional and Social Funds, under the present arrangements we are unlikely to remain net beneficiaries from either Fund (although this could change if the rules governing either our contribution to the Budget or our receipts from the Funds were to be altered). Although the brief does not go into details, the studies show that even if progressivity were introduced into the financing of the Community Budget, the net cost of Enlargement to the UK would remain about the same. This is because under progressivity, the applicant states would be paying less, so that the net cost of Enlargement to the rest of the Community would rise. The UK, however, would be paying a smaller percentage of this larger amount. The prospect is that in the long run the costs of Enlargement are more likely to prove higher than this tentative estimate than lower.

/These costs

B.G. Cartledge, Esq.,  
Private Secretary,  
10, Downing Street



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These costs will not arise at once; they will build up gradually as the applicant states join the Community, and as their transitional periods progress. Nevertheless, the process will start with the accession of Greece in January 1981, and in the Chancellor's view the fact that this further budgetary burden will start to fall on us from that date is an additional reason for hastening the work in the Community designed to rectify our unfair budgetary contribution.

I am copying this to Paul Lever.

*Yours ever,*

*Mt*

(M.A. HALL)  
Private Secretary

CONFIDENTIAL

1952-1953



20 JAN 1953

GODDARD

1953



COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1979

*Dear Bryan,*

European Council, Strasbourg, 21/22 June 1979

As agreed at the Prime Minister's briefing meeting yesterday, I enclose:

- (a) a short note on Commission intervention on Netherlands gas sales;
- (b) a table showing the UK's visible trade balance with each member of the Community since 1970.

*Yours etc*

A handwritten signature in cursive script that reads "Paul".

P Lever  
Private Secretary

Bryan Cartledge Esq  
10 Downing Street

COVERING CONFIDENTIAL

BALANCE OF UK VISIBLE TRADE WITH COMMUNITY MEMBER STATES  
OVERSEAS TRADE STATISTICS BASIS (CIF/FOB)

£ MILLION

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Denmark	- 54	- 71	- 106	- 148	- 146	- 175	- 48	- 12	- 121
FRG	- 47	- 115	- 251	- 561	- 877	- 704	- 920	- 1082	- 1408
France	- 28	- 53	- 97	- 301	- 425	- 457	- 374	- 528	- 681
Ireland	+ 39	- 6	+ 21	+ 97	+ 20	- 6	+ 224	+ 349	+ 439
Italy	- 6	- 33	- 71	- 125	- 215	- 243	- 278	- 557	- 811
Netherlands	- 79	- 102	- 160	- 307	- 648	- 756	- 934	- 346	- 269
Belgium/ Luxembourg	+ 95	+ 116	+ 81	+ 159	+ 107	- 26	+ 108	+ 158	+ 371
TOTAL	- 79	- 263	- 587	- 1185	- 2201	- 2386	- 2261	- 2033	- 2485

individual figures have been rounded  
up so that totals may not agree exactly





## COMMISSION INTERVENTION ON NETHERLANDS GAS SALES

1. A Netherlands Royal Decree prohibits any sales of gas or oil produced offshore unless the whole contract, not merely the price, has been approved by the Minister. It also provides that the Minister can insist that gas be supplied to Gasunie (the Dutch Gas Board which is 50% State owned, 10% of the shares being held directly by the State and 40% by Dutch State Mines), if he decrees that gas is needed in the Netherlands (Article III, Article 25(2)).

2. When Placid International Limited submitted a plan to export North Sea gas to Germany in 1971/72 the Dutch Government informed them that all the gas was needed for Holland and must be supplied to Gasunie. The Germans complained to the Commission who asked the Dutch to reverse their decision (on the grounds that it contravened the Treaty prohibition on export restrictions) and to abolish Article III, Article 25(2) of the Decree under which the Dutch Government had acted. The Dutch then agreed to share the gas 50-50 with the Germans but maintained the line with the Commission that their Article III, Article 25(2) did not in itself contravene the Treaty and that only its application in a particular case might do that. The Commission acquiesced in this latter argument.

3. In a second, somewhat similar, case when the Commission were asked in a PQ in the European Parliament in April 1975 about the Dutch law providing for fixing minimum prices for gas supplies at home and abroad, the Commission stated in reply that the law itself was not contrary to the Treaty though its application could contravene Articles 34 or Articles 86 to 90 of the Treaty.



4. The line taken by the Commission on these two cases, particularly the first, is obviously relevant to their latest approach to the UK about our Landing Requirement where we are proposing to continue to maintain that ~~the~~ Landing Requirement itself is entirely compatible with Community law and that we intend to apply it in full conformity with our Community obligations.

FOREIGN AND COMMONWEALTH OFFICE

20 June 1979

*Copy on Overseas Aid, May 1979*FCS/79/118CHANCELLOR OF THE EXCHEQUERRe-negotiation of the Lome Convention

1. I came under heavy pressure from my Community colleagues in Paris yesterday to agree to a British contribution of 850 MUA to the European Development Fund (EDF) in the successor, for the period 1980-1985, to the current Lome Convention. Our offer of only 750 MUA has surprised and disappointed them.
2. It is my judgement that if we continue to stick to our present maximum of 750 MUA we could find ourselves in very considerable additional difficulties over achieving, at this week's European Council, our much more important objectives over the United Kingdom's contribution to the Community Budget as a whole. I would go so far as to say that amongst almost all the other eight Governments with whose Foreign Ministers I spoke yesterday, a refusal on our part to go as far as they had thought we were ready to go will sour the atmosphere at Strasbourg. I therefore think that we need to be ready at the European Council to indicate that we shall be able to agree to 850 MUA, so that the Community can improve its overall offer on the Fund when the Conference with the African/Caribbean/Pacific countries (ACP) resumes on 24 June. In such circumstances we shall have to find the additional 100 MUA from within the aid budget, though this will be very difficult. But the amounts we are talking about are not large: 100 MUA disbursed over, say, ten years, represents about £6.5 million a year and disbursements will not start until 1981-82, by which time I hope that some of the financial pressure on the aid programme will have eased.
3. I realise that 850 MUA will not represent the overall improvement in our present share of the EDF which we should have liked. But our share of the additional amount which the Community proposes to offer in excess of the 4540 MUA already agreed will, on present proposals, be more equitable than our current share. And in any

/ case





case, the EDF is poor ground from our point of view on which to fight about the UK's financial contribution to the Community since most member states regard the Lome arrangements as a benefit in aid almost exclusively to the ex-Anglo/French colonies.

4. I am sending a copy of this minute to the Prime Minister and to Sir John Hunt.

A handwritten signature consisting of a stylized capital letter 'C' with a horizontal line drawn underneath it.

(CARRINGTON)

Foreign and Commonwealth Office

19 June 1979

119 JUN 1979







i. Mr Caskie

2. Mr. Austin

Further briefing for  
Strasbourg.

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

R  
20/6

PRIME MINISTER

THE EUROPEAN MONETARY SYSTEM (EMS)

Recently I had an opportunity to discuss our attitude to the EMS with the Lord President; and I have been reflecting subsequently on the matter. It is unlikely that you will be pressed on it at the European Council in Strasbourg. You may be asked about it however and rather than leaving this important issue to be dealt with only in the routine briefing arrangements, I thought it might be helpful if I let you know separately how I see the issues.

2. You made it clear after your talks with Chancellor Schmidt and President Giscard that we wished to look at all aspects of the matter and intended to do so in time to take up a position when the exchange rate mechanism is reviewed in September. I am sure that it is right not to be rushed. As you realise very well, the decision whether or not to join the exchange rate mechanism raises important issues of both international and domestic policy; this was well illustrated by what the Secretary of State for Trade said at our "Hoskyns meeting" on Monday.

EMS - Present Position

3. The EMS has now been operating for three months. During this period, some of the traditionally weak currencies (e.g. the lira) have in fact been strong. Sterling has been exceptionally strong, and if this had happened with the UK as a member of the exchange rate mechanism, sterling would have hit the upper limit of its permitted



range within three weeks of the system starting to operate. Under the rules, the UK would have had to intervene to hold sterling at that point. That would have meant selling sterling for other currencies, which tends to add to the sterling money supply. Intervention to hold the rate below its market level can also attract speculative inflows, producing further additions to the money supply.

4. A crucial phase for the EMS is probably now beginning, and we cannot be certain how smoothly the exchange rate mechanism will be working later in the year. The deutschemark, as expected, is becoming the strongest currency in the system. The Germans have been giving priority to domestic objectives in the management of their currency. They have been intervening in dollars in support of the mark. The effect has been to keep down inflation in Germany, both through a higher mark exchange rate and by reducing domestic money supply growth. In doing so they have been selling, during a period of revival of the dollar, many of the dollars they had been obliged to buy to support that currency in the last year or so. This strengthening of the mark has been putting strain on the Belgian franc, currently the weakest currency in the system, and latterly also on the Danish krone. The Belgian franc and Danish krone were devalued against the mark in the "snake" last October. The Belgian, Danes and Dutch have raised interest rates and there is now talk of further realignment. Although some of these difficulties can be ascribed to weaknesses in the Belgian and Danish economies, they illustrate the crucial importance to the EMS of what is happening to the dollar and of German reaction to it. We do not know how far movements in the dollar will apply differential pressures on EMS currencies in coming months. It seems likely however that the next few months will be a testing period for the EMS.

5. All this supports the case (which we discussed on Tuesday) for taking a cautious line at Strasbourg. The September "review" of the EMS relates under present agreements only to the operation of the "divergence indicator" mechanism, which does not in fact seem to





have played much of a role so far. It seems rather unlikely that we would want to make our decision whether to join the EMS dependent on the outcome of this somewhat narrow review, though it would be reasonable to take the results into account. The outcome of the review is likely to be reported to the Dublin European Council in November and I believe that if it suited us we could defer an announcement of our decision until then without surprising our partners unduly.

#### Parliament

6. The previous Government gave an undertaking that any decision to join the EMS exchange rate mechanism would be "submitted to Parliament for debate and if necessary a vote" before it were carried out. There would be pressure on us to give a similar undertaking. We should have to consider at the time how to tie in Parliamentary necessities with any announcement in Europe, whether it was in favour of joining or not.

#### The Principal Issues

7. The EMS is not a rigid fixed exchange rate system, so we would not lose all control over the rate if we joined. Nor, on the other hand, can we pretend that we have complete control over our exchange rate if we stay out: sterling is still an important trading currency so it is particularly liable to reflect outside influences, and the scale of our financial markets and our multi-national companies provide further means by which pressures can arise.

8. But the essence of the EMS is that it constrains any member's ability to "manage" his exchange rate as he thinks best, even if such management amounts simply to letting the market decide the rate. It requires certain exchange rate objectives to be maintained at least until the members of the system collectively agree they should be changed. This in turn requires relatively high priority to be given to exchange rate policy, and some subordination of other domestic policy objectives to it.



9. This can bring economic benefits. We could get an economic benefit by choosing a starting rate in the EMS which we regarded as corresponding to our policy needs and then using the backing of the system to help us to hold it. It would be a policy decision whether we chose a relatively high starting rate to help us on inflation, or a lower one to help with competitiveness. Thus, if for example we were trying to hold a strong pound below its market level in the interests of competitiveness, membership of the EMS could be one way of doing it, though we would need our partners' agreement to such a starting rate. Possibly the rate would on average be more stable inside than outside the EMS; if so, this would be welcome to industry.

10. But there are also potential drawbacks. First, attempts to override market forces operating on the exchange rate and keep the rate within a certain margin by a combination of intervention and changes in domestic policies are notoriously difficult. We should be as likely to err on one side as on the other.

11. Second, joining the EMS would almost certainly require some modification to our approach to combating inflation through strict adherence to money supply targets.

12. If it turned out in a particular period that our EMS obligations required sustained intervention to hold up the rate, the market might conclude that sooner or later we would be forced to seek our partners' agreement to devalue. This in turn could exacerbate the outflows from sterling and lead to still greater intervention. In a situation of pressure on the rate, up or down, experience suggests that it is better to combine freedom of the rate to move with judicious and economical intervention. Getting pinned on a particular rate under heavy pressure can be expensive and, in the end, more destabilising because it encourages speculation. Then the instability which is held back in the exchange markets tends to express itself in greater instability of interest rates and the money supply. Sharp





changes in short term interest rates may be necessary to attempt - often in vain - to choke off the speculation.

13. If we found that the market wanted to carry sterling beyond our upper EMS intervention point, we should be obliged to intervene to hold the rate down. This intervention would, to some extent at least, inflate our money supply. As our predecessors found in the autumn of 1977 and, to a lesser extent in the spring of this year, such interventions could make it difficult to meet our monetary targets. Indeed, the Germans substantially exceeded their monetary target last year partly for this reason, and the Swiss had to abandon their 1978 monetary target altogether when they decided that they must give priority to holding down the franc exchange rate.

14. The ability to change central rates is an integral part of the EMS. However changes in rates have to be agreed with other members of the system and it is obviously implicit in membership that you will defend your rate seriously before seeking agreement to move. Partners will assess the impact of a particular change on them (e.g. the competitive effect) and may want changes timed so that several moves can happen together. The "ticket of entry" to an exchange rate negotiation is bound to be intervention of many hundreds of millions of dollars. A change under a fixed but adjustable exchange rate system is also a deliberate and well publicised policy act, though it can be argued that this makes it easier to link desirable policy changes (e.g. on fiscal or monetary policy) to an exchange rate devaluation or revaluation.

15. There is an important wider argument that EMS membership obliges Community partners to align their domestic economic policies over a period and is thus an instrument of economic integration. Unless very special efforts are made to the contrary, this is likely to mean alignment on the domestic economic policies of the strongest member economy, i.e. Germany. This means progress towards German rates of inflation. There is considerable and understandable reluctance to modify German economic policies (e.g. on interest rates



or the money supply) to make it easier for partners to maintain their exchange rates. The Germans see this as accepting more inflation. The recent troubles of Belgium and Denmark described above exemplify this, and I believe a good deal of the argument about the form of the EMS in 1978, baroque as it often was, revolved round the question whether German policy could be influenced or modified to ease the burden on others of holding the system together.

16. There is obviously nothing wrong with the objective of reaching German rates of inflation, allied to German ability to compete industrially. It is the objective of our policies. Similarly, the argument that the EMS would impose a discipline on domestic policy and ultimately push the French economy nearer to the strength of the German weighed heavily with President Giscard. The question is whether, if it is bound to take time to match German inflation and ability to compete, entering an exchange rate system with them like the EMS is the best way to make progress. Or whether the right course is to give priority to money supply control (and to improving the supply side of the economy) and let that be a main determinant of the exchange rate.

17. The counter-argument to the EMS is that the exchange rate route puts the cart before the horse, or the bridge before the foundations. Better to concentrate on getting your economy right without complicating and probably impairing the process by tangling with exchange market forces in what is now an unstable world monetary situation. On this argument this route to integration could prove a false one - and it certainly looked like that when Britain, Italy and France (twice) were successively driven out of the snake in 1972/76, followed later by Sweden and Norway.

18. Holland, Belgium and Denmark showed themselves particularly attached to the "snake" system during the EMS preparatory discussions. With Germany they have the longest records of living with the system, though Denmark left once. These are countries which would find it





difficult to operate an independent money supply policy and whose trade is closely linked with Germany.

#### Political considerations

19. From the point of view of our political stance in Europe, joining would clearly be a great advantage and a firm indication that we are breaking with the past. If we decided to join, we should want to exploit the decision so as to secure other advantages, perhaps over our net budgetary contribution. The French are clearly in no hurry to see us join. They may not wish to see another rather strong currency in the system at present because of the possible impact on the franc. But the rest of the Community, and Chancellor Schmidt in particular, would probably attach value to the completion of the EMS by adding sterling to the exchange rate mechanism. I would not myself exaggerate the value of this card, although if we do decide to join we should get as much leverage from it as we can. I certainly believe it would be a mistake to join the EMS solely in the hope of gaining concessions on the budget issue. Our decision on the EMS ought to be taken on its economic merits.

#### Immediate Issues

20. There are two secondary issues in this area. I know you have it in mind that it might prove possible at the time of the review of the indicator mechanism to swap some of the UK's reserves for ECUs. I had myself considered whether there was a case for announcing participation in this swap in the Budget, but decided not to pursue this. This too was discussed at Tuesday's pre-Strasbourg meeting.

21. The second question is how to secure recognition that if and when we do join the EMS, we shall be eligible for interest rate subsidies under the European Council decision of December 1978. This is not a matter which ought on merits to arise at the European Council, but briefing has, of course, been available.

Conclusion

22. Clearly we shall have to watch carefully how the exchange markets develop in the coming months, how the EMS fares and how our own economy, exchange rate and money supply fare also. When the time comes for a decision, we shall have to take account of the possible value of joining as a bargaining counter, and of its political significance. But the economic implications are such that I believe the decision will have to be taken primarily on the merits for the economy. In particular the implications for our monetary targets will have to weigh heavily, because they are such an important part of our economic strategy. Meanwhile I think our approach to our Community partners should be to keep matters open, without entering into any new commitment. We should however say nothing to suggest that we will be unwilling to join the exchange rate mechanism at an appropriate time. There is, of course, a limit to the time for which we can remain in this equivocal position.

23. I shall be considering this further in the coming weeks and discussing it with the Governor and others. This period is, however, a difficult one for a decision on the EMS: the oil situation is having a different effect on our exchange rate compared with our partners, and we have to watch the impact of the Budget, the exchange control relaxations and the new policies of the Government generally. It is not a calm period in world markets, domestically or internationally. If we did decide, in the autumn, that it was not at that time possible for us to join the exchange rate mechanism, we should need to think very carefully about the way to explain our future intentions.

24. I am copying this minute to members of ODE, the Secretary of State for Industry, the Governor of the Bank of England and to Sir John Hunt.

G.H.

(G.H.)

20 June, 1979





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PROSPECTS FOR THE IRISH PRESIDENCY

1. THE IRISH GOVERNMENT FACE THE BEGINNING OF THEIR PRESIDENCY IN THE AFTERMATH OF A SERIOUS ELECTORAL SETBACK IN THE RECENT EUROPEAN AND LOCAL ELECTIONS (SEE MY TELEGRAM NUMBER 114).
2. THE PRESENT IRISH GOVERNMENT ARE VERY CONSCIOUS THAT DR FITZGERALD MADE A GREAT IMPACT DURING THE LAST IRISH PRESIDENCY IN 1975 AND IT IS CLEAR THAT MR O'KENNEDY IN PARTICULAR WISHES TO MAKE THE SAME IMPACT, BOTH FOR HIS COUNTRY'S IMAGE AND BECAUSE HE FEELS THAT IT WOULD BOOST HIS STANDING WITHIN HIS PARTY AND IMPROVE HIS POLITICAL CHANCES. HE HAS BEEN MENTIONED AS A POSSIBLE CANDIDATE FOR THE FUTURE LEADERSHIP OF THE PARTY AND, IF HE RUNS A SUCCESSFUL PRESIDENCY, HIS PROSPECTS AS A FUTURE TAOISEACH ARE LIKELY TO IMPROVE. CONVERSELY, A BAD PERFORMANCE COULD WELL PUT PAID TO HIS CHANCES, AT LEAST IN THE MEDIUM TERM. MR O'KENNEDY RECOGNISES THAT CIRCUMSTANCES FOR MAKING A GOOD IMPRESSION ARE NOT AS FAVOURABLE NOW AS IN 1975 WHEN THERE WAS STILL MUCH ENTHUSIASM FOR THE EEC. A LOT OF THIS EARLIER ENTHUSIASM HAS DISAPPEARED AND BOTH FOR THE COMMUNITY AND FOR THE REPUBLIC IT IS A QUESTION OF FIGHTING TO RETAIN WHAT HAS BEEN WON RATHER THAN BREAKING NEW GROUND. MR O'KENNEDY IS ALSO LIKELY TO BE SOMEWHAT INHIBITED IN MAKING EXTENDED FOREIGN TRIPS AS HE REPRESENTS A RURAL CONSTITUENCY WHOSE VOTERS WOULD PREFER TO SEE HIM SPENDING MORE TIME LOOKING AFTER THEIR OWN INTERESTS. THE OVERRIDING IRISH PRIORITY IS TO RUN THE PRESIDENCY AT LEAST AS EFFICIENTLY AS IN 1975.
3. ONE IMPORTANT AREA FOR MR O'KENNEDY IS CLEARLY THE NEW DIRECTLY ELECTED ASSEMBLY. HE WILL BE THE FIRST FOREIGN MINISTER TO HAVE TO DEAL WITH IT AND FEELS THAT HIS ACTIONS WILL SET

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A STRONG PRECEDENT FOR THOSE OF FUTURE PRESIDENCIES. BECAUSE HIS PARTY CAMPAIGNED IN THE ELECTIONS AGAINST ANY INCREASE IN THE ASSEMBLY'S POWERS, HE SEES HIS ROLE AS DEMONSTRATING THAT THE ASSEMBLY CAN EVOLVE WITH ITS EXISTING POWERS BY THE VERY FACT THAT IT HAS A POPULAR MANDATE. HE INTENDS TO SPEND A LOT OF TIME WITH THE ASSEMBLY, WILL QUITE DELIBERATELY TRY TO BE AVAILABLE BEFORE AND AFTER DEBATES AND ATTEMPT TO GIVE ITS MEMBERS THE FEELING THAT THEY MATTER MORE TO THE PRESIDENCY THAN HAD BEEN THE CASE IN THE PAST. MR O'KENNEDY ALSO BELIEVES THAT HE WILL BE ABLE TO OBTAIN FAVOURABLE PUBLICITY FROM ATTENTION PAID TO THE ASSEMBLY. ONE OTHER MEASURE OF THE IMPORTANCE WHICH THE IRISH ATTACH TO THE NEW ASSEMBLY IS THAT THE TAOISEACH WILL MAKE THE FIRST ADDRESS ON BEHALF OF THE PRESIDENCY.

4. SO FAR AS NATIONAL OBJECTIVES GO, THE IRISH WILL GIVE A HIGH PRIORITY DURING THEIR PRESIDENCY TO THE MAINTENANCE AND IF POSSIBLE INCREASE, IN THE BENEFITS WHICH FLOW TO IRISH FARMERS UNDER THE CAP: THEY WILL IF THE CASE ARISES, USE THE AUTHORITY OF THE PRESIDENCY TO OPPOSE A PRICE FREEZE.

5. THEY WILL ALSO PURSUE, AS AN URGENT NATIONAL AIM, THE DRAFT REGULATION ON INTEREST RATE SUBSIDIES, IF THIS IS STILL OUTSTANDING WHEN THEY TAKE OVER. OTHER WISE THE IRISH HAVE NO PRESSING NATIONAL OBJECTIVES TO PURSUE DURING THE NEXT SIX MONTHS BUT THERE ARE CERTAIN COMMUNITY PROBLEMS WHICH THEY SEE AS IMPOSING THEIR OWN PRIORITY. AMONG THESE WILL INEVITABLY BE THE RESOLUTION OF THE DIFFICULTIES PREVENTING THE ESTABLISHMENT OF THE COMMON FISHERIES POLICY. THEY DO NOT SEEM TO HAVE ANY NEW IDEAS FOR BREAKING THE CURRENT IMPASSE AND IF WE HAVE ANY WE SHOULD FEED THEM TO THE IRISH REMEMBERING THAT THEIR FISHERMEN'S OBJECTIVES ARE FUNDAMENTALLY SIMILAR TO OUR OWN. THE IRISH WILL ALSO BE KEEN TO SEE THE ESTABLISHMENT OF SOME SORT OF ENERGY POLICY, ESPECIALLY BECAUSE OF THE GREAT DIFFICULTIES WHICH THE REPUBLIC IS CURRENTLY EXPERIENCING ON THE OIL SUPPLY FRONT. THEY SEE THE BUDGETARY PROBLEM, BOTH IN THE SHORT AND LONGER TERMS, AS ONE OF THE MOST DIFFICULT AREAS WITH WHICH THEY WILL HAVE TO DEAL WHEN THE LIMIT OF OWN RESOURCES IS REACHED THEY FAVOUR AN INCREASE IN THE VAT PERCENTAGE WHICH MEMBER STATES PAY TO THE BUDGET TOGETHER WITH PROGRESSIVE ARRANGEMENTS WHICH WOULD IMPOSE A LESSER BURDEN

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ON THE FINANCIALLY WEAKER MEMBER STATES. THEY WILL WISH TO SEE PROGRESS IN WORK ON CONVERGENCE OF THE ECONOMIES.

6. THE IRISH FEEL IT MAY BE POSSIBLE TO TAKE A MODEST INITIATIVE IN CONSUMER AFFAIRS BECAUSE ALL COMMUNITY MEMBER STATES HAVE A CONSUMER LOBBY AND A MEASURE OF AGREEMENT OUGHT TO BE POSSIBLE. THE IDEA OF SOME SORT OF EUROPEAN CONSUMER COUNCIL APPEARS TO HAVE ARISEN IN DISCUSSION BETWEEN MR O'KENNEDY AND THE IRISH COMMISSIONER MR BURKE, BUT IT IS NOT CLEAR WHOSE IDEA IT IS. PRESUMABLY, BOTH FEEL THAT THERE MIGHT BE ADVANTAGE FOR THEM IN ESTABLISHING SUCH A COUNCIL AND THE NEXT MOVE IS PROBABLY A MEETING BETWEEN MR BURKE AND THE IRISH MINISTER FOR INDUSTRY, COMMERCE AND ENERGY, WHO IS RESPONSIBLE FOR CONSUMER AFFAIRS.

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PRIME MINISTER

STRASBOURG: YOUR OPENING STATEMENT

In your bilateral talks with President Giscard, Chancellor Schmidt and Signor Andreotti, you have on each occasion begun with a firm and unequivocal statement of the Government's total commitment to the European ideal and to British membership of the Community. I think it would be very desirable to do the same when you make your opening remarks to the European Council in Strasbourg on Thursday.

[Handwritten signature]

Equally, I think it would be wrong to ignore the coincidence that it was in Strasbourg, almost 30 years ago, that Sir Winston Churchill made one of his great European speeches (I attach the text). The symbolic continuity between his remarks in 1949 and your own could, I believe, make an effective impact.

I have therefore re-drafted the speaking note attached to your steering brief, particularly its opening paragraph, and attach the result below which you may like to glance at before your briefing meeting.

[Handwritten signature]

19 June 1979

DRAFT OPENING REMARKS AT THE EUROPEAN COUNCIL (FIRST SESSION)  
AT STRASBOURG ON 21 JUNE

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① I am very glad to attend, for the first time, the highest political forum of the Community, where final responsibility for the Community's affairs is exercised. If I had any feeling of unfamiliarity, it has been dispelled by the warmth of your welcoming remarks, Mr. President.

② Our meeting in Strasbourg today has a very special significance for a British Prime Minister and especially for a Conservative Prime Minister. For it was here, only a few hundred metres from where we are sitting, that almost exactly thirty years ago Sir Winston Churchill made the first great British affirmation of commitment to the European ideal.

On 12 August 1949, at an open air meeting in the Place Kleber in Strasbourg, Sir Winston declared:

"That primary and sacred loyalty that one owes to one's own country is not difficult to reconcile with this larger feeling of European fellowship. On the contrary, we will establish that all legitimate interests are in harmony and that each one of us will best serve the real interests and security of his country if we enlarge at the same time both our sentiment of citizenship and of common sovereignty - if we include in this sentiment the entire continent of States and of nations who have the same way of life."

/ Sir Winston



Sir Winston began his speech with the phrase which many of you will recall: "Prenez garde! Je vais parler en Français." My courage is less monumental than his. But I should like to make, for the new British Government, an affirmation which I have already had the chance to express to you, Mr. President, and to some of our colleagues in the Council: an affirmation which provides some continuity with that August day in Strasbourg thirty years ago.

The new British Government has a positive belief in the European ideal and a total commitment to the United Kingdom's membership of the Community.

We believe that our membership offers the best way forward for our country and that it can bring benefit to Europe as well. My Cabinet colleagues and I are deeply devoted to the cause of Europe: we shall do everything we can to make it work and we shall co-operate on all issues to the greatest extent possible.

Our approach to the Community is simple and direct: we can achieve much more together than any of us can achieve alone.

/ I have, I hope,

I have, I hope, made it equally clear that where aspects of our membership give rise to real problems or difficulties we shall be as resolute as any of our partners in defending our interests and working for redress.

Our agenda gives us the opportunity to work together on the most important issues of the day: the economic and social situation of our own peoples and of the world, particularly in the face of the energy crisis.

~~Some~~ This Government is determined to tackle the problems of the British economy. Last week's Budget will put us on a different road. A stronger Britain means a stronger Europe.

*Although we reserve our position on joining (can't make a decision of the 7 until)*  
" I should like to inform my colleagues that the UK ~~will not~~ ~~have decided~~ to participate in the deposit of reserves on a swap basis with the European Monetary Co-operation Fund in exchange for ECUs." *This will be announced later today.*  
it clear that, whatever our decision in due course on participation in the exchange rate arrangements, we desire to be closely involved in the evolution of the European currency unit and of European monetary institutions.

/Together we can



Together we can build a stronger Europe to face the grave crises which threaten us in the next years, in energy and perhaps in more direct form from the growth of Soviet power in a dangerously chaotic world. We should take decisions here in Strasbourg which will clear the decks and get rid of old outstanding grievances so that we can face these problems and move forward more effectively together.

from Complete speeches 1974 vol. 7

① First time - this form - result of the Community

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② Words - Rank Speeches of Winston Churchill - To all - speech

religion et de guerres dynastiques; après trente ans de luttes, j'ai confiance que nous sommes arrivés à l'effacement nationaliste. Après toutes nos victoires et toutes nos souffrances, allons-nous maintenant sombrer dans un dernier chaos, dans des guerres idéologiques de lancées par nous par des organisations barbares et criminelles, préparées par les agitateurs de la cinquième colonne qui s'infiltrèrent et conspirèrent dans tant de pays.

③ Non, je suis certain qu'il est en notre pouvoir de traverser les dangers qui sont encore devant nous, si nous le voulons. Nos espoirs et notre travail tendent vers une époque de paix, de prospérité, de plénitude. L'Europe feront d'elle, une fois de plus, la source même et l'inspiration de la vie du monde. Dans tout cela nous avons le soutien de la puissance américaine au-delà de l'Atlantique, et des Etats souverains qui sont membres de l'Empire et du Commonwealth des Nations.

④ Les dangers qui nous menacent sont grands, mais grande aussi est notre force et il n'y a aucune raison de ne pas réussir à réaliser le but et à établir la structure de cette Europe Unie dont les conceptions morales pourront recueillir le respect et la reconnaissance de l'humanité, et dont la force physique sera telle que personne n'osera la molester dans sa tranquille marche vers l'avenir.

European Institutions

UNITED EUROPE

12 August 1949

[TRANSLATION]

Take heed! I am going to speak in French.

In this ancient town, still marked by the wounds of war, we have gathered together to form an Assembly which, we hope, will be one day the Parliament of Europe. We have taken the first step and it is the first step which counts. This magnificent assemblage of the citizens of Strasbourg has been convened by the European Movement to show the world what force there is in the idea of United Europe, what power, not only in the minds of political thinkers, but in the hearts of the great common masses in all European countries where the people are free to express their opinion.

I feel encouraged, but I am astonished also, to see what remarkable results we have obtained in such a short time. It is not much more than a year since, at our Congress of The Hague, we demanded the creation of a European Assembly. We had to mobilize public opinion to persuade powerful governments to transform our requests into realities. We had to overcome serious misgivings.

But we had also, on our side, with us, many friends of this great cause of United Europe, and among them some friends who held ministerial power. None of these friends has done more for the European Movement than Mr. Spaak, who has been the longtime champion of a European Parliament and who, yesterday here in this city, was unanimously elected its first President.

We are reunited here, in this new Assembly, not as representatives of our several countries or various political parties, but as Europeans forging ahead, hand in hand.



and if necessary elbow to elbow, to restore the former glories of Europe and to permit this illustrious continent to take its place once more, in a world organization, as an independent member sufficient unto itself.

That primary and sacred loyalty that one owes to one's own country is not difficult to reconcile with this larger feeling of European fellowship. On the contrary, we will establish that all legitimate interests are in harmony and that each one of us will best serve the real interests and security of his country if we enlarge at the same time both our sentiment of citizenship and of common sovereignty—if we include in this sentiment the entire continent of States and of nations who have the same way of life.

These principles which govern us are defined in the Constitution of the United Nations, of which Europe should be a vigorous and guiding element; these principles are also, in general terms, formulated in the Declaration of the Rights of Man proclaimed by the United Nations. Thus, not only will we find the road to the rebirth and to the prosperity of Europe, but at the same time we will protect ourselves against all risk of being trampled, of being crushed by whatever form of totalitarian tyranny, whether it be the hated domination of the Nazis, which we have swept away, or any and all other forms of despotism.

For my part, I am not the enemy of any race or any nation in the world. It is not against any race, it is not against any nation whatever that we are gathered. It is against tyranny in all its forms, ancient or modern, that we resolutely rise. Tyranny remains always the same, whatever its false promises, whatever name it adopts, whatever the disguises with which it clothes its servants.

But if we wish to win our supreme reward, we must cast aside all our obstacles and become masters of ourselves. We must elevate ourselves above those passions which have ravaged Europe and put her in ruins. We must have done with our old quarrels; we must renounce territorial ambitions; national rivalries must become a creative rivalry in all spheres where we can give the most genuine service to our common cause.

In addition, we should take all the steps and all the precautions necessary to be very sure that we will have the power and that we will have the time to realize this transformation of Europe in which the European Assembly (now in actual fact assembled at Strasbourg) has such a great role to play. It will only be able to play this role if it shows those qualities of good sense, of tolerance, of independence, and above all of courage, without which nothing great is done in this world.

And to finish, I ask the help of this vast gathering of the citizens of Strasbourg; you belong to the tremendous masses of men that we affirm to represent and whose rights and interests we have the duty to defend. There are, in Europe, on both sides of the iron curtain, millions of simple hearths where all hearts are with us. Will we never give them a chance to prosper and to thrive? Will they never live with security? Will they never be able to delight in the simple joys and freedoms that God and Nature have given them? Will the man who works honestly for his bread never be able to reap the fruits of his labour? Will he never be able to raise children in good health, happy, with the hope of better days?

Will he never be free of fear—fear of foreign invasion, fear of the bursting of

bombs and shells, fear of the heavy step of the enemy patrol, and above all, and it is this that is the worst, fear of knocks pounded on the door by the political police, who come to abduct a father or a brother outside the normal protection of the Law and of Justice—whereas each day, by a single spontaneous effort of his will, this man, this European could awaken from this nightmare and rise free and virile in the great light of day?

In our long history we have triumphed over the dangers of religious wars and of dynastic wars; after thirty years of strife I am confident that we have come to the end of nationalist wars. After all our victories and all our sufferings, are we now going to sink into a final chaos, into ideological wars launched among us by barbaric and criminal oligarchies, prepared by the agitators of the fifth column who infiltrate and conspire in so many countries?

No, I am certain that it is in our power to pass through the dangers that are still ahead of us, if we so wish. Our hopes and our work are leading to a time of peace, of prosperity, of plenitude, where the inexhaustible richness and genius of Europe will make her once more the very source and inspiration of the life of the world. In all of this we are advancing with the support of the powerful Republic beyond the Atlantic and the sovereign states who are members of the Empire and the Commonwealth of British nations.

The dangers which threaten us are great, but great also is our strength and there is no reason to not succeed in realizing the goal and in establishing the structure of this United Europe whose moral concepts will be able to reap the respect and recognition of humanity, and whose physical strength will be such that no one will dare molest her on her tranquil march to the future.

[Translation by Ingrid Russell.]

### “A MEETING-PLACE OF THE FUTURE PARLIAMENT OF EUROPE”

August 15, 1949

*Freedom of the City Ceremony, Strasbourg*

[Extract] . . . I well remember that anxious January afternoon in 1945 when it seemed that Strasbourg might be delivered again into the power and to the vengeance of the Germans, and how grateful I was to General Eisenhower for assuming an additional military burden to prevent that happening. I had had something to do also with making it possible for the Leclerc division to accomplish the liberation of Strasbourg. There were difficulties about its equipment and transport, and I made personal exertions to overcome them, so that the division under its heroic commander would be able to undertake the glorious role it did both at Strasbourg and in Paris.

My last visit to Strasbourg was made almost 10 years ago to the day, when, with my friends General Georges and General Gamelin, I visited what soon became the



Mr Petrie (EID(I))

European Council: CAP Prices and the Budget

At the lunch given yesterday in Paris for the Ministers attending the Political Cooperation meeting, M. Francois-Poncet told the Secretary of State that the French Prime Minister had made clear that it would be very difficult for the French Government to accommodate the UK's requirements on the Community budget so long as the British attitude over the agricultural price fixing remained inflexible. It was clear from what M. Francois-Poncet said that M. Barre hoped that, at a minimum, the British Government would agree to increases in prices for cereals.

*Paul Lever*

(P Lever)

19 June 1979

cc: PS/LPS  
PS/PUS  
Mr Butler  
Mr Bullard  
Mr Fretwell  
Mr Franklin (Cabinet Office)  
Mr Cartledge (No 10)  
Mr Waters (MAFF)

20 JUN 1979





This is a copy. The original has been extracted and retained under Section 3(4)

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PRIME MINISTER

Prime Minister

P.A. *[scribble]*

To be before your Briefing Meeting tomorrow I very much agree with Sir John on both counts. *[scribble]*

European Council Briefing Meeting

I should like to offer you two thoughts in advance of your briefing meeting tomorrow.

2. The first is that I was very struck by two remarks which I heard on Thursday. During the discussion on Community Affairs at Cabinet that day, you expressed doubt about the progress that had been made in bringing home to our partners the seriousness of our Budget problem: but that night I sat next to the Governor of the Bank of France who told me that when he went to see President Giscard about something connected with the Tokyo Summit all he got in reply was a ten-minute lecture on how much the President had been impressed by your visit and on how you were someone to be treated seriously.

3. The walls of the EEC Budget are not going to collapse at the first sound of the trumpet, but equally so I think it would be wrong to underestimate the extent to which our partners' attitudes have changed recently. Until last December's European Council our problem was barely recognised. Since then, and especially since the present Government took office, the majority of our partners have come to recognise both the existence and the scale of our problem. What is more (and this of course was what underlay President Giscard's remarks to M. Clappier) they have recognised that it is much more difficult to rebuff this Government than its predecessor. I know you are, and rightly, impatient for action but your talks with Chancellor Schmidt and President Giscard both went well. We now have evidence \* ~ \* that Schmidt himself is persuaded of the need to ease our financial burden in the Community as a means of reinforcing the Government's commitment to Europe. The bilateral visits undertaken recently by the Foreign and Commonwealth Secretary and the Lord Privy Seal have also borne some fruit. Similarly the Commission's thinking has shifted considerably. After stone-walling through the earlier discussions on convergence the Commission now likewise acknowledged the size of our problem and are ready to play a role in suggesting remedies.

\* ~ \* Passage deleted and retained under S.3(4)  
Wayland  
17 November 2009



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4. It would be foolish to think that our partners will lean over backwards at Strasbourg to meet us. You will not get the remit to the Commission that we want without a fight; and even if we get it the real battle will only have begun. But I think you should not underrate the extent of the progress which you have already made in getting the main Heads of Government concerned to accept that there is a problem which has to be taken seriously. And, as always with the EEC, once the political commitment is there, the mechanical solutions can be found.

