

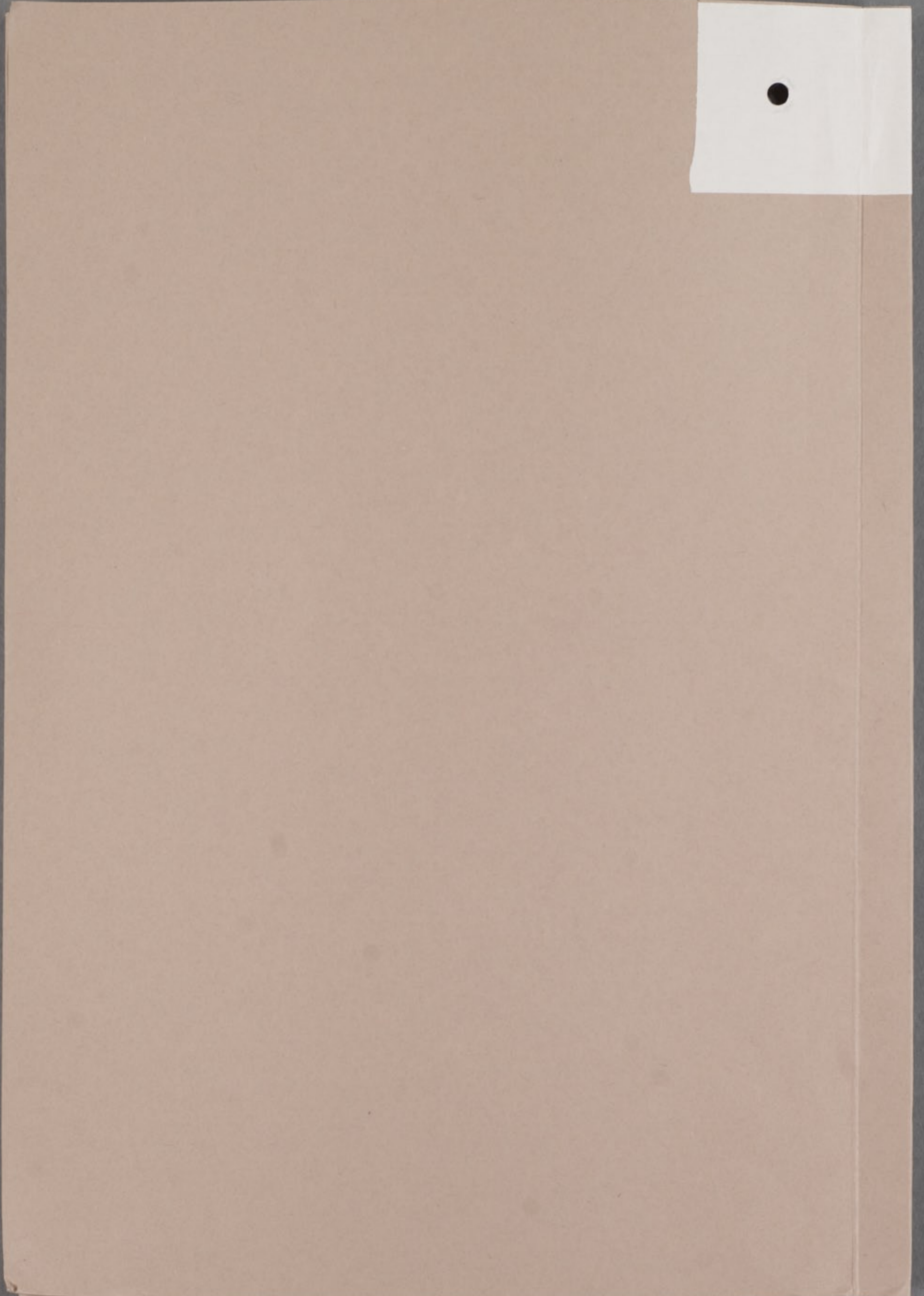
PREM19

52

EUROPEAN POLICY

(Dublin European
Council, Nov 1979)

PREM 19/52



Subject file
Ireland - being nation of high
EURO (P) 0479

Pp into folder
C yesterday



ROINN AN TAOISIGH
DEPARTMENT OF THE TAOISEACH

BAILE ÁTHA CLIATH 2
DUBLIN 2

7th December, 1979.

(2)

fs.

Prime Minister

ms

Dear Prime Minister

Thank you very much for your letter of 4th December about the European Council Meeting and for your kind remarks on the announcement of my retirement from office.

I am very appreciative of your kind comments in regard to both matters.

May I take this opportunity of wishing you personally every happiness and success in the future.

Yours sincerely
Jack Lynch

Her Excellency
Mrs. M. Thatcher M. P.,
British Prime Minister.

SPEAKING NOTE FOR MINISTERS

European Council, Dublin

UK Contribution to the EEC Budget

Most of the time in Dublin was spent discussing this issue. Although our partners recognised that we have a problem there was no agreement on the measures required to deal with it properly. —

In spite of North Sea oil we are still one of the least prosperous members of the Community yet are likely to be the largest net contributor - 40% more than FRG - to the 1980 Budget unless we succeed in obtaining a reduction.