5. My second point relates to the fact that we have few cards, other than determination and reiteration of the Government's commitment to Europe, to play in the difficult negotiations on the Budget. One painless card is however to swap some of the United Kingdom's reserves for ECU's. In your talk with President Giscard you said that it might be possible to do this at the time of the exchange rate review: but I wonder whether it is worth considering taking this step at Strasbourg.

6. It is common ground with the Treasury and the Bank of England that, because of the way the mechanics have been agreed, the exchange of 20 per cent of reserves against ECU's has virtually no practical effect: it carries neither risk nor financial benefit. By the same token, it is not a move for which we could expect our partners to pay. On the other hand, it could have considerable presentational value at the forthcoming Strasbourg meeting. At that meeting you will be pressing the rest of the Community for action on the Budget. You will also be steering a careful course on energy between being co-operative and avoiding commitments about our domestic energy supplies.// At the same time you will be presenting the Government's more constructive approach to Europe, and in this context a gesture like announcing the Government's intention to exchange reserves for ECU would go down well. The Treasury may be fearful that such a move at this stage would be interpreted as a commitment to join the exchange rate mechanism later: but if you accompanied it by a clear statement that the Government did not intend to review that question until the autumn, any such risk would be avoided. If we do not play this small card



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now, its presentational value will diminish. If the Government decides to join the exchange rate mechanism in the autumn, the deposit of reserves follows automatically and will carry no extra kudos. If the Government decides to stay out, the deposit of reserves would not take any tricks and would be too late to have any influence on attitudes towards our main thrust on the Budget. This is a point that you could raise at your briefing meeting on Tuesday afternoon.

*Joh*

(John Hunt)

18th June, 1979

PRIME MINISTER

*P. a. J. M.*

EUROPEAN COUNCIL, STRASBOURG, 21/22 JUNE

I attach your briefs for the meeting of the European Council in Strasbourg on 21/22 June, which you may like to glance through over the weekend. Your briefing meeting for the Council is on Tuesday, 19 June at 1700.

*Mosr g t* The briefs follow the layout which you suggested after your visit to Paris on 5 June. It would be helpful to know if you would like any modifications for future meetings.

You will wish to see in particular the draft speaking note for your opening intervention in the Council which is annexed (Flag A) to the Steering Brief; and the further speaking note (Flag B) on the Budget, annexed to Brief No. 6. These can be revised as necessary in the light of the discussion at the briefing meeting on Tuesday.

One brief (No. 21) is still to come and will follow shortly.

*Am.*

15 June 1979



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EHG(S)(79)1

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3

14 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

INDEX OF BRIEFS

Brief by the Foreign and Commonwealth Office

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8	European Monetary System
9	Employment and Social Policy
10	Prospects for the Tokyo Summit
11	EEC/Japan
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13	Political Cooperation Subjects
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15	Common Fisheries Policy
16	Economic Aid for Turkey
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① Strasbourg with  
② OYAS - abolition  
then a long  
discussion?

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19	Renegotiation of the Lomé Convention
20	Nuclear Matters and Euratom
21	Structure of the Community in 1990

FOREIGN AND COMMONWEALTH OFFICE  
14 June 1979



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COPY NO. 1

14 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

ORGANISATION

1. The first European Council this year was held in Paris on 12/13 March: the third will be in Dublin on 29/30 November. Normally one meeting a year is held in Brussels. But the French argued successfully that the second meeting this year should be in Strasbourg, where the new directly elected European Parliament will be meeting for the first time on 17 July.
2. The timetable of events is at Annex A.
3. European Councils have been held regularly since December 1974. Their procedures, a mixture of informal and formal discussions, are described in Brief No 3.
4. Each country is represented by its Head of Government (in the case of France by its Head of State) and Foreign Minister; and the Commission by Mr Jenkins and M. Ortoli. Brief No 2 (Folder 2) gives brief personality notes and points for bilateral encounters with each.

/AGENDA AND DOCUMENTATION

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AGENDA AND DOCUMENTATION

5. There is no formal agenda; and in theory each Head of Government is free to raise new subjects. The order of business is finally determined at the meeting itself. At the Foreign Ministers' Council on 12 June, although the French avoided finally committing President Giscard, there was general agreement on the following order:

- (1) Direct elections to the European Assembly
- (2) The economic and social situation in the Community
- (3) The European Monetary System
- (4) Energy
- (5) Convergence
- (6) Social problems (including work sharing)
- (7) The Commission report on the structure of the Community in 1990
- (8) Any Other Business, including discussion of economic relations with Japan

Prospects for the Tokyo Summit does not appear as a separate item. The Presidency envisage discussion of many items, especially energy, being treated in that perspective.

~~6. The following documents are likely to be before the Council:~~

~~(a) Direct Elections~~

~~The Presidency will include in their draft Conclusions a passage on the first direct elections.~~

~~(b) Economic and Social Situation~~

~~A Commission paper.~~

~~(c) EMS~~

~~Oral report by M. Clappier (French President of Central Bank Governors' Committee).~~



Following replaces paragraph 6 of the Steering Brief

6.

DOCUMENTATION FOR THE EUROPEAN COUNCIL

1. The following documents are likely to be before the Council.

(a) International Energy Situation

(i) Memorandum from the Presidency on energy: (Reference A to Brief No **4**);

(ii) The Commission paper on the current situation in the energy sector: (Reference B to Brief No **4**);

(b) Budget/Convergence

Note by Finance Ministers covering a report by the Permanent Representatives Committee on convergence of economic performance (Reference B to Brief No **5**);

(c) Economic and Social Situation

A Commission paper entitled "Economic situation and policies" (Reference A to Brief No **6**);

(d) Social Problems

Commission paper on worksharing and its economic and social implications (Reference B to Brief No **8**);

(e) EEC/Japan

A Commission paper (Reference A to Brief No ~~8~~);

4 - Folder 2

(f) Structural Developments in the 1980s

A Commission paper (Reference A to Brief No ~~8~~).

13 - Folder 2

UK OBJECTIVES

7. (a) To get agreement that action should be taken to remedy the UK inequitable net Budget contribution;

(b) To contribute to a common position of the Community on energy for Tokyo;

(c) To avoid a commitment on worksharing, without taking the lead;

(d) To agree a line on Japan.

/OBJECTIVES OF

- 4 -

## OBJECTIVES OF OTHER GOVERNMENTS

8. All Member States will follow President Giscard's lead in regarding energy as the principal item of the agenda. Some may seek to use it to curtail discussion of the Community Budget. Even those who agree that instructions about the Budget should be given to the Commission will try to ensure that its terms of reference concede as little as possible of the UK case.

9. Other Heads of Government will be looking forward to hearing at first hand the Government's attitude to the Community so as to judge whether the Government's European convictions are genuine rather than a tactic to secure negotiating advantage. They will be interested in particular in what contribution we make to the energy item on the agenda.

## TACTICS

10. Unless the Community Budget is properly discussed on the first day it will be extremely difficult to get agreement on satisfactory decisions by the end of the Council. The overnight official working group can only take up points made at the Council itself. It is therefore necessary for the Prime Minister to get the Council to tackle the Budget problem on the first day. The best tactic will probably be for the Prime Minister to make a general statement of HMG's overall approach to the Community early on, when she could also make clear her wish for the Council to take the Budget item before dinner (speaking note to be submitted separately). Alternatively, it may be possible to get Giscard to agree beforehand to satisfactory handling of the item on these lines.

/RESUMÉ OF BRIEFS



## RESUMÉ OF BRIEFS

## ITEMS DEFINITELY FOR DISCUSSION

5 - Folder 2

## DIRECT ELECTIONS (Brief No 3)

11. The French have proposed that the Council might mark the event by some kind of courtesy declaration. We have no objection in principle provided it is in general terms. It is just possible that the French will also seek to raise other aspects eg. the powers of the Parliament, its relations with other Community institutions and its site (one of its working places is Strasbourg). But none of these merits substantive discussion by the European Council on this occasion.

## ECONOMIC SITUATION IN THE COMMUNITY (Brief No 6)

12. This review of the current economic situation provides the opportunity to explain the new Government's economic policy especially following the UK Budget.

## EUROPEAN MONETARY SYSTEM (Brief No 7)

13. The Governor of the Bank of France will report. This will provide an opportunity for other Member States to discuss their experience of EMS so far. They will want to hear the Prime Minister's account of the UK attitude to participation in the exchange rate mechanism: on this it will be enough to restate the commitment to reconsider the UK position when the mechanism is reviewed in September and meanwhile to take part in other aspects of the system. If the question of EMS interest rate subsidies is not settled at the Finance Council on 18 June, the Prime Minister may come under pressure to modify the UK stance. The brief recommends her to resist except as the price for securing a major benefit elsewhere.

/INTERNATIONAL ENERGY



## INTERNATIONAL ENERGY SITUATION (Brief No 4)

14. We shall wish to press for effective Community action on demand restraint; to get the Council to put on record for the Tokyo Summit the Community's willingness to discuss energy questions with OPEC; and, more immediately, to agree on the dangers both for Europe and for OPEC of further major oil price rises. There may be proposals for discreet approaches by the Community to OPEC countries before their Geneva meeting; these may not achieve much but we need not oppose them. It is likely that some other Member States will make proposals for direct action by Governments on oil supply or prices. It remains [as at 14 June] to be decided by UK Ministers what our attitude should be to such proposals and whether or not we should pre-empt them by proposals of our own. We believe the key lies in reducing demand.

## BUDGET/CONVERGENCE (Brief No 5)

15. The March European Council invited the Council and Commission "to examine in depth how the Community could make a greater contribution by means of all its policies taken as a whole to achieving greater convergence of the economies of Member States and to reduce the disparities between them". Work on the problem has continued at official level. But it has been clear for some time that progress can only be made at the political level. The Finance Council will discuss the question at its meeting on 18 June and the brief may need revision in the light of its conclusions. Our objective is to get agreed an instruction, on the lines of Annex B, from the European Council to the Commission to propose solutions by the end of September in time for decisions to be taken at the November Council in Dublin. Further handling of the question by the Commission and Member States will depend on the wording of this instruction. Unless the European Council gives the right guidance for future work, we shall not get the action we want.

/EMPLOYMENT AND



## EMPLOYMENT AND SOCIAL POLICY (Brief No 8)

16. The European Council is likely to discuss the Community's role in tackling unemployment, and the involvement of the trade unions in Community business. The Presidency may wish to include a section on this in their statement after the meeting, but as the Commission report is an interim one it is not expected that the Council will be faced with any difficult decisions. We could express willingness to consider proposals for Community action which could have a practical effect on employment, whether by concerted macro-economic action on growth or by use of Community financial instruments including the Social Fund. This might involve measures such as worksharing or vocational training (under consideration). Initiatives which are inflationary or impair industrial efficiency such as some schemes for work-sharing discussed at recent meetings of the Finance and Social Affairs Councils would not be acceptable but other countries will have objections too. We are ready to take part constructively in discussion of expected Commission proposals; but the economic implications of worksharing measures should be fully studied in the Economic Policy Committee to which they have been remitted by the Finance Council. And we may need to note that we cannot support measures incompatible with our policy of cutting domestic expenditure and taxes.

STRUCTURE OF COMMUNITY IN 1990 (Brief No <sup>13 Folder 2</sup> 8)

17. The December 1978 European Council asked the Commission "to provide for its second meeting in 1979 (ie. this Council) a study of structural development prospects until 1990. This study should assess the consequences of structural changes for the economic and social situation in the Community". The Commission report is not yet available. A brief will be prepared as soon as possible. Discussion is likely to be of a very general nature, leading to no immediate decisions.

/PROSPECTS FOR



PROSPECTS FOR THE TOKYO SUMMIT (Brief No <sup>3 - Folder 2</sup> ~~19~~)

18. There is no separate item but the smaller Member States like to express views which will be taken into account by the President of the European Council and the President of the Commission who represent the Community as such at Tokyo. Otherwise they feel left out. There will be general agreement that the energy situation is complicating an already uncertain international economic situation and that this should be the main subject for discussion and decision at Tokyo. UNCTAD V having reached only a limited measure of agreement - and with the developing countries facing growing balance of payments problems because of the oil price rises - the Tokyo Summit is also likely to have to address itself to the North/South dialogue.

<sup>4 - Folder 2</sup>  
EEC/JAPAN (Brief No ~~20~~)

19. The Japanese run a persistent surplus in their trade with the EEC (\$6.4 billion in 1978, up 11% on 1977). The March European Council expressed concern about this. Despite the narrowing of their overall surplus in the early months of this year, the surplus with the Community has not gone down. In any case the reduction in their overall surplus is unlikely to be more than temporary as the recent depreciation of the Yen will lead to an increase in Japanese exports. We want to see the Japanese increase their imports of Community manufactures and bring about long-term structural change which will lead to a lasting reduction in their current account balance. We are content that the Community (acting through the Commission) should play a role in negotiations with the Japanese on economic as well as purely trade questions.

/ITEMS WHICH MAY



## ITEMS WHICH MAY COME UP

POLITICAL COOPERATION SUBJECTS (Brief No ~~6~~)

6 - Folder 2

20. Given that Foreign Ministers will have had a full meeting in Political Cooperation on 18 June, no separate Ministerial meeting is planned for the margins of the European Council. But there may well be informal discussion of topics of current interest. Briefing is provided on the Middle East, Africa, the Viet-Nam refugee problem and President Giscard's proposal for a Euro/Arab/Afro Summit.

COMMON AGRICULTURAL POLICY (Brief No ~~10~~)

9

21. The Agriculture Council is to meet to discuss farm prices for 1979/80 in the same week as the European Council, beginning on 18 June. The UK may be alone (except for possible support from Italy) in supporting the Commission's proposals for a price freeze. If no agreement is reached the subject may be raised at the European Council; we may be pressed, by the French in particular, to modify our position; and Giscard might try to make a link with the Budget item. Separate briefing will be submitted if necessary.

COMMON FISHERIES POLICY (Brief No ~~11~~)

7 - Folder 2

22. We do not want an early meeting of the Fisheries Council, but if the meeting planned for 25 June takes place we hope a fresh start will be made to consider the issues in a better spirit; though substantive progress is not likely before the Autumn.

ECONOMIC AID FOR TURKEY (Brief No ~~12~~)

8 - Folder 2

23. At the OECD pledging meeting on 30 May, the Turks were promised access to \$1.45 billion, made up of \$662 million in grants or loans (\$30 million from the UK), \$245 million in medium-term export credits, \$400 million from the commercial banks and \$150 million from the World Bank, all subject to their reaching an agreement with the IMF on a stabilisation programme.

/These figures



These figures do not include EEC aid, which amounts to \$400 million under the Third Financial Protocol between now and 1981 and \$100 million under emergency assistance. The results of the OECD meeting should make discussion of Turkey at the European Council unnecessary, even though the Turks have inevitably expressed dissatisfaction, particularly about IMF conditionality.

9 - Folder 2

THREE WISE MEN (Brief No 9)

24. Unlikely to come up, except possibly in the margins of the Council. If it does the Prime Minister need say no more than that we attach importance to their work and look forward to their report due in October. She will be seeing the Wise Men on 16 July.

ENLARGEMENT (Brief No 10) Folder 2

25. With the Greek accession treaty signed, the Community will turn its attention to the negotiations with Portugal and Spain. Those with Portugal are unlikely to throw up any really difficult problems though Portugal may well require substantial aid over a long period. Negotiations with Spain will involve more serious conflicts of interest. Both could finally join on 1 January 1983, two years after Greece.

26. The French, under pressure from their farmers, have slowed down the Spanish negotiations during their Presidency. It seems they accept that there should now be a speeding up. But they may be preparing to launch a bid for some form of Community compensation for the border regions of France to mitigate the expected effects on them of Spanish membership.)

LOMÉ RENEGOTIATION : SIZE OF THE NEW EUROPEAN DEVELOPMENT FUND  
(Brief No 11) Folder 2

27. President Giscard may also raise the subject of the hiatus in the renegotiation of the Lomé Convention caused by ACP rejection of the Community's offer on the size of the new European Development Fund (EDF). During the 24/26 May EEC/ACP Brussels Conference it was accepted by all on the EEC side

/that there



that there could be no increase on the maximum figure of 4,540 mua (£2,951 m) agreed by EEC Ministers during the Conference. At the 12 June Foreign Affairs Council, however, the French Presidency put forward a somewhat re-arranged version of the Community's offer, involving inter alia an increase of 200 mua on the 4,540 figure. They envisaged also a higher UK share of this figure than we can accept. Discussions are continuing but a solution may not emerge before the European Council.

12 Folder 2

NUCLEAR ENERGY/EURATOM (Brief No ~~20~~)

28. We do not expect nuclear matters to be raised at the Council. But if the French raise non-proliferation or Euratom, the Prime Minister could express support for the idea of a political dialogue on non-proliferation topics among the Nine, and for the view that the relevant provisions of the Euratom Treaty should correspond more closely to the actual arrangements for nuclear trade.

FOREIGN AND COMMONWEALTH OFFICE

14 June 1979

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ANNEX A

EUROPEAN COUNCIL, STRASBOURG, 21/22 JUNE 1979

Provisional Programme (subject to Presidency confirmation)

The Prime Minister and the Secretary of State will stay at the Grand Hotel, Place de la Gare, Strasbourg. The programme will be as follows:-

Thursday 21 June

1300

Lunch for the Heads of Government, Ministers for Foreign Affairs, Mr Jenkins and M. Ortoli (Hotel de la Préfecture, 19 Rue Brûlé).

(Buffet lunch for other members of the delegation at the Cercle Militaire, Place Broglie.)

1500-1830

Formal session (Hotel de Ville, Place Broglie).

2000

Dinner for Heads of Government and Mr Jenkins (Chateau des Rohan, Place du Chateau).

Separate dinner for Foreign Ministers and M. Ortoli (Pavillon de l'Orangerie).

After dinner

Informal talks among Heads of Government.

Presidency have no plans for informal talks among Foreign Ministers who will be free to continue any discussions begun at dinner at their discretion.

/Friday

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Friday 22 June

0930-1230

Formal session resumes (Hotel de Ville).

1230

Presidency press conference.

1300

Optional buffet lunch available for Heads of Government/Foreign Ministers and officials separately (this is a contingency arrangement by the Presidency in case the formal session overruns).

Note.

1. Simultaneous translation will be provided at formal sessions; whispered interpretation as necessary at meals and informal sessions.

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## COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GNP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. // Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all member states and, in particular, does not continue to hinder member States with below-average GNP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.



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EHG(S)(79)2 (Addendum)

COPY NO 1

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

Attached are Notes for the Prime Minister's opening remarks  
(see paragraph 10 of the Steering Brief EHG(S)(79)2).

Foreign and Commonwealth Office

15 June 1979

## EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

Brief by the Foreign and Commonwealth Office

NOTES FOR THE PRIME MINISTER'S OPENING REMARKS

[President Giscard will probably address a welcome to the Prime Minister. Depending on the timing and content, the Prime Minister might take the opportunity in responding to ask for discussion of the Budget/Convergence item on the first day. Alternatively she might use only paras 1-5 and 8 at that stage and para 6 on the adoption of the agenda. It will in any case be best if she can have a word with President Giscard privately over lunch and get his assurance that at least an hour will be devoted to our Budget problem on the first day.]

1. This is the highest political forum of the Community, the place where final responsibility is exercised. Glad to take part and to make contribution.
2. If I had any feeling of unfamiliarity it is dispelled by the warmth of your welcoming remarks.
3. First my approach to the Community is simple and direct. <sup>Can achieve</sup> ~~There is much~~ ~~that we can achieve together: much more than we can each achieve alone.~~   
 *much more together than any of us can achieve alone*
4. Our agenda gives us the opportunity to work together on the most important issues of the day: the economic and social situation of our own peoples and of the world, particularly in the face of the energy crisis.
5. Second, this Government is determined to tackle the problems of the British economy. Last week's Budget will put us on a different road. A stronger Britain means a stronger Europe.



6. But thirdly the Community must help us not make it harder. I hope that before we adjourn today we can discuss one problem - the way present Community policies, reflected in the Budget, help or hinder the economic performance of some of its members. We need to reach an agreed conclusion before the end of the Council.

7. You will find that as matters come before each Council meeting this Government is determined to act in a constructive spirit. We are ready to share the burden but not to carry too much of the load.

8. Together we can build a stronger Europe to face the grave crises which threaten us in the next years, in energy and perhaps in more direct form from the growth of Soviet power in a dangerously chaotic world. We should take decisions here in Strasbourg which will clear the decks and get rid of old outstanding grievances so that we can face these problems and move forward more effectively together.

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EHG(S)(79)3

COPY NO 1

EUROPEAN COUNCIL  
STRASBOURG, 21/22 JUNE

**EUROPEAN COUNCIL PROCEDURES**

Brief by Foreign and Commonwealth Office

References: None

ORIGINS AND STATUS

1. The European Council is not an institution set up by the Treaties and its formal status is nowhere very clearly defined - partly in order to preserve its informality of procedure.
2. The European Council was established on a French initiative at the Paris Summit on 9 and 10 December 1974. The communiqué (text at Annex A) issued after that meeting said "The Heads of Government have therefore decided to meet, accompanied by the Ministers of Foreign Affairs, three times a year and whenever necessary, in the Council of the Communities and in the context of political co-operation."
3. The European Council is thus qualified to discuss both questions which fall under the Treaties and those that do not. It is theoretically possible for it to constitute itself as a Council of Ministers and take formal decisions on Community questions. But hitherto it has preferred to lay down "orientations" (guidelines) and leave execution to the appropriate Council.

ORGANISATION AND PROCEDURES

4. Under UK Presidency in June 1977 the European Council agreed on an internal document (text at Annex B) regarding its future organisation.
5. Succeeding Presidencies, in whose hands the preparations and conduct of European Councils essentially lie, have generally followed these guidelines. The pattern of meetings has generally been similar to that proposed for this occasion.

/DOCUMENTATION



## DOCUMENTATION

6. At recent meetings there has been no formal Communiqué. The main document to emerge has been the "Presidency Conclusions", a confidential record of what has been agreed, but which is drawn on extensively for press briefing. The content of the Conclusions is agreed in the Council, but the Presidency enjoys some discretion over the precise language and it is necessary to ensure that this is not abused (see below).

7. Other documents may emerge from the Council, sometimes without any clear status. The important distinction is whether they are intended for publication or not. There is close UK Parliamentary interest in European Council documents and PQs may be asked requesting their deposit in the Commons Library. The practice has been to make available only those documents whose publication was clearly agreed by the Council.

8. No minutes are issued, either by the Presidency or the Council Secretariat and we have no access to their notes. Officials are therefore dependent on notes made by the Prime Minister and Foreign Secretary in the meeting and on oral briefing to know what has been said. This can be of great importance for follow-up work.

## TACTICS

9. The Presidency Conclusions are crucial. They are prepared by officials overnight and are supposed to reflect discussion in the Council. The Presidency Chairman of each Working Group gives his version of that discussion as a basis for drafting. The drafts are then 'approved' by the Council at its formal session. Where officials are unable to agree, alternative versions go forward to the Council in square brackets.

10. From this three tactical points follow:

- (a) Items not discussed on the first day will probably not be satisfactorily dealt with in the conclusions;

/(b)

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-3-

- (b) The Presidency's oral summing up of each item is vital and immediate objection must be made if it is unacceptable in any important respect;
- (c) UK officials in the drafting groups must know our version of what happened at the Council.

OFFICIAL SUPPORT

11. No officials are present at the Council except two each from the Council Secretariat and the Presidency (UKREP will provide a plan of the table). Officials wait outside. The Prime Minister and the Foreign Secretary can call in the UK liaison officer at any stage if they want to send out a document for comment by UK experts. Private secretaries are in attendance outside the dinners, sometimes plus one official.

PRESS

12. The Presidents of the Council and the Commission give a Press conference at which the general results of the Council are described. Ministers are free to see the Press at any time in a separate Press centre. UK Ministers have usually seen the Press at the end of the meeting and **have** sometimes given a briefing before dinner on the first day in order to counter versions of the first day's discussions circulated from other delegations.

FOREIGN AND COMMONWEALTH OFFICE

14 June, 1979

CONFIDENTIAL



(EXTRACT)

THE EUROPEAN COMMUNITIES  
TEXT OF THE COMMUNIQUE ISSUED BY THE HEADS OF  
GOVERNMENT OF THE NINE STATES OF THE EUROPEAN  
COMMUNITY AT THEIR MEETING IN PARIS ON  
THE 9th AND 10th OF DECEMBER 1974

1. The Heads of Government of the Nine States of the Community, the Ministers of Foreign Affairs and the President of the Commission, meeting in Paris at the invitation of the French President, examined the various problems confronting Europe. They took note of the reports drawn up by the Ministers of Foreign Affairs and recorded the agreement reached by these Ministers on various points raised in the reports.

2. Recognizing the need for an overall approach to the internal problems involved in achieving European unity and the external problems facing Europe, the Heads of Government consider it essential to ensure progress and overall consistency in the activities of the Communities and in the work on political co-operation.

3. The Heads of Government have therefore decided to meet, accompanied by the Ministers of Foreign Affairs, three times a year and whenever necessary, in the Council of the Communities and in the context of political co-operation.

The administrative secretariat will be provided for in an appropriate manner with due regard for existing practices and procedures.

In order to ensure consistency in Community activities and continuity of work, the Ministers of Foreign Affairs, meeting in the Council of the Community, will act as initiators and co-ordinators. They may hold political co-operation meetings at the same time.

These arrangements do not in any way affect the rules and procedures laid down in the Treaties or the provisions on political co-operation in the Luxembourg and Copenhagen reports. At the various meetings referred to in the preceding paragraphs the Commission will exercise the power vested in it and play the part assigned to it by the above texts.

4. With a view to progress towards European unity, the Heads of Government reaffirm their determination gradually to adopt common positions and co-ordinate their diplomatic action in all areas of international affairs which affect the interests of the European Community. The President in office will be the spokesman for the Nine and will set out their views in international diplomacy. He will ensure that the necessary concertation always takes place in good time.

In view of the increasing role of political co-operation in the construction of Europe, the European Assembly must be more closely associated with this work, for example through replies to questions on political co-operation put to the President in office by its members.

5. The Heads of Government consider it necessary to increase the solidarity of the Nine both by improving Community procedures and by

## ORGANISATION OF EUROPEAN COUNCIL MEETINGS

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

(A) TYPES OF DISCUSSION

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

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

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

(B) ADVANCE PREPARATION OF THE AGENDA

For informal exchanges of view, it is generally agreed that little preparation is necessary, although some limited prior clarification of the questions is not to be excluded if it would facilitate discussion. Heads of Government should inform each other or the

/Presidency



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

(C) THE ISSUING OF STATEMENTS

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

(D) THE RECORDING OF CONCLUSIONS

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

(E) ATTENDANCE OF OFFICIALS

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

EHG(S)(79)4

COPY NO

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14 JUNE 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

NOTES ON OTHER PARTICIPANTS

Brief by The Foreign and Commonwealth Office

1. The attached annexes contain brief personality notes on the Head of State/Government and Foreign Minister of each Member State and background points for bilateral encounters with each. There are no points the Prime Minister or Foreign Secretary need go out of their way to raise.

A : Belgium  
B : Denmark  
C : France  
D : Germany  
E : Ireland  
F : Italy  
G : Luxembourg  
H : Netherlands

2. Annex I contains a biographical note on the Vice President of the Commission.

Foreign and Commonwealth Office  
14 June 1979



BELGIUMBIOGRAPHICAL

1. M Wilfried Martens, Belgian Prime Minister since March 1979. Social Christian, born 1936; lawyer, married.
2. M Henri Simonet, born 1931, Belgian Foreign Minister since June 1977. Socialist. Belgian EEC Commissioner 1973-76, responsible for Fiscal Policy and Financial Institutions, Energy and certain Euratom matters. Married with two children. Good English.

POLITICAL

3. The formation of a 5-party coalition government in March showed that the linguistic divisions between the parties could be temporarily overcome in the face of Belgium's serious economic and social problems. But the proposals for regionalisation, which caused the collapse of M Tindemans' Government, still represent a major long term problem.

COMMUNITY QUESTIONS

4. At his meeting with the Lord Privy Seal on 7 June, M Simonet said that he accepted the European Council would have to find a formula which met the Prime Minister's political requirement; and Ministers would have to find a way of translating the formula into Community policies. But he warned that the negotiations would be tough. M Simonet also said that he was disturbed by the trend of French policy in relation to Euratom and the jurisdiction of the European Court of Justice and by the possibility that the UK might make common cause with the French against the other seven.

(See brief No 20.)

/BILATERAL QUESTIONS

BILATERAL QUESTIONS

4. M Simonet may possibly want to talk about Africa, especially Rhodesia (partly because of Belgian Parliamentary interest which is sympathetic to the UK position) and Zaire (as a former Belgian colony).



DENMARKBIOGRAPHICAL

1. Mr Anker Jørgensen, Danish Prime Minister 1972-3 and since 1975; born 1922; married with 4 children. Social Democrat. Has presided over a series of shifting and unstable coalitions. Staunch pro-European. Political background in trades unions and on Copenhagen Town Council before entering Parliament in 1964. Straightforward and likeable. Passable English.
2. Mr Henning Christophersen, born 1939, Liberal, Danish Foreign Minister since August 1978. Chairman of Denmark's most pro-European Party. Keen interest in political co-operation. Friendly, married, good English.

POLITICAL

3. Coalition between Social Democrats and Venstre party lacks majority in the Danish Parliament and has not managed to keep down wage inflation or control current account deficit. Elections are due in February 1981.

COMMUNITY QUESTIONS

4. The European election results (47% poll and 5 anti-EEC candidates elected) illustrate lack of popular enthusiasm for the EEC. But Danish Government firmly supports Community, from which Denmark indeed benefits very considerably, especially from the CAP: highest net recipients from the Community Budget (620 mua in 1978) coupled with the highest GNP per head (144% of the Community average).

BILATERAL QUESTIONS

5. None.

FRANCE

BIOGRAPHICAL

1. M Valéry Giscard d'Estaing, French President since 1974, born 1926, married with 4 children.
  
2. M Jean François-Poncet, French Foreign Minister since November 1978, born 1928, married with 3 children. Son of former French Ambassador and High Commissioner in Germany. Resigned from French Foreign Service in time of de Gaulle. Close to Giscard.

FRENCH POLITICAL BACKGROUND

3. The President's position strong and reinforced by results of European Election. Particular difficulties are Gaullist dissidence and pressures on the economy. President Giscard emphasises his European and international role, while M Barre carries responsibility for his economic strategy at home.

COMMUNITY QUESTIONS

4. Already discussed at the Prime Minister's meeting with President Giscard in Paris on 5 June. French Presidency have not helped at all since then over Convergence but have not actually gone back on Giscard's promises to allow time for discussion of it at Strasbourg.
  
5. Giscard has expressed the hope that UK Conservative MEP's will support Mme Weil's candidature for Presidency of European Parliament. The election will be on 17 July.

BILATERAL QUESTIONS

6. None.



FRG

BIOGRAPHICAL AND POLITICAL

1. Herr Helmut Schmidt, born 1918, married with one daughter. Chancellor since May 1974. Enjoys a special relationship with President Giscard. Wide popular support at home. Opposition now divided, with Herr Strauss (CSU) offering himself as candidate for Chancellor against Herr Albrecht (Minister President of Lower Saxony, CDU).

2. Herr Hans Dietrich Genscher, born 1927, married with one daughter, Foreign Minister, Vice-Chancellor and Chairman of the FDP, the junior Coalition Party, since 1974. Good working relationship with Herr Schmidt. Facing increasing criticism within his party because of its relatively poor showing in recent Land elections. Suffers from heart trouble. There is speculation that he may relinquish the post of Foreign Minister within the next few weeks.

COMMUNITY QUESTIONS

3. Already discussed at the Prime Ministers's meeting with Chancellor Schmidt in London on 10/12 May. Since then the Germans have floated (eg. at Lord Carrington's meeting with Herr Genscher on 5 June) possibility of some form of global compromise covering all major issues in the Community, whereby the November European Council might take decisions on outstanding issues such as fisheries, agriculture, energy as well as on the Budget.

BILATERAL QUESTIONS

None.

REPUBLIC OF IRELANDBIOGRAPHICAL

1. Mr Jack Lynch, Irish Prime Minister 1966/1973 and from 1977, born 1917; lawyer; married, no children.
2. Mr Michael O'Kennedy, born 1936, Irish Foreign Minister since 1977. Lawyer. Trained in priesthood. Fluent French and Italian. Married, two children. Staunch Republican background, father jailed 1920, uncle shot in attack on barracks.

POLITICAL

3. Mr Lynch's Fianna Fail has largest majority in Republic's history. Need not go to country until mid-1982. Personal authority unchallenged. But Government faces serious economic problems. Unemployment over 10%. Inflation rate high. Industrial relations bad. Republic achieved 6.3% growth last year; less this year.

COMMUNITY QUESTIONS

4. Since Mr Lynch's courtesy call on the Prime Minister on 10 May not possible to arrange full ministerial bilateral discussion on the Community, but Sir I Gilmour talked to Mr O'Kennedy in Luxembourg on 12 June and Lord Carrington hopes to arrange a meeting probably in margins of 18 June Political Cooperation meeting. Irish net receipts from Community Budget (+530 mva in 1978) second highest in Community. They are poorest in terms of GDP per head. They accept our figures for the net UK contribution to the Budget and are willing to consider proposals to deal with the problem. Will want to protect the CAP in its present form: they



do very well out of it. They would welcome UK participation in the EMS in the Irish economic interest.

NORTHERN IRELAND

4. Mr Atkins to visit Dublin shortly for talks with Irish Foreign and Justice Ministers. Main concerns are:

- (a) He will not be rushed into ill-considered political initiative.
- (b) Hopes the Irish will keep quiet about Irish unity, emphasis on which makes Northern Unionists more recalcitrant.
- (c) Continued exploitation of the border by terrorists. Cooperation with the Irish is good, but we believe they could do more. However, generalisations about Irish lack of will in dealing with terrorists merely infuriate them. We do best to concentrate on specific measures.

ITALYBIOGRAPHICAL

1. Signor Giulio Andreotti, Italian (caretaker) Prime Minister, born 1919, married with several children. Christian Democrat. Has held senior ministerial positions in Italy since the mid 50's. First became Prime Minister in June 1972. Since 1976 has headed various coalitions.
2. Signor Arnaldo Forlani, Italian Foreign Minister since 1976, born 1935, married with 2 children.

POLITICAL

3. Italian Government has been largely in the hands of the Christian Democrats since the war. They presided over shaky coalitions until 1978 when the Communist Party (PCI) joined the Government as part of the parliamentary majority but without Ministerial portfolios. The recent elections on 3 and 4 June produced a 4% decrease in the PCI vote and little change in that of the Christian Democrats. It is not yet clear whether a new government can be formed excluding the Communists, but meanwhile Signor Andreotti remains caretaker Prime Minister.

COMMUNITY QUESTIONS

4. Already discussed at the Prime Ministers' meeting with Signor Andreotti in London on 15 June. Italian support for the UK essential if we are to succeed in presenting the Budget problem as a Community one requiring a Community solution rather than a purely UK problem.



BILATERAL QUESTIONS

5. Just possible that Signor Andreotti could raise question of fuel supplies by Mobil UK to the Italian Charter Flight Company ITAVIA. Itavia has complained to HMG about cuts in these supplies. However,

(a) HMG is not in a position to instruct the oil companies how they should distribute their supplies;

(b) Mobil has applied the same formula to all its clients on a non-discriminatory basis. Itavia's complaint is therefore groundless.

There have been veiled threats by the Italian authorities about action against British charter flights to Italy and even affecting British Airways. However BP have told the Department of Trade that they will be prepared to supply Itavia with 50,000 US gallons for the month of June only at the spot-rate price, which we hope will have taken some of the heat out of the issue.

LUXEMBOURG

BIOGRAPHICAL

1. M Gaston Thorn, caretaker Prime Minister, Foreign Minister and Minister for Economic Affairs. Democrat, born 1928. Married with one son. Good English.

2. M Jean Hamilius, Deputy Foreign Minister and Minister of Agriculture. Democrat, born 1927. A widower with two children. Excellent English.

POLITICAL

3. Following Luxembourg General Elections on 10 June M Thorn handed in his formal resignation, but remains as caretaker Prime Minister until the formation of a new Coalition Government, which could take 3 weeks. M Werner (Christian Social) is likely to be the next Prime Minister, but M Thorn will probably be representing Luxembourg at the European Council, accompanied by M Hamilius.

COMMUNITY ISSUES

4. Luxembourg Ministers stressed to the Lord Privy Seal on 11 June that European Council must give a clear steer on how the Budget problem might be solved if there is to be any chance of agreement. They appeared to accept that Commission should be given a remit to produce proposals. Luxembourg determined to keep position as alternative site to Strasbourg for European Parliament.

BILATERAL QUESTIONS

5. None.



NETHERLANDSBIOGRAPHICAL

1. Mr Andreas Van Agt, Dutch Prime Minister since December 1977, born 1931, Christian Democrat. Previously Minister of Justice 1971-77. High personal standing. Claims no knowledge of economic affairs. Married with 3 children. Pleasant and friendly. Good English.
2. Dr Christoph van der Klaauw, born 1924, Liberal. Dutch Foreign Minister since December 1977, after career in Diplomatic Service 1952-77. Married with 5 children. Friendly with a sense of humour.

POLITICAL

3. Constitutional position of Dutch Prime Minister much weaker (basically a Co-ordinator among equals) than others present. Coalition Government of centrists and right-wing Liberals. Implementation of 3-year economic programme faces Parliamentary difficulties. Most sensitive issue, both in Parliament and the country, is the nuclear one; sections of Dutch opinion, including the Churches, are moving to opposition not only to the use of nuclear weapons but also to their possession.

COMMUNITY QUESTIONS

4. Dr van der Klaauw, while questioning the economic reality of the Budget problem, told the Lord Privy Seal on 7 June that this was the moment, with a new British Government, to seek a solution and get rid of this irritant. The general attitude of the British Government to the Community would be relevant to the search for a solution to the Budget problem. He gave the following commitment: "Politically, I will help you: economically, I must wait to see your proposals". He argued

that it was up to the British Government to propose solutions: this should not be left to the Commission. He also acknowledged the need to tackle the problem of CAP surpluses, but emphasised that the CAP was the one genuinely Community policy.

BILATERAL QUESTIONS

5. Mr Van Agt may possibly refer to the murder of Sir Richard Sykes. Mrs Thatcher could ask how the investigations are going.



COMMISSION

Mr Jenkins

1. The Prime Minister had a full discussion with Mr Jenkins on 21 May.

BIOGRAPHICAL NOTE ON FRANCOIS-XAVIER ORTOLI

2. Born Corsica 1925. Senior Vice-President of the Commission, responsible for economics and finance, since January 1977. In France he was successively Minister of Supply and Housing, Education, Economic Affairs and Finance, and Industrial and Scientific Development between 1967 and 1972. President of the Commission 1973-1976. A talented administrator. Enthusiastic European. Has recently been markedly unhelpful towards UK's problems in the Community. Speaks some English.

CONFIDENTIAL [FRAME ENERGY]

Ref. B

SKBY 190300Z FCO AND UKREP BRUSSELS

FM LUXEMBOURG 150052Z JUNE 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 113 OF 18 JUNE

INFO IMMEDIATE UKREP BRUSSELS, ROUTINE PARIS, UKDEL OECD,

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, ROME,

DUBLIN, BONN, WASHINGTON.

FOLLOWING FROM UKREP BRUSSELS.

ENERGY COUNCIL 18 JUNE

MIPT

ITEM 2: PREPARATION FOR THE EUROPEAN COUNCIL.

FOLLOWING IS TEXT OF PRESIDENCY DOCUMENT FOR SUBMISSION  
TO THE EUROPEAN COUNCIL.

2. BEGINS:-

THE MEMBER STATES OF THE EEC EXPRESSED THEIR WISH TO  
ADOPT, IN CO-OPERATION WITH THE OTHER MAJOR CONSUMER STATES, THE  
MEASURES NECESSARY FOR MAINTAINING ON THE FREE MARKETS  
PRICES CONSISTENT WITH THE PRODUCER COUNTRIES' OFFICIAL PRICES.

1. THE COUNCIL TOOK NOTE THAT THE COMMISSION INTENDS TO PREPARE  
PERIODIC INFORMATION ON THE PRICES OBTAINING ON THE COMMUNITY FREE  
MARKETS AND ON CONSUMER PRICES IN A FORM SUCH THAT THOSE PRICES  
CAN BE COMPARED WITH THE DATA ON THE COST OF IMPORTED OIL.

2. IN ADDITION, THE ENERGY COUNCIL ALSO NOTED THAT THE COMMISSION  
INTENDS TO STUDY IN DETAIL AND TO SUBMIT TO IT BY THE NEXT MEETING  
PROPOSALS CONCERNING THE FOLLOWING MEASURES:

-INTRODUCTION OF A SPECIAL SYSTEM OF QUOTATION FOR CONTRACTS OF  
A CERTAIN DURATION:

-THE SETTING UP OF AN OIL EXCHANGE TO IMPROVE THE PRESENT SYSTEM  
OF "SPOT" QUOTATIONS.

3. THE MEMBER STATES EMPHASIZED THE NEED TO REFRAIN FROM ANY  
EXCESSIVE POLICY FOR THE REPLENISHMENT OF STRATEGIC STOCKS  
BY MEANS OF PURCHASES WHICH WOULD EXERT FURTHER PRESSURE ON  
PRICE LEVELS.



4. THE COUNCIL SIGNIFIED ITS AGREEMENT TO THE DRAFT REGULATION PROVIDING FOR THE COMPULSORY RECORDING OF ALL PURCHASES OF CRUDE OIL AND/OR PETROLEUM PRODUCTS. THIS REGULATION WILL BE FORMALLY ADOPTED AND IMPLEMENTED UNLESS THE OTHER MAJOR CONSUMER STATES ARE NOT PREPARED TO APPLY COMPARABLE PROVISIONS.

5. SHOULD ALL THESE MEASURES NOT SEEM ADEQUATE FOR ATTAINMENT OF THE COMMUNITY'S OBJECTIVES, THE COMMUNITY WILL STUDY SUCH ADDITIONAL MEASURES AS MIGHT PROVE NECESSARY. FOR THE IMMEDIATE FUTURE, THE MEMBER STATES STATED THEIR WILLINGNESS TO DISSUADE OIL COMPANIES FROM PARTICIPATING IN TRANSACTIONS AT PRICES WHICH ARE NOT CONSISTENT WITH THE PRODUCER COUNTRIES' OFFICIAL PRICES.

6. SOME DELEGATIONS EXPRESSED THE HOPE THAT THE EUROPEAN COUNCIL WOULD FURTHER EXAMINE ANY MEASURES ADOPTED JOINTLY WITH OTHER CONSUMER COUNTRIES TO PROHIBIT OIL IMPORTS CHARGED AT AN ABNORMALLY HIGH PRICE, TAKING INTO ACCOUNT THE PRODUCER COUNTRIES' OFFICIAL PRICES.

ENDS.

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CONFIDENTIAL [FRAME ENERGY]

DERBY 131630Z

FM UKREP BRUSSELS 131521Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 3025 OF 13 JUNE

INFO WASHINGTON UKDEL OECD

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME LUXEMBOURG DUBLIN

PARIS BONN

ENERGY COUNCIL, 13 JUNE

CURRENT SITUATION IN THE ENERGY SECTOR

MIPT

1. FOLLOWING IS TEXT OF COMMISSION'S PAPER.

ENERGY.

CURRENT SITUATION.

1. THE HALTING OF OIL PRODUCTION BY IRAN EARLIER THIS YEAR CAUSED STEEP RISES IN THE BASIC PRICE OF CRUDE OIL, AND EVEN STEEPER RISES ON 'SPOT' MARKETS. BY THE END OF MAY, THE WORLD AVERAGE CRUDE OIL PRICE WAS 30 PER CENT ABOVE THE LEVEL AT THE END OF 1978. THIS MEANS THAT ALREADY IN ADVANCE OF THE JUNE OPEC MEETING, THE COMMUNITY'S BILL FOR OIL IMPORTS FOR 1979 WILL BE SOME DOLLARS 54 BILLIONS, AN INCREASE OF DOLLARS 6 BILLIONS OVER 1978, IN SPITE OF AN ESTIMATED FALL IN VOLUME BY 14 PER CENT.

2. SPOT MARKETS IN EUROPE HAVE SHOWN RISES OF OVER 100 PER CENT FOR CERTAIN OIL PRODUCTS. THOUGH LESS THAN 5 PER CENT OF SUPPLIES NORMALLY COMES THROUGH THESE MARKETS, IT IS DANGEROUS TO LET THEM GET OUT OF CONTROL, PARTICULARLY BECAUSE OF THEIR INFLUENCE ON OPEC THINKING ABOUT FUTURE BASIC PRICE LEVELS.

3. OPEC COUNTRIES ARE NOW PRODUCING MORE OIL THAN A YEAR AGO,

AND THE COMMUNITY SEEMS TO BE GETTING ITS SHAPE. THE CONTINUING DIFFICULTIES ARE CAUSED BY THE FACT THAT WORLD OIL DEMAND GOES ON INCREASING, BY FEARS OF RENEWED INSECURITY, AND BY RE-STOCKING AFTER THE WINTER SHORTAGES. A MAJOR FACTOR CONTINUES TO BE THE U.S. DEMAND FOR OIL - ESPECIALLY LIGHT PRODUCTS SUCH AS GAS AND HEATING OIL.

CONFIDENTIAL

/4. THE



4. THE MAIN POLICY ISSUES ARE THESE:

(A) SHORT TERM - THE NEED TO REDUCE OIL DEMAND IN 1979/80 AND TO BRING ORDER INTO THE OIL MARKET.

(B) LONGER TERM - THE NEED TO RECOGNIZE THAT, ASSUMING NORMAL ECONOMIC GROWTH, WORLD OIL SUPPLIES WILL CONTINUE TO BE TIGHT. THERE CAN NOW BE NO OTHER SOUND BASIS FOR ENERGY PLANNING.

SHORT TERM.

5. DECISIONS TO REDUCE OIL DEMAND TO 500 MILLION TONS IN 1979 (A CUT OF ABOUT 5 PER CENT) WERE TAKEN BY THE EUROPEAN COUNCIL AT ITS MARCH MEETING. THE COUNCIL OF ENERGY MINISTERS HAS ALREADY REVIEWED NATIONAL SAVING MEASURES AND HAS CONCLUDED THAT THIS TARGET SHOULD BE MET: BUT THEY AGREED THAT STRINGENT MONITORING WILL BE NECESSARY, AND THAT ADDITIONAL MEASURES MUST BE EXAMINED IN CASE THE SITUATION DETERIORATES. BUT TWO MAJOR AND RELATED PROBLEMS REMAIN - THERE ARE NOW VERY WIDE DIFFERENCES OF PRICE LEVEL BETWEEN COMMUNITY COUNTRIES (50 PER CENT FOR GASOLINE AND 55 PER CENT FOR HEATING OIL, BEFORE TAXES): THIS CAUSES DANGER OF UNEVEN DISTRIBUTION OF SUPPLIES. AND THERE ARE DIFFERENCES OF VIEW BETWEEN GOVERNMENTS ABOUT THE NEED FOR CONTROLS, OR WHETHER THE WHOLE SITUATION CAN BE LEFT TO MARKET FORCES.

6. IT IS CLEAR THAT, IF THE SITUATION WERE TO WORSEN APPRECIABLY, THE FULL OIL ALLOCATION MACHINERY UNDER THE INTERNATIONAL ENERGY AGENCY AGREEMENT WOULD BE BROUGHT INTO PLAY, INVOLVING EIGHT COMMUNITY COUNTRIES, THE US AND JAPAN: PARALLEL MEASURES WOULD BE APPLIED IN THE COMMUNITY.

7. THE DIFFICULTY IS THAT WE MAY WELL CONTINUE IN A STATE OF SUB-CRISIS. THE MAIN PRIORITY IN THIS SITUATION MUST BE TO (SIX WORDS UNDERLINED) PREVENT A RENEWED SCRAMBLE FOR OIL (IN WHICH THE COMMUNITY - AND STILL MORE THE DEVELOPING WORLD - MIGHT WELL BE ON THE LOSING SIDE). THE COMMUNITY SHOULD THEREFORE GIVE A LEAD AT THE INDUSTRIAL SUMMIT IN TOKYO, AND PROPOSE THREE ACTIONS:

/- FIRSTLY,

- FIRSTLY, THAT GOVERNMENTS SHOULD ADVISE OIL COMPANIES NOT TO BUY OIL AT EXCESSIVE PRICES AND SHOULD MONITOR THEIR PURCHASES. WHILE SUCH AN "ADVICE" WOULD NOT IN MOST COUNTRIES HAVE LEGAL FORCE, THE MONITORING COULD BE A STRONG DETERRENT AND ALLOW GOVERNMENTS TO IMPLEMENT STRONGER CONTROLS AS NECESSARY. OIL COMPANIES WOULD BE REQUIRED - BY REGULATION APPROVED BY THE COUNCIL, SO FAR AS THE COMMUNITY IS CONCERNED - TO NOTIFY ALL PURCHASES OF CRUDE OIL ABOVE THE OFFICIAL (OPEC) PRICE LEVEL AND ALL PURCHASES OF THE MAIN OIL PRODUCTS ABOVE A CORRESPONDING LEVEL. QUANTITIES AND DATES OF PURCHASE WOULD ALSO BE REPORTED. AS A REINFORCING MEASURE, GOVERNMENTS COULD DECIDE THAT PURCHASES ABOVE THE PRESCRIBED LEVEL MIGHT NOT BE ALLOWED FOR COMPANY TAX ASSESSMENT PURPOSES:

SECONDLY, THAT MORE DIRECT MEASURES SHOULD BE EXAMINED URGENTLY FOR CONTROL OF DEMAND, TO BE BROUGHT INTO EFFECT BEFORE THE END OF 1979 IF THE SITUATION DOES NOT IMPROVE. THE PRINCIPAL MEASURE COULD BE A VOLUNTARY OIL ALLOCATION SCHEME RUN ON A NATIONAL BASIS, WITH COMMON MONITORING AS FAR AS THE EC IS CONCERNED. COMPANIES WOULD BE INVITED TO REDUCE DELIVERIES OF THE MAIN OIL PRODUCTS BY AN AGREED PERCENTAGE OF LAST YEAR'S DELIVERY (SAY, 5 PER CENT), WITH SUITABLE ADMINISTRATIVE ARRANGEMENTS FOR EXCEPTIONS FOR SOCIAL REASONS AND ESSENTIAL INDUSTRY:

THIRDLY, THAT ANY GOVERNMENT MEASURES WHICH MIGHT WORK AS AN INCENTIVE FOR COMPANIES TO BUY ON THE SPOT MARKET SHOULD BE AVOIDED.

8. SUCH MEASURES COULD HAVE A QUICK PUBLIC IMPACT IN ALL THE MAIN CONSUMING COUNTRIES. IT IS LIKELY THAT THEY WOULD HAVE TO BE CONTINUED INTO 1982. IN PARALLEL, THE NEED FOR RESPONSIBLE PRICE POLICIES ON THE PART OF THE OIL PRODUCERS CAN BE EMPHASIZED. (OPEN SQUARE BRACKETS) THIS POINT CAN BE CAUTIOUSLY PRESSED AT THE PROPOSED MEETING WITH THE OPEC STRATEGIC GROUP AT THE END OF JUNE (CLOSE SQUARE BRACKETS).

/LONGER TERM.



LONGER TERM.

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9. AT ITS PARIS MEETING, AGAINST THE BACKGROUND OF THE DESIRE TO ACHIEVE SUSTAINED ECONOMIC GROWTH, THE EUROPEAN COUNCIL AGREED THAT THE COMMUNITY WOULD LIMIT ITS 1985 OIL IMPORTS TO THE LEVEL REACHED IN 1978, REFLECTING THE VIEW THAT MORE OIL MAY NOT BE AVAILABLE ON WORLD MARKETS AT REASONABLE PRICES. THE COMMISSION HAS NOW PROPOSED TO THE COUNCIL THAT THIS TARGET SHOULD ALSO BE ADOPTED FOR THE YEAR 1990. THIS WILL MEAN IMPERATIVELY THAT TARGETS FOR ENERGY SAVING, COAL AND NUCLEAR ENERGY MUST BE HELD. TOO WIDE A DIVERGENCE NOW BETWEEN ENERGY POLICY ACHIEVEMENT IN THE MEMBER COUNTRIES, WITH SOME COUNTRIES REMAINING HEAVILY DEPENDENT ON IMPORTED OIL AT INCREASING COST, WILL UNDERMINE ALL POSSIBILITY OF ECONOMIC CONVERGENCE FOR THE COMMUNITY.

10. RESEARCH, DEVELOPMENT AND INTRODUCTION OF ALTERNATIVE SOURCES MUST BE SPEEDED UP (THE COMMISSION HAS ALREADY MADE PROPOSALS TO THE COUNCIL FOR THE COMMUNITY R AND D PROGRAMME). THIS WILL MEAN HIGHER PRIORITY FOR ENERGY INVESTMENT, AS WELL AS ENERGY SAVING INVESTMENT, AT A TIME OF PERHAPS LOWER ECONOMIC GROWTH. THE INCENTIVES AVAILABLE FOR PRIVATE INDUSTRY AND INDIVIDUALS SHOULD BE REVIEWED, AND WHERE NECESSARY STRENGTHENED. AT COMMUNITY AND NATIONAL LEVEL AS A SPECIFIC AND IMMEDIATE MEASURE, THE EUROPEAN COUNCIL COULD INVITE THE COUNCIL AND COMMISSION TO EXAMINE PROPOSALS FOR A SUBSTANTIAL INCREASE IN FUND AVAILABLE AT COMMUNITY LEVEL (NOW 50 MILLION UNITS OF ACCOUNT) FOR THE INTRODUCTION OF NEW USES OF COAL (LIQUEFACTION, GASIFICATION, ETC.) AND FOR ENERGY SAVING.

11. PUBLIC AND PARLIAMENTS MUST BE MADE AWARE THAT:-

- (A) ECONOMIC AND SOCIAL GOALS REQUIRE INCREASING QUANTITIES OF ENERGY AND STRICTER SAVING;
- (B) OIL WILL BE INSECURE,, EXPENSIVE, AND IN LIMITED SUPPLY;
- (C) THERE IS, FOR THE COMMUNITY AS A WHOLE, NO OPTION FOR OR AGAINST NUCLEAR, FOR OR AGAINST COAL - THE COMMUNITY NEEDS STEADILY INCREASING QUANTITIES OF BOTH IN THE ENERGY MIX FOR THE MEDIUM TERM.
- (D) ANY MEASURES RESULTING IN ARTIFICIAL REDUCTION OF ENERGY PRICES WOULD BE COUNTERPRODUCTIVE.

/12. THIS

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12. THIS WILL BE A MAJOR AND IMMEDIATE CONCERN FOR THE NEW EUROPEAN PARLIAMENT.

CONCLUSIONS.

13. WITH STRONG ACTION ON THESE LINES BY THE COMMUNITY AND OTHER MAJOR INDUSTRIAL COUNTRIES, THE ENERGY PROBLEM CAN BE SOLVED. WITHOUT SUCH ACTION, ECONOMIC AND SOCIAL POLICIES MAY BE DAMAGED, AND THE INDUSTRIAL COUNTRIES WILL COME UNDER INCREASING CRITICISM FROM THE DEVELOPING WORLD - INCLUDING THE OIL PRODUCERS - FOR USING TOO MUCH OIL.

14. THE EUROPEAN COUNCIL IS INVITED TO ENDORSE THE ABOVE ASSESSMENT OF THE ENERGY SITUATION AND TO AGREE:-

- (A) THAT THE COMMUNITY SHOULD TAKE THE INITIATIVE AT THE TOKYO INDUSTRIAL SUMMIT IN PROPOSING MEASURES TO REDUCE PRESENT DISORDER IN THE OIL MARKET;
- (B) THAT NEW PRIORITY MUST BE GIVEN TO THE AGREEMENT OF COHERENT POLICIES AT COMMUNITY LEVEL TO REDUCE DEPENDENCE ON OIL, AND TO THE ACCEPTANCE OF THOSE POLICIES BY PARLIAMENTS AND PUBLIC;
- (C) THAT RESEARCH, DEVELOPMENT AND INTRODUCTION OF ALTERNATIVE SOURCES OF ENERGY MUST BE SPEEDED UP, AND THAT IN PARTICULAR COMMISSION PROPOSALS FOR INCREASED SPENDING ON NEW USES OF COAL AND ON ENERGY SAVING SHOULD BE URGENTLY EXAMINED AND APPROVED.

FOR ADVANCE TO:

FOO - MISS BROWN HANNAY MRS ISMAIL  
CAB - J THOMAS  
D/EN - D LE B JONES LUCAS WHALEY MRS S BROWN

FOO PASS SAVING COPENHAGEN ROME DUBLIN PARIS BONN

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become bureaucratic and complex. If it is suggested at the Council, however, we would be prepared to study the possibility of coordinating voluntary allocation schemes by oil companies within Member States. In the UK many oil companies are already operating informal schemes to allocate oil between their customers.

9. The French have suggested a new mechanism, partly financed by oil producing countries, to guarantee risk exploration for energy in developing countries which local Governments could not finance and which neither the World Bank acting commercially nor oil companies were prepared to undertake. There was no agreement on this at the Energy Council as the UK, FRG and Netherlands all reserved their positions. Paragraphs 27 and 28 of the Presidency's Memorandum do not reflect these reserves.

10. Recent interest in expanded consumer/producer contacts stems initially from a Saudi communique of 28 February, which called for such contacts in order to stabilise the oil market. The European Council in March welcomed the Saudi statement. A dialogue with producers on energy matters would be to our long term advantage (and that of other consumers), but we cannot be sure that it is on offer, or if so on terms we could accept. The extent to which other producers support the Saudi call is doubtful (and there have been some signs of second thoughts by the Saudis themselves) and the producers, and probably the Third World too, are likely to insist that discussion of energy

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should be only part of a wider negotiation on the New International Economic Order which we would not welcome. Nonetheless, for the moment, it is important that the industrialised countries should show themselves ready to respond to any move towards a dialogue by the producers. The French Presidency have had contacts with the Saudis, which have led to agreement to a meeting on 30 June between Giraud and Brunner, representing the EEC, and Yamani for OPEC, to pave the way for low-key, technical discussions, with the minimum of publicity, on future world supply and demand forecasts for energy. Member States have been invited to designate one technical expert to participate if they so wish. This would be a useful beginning; but any sensible discussion of world supply and demand must at some stage involve the US and Japan. We understand that the French intend making a continued effort after the Tokyo Summit to get producer/consumer contacts going on a wider scale; and envisage making bilateral approaches to win over some of the OPEC "hawks" to this idea.

11. The question is bound to be raised of a Community approach to OPEC countries before the OPEC pricing meeting of 26-27 June. Prince Salman (Governor of Riyadh and brother of Prince Fahd of Saudi Arabia) told the Prime Minister on 21 May that such an approach would help the Saudis at the OPEC meeting, especially if combined with a reduction in Western oil consumption. The

/US



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US Government have also urged the EEC to approach OPEC countries. We could support a discreet approach by the Presidency to OPEC countries, but do not think it would be useful for the Council to urge them publicly to keep prices down. This might court a rebuff from OPEC countries and make them less receptive to any attempt by Summit participants to pave the way for closer producer/consumer contacts.

12. The March Council gave general support to Mexican ideas for a UN energy forum. It is useful that an oil producer has proposed wider discussions on energy problems, but we do not know what specific objectives the Mexicans have in mind, nor are OPEC members yet ready to accept world energy discussions. For our part we have encouraged the Venezuelan initiative for a meeting this summer of OPEC and non-OPEC oil producers including ourselves, Mexico, Norway and Canada, with the UK acting as host. But it remains to be seen whether this will materialise.

FOREIGN AND COMMONWEALTH OFFICE /  
DEPARTMENT OF ENERGY

20 June 1979

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GP 2300

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FM UKREP BRUSSELS 191419Z JUN 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 3159 OF 19 JUNE

INFO SAVING ALL EEC POSTS, WASHINGTON, UKDEL OECD

MIPT: EUROPEAN COUNCIL: ENERGY

1. FOLLOWING IS OUR TRANSLATION OF THE PRESIDENCY'S REVISED MEMORANDUM:

1. THE STRAINS CREATED BY THE FALL IN OIL SUPPLIES FROM CERTAIN PRODUCER COUNTRIES IN THE FACE OF INCREASED DEMAND HAVE HIGHLIGHTED THE PRECARIOUS NATURE OF WORLD SHORT AND MEDIUM-TERM ENERGY SUPPLIES AND EXACERBATED THE PRESSURE FOR AN EXCESSIVE AND UNWARRANTED INCREASE IN PRICES. AN ABRUPT AND UNCO-ORDINATED RISE IN PRICES COUPLED WITH UNCERTAINTY OF SUPPLIES IS CREATING AN EXCEPTIONALLY SERIOUS SITUATION. THE PRESENT MARKET INSTABILITY, COMBINED WITH SERIOUS DISTURBANCE IN THE FUNCTIONING OF SUPPLY CIRCUITS, WILL RESULT IN A WORLD ECONOMIC CRISIS HARMFUL TO ALL COUNTRIES UNLESS SOME REMEDY IS FOUND.

2. OIL IS A BASIC RESOURCE FOR THE FUNCTIONING OF THE WORLD ECONOMY, WHICH WOULD BE EXPOSED SERIOUS THREATS OF DISTURBANCE, WITH A POSSIBLE BREAKDOWN OF THE INTERNATIONAL ECONOMIC SYSTEM, IF NOT SUPPLIED WITH SUITABLE QUANTITIES AT SUITABLE PRICES.

3. ON THE OTHER HAND, THE GROWTH OF THE WORLD ECONOMY CANNOT BE BASED ON CONSTANTLY INCREASING RECOURSE TO OIL.

4. THE INDUSTRIALIZED COUNTRIES, WHICH ARE THE MAIN CONSUMERS, AND THE PRODUCER COUNTRIES THEREFORE HAVE A MAJOR COMMON RESPONSIBILITY TOWARDS ALL NATIONS FOR THE IMPLEMENTATION OF A WORLD ENERGY STRATEGY, WHICH MUST BE DIRECTED TOWARDS TWO OBJECTIVES:

- THE HUSBANDING OF OIL AS A NON-RENEWABLE NATURAL RESOURCE:
- CONTINUING WORLD ECONOMIC GROWTH:



• BY ENSURING THE DEVELOPMENT OF ENERGY RESOURCES OTHER THAN OIL AT THE NECESSARY LEVEL;

- BY ENSURING THAT THE DEVELOPING COUNTRIES HAVE THE ENERGY, IN OIL OR OTHER FORMS, NECESSARY FOR THEIR DEVELOPMENT.

5. THE EEC SHOULD SHOW THAT IT IS PREPARED TO PLAY A LEADING ROLE IN SUCH ACTION, IN KEEPING WITH THE SCALE OF ITS WORLD ECONOMIC RESPONSIBILITIES, AND PROPOSE THAT OTHER COUNTRIES PARTICIPATE, IN PARTICULAR AT THE FORTHCOMING SUMMIT MEETING OF INDUSTRIALIZED COUNTRIES, AND THROUGH APPROPRIATE CONTACTS WITH THE PRODUCER COUNTRIES.

6. THE INDUSTRIALIZED COUNTRIES SHOULD CHANGE THEIR ATTITUDES AND MODIFY ENERGY STRUCTURES WHICH ARE THE LEGACY OF A TIME WHEN OIL WAS A CHEAP RESOURCE AVAILABLE IN QUANTITIES EXCEEDING REQUIREMENTS.

7. THESE CHANGES SHOULD HAVE THREE MAJOR ELEMENTS:

1. SLOW-DOWN OF OIL IMPORTS

8. FROM NOW ON, THE INDUSTRIALIZED COUNTRIES SHOULD CURB THEIR OIL IMPORTS IN ORDER TO ASSIST PROMPTLY IN THE RECOVERY OF MARKET BALANCE. THEY SHOULD ADOPT STRUCTURAL MEASURES TO BREAK THE LINK BETWEEN CONTINUING ECONOMIC GROWTH AND THE EXPANSION OF THEIR OIL IMPORTS.

9. BY MAKING FURTHER EFFORTS THE EEC SHOULD SHOW THAT IT IS PREPARED TO STABILIZE AND THEN CUT DOWN ON ITS OIL IMPORTS AND TO COMMIT THE OTHER LARGE CONSUMING COUNTRIES TO DO LIKEWISE.

10. ON THE BASIS OF THESE COMMITMENTS, IT WILL BE DESIRABLE TO ENSURE, IN COOPERATION WITH THE OIL COMPANIES, THAT EVERY COUNTRY SHOULD HAVE AN EQUITABLE SUPPLY OF OIL PRODUCTS, ACCOUNT BEING TAKEN OF DIFFERENCES IN SUPPLY STRUCTURES, OF THE EFFORTS MADE TO LIMIT OIL IMPORTS, OF THE WORLD ECONOMIC SITUATION AND OF THE QUANTITIES OF OIL AVAILABLE.

*Insert sentence concerning*

11. AS A CONTRIBUTION TO THIS, THE COMMUNITY COULD COMMIT ITSELF TAKING ACCOUNT OF THE DECISIONS TAKEN ON ENERGY SAVING AND THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES TO A THREE YEAR PROGRAMME (1988-89) SETTING QUANTIFIED IMPORT TARGETS: 1988: ....., 1989: ....., 1990: ..... . EACH MEMBER STATE SHOULD ENTER INTO A COMMITMENT ON THE COMMUNITY TARGETS AND THE COUNCIL (ENERGY MINISTERS) SHOULD PERIODICALLY MONITOR COMPLIANCE WITH THE TARGETS.

12. THE EEC SHOULD RECOMMEND THAT A SIMILAR UNDERTAKING BE ENTERED INTO BY THE OTHER MAJOR CONSUMER COUNTRIES AND THAT ACTUAL PERFORMANCE BE PERIODICALLY CHECKED AGAINST ESTIMATES.

#### 11. REGULATION OF INTERNATIONAL OIL DEALINGS

13. THE COUNCIL EXPRESSES ITS WISH TO ADOPT, IN CO-OPERATION WITH THE OTHER MAJOR CONSUMER STATES, THE MEASURES NECESSARY FOR MAINTAINING ON THE FREE MARKETS PRICES CONSISTENT WITH THE PRODUCER COUNTRIES OFFICIAL PRICES.

14. THE COUNCIL TOOK NOTE THAT THE COMMISSION INTENDS TO PREPARE PERIODIC INFORMATION ON THE PRICES OBTAINING ON THE COMMUNITY FREE MARKETS AND ON CONSUMER PRICES IN A FORM SUCH THAT THOSE PRICES CAN BE COMPARED WITH THE DATA ON THE COST OF IMPORTED OIL.

15. IN ADDITION, THE ENERGY COUNCIL ALSO NOTED THAT THE COMMISSION INTENDS TO STUDY IN DETAIL AND TO SUBMIT TO IT BY THE NEXT MEETING PROPOSALS CONCERNING THE FOLLOWING MEASURES:

- INTRODUCTION OF A SPECIAL SYSTEM OF QUOTATION FOR CONTRACTS OF A CERTAIN DURATION;
- THE SETTING UP OF AN OIL EXCHANGE TO IMPROVE THE PRESENT SYSTEM OF "SPOT" QUOTATIONS.

16. THE MEMBER STATES EMPHASIZED THE NEED TO REFRAIN FROM ANY EXCESSIVE POLICY FOR THE REPLENISHMENT OF STRATEGIC STOCKS BY MEANS OF PURCHASES WHICH WOULD EXERT FURTHER PRESSURE ON PRICE LEVELS.



*Article* 17. THE COUNCIL SIGNIFIED ITS AGREEMENT TO THE DRAFT REGULATION PROVIDING FOR THE COMPULSORY RECORDING OF ALL PURCHASES OF CRUDE OIL AND/OR PETROLEUM PRODUCTS. THIS REGULATION WILL BE FORMALLY ADOPTED AND IMPLEMENTED UNLESS THE OTHER MAJOR CONSUMER STATES ARE NOT PREPARED TO APPLY COMPARABLE PROVISIONS.

18. SHOULD ALL THESE MEASURES NOT SEEM ADEQUATE FOR ATTAINMENT OF THE COMMUNITY'S OBJECTIVES, THE COMMUNITY WILL STUDY SUCH ADDITIONAL MEASURES AS MIGHT PROVE NECESSARY. FOR THE IMMEDIATE FUTURE, THE MEMBER STATES STATED THEIR WILLINGNESS TO DISSUADE OIL COMPANIES FROM PARTICIPATING IN TRANSACTIONS AT PRICES WHICH ARE NOT CONSISTENT WITH THE PRODUCER COUNTRIES' OFFICIAL PRICES.

19. SOME DELEGATIONS EXPRESSED THE HOPED THAT THE EUROPEAN COUNCIL WOULD FURTHER EXAMINE ANY MEASURES ADOPTED JOINTLY WITH OTHER CONSUMER COUNTRIES TO PROHIBIT OIL IMPORTS CHARGED AT AN ABNORMALLY HIGH PRICE, TAKING INTO ACCOUNT THE PRODUCER COUNTRIES' OFFICIAL PRICES.

### III. ENERGY REDEPLOYMENT

20. AS OIL IMPORTS SHOULD NOT BE LIMITED AT THE COST OF ECONOMIC GROWTH, EACH INDUSTRIALIZED COUNTRY SHOULD INITIATE AN ENERGY REDEPLOYMENT PROGRAMME DESIGNED TO COVER THE NORMAL INCREASE IN ITS REQUIREMENTS IN CONDITIONS ASSURING THE SAFETY OF THE POPULATION.

21. THIS REDEPLOYMENT SHOULD EXPLOIT NUCLEAR ENERGY, COAL AND, AS SOON AS POSSIBLE, OTHER ALTERNATIVE ENERGY SOURCES. IT SHOULD ALSO BE BASED ON THE STRENGTHENING OF MEASURES UNDERTAKEN IN THE FIELD OF ENERGY SAVING.

- WITHOUT THE DEVELOPMENT OF NUCLEAR ENERGY, NO ECONOMIC GROWTH WOULD BE POSSIBLE OVER THE COMING DECADES. MAINTENANCE OF THE COHERENCE OF THE INTERNATIONAL ECONOMIC SYSTEM MIGHT EVEN BE CALLED INTO QUESTION IF NUCLEAR PROGRAMMES WERE NOT GIVEN STRONG FRESH IMPETUS. (1)

(1) NOTWITHSTANDING: WAITING RESERVE



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● - IN VIEW OF THE NECESSARY LIMITS ON OIL IMPORTS, THE USE OF COAL IN POWER STATIONS SHOULD BE IMMEDIATELY ENCOURAGED. ITS USE IN INDUSTRY SHOULD ALSO BE ENCOURAGED.

-- THE COMMUNITY HAS ALREADY MADE AN IMPORTANT EFFORT IN ENERGY SAVING. IT IS A QUESTION OF STRENGTHENING THE PROGRAMMES AT NATIONAL AND COMMUNITY LEVEL IN ORDER TO ENCOURAGE AN ECONOMIC GROWTH IN ENERGY, IN PARTICULAR BY CONCENTRATING ON INVESTMENT IN THIS SECTOR.

- RESEARCH AND DEVELOPMENT EFFORTS IN THE FIELD OF NEW ENERGY SOURCES SHOULD BE PROMOTED SO THAT SUCH SOURCES CAN CONTRIBUTE AS SOON AS POSSIBLE TO THE PROVISION OF ENERGY.

● - THIS SLOW DOWN OF OIL IMPORTS ALSO REQUIRES THE INDUSTRIALIZED COUNTRIES TO EXPLOIT THEIR OWN RESOURCES AND TO UNDERTAKE ACTIVE ENERGY SAVINGS PROGRAMMES THROUGH ADAPTATION OF THEIR CONSUMPTION STRUCTURES.

22. COMMUNITY FUNDS, NOTABLY THE NEW COMMUNITY FINANCING INSTRUMENT, SHOULD BE ALLOCATED AS A PRIORITY TO OPERATIONS IN THE ENERGY SECTOR.

23. THE CONVERGENCE OF NATIONAL POLICIES SHOULD BE ENSURED BY PERIODIC EXAMINATION AT COMMUNITY LEVEL.

● 24. THE RESPONSIBILITY OF THE PRODUCER COUNTRIES VIS-A-VIS THE WORLD ECONOMY IS NO LESS THAN THAT OF THE INDUSTRIALIZED CONSUMER COUNTRIES.

25. AS THE LATTER ARE RESOLUTELY COMMITTED TO ACHIEVING STABILITY AND REDUCTION OF THEIR OIL IMPORTS, THE PRODUCER COUNTRIES FOR THEIR PART MUST ADMINISTER THEIR RESOURCES IN A WAY CONSISTENT WITH THE PROPER DEVELOPMENT OF THE WORLD ECONOMY.

26. IT IS THE JOINT RESPONSIBILITY OF THE PRODUCER COUNTRIES AND CONSUMER COUNTRIES TO PROVIDE CONDITIONS SUCH AS TO MAKE IT POSSIBLE FOR THE INVESTMENTS NECESSARY FOR THE DEVELOPMENT OF OIL PRODUCTION AND MARKET BALANCE TO BE EFFECTIVE.



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27. IN THIS SPIRIT THE SITUATION OF THE OIL-IMPORTING DEVELOPING COUNTRIES CALLS FOR SPECIAL SOLUTIONS. THE RESTRICTION OF INDUSTRIALIZED COUNTRIES' IMPORTS SHOULD MAKE A SIGNIFICANT CONTRIBUTION TO IMPROVING THE SUPPLY PROSPECTS OF NON-PRODUCER DEVELOPING COUNTRIES. FURTHERMORE, THE VALUE OF THEIR NATIONAL RESOURCES SHOULD BE OPTIMIZED BY FURTHER EXTENSION OF THE WORLD BANK'S PROGRAMMES AND THE INTRODUCTION OF A MECHANISM COVERING PROSPECTING RISKS.

28. THESE OPERATIONS SHOULD BE FINANCED BY AN EXCEPTIONAL CONTRIBUTION FROM THE PRODUCER COUNTRIES AND THE CONSUMER COUNTRIES WHICH SHOULD, IN ACCORDANCE WITH DETAILS TO BE DEFINED, TAKE INTO ACCOUNT THE RESULTS OBTAINED COMPARED WITH COMMITMENTS.

29. ONLY SATISFACTORY CO-OPERATION BETWEEN PRODUCER AND CONSUMER COUNTRIES, WHATEVER ITS FORM, CAN WARD OFF THE THREAT CURRENTLY HANGING OVER THE WORLD ECONOMY.

30. THE SUBSTANCE OF THIS CO-OPERATION MUST BE SEEN AS PERMITTING PRODUCER AND CONSUMER COUNTRIES TO FULFIL THEIR MUTUAL RESPONSIBILITIES AS REGARDS BETTER OPERATION OF THE MARKET.

31. THE EEC SHOULD EXPRESS THE HOPE THAT THIS CO-OPERATION, BASED ON THE ANALYSIS OF SUPPLY AND DEMAND, WILL CREATE CONDITIONS CONDUCIVE TO A SATISFACTORY INVESTMENT POLICY AND LEAD TO BETTER BALANCE BETWEEN SUPPLY AND DEMAND.

32. THE PROSPECTS IN THE WORLD OIL MARKET JUSTIFY CONTACTS BEING MADE RAPIDLY, FIRSTLY TO EVALUATE FORESEEABLE DIFFICULTIES AND SECONDLY TO INITIATE CO-OPERATION ON METHODS OF COPING WITH THEM.

33. THE EEC SHOULD MAKE IT CLEAR THAT IT IS WILLING, FOR ITS PART, TO ESTABLISH SUCH CONTACTS WITH THE REPRESENTATIVES OF PRODUCER COUNTRIES OR THEIR GROUPS OF EXPERTS. IT SHOULD AT THE SAME TIME CONTINUE ITS EXCHANGES OF VIEWS WITH THE OTHER MAJOR INDUSTRIALIZED COUNTRIES.

ENDS

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FCO ADVANCE TO - MISS BROWN, HANNAY, MRS ISMAIL  
CAB - J THOMAS  
NR 10 - CARTLEDGE (BY 4.45 LONDON TIME)  
D/EN - D LE B JONES, LUCAS, MRS S BROWN

FCO PASS SAVING TO BONN, PARIS, COPENHAGEN, ROME, DUBLIN, WASHINGTON  
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MAITLAND

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EHG(S)(79)5 (Rev 3)

COPY NO.

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

INTERNATIONAL ENERGY SITUATION

Brief by the Foreign and Commonwealth Office  
and the Department of Energy

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Energy - Petroleum - Too little supply.  
Short supply.

520  
 Long-term. - Production production less  
 to make resources last longer  
 ← 1.5 - b.d.

Level of Corruption. (level of inputs?)

- Richard stage =
- International stage =
- European level.

£70 - former -

①.



INTRODUCTION

1. The French Presidency have now circulated the final version of their paper on energy for the European Council, an unofficial English translation of which is at Reference A. It can be expected that the French will try to focus discussion on this paper and to press for the maximum degree of endorsement of it they can achieve. Following the Energy Council on 18 June the French have inserted into the paper some tendentious passages (paragraphs 13, 14 and 27-28) which suggest that agreement was reached in the Council on certain of their ideas when no such agreement was reached thanks to German, Dutch and UK reservations. We have contested these inaccuracies both in Coreper and in Paris and we hope the Dutch and Germans will have done likewise. The Presidency paper may be amended to take account of this; but equally it may not.

2. The Line to Take on each of the issues raised in the French Presidency's paper is set out below and cross-referenced to the relevant paragraph in the French paper.

LINE TO TAKE (paragraph references are to the French Presidency Memorandum)

3. (a) We need a common approach to the increasingly difficult situation on price and supply, which the 26 June OPEC meeting may very well make worse. The Community must make an effective contribution on energy at the Tokyo Summit; (paragraph 5)

/(b)

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(b) the most necessary action we can take is to implement the Council's March decision on 5% demand\_restraint in 1979 rapidly and rigorously. We shall need to continue the effort to cut back demand for oil into 1980 and should be prepared to say so after this meeting; (not explicitly referred to in the French Presidency Memorandum)

(c) it has been suggested that we should reinforce our determination to reduce our requirements for imported oil by agreeing to set an\_import\_ceiling on a Community basis for the next three years. I can see that import ceilings might help some countries to make their cuts stick, it being understood that each member state would take the action necessary to fulfil the undertaking. I believe that it would be too complex to try to work out precise ceilings now, but let us by all means state at Tokyo our willingness in principle to adopt such an arrangement if the US, Japan and Canada are prepared to do likewise. (If it is suggested that the Community ceiling be broken down into individual\_national\_ceilings) I would be prepared to have this looked at in the Energy Council; and clearly each member state must pull its weight to achieve the Community target; (paragraphs 8-11)

(d) of course we are all very concerned about spot\_prices. The real answer is to make the 5% cut effective. The spot

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market is the symptom not the cause of the problem. We must not give the impression that we are somehow responsible for the spot market when in fact it is being fuelled by OPEC actions. We welcome what has been done to increase transparency by improving and extending the Rotterdam check-run (paragraphs 13-15). We would be ready to join in a concerted effort to urge companies not to sell or purchase on the spot market outside their normal pattern of trade. The Americans and Japanese would need to do likewise (paragraph 18). I believe we should also concert with them over stock-building to avoid a situation where attempts to re-constitute stocks add to the pressure on the spot market; (paragraph 16)

(e) it is suggested we should establish a register of transactions on Community imports of oil to increase the transparency of the oil markets. I am not sure the possible advantages outweigh the administrative inconveniences. We have so far only given this preliminary examination, but I am prepared to explore this approach with the other Tokyo Summit partners. We could look at it again in the light of their reactions (paragraph 17). I could not however go along with the proposal for more direct intervention on prices by prohibiting purchases of crude or product significantly above OPEC prices. I do not think this idea is workable or desirable. It would be

/liable

liable to drive oil elsewhere. There would also be the virtually insoluble problem of what price to choose as the official OPEC price; (paragraph 19)

(f) (defensive: if international allocation is suggested). I do not think we should move to any sort of international allocation at this stage. The reference to equitable supply in the Presidency's document is sufficient; (paragraph 10)

(g) I strongly support the Presidency proposal that we should endorse the need for increased use of nuclear energy and coal; (paragraph 21)

(h) success in implementing demand restraint should have its own effect on prices and should also strengthen our hand vis-a-vis the producers. We do not believe that a public appeal to OPEC before their 26 June meeting will do any good; indeed it might be counter-productive. But we could agree to a discreet approach to OPEC countries by the Presidency if others think this useful. Any approach should concentrate on the damaging effect of further price increases on the world economy as a whole, as well as just on the Community. It should also stress our determination to restrain demand and reduce our oil imports; (paragraphs 24-26)

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(i) we believe the Tokyo Summit is the right forum to indicate our wish for a more general dialogue on energy issues with the producers. It is good that there are to be technical contacts between our experts and those of OPEC. But an EEC/OPEC dialogue by itself will not be sufficient and we will need to work for a wider dialogue, bringing in the other main consumers; (paragraphs 29-33)

(j) we should do what we can to assist the non-oil developing countries to develop their energy resources and be prepared to consider how we might cooperate with producers over this. We strongly support the World Bank's current programme and will be prepared to consider ideas for improving it in due course. (If it is suggested the Community should support a new World Bank mechanism for guaranteeing exploration risks in developing countries). This could be examined in the Community later. But at first sight it seems to give the oil companies a present which they do not really need; (paragraphs 27-28)

(k) I should like to take this opportunity to make it clear that we intend to play a positive role in Community energy policy, dealing with proposals on their merits and seeking to promote effective coordination of policies in this field. (paragraphs 22-23)

/BACKGROUND

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BACKGROUND

REFERENCES:

- A. French Presidency Memorandum (UKREP Telno 3159)
- B. Commission Paper on Current Situation in the Energy Sector (UKREP Telno 3025)

/Information which can be freely used/

4. The latest IEA assessment suggests that, with a gradual build up of demand restraint by consumers, there will be a shortfall of 0.7 million barrels per day (mbd) (or 1.5%) in the free-world oil supplies in 1979. A 5% demand reduction throughout 1980 would allow a modest degree of stock rebuilding next year. The present price position is unstable, with all OPEC producers other than Saudi Arabia charging premia above the "official" price. These premia are likely to be incorporated into the official price at the OPEC meeting in June, and further increases later in the year are probable. Contract prices are already over 30% above last year's level. In the spot market (which accounts for only 3-5% of sales) prices have risen to about twice the equivalent official prices. For the economic consequences of these developments see EHG(S)(79)7 on the Economic Situation in the Community.

5. The March European Council adopted an oil demand restraint target for 1979 amounting to 5% of expected consumption. The UK should be able to meet this target. The measures we have taken include burning coal in place of oil in power stations;

/a determined



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a determined campaign in the public sector; and an appeal to the public to make voluntary savings of 5%. The recent Budget increased the relevant taxes on oil products.

/Information which should not be disclosed/

6. The French Presidency circulated a Memorandum on energy which was discussed at the 18 June Energy Council. This will still go forward in its revised form as a Presidency paper to the European Council with an additional section (paragraphs 13-19) purporting to record the outcome of the Energy Council's discussion. We have pointed out to the Presidency that this additional section goes too far in some places and in particular in suggesting (in paragraph 17) that the Council signified agreement to the Commission's draft regulation providing for the compulsory recording of all purchases of crude oil and/or petroleum products. We agreed to continued work on the draft at official level without prejudice to our eventual attitude to its adoption; and we also made it clear that we would not be able to accept such a system if it was not also going to be applied by the US, Japan and Canada. The Germans and Dutch took a similarly cautious attitude. Paragraph 13 also goes too far in describing as the Council's "wish to adopt" the measures necessary to maintain OPEC-related prices on the free market what was in reality only general agreement to the proposition that it was in our interests to avoid major divergences in spot prices from official OPEC prices. Member States did however

/agree

agree at the Energy Council that it did not make sense to encourage companies to buy on the spot market to replenish strategic stocks; and stated their willingness for the immediate future to dissuade oil companies from buying or selling on the spot market outside their normal pattern of trade.

7. At the Energy Council the French continued to press for more direct intervention on prices eg prohibiting purchases of crude or product significantly above OPEC prices but met with little support from other Member States. They also proposed that the Community should adopt oil import ceilings for 1980-82 which might be broken down into national ceilings for each Member State. There was no agreement on this at the Council although there was a good deal of support for the idea. We should approach separate national ceilings with great caution as they could imply constraint on the UK to maintain a certain rate of oil production and a certain volume of exports to our Community partners.

8. Other ideas which were discussed at the Energy Council included a Danish proposal for some form of international allocation. This met with little support and was subsumed in an anodyne reference to equitable distribution in the Presidency paper. We and the Germans were sceptical whether allocation of oil from one country to another would work on a purely voluntary basis and considered that even a voluntary scheme could quickly

/become



EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE 1979

COMMUNITY BUDGET/CONVERGENCE

Brief by HM Treasury and the Foreign and Commonwealth Office

LINE TO TAKE (full speaking note at Annex D)

UK Budget Problem

1. Our budgetary problem getting worse. UK net contribution in 1978 - 942.5 mEUA (£625 million); 1979 estimated at 1250 mEUA (c.£825 million); in 1980 1500 mEUA (£1000 million). In 1980 we should be making much the largest net contribution to the Budget regardless of the method of MCA attribution (in the above figures UK and Italian MCAs are attributed to exporters). No doubt the Commission can confirm these figures, including estimates for 1980.
2. Equivalent Italian figure for 1978 is 752.3 mEUA (the second largest contribution).
3. Financial consequences of this creating difficulties for both us and Italians, two of three Member States with below average GDP per capita (at 73% and 56% of Community average respectively.)
4. Necessary reductions in agricultural surpluses will reduce cost of CAP and make it easier to switch expenditure to policies designed to reduce regional disparities (in UK: urban and industrial renewal, transport infrastructure projects to reduce bottlenecks; in Italy: Mediterranean agriculture, Mezzogiorno). Situation should therefore become less serious in the long term. But a major reorientation of this kind will take time and will not solve our immediate and pressing problem.

5. Meanwhile solutions required that make economic and political sense, by correcting the excessive UK and Italian net contributions and thereby ensuring that the Community Budget does not hinder Member States with below average GDP per head in their efforts to improve their economic performance.

6. Propose that the European Council should invite the Commission to make proposals before end of September to deal with this problem to permit decisions to be taken at next European Council at Dublin. (UK proposed text at Annex A).

7. [Defensive] One Per Cent VAT Ceiling

(a) Simply adhering to the present 1% ceiling of the VAT tranche of the Budget will not solve the problem of the UK net Budget contribution. Until the level and cost of agricultural surpluses is reduced, the ceiling might simply cause "obligatory" CAP expenditure to tend to squeeze out or reduce "non-obligatory" elements which benefit the UK.

[Defensive] The 1975 Financial Mechanism

(b) In its present form its effect is likely to be very small. Even if some of the restrictions built into it were removed, it would presumably still apply only to gross contributions and do nothing to compensate for the low level of UK receipts. Our share of Community GNP in 1980 will be just over 15%. In 1980 we will contribute 19-20% while our receipts are likely to remain at about their present level of 8% of total Community expenditure. So it applies to the lesser part of the problem.

(c) [If pressed to say what we want]

We are not pressing for this or that particular method of dealing with the problem. Better that the Commission should do its job and make proposals. But whatever mechanism is adopted, it must deal adequately both with our excessive gross contribution and our low receipts.

[Defensive] Attribution of MCAs

(d) We have to consider the economic consequences. Do not accept that the effect of UK MCAs is to subsidise our consumers. Fact is

/they



they enable farmers in high cost countries to compete in lower priced UK market. They offset only part of the resource costs of the UK buying Community food at higher prices than could be obtained on long-term contract elsewhere. But anyway we are planning to get rid of MCAs.

[Defensive] Convergence of Economic Performance

8. Council discussion has revealed conflicting views of how this should be achieved. Joint statement of UK and Italian views contained in paragraph 4 of the summary Report and in paragraph 5.3.1 of the complete Report. No point in rehearsing theoretical arguments about the nature of convergence: what is needed at this stage is specific discussion of the UK/Italian problem. Cannot accept the argument that leaving policies to evolve on present lines will solve problems, or that the economic impact of net budgetary transfers is negligible.

[Defensive] Convergence of Economic Policy

9. Reject the contention that convergence of economic performance will be achieved simply through the coordination of economic policy. Clearly a degree of economic compatibility and coherence is necessary, for instance for the successful functioning of the EMS. There is some room for improvement of functioning of existing coordination and consultation procedures. But the point is that none of this will however have any real effect on the unbalanced nature of the Community Budget and the UK/Italian problem.

## BACKGROUND

## REFERENCES

- A Report on Economic Convergence by Economic and Finance Council to the European Council
- B Summary of the above Report
- C Commission paper on Strengthening of Coordination of Economic Policy

10. The point of reference for this item is invitation of the March European Council to the Council and Commission to examine in depth "how the Community could make a greater contribution by means of all its policies taken as a whole to achieving greater convergence of economies of Member States and to reduce the disparities between them". In response to this, the Finance Council has agreed texts of the three reports [not yet available], one on coordination of economic policies and the other two (the second being a summary of the first) on convergence of economic performance.

11. The papers on convergence produced no agreed analysis of the problem and no agreed solution (and therefore merely reflect the two conflicting points of view). However, they give an opportunity to the Prime Minister and to Signor Andreotti to put our case on the Budget.

12. A recent series of bilateral exchanges has revealed a greater degree of understanding of the UK's position at a high political level than has been reflected in the discussion at official level which resulted in the above papers. At a political level, the Germans have made an important concession in at least admitting that the UK problem exists, and in showing a willingness to look into possible solutions. Other smaller states have also indicated

/some



some flexibility. The French position has also changed from its previous one of dismissing our problem as insignificant, but they will be primarily concerned to safeguard their own pocket. They have hinted at a reformed Financial Mechanism as the best solution. They may try to link any moves to commitments on our part over the CAP and fish. The Irish are unlikely to be particularly helpful. Ireland is the one State with below average GNP per capita which does relatively well out of the present arrangements and they want to ensure that any solution which helps the UK does not affect this. The Italians have been consistent and useful allies since the convergence exercise (related to discussions leading to the EMS) first started. However their requirements for a solution may well differ from ours and we may have to work for parallel progress on what could be two distinct solutions.

#### UK Text

13. If the text we have proposed proves impossible to negotiate we may have to settle for a shorter version. The essential minimum is attached at Annex B as a possible fallback.

#### Presentation of UK Budgetary Position

14. The table of net transfers for 1978 is attached (Annex C). Points in our budgetary position could be related to the joint UK/Italian statement in paragraph 4 of the summary report on convergence (which itself is based on paragraph 5.3.1 of the longer version of the convergence report). However these points take in a number of specific Italian concerns (eg. the tariff concession on Mediterranean products, increased financial capacity of the Budget) which is why they are prefaced by the words "some or all of the following". They do not spell out the possibility of a corrective mechanism, though there is indirect reference to this in the final sentence "in this case more immediate solutions will be necessary". We believe that some form of corrective mechanism will in fact be a necessary part of any solution.

/Likely

Likely Points against UK/Italian Position

15. The principal points likely to be made against us are contained in Section 5 of the Summary Report, of these the main ones are:

- (a) dismiss size of resource transfer problem as insignificant (response: UK net contribution is large enough to represent constraint on policy. Balance of payments cost very high. Major reason for reduction in our invisibles surplus);
- (b) refuse to look at effects of Budget as a whole (response: individual policies may be good in themselves but the total effect is still inequitable);
- (c) object to progressivity on revenue side on grounds that it conflicts with the philosophy behind the "own resources" system ie. means of Community revenue raising not related to individual Member States (response: we do not accept that the Community can progress when richer members take from poorer ones).

16. It is also likely that the Germans and others may argue that greater convergence of economic performance should be achieved principally by closer coordination of national economic policies (ie. in effect that the objective of the entire Community should be to reduce its inflation to the German level). The UK fully recognises the need to reduce inflation, but does not believe that the pursuit of this objective should bind the Community to the incompatibility between existing budgetary arrangements and the goal of promoting a greater convergence of living standards.

HM Treasury  
Foreign and Commonwealth Office

15 June 1979



ANNEX A

New Paragraph to be inserted between existing paragraphs 15 and 16 of EHG(S)(79)6

It may be suggested that the UK's budgetary problem is a consequence of its propensity to import from outside the EEC and therefore one of its own making. This argument is neither acceptable nor convincing because:

the UK is a market economy. UK consumers are free to buy imports from wherever they choose. Does anyone want to change this? Would others (eg. Chancellor Schmidt) countenance this sort of economic nonsense? Through what machinery does anyone suppose it could be brought about?

NET TRANSFERS BY (TO) MEMBER STATES IN 1978

million eua

	1978 - Actual position			1978 - Without Article 131 adjustments		
	1 Recorded transfers	2 MCAs	3 Adjusted transfers	4 Recorded transfers	5 MCAs	6 Adjusted transfers
Belgium/Luxembourg	+ 380.4	- 43.1	+ 337.3	+ 415.4	- 43.1	+ 372.3
Denmark	+ 620.4	- 239.1	+ 381.3	+ 620.4	- 239.1	+ 381.3
Federal Republic of Germany	- 423.8	- 173.0	- 596.8	- 213.6	- 173.0	- 386.6 →
France	- 82.9	- 287.7	- 370.6	+ 47.4	- 287.7	- 240.3
Ireland	+ 536.2	- 210.4	+ 325.8	+ 517.8 →	- 210.4	+ 307.4
Italy	- 752.3 →	+ 418.5	- 333.8	- 672.9	+ 418.5	- 254.4
Netherlands	+ 220.5	- 179.8	+ 40.7	+ 265.4	- 179.8	+ 85.6
United Kingdom	- 942.5 →	+ 714.6	- 227.9	- 1423.9	+ 714.6	- 709.3 →
Direct aid to Third Countries	+ 39.0		+ 39.0	+ 39.0		+ 39.0
Change in Commission's balances with national treasuries (2)	+ 393.9		+ 393.9	+ 393.9		+ 393.9
Differences on exchange rates (3)	+ 11.1		+ 11.1	+ 11.1		+ 11.1
	0	0	0	0	0	0

(1) At the average exchange rates for the years in question

(2) The national treasuries maintain accounts in the name of the Commission. Although the 1976 and 1977 budgets were in balance and executed, the balances on these accounts changed during the year. These balances do not earn interest and can be used by the Commission only to meet approved budgetary expenditure.

(3) These are accounting differences which arise because of the use of average exchange rates.



EUROPEAN COUNCIL, 21/22 JUNE

SPEAKING NOTE FOR THE PRIME MINISTER'S USE ON COMMUNITY  
BUDGET/CONVERGENCE

1. We could have a long philosophical discussion on convergence but the plain fact is that we have basic imbalances in the Community which we must put right. Colleagues will know the vital importance that the United Kingdom attaches to this issue. Our budgetary problem is getting worse all the time. In 1978 the United Kingdom net contribution was 942.5 million EUA. In 1979 it is estimated at 1250 mEUA. In 1980 it will have risen to 1500 mEUA. We shall then be making the largest contribution to the budget regardless of how MCAs are attributed. I do not think we need discuss at this stage the rights and wrongs of how MCAs are attributed. Besides the problem is disappearing. It is quite clear that on any calculation our budgetary contribution is excessive.
2. We are not seeking a solution to a problem which concerns the UK uniquely. In 1978 I note that Italy made the second largest contribution to the Budget at 752.3 mEUA. This is a problem for the whole Community.
3. The financial consequences of these contributions create real economic and political difficulties for both us and the Italians, two of the three member States with below average GDP per capita. The United Kingdom figure for average GDP per head is 73% of the Community average while the Italian figure is 56%.
4. Of course we agree that we in the UK are responsible for this relative decline. We are intending to put that right. Among other things that involves a determined attack on public expenditure so the size of our net contribution to the Community is a serious economic problem as well as a major political liability for Government determined to co-operate fully in the Community.
5. In the long term this situation could become less serious. The reductions which are necessary in agricultural surpluses should reduce the cost of the CAP. This is highly desirable. They may make it possible to spend money, e.g. on transport infrastructure projects in the UK, and on help for the Mezzogiorno in Italy. But all this will take time.

6. The Community Budget produces an inequitable pattern of net contributions and hinders member States with below average GDP per head in their efforts to improve their economic performance.

7. What I should like to propose is that the European Council should invite the Commission to make proposals before the end of September to deal with this problem so as to permit decisions to be taken at our next meeting in Dublin. [I have arranged for the text of the form that such an invitation might take to be circulated.] We bring this problem to the European Council confident that the Community will respond by dealing with it. That it has done so is the message which I should like to be able to take home tomorrow.



EHG(S)(79) 6

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REF B

EUROPEAN COMMUNITIES  
THE COUNCIL

Brussels, 14 June 1979

7415/1/79

REV. 1

RESTREINT

ECOFIN 54

REPORT

from: Permanent Representatives Committee  
to : Council of the European Communities

Subject : Convergence of the economic performances of the  
Member States

Following the instructions given by the ECO/FIN Council on 14 May 1979, the Committee of Permanent Representatives drew up a draft summary of the draft report from the ECO/FIN Council to the European Council on the Convergence of the economic performances of the Member States.

This draft summary is attached hereto.

The Committee of Permanent Representatives has not been able to reconcile the different points of view set out in the draft summary. They accordingly submit these points for consideration by the ECO/FIN Council and invite the Council to identify the principal elements on which the European Council should focus attention.

Draft summary  
of the Report  
from the ECO/FIN Council to the European Council

Subject : Convergence of the economic performances of the  
Member States

1. In accordance with the terms of reference set by the European Council of 12 and 13 March 1979, the ECO/FIN Council has examined how the Community, by means of all its policies taken as a whole, can contribute to achieving a greater convergence of the economics of the Member States and to reduce the disparities between them.
2. The results of this examination are contained in the attached report.
3. The Council noted in particular that :
  - the convergence of economic performances requires measures which are the responsibility primarily of the Member States concerned, but to which Community policies can and should lend their support within the framework of greater solidarity ;
  - in the context of a common strategy aiming at increased and more stable growth, economic policy co-ordination should be reinforced both by improving procedures and by reaffirming the political determination to implement them with a view to multiplying the effects of parallel measures ;

.../...



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- 2 -

- regarding the co-ordination of economic policies, full account should be taken of the opportunities afforded by Community machinery for financing balance of payments disequilibria and the contribution which such machinery can make in easing adjustments, and that
- the development of common policies, while bearing in mind the prospect of enlargement, should take closer account of the objectives of achieving greater convergence in economies and a reduction in disparities, without however calling into question the specific goals of each of the policies.

The Council also formulated the following guidelines :

- while respecting their ultimate purposes, there should be a better use of existing financial instruments on priority actions, selected on the basis of the relative gravity of the different situations, and there should be a greater link-up between measures taken under the various Community instruments. This should entail a gradual increase, through integrated action, in the co-ordination of Community structural instruments and closer links between the utilization of such instruments and national instruments ;
- a more regular and more detailed assessment of the results achieved by Community measures should be introduced so as to improve the way in which they operate ;
- in granting Community funds, priority should be attached to national programmes, particularly infrastructure programmes, which are in line with indicative programmes in the European interest, ensuring greater mutual complementarity of any projects which exist ;

.../...



- finally, more effective use of Community instruments by national authorities should be encouraged ; with this in mind, measures should be taken to ensure more systematic and more consistent use of Community instruments, especially by Member States faced with serious regional problems ;
- while not, at this stage, prejudging the desirability of increasing budgetary resources, instruments and policies designed to remedy structural disparities should be developed gradually to enable them to play their part to the full.

4. The Italian and United Kingdom delegations expressed the view that the elements set out in point 3 above appertain in part to the subject of co-ordination of economic policies rather than to convergence of economic performances and do not constitute an adequate response to the request of the European Council. They pointed out (point 5.3.1. of the report) that present Community policies taken as a whole are hindering national efforts to reduce disparities in economic performances and living standards. In this connection they reminded that under Article 2 of the EEC Treaty, "The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it".

In particular, they have drawn attention to the fact that, apart from 1976, Italy has been a net contributor in terms of budgetary transfers since the Community was founded. The picture has been more or less the same for the United Kingdom since it joined. Italy's net contribution in 1978 was 752.3 million units of account ; the United Kingdom's

.../...



net contribution was even more. Yet the United Kingdom and Italy rank 7th and 8th among the Community countries in terms of per capita GDP. This situation seems unlikely to improve in the near future unless appropriate measures are adopted.

In the view of these two delegations, this pattern of net budgetary resource transfers (to which should be added the non-budgetary resource costs of the Common Agricultural Policy) is both inequitable and detrimental to the objectives of convergence. The present scale of their resource transfers to the Community represents an important constraint on their economic performances. These transfers affect not only public expenditure and thus the public sector deficit, but also the balance of payments and inflation and thus have a multiplier effect on the whole economy.

In the view of these delegations, a series of measures should be taken to ensure that, within a short period, net resource transfers, resulting from Community policies taken as a whole and from the Community Budget, will contribute to rather than hinder the achievement of convergence, by being properly related to the relative economic strengths of the different Member States. These measures should include some or all of the following :

- (a) the strengthening of structural policies and the injection of a regional dimension into all Community policies ;
- (b) the re-orientation of the expenditure side of the budget to achieve a better balance between agricultural expenditure and expenditure on structural policies and a better balance within the agricultural policy itself. Where necessary, specific compensatory measures to offset the negative effects of the agricultural policy should be introduced ;

.../...



- (c) compensation for tariff concessions given to third countries on Mediterranean agricultural products so that these concessions have no negative effects on the incomes of farmers in these regions, which are already very low ;
- (d) the introduction of progressivity into the own resources of the Community ;
- (e) an increase in the financial capacity of the budget.

The two delegations felt that such measures, while desirable in themselves, might not suffice to solve the problems in question in time. In this case more immediate solutions will be necessary.

5. Six other delegations contested these points of view and stated the following conclusions :

- (a) - the European Council invited the Council and the Commission to examine the issue of greater convergence and reduction of disparities in support of the implementation of the EMS ;
- as the European Council stated, convergence of economic performances must be pursued primarily through national action of the Member States, supported by Community efforts. In their opinion, reinforcement of the co-ordination of the Member States' economic policies, as sought by the European Council, was a fundamental element in the pursuit of that convergence ;
- (b) Community policies do contribute to convergence of economic performances and reduction of disparities in the Member States ; the impact of these policies must be assessed in overall economic terms and not in terms of their budgetary implications ; the concept of "net budget transfers" is misleading and must be discarded ;



in any case, budget figures, such as those referred to in point 4, need to be adjusted for agricultural monetary compensatory amounts, and this leads to a much more favourable pattern for the two Member States concerned ;

- (c) - the Community Budget revenue consists of own resources belonging to the Community, the composition of which is determined by changing patterns of industrial and agricultural trade and of economic activity ;
  - the Community's own resources are not national contributions of each Member State susceptible to introduction of discretionary elements, such as progressivity ;
- (d) - the Community Budget expenditure reflects Community policies, which must be assessed according to their particular objectives ;
  - expenditure under the Common Agricultural Policy is determined by changing patterns of production and trade . the increase in agricultural expenditure must be brought under control by an appropriate price policy, which will permit a gradual redeployment of budget expenditure within the frame of the Community's own resources and without interference in the basic principles of the Common Agricultural Policy ;
- (e) the reduction of regional disparities is already increasingly taken into account under existing Community policies ; this reduction is only one of the factors affecting the direction taken by each Community policy ;
- (f) a number of Community instruments outside the budget have been developed recently which contribute to the reduction of disparities between Member States ;

.../...



(g) more generally, the conclusions set out in point 3. above are approved by all delegations. The six delegations consider that they represent the correct answers to the request of the European Council and the application of the guidelines set out in these conclusions will considerably improve the convergence of economic performances in the future.

6. The Irish delegation pointed out that it can support certain elements in both sets of conclusions. It can, for instance, agree with the Italian and United Kingdom delegations on the need to strengthen structural policies and inject a regional dimension into all Community policies. While sympathising with these delegations' views on the introduction of progressivity into the own resources of the Community and on an increase in the financial capacity of the budget, it considers that it would be premature to take a view on these questions at this stage pending the submission of proposals by the Commission on increasing the Community's resources.

On the other hand the Irish delegation also agreed with the view expressed by the six other delegations that the impact of Community policies must be assessed in overall economic terms and not in terms of their budgetary implications, that the concept of the "net budget transfers" is misleading and that budget figures need to be adjusted for agricultural MCA's thus giving a more favourable pattern for the two Member States concerned. It also agreed that the Community budget expenditure reflected Community policies which must be assessed according to their particular objectives.

The Irish delegation accepted that while existing Community policies take account to an extent of the need to reduce regional disparities and that extra budgetary instruments have been developed in order to contribute to this reduction, nevertheless it

.../...



would point out that measures taken are not yet on a scale which would enable that objective to be achieved. On the contrary, the disparities have, if anything, tended to widen.

Finally, the Irish delegation considered that any redeployment of expenditure, with the objective of promoting convergence of the economies of certain Member States, must not result in undermining the basic objectives of the Common Agricultural Policy or in the creation of obstacles to the convergence of other Member States in a weaker position.

7. The Commission referred to the conclusions it had laid before the European Council in its communication "Use of Community instruments and greater convergence of economic performance".
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EHG(S)(79)6 (Addendum)

COPY NO

19 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

UK NET CONTRIBUTION TO THE COMMUNITY BUDGET AND THE ATTRIBUTION OF MCAS

Brief by the Cabinet Office

The problem of the attribution of MCAs in the Community Budget could be disposed of if UK MCAs were eliminated, since then there should be agreement on the size of our net contribution. At present exchange rates/<sup>this</sup>would mean a further devaluation of the Green Pound, beyond the 5 per cent agreed at Cabinet on 14 June, of about 6 per cent. Such a devaluation would immediately fulfil the Government's pledge to bring our agricultural prices up to Community levels, and could be presented as being communautaire.

2. It would however have significant disadvantages. There would be a further increase in the Retail Price Index of about  $\frac{1}{4}$  per cent, and there would be no further flexibility to increase the incomes of UK farmers without an increase in common prices for the whole of the Community. To have to press for such increases would mean adding to agricultural surpluses (and increasing the cost of the CAP to which we would pay our share). If sterling continued to strengthen so that positive UK MCAs were created we might, like the Germans, be placed in the position of having to seek an increase in common prices simply to keep domestic prices (and farmers' incomes) at their present level. At any rate, it is unlikely that all other member states would agree to an immediate elimination of all our MCAs (which would result in support price increases for UK farmers this year of about 20 per cent) unless we gave way on common price increases in order to allow their farmers some increase in support as well.



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3. The objective of reducing the difference between the views of the UK and other member states on the size of our net contribution to the Community Budget can be reduced to a large extent by requesting the Commission to prepare figures for 1979 (and 1980) on the same basis as for 1978 but with current MCAs. (The 1978 figures reflect the fact that our MCAs were as high as 39 per cent a year ago). After the proposed devaluation, they will be down to 6 per cent (or 1 per cent for pigmeat). On this basis, the difference should narrow considerably and therefore the Commission are being pressed to produce figures for 1979 and 1980.

Cabinet Office

19 June 1979

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NEW PAPER

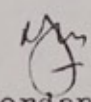
CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
PS/Financial Secretary  
Sir D Wass  
~~Mr~~ Couzens  
Mrs Hedley-Miller  
Mr Ashford  
Mr Baker  
Mr Thomson  
~~Mr~~ P. Davies  
Mr M. Butler, FCO  
Mr M. Franklin,  
Cabinet Office

EUROPEAN COUNCIL - UK BUDGET CONTRIBUTION

You will be interested to know that, following Monday's Finance Council, the Frankfurter Allgemeine Zeitung has published an interview with Herr Schlecht, the State Secretary in the German Economics Ministry, commenting on the British budgetary problem in the EEC. The burden of this comment is that the Germans, although they do not accept a relationship between the Treaty's aim of "convergence" and the UK's budgetary problem, nevertheless recognise that the British contribution is high and constitutes a problem about which something must be done, and that they are ready to discuss this at Strasbourg. The Germans have, of course, said similar things to us in private, but as far as I know this is the first time that they have said as much in any public pronouncement. I am told that the article has provoked quite a stir in Bonn and Brussels. Mr Fitchew, speaking to his opposite number in Brussels, has had confirmation that this is the position of the German Government "at all levels, from Chancellor Schmidt down - ~~was~~ including the Minister of Finance". I attach a translation of the article.

2. I am copying this minute to the FCO and Cabinet Office. You may consider that this important text should be transmitted to No 10 as a supplement to the Prime Minister's briefing for Strasbourg.

  
N. Jordan-Moss  
20 June 1979



NO UNANIMITY OVER THE BRUSSELS BUDGET

The Federal Republic of Germany is not prepared to make any changes in the principles that determine the financing of the European Community Budget. This was made clear by the German representatives at the Finance Ministers' meeting in Luxembourg on Monday. The Federal Government has in particular rejected any increase in the present 1% ceiling on the VAT contribution to the Community and the introduction of progressivity geared to economic strength into contributions to the Community's coffers. The occasion for this statement was the "Report on Convergence" that the Ministers must submit to Heads of Government for their discussions in Strasbourg on Thursday and Friday of this week. This contained recommendations designed to produce a greater compatibility/harmony between the economies of the individual Member States and to eliminate present imbalances in the interests of the viability of the EMS.

The report that the Finance Ministers are circulating to Heads of Government will not be unanimous. The UK and Italy are demanding an increased transfer of resources, by which they mean increased financial support for the less-developed Member States through the Community Budget. Both countries therefore want an expansion of the Community's budgetary resources. But the UK is insisting on a reduction in its own share. The new British government is also of the view that its contribution is too high in relation to its economic state and its income.

The majority of Member States, including Germany, believe that a strengthened co-ordination of national economic policies must be the decisive factor in bringing about economic convergence. Moreover, what is needed is to create political conditions conducive to investment in the less-developed regions of the Community. This is a task for national governments. Financial assistance from Community funds can only play a supplementary role.

State Secretary Otto Schlecht from the Federal Economics Ministry assures that in Strasbourg Heads of Government will commission a review of the financing of the Community Budget.

It is probable that the UK's situation as a net contributor will deteriorate yet further. Corrective measures are probably needed.



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LINE TO TAKE

- i) Although a reasonable rate of growth in the Community seems assured for most of 1979, there could be a weakening in 1980. Little, if any, progress will be made in reducing unemployment.
- ii) Inflation rates are accelerating almost everywhere and the divergence between the best performance and the worst is widening again.
- iii) Oil prices are already 30 per cent above the levels of last December and are still rising. The Commission's Scenario 3, far from being excessively pessimistic is the best we can hope for and in the absence of further action to cut back demand for oil the outcome could be even worse.
- iv) To rely solely on market mechanisms to bring supply and demand into balance is to risk a very sharp increase in oil prices or would require heavy deflation. Measures to act directly on the supply/demand imbalance are therefore urgently required to avoid greater damage of our economies.
- v) The terms of trade produced by higher oil prices is unlikely to be reversed over the medium term and industrial countries will need to adjust to the loss in real national income.
- vi) Demand management policy will need to remain tight in order to minimise the extent to which higher oil prices feed through into other prices. The aim should be to bring about the change in relative prices while containing the effect on the general price level.
- vii) The Budget is specifically aimed at tackling supply side problems. Its primary purpose is to strengthen financial incentives and release resources for the private sector.

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BACKGROUND

References A: Commission Paper on the  
Economic Consequences of the  
oil situation.  
B: EHG(S)(79)5 - International  
Energy situation.

Recent Developments and Prospects

(Summary tables are at Annex A)

1. Growth in Community countries (excluding the UK) is likely to be  $\frac{1}{2}$  percentage point faster at  $3\frac{1}{2}\%$  in 1979 than 1978, continuing the recovery from low growth in 1977. All Community countries except <sup>the UK and</sup> Ireland which has enjoyed particularly high growth in the past three years, are forecast to enjoy an acceleration of growth in 1979. This will be a continuation of the upswing that started in the second part of 1978. There is a danger that growth may start to slow towards the end of the year, particularly in Germany where the net fiscal impact will become less expansionary through the year. Rising oil prices are casting a cloud over the prospects for 1980.
2. The higher growth rates will probably not be sufficient to lead to any significant reduction in unemployment rates except possibly in Germany. The Community unemployment rate has remained stable in the past two years at 5% but many countries are facing the problem of high rates of labour force growth. In France where the unemployment situation worsened considerably in 1978, the problem has been exacerbated by high productivity growth.
3. Although the prospects for growth are reasonable in 1979, the inflation outlook has deteriorated since the end of last year. The terms of trade gains of manufactures and the appreciation of all European currencies except the lira against the dollar which allowed Community countries to reduce their

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average inflation rate from 8.7% to 6.6% have been reversed in the first half of 1979. The Community rate of inflation is likely to rise above 7% this year.

4. Within the aggregate Community average inflation rates are likely to diverge further this year, after a slight narrowing of differentials last year. Italy, France, the UK and Ireland will have to address policy to the containment of inflation. This will be particularly problematic in the case of Italy where the operation of the scala mobile leads to the automatic transmission of external price shocks into labour costs. The unwillingness of the authorities to dismantle indexation will mean a heavy burden on monetary policy.

5. Elsewhere however, although rising import prices have boosted the rate of growth of wholesale and consumer prices, there is little sign of domestically generated pressures pushing the inflation rate upward. In Germany for example wage settlements this year are on average  $\frac{1}{2}$  percentage point lower than in last year's wage round at  $4\frac{1}{2}\%$ . The recent tightening of monetary policy in Germany might, if carried further, damage the upturn now underway, and create difficulties for other EMS members.

6. The external position of Community countries seems set to continue to be in a healthy aggregate surplus in 1979 although

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the combined current account surplus will fall from the §15 billion recorded in 1978 to under §10 billion. This however largely reflects the robustness of the current account surpluses of Germany and Italy. The current account deficits of Benelux, Denmark and Ireland, although small in absolute terms, will continue to act as a major constraint on policy. Further oil price increases would exacerbate the problem.

The Economic Consequences of the Oil Situation

7. In response to a request by the March Council, the Commission has produced a paper on economic consequences of the oil situation on the economies of the Community. It has examined three Scenarios

i) In Scenario 1 the oil price rises on average by 20% in 1979 and demand is cut back by 5%.

ii) In Scenario 2, the oil price rises by 25% and demand is cut back by 3%.

iii) In Scenario 3, the price rises by 30% in 1979 and demand is cut back by 1%.

8. Scenario 1 has now been overtaken. Oil prices are already 30% higher than in December and only if there were no further rises (an unrealistic assumption) would the outcome be as low as 25%. Thus Scenario 2 can also be considered outdated. If there is no effective action to improve the situation in the oil market, the outcome could be even worse than Scenario 3.

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9. The Commission have estimated that a 30% rise in the oil price would:

- i) increase inflation in the Community by 0.9% after a year if other energy prices are not adjusted, and 1.4% if they are;
- ii) reduce GDP in the Community by 0.5 to 0.6%;
- iii) increase the Community's current account deficit by \$5.5 billion and the OECD deficit by \$30 billion.

10. These seem plausible estimates and are similar to those produced by OECD and the Treasury. Nevertheless relatively little faith should be put in them. It is very difficult in simulating effects of this kind to take account of the reactions of consumers and investors. It is possible, for example, that the rise in inflation could trigger a sharp increase in the savings ratio as households seek to restore the real value of their financial assets. This could magnify the deflationary effect.

11. A further reason why these figures understate the deflationary impact is that they do not allow for a reaction by those countries who find themselves facing a balance of payments constraint. The ldc's and the smaller OECD countries will tend to receive very little in terms of increased OPEC imports to match their increased oil bill.

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12. Policy Response

The principal requirement is for policies which attack the supply/demand imbalance directly. The demand for energy products is very inelastic and so to leave market forces to play the major role in producing equilibrium is a relatively "inefficient" response in the sense that very large price increases would be required or, alternatively, a large reduction in demand. Thus the benefits, in terms of avoiding much worse outcomes, of measures which directly improve the balance of supply and demand are potentially very high. This implies not only an intensification of the short term measures but a new urgency to tackle energy policy in the medium term. Studies by OECD and in Whitehall both indicate that even with rather modest growth rates over the medium term the demand for oil would, at present real oil prices, only just be met, with no margin for contingencies. Thus in the absence of improved energy policies, faster growth in the medium term is likely to lead to an accelerating rise in the oil price. For further discussion of energy policy measures see EHG(S)(79)5.

13. The loss in the terms of trade brought about the rise in the price of oil is not thought to be cyclical and the experience since 1974 indicates that OPEC is likely, over time, to adjust its imports in line with its increased earnings. Over the medium term, therefore, it will be necessary for the industrial countries to adjust to the loss in the real national income. The second requirement of policy, therefore, is to ensure as far as possible



that wage earners refrain from the inflationary, and inevitably futile, attempt to reverse such a terms of trade loss through claims for higher money wages. This, of course, is easier said than done, and demand management policies will have to remain cautious in order to minimise the extent to which higher oil prices feed through into other prices.

14. The UK is likely to be affected rather differently from other countries. The effect on our balance of payments is small. In consequence it is likely that our exchange/<sup>rate</sup> will appreciate (this has certainly been the experience to date). As a result the inflationary impact will be less but the loss of competitiveness will reduce exports, at least temporarily. This will add to the deflationary impact caused by the transfer of income from households and non-North sea companies to the North Sea oil sector. Thus the balance of payments and inflation could be affected less than in other countries but the effect on output could be higher.

#### The Budget

15. The Budget proposals recognise that the UK's poor economic performance is due not to deficient demand but to failures on the supply side of the economy. The measures are therefore aimed at strengthening financial incentives; reducing the role of the state; cutting the burden of financing the public sector; and ensuring that collective bargaining takes account of its consequences.

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TABLE 1 : GNP/GDP GROWTH RATES

% change on previous year

	1977	1978	1979
Germany	2.6	3.4	3.8
France	3.0	3.0	3.3
Italy	1.7	2.2	3.6
Netherlands	2.3	2.3	2.6
Belgium	1.2	2.0	2.3
Denmark	1.8	1.3	2.7
Ireland	5.5 -	6.4 -	4.7 -
United Kingdom	1.9 .	3.0 .	0.5 .
EEC	2.4	2.9	2.9
EEC (excl. UK)	2.5	2.9	3.4

TABLE 2 : CONSUMER PRICES

% change on previous year

	1977	1978	1979
Germany	3.9	2.6	3.4
France	9.5	9.2	9.8
Italy	19.3	12.4	13.7
Netherlands	6.4	4.1	4.5
Belgium	7.1	4.5	4.3
Denmark	11.0	10.1	7.0
Ireland	13.6	7.6	11.5
United Kingdom	16.0	8.6	12.6
EEC	9.9	7.0	8.0
EEC (excl. UK)	8.7	6.6	7.2



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TABLE 3 : BALANCES ON CURRENT ACCOUNT

(\$ bn)

	1977	1978	1979
Germany	3.8	8.8	6.0 -
France	-3.3	4.1	3.1 -
Italy	2.3	5.7	5.1 -
Netherlands	0.2	-1.2	-1.5
Belgium	-0.4	-0.4	-1.7
Denmark	-1.7	-1.4	-1.6
Ireland	-0.2	-0.3	-0.4
United Kingdom	0.8	0.5	-1.3
EEC	1.5	15.8	7.7

TABLE 4 : UNEMPLOYMENT RATES

% of labour force

	1977	1978	1979 (Latest month)
Germany	4.5	4.3	3.8 (A)
France	5.7	6.2	7.1 (A) →
Italy	7.2	7.2	7.8 (M, nsa)
Netherlands	5.1	5.1	4.9 (M)
Belgium	9.8	10.5	10.9 (A)
Denmark	7.7	8.8	6.6 (F)
Ireland	11.9	-	9.9 (D)
United Kingdom	5.8	5.7	5.5 (A) →
Total EEC	5.0	5.0	5.6 (J)

1979 and 1980 figures are Treasury forecasts for all countries except Denmark and Ireland. Figures for these countries are taken from the OECD Secretariat's paper for EPC in May. UK forecasts are unpublished and should not be quoted publicly.

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EHG(S)(79)7(Addendum)

COPY NO 1

15 June 1979

EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE 1979

ECONOMIC AND SOCIAL SITUATION  
IN THE COMMUNITY

Note by the Foreign and Commonwealth Office

1. Attached is Commission Paper COM(79) 327 final -  
The Economic Situation and Policies in the Community.

It is Reference A to Brief No 7 and should be put with the  
brief.

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FOREIGN AND COMMONWEALTH OFFICE

15 June 1979

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ETG(8)(79)71

COM(79) 327 final REF A  
Bruxelles, le 14 June 1979

COMMISSION  
DES  
COMMUNAUTÉS EUROPÉENNES

Secrétariat général

THE ECONOMIC SITUATION AND POLICIES IN THE COMMUNITY

(Communication of the Commission to the European Council,  
Strasbourg, 22 and 23 June 1979)

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COM(79) 327 final

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I. The Economic Situation

The last six months have seen a consolidation of economic revival in the Community. The underlying rate of growth of aggregate demand and of output has been substantial, and if there has appeared to be some deceleration relative to the last half of 1978, that can be attributed to the effects of the severe winter on industrial production, in particular on construction, and on investment, and in some countries to industrial disputes. All the member countries have contributed to this sustained growth in activity but to varying degree. In particular the Federal Republic of Germany, France and Italy have witnessed strong growth in private consumption and, except in the case of France where residential construction has been particularly depressed, in fixed investment. The Benelux countries have suffered in particular from the bad weather conditions whereas in the United Kingdom private consumption has slowed down somewhat from the very rapid rates of growth obtained in 1978.

The continued rate of expansion has not been sufficient to prevent unemployment rising in France, Italy and Belgium. While the unemployment rate has been stable since September at 5.6 % for the Community as a whole, there has been some worsening within this figure of unemployment among women.

While the growth performance on the whole might be considered to have improved, that cannot be said for developments as regards prices. The rate of inflation in the Community has noticeably quickened. To some extent, in most member states this has been the result of increases in food prices, again connected with the bad winter. In some countries, notably France, Italy and the United Kingdom, there have been substantial increases in public utility prices. Import prices, particularly of petroleum products, have hurt all member states, but especially the Federal Republic of Germany. Finally, the prices of services have been

.../...



rising exceptionally rapidly almost everywhere. The outcome has been that the average monthly inflation rate in the Community has risen to 1 % for the final four months of this year, as opposed to an average of 0.6 % in 1978.

The outlook for economic activity over the next six months is dominated by the oil price factor. Nevertheless, oil prices apart, there have been some disquieting indicators. The investment cycle is likely to peak in the Federal Republic of Germany, the United Kingdom and the Netherlands within the second half of this year. Investment may have already peaked in Italy, Ireland and Luxembourg. Stockbuilding will probably fall in several member states. Recent Community business surveys show a definite weakening in business confidence in several countries. Furthermore most member states will experience a minor weakening of consumer expenditure as the accelerating inflation erodes growth of real disposable income. Also the effects of the expansionary policies undertaken in certain member states over the last nine months may be becoming dissipated.

These factors suggest that the second half of 1979 may, in any event, represent a turning point in the Community business cycle. Even while assumptions on oil price increases were still being formulated on the basis of the decisions taken by OPEC last December, a slackening in the growth rate between the second half of 1979 and the first half of 1980 was being forecast for several countries by the Commission. Now, in the light of further conjunctural developments, and most importantly, a new assumption about the path of the import price for crude oil in 1979 and 1980, the forecast of a turn-down in the rate of growth has become generalised. On the basis of unchanged policies, the Commission now forecasts that Community GDP growth rate will fall from 3.4 % in 1979 to 2.8 % in 1980. The prior estimates were respectively 3.5 % and 3.1 %.

The oil price assumptions are those underlying the latest economic forecasts of the Commission. If anything, they may be considered as somewhat conservative. The effect of such an increase

.../...



in the price of imported oil is both to revise down expectations of future growth and employment and to revise up expectations of inflation. As regards unemployment, the Commission staff now forecast the average Community rate to edge up from 5.5 % in 1979 to 5.7 % in 1980. As for inflation they are now predicting an average inflation rate (of the consumer price deflator) of 8.5 % in 1979 and 8.3 % in 1980, as against 7.1 % in 1978. This represents a reversal in the trend towards lower inflation rates. The deterioration in 1979 is greatest in those countries, Italy, the United Kingdom, Ireland and, to a lesser extent, France, which already have higher than average inflation rates.

## II. Economic Policy Options

As has been indicated above the Community is faced with the "stagflationary" effects of a substantial rise in petrol and other raw material prices, apparently at the same time as it is experiencing a turning point in its endogenous business cycle. Indeed the forecasts presented in the accompanying table could well prove to have been optimistic given the double risk of further oil price rises on top of a cyclical downturn. This contingency of events presents an acute policy dilemma. Demand management policies adopted with a view to compensating for the deflationary effects of the cyclical developments and of the terms-of-trade movement may turn out to be self-defeating, because of the danger that oil and other raw material prices will respond by further increases imparting a further deflationary impact. Furthermore the effects of the oil price rise on domestic demand could well be magnified by the erosion of business confidence, an increase in household savings rates and exchange rate instability. On the other hand no policy reaction, or restrictive measures designed to reduce domestic and external inflation pressures, could lead to a much more serious growth recession in 1980. In this context it should be noted that the present budgetary policy intentions of the member states as regards their 1980 budgets appear at the moment to be in most cases such as to be essentially restrictive, although possible movements in this direction have not been incorporated in the Commission's forecasts.

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What can then be said about the appropriate policy response of the member states to the recent or future adverse changes in the terms-of-trade? Firstly these changes imply a relative shift in real income to oil and certain other raw-material producing countries. The relative reduction in real income in the importing countries can best be effected by allowing the price of oil and other energy products (and products embodying other raw materials whose prices has risen) to rise sufficiently to reflect the increased import prices. The price mechanism should be one of the primary techniques for the achievement of the goal for reduced oil consumption of 25 million tonnes agreed by the European Council.

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Yet while retail prices must at least fully reflect the terms-of-trade deterioration, it is imperative that these price increases do not lead to compensating increases in nominal incomes. In that event the loss in real income might be borne by the corporate sector with reductions in investment and employment, both now and in the future. Alternatively they might be effected through reductions in public services and transfer incomes, with regressive distributive effects.

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The appropriate response of demand management policy is conditional primarily on a substantial reduction in oil consumption. Reductions in energy consumption would diminish the present oil scarcity which is bidding up prices, with serious inflationary and balance of payments effects. To the extent that such economies in oil consumption are not achieved over the next few months it will be necessary to accept a greater reduction in the level of aggregate demand with all that implies for unemployment and wasted resources.

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The policy response in the short term must then retain maximum flexibility, which implies that the appropriate stance for budgetary policy over the next fiscal year may have to be varied as the situation changes. As for the medium term, the need to reduce energy consumption by conservation as well as to find and render economic new sources of energy is spelt out in other documents presented by the Commission.

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THE MAIN MACRO-ECONOMIC AGGREGATES, COMMISSION FORECASTS (1)

	GDP real percentage changes on preceding year			Implied deflator of private consumption percentage changes on preceding year			Balance on current account ( $\text{\$}^{\cdot}000$ million)		
	1978	1979	1980	1978	1979	1980	1978	1979	1980
DK	0.9	2.8	2.5	9.4	8.7	8.5	-1.5	-1.9	-2.5
D	3.1	4.0	3.1	2.6	4.0	4.0	8.2	5.1	2.6
F	3.3	3.4	3.3	8.8	9.8	9.5	4.0	4.1	4.1
IRL	6.0	3.8	3.5	8	12.5	12.0	-0.3	-0.8	-0.9
I	2.6	4.9	3.0	12.7	14.8	12.5	6.3	3.8	4.5
NL	2.9	2.1	1.7	4.6	5.0	6.5	-1.2	-1.5	-2.3
B	2.3	2.5	2.1	4.0	4.2	5.7	-0.2	-0.6	-1.1
L	3.2	2.3	3.0	3.1	4.5	5.5	0.7	0.7	0.8
UK	3.3	2.0	2.1	8.6	11.5	11.5	0.5	1.2	1.2
EC	3.0	3.4	2.8	7.1	8.5	8.3	16.5	10.0	6.3

(1) On the assumption of unchanged policies as of the beginning of June and oil price developments as explained in Com. Doc. II/359/79.

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EHG(S)(79)8

COPY NO 1

EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE, 1979

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

UK OBJECTIVES

1. To adopt a low profile. To keep open the position on eventual UK participation in the exchange rate mechanism. To avoid prejudicing UK access to interest rate subsidies.

POINTS TO MAKE

UK Position

2. We will sympathetically consider joining the exchange rate mechanism at an appropriate time. We will play our full part in the September review, and will be considering whether we should swap reserves for ECUs.
3. We shall be ready to declare our general position in the autumn, but will want to take the outcome of the review into account before taking a final decision on whether or not to join.

EMS Interest Rate Subsidies

4. If not settled on 18 June and raised by others: We must have an assurance of equitable access for the UK to interest rate subsidies before we can agree to the passage of the regulation. Eventual UK access was clearly intended by the December European Council. [Fall-back position if something <sup>weighty</sup> could be gained at this Council in exchange]. We would be prepared to reconsider our opposition to the interest rate subsidies regulation, on the understanding that

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that we shall return to the point in the event of our joining the exchange rate arrangements.

BACKGROUND

General

5. The EMS is unlikely to be a major subject of discussion, but the Belgians and Danes may complain that German exchange rate policy in supporting the deutschemark is putting pressure on the krona and Belgian franc which find themselves at the bottom of the system and forced to intervene. The behaviour of the Germans may be understandable from their point of view, but the present episode shows how difficult it can be to live with the deutschemark. The German concern with an external objective - the \$/DM exchange rate - is conflicting with behaviour which would make things easier for their Community partners. There is no need for the Prime Minister to intervene in this debate.

UK Position

6. The Prime Minister has told both President Giscard and Chancellor Schmidt of her willingness to consider joining the EMS exchange rate arrangements at an appropriate time, and **to declare our general position in the Autumn**. She is unlikely to come under pressure to accelerate this timetable, and should decline to do so, but she may need to defuse any expectation that we shall **necessarily announce** a firm decision then. It would be in any case unwise to act before seeing the outcome of the September review. But the decision must be made strictly on the merits for the UK. Joining the exchange rate arrangements has important implications for the whole complex of the Government's domestic policies; this is a decision which cannot be rushed.
7. The September review will formally cover only the operation of the divergence indicator. We would prefer the review to be broader based, and cover other aspects of the exchange rate mechanism, but the Germans among others may well disagree. This is not a point that needs to be argued out now.



EMS Interest Rate Subsidies

8. The December 1978 meeting of the European Council agreed that there should be interest rate subsidies, amounting to 200 million eua per annum for 5 years, for "less prosperous" Member States participating in the EMS exchange rate mechanism.
  
9. A report by the EEC's Economic Policy Committee produced in November 1978 identified the UK as a less prosperous Member State, along with Italy and Ireland, on the criterion of below average GDP per head. But this classification has never been formally endorsed by EEC Ministers. When it became clear that the UK would not be joining the EMS exchange rate arrangements at the outset, the European Council agreed to divide the interest rate subsidies two-thirds:one-third between Italy and Ireland. Since the European Council also set firm financial limits to the subsidies, the agreement on the division between Italy and Ireland leaves the UK no scope for receiving subsidies should we join the exchange rate mechanism. But the European Council Resolution did say that "any less prosperous Member country which subsequently.... participates in the mechanisms would have the right of access to this facility within the financial limits". So there is an inconsistency.
  
10. The Commission's draft regulation establishing the interest rate subsidy scheme did nothing to remove the inconsistency, and made the participation of another Member State the subject of a vote by the Council. In practice, UK participation would either mean reducing the share of Italy and Ireland (which they would vote against) or would involve increasing the facility (which would increase the cost to other Member States, making them liable to vote against).
  
11. The Chancellor and his predecessor argued in the Finance Council that we would not agree to the regulation unless we were assured that the UK would be safeguarded. We have been ready to be flexible about the form this assurance might take and said we would

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be satisfied with an entry into the Council minutes, agreed with our partners. But the French have so far opposed any formulation which implies that the UK is a "less prosperous" Member State (which would be our only justification for benefiting from the subsidies). The amounts of money at stake are not very large. If we were to benefit from the subsidies, we are most unlikely to get more than 40% of them, or a maximum 80 meua net per annum, which is about £50 million. Nevertheless, it is clearly unjust that our position on the subsidies should be prejudiced.

12. If there is no agreement at the 18 June Finance Council, the Prime Minister is not recommended to raise this herself, but other Member States might.
  
13. If the Prime Minister judges that a concession on this point would secure her a major and weighty benefit in some other aspects of the discussions, she could indicate that we might be prepared to agree to the passage of the interest rate subsidies regulation, although we would reserve the right to raise again the question of our access should we decide to participate in the exchange rate arrangements. But at the moment our position is not a weak one; we have received some sympathy from the Italians and the Irish for our stand, despite the fact that they stand to lose from a delay in adopting the regulation. It is the French who have been isolated in their opposition to any formulation which would adequately safeguard our interests. This is not therefore a point that we should give away lightly.

HM TREASURY  
14 June 1979



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EHG(S)(79)8 (Addendum)

COPY NO

1

20 June 1979

EUROPEAN COUNCIL STRASBOURG  
21/22 JUNE

EUROPEAN MONETARY SYSTEM

Additional note by HM Treasury

EMS Interest Rate Subsidies

POINTS TO MAKE

There is no reason for the European Council to discuss this now. The Commission are still trying to get an agreement between Member States on a formula to safeguard the UK position.

BACKGROUND

EHG(S)(79)8 gives a line to take on EMS Interest Rate Subsidies, if this was not settled at the 18 June Finance Council. No agreement was reached at the Finance Council, but it is now unlikely that the issue will be raised at the European Council. The Commission will instead make bilateral approaches to all Member States to try to agree an entry in the minutes, which would safeguard the UK position (see paragraph 11 of Brief 8). This is a satisfactory procedure.

If there is a detailed discussion about an entry in the Council Minutes, the officials accompanying the Prime Minister will be able to brief her on the spot.

HM TREASURY  
20 June 1979

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EHG (S) (79) 9  
13 June 1979

COPY-NO. 1

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

EMPLOYMENT AND SOCIAL POLICY

Brief by the Department of Employment

LINE TO TAKE

Unemployment

Unemployment falling marginally. Helpful but there are many future uncertainties including now the risk of a recession induced by energy shortage. Need to maintain momentum of investment and growth, and condition our thinking to the creation of more jobs. No substitute, simply to divide up those that exist. And Europe must not miss the opportunities afforded by development of new technology. Some people caught by the dislocation will suffer hardship. Minimise and relieve that. But new techniques will be there and will have to be embraced.

Community Funds

2. Want to see Community funds including the Social Fund used positively to support the creation of new jobs. May be scope for a Community financial involvement in preparation for transition from school to work.
3. Still interested to see promised Commission ideas for using the Social Fund to soften the impact of redundancy in industrial sectors in difficulty.

Department of Employment

13 June 1979

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Work Sharing

4. The UK will look constructively at Commission proposals. It is important to be clear about the economic implications which the Economic Policy Committee is reviewing. We note meanwhile the Commission's work programme set out in their Report. Some of the measures they mention, Part-Time work, Work Preparation, some limitation on overtime are less risky than others such as shorter working hours or early retirement, which are costly and will damage the competitive position. UK could not accept a mandatory instrument inconsistent with the process of collective bargaining, (see also point 7 below.)

Relations with the Social Partners

5. We need to develop and improve the Community dialogue with the Social Partners But it takes two sides to make an agreement and I hope the unions will respond to the ideas the Presidency are now putting to them following discussion at the Social Affairs Council.

Training "In Alternance"

6. Prepared to consider proposals for Community action to provide better vocational preparation and to help young people in the difficult transition from school to work. But Community thinking seems to have started with too rigid an approach. It must be questionable whether an approach based on a directive is the right one. It could indeed lead to more, rather than less unemployment. In the long run, more might be gained by allowing flexible arrangements in education and training systems to be gradually developed to offer employed and unemployed a comprehensive range of opportunities. The UK is ready to play its full part in Community discussion of these problems.

Defensive (if some member states press for early action on Work Sharing/  
Vocational Preparation)

7. Cannot support programmes incompatible with domestic policy of cutting public expenditure and taxes, which we see as an essential component of growth and investment.

References: Not yet available but likely to be:-

- (a) Report on Relations with the Social Partners.
- (b) Communication on the Economic and Social implications of Work Sharing.
- (c) Extract of conclusions of the March European Council. (see Annex A)

Work Sharing

8. The Commission have not yet made any specific proposals on limiting overtime or on other aspects of work sharing. But following discussion in the Social Affairs Council on 15 May they were invited by the conclusions of the Council to bring forward suitable proposals "as appropriate" within a "Community framework for Work Sharing." The areas considered were:-

- the annual duration of work
- the restriction of systematic overtime
- the development of vocational training and sandwich course training
- flexible retirement arrangements
- part-time voluntary work
- temporary work
- shift work

On 14 May the Finance Council asked the Economic Policy Committee to undertake a study of the economic impact of adaptation of working hours.

This outcome to the Finance and Social Affairs Councils was not considered a positive enough response by the unions who walked out at a meeting of the Standing Committee of Employment on 22 May. At that meeting the Chairman summed up on his own responsibility "affirming the Council's determination to make "practical progress" on the length of working time before 1 December.

10. The Commission's report to the European Council is likely to indicate a work programme based on the above involving consultation with submission of proposals by the autumn in one or more areas; limitation of overtime; flexible retirement and training "in alternance". The annual volume of work, part-time work and shift work are to be discussed further with both sides of industry.

11. The economic implications of a reduction in working time should be fully



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taken into account in considering Community action. But equally, it is not in the UK interest for the Community dialogue with the Social Partners to remain in disarray, because of conflict with the Council over work sharing. And for that reason the UK does not want to give the appearance of wishing to block work-sharing measures even before Commission proposals are formulated.

12. The most likely Commission action is a directive limiting overtime.!! This raises practical problems for administration and could stimulate pay demands from those groups now dependent on overtime. But it is unlikely to be opposed by other member states and instead of opposition in principle, our efforts might be better directed to getting its terms sufficiently weak to minimise our problems. We shall keep in close touch with other member states, e.g. Italy and Germany, most likely to share our interest in limiting the scope for Community action. Belgium is the main voice in favour of work sharing.

Youth

13. The Commission recently circulated a proposal for an instrument which would place member states under an obligation to arrange for periods of training alternating with employment ("alternance") for all employees aged, say, between 16 and 18 (although this age range is seen by the Commission as negotiable). About one day a week would be spent on training which could be arranged in "block format" rather than "day release" if required.
14. An important underlying motive for this proposal was the reduction of youth unemployment through the creation of additional jobs for young people to fill the roles of those away from the workplace in training. However, there can be no guarantee that extra jobs would be created - indeed, employers could be deterred from recruiting those youngsters to whom the "alternance" requirements apply.
15. In preliminary discussion of the proposal, the Commission are pressing for agreement that the most suitable form of instrument would be a directive. We feel that these proposals are too ambitious, too rigid in their approach and probably too expensive in application to be practicable. But we can agree to consider proposals for some Community initiative in this area possibly backed up by Community Finance.

Relations with the Social Partners

16. Governments discuss economic, social and employment issues with unions and managements (the Social Partners) at meetings of the Standing Employment

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Committee (Social Partners plus Commission and Employment Ministers) and at periodic "Tripartite Conference" meetings (at which Employment Ministers are joined by Finance Ministers). The purpose of these meetings is to exchange views, not take decisions, and on this account the Union side have complained that these meetings lack commitment to the aim of reaching and implementing agreed policies within the Community. The Unions look for greater involvement at Tripartite Conferences of Ministers as the Council, conclusions to be agreed by all parties with machinery to monitor implementation. This basic dissatisfaction has been made worse through the Community's inability to respond fully to union demands for Work Sharing measures. The union side walked out of the meeting of the Standing Employment Committee on 24 May when that subject was discussed.

17. The Council has now proposed procedural changes which stop short of allowing these meetings to become negotiating sessions aimed at reaching binding agreements but would nevertheless provide for more thorough preparation, a greater commitment of the parties and arrangements for the practical implementation of conclusions. The Response of the Social Partners is awaited.

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EHG (S) (79)(9)(Addendum)

COPY NO.

1

18 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

Supplementary Brief to Brief No. 9

EMPLOYMENT AND SOCIAL POLICY

Note by the Department of Employment

1. This supplementary Brief provides an additional note on Work Sharing and overtime (para 12 of Brief No. 9) and comments on COM (79) 324 final which has been circulated separately.

Reference: COM(79)324 Final dated 13 June 1979 (Reference B to Brief No 9)

Work Sharing and Overtime

2. The Commission are under strong pressure from the European Trades Union Confederation (ETUC) to show "practical progress" over Work Sharing. It is not in the UK interest to take the lead in opposing this, and thereby risk taking the blame for a breach with the ETUC when, within the ETUC, our own TUC are among the more moderate voices on this subject.

3. Mr Prior voiced our objections to Work Sharing at the Social Affairs Council

on 15 May, when he made the following points:-

- a) The Community's main aim must be to create more jobs.
- b) Work Sharing measures which led to a deterioration in the Community's economic structures through, for example, additions to unit costs, should be avoided.
- c) He welcomed the remit to the Economic Policy Committee to study the economic aspects of Work Sharing.
- d) On overtime, only a non-binding instrument could be considered - not a directive.

The Prime Minister could reiterate these points without making the running. It is likely that several other Heads of Government will have been similarly briefed.

COM(79)324 Final

4. This interim Report by the Commission somewhat overstates (by design or mistranslation) the remit from the Social Affairs Council of 15 May (see paras 8-9 of main brief). At that Council, the Commission was asked "to continue its studies and analyses" ..... "with a view to establishing a Community framework" ... and to submit "proposals if appropriate". This is not quite the same as in the present document, which says "especially" to undertake its studies and analyses "in order to" establish a Community framework for Work Sharing and to present proposals "as soon as appropriate". Otherwise the document is predictable in drawing particular attention (page 4) to the possibility of limiting systematic overtime (see paras 1-3 above) the development of vocational training in alternance (main Brief paras 6 and 13-15) and temporary work (para 8 below).

Objective

5. To avoid wording in the European Council's conclusions which will give greater impetus to Commission proposals than provided by existing remits.



Line to Take

6. This is a useful summary of the position reached. But it is only an interim report. The Commission should complete its work - especially on the economic implications of Work Sharing - as requested in remits from the Finance and Social Affairs Councils.

ADDITIONAL BACKGROUND

Voluntary Part-Time Work/Temporary Work (Background)

Commission Line - the Commission is studying the possibilities of expanding part-time work and regulating the use of temporary work.

7. Line to take - these studies should be helpful. However:-

•  
Part-time Work

In the UK there has been a large expansion in part-time working in recent years. In 1976 almost 20% of all workers were part-time workers and 80% of all female workers were part-time.

Temporary Work

8. The relevance of the control of private employment agencies to Work Sharing is questionable. The following points might be raised:

- how will the envisaged control of temporary work be made possible?
  
- will the action against temporary employment agencies produce more than a marginal improvement in employment?

If there is a demand for temporary work from employers and certain job seekers (particularly women) wish to work on a temporary basis, we should be wary of taking action which could reduce the opportunities for such work. Indeed in the UK because of the demand from employers and job seekers, the MSC's employment services have moved into this field.

DEPARTMENT OF EMPLOYMENT

13 June 1979

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EXTRACT CONCLUSIONS EUROPEAN COUNCIL

Annex A

MARCH 1979

1. The European Council devoted a large part of its proceedings to the employment situation and social policy. It acknowledged that priority should be given to improving the employment situation, which continues to give rise to concern.
  
2. The European Council emphasised the importance of consultation with both sides of industry at the national and Community levels. It welcomed the contribution by the Economic and Social Committee. The European Council noted with satisfaction the intention of the Ministers for Social Affairs to take the necessary measures to improve the work of the Community tripartite meetings between workers' representatives organisations, employers' representatives' organisations and the Community. It invited both sides of industry to take the appropriate steps to develop their dialogue at Community level where appropriate on a sectoral basis.
  
3. The European Council confirmed the importance it attaches to improving youth employment and its wish that the Council keep the new aids from the Social Fund in favour of this category under review. It instructed the Council to study the following measures which should help, along with others, to improve the employment situation:
  - to make training better adapted to employment by developing staggered training schemes, ie by coupling practical training obtained through the exercise of an occupation at the place of work with theoretical training in a training establishment, body or department;
  - to limit the systematic use of overtime;
  - to improve the employment of women by encouraging diversification of the jobs open to them and giving women greater access to vocational training.
  
4. The European Council stressed the importance of the social measures taken by the Community in favour of workers in the iron and steel industry and other sectors in difficulty.

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5. The European Council requested the Commission to continue its efforts to improve the effectiveness of the European Social Fund's action by directing its assistance more selectively in order to meet the current employment difficulties better.
6. The Council also noted the importance of a co-ordinated contribution by the various Community financial instruments to the intensification of the fight against unemployment.
7. The European Council requested the Council to report back to it at its next meeting on the practical measures which have been carried out following the guidelines given above.
8. The European Council asked the Commission to submit a communication on the social and economic implications of concerted work-sharing.

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EHG(S)(79)9 (Addendum)

COPY NO

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18 June 1979

EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE 1979

EMPLOYMENT AND SOCIAL POLICY

Note by the Foreign and Commonwealth Office

1. Attached is the Commission communication to the European Council on work sharing and its economic and social implications (COM(79)324 final) which should be put with Brief No 9 as Reference B.

FOREIGN AND COMMONWEALTH OFFICE

18 June 1979

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EEG (S) (79) 9

REF B

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COMMISSION OF THE EUROPEAN COMMUNITIES

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COM(79) 324 final.

Brussels, 13 June 1979

WORK SHARING AND ITS ECONOMIC AND SOCIAL  
IMPLICATIONS

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(Communication to the European Council - Strasbourg,  
21 and 22 June 1979)

COM(79) 324 final.

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WORK SHARING AND ITS ECONOMIC AND SOCIAL  
IMPLICATIONS

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1. The European Council of 12/13 March asked the Commission to present a communication on the economic and social implications of a concerted policy of work sharing; in addition it asked the Council to make a particular study of the actions relative to limiting the systematic use of overtime and to developing alternance training.

The present communication is an interim response to this mandate.

2. The debate on work sharing begun in 1978 in the Standing Employment Committee and the Tripartite Conference, has continued on the basis of a communication from the Commission to the Council of Ministers of May 1979.

The Economic and Financial Affairs Council undertook a first exchange of views linked to provisional conclusions, on the basis of an oral report from the President of the Economic Policy Committee and invited this Committee to undertake a detailed study of these problems.

The Council of Ministers of Employment and Social Affairs of 15 May asked the Commission especially to undertake its studies and analyses, taking account of the requests of the European Council and the guidelines of the Council, in order to establish a community framework for work-sharing for :

- the annual duration of work
- the limitation of systematic overtime working
- the development of vocational training and alternance training
- flexible retirement
- voluntary part-time working

./.



- temporary work
- continuous shift working.

and to present proposals as soon as appropriate.

The European Trade Union Confederation which held its Congress in Munich from 13 to 17 May considered that these conclusions did not commit the Council of Ministers sufficiently.

In addition, during the Standing Employment Committee of 22 May, the trade union representatives, - despite the wish of the Council, reiterated by the Chairman, to make real progress on work-sharing before 1 December - refused to continue to participate as long as the employers organisations did not express clearly their willingness to participate in negotiations on this subject.

3. The analyses of the economic and social implications of work-sharing that the Commission has begun is too little advanced to afford a precise representation of the effects of a measure such as the reduction of working hours. It is nevertheless possible to at least outline the conditions in which such measures might be put into effect.

In this respect the Commission fully accepts the conclusions of the Council concerning in particular the demands of internal and external competitiveness, the complementary role of a policy of growth which would have to reinforce work-sharing measures, and the fundamental role of the social partners. It believes equally that an uncoordinated implementation of work-sharing measures by Member States would have serious consequences for their internal and external competitiveness. These risks justify the community framework which the Council desires.

The Commission emphasises that the effects of work-sharing on employment depend notably on the following factors :

- work-sharing can have positive effects on productivity which may in turn reduce the employment impact whilst improving the profitability of the firm;

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- work-sharing implies a negative effect on wage costs, and thus restricts growth, increases inflation and reduces demand;
- finally, it affects the internal organization of the firm and may have its positive employment effect limited by local shortages of staff, particularly the qualified.

To help resolve the question of costs an examination is required of means of sharing these between the state, workers and firms. Public budget support appears less desirable, given the present budget levels and the risk of spreading. A direct link between work-sharing measures and wage increases may be more suitable to avoid the impression that the same factors of productivity can provide both increased revenue and reduced working hours at the same time. The distribution of the benefits of productivity must, in the end, reflect the requirements of employment growth.

These considerations lead the Commission to the following guidelines which are the basis for its initiative :

- a) work-sharing, in so far as it is a complementary policy cannot be based on a single measure but on a range of measures, varying according to circumstances yet avoiding cumulative effects;
- b) it implies a strict link with wage increases, gains in productivity being allocated in part to the reduction of working time rather than increases in pay;
- c) it relies, in the case of most measures, on the autonomy of the social partners and must be negotiated between them. Nevertheless, the public authorities are also concerned, whether the guardians of the public budget, by their role in overall coordination of policy, or in the exercise of their legislative and regulatory function.

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d) finally, the risk of increasing economic divergence and of provoking a deterioration in industrial relations. This must lead the social partners, in view of the resolution of the European Council of 12 and 13 of March, to take the initiatives necessary to develop their dialogue at Community level.

It will be appropriate in this respect to aid and encourage direct negotiation between the social partners at Community level with a view to reaching conclusions in an agreed European framework concerning the redistribution of the annual volume of work or the harmonization of provisions regulating continuous shift working.

It will also be important to foresee the development by the Community institutions after discussions with the social partners, of Community provisions relative to the limiting of systematic overtime working, to the development of vocational training and alternance training and to temporary work.

Finally, there will be a need for deeper consideration and broad consultations on the question of extending voluntary part-time working and the introduction of a system of flexible retirement.

The Commission will follow-up the work begun during the second half of this year, furthering its examination of Community actions along with the analysis of economic and social implications.

It requests the European Council

- to note this work programme
- to invite the social partners to cooperate actively in the realization of the programme.

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DEFENSIVE SPEAKING NOTE  
(FOR USE IF NECESSARY)

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DEFENSIVE

CAP PRICES

1. It is possible that the Agriculture Council will reach deadlock in its price-fixing negotiations by Wednesday evening. If so, this will be because of French insistence on price increases, including products in surplus, which the UK cannot accept. (The French objective is to leave room for the Germans to reduce their positive mca's without cutting the return in deutschmarks to German farmers.) Most other Member States would be content to go along with either a near-freeze, as proposed by the Commission, or with 2-3 per cent price increases. The UK is supporting the Commission and is in a strongly communautaire position: our national interest in price restraint makes excellent sense for the Community as a whole.

2. If Giscard either privately or (less likely) in the Council, makes a link between UK requirements on the budget and French requirements for further increases in agricultural prices the Prime Minister might reply:

a. higher prices lead inexorably to more production, more surpluses, and higher CAP costs. This is bad for the whole Community as well as for the UK. Surely we are all agreed that on the contrary the surpluses must now be contained and reduced. Otherwise the CAP will bump up against the VAT ceiling and will not survive in its present form.

b. it is therefore no use Agriculture Ministers trying to solve their problems by pushing prices even higher. The European Council should tell them to find ways of reducing surpluses and cutting the enormous costs of the policy.

c. French proposals would make the UK budget problem even worse than it now is.



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d. the budget problem faces the UK and the Community with a critical situation which has got to be dealt with on the facts. It is not a bargaining process in which in return for acknowledging the need to do something about the problem others can expect to impose still further burdens on us.

e. so the Community must find a better way, which makes long term sense, to deal with the problem of the artificial stimulation of German production and exports by their positive MCAs.

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COPY NO

1

12 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

PROSPECTS FOR THE TOKYO SUMMIT

Brief by Foreign and Commonwealth Office and Treasury

LINE TO TAKE

GENERAL APPROACH

1. Difficult economic background. Inflation accelerating. Specific growth targets inappropriate this year. Discussion should focus on energy. Practical conclusions are needed.

ENERGY

2. Energy the key area. Need for effective oil demand restraint (particularly by US) to fulfil IEA/EEC commitments. And in the longer term development of alternatives to oil.

NORTH/SOUTH

3. After only modest progress at UNCTAD, developing countries will be looking for something. Their problems will be exacerbated by the oil price rises. The new British Government's emphasis will be on trade and investment, though we shall of course maintain an effective Aid Programme.

TRADE

4. With the bulk of the MTNs out of the way and the Trade Pledge renewed for a year, trade issues are unlikely to feature prominently. But there may well be emphasis on the need for structural change.

MONETARY QUESTIONS

5. International monetary situation relatively calm. No initiatives called for. But OPEC surpluses - and funding of their counterpart deficits - will become a problem again.

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/BACKGROUND



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BACKGROUND

Reference A: Main Economic Variables

COMMUNITY ANGLE

6. Economic Summits are a sensitive issue in the Community because only some member states are invited. They have caused much rancour, particularly before agreement was reached in 1977 on a formula allowing the President of the European Council and the President of the Commission to attend for discussion of matters related to Community competence. Important therefore to let non-participants have their say so that Community representatives can claim to be fully aware of position of all member states.

GENERAL APPROACH

7. The orientations of demand management agreed on at Bonn still appear appropriate, ie faster growth in Germany and Japan than in US which needs to give greatest priority to reducing inflation. On present forecasts desired pattern of growth seems likely to be achieved - formost of 1979 at least - so there is little scope for the kind of realignment of policies, with specific growth targets, seen at Bonn. Prospects for 1980 are less good. 2.6% (WEP) as oil prices work through and with US economy very weak. US growth could fall to 1.2% (WEP) as compared with 2.7% (WEP) in 1979 (OECD 3.1%).

8. Inflation in the main industrialised countries has begun to accelerate. In the 12 months to September 1978, US inflation was 8.2% and in the 12 months to April 1978, 10.4%. The corresponding figures for other countries are: FRG 2.2 to 3.5%, France 9.2 to 10%, Italy 12.2 to 14.3%, UK 8.2 to 10.1%.

ENERGY

9. See Brief no 5. Without any demand restraint by consumers free world oil supply shortfall in 1979 likely to be around 1.5-2 mbpd (3-4%). Iranian production currently believed to be 3.5-4 mbpd. It was around 5.6 mbpd in 1978 prior to the revolution. Even if IEA and EEC countries fully implement demand restraint measures to reduce

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/consumption



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consumption by 5% the world oil market will remain tight.

NORTH/SOUTH DIALOGUE

10. UNCTAD V reached a useful consensus on some issues, such as protectionism and commodities, even if the gap remains wide on the fundamental reforms of the international economic and monetary system demanded by the developing countries. However there was no acrimony and we should not take the inconclusive result too tragically. But the problems of the LDCs remain - and will be exacerbated by the oil price rises. The next major North/South argument will be over the International Development Strategy for the 1980s and beyond (due to be adopted at a Special Session of the UN General Assembly in 1980). The LDCs will want specific targets for concessions from the developed countries in pursuit of the NIEO. We shall emphasise the need for flexibility and the shared responsibilities of both LDCs and developed countries.

TRADE

11. Current account deficit of US will fall owing to slower growth and increased exports but may rise again in 1980 (\$16 billion 1978, \$9.7 billion 1979, \$10.9 billion 1980 - WEP). Japanese surplus will decline owing to oil price increases and emergency imports but likely to rise again in 1980 (\$16.7 billion 1978, \$3.4 billion 1979, \$8.5 billion 1980 WEP). There will be a better balance of surpluses and deficits among the major OECD countries. But the net deficit on non-Summit OECD countries (including Portugal and Turkey) will rise from \$9.9 billion to \$15.3 billion (WEP), and the deficit for non-oil developing countries will rise from \$25.6 billion to \$32.5 billion (WEP) OECD figures from (OECD figures \$31 billion to \$40 billion).

MONETARY QUESTIONS

12. No specific initiatives are contemplated. Work is in hand in the IMF on the Substitution Account and among Bank Governors on monitoring of Euro-Markets. UNCTAD V forced through an unacceptable resolution on the reform of the international monetary system. The UK voted against.

FOREIGN AND COMMONWEALTH OFFICE AND HM TREASURY

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12 JUNE 1979



EHG(S)(79)10

TABLE 1 : GNP/GDP GROWTH

% change on previous year

	1977	1978	1979
United States	4.9	3.9	2.7
Canada	2.7	3.4	3.4
Japan	5.4	5.6	5.5
West Germany	2.6	3.4	3.8
France	3.1	3.0	3.3
Italy	1.7	2.2	3.6
United Kingdom	1.9	3.0	0.5
Seven majors	4.0	3.9	3.3

TABLE 2 : CONSUMER PRICES

% change on previous year

	1977	1978	1979
United States	6.5	7.6	9.6
Canada	8.0	8.9	9.4
Japan	8.0	3.9	4.2
West Germany	3.9	2.6	3.4
France	9.3	9.2	9.8
Italy	19.3	12.4	13.7
United Kingdom	16.0	8.6	12.6
Seven majors	8.1	7.0	8.4

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TABLE 3 : BALANCES ON CURRENT ACCOUNT (Ø bn)

	1977	1978	1979
United States	-15.3	-16.0	- 9.7
Canada	- 3.9	- 4.5	- 5.3
Japan	10.9	16.7	3.4
West Germany	3.6	8.8	6.0
France	- 3.2	4.1	3.1
Italy	2.3	5.7	5.1
United Kingdom	0.8	0.5	- 1.3
Seven majors	- 4.8	15.3	1.3
Other OECD	-20.1	- 9.9	-15.3
Total OECD	-24.9	5.4	-14.0
OPEC	26.3	- 2.2	19.8
Non-oil LDCs	-14.8	-25.6	-32.5

TABLE 4 : UNEMPLOYMENT RATES\*

	1977	1978	% of labour force 1979 (Latest month)
United States	7.1	6.0	5.8 (Apr)
Canada	8.1	8.4	7.9 (Mar)
Japan	2.0	2.2	2.1 (Mar)
West Germany	4.5	4.3	3.8 (Apr)
France	5.7	6.2	7.1 (Apr)
Italy	7.2	7.2	7.8 (Mar, nsa)
United Kingdom	5.8	5.7	5.5 (Apr)

\*Rates are not comparable between countries owing to differences of coverage and definition. Seasonally adjusted (except Italy).



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EHG(S)(79)11

COPY NO 1

13 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE, 1979

EEC/JAPAN

Brief by Foreign and Commonwealth Office

LINE TO TAKE

1. Support approach agreed at Foreign Affairs Council on 12 June.  
We must continue to press for better access to the Japanese market,  
for fair competition in third markets and for long-term change in Japan. ✓
2. We should combine firm pressure with regard for Japanese sensitivities and for Japan's importance to the West. We shall make more progress if we speak with one voice.
3. The Japanese want to make a success of the Tokyo Summit. It provides a good opportunity for the Community and the USA to make early progress with trade issues.

BACKGROUND

- References
- A Commission Communication COM (79)306
  - B Luxembourg tel no 95 (may be updated) recording discussion in Foreign Affairs Council 12 June

HISTORY

4. European Council in December 1977 expressed concern about Japan's trade surplus. Foreign Affairs Council in February 1979 agreed guidelines for Commission to use in conducting high level dialogue with the Japanese aimed at reducing the surplus. Many top level visits in both directions since. European Council expressed concern again March 1979.

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/STATISTICS

5. Commission have been assessing results. They conclude these are modest and that pressure needs to be kept up. Figures bear this out. Community's trade deficit with Japan rose from 85.2 billion in 1977 to 86.4 billion in 1978. Trend has worsened in 1979: 23% increase in Japan's trade surplus with EEC from January to April. Overall surplus on current account is down (UK forecast 83.4 billion in 1979 against 816.2 billion in 1978) but likely to rise again in 1980 (UK forecast 88.5 billion) as depreciation of yen leads to increased exports.

## COMMISSION APPROACH

6. First draft of Commission paper contained abusive references to Japanese as "workaholics" etc. Leaked and caused offence to Japanese. But abuse apart, basic elements of Commission approach balanced and sensible (Reference A):
- (a) further efforts should be made to open up Japanese market to EEC exports of goods and services;
  - (b) Japan should restrain exports to Europe, particularly in sensitive areas;
  - (c) Japan should be urged to adopt macro conomic policies which maintain growth of domestic demand above that of domestic production;
  - (d) pressure should be kept on Japan to improve her aid performance (0.23% of GNP in 1978 as compared with DAC average of 0.31%);
  - (e) Community should maintain a common position.

Foreign Affairs Council endorsed this approach on 12 June (Reference B).

## US/JAPAN

7. Japanese tend to take more notice of US than Community views. Reflects greater importance of US alliance. Important to keep in step with Americans, without "ganging up" or offending French susceptibilities. President Carter is looking to Japanese for special contribution to Tokyo Summit in trade area (814 billion US trade deficit with Japan in 1978).



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INDUSTRIAL COOPERATION

8. Commission keen on expanding EEC/Japan dialogue beyond trade. Commissioner Davignon recently in Japan. Bullish about prospects for EEC/Japan industrial co-operation but aware of need to canvass views of member states. UK position cautiously welcoming but stressing need for Community efforts to complement not complicate efforts of Governments (and firms). Commission positive on inward investment as we are (but other member states, especially French, suspicious of BL/Honda deal). We have established successful bilateral links with several Japanese industries. Danger of Community initiatives undermining these.

FOREIGN AND COMMONWEALTH OFFICE

13 JUNE 1979

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TEXT OF THE COMMISSION COMMUNICATION ON JAPAN (COM(79)326)

## RELATIONS WITH JAPAN

### INTRODUCTION.

THIS NOTE OUTLINES THE PROBLEMS OF OUR RELATIONSHIP WITH JAPAN, REVIEWS THE POLICIES WHICH WE HAVE FOLLOWED AND THE RESULTS, AND SKETCHES OUT THE ELEMENTS OF A COMMON FUTURE STRATEGY.

### THE PROBLEMS.

THE PROBLEMS OF OUR TRADING RELATIONSHIP WITH JAPAN ARISE FROM A COMPLEX OF CONSIDERATIONS. THE BASIC ONE IS THE RELATIVE ECONOMIC STRENGTH AND COMPETITIVENESS OF JAPAN FOUNDED ON HARD WORK, GRUGALITY, DISCIPLINE AND CORPORATE LOYALTIES. THREE PROBLEMS THEN ARISE - THE MASSIVE TRADE SURPLUS BOTH OVERALL (NEARLY DOLLARS 25 BILLION IN 1978) AND BILATERALLY WITH THE COMMUNITY (DOLLARS 6.4 BILLION IN 1978), THE CONCENTRATION OF JAPANESE EXPORTS ON CERTAIN SENSITIVE ITEMS FOR THE COMMUNITY SUCH AS MOTOR VEHICLES, AND THE DIFFICULTY OF OPENING UP THE JAPANESE MARKET TO IMPORTS PARTICULARLY OF MANUFACTURES AND PROCESSED AGRICULTURAL GOODS, I.E. THE KIND OF ITEMS THE COMMUNITY CAN SUPPLY. NONE OF THESE PROBLEMS IS OF ITSELF DECISIVE; THEIR SIGNIFICANCE LIES IN THE FACT THAT THEY ARE INTERRELATED. BUT DEALING WITH THEM HAS BEEN COMPLICATED PARTLY BY THE FACT THAT FOR JAPAN THE UNITED STATES IS A FAR MORE IMPORTANT PARTNER THAN THE COMMUNITY, AND PARTLY BY THE FACT THAT THE COMMUNITY'S IMPACT IN JAPAN IS DISPERSED AND DIVIDED.

### POLICIES FOLLOWED.

FACED WITH THESE PROBLEMS THE COMMUNITY HAS ENGAGED IN A SERIES OF REPRESENTATIONS AND DISCUSSIONS WITH THE JAPANESE AUTHORITIES, BASED ON GUIDELINES SET FROM TIME TO TIME BY THE COUNCIL AND THE EUROPEAN COUNCIL. THESE REPRESENTATIONS HAVE CONCENTRATED ON MACRO-ECONOMIC MEASURES INVOLVING SUSTAINED GROWTH AT A HIGH LEVEL AND A RAPID REDUCTION OF THE JAPANESE CURRENT ACCOUNT SURPLUS, THE OPENING UP OF THE JAPANESE MARKET, SBSTANTIAL INCREASE IN JAPANESE OFFICIAL DEVELOPMENT AID AND A MAJOR REDUCTION OF JAPANESE TARIFFS AND NON TARIFF BARRIERS IN THE CONTEXT OF THE TOKYO ROUND.



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**RESULTS.**

THE RESULTS HAVE BEEN MIXED. JAPANESE AID HAS INCREASED BUT IS STILL WELL BELOW THE LEVEL OF MOST INDUSTRIALISED COUNTRIES. THE REDUCTION OF JAPANESE TARIFFS AND NON TARIFF BARRIERS IN THE TOKYO ROUND HAS BEEN LESS EXTENSIVE THAN WE WOULD HAVE LIKED. ON THE OTHER HAND, THE JAPANESE CURRENT ACCOUNT SURPLUS IS FALLING SUBSTANTIALLY. THE EXACT TRENDS ARE DIFFICULT TO IDENTIFY BECAUSE OF LARGE FLUCTUATIONS IN THE YEN/DOLLAR PARITY. BUT IT IS BROADLY TRUE TO SAY THAT JAPAN'S OVERALL VOLUME EXPORTS HAVE STABILISED OR SOMEWHAT DECLINED WHILE VOLUME IMPORTS HAVE RISEN. IN FACT, IN 1979 THE COMMUNITY'S OVERALL CURRENT ACCOUNT SURPLUS WILL EXCEED THAT OF JAPAN.

ON THE OTHER HAND, THE EXPECTATION STATED BY JAPAN IN MARCH OF LAST YEAR THAT THE COMMUNITY'S BILATERAL DEFICIT WOULD ALSO DIMINISH HAS NOT BEEN REALISED. ON THE CONTRARY ALL BUT ONE STATISTICAL SERIES SHOW A CONTINUING DETERIORATION OF THE BILATERAL COMMUNITY/JAPAN TRADE ACCOUNT IN EVERY YEAR SINCE 1973. THE NET DEPRECIATION OF THE DOLLAR (AND THE NET APPRECIATION OF THE YEN) FOR THE PAST EIGHTEEN MONTHS HAS THE EFFECT OF MAKING THE COMMUNITY SOMEWHAT LESS COMPETITIVE ON THE JAPANESE MARKET THAN THE US AND ALSO OF MAKING THE COMMUNITY MARKET SOMEWHAT MORE ATTRACTIVE TO JAPANESE EXPORTS THAN THAT OF THE UNITED STATES. IN SO FAR AS THE OPENING OF THE JAPANESE MARKET IS CONCERNED, SOME ENCOURAGING PROGRESS WAS REGISTERED IN MARCH IN THE REMOVAL AND EASING OF A RANGE OF TECHNICAL BARRIERS (SPECIALLY TESTING AND ACCEPTING PROCEDURES). BUT A NUMBER OF OBSTACLES STILL REMAIN PARTICULARLY IN RELATION TO AGRICULTURAL PROCESSED GOODS AND FOOTWEAR. AND FOR A MAJOR INDUSTRIAL COUNTRY JAPAN'S IMPORTS OF MANUFACTURES ARE BOTH RELATIVELY AND ABSOLUTELY SMALL. STRUCTURAL CHANGES WOULD BE NEEDED IN JAPAN TO BRING ABOUT A MAJOR INCREASE IN THESE IMPORTS; THUS THE PROSPECT IN THIS CONTEXT OF MAKING A QUICK AND SUBSTANTIAL IMPROVEMENT TO THE BILATERAL TRADE BALANCE BY EXPANDING COMMUNITY EXPORTS CANNOT BE RATED HIGH.

**GENERAL CONSIDERATIONS.**

THREE CONSIDERATIONS SEEM PARTICULARLY RELEVANT IN DETERMINING OUR FUTURE STRATEGY TOWARDS JAPAN. THE FIRST IS THAT FOR THE FIRST TIME

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IN SEVERAL YEARS SOME ENCOURAGING PROGRESS HAS RECENTLY BEEN MADE IN REMOVING RESTRICTIONS ON ACCESS INTO THE JAPANESE MARKET. SECONDLY, HOWEVER, IMPORTANT OBSTACLES REMAIN; THE BILATERAL TRADE BALANCE WITH JAPAN IS CONTINUING TO DETERIORATE AND A TURNROUND IN THIS BILATERAL TREND IS NECESSARY. THE THIRD CONSIDERATION IS A MORE GENERAL ONE. THE COMMUNITY AND JAPAN HAVE VERY IMPORTANT AND WIDE INTERESTS IN COMMON; WITH THE UNITED STATES THEY REPRESENT THE PILLARS OF THE FREE WORLD ECONOMY. THE RELATIONSHIP BETWEEN JAPAN AND THE COMMUNITY IN PARTICULAR NEEDS STRENGTHENING AND BROADENING. AND JAPAN HAS DECLARED HER READINESS TO ACCEPT HER RESPONSIBILITIES ARISING FROM HER NEW SITUATION AS A MAJOR POLITICAL AND ECONOMIC PARTNER OF THE WESTERN INDUSTRIALISED POWERS AND THUS MORE FULLY TO ACCEPT THE IMPLICATIONS OF THE INTERDEPENDENCE OF HER ECONOMY WITH THOSE OF OTHER INDUSTRIAL COUNTRIES AND THE DEVELOPING WORLD. THE HOPES THE JAPANESE HAVE FOR THE SUCCESS OF THE TOKYO SUMMIT ILLUSTRATE THIS NEW ATTITUDE. THE COMMISSION THEREFORE BELIEVES THAT IT WILL BE NECESSARY TO BROADEN THE RELATIONSHIP BETWEEN JAPAN AND THE COMMUNITY INTO AREAS WHICH GO BEYOND A BILATERAL TRADING RELATIONSHIP.

ELEMENTS OF A COMMON STRATEGY.

THESE FALL INTO THREE MAIN AREAS:-

(A) TRADE.

THE COMMISSION WILL NEED TO MAINTAIN FIRM PRESSURE ON JAPAN TO REMOVE ALL BARRIERS TO OUR TRADE, TO BRING ABOUT STRUCTURAL CHANGES NEEDED FOR A MAJOR INCREASE IN IMPORTS OF MANUFACTURES AND TO WORK FOR A TURNROUND IN BILATERAL TRADE TRENDS. IT IS VITAL THAT THE JAPANESE MARKET SHOULD BOTH BE OPEN AND BE SEEN TO BE OPEN TO EXPORTS FROM THE COMMUNITY. THERE MUST ALSO BE CONFIDENCE IN THE COMMUNITY THAT THERE IS NO THREAT OF JAPANESE EXPORTS FLOODING SENSITIVE SECTORS OF THE COMMUNITY MARKET. IN PURSUING THIS POLICY THE COMMUNITY WILL MAKE FULL USE OF ITS GATT RIGHTS.

(B) MACRO-ECONOMIC POLICY.

JAPAN'S MACRO-ECONOMIC POLICY SHOULD RESPOND TO THE REQUIREMENTS

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OF THE CLOSE ECONOMIC INTER-DEPENDENCE BETWEEN INDUSTRIAL NATIONS WHICH HAS BEEN UNDERLINED AND DEVELOPED AT SUCCESSIVE WESTERN SUMMIT MEETINGS, IN PRACTICAL TERMS THIS MEANS:-

- FURTHER REDUCTION IN THE OVERALL CURRENT ACCOUNT SURPLUS
- ECONOMIC GROWTH SUSTAINED BY DOMESTIC DEMAND.

(C) OTHER AREAS.

IN THE COMMISSION'S VIEW PRIORITY SHOULD BE GIVEN TO COOPERATION IN INDUSTRIAL POLICY (COVERING TWO-WAY INVESTMENT, COOPERATION IN MAJOR TECHNICAL PROJECTS AND IN THE MARKETS OF THIRD COUNTRIES, AND INDUSTRY TO INDUSTRY CONSULTATIONS), ECONOMIC AND MONETARY POLICY, ENERGY AND RESEARCH POLICY AND DEVELOPMENT POLICY (INVOLVING AN INCREASE IN JAPANESE AID TO A LEVEL MORE COMMENSURATE WITH ITS ECONOMIC STRENGTH). ABOVE ALL IT WILL BE NECESSARY IN FOLLOWING THIS STRATEGY TO MAINTAIN A COMMUNITY APPROACH. IN THE COMMISSION'S VIEW IT IS NECESSARY TO REINFORCE THE CONCLUSION OF THE COUNCIL OF MINISTERS OF 7 FEBRUARY 1978: "A COMMON STRATEGY OF THE COMMUNITY IS AN ESSENTIAL PREREQUISITE TO AN EFFECTIVE DIALOGUE WITH JAPAN. ONLY IN THIS WAY WILL THE COMMUNITY INSTITUTIONS BE ABLE TO SPEAK WITH THE NECESSARY AUTHORITY AND PRECISION"

CONCLUSION.

THE COMMISSION SEEKS THE EUROPEAN COUNCIL'S ENDORSEMENT OF A COMMON STRATEGY OF THE COMMUNITY ON THE LINES SET OUT ABOVE WITH THE AIM OF BROADENING AND STRENGTHENING THE COMMUNITY'S RELATIONS WITH JAPAN IN ALL FIELDS.

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FRAME EXTERNAL

DESKBY 130830Z

FM LUXEMBOURG 121542Z JUNE 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 95 OF 12 JUNE

INFO IMMEDIATE UKREP BRUSSELS, TOKYO, ROUTINE ALL OTHER EEC  
POSTS, WASHINGTON.

FOLLOWING FROM UKREP BRUSSELS:

COUNCIL OF MINISTERS (FOREIGN AFFAIRS): 12 JUNE 1979

EEC/JAPAN

SUMMARY

1. THE COUNCIL ENDORSED THE COMMISSION'S APPROACH. SEVERAL DELEGATIONS, INCLUDING MR NOTT FOR THE UK, STRESSED THE IMPORTANCE OF MAINTAINING A FIRM AND UNITED COMMUNITY POSITION, AND OF SEEKING TO EXPAND TRADE WITH JAPAN ON AN EQUAL AND FAIR BASIS.

DETAIL

2. COMMISSIONER HAFERKAMP INTRODUCED THE COMMISSION COMMUNICATION TO THE COUNCIL (COM(79)306) AND THE COMMISSION WORKING DOCUMENT (7309/79). THERE HAD BEEN SOME ENCOURAGING DEVELOPMENTS. JAPAN'S GLOBAL CURRENT ACCOUNT SURPLUS WAS CONSIDERABLY REDUCED, THOUGH THEIR BILATERAL SURPLUS WITH THE COMMUNITY CONTINUED TO GROW: THE JAPANESE HAD ENDEAVOURED TO INCREASE GROWTH BY STIMULATING DOMESTIC DEMAND: AND, ON SPECIFIC TRADE BARRIERS, PROGRESS HAD BEEN MADE IN TERMS OF RECOGNITION OF EEC TESTS BY THE JAPANESE AUTHORITIES, THOUGH IT WAS NECESSARY TO FOLLOW UP THE JAPANESE ASSURANCES. IN THE MTNS, JAPAN HAD OFFERED TO IMPLEMENT CERTAIN ADVANCE TARIFF REDUCTIONS. THUS, THERE WAS SOME MOVEMENT IN THE RIGHT DIRECTION.

3. THE COMMISSION PROPOSED TO CONTINUE TO PRESS FOR THE ABOLITION OF OBSTACLES TO MARKET ACCESS. THEY ALSO INTENDED TO ENSURE THAT JAPAN STRICTLY ABIDED BY FAIR TRADING RULES: THE COMMISSION WOULD NOT HESITATE TO USE APPROPRIATE INSTRUMENTS

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/IN THE FACE



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IN THE FACE OF DUMPED OR SUBSIDIZED JAPANESE EXPORTS. THE COMMISSION ALSO BELIEVED THAT THE TIME HAD COME TO THINK ABOUT DEVELOPING THE RELATIONSHIP BEYOND BILATERAL TRADE ISSUES. IT WAS CLEAR THAT JAPANESE INDUSTRY WOULD PENETRATE HIGH TECHNOLOGY MARKETS IN THE FUTURE. THE COMMUNITY SHOULD BE PREPARED FOR THIS. THE POSSIBILITIES FOR CO-OPERATION IN INDUSTRIAL POLICY SHOULD BE EXAMINED. THERE WERE ALSO POSSIBILITIES FOR CO-OPERATION IN OTHER FIELDS, SUCH AS ENERGY.

4. IN THE ENSUING TOUR DE TABLE, ALL DELEGATION SUPPORTED THE COMMISSION'S GENERAL APPROACH. VAN DER KLAUW (NETHERLANDS) SAID THAT THE INCREASING BILATERAL SURPLUS WAS A SOURCE OF ANXIETY. THE COMMUNITY SHOULD CONTINUE TO EXERT PRESSURE TO BRING THE RELATIONSHIPS BACK INTO BALANCE. THIS SHOULD BE ACHIEVED BY SEEKING TO EXPAND COMMUNITY EXPORTS, RATHER THAN BY BLOCKING JAPANESE EXPORTS.

5. BATTAGLIA (ITALY) SAID THAT A CAREFUL WATCH SHOULD BE KEPT ON JAPANESE INVESTMENT INTENTIONS, TO AVOID HARMFUL REPERCUSSIONS ON THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY.

6. DENIAU (FRANCE) STRESSED THE NEED FOR A REALISTIC AND FIRM COMMUNITY POLICY. WHILE JAPAN'S OVERALL SURPLUS HAD DIMINISHED, THE INCREASE IN THE BILATERAL SURPLUS MUST BE TAKEN VERY SERIOUSLY. HE AGREED THAT THE COMMUNITY SHOULD SEEK TO IMPROVE MARKET ACCESS IN JAPAN; SHOULD BE CONCERNED ABOUT COMPETITION IN THIRD MARKETS; AND SHOULD BE READY TO REACT FIRMLY TO SUBSIDISED OR DUMPED JAPANESE EXPORTS.

7. DOHNANYI (GERMANY) CONSIDERED THAT THE DECISIVE POINT WAS TO OPEN UP THE JAPANESE MARKET. HE SAW NO ACUTE REASON FOR COMMUNITY COUNTER-MEASURES AT PRESENT. GREATER INDUSTRIAL CO-OPERATION COULD BE USEFUL, PROVIDING ACCOUNT WAS TAKEN OF THE DIFFERING CORPORATE AND ECONOMIC STRUCTURES IN JAPAN AND THE EEC.

8. RIBERHOLDT (DENMARK) SAID THAT IF THE PROBLEM OF THE TRADE DISEQUILIBRIUM WAS TO BE RESOLVED, IT WOULD TAKE CONSIDERABLE EFFORTS BOTH BY JAPAN TO OPEN UP THEIR MARKET, AND BY COMMUNITY EXPORTERS. AS FOR JAPANESE EXPORTS, AN INCREASE IN JAPAN'S



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DOMESTIC CONSUMPTION WAS ONE WAY OF TAKING THE PRESSURE OFF HER EXPORT DRIVE. THE COMMUNITY SHOULD BE VERY CAUTIOUS ON THE ISSUE OF POSSIBLE COUNTER-MEASURES.

9. SIMONET (BELGIUM) SAID THAT THERE WAS A DANGER THAT BECAUSE JAPAN'S GLOBAL TRADE BALANCE HAD IMPROVED, THEY WOULD IGNORE PRESSURE ON THE BILATERAL SURPLUS WITH THE COMMUNITY. HAVING EXAMINED A LIST OF JAPANESE EXPORT INCENTIVES, HE REMARKED THAT THE COMMUNITY SHOULD HAVE FEW ILLUSIONS ABOUT THE PROBLEMS OF COMPETING WITH JAPAN IN THIRD MARKETS. WE SHOULD ALSO NOT EXCLUDE THE POSSIBILITY OF SHARP AND DIFFICULT COMPETITION WITH THE US ON THE JAPANESE MARKET. HE STRESSED THE IMPORTANCE OF MAINTAINING A COMMON COMMUNITY STRATEGY.

10. MR NOTT AGREED ON THE IMPORTANCE OF A UNITED COMMUNITY STANCE; THAT WAS THE ONLY WAY TO ENSURE THAT THE JAPANESE RECOGNISED THAT THE EEC WAS AS POWERFUL A BLOC AS THE USA. ON JAPAN'S DOMESTIC POLICY, A CAREFUL COURSE SHOULD BE STEERED BETWEEN LECTURING AND PERSUASION; THE FORMER WOULD NOT GET FAR. THE COMMUNITY SHOULD TRY TO PERSUADE JAPAN TO DEVOTE MORE RESOURCES TO OVERSEAS AID; TO EASE DIRECT INVESTMENT INTO ITS ECONOMY; AND TO OPEN UP ITS MARKET TO COMMUNITY EXPORTS. IN THE LAST RESORT, WE NEEDED MORE TRADE, NOT LESS, BUT ON A FAIR AND EQUAL BASIS. THIS WAS BEST ENCOURAGED BY CONTINUING CONTACTS, BY UNITY OF PURPOSE ON OUR SIDE, AND BY GREATER RECOGNITION ON THEIR PART OF THE COMMUNITY'S STRENGTH.

11. THE PRESIDENT OF THE COMMISSION REFERRED TO THE POSITIVE DEVELOPMENTS IN THE JAPANESE ECONOMY. IT WOULD BE UNREALISTIC TO THINK THAT THE BILATERAL SURPLUS WOULD BE ELIMINATED, BUT THE COMMUNITY MUST SAY VERY FIRMLY THAT THE PRESENT SIZE OF THE GAP, AND ITS TENDENCY TO INCREASE, WERE TOTALLY UNACCEPTABLE. JAPAN'S MARKET MUST BE, AND BE SEEN TO BE, MORE OPEN. IN A STRONG APPEAL FOR COMMUNITY SOLIDARITY. HE SAID THAT THE COUNCIL HAD PASSED A GOOD MANY PIOUS RESOLUTIONS ON JAPAN. BUT THE JAPANESE STILL FELT THEY COULD PLAY MEMBER STATES OFF AGAINST ONE ANOTHER, AND WERE UNCERTAIN HOW SERIOUSLY TO TAKE THE COMMUNITY. IF THE JAPANESE WERE TO BE BROUGHT FINALLY TO ACCEPT THE COMMUNITY AS A TRADING BLOC IN THE SAME LEAGUE AS JAPAN AND THE USA, IT WAS ESSENTIAL FOR THE EEC TO AGREE ON AND STICK TO A COMMON STRATEGY.



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12. FRANCOIS-POUET (FRENCH PRESIDENT OF THE COUNCIL) NOTED THE COUNCIL'S ENDORSEMENT OF THE COMMISSION'S APPROACH. IF THE COMMUNITY WAS TO BE CREDIBLE IT MUST MAINTAIN A COMMON POSITION, AND DEFEND IT STRONGLY. WE SHOULD BE READY TO CARRY A DAGGER UNDER OUR TOGAS.

FCO ADVANCE DESKBY TO:-

FCO - PS/SOFS, PS/LPS, PS/PUS, CORE-BOOTH, JACK, WILLIS, HAZLE.  
CAB - BIRCH  
DOT - PS/SOFS, GRAY, SUNDERLAND

WRIGHT

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[ADVANCED AS REQUESTED]

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13 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

DIRECT ELECTIONS

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. The French intend that the European Council should agree an appropriate message to the new Parliament.

OBJECTIVE

2. Ensure message is in non-controversial terms.

LINE TO TAKE

3. [Advice on the draft message will be added only if necessary when we have seen it.]

4. The following are specific points that might arise:

(a) Relations with the Council and with national Parliaments

The Council of Ministers should aim to develop a sound relationship with the new Parliament. Confrontation not inevitable. Minor differences over procedure normal. Important also for national Parliaments to establish relationship with the European Parliament.

[If specific proposals are made] Council of Ministers/COREPER should consider this.

(b) Powers

Too early to talk about any increase in powers, which would in any case require agreement of all Member States (and would need an Act of Parliament in the UK). But no need to take up dogmatic position and provoke an immediate conflict.

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(c) Site

Final decision on permanent site is for the Council acting unanimously. Efficiency is one consideration; not the occasion to take a decision.

(d) Salaries

The necessary legislation is being passed in the UK and will be law by the first session of the Parliament on 17 July. UK MEPs will be paid the same as Westminster MPs.

BACKGROUND

References:

Presidency draft of message from European Council to European Parliament (to be supplied)

Results of direct elections

5. See Annex A.

Arrangements for opening session

6. The inaugural session of the directly elected Parliament will take place from 17-19 July. As well as the business of electing its President and officers etc, it is expected that the President of the Commission will make a speech, the French will report on the June European Council and the Irish will give an indication of their intentions for their Presidency which begins on 1 July.

Powers of the Parliament

7. Much attention was paid to this question in France during the direct election campaign, as a domestic political issue. It is now less likely to concern Giscard. In the case of the UK, any increase in the Parliament's powers would require legislation.

Site

8. The Parliament meets in Strasbourg and Luxembourg. Its Secretariat is in Luxembourg. Its Committees meet in Brussels or elsewhere. Formally this arrangement is only provisional. Although it is wasteful of time and money France and Luxembourg will resist any change very strongly. From the UK point of view

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it is not worth a major row with either to try to secure a change: the Parliament itself can try to come to a common view first.

FOREIGN AND COMMONWEALTH OFFICE  
13 June 1979

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## DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT : RESULTS

1. The overall composition of the groups in the directly elected Parliament will not be finally clear until the Parties have met to decide which formation to join. It is nevertheless clear that while the Socialists may remain the largest individual group there will be a centre-right majority.

2. The results by country were as follows:

GROUPS	COUNTRY									Total
	Belgium	Denmark	France	Germany	Ireland	Italy	Luxembourg	Netherlands	UK	
Socialist	7	3	22	35	4	13	1	9	17	109
Christian-Democratic	10	-	7	42	4	30	3	10	-	107
Liberal and Democratic	4	3	18	4	-	5	2	4	-	40
European Progressive Democrats	-	1	15	-	5	-	-	-	-	22
European Conservatives	-	3	-	-	-	-	-	-	60	63
Communist and Allies	-	1	19	-	-	26	-	-	-	46
Non-attached	3	5	-	-	2	7	-	2	4	23
Total	24	16	81	81	15	81	6	25	81	410
Turnout (%)	87.7	47	60.8	65.9	63	85.9	86	58	**	

\*\* Home Office do not issue official figures for the UK; unofficially turnout is estimated to have been some 33%.

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13 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

POLITICAL COOPERATION SUBJECTS

Brief by the Foreign and Commonwealth Office

1. Briefs on Political Cooperation subjects are attached as follows:

Annex A	Middle East
Annex B	Southern Africa
Annex C	Refugees in South-East Asia
Annex D	French proposal for a Euro-Arab-African Conference
Annex E	<i>European Disarmament Conference</i>

Foreign and Commonwealth Office

13 June 1979

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ANNEX A

MIDDLE EAST

Line to take

1. Statement of 18 June useful reminder to Israel of the Nine's views, but need to consider further steps. Sadat's position will be undermined and cooperation of moderate Arabs eg. over oil production and pricing may be jeopardised in the absence of evidence that the West can influence Israel.
2. Pressure on Israel to adopt a more reasonable attitude in the autonomy negotiations should be kept up through bilateral representations.

Background

Reference

- A Foreign Ministers Statement on Middle East of 18 June.
3. The Prime Minister is briefed on the general background. The subject is also likely to come up at the Tokyo Economic Summit.
  4. Foreign Ministers discussed the Middle East on 18 June and agreed a new statement (attached). It contains little new and at French insistence makes no explicit reference to Camp David or the autonomy negotiations. Although it is likely to have little impact, it demonstrates the Nine's view that current Israeli policies constitute a major obstacle to further progress. There is little prospect of agreement by the Nine on further action at this stage.

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18 June 1979

## MIDDLE EAST

The Nine have examined the situation in the Middle East.

1. They recall, in accordance with their previous declarations, in particular those of 29 June 1977 and of 26 March 1979, that a just and lasting peace can be established only on the basis of a comprehensive settlement which should be based on Security Council resolutions 242 and 338 and on:

- the inadmissibility of the acquisition of territory by force;
- the need for Israel to end the territorial occupation which it has maintained since the 1967 conflict;
- respect for the sovereignty, territorial integrity and independence of every State in the region and their right to live in peace within secure and recognised borders;
- recognition of the fact that, to establish a just and lasting peace, account will have to be taken of the legitimate rights of the Palestinians, including their right to a homeland.

2. The Nine deplore any action or declaration which might stand in the way of the quest for peace. They consider, in particular, that certain attitudes and declarations of the Israeli government are such to create obstacles in the search for a comprehensive settlement of this kind.

Notably:

- Israel's ultimate claim to sovereignty over the occupied territories, which is incompatible with resolution 242, which laid down the principle of the inadmissibility of the acquisition of territory by force;
- the policy of the establishment of settlements pursued by the Israeli Government in the occupied territories, which is illegal in international law.

3. As regards the Lebanon, the Nine support its independence, sovereignty and territorial integrity. They deplore all acts endangering the security of the population and hindering the restoration of the authority of the Government of the Lebanon throughout the whole of its territory and particularly in the south of the country. Gravely concerned at the difficulties which UNIFIL, to which some of the Nine contribute, is encountering in carrying out its mandate they appeal to all parties to respect the decisions of the Security Council.

The above are the comments which the Nine wish to make at this moment. They reserve the right to return to all of these questions at a later date.



## ANNEX B

## SOUTHERN AFRICA

## UK OBJECTIVES

1. To secure the support of the Nine for the Government's approach to the new situation in Rhodesia, and efforts to revitalise the initiative of the Five on Namibia.

## LINE TO TAKE

## RHODESIA

2. UK's approach has been explained to the Nine. Further steps on Rhodesia unlikely before 21/22 June: Lord Harlech's African tour not due to end until 22 June.
3. Present consultations will give clearer idea whether there is any flexibility in positions of the parties. UK not excluding any of the possible ways to achieve objective of returning Rhodesia to legality with widest possible recognition. Government have not ruled out negotiations aimed at achieving a wider agreement, though prospects doubtful for a settlement agreed by all parties.
4. Following his visits to Front Line States and Nigeria and meetings with Patriotic Front representatives, Lord Harlech will advise on what steps might be considered to render a settlement more acceptable. UK also consulting other African countries, including Liberia (important<sup>as</sup> President Tolbert will chair OAU Summit in July).

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5. UK will keep in close touch with European partners. Conscious of international implications: fears of escalation in war and difficulties at UN. Important to persuade moderate African states that Rhodesian realities must be taken into account and that Patriotic Front cannot be allowed to impede a just settlement.

NAMIBIA

6. Negotiated solution still possible. No justification for giving up while all concerned committed to the UN Plan in principle. Folly to agree to sanctions against South Africa as it would remove every possibility of South African co-operation.

7. Grateful for support of the Nine hitherto. Hope they will maintain this despite their misgivings.

8. The onus for movement is on South Africa but the Five have agreed to take a fresh look at the outstanding problems and to launch a new round of negotiations. These will start with an approach to South Africa by Lord Carrington on behalf of the Five on 20 June.

BACKGROUND

RHODESIA

Recent Developments (can be used)

9. By 22 June Lord Harlech will have visited Zambia, Tanzania, Mozambique, Botswana, Angola, Malawi and Nigeria. He has authority to meet leaders of ZANU and ZAPU: it is not yet known if he will see Mr Nkomo and Mr Mugabe. From 18-24 June Mr Luce will visit Zaire, Senegal, the Ivory Coast and Liberia (where

/the OAU

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the OAU summit will take place from 16-19 July).

10. President Carter's determination should not be taken as indicating major differences of view between the UK and US Governments. The Americans accept the need to build on the progress made in Rhodesia. Lord Harlech will visit Washington to consult Mr Vance.

11. On 12 June the US Senate gave a 52/41 majority to an amendment to the Defence Department Appropriations Bill which would permit US trade with Rhodesia from 30 June. A similar amendment will be considered by the House of Representatives in the second half of June. The narrowness of the Senate majority will encourage the Administration to continue to resist the early lifting of sanctions.

12. Mr Day's task in Salisbury is to advise Muzorewa to show that he is in effective control of the government, to make progress towards domestic change and to make it clear that he is not the obstacle to a wider agreement. He has reported that Rhodesians are still waiting to see substantive changes following Bishop Muzorewa's assumption of power. There has been no response to Muzorewa's offers of reconciliation to the Front Line States, and no encouragement so far for those who hoped that he would bring peace to Rhodesia. It is widely recognised that changes in the constitution may be necessary.

Discussion of Rhodesia with the Nine (not for use)

13. The UK briefs the Nine regularly on Rhodesia in Political Co-operation meetings. The last such briefing was on 17/18 May.

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14. FCO officials discussed Rhodesia with French officials on 1 June and Italian officials on 7/8 June. The French accept recent changes in Rhodesia as a new reality, though they are not ready at this stage to recognise. They regard Rhodesia as a British responsibility, and will have to take account of the repercussions in Africa of recognition: but they have agreed to help the UK in their contacts with francophone Africans and in discussions among the Nine. The Italians were non-committal. Italy has developed close contacts with Mr Mugabe and has some sympathy for the Patriotic Front. The Italian Government would be embarrassed by the early lifting of sanctions by the UK or US.

15. Following the Rhodesian elections, the FRG Foreign Ministry said in an official statement that the elections could "furnish no permanent basis for an independent Zimbabwe". Chancellor Schmidt was non-committal on German policy in his meeting with the Prime Minister on 11 May. The Germans are concerned that events in Rhodesia may damage the prospects for a Namibian settlement and therefore hope the UK will take full account of the attitude of the Front Line States. They have recently followed the cautious line that there is no need for the FRG yet to take up a firm position towards the Muzorewa government, and have sought the UK's advice on a reply from Chancellor Schmidt to an appeal from Bishop Muzorewa for German help in ending sanctions.

16. Other members of the Nine have reminded the UK of their consistent support for an all-party conference, and consider the Nine still to be bound by earlier statements endorsing

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/the UK's



the UK's approach based on the Anglo-American Proposals. They will be reluctant to recognise Rhodesia unless a majority of African states does so. But in general they take the view that Rhodesia is a British responsibility; that British recognition of Rhodesia would create a new situation; that so far as possible they should support UK's efforts to achieve an internationally acceptable settlement.

#### NAMIBIA

##### Can Be Used

17. The substance of the new initiative is still being discussed. The imminence of a Security Council meeting, which we may not be able to avert although we are trying, necessitates some early public move to demonstrate that the UN Plan can still be put into effect.

18. Mr Luce's visit showed that SWAPO and the Front Line States will consider making further concessions provided that they can be sure that such concessions would lead to implementation.

The Five will work to gain acceptance for compromise over bases and monitoring by pursuing measures to restore confidence between the parties.

19. The South Africans accept that a military solution to Namibia's problems is not possible, and that there must be a political accommodation. They did not exclude compromise, particularly if the Five can convince the internal parties in Windhoek.

##### Not for Use

20. Some members of the Nine are beginning to lose patience

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with the slowness and lack of progress in the Five's efforts. The Dutch, Danes and Irish are inclined to write-off the UN Plan, to blame South Africa and to maintain that the only possible basis for implementing the Plan is the Report of 26 February. Their policy is to support sanctions. It proved very difficult to obtain a satisfactory common statement for the Nine at the resumed session of the General Assembly.

21. Mr Luce recommended in his report to the Secretary of State that the negotiations be resumed by a single negotiator representing the Five with a broad mandate. Apart from the French our partners in the Five did not agree to this approach. Led by the Americans, they have argued for a continuation of a joint negotiating team including representatives from all five countries. They are reluctant to extend discussion beyond the two controversial issues in Dr Waldheim's Report.

22. In view of the need to produce some evidence of progress in the next few days if, together with the US and France, we are to be on good ground in opposing calls for sanctions we have agreed to drop our insistence on a single negotiator for the moment.

FOREIGN AND COMMONWEALTH OFFICE

13 JUNE 1979

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ANNEX C

REFUGEES IN SOUTH EAST ASIA

POINTS TO MAKE

Conference

1. The EEC Foreign Ministers' declaration in favour of a conference (attached) was timely.
2. Waldheim is inclining towards convening a meeting. If he presided it would be easier to get the international community to deal with the problem. The United Nations High Commissioner for Refugees is working hard on his advice to Waldheim. We are seeing what more we can do.. If others reply similarly to his approaches we would expect him to support the conference proposal.
3. But our aim is for the conference to reach practical solutions. We would like a simple agenda, eg : refugees from Indo-China : the reasons for the exodus and ways of dealing in a humane manner with resettlement.

ASEAN

4. The Malaysians and Thais have evidently lost patience. We have conveyed concern to the Thais over their forcible repatriation of Cambodians, and to the Malaysians over their harsher attitude towards boat refugees. Fortunately the threat to shoot newcomers has been withdrawn.

Hong Kong

5. Facilities are at saturation point with over 55,000 awaiting settlement. The UNHCR has assumed responsibility for fewer than a third of them. Could national programmes allocate additional places for Hong Kong.

/UNHCR (Vietnam) Agreement

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UNHCR (Vietnam) Agreement

6. A limited scheme that will not stop the Vietnamese expelling thousands of other people. They should not be allowed to present it as proof of total cooperation with the international community.

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BACKGROUND

Numbers Involved

1. About 350,000 are awaiting resettlement; of these over 200,000 (mainly Laotians and Cambodians) are in Thailand. 80,000 Vietnamese are in Malaysia, 55,000 in Hong Kong and 26,000 in Indonesia. 3,000 Vietnamese a day may now be leaving Vietnam, of whom over half perish at sea.
2. The Americans and Chinese have already accepted over 250,000 Vietnamese each for settlement. The French have taken 51,500, the Canadians 15,000 and Hong Kong 9,200. The United Kingdom had accepted 1,573 by 22 May and 350 other Indo-Chinese.
3. The Government have accepted over 1,000 from the mv Sibonga (to be offset as far as possible against the unused part of a quota of 1,500 agreed by the previous Government). Refugees from the mv Roach Bank will be accepted, whom the Taiwanese do not take. We also expect to take 6 from the mv Norse Viking. The Government made clear when announcing the decision over the mv Sibonga that future ships' cases would be considered on their merits.

The Prime Minister's Proposal for a Conference

4. The Americans and the French have supported our proposal. On 18 June in a declaration the Foreign Ministers of the Nine also called for a conference. Dr Waldheim's initial reaction was positive and he appears to be moving towards convening a conference over which he might be prepared to preside. The UNHCR was initially luke-warm, he is now seeking advance pledges of resettlement places and money. If he receives a measure of satisfaction he is likely to come round to our point of view, although he does not want to be involved in "political" aspects of a conference.

Hong Kong

5. The situation in Hong Kong is the Government's first concern. With the other countries of the region taking an increasingly hard line Hong Kong is likely to be the target for more and more of the

/refugees

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refugees. There could well be over 100,000 there by the end of the summer. Of the countries involved in the summit only the United States and Canada have specific resettlement programmes for Hong Kong. The Americans are taking about 450 a month, and the Canadians 500 in 1979. There are indications that both may do more. But in general Hong Kong is getting lower priority for settlement than countries which turn refugees away.

ASEAN Processing Centre

6. The processing centre, on an Indonesian island is under consideration with the UNHCR. It will be for a maximum of 10,000 people who have already been accepted for settlement elsewhere. It will be too small, therefore, to make much of a contribution to solving the problem.

Agreement between the UNHCR and Vietnam

7. An agreement has been reached giving the UNHCR a role in arranging emigration for people who have resettlement offers abroad. At present levels of outflow, the 20,000-30,000 who may qualify equal barely two weeks' outflow of boat people.

Vietnamese Government Policy

8. The Vietnamese Government is not only bringing about the exodus by deliberate policy, and is profiting by pecuniary exactions from the refugees. Vietnam's ethnic Chinese minority bears the brunt of official persecution, but Vietnamese members of the former middle class in the South have also been deprived of their means of livelihood and have been threatened with transportation to "new economic zones" where they would live in spartan conditions. These people, too, have taken the chance offered by the official Government scheme to leave on overcrowded and frequently unseaworthy boats, the tariff includes a charge of the equivalent of £1,500 for each adult, and further charges for various "services", but there is evidence that the rates are being cut, as the richer emigrants leave. Up to 1,200,000 ethnic Chinese may still remain in Vietnam, where they are treated like a Fifth Column. There is

/unlikely

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unlikely to be any change in the Vietnam Government's policy as relations between Vietnam and China are unlikely to improve.

Malaysian Government's Policy

9. The statement by the Malaysian Deputy Prime Minister that his Government would "shoot" new arrivals has been disowned by the Prime Minister, Datuk Hussein Onn. But the Malaysians are evidently embarked on a harsher policy intended to discourage new landings and they could adopt more drastic measures in the absence of progress in removing boat refugees already in their country.

Thai Policy

10. The Thai Government has forcibly repatriated many thousands of Cambodians, although these people may come to grief in their own country. We appealed to the Thais to desist.

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Ministers of the Nine made the following statement on the problem of refugees from Indo China:-

"The Ministers expressed their concern at the serious problems posed by the massive and continuously growing exodus of refugees from the Indo-China peninsula. They decided to approach the United Nations High Commissioner for Refugees immediately to ask that an international conference should urgently be convened, under the aegis of the United Nations, with a mandate to study practical solutions to these problems with the parties concerned.

They emphasised the importance of strengthening and sharing more equitably among the international community the efforts on behalf of the refugees which are at present being carried out by a limited number of countries. They expressed their intention of approaching this conference with the desire, within the limits of what was possible for them, to contribute to the solution of this humanitarian problem, which concerns the whole international community.

They agreed also to make a demarche on this subject, in all its aspects, to the government of Vietnam. They agreed at the same time to express their concern to other states in the region, in particular to the members of ASEAN with whom they opened a political dialogue in November last year".

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EHG(S)(79)13  
Annex D

FRENCH PROPOSAL FOR A EURO/ARAB/AFRICAN CONFERENCE

UK OBJECTIVES

1. Clarification of French ideas on participation and agenda.

LINE TO TAKE

2. How was the proposal received at the Conference of Francophone African countries at Kigali; and by President Nimeiri of the Sudan (current President of the OAU)?
3. Has Giscard approached the Arab League? What would be the agenda and objectives of the Conference; who would be invited?

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BACKGROUND

4. Giscard first proposed the Conference at a press conference on 15 February 1979. It was discussed at the European Council in March, when it aroused little interest. Heads of Government agreed that Giscard, as President of the Community should meet the current President of the OAU (President Nimeiri) and the Secretary General of the Arab League (Mr Riad); it would then be open to the Irish Prime Minister, as the next Community President, to pursue the project during the second half of 1979.

5. Giscard also mentioned the proposal at the recent Kigali Francophone Summit. It evoked a lukewarm response. On his way home from Kigali, Giscard called on President Nimeiri, who welcomed the proposal as OAU President.

6. Giscard has not explained his ideas in full but we understand that he sees the Conference improving economic and aid co-operation between Europe, Africa and the Arab countries and producing a declaration of principles similar to that in the Helsinki Final Act. Work on the latter would be pursued in two stages: first, the establishment of a broad consensus of opinion; secondly, a meeting of Foreign Ministers in 1981-2, leading to the drafting of a Charter of Solidarity and possible signature at Summit level. We should need to hear the French ideas in detail before we could comment. There are both advantages in the idea (eg a good opportunity to influence non-aligned thinking in the absence of extremists like Cuba and Vietnam); and disadvantages (eg it would leave us open to more pressure over aid; the exclusion of the Americans, Russians, Israelis and the PLO could create problems).

Foreign and Commonwealth Office

13 June 1979

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ANNEX E

FRENCH PROPOSAL FOR A EUROPEAN DISARMAMENT CONFERENCE

[If raised]

Line to take

1. Agree that Nine should see if Phase 1 of French proposal can be used in preparing for Madrid. Also useful in countering Warsaw Pact proposals for a 35-nation meeting on military detente. But need to study whole question carefully both in Nine and NATO.

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BACKGROUND

1. In May last year the French marked their return to active participation in the international disarmament debate by proposing to all CSCE participants and Albania the convening of a European Disarmament Conference (EDC), which would cover the whole of Europe from the Atlantic to the Urals. Phase I of the conference would concentrate on confidence building measures (CBMs). In Phase II these would be extended and would lead to the negotiation of individual national limitations on the offensive conventional armaments of each participant. President Giscard has personally backed this proposal.
2. In the Nine and in NATO, the UK has closely questioned the French about the negotiability of their proposal with the East and the relationship between an EDC and MBFR and the CSCE. The UK has also drawn attention to the risk that the proposed method of armament reductions for Phase II of an EDC would inhibit the flexible operation of NATO's integrated defence structure.
3. In mid-May the Warsaw Pact stole some of the French clothes by proposing a conference at political level later this year on "military detente". The agenda for the proposed conference is vague but like an EDC it would cover CBMs. The French have argued that Western support for an EDC would be an effective counter to the Warsaw Pact proposal.
4. We remain unconvinced of the merits of an EDC. In particular the proposals for Phase II national armament limitations have serious drawbacks. But the West might usefully draw on French

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proposals for Phase I of an EDC (CBMs) which could present less difficulties, and perhaps some advantage, for the West. In preparing its position on CBMs for the Madrid CSCE meeting, it might be possible for the Nine to build on the French Phase I proposal while avoiding any commitment to the objectionable features of Phase II.

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EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE, 1979

COMMON AGRICULTURAL POLICY

Brief by Ministry of Agriculture, Fisheries and Food and  
the Foreign and Commonwealth Office

UK OBJECTIVES

1. (a) Avoid discussion;
- (b) alternatively, if unavoidable, ensure UK opposition to price freeze is not represented as sole obstacle to agreement.

LINE TO TAKE

2. (a) This is not the place for discussion of this subject; more work should be done in the Agriculture Council;
- (b) UK can accept Commission's proposal (for price freeze) as basis of agreement; which Governments cannot?
3. [If link made between CAP and UK position on convergence] Agree with those who say CAP should be treated separately from convergence; CAP is a major Community problem in its own right. Nevertheless the CAP leads to substantial perverse resource transfers in the Community, especially through the surplus disposal costs which absorb so much of the budget.
4. If there is a role for the European Council it is to give firm guidance to Agriculture Ministers to tackle effectively the problem of the operations of the CAP. The only way to deal with structural surpluses in the CAP is to freeze prices until they are eliminated.

/BACKGROUND



## BACKGROUND

5. This item is not on the agenda for the European Council but the subject may be raised if the Council of Agriculture Ministers, which is meeting at the beginning of the same week, fails to reach agreement on the prices for the 1979/80 marketing year. Such failures could, for instance, be due to stalemate between France insisting on a price rise to enable German MCAs to be reduced, and UK refusing a price rise of the kind demanded. Most other Member States would probably be content with either position - an important point if Giscard tries to suggest that the UK and Italy are the sole obstacles to agreement.

6. The estimated cost of the CAP in 1979 is some £6,500 million. The bulk of this will be spent on three commodities - milk, cereals and sugar, which account respectively for 37%, 19% and 10% of the total. The cost is growing rapidly. Preliminary figures for 1980 indicate that even with a farm price freeze, expenditure in 1980 will be some 12.5% higher. The Commission have estimated that on present trends the cost of the CAP will reach 14,550 mEUA (£9,300m) by 1982.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
and  
FOREIGN AND COMMONWEALTH OFFICE

13 June, 1979

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EHG(S)(79)15

COPY NO 1

11 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

COMMON FISHERIES POLICY

Brief by Ministry of Agriculture, Fisheries and Food

UK OBJECTIVES

1. i. To avoid discussion of the CFP
- ii. If necessary, explain HMG's constructive approach and political need for fair settlement.

LINE TO TAKE

2. The UK should not raise this issue. The following points may be drawn on as necessary:
  - a. Fisheries of great political importance in UK. HMG determined to secure fair and lasting settlement meeting legitimate interests.
  - b. Agreement must be reached on CFP as whole. Complex and interrelated issues involved. Adequate time needed by Commission and Fisheries Ministers for preparation if next substantive Council discussion is to make any progress. This suggests Fisheries Council in early Autumn but European Council should resist setting deadlines. These already shown to be counterproductive.
  - ~~c. Hope next Fisheries Council will provide a starting point from which steady progress towards a satisfactory settlement can be made.~~

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C. 2 In the absence of Community measures to implement conservation measures recommended by international scientists UK forced to take national action to protect stocks. This is in long term interest of Community fishermen as some 60% stocks in UK fishing limits.

BACKGROUND (for use as necessary)

3. Discussions on CFP revision started in 1976. The UK is isolated in opposing the current proposals dating from January 1978. These proposals cover quota allocations, conservation, access, enforcement measures and restructuring. No substantive discussions have been held since November 1978. A Fisheries Council is provisionally scheduled on 25 June.

4. The European Council on July 1978 set a deadline for the CFP to be agreed by the 4-5 December 1978. Other Member States relied on this deadline to make the UK concede and were not themselves prepared to make concessions.

5. The Government has announced that in the absence of adequate Community action, it will adopt on 1 July national measures providing increased minimum permitted mesh sizes for fishing nets, and certain related measures: these measures were recommended by an international scientific committee to come into force on 1 January 1979. Failure to adopt such measures could lead to reductions in the total recommended catches of fish stocks in Member States' waters. The Fisheries Council will discuss conservation at its next meeting.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

11 JUNE 1979

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12 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

ECONOMIC AID FOR TURKEY

Brief by Foreign and Commonwealth Office

UK OBJECTIVE

1. If necessary to emphasise that the next step is for the Turks to reach agreement with the IMF.

LINE TO TAKE

2. OECD pledging meeting successful. The Turks now have access to substantial additional funds provided they reach agreement with the IMF. This must be the next step.

BACKGROUND

REFERENCE A: OECD Communique of 30 May 1979

3. Turkey was raised at March European Council by Chancellor Schmidt who emphasised seriousness of situation. Turks had also lobbied President of the Commission.

4. This time situation is different. With the OECD pledging meeting of 30 May producing a total of \$1.45 billion, excluding EEC aid, the ball is back in the Turkish court. There should be no need for the European Council to discuss the matter. The \$1.45 billion made up as follows:

grants or loans:	\$662 million
medium-term export credits:	<u>\$245 million</u>
commercial credits:	\$400 million
World Bank:	\$150 million

5. The \$662 million includes £15 million (some \$30 million) from the UK. This is absolutely the limit and is conditional on the Turks reaching agreement with the IMF. UK exposure is also considerable on the export

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/credits



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credits side (\$450 million including \$250 million for industrial projects on which cover has been maintained for political reasons).

6. OECD figure does not include EEC aid in the pipeline. This amounts to \$400 million under the Third Financial Protocol between now and 1981 (UK share \$52 million) and \$100 million under emergency assistance (UK share \$20 million).

7. We took part in the debt rescheduling exercise in 1978. This cost us £60 million. We are ready to take part in another debt rescheduling once agreement has been reached with the IMF.

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12 JUNE 1979

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EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE 1979

THE COMMITTEE OF THREE WISE MEN

Brief by the Foreign and Commonwealth Office

LINE TO TAKE [If subject is raised]

1. Look forward to seeing Wise Men in July. Hope this report in October 1979 will produce useful specific proposals.

BACKGROUND

Reference: Terms of Reference of the Committee

2. Committee established by European Council in December 1978 on the initiative of President Giscard. Principal aim to find practical and generally acceptable proposals for administrative and procedural reforms required to accommodate Greece, Spain and Portugal. Mr Edmund Dell is one of the three members. The others are M. Marjolin (French) and Mr Biesheuvel (Dutch).

3. Committee have now completed first stage of their work. They have seen Heads of Government in all Member States (except UK) and have spoken with representatives of Community bodies. They are due to see the Prime Minister on 16 July, and will lunch on the same day with the Foreign and Commonwealth Secretary.

4. (Not to be disclosed) A British official seconded as Private Secretary to Mr Dell has informed us that the Committee are now beginning to draft their final report. So far they have not evolved any startling ideas and are likely to limit their recommendations largely to practical procedural reforms.

FOREIGN AND COMMONWEALTH OFFICE

13 June 1979

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TERMS OF REFERENCE TO WISE MEN

Mwezi/3		
REC'D	13 MAR 1979	
Mwezi/2		
INDEX	PA	FILE

GR 310  
 UNCLASSIFIED  
 FRAME GENERAL  
 DESKBY 062930Z  
 FM UKREP BRUSSELS 052345Z DEC 78  
 TO IMMEDIATE F C O  
 TELNO 7563 OF 6 DECEMBER.

INFO PRIORITY BONN, BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG,  
 THE HAGUE, PARIS, ROME AND WASHINGTON.

EUROPEAN COUNCIL : BRUSSELS : 4/5 DECEMBER 1978

1. FOLLOWING ARE TERMS OF REFERENCE FOR THE "COMMITTEE OF WISE MEN"

BEGINS

AS A FOLLOW-UP TO THE PROPOSAL MADE BY THE PRESIDENT OF THE FRENCH REPUBLIC, THE EUROPEAN COUNCIL HAS AGREED TO CALL UPON A NUMBER OF EMINENT PERSONS WITH SPECIAL KNOWLEDGE OF EUROPEAN AFFAIRS TO GIVE THOUGHT TO SUCH AFFAIRS.

THE COMMITTEE THUS FORMED IS MADE UP OF THE FOLLOWING PERSONS:

- MR BAREND BIESHEUVEL
- MR EDMUND DELL
- MR ROBERT MARJOLIN.

THE EUROPEAN COUNCIL INVITES THE COMMITTEE TO CONSIDER THE ADJUSTMENTS TO THE MACHINERY AND PROCEDURES OF THE INSTITUTIONS WHICH ARE REQUIRED FOR THE PROPER OPERATION OF THE COMMUNITIES ON THE BASIS OF AND IN COMPLIANCE WITH THE TREATIES, INCLUDING THEIR INSTITUTIONAL ARRANGEMENTS, AND FOR PROGRESS TOWARDS EUROPEAN UNION. IT EMPHASIZES THE INTEREST IT ATTACHES TO HAVING AVAILABLE SPECIFIC PROPOSALS IN THIS CONNECTION WHICH MAY BE IMPLEMENTED SWIFTLY AND WHICH TAKE INTO ACCOUNT EXPERIENCE TO DATE AND THE PROSPECTIVE ENLARGEMENT TO 12.

/THE EUROPEAN

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THE EUROPEAN COUNCIL REQUESTS THE COMMITTEE TO REPORT  
BACK ON ITS CONCLUSIONS WHEN THE COUNCIL MEETS IN OCTOBER 1979.

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14 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

ENLARGEMENT

Brief by the Foreign and Commonwealth Office

UK OBJECTIVES

1. a) To confirm UK support for Portuguese and Spanish accession.
- b) To avoid any Community commitment to compensate Mediterranean regions of present Community for impact of Spanish entry.

LINE TO TAKE

2. Consideration of possible aid to adversely affected regions would be premature.
3. (If raised by others) Community should allow Portuguese and Spanish negotiations to take their natural course, avoiding unnecessary delay.

BACKGROUND

References : None

4. Timetable for enlargement

a) Greece

Treaty of Accession signed 28 May. Formal entry due 1 January 1981.

b) Portugal and Spain

Negotiations in train. Entry in 1982 or 1983.

French tactics

5. French, under pressure from their farmers, have slowed down Spanish negotiations during their Presidency. Serious negotiations with Spain will not start until the autumn. French now seem to accept that Community should aim to break back of Spanish /negotiations

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negotiations by end of 1980, but their intentions still not fully clear.

6. French worried about expected impact of Spanish membership on French border regions. May be preparing to launch bid for Community compensation.

Cost of enlargement

7. Net budgetary cost to UK after transitional periods about £110 mn p.a. at 1979 prices (assuming policies unchanged, and on basis of forecast 1981 Budget). Mainly attributable to increased CAP costs.

8. Under present policies UK unlikely to remain net beneficiary from Regional and Social Funds after enlargement.

9. Possible economic advantages of enlargement to UK : slightly cheaper agricultural imports, possibilities for increased exports.

10. Possible disadvantage : increased competition in some sensitive sectors (steel, textiles).

11. The Prime Minister will want to participate in any discussion in the light of where matters stand on our major objectives on the Community Budget.

Foreign and Commonwealth Office

14 June 1979

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# SPEAKING NOTE

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## LOME /Speaking Note/

1. I am aware of the concern of the Presidency and of other colleagues to bring the EEC/ACP negotiations for a new Lomé Convention to a successful conclusion. A difficulty has arisen over the size of the new EDF (European Development Fund) and over the shares which each Member State will pay. British representatives have argued consistently and clearly for the EDF to be carried on the Community budget and I do not think there can be any misunderstanding or doubt about our views. I can be frank about the reason: our marginal budget contribution is about 16.5 per cent, as against the 18.7 per cent we paid to the EDF under the first Lomé agreement. Given the critical nature of our budget problem that is a significant factor for us
2. I understand nevertheless that some of our colleagues wrongly assumed that when we accepted an increased figure of 4540mua for the new EDF this meant that we were at the same time willing in the last resort to pay an 18.7 per cent share, ie 850mua. That sort of assumption is not one I would recommend my colleagues to make in future because the budget problem is of major importance for us. The UK has not accepted, and does not accept, the principle of using the present Lomé key for the new EDF.
3. An increase in our contribution from the 750mua which we said we were ready to accept to 850mua is a serious matter because it has to come out of the existing UK aid budget which we have had to cut back in line with our general reduction of Government spending. I am nevertheless prepared to accept the figure of 850mua because of the importance which I too attach to the EEC/ACP relationship and because I believe in settling these problems by agreement amongst ourselves. I must emphasise however that this is the maximum which the UK could in any circumstances accept.
4. This statement reflects the approach which I and my Government are taking to the Community. But it would be much easier to take it and to give expression to it across a wide range of issues if we did not start out with the crippling burden of a £1,000 million budget deficit around our necks.

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EUROPEAN COUNCIL, STRASBOURG  
21/22 JUNE 1979

RENEGOTIATION OF THE LOME CONVENTION  
Brief by Foreign and Commonwealth Office

UK OBJECTIVES

1. To prevent our present refusal to go beyond 750 mua for UK share of Community aid offer from souring the atmosphere at the European Council by indicating that we can agree to 850 mua.
2. To make plain that this is our last word.

LINE TO TAKE

3. UK has not accepted, and does not accept principle of using present Lomé key (18.7% for the UK) for settling Member States' contributions to aid element in new Convention.
4. But because of special UK interest in EEC/ACP relations, and because of clearly stated positions of our partners at meeting of Foreign Ministers in Paris on 18 June, I can now agree to maximum UK contribution of 850 mua.
5. This is last UK word on the subject. We are determined to limit our Government expenditure. At the resumed Brussels Conference on 24 June our delegation will have no possibility of going above this 850 mua figure.

/ BACKGROUND

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BACKGROUND

6. The 24-26 May Brussels Conference was intended to conclude negotiation of new convention to succeed present Lomé Convention which expires in March 1980. It failed because EEC financial offer unacceptable to ACP.
7. During 12 June Foreign Affairs Council at Luxembourg the French proposed that the 4,540 mua aid figure (maximum agreed within Community on 24-26 May and basis of "sacred pact" not to go higher) should now be increased by 200 mua, and EIB contractual lending by 100 mua (plus 200 mua for investments of interest to Community in minerals/energy sector). We made plain our willingness to accept up to 400 mua more for EIB lending, but said we could not accept an increase in the aid figure.
8. In message to Francois Poncet on 14 June and at meeting of Foreign Ministers in Paris on 18 June Lord Carrington made clear that UK could contribute no more than 750 mua to aid figure, equivalent to 16.5% of 4,540 mua, the share we estimate for the UK were budgetisation (our favoured solution, but strongly opposed by French) agreed. All other Member States and the Commission (a) claimed (falsely) that in agreeing on 24-26 May to 4,540 mua the UK had accepted that it be divided on basis of present 18.7% key - giving UK share of 4,540 mua of about 850 mua; (b) pointed out that new proposal made by Presidency at Luxembourg Council would enable small increase in Community aid offer (to 4,740 mua) without increase in UK's 850 mua share by means of small reduction in UK key from 18.7%. However, this reduction not enough to give us 16.5%.
9. Likely to be extremely difficult to agree new Convention with ACP without further Community concessions on financial offer - over and above those now suggested by French Presidency. Therefore important that we attach to our readiness to move a clear statement that we cannot be pushed higher. Community total offer can only be further increased if other Member States, not UK, increase contributions.

Foreign and Commonwealth Office  
20 June 1979

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14 June 1979

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EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE, 1979

NUCLEAR MATTERS AND EURATOM

Brief by Foreign and Commonwealth  
Office and Department of Energy

UK OBJECTIVES (if the subject is raised)

1. (Safety) To agree that international exchanges on nuclear safety should be reinforced, but in existing machinery not at a special meeting.
2. (Euratom) To support French arguments for a Community consensus on how the Euratom Treaty could be brought into line with the actual arrangements for uranium supply.
3. (Non-proliferation) To develop a political dialogue on non-proliferation.

LINE TO TAKE (if the subjects are raised)

4. (Safety) Concern about the safety of nuclear reactors is an important factor in determining public attitudes to the development of nuclear power. Safety is first and foremost a national responsibility. Reinforced international exchanges on nuclear reactor safety could be useful in allaying public concern that has resulted from the Harrisburg incident. It would be better to build on existing activities and organisations (principally the International Atomic Energy Authority - IAEA) rather than launch into entirely new exercises. Further detailed discussion of the arrangements will be needed. In particular to ensure that a study does not lead to a moratorium on nuclear developments.

15. (Euratom)

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5. (Euratom -- if raised by the French) The gap between the Euratom Treaty, recently reaffirmed by the European Court, and the way in which the nuclear industry actually operates, is undesirable. Recently, it has created an excessively tense and legalistic attitude towards all Euratom questions.

Adjustments to certain parts of the Treaty can be made by the Council. We need to promote a climate in which such adjustments can be agreed to enable the law to correspond better with actual practice. There is no question of exploiting differences within the Community; the existing co-operation between nuclear and non-nuclear weapon states is evidence to the contrary.

6. (Non-proliferation -- if raised by the French) There is a need for a political dialogue among the Nine on non-proliferation issues. Nuclear developments in the Indian sub-continent and the nature of non-proliferation arrangements after INFCE are examples of topics which might be discussed. We prefer to do this in the field of political co-operation. We do not see it as a field for a "common policy" in the strict Community sense.

BACKGROUND

7. The UK record on nuclear safety is good. Our reactors are of a different type from that involved in the Harrisburg incident. But Chancellor Schmidt has asked the Prime Minister to support his proposal that the IAEA should sponsor a study of the safety of nuclear power plants.

8. Countries with large nuclear programmes to meet their energy requirements should be able to develop them. Public acceptance is an essential factor. We support a reinforcement of the IAEA's existing activities. But careful presentation will be needed to minimise the risk that an international gesture on nuclear safety will not lead to a moratorium. We also share French concern that

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nuclear safety should remain a national responsibility. These practical questions will need further discussion at the Summit and the Governing Board.

9. Euratom. The Euratom Treaty provides for a monopoly for procurement of uranium under the supervision of the Commission. This has never been fully implemented. Despite that, the arrangements have recently been reaffirmed by the European Court. The direct purchase basis on which we and other member states obtain their uranium supplies could therefore be challenged unless the legal position is aligned with what actually happens. The Court ruling also confirmed other Treaty provisions which, if strictly interpreted, could prevent us from applying effective non-proliferation arrangements to nuclear trade both within and outside the Community in support of our policy of preventing the spread of nuclear weapons.

10. Our interests on supply are most likely to be met by amendment - which the French call "adaptation" - of the provisions of the Treaty concerned with supply (Chapter VI), which is specifically provided for in the Treaty.

11. Discussion of non-proliferation inside the Community is complicated because of the sensitivity of the other members, particularly Germany and Belgium, to anything which seems to confer commercial advantage on the UK and France as nuclear weapon states. We hope to break the impasse by establishing a dialogue among the Nine, outside the framework of Community institutions, in order to obtain a better understanding of the political and security importance of non-proliferation and to reduce the chances that the Treaty will be used to over-ride non-proliferation policies.

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12. When the French introduced these topics at the March European Council they drew little support from the other member states. The Prime Minister need not intervene unless, contrary to expectations, the French do so. Discussion will take place shortly with them on the handling of this complex issue.

FOREIGN AND COMMONWEALTH OFFICE and DEPARTMENT OF ENERGY

14 June 1979

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18 June 1979

EUROPEAN COUNCIL, STRASBOURG

21/22 JUNE 1979

STRUCTURAL DEVELOPMENTS IN THE 1980s

Brief by HM Treasury

UK OBJECTIVE

1. To keep discussion on the Commission's paper to a minimum, and thereby secure more time for discussion of the many pressing issues on the agenda.

LINE TO TAKE

2. Structural adaptation in the 1980s is an important subject which the Council could profitably discuss but there are more pressing issues for this meeting. Suggest remit to Finance Council for study.

3. Even so, the paper does not form a good basis for discussion. It is short on analysis and long on vague platitudes. We would object to some of its recommendations.

4. In particular we do not accept the argument that the authorities will have a decisive role in allocating resources between conflicting priorities. We would prefer to emphasise the role of market forces which the paper ignores.

5. The only piece of interesting analysis is the section on demographic changes (page 5). This could merit further discussion.

/BACKGROUND

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BACKGROUND

References

A : Commission paper on "Structural Changes in the 1980s" (COM(79)323 Final)

6. The paper was commissioned at the European Council of 4/5 December 1978. The prime movers behind the topic are the French. The paper has been written by the Commission after discussion by the so-called Kervyn Group of experts on medium-term economic assessments. The paper that has emerged is full of generalisations with minimal analytic content. As little time as possible should be spent discussing it. If however a discussion does develop the Prime Minister might like to bear in mind the following points.

7. The thrust of the paper is objectionably dirigiste. The conclusion that "the authorities will have a decisive role in deciding how best to use limited means and resources in the face of contradictory priorities ..." is out of tune with the assertion in the OECD Ministerial communique which stated "positive adjustment should rely as far as possible on market forces to encourage mobility of labour and capital to their most productive uses".

8. The interventionist tenor of the paper is further exemplified in the statement that "the encouragement of technological development through fiscal and other measures will be imperative". The assumption that the government is better able to evaluate R & D opportunities than individual enterprises is not one that we accept.

9. The rest of the paper degenerates into uncontroversial but wholly insubstantial generalisations. No government would take exception to the premise that "a general economic background conducive to investment should be created " (page 7) but the statement contains no prescription for the critical question of how to create such a climate. The paper states that "the external constraints (on European economies) necessitate the rapid modernisation of the economy, while limiting the potential for growth and thus affecting policies designed to reduce unemployment" (page 4) but having identified the problem, offers no solutions.

10. The paper is also notably short on references to the agricultural sector. The only prescription for the evolution of Community policy in this area is that "the Community must maintain the asset of a powerful agricultural sector, based on a strong Common Agricultural Policy better adapted to market needs". Exactly what a "strong" CAP comprises is not elucidated. More attention could be paid to the agricultural sector in any follow-up study in another Community body.

HM TREASURY  
13 June 1979



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● EHC(S)(79)21

REF A

COM(79) 323 final  
Bruxelles, le 14 June 1979

COMMISSION  
DES  
COMMUNAUTÉS EUROPÉENNES

Secrétariat général

STRUCTURAL CHANGES IN THE 1980s

(Communication to the European Council - Strasbourg,  
21 and 22 June 1979)

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COM(79) 323 final

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I. STRUCTURAL CHANGE IN THE 1980s

Structural change in the 1980s will be determined by Europe's ability to loosen the constraints resulting from the energy shortage and to cope with the corresponding excessive outside dependence.

By 1990, the Community's energy consumption will probably have increased by at least half as much as that in 1979, assuming average growth. It is true that alternative energy sources should, if present predictions prove well-founded, account for a larger share of energy supplies. Even so, the Community would still be able to cover only half of its energy needs from internal sources and would have to import at least 500 million tonnes of crude oil.

Over the same period, unless there were far-reaching change in American policy, world demand for oil would be growing at a rate so high that by 1990 it could be covered fully only if the OPEC's present production were doubled.

As a result of this situation, the Community faces a physical constraint, an export constraint, and a financial constraint.

A. The physical constraint arises from the fact that it is unlikely that oil production can be doubled in the next few years and, consequently, from the risk of restrictions and interruptions in the supply of oil. This constraint necessitates three types of action:

1. In the first place, measures must be put into effect which meet the urgency of the situation: New energy sources must be tapped and energy savings must be achieved both in industry and in the home; in both fields, prompt and lasting action is required on a scale far exceeding that at present planned. The necessary investment means that Europe must be prepared to pay an even greater price for energy in the immediate future but the cost/benefit analysis must take account of the long-term upward movement in energy costs and of the gains in terms of security yielded by the reduced outside dependence. Within this context the authorities will have to work out financial and technical targets more carefully and more systematically, thus enabling the implementation of projects some of which will lie beyond individual initiative and require that investment be guided. The Community must now begin to lay down specific guidelines, supervise their implementation, and increase the financing for alternative sources of energy, i.e. those represented by the coal and nuclear industries.

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2. Secondly it will be necessary to increase Community mining and energy investment in the producing states; the decline in this type of investment in the 1970s may lead to major difficulties for Europe in the 80s. New discoveries no longer cover new needs; accessible deposits must be located and the resources needed for working them must be found.
3. Lastly, vigorous action is required at an international level to induce other consumer states, especially the United States, to pursue policies as strict as those implemented in the Community: it will also be necessary to take certain action in common, particularly in the field of energy technology, and also to develop a dialogue with the producer states so as to ensure reliable supplies.

B. The Community is by tradition open to the outside world where it sends a major proportion (1/4) of its industrial production. The oil "levy" which it has had to pay since 1974 implies an additional need to export. But in the 1980s, Europe will have to cope:

- with a probable increase in the real cost of energy, i.e. with a steadily increasing need to export more;
- and with keener competition from new states, but especially from the United States and from Japan which, like the Community, will also have to export more. Moreover, these two countries have competitive advantages (strong internal markets, technology, higher productivity or lower production costs) which Europe sometimes lacks.

If the Community is to cope with these export constraints, certain measures will be essential. These can be summarized as:

1. The Community must face its absolute obligation to be competitive through productivity, continuous adaptation to market requirements, and constant modernisation of industrial plants: by refusing to adapt to outside competition, will the Community not only be forced out of third world markets, where others are all too eager to take its place, but also lose ground within its frontiers and become progressively impoverished.
2. Industrial modernisation will enable the European economy to adapt to new circumstances; the high energy-consuming industries and the construction industry must be adapted to reduce their dependence on energy, the structures of old industries, exposed to international competition, will have to be reorganized if their future is to be secure; new forms of energy, backing new techniques, will create new needs; if industry is to export more, as it must, there must be more emphasis on those new sectors which consume relatively little energy and raw materials, use mainly skilled manpower, and are strong in technical innovation.



3. Technological development will be a necessity; it enables industries to adapt continuously to markets, thus ensuring outlets for their products, and is fundamental if the Community is to maintain its independence in certain essential fields in the face of American and Japanese competition.

But there is growing resistance to technological development in Europe because its effects on unemployment are unevenly recognised. The redundancies resulting from innovation are easier to see than the new jobs engendered, many of them in the services industries.

Major technological developments will take place over the coming decade to transform conditions of production and sale in many cases. Such developments are already perceptible in the United States and Japan. Just as the introduction of computers had a profound effect in the 1960s, so in the 1980s will telecommunications, micro-electronics and "telematique" bring major changes. These developments will also affect the high technology industries: for example the introduction of micro-processors will lead to great reductions in the cost of computers and a considerable extension of their use. Technological changes seem likely to proceed faster in the Community's main competitors, thus posing investment and modernization problems for the high technology industries in Europe.

4. An open policy to non-member countries is a fundamental choice which is imperative. The Community's objective must be to reduce its present dependence by achieving maximum security in its external relations.

For example, the Community needs to implement a comprehensive and active policy to help finance the development of the developing countries; these countries are suppliers of raw materials and energy, export markets and an essential factor in Europe's security.

This open policy towards third countries will not leave the Community defenceless. On the contrary,

- the Community will have to oppose trade practices and currency movements which distort competition to its disadvantage;
- or be ready to use, as do the United States and Japan, legitimate safeguards to deal with exports from certain third countries or multinational companies operating within their territory.



C. The financial constraint derives from the fact that relative energy prices will continue to rise given that there is in any case bound to be a sellers' market. For Member States already obliged to export, this constraint will have the following consequences:

1. It will expose the Community to more inflation and will inhibit growth, affecting by the same token price stabilization policies and policies to reduce unemployment.

- The directly price-increasing effect will be more and more noticeable because of "threshold effects", future price increases will have a more than proportionate incidence on growth and prices;

- as the oil bill grows the danger of balance of payments deficits will increase; this could well lead to stop-go policies detrimental to sound growth, and to deflationary measures which will aggravate employment problems;

- in these conditions it will be more difficult to achieve the adjustment needed, especially in the industrial field; the major changes in the past, such as the rural exodus in the 1960s, show that adaptation can be achieved smoothly only in an economy which is steadily expanding and creating new jobs.

2. This financial constraint gives rise to an essential objective: growth with a low consumption of energy. The growth rate of the economy must be separated from the rate of growth of energy consumption. The Commission will shortly be submitting a report on this fundamental question to the Council.

## II. THE MAIN CONSEQUENCES FOR ECONOMIC AND SOCIAL POLICY

The task to be undertaken is a vast one, but the stakes are correspondingly high. Europe is capable of achieving it: it has all the required human, technological and financial resources.

But Europe will succeed only if it overcomes the major problems one by one and resolves the contradictions facing its policies.

The contradictions essentially concern the employment problems; the external constraints necessitate the rapid modernisation of the economy, while limiting the potential for growth and thus affecting policies designed to reduce unemployment.



5. Whatever happens, steps must be taken to ensure that the labour supply adjusts to necessary industrial and technological developments. If not, successful growth is very unlikely to be achieved. In view of the scale and suddenness of the expected changes, a special effort will have to be made in the areas of adult education and retraining, geographical mobility of labour, and policies to deal with specific problems such as unemployment among young people.

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C. A means: Investment

Sustained and non-inflationary growth is required to meet both the need arising from external constraints for competitiveness and increased exports and at the same time the essential objective of creating new jobs to bring unemployment down. In view of the underlying contradictions between these two requirements, growth must be based on increased investment.

Increased investment is the common denominator underlying all the solutions to structural, growth and employment problems. Public or private investment will be required in order to loosen the energy constraint, modernise the economy, increase production capacity and develop research and innovation. It will ensure faster growth without inflation. In all these fields, and especially that of energy, there are obvious needs, which will be among the factors stimulating growth throughout this period and which will create new, better-qualified jobs which constitute the only lasting solution to the unemployment problem.

It is therefore essential to halt and reverse the present trend since 1973 of diminishing investment as a percentage of gross national product. A general economic background conducive to investment must be created, with stable prices and currencies, tax incentives, better co-ordinated and larger scale investment in equipment, and the consolidation of the single Community market, which is essential to industrial development.

In respect of the above considerations, the deliberate encouragement of technological development through fiscal and other measures will be imperative. This means that the Community should actively consider how a Communitywide market could best be developed. In some key areas Member States and the Community need now to see whether joint objectives can be set and to explore what actions can complement the initiatives which are already being undertaken in the public and private sectors.

D. A requirement: the maintenance of the economic and social balance.

This transformation will call for a considerable effort: considerable but not impossible. There is no reason why Europe should resign itself to unemployment. But the effort cannot succeed unless the groups and individuals involved in social, economic and political life come to understand the importance of certain priorities, and commit themselves unreservedly to the task in hand.



- (a) The Community must take full advantage of its independence and strength in certain areas: for example it must maintain the asset of a powerful agricultural sector, based on a strong Common Agricultural Policy better adapted to market needs.

But growing rifts may begin to appear between industries directly subject to external competition and industries that are to some extent protected. A balance will have to be struck between these different economic sectors, and care will have to be taken to ensure that the burden on society of energy constraint and industrial modernization is fairly shared out.

- (b) The need for greater solidarity in the face of underemployment, the increased share of investment in public budgets and the burden of an ageing population in the 1990's, give rise to questions about the role of the authorities and the conditions for financing their action.

But it looks as though taxation is now as high as it can tolerably be; thought must therefore be given to improving the allocation of public expenditure in line with priorities. Such thought could concentrate on the possibility of devoting a larger share of available resources to creating jobs.

- (c) The Community provides an ideal framework for assessing these problems and analysing these developments so as to identify priorities that are not always easy to apprehend at national level.

Widespread agreement on aims and priorities will be essential in the 1980's. Everything possible must be done to reach such agreement. For example, it would not be acceptable to constrain the growth of real incomes if most of the burden were borne by a particular fraction of the population. The efforts and the sacrifices called for are not intolerable in themselves; they would become so if they were not shared out fairly enough.

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Four conclusions may be drawn from this analysis:

1. The energy problem is the most important problem facing Europe. The measures required to deal with it must be taken quickly. If they are not the European economy will run the risk of structural collapse.
2. The constraints arising as a result of Europe's excessive dependence on energy call for a rapid rise in investment, and the restriction of consumption and thus of the growth of real incomes. Europe has entered a decade of rigour and vigilance in the conduct of economic policy. This rigour and vigilance will be accepted only if accompanied by more social justice and if the burden is fairly shared out.
3. A comprehensive analysis of the nature of international relations is required. They are changing in unstable and unpredictable ways. In order to contain these changes and to give greater security to the Community's external relations, structures and mechanisms will have to be established to ensure that the economic and monetary decisions of the industrialized countries are consistent with one another. In addition, it will be necessary to enter into a dialogue and even into quasi-contractual relations with the developing countries.
4. The authorities will have a decisive role in deciding how best to use limited means and resources in the face of contradictory priorities, how to channel investment towards the most important sectors and to facilitate the transformation resulting from energy problems, how to conduct economic policies that really do ensure healthier growth in spite of the constraints to which they are subject. The role of the authorities will change. They will have to reconcile the need to give firms all the scope for initiative they require in order to adjust continuously to the market, with the need to achieve certain basic aims that require their intervention and their support. More particularly in the industrial field, the Commission will have to provide data on the adaptations necessary, on developments made possible by innovation and on the consolidation of strong sectors. The Community will have a vital part to play in ensuring that programmes which are implemented are compatible and that the Community market, which could be adversely affected by increasing intervention by the state in economic life, remains coherent.

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MR CARTLEDGE

## EUROPEAN COUNCIL BRIEFING

We spoke this morning. The Budget Brief <sup>has</sup> ~~is~~  
~~reached you~~ coming to you direct from FCO. Attached are  
copies of the PM's suggested opening remarks  
which the Steering Brief said would be submitted  
separately.

**J. Thomas**

J THOMAS  
European Secretariat  
Cabinet Office

15 June 1979

Ref: A09789

Cabinet office  
imposed.

6/21  
to a.c.

1  
Prime Minister

MR. CARTLEDGE

Yes sir.

Content with his  
attendance? 6/21

Prime Minister's Briefing Meeting for the Strasbourg  
European Council 15/6

The briefing meeting for the European Council has been fixed for 5.00 pm on Tuesday, 19th June. The two main subjects at this Council so far as we are concerned will be energy and the Budget. Sir John Hunt recommends that the following be invited:-

Foreign and Commonwealth Secretary

Lord Privy Seal

Chancellor of the Exchequer

Lord President of the Council

Secretary of State for Energy

Sir John Hunt

Sir Michael Palliser

Mr. K. E. Couzens

Mr. M. D. M. Franklin

Mr. M. D. Butler

Mr. J. Fretwell

Sir Jack Rampton

Sir Donald Maitland

I would be grateful if you would let me know if the Prime Minister is content.

M.J.

(M. J. Vile)

15th June 1979



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Prime Minister

GRS 710

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FRAME GENERAL

FROM PARIS 121020Z JUNE 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 299 OF 12 JUNE 1979

INFO IMMEDIATE LUXEMBOURG (FOR FRANKLIN, MAITLAND AND FRETWELL) AND UKREP BRUSSELS

INFO PRIORITY ALL OTHER EEC POSTS

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12/6*

PREPARATIONS FOR THE EUROPEAN COUNCIL

1. FRANKLIN (CABINET OFFICE) VISITED PARIS ON 11 JUNE FOR INFORMAL DISCUSSIONS WITH THE NEW SECRETARY GENERAL OF THE SGCI, PIERRE ACHARD.

2. IN RESPONSE TO FRANKLIN'S QUESTIONS, ACHARD EXPLAINED PRESENT FRENCH THINKING ABOUT THE STRASBOURG EUROPEAN COUNCIL. PRESIDENT GISCARD WOULD GIVE ENERGY PRIORITY SO THAT A COMMON LINE COULD BE AGREED FOR THE COMMUNITY PARTICIPANTS AT TOKYO. IN ADDITION TO THE COMMISSION PAPER FOR THE COUNCIL, THE FRENCH PRESIDENCY WOULD PRODUCE A SHORT ANALYSIS OF THE PRESENT CRISIS WITH SOME SUGGESTIONS AS TO HOW THE COMMUNITY SHOULD REACT TO IT. ITS BASIC IDEA WOULD BE THAT THE INDUSTRIALISED COUNTRIES COULD NOT ASK PRODUCERS TO TAKE ECONOMIC PROBLEMS SERIOUSLY IF THEY COULD NOT QUOTE DISCIPLINE UNQUOTE THE MARKET AND STABILISE OR EVEN REDUCE ENERGY CONSUMPTION. THIS WOULD SHOW THE PRODUCERS THAT THE INDUSTRIALISED COUNTRIES WERE SERIOUS WITHOUT BEING AGGRESSIVE. BUT THERE WOULD BE NOTHING REALLY NEW IN THE FRENCH PAPER.

3. ON EMS, THERE WOULD BE A BRIEF DISCUSSION WITH A VIEW MERELY TO NOTING ITS EXISTENCE AND THAT IT HAD ON THE WHOLE WORKED WELL. ACHARD DID NOT EXPECT THE QUESTION OF THE REVIEW TO ARISE, ALTHOUGH IT MIGHT COME UP IN THE FINANCE COUNCIL ON 18 JUNE. SIMILARLY THE FRENCH WERE PREPARED FOR THERE TO BE SOMETHING IN THE COMMUNIQUE TO MARK THE ELECTION OF THE NEW EUROPEAN ASSEMBLY IF OTHERS WANTED IT. BUT THEY DID NOT ENVISAGE ANY DISCUSSION.

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4. THE FRENCH HOPED THAT THE ITEM ON THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY WOULD LEAD TO SOME EXCHANGE OF VIEWS ABOUT HEADS OF GOVERNMENTS' REAL PREOCCUPATIONS, BUT ACHARD THOUGHT DRAWING ANY CONCLUSION WOULD BE DIFFICULT. HE HOPED THAT OTHER HEADS OF GOVERNMENT WOULD IMPRESS ON SCHMIDT THE IMPORTANCE THEY ATTACHED TO GERMANY NOT GOING BACK ON THE PROGRESS IT HAD ALREADY MADE BY ADOPTING TOO RESTRICTIVE A MONETARY POLICY. THE FACT THAT THE COMMISSION WOULD PRODUCE ONLY AN INTERIM REPORT ON EMPLOYMENT AND WORK SHARING WOULD AVOID THE COUNCIL HAVING TO TAKE DIFFICULT DECISIONS ON WORK SHARING.

5. THE FRENCH CERTAINLY HOPED TO GIVE EFFECT TO THE PRESIDENT AND MRS THATCHER'S WISH THAT THE COMMUNIQUE SHOULD BE SHORT, SIMPLE AND CLEAR.

COMMUNITY BUDGET.

6. ACHARD RECOGNISED THE BRITISH DESIRE THAT ENOUGH TIME SHOULD BE GIVEN FOR DISCUSSION OF THE UK'S BUDGET PROBLEMS. ACHARD AGREED THAT HEADS OF GOVERNMENT NEEDED TO GIVE THE COMMISSION A CLEAR MANDATE. HE NOTED THAT THE STATEMENT MADE BY SIR D MAITLAND IN COREPER ON 7 JANUARY CONCENTRATED ON THE BUDGET ISSUE RATHER THAN CONVERGENCE. MAITLAND HAD ALSO SAID WE WERE NOT LOOKING FOR A JUSTE RETOUR FROM EACH POLICY. WAS THE UK LOOKING FOR A GLOBAL JUSTE RETOUR? THE FRENCH DID NOT LIKE AN APPROACH BASED ON NATIONAL CONTRIBUTIONS, ALTHOUGH HE AGREED WITH FRANKLIN THAT IT WAS NECESSARY TO LOOK AT THE EFFECTS OF COMMUNITY POLICIES. PRAGMATIC SOLUTIONS SHOULD BE FOUND TO MITIGATE THE EFFECTS OF THE BIG JUMPS IN THE UK CONTRIBUTIONS IN 1980. FRANKLIN EMPHASISED THAT THE UK WOULD BE SEEKING FROM THE EUROPEAN COUNCIL A CLEAR DECISION BASED ON A CLEAR RECOGNITION THAT THERE WAS A PROBLEM. THIS REQUIRED IMMEDIATE CORRECTION EVEN IF IN THE LONGER TERM COMMUNITY POLICIES THEMSELVES MIGHT ACHIEVE A BETTER BALANCE BETWEEN MEMBER STATES. ACHARD ACCEPTED FRANKLIN'S OFFER TO LET HIM HAVE BY THE END OF THIS WEEK OUR IDEAS ON THE CONCLUSIONS WE HOPED THE COUNCIL WOULD REACH. HE WOULD TRY TO LET US HAVE THE FRENCH COMMENTS EARLY NEXT WEEK.

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CAP

7. FRANKLIN ASKED ABOUT THE IDEA MENTIONED BY THE PRESIDENT TO MRS THATCHER THAT THE COST OF SURPLUSES SHOULD FALL MOPE ON THOSE WHO PRODUCED THEM. ACHARD SAID THAT THE IDEA WAS THAT GUARANTEES TO FARMERS SHOULD NO LONGER BE OPEN ENDED OR AUTOMATIC. THE PRESIDENT HAD ASKED FOR THE QUESTION TO BE STUDIED, BUT THIS WOULD TAKE TWO OR THREE MONTHS.

8. ACHARD EXPLAINED THAT IT WOULD BE ESSENTIAL FOR THE FRENCH THAT A START BE MADE TO THE ABOLITION OF EXISTING POSITIVE MCAS AND THEREFORE THAT THERE SHOULD BE A SMALL PRICE RISE ACROSS THE BOARD AT THE NEXT PRICE FIXING. FRANKLIN SAID THAT THE UK WOULD NOT AGREE TO PRICE RISES FOR PRODUCTS IN SURPLUS BUT ASKED WHETHER SMALL PRICE RISES ON OTHER PRODUCTS WOULD ENABLE THE GERMANS TO AGREE TO REVALUE THE GREEN DM. ACHARD THOUGHT THIS SHOULD NOT BE EXCLUDED BUT WAS VERY UNLIKELY TO BE ACHIEVED AT THE COUNCIL BEGINNING ON 18 JUNE. HE THOUGHT, HOWEVER, THAT THE POSITION WAS DIFFERENT FROM THAT IN JANUARY WHEN THE GERMANS WERE BEING ASKED TO ACCEPT THE PRINCIPLE OF AUTOMATIC DISMANTLEMENT OF POSITIVE MCAS.

HIBBERT

FRAME GENERAL

EID (I)

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Euro. Policy  
File 216



10 DOWNING STREET

From the Private Secretary

12 June 1979

PREPARATIONS FOR THE EUROPEAN COUNCIL,  
21/22 JUNE

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Thank you for your letter of 8 June (which did not reach this office until 14.30 on 11 June) about the Agenda for the Meeting of the European Council in Strasbourg on 21/22 June.

The Prime Minister has seen your letter and is content with the preparations which are being made for the Council Meeting. So far as the draft Agenda is concerned, the Prime Minister's only suggestion is that, under Item 3 ("Economic and Social Situation") "Convergence" should be promoted to first place, above "Employment".

I am sending a copy of this letter to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

8 June 1979

*This looks all right, but I think it might be safer to try to get "convergence" (which for us means budgetary inequities) promoted to first place in Item 3. Agree? Yes ok. 11/6*

Dear Bryan,

Preparations for the European Council, Strasbourg, 21/22 June

I enclose a note showing the themes that the French Presidency have now proposed for discussion at the European Council. You will see that they have made clear their intention that energy should be the principal subject of the Council. But they have also made specific allowance for a discussion of convergence under the theme "economic and social situation in the Community". Their proposal thus appears to take account of the Prime Minister's discussion with President Giscard in Paris on 5 June recorded in your letter of 6 June though we cannot expect the French to give any public indication of that kind at least until after their European Elections on Sunday 10 June.

This outline agenda will be reviewed at the Foreign Affairs Council on 12 June. The Lord Privy Seal, who will be representing the United Kingdom, would propose to express general agreement with the Presidency's proposals. In particular, while agreeing with the need to make energy the main subject of the Council, he would stress the importance for the Council to face up to the main problems which arise under the heading of "convergence".

I should be grateful to know whether the Prime Minister is content with these preparations.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

Yours etc

*Paul*

P Lever

B G Cartledge Esq  
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
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- Unclassified

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PRIVACY MARKING

SUBJECT: EUROPEAN COUNCIL, STRASBOURG, 21/22 JUNE, 1979  
 THEMES PROPOSED FOR DISCUSSION BY THE FRENCH  
 PRESIDENCY

.....In Confidence

CAVEAT.....

1. Direct Elections

The Council might mark the event by making some kind of courtesy declaration.

2. Energy

This would be the principal subject of the Council.

3. Economic and Social Situation

- (i) Employment
- (ii) Convergence
- (iii) Co-ordination of Economic Policies
- (iv) EMS
- (v) Preparations for the Tokyo Summit (including EEC/Japan).

Enclosures—flag(s).....





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19 JUN 1979

*End* *ma*  
*BYM*  
*7/6*

NOTE FOR THE RECORD  
STRASBOURG EUROPEAN COUNCIL

Mr Roy Jenkins, President of the Commission, is seeing President Giscard tomorrow, Friday. By arrangement, I telephoned Mr Crispin Tickell this afternoon. I said that, so far as I was informed, the talks between the Prime Minister and President Giscard had gone very well. She had taken the same line on Community matters as in her talk with Mr Jenkins on 21 May. On the Budget issue, it was very important that Mr Jenkins should follow up with a readiness on the part of the Commission to accept a mandate to propose solutions on the basis of a recognition by the European Council that a problem existed. Mr Tickell said he was glad to have this guidance which would, as we knew, fit in with Mr Jenkins' thinking. He would let me know the outcome.

2. He went on to say that Mr Jenkins had just been lunching with the Belgian Prime Minister who seemed ready to move in the direction we wanted. Some of his advisers however felt that the European Council would have to give the Commission guidance as to what the remedy might be. I said that we ourselves were not on that tack but were more concerned that the magnitude of the problem should be recognised. The Belgians had also said that their attitude towards our problems would be much influenced by what we did on EMS and on energy.

*had*

M D M FRANKLIN

7 June 1979

cc Sir John Hunt  
Mr Cartledge No 10  
Mr Fretwell FCO



- 7 JUN 1979



Top copy on PM (Tours Abroad), April 1979

PRIME MINISTER

European Council in Strasbourg, 21/22 June

Briefing

Your briefs for the Meeting of the European Council at Strasbourg on 21/22 June will reach you on Friday, 15 June, so that you can look at them over that weekend.

There is a meeting of the Finance Council on 18 June, and it would be best to have your briefing meeting for the Council after that, on 20 June. Do you agree?

Delegation

Your firm views on keeping the "tail" on overseas visits to an absolute minimum have been conveyed to all concerned and taken to heart. European Council Meetings, however, involve not only the main Council sessions, attended by you and the Foreign and Commonwealth Secretary, but also meetings of drafting groups of senior officials who are charged by the Presidency with the preparation of the Presidency conclusions (i.e., communique) and sometimes of other detailed papers. For this purpose; I am afraid the inclusion of a small team of official advisers in your party really is essential. Sir John Hunt has proposed the following which he regards as the minimum we can get away with: Sir John Hunt and Mr. Franklin (Cabinet Office); Sir Michael Palliser, Mr. Michael Butler and Mr. John Fretwell (Foreign and Commonwealth Office); Mr. Ken Couzens (Treasury); and Sir Donald Maitland from UKREP Brussels. Can you agree to this?

If you agree, I suggest that the small No.10 party might consist of the Press Secretary (Press briefings are an

/ inescapable



inescapable part of European Council Meetings), Private Secretary, Duty Clerk, Garden Room Girl, and Detectives.

You queried on an earlier minute the fact that accommodation has been reserved for our delegation in two adjacent hotels. I should explain that this is not because we are filling up two hotels or filling one and overflowing into another: it is simply because we have only been able to reserve a small number of rooms in each hotel - there is a trades union conference in Strasbourg at the time of the Council Meeting, and hotel accommodation is very hard to come by.

Travel will be in a chartered British Airways Trident for the whole party.

E. G. CARTLEDGE

30 May, 1979.

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Ref. A09603

MR. CARTLEDGE

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European Council Strasbourg: 21st-22nd June

We do not yet know the final agenda for the European Council at Strasbourg on 21st-22nd June. The French Presidency informed other member states in COREPER on 18th May that the main items for discussion at the Council would be:

- (i) Direct Elections to the European Assembly
- (ii) Energy (a priority subject)
- (iii) Economic and Social Situation in the Community

adding that in reviewing the current trends in the economic situation due account would be taken of the reports commissioned by the March European Council on employment and convergence. There would also be an exchange of views on the working of the EMS. Discussion of the economic subjects should take place against the perspective of the impending world economic summit in Tokyo and likely developments there. Both we and the Italians will of course be insisting that greater prominence be given to the convergence issue under which we shall press our case for a more equitable system of budgetary and resource transfers in the Community and this is a point the Prime Minister will need to make when she sees President Giscard on 5th June.

2. On procedure a full set of briefs will be prepared under the direction of the European Secretariat of the Cabinet Office and I suggest that these should reach you on Friday, 15th June. This is however a meeting of the Finance Council on 18th June and some of the briefs may have to be revised in the light of that discussion. With this in mind, I suggest that the Prime Minister's briefing meeting might take place on 20th June.

3. As regards the delegation's composition, in addition to the personal staffs of the Prime Minister and Foreign and Commonwealth Secretary, the Prime Minister may wish to include the following official advisers: Sir John Hunt and Mr. Franklin (Cabinet Office), Sir Michael Palliser, Mr. Butler and Mr. Fretwell (FCO); Mr. K. Couzens (Treasury); and Sir Donald Maitland (UKREP)



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On this occasion in view of the likely importance of energy Sir Jack Rampton (Department of Energy) may also need to be included. Perhaps I should add one comment about the proposed official attendance. The Prime Minister and Foreign Secretary could no doubt manage with a slightly smaller team: but the Presidency invariably call together one or two working groups to discuss their draft conclusions and to follow up points remitted to them by the Council: and we have to cover these also. I believe the team proposed is the minimum we can manage with.

4. I should be grateful to know whether the proposed arrangements are acceptable.

Jack

(John Hunt)

22nd May, 1979

Ref: A09806

*Prime Minister*

MR. WHITMORE

*6/24  
1976*

European Council Briefing Meeting  
International Oil Situation

I think the Prime Minister might find it helpful to have the attached note in front of her this afternoon. It compares the two papers produced for Strashourg by the Commission and the French Presidency with the proposals in the Secretary of State for Energy's minute of 15th June.

There is hardly any need to look at it in advance of the meeting but the note enables one to see at a glance where the various proposals diverge.

*John*

(John Hunt)

19th June 1979



X 0519

THE INTERNATIONAL OIL SITUATION

The measures proposed by the Energy Secretary, the Presidency and the Commission in response to the current international oil position are summarised below.

DEMAND RESTRAINT

2. (a) Energy Secretary

Seek effective implementation of IEA and EEC decisions to reduce demand by 5 per cent. Continue our own demand restraint measures. Maintain pressure on others. Consider strengthening IEA monitoring arrangements.

(b) Presidency

No mention of 5 per cent IEA and EEC target as such in paper for 16 June Energy Council. But stress on economy in use of oil.

(c) Commission

Refers to discussion to reduce oil demand to 500 million tons (a cut of about 5 per cent) at March European Council and to subsequent conclusion of Energy Council that stringent monitoring will be required and additional measures must be examined in event of situation deteriorating. Long term target for EEC oil imports in 1990 should be 1978 level.

SPOT MARKETS

3. (a) Energy Secretary

Opposed to detailed regulation. But helpful if Tokyo Summit and IEA countries could persuade important oil companies not to buy or sell on the spot market. Have to accept that, as well as lower spot prices, the effect will be to reduce crude oil supplies to those countries concerned.

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(b) Presidency

To ensure behaviour of spot markets do not artificially influence the quoted OPEC prices, the EEC should take the necessary measures to ensure the proper functioning of those markets for which it is responsible and propose other consuming countries should act likewise. Each consuming country should prohibit oil imports, which diverged significantly from OPEC official prices.

(c) Commission

Governments should advise oil companies not to buy oil at excessive prices and should monitor their purchases. Such an 'advice' in most countries would not have legal force, but monitoring could be a strong deterrent. An EEC Regulation would require the companies to provide the necessary information as far as the EEC was concerned. Any Government incentives for companies to buy on spot market should be avoided.

STOCKPILING POLICY

4. (a) Energy Secretary

Should work for an internationally agreed stockpiling policy designed to ensure adequate stocks and avoid pressure on markets. Should study further the possibility of Governments actually releasing stocks so as to force down prices. Any action would need to be agreed by all IEA and EEC countries.

(b) Presidency

No mention of stockpiling.

(c) Commission

No mention.



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DISCUSSIONS WITH OPEC AND OTHER OIL PRODUCERS

5. (a) Energy Secretary

Use bilateral visits to encourage OPEC and other producers such as Mexico to increase production. Continue to work for more formal international discussions with OPEC if latter want them. Door to producer/consumer dialogue to be kept open in Tokyo Summit communiqué.

(b) Presidency

Only satisfactory cooperation between producers and consumers can avert danger to world economy. EEC should express wish that this cooperation will create better investment climate and better balance between supply and demand. The EEC should show its willingness to enter into contact with producers: maintaining simultaneously its contacts with the other major countries.

(c) Commission

No mention, except that need for responsible price policies could be mentioned at meeting with OPEC Strategic Group at end of June.

IMPORT CEILINGS AND INTERNATIONAL ALLOCATION

6. (a) Energy Secretary

Should be cautious about proposals for import ceilings which could lead us into domestic allocation. But if under strong pressure might be ready to agree to existing IEA and EEC demand restraint commitments being translated into specific undertakings by each country to hold imports at agreed levels provided choice of method is left to individual Governments.

(b) Presidency

The Strasbourg European Council should set import ceilings for oil for the Community for the next three years. No figures were specified in the Presidency paper for the 10 June Energy Council. There would be subsequent discussions concerning the

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import ceilings for each member state within the Community. At Tokyo the EEC would recommend that the other major consuming countries do likewise and that conformity between performance and forecasts should be monitored.

(c) Commission

Urgent examination should be given to direct measures for control of demand if situation deteriorates. The principal measure could be a voluntary oil allocation scheme run on national lines, with common monitoring as far as EEC is concerned. Companies would be invited to reduce deliveries by an agreed percentage (say 5 per cent) of last year's delivery with some exceptions for social reasons and essential industry.

ENERGY DIVERSIFICATION

7. (a) Energy Secretary

No mention.

(b) Presidency

Each country should introduce programme of energy diversification bringing into play nuclear energy (to which priority should be given), coal and, as soon as possible, alternative energy sources. Press ahead with research and development efforts.

(c) Commission

Research, development and introduction of alternative sources of must be speeded up. Commission has already made proposals. The European Council should invite the Council and Commission to examine proposals for a substantial increase in funds available at Community level for the introduction of new uses of coal (liquification, gasification etc), and for energy saving.



SITUATION OF DEVELOPING COUNTRIES

8. (a) Energy Secretary

No mention.

(b) Presidency

Limitation of imports by industrialised countries would help developing countries. Development of their national resources could also be assisted by a new World Bank mechanism guaranteeing risk exploration ventures in developing countries. The financing of these ventures should be ensured by an exceptional contribution from the producers and the consumer countries.

(c) Commission

No mention.

Cabinet Office

18 June 1979



Foreign and Commonwealth Office

London SW1A 2AH

19 June 1979

Dear Bryan,

Prime Minister

GWH

I understand that in discussion with FCO and Cabinet Office officials after the lunch for Signor Andreotti on 15 June the Prime Minister asked how many days consumption the existing Community surpluses of butter and beef represented.

We have consulted the MAFF. The answer in March 1979 for butter is 10 weeks and for beef 10 days. The figure for butter does not include stocks already in the process of disposal by subsidy (eg UK butter subsidy, Christmas butter) or by export refunds or food aid: these stocks were equivalent in March to a further 10 weeks consumption. The Prime Minister may like to know the corresponding figures for other commodities which are:

Skimmed Milk Powder	2 years (1)
Sugar	19 weeks
Wheat	1½ weeks
Barley	2 days
Rye	9½ weeks
Durum Wheat	2½ weeks
Bread-making Wheat	24 weeks
Olive Oil	10 weeks (2)
Wine	8 weeks

Notes(1) Skimmed Milk Powder

If included food aid, subsidised use in animal feed, export refunds, surplus is equivalent to around 10 years.

(2) Olive Oil

Much of this is likely to be sold at normal market prices next year when Community production is expected to be considerably lower; and therefore expect surplus around 5 weeks consumption.

Yours ever  
GWH

(G G H Walden)

Bryan Cartledge Esq  
10 Downing Street



NOTE FOR THE PRIME MINISTER

THE ITALIAN CASE ON MEDITERRANEAN AGRICULTURE

1. Italy has consistently argued that the balance of the CAP is tilted in favour of producers of "northern" rather than Mediterranean crops. There is justice in this to the extent that the market regulations for milk and sugar in particular involve heavy expenditure, very little of which goes to Italy. But as the attached table shows, Italy derives substantial benefits on olive oil, cereals, beef, tobacco and fruit and vegetables.

2. Italian efforts to get a better balance under the CAP have followed two themes, improving the security provided by market regulations for crops in which they have a particular interest, either by increasing protection against competing imports or by getting greater Community financial support; and pressing for Community finance for "structural" measures to deal with particular agricultural problems in Italy. Their concern over the competitive weakness of Italian agriculture has been intensified by the prospective enlargement of the EEC. It was largely in response to their demands for compensation for Greek accession that agreement was reached last year on a major package of market and structural measures to help Mediterranean agriculture. The structural elements of this are estimated to cost 988 MEUAs (£659m) of which the UK contribution will be 159 MEUAs (£106m), the vast majority of this will arise in 1979 - 1984.

3. Despite getting agreement to this package, the Italians have pressed for further concessions. The Commission have recently put forward another structural package including major benefits for Italian agriculture and Andreotti's comments to the Prime Minister make it clear that they see changes of one kind or another under the CAP as a means of improving their position in the Community.

UK INTEREST

4. Both forms of concession sought by the Italians run counter to UK interests. Increased agricultural expenditure in Italy will add to our contribution to the Community budget, or reduce any savings which we achieve in the cost of the CAP. There is no chance of our being net beneficiaries from EEC schemes intended to deal with the structural problems of Italian agriculture. The budgetary burden on this country will increase sharply with enlargement because the

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acceding countries, who produce the same crops and whose structural problems are at least as bad, are likely to benefit from any concessions the Italians get now. Schemes such as the penetration premium (subsidies for marketing) on citrus can help UK consumers. But increased protection against imports of fruit and vegetables would put an additional cost on UK consumers and the balance of payments. It would affect the commercial interests of the third country suppliers and increase the cost of materials for UK food processors.

5. Although we need to make common ground with the Italians in pressing for more equitable Community financial arrangements, there is very limited scope for concessions to them under the CAP without adding to our own burdens.

Ministry of Agriculture,  
Fisheries and Food  
20 June 1979

COMMUNITY EXPENDITURE ON AGRICULTURAL SUPPORT

	<u>1979 Forecast (MEUA)</u>	<u>1978 Actual (UA)</u>	<u>Of which Italy (UA)</u>
Milk	3718	3366	22
Cereals	1874	999	138
Sugar	1005	770	34
Oils and Fats	523*	334	214
Beef	488	567	141
Tobacco	262	210	137
Fruit and Vegetables	327	100	83
Wine	119	63	29
Pigs	85	38	7
Eggs	41	34	0
Rice	41	17	12

\*Including olive oil 350 MEUA



O.E.C.D.

PRESS RELEASE

Château de la Muette - 2, rue André-Pascal, 75775 Paris Cedex 16 - 524 82-00

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PRESS/A(79)27

Paris, 30th May, 1979

OECD SPECIAL ASSISTANCE ACTION FOR TURKEY  
PLEDGING MEETING HELD AT THE CHATEAU DE LA MUETTE  
30th MAY, 1979

1. Representatives of the Governments of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Sweden, Switzerland, Turkey, the United Kingdom and the United States and of the Commission of the EC's met at the Château de la Muette today under the Chairmanship of Mr. Emile van Lennep, Secretary-General of the OECD, to discuss the OECD special assistance action for Turkey. Observers from the IMF, the World Bank and the EIB also attended.
2. The donor countries, noting with concern the present economic problems faced by Turkey, expressed their determination to continue to assist Turkey in overcoming her economic difficulties and together pledged support which so far amounts to approximately US \$900 million to finance Turkey's urgent import requirements. This amount would comprise a variety of forms of assistance, including grants, long term concessional and other loans and medium-term export credits, the details of which would be negotiated between the Government of Turkey and the individual donor countries. It was agreed that these bilateral negotiations to the extent that they have not yet been concluded should be pursued so that disbursement of these funds, as well as the action set out in the following paragraphs, would follow as quickly as possible the conclusion of a new standby arrangement between the Turkish authorities and the IMF.
3. The meeting noted with interest the statements of support by the multilateral financial institutions present including the details given by the representative of the World Bank on an early recommendation to be made to the Board of the Bank to accord Turkey a \$150 million programme loan, as well as on the intention to negotiate and submit for Board approval projects, the total value of which is likely to reach \$300 million in the year beginning 1st July.



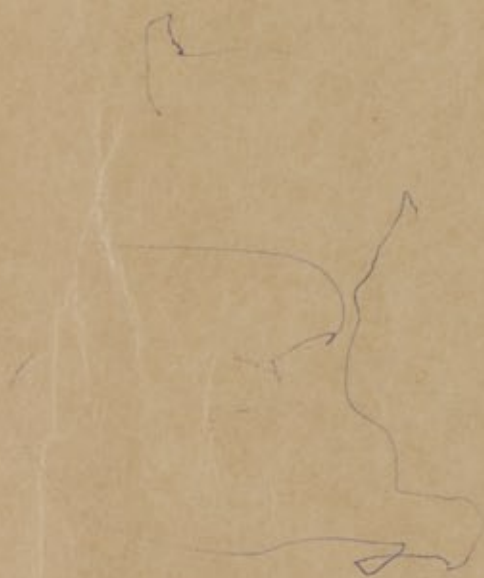
4. The Chairman also informed the meeting of his contacts with the commercial banks whose negotiations with the Turkish authorities were nearing completion. It was expected that an agreement would be signed in June between the Government of Turkey and the commercial banks providing \$400 million of new loans and \$400 million of refinancing. The signing of a further agreement on the rescheduling of convertible Turkish lira deposits of approximately \$2 billion would follow shortly thereafter.

5. The meeting noted that, as a result of the above, more than US \$ 1,450 million would be made available by the donor countries, the World Bank and the commercial banks in the action to assist Turkey.

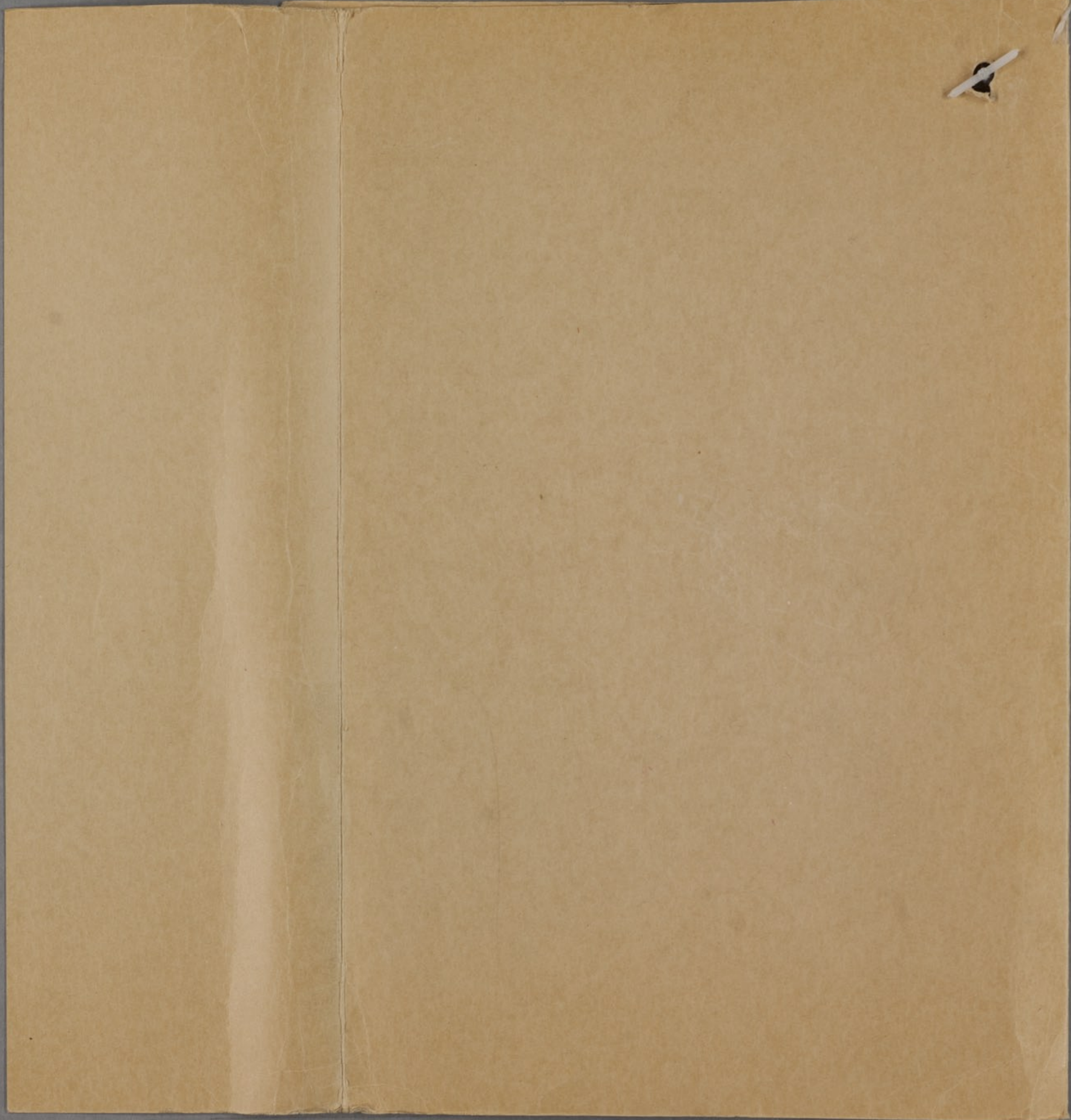
6. The OECD donor countries welcomed the undertaking by Turkish Finance Minister Muezzinoglu to settle the non-guaranteed commercial arrears. Furthermore, the meeting recognised, in the light of Turkey's debt-servicing difficulties, the necessity of discussions, as soon as agreement with IMF is reached, on rescheduling Turkish official and officially guaranteed debt in the framework of the working group of the Turkish Consortium.

7. The meeting also took note of the statements by the Representatives of the Commission of the European Communities who reported that a \$100 million special action could be foreseen in the financial years 1980 and 1981, and of the EIB who reported that funds for ongoing projects totalling \$120-\$150 million could be disbursed relatively quickly under the Third Financial Protocol recently ratified by Turkey.











END

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Archives (TNA) in London

February 2010