The situation has got progressively worse, mainly for two reasons:

- 1) The transitional arrangements negotiated at the time of accession expire at the end of this year.
- 2) The CAP now takes up almost 75% of the Budget, and because we are net food importers and have a particularly efficient but small agricultural sector, we benefit far less than others - less than 10% of Community expenditure.

We received assurances when we joined the Community that the % spent on Agriculture would decline to 60%, or even 40%, leaving correspondingly more to be spent on regional policies from which we would benefit. But this has not happened. Instead agricultural expenditure has increased. The pattern of expenditure of the EEC Budget was one of the issues that the Commission dealt with in its proposals to the European Council - namely that more should be spent on structural measures and less on agriculture.

This approach was generally supported in Dublin since some other Heads of Government now feel that CAP expenditure is getting out of hand.

A second proposal to come out of Dublin was the removal of the constraints surrounding the 1975 financial mechanism. This would have reduced our net contribution next year by about £350 million. By itself this is nothing like enough (and it was only on offer in Dublin as a full and final settlement of the issue). But it could form a part of a final solution.

The third element deals with our receipts from the Community Budget which at present are less than half the Community average - and thus are the main reason for the size of our net contribution of £1,100 million next year.

It was agreed in Dublin, not without difficulty since this is where the biggest resistance lies, that the Commission should bring forward proposals for developing supplementary measures which would lead to more Community spending in this country.

These are the proposals which we must build on in the next few weeks and months before the next European Council Meeting which it was agreed should be held in the new year.

The Prime Minister was not particularly optimistic about the prospects but has said that if others will show willing she is ready to do the same in the search for a genuine compromise. It now remains for the Italians, who take over the Presidency of the EEC on 1 January 1980 for 6 months, to judge when the next European Council should be called.

/Objective

Objective now? Broad Balance?

Our objective remains a broad balance. But we are prepared to negotiate if others are also prepared. The Prime Minister made clear that she would be searching for a genuine compromise.

Linkages with fishing, energy, sheepmeat?

There is a great desire within the Community for progress to be made on these issues. They are separate questions which must be considered on their merits. We do not believe in establishing linkages where none exist.

Will you take measures against the Community between now and the next meeting?

We are in the Community and will remain active in its on-going business. But we, and I hope other Member States, will be devoting their energies to finding a solution to the Budget problem. We have no intention of being obstructive while a genuine search for solutions is going on.

What if the 'last chance' also fails?

As the Prime Minister said in the House on Monday: 'It was painfully obvious that a number of our colleagues at the European Council realised that there would be an immediate crisis if we did not move any further than we did at the last Council.

There are only two possibilities. One is to ensure that no further progress is made on any Community decision - which would be disruptive. The other, which we have not so far seriously considered, is to withhold contributions. That of course would also have considerable consequences. There are two schools of thought. Some people believe that to withhold contributions would be better and more direct, and others believe that it would be better to disrupt. Let us hope that we shall move a great deal further before applying either of those suggestions.'

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

5 December 1979

With permission, Mr. Speaker, I will make a statement about the meeting of the European Council in Dublin which my Noble Friend, the Foreign and Commonwealth Secretary, and I attended at the end of last week.

Economic Prospects

There was a general debate on economic prospects including energy.

It was dominated by the feeling of uncertainty about the future of oil supplies especially in view of the situation in Iran.

It was agreed that inflation is still the main economic problem.

/Otherwise most

Budget Problem

Otherwise most of the time in formal session was devoted to Britain's budget problem.

We were not able to reach agreement on an acceptable reduction in Britain's excessive net contribution to the Community Budget. //

Our partners recognise that we ^{do} have a problem.

But they of course have their own problems ^{too.} ~~and~~

~~We~~ and they did not see eye to eye on the magnitude and seriousness of the difficulty for the United Kingdom // ~~and indeed for the Community itself~~ or on the measures that would be required to deal with it properly. //

In spite of North Sea oil we are still among the least prosperous of the member states but are nevertheless expected to be one of the main contributors to the Community budget.

On present Community policies, the prospects are that the burden would increase ~~yet~~ ^{even} further.

/We stressed

We stressed that any solution must be a
lasting one.

Otherwise the problem would come up yet
again with damaging consequences for us
and for the Community as a whole.

Conclusions

Agreement in Dublin would no doubt have been
possible had we been ready to accept that
changes to the Financial Mechanism negotiated
in 1975 would have settled the matter in full.
That would have reduced our net contribution
next year by about £350 million, only one-
third of what we are expected to pay.

/The House

The House clearly expressed its views on such a settlement in the debate last week.

We were therefore confident that we would have the full support of right hon. and hon. Members in saying that this was totally inadequate.

Removing the constraints which limit the effectiveness of the 1975 Mechanism can very well form the basis for a solution.

But, by itself, it is nothing like enough.

It does not deal at all with the problem ~~which is the second element in any solution~~ that our receipts per head from Community

expenditure are less than half the average for the whole Community.

make the second element in any solution

~~This was the second element in~~

~~the paper the Commission~~

/There was

Receipts

HP

~~However~~
~~however~~

There was considerable resistance to any action to remedy that part of our problem.

Eventually, ~~however~~, it was agreed that the Commission should bring forward proposals for developing supplementary Community measures which would lead to more Community expenditure in this country.

Structural

Remember

handling the problem

The third element in the Commission's paper which

~~we had before us dealt with the pattern of Community expenditure.~~

The Commission supported that

should be spent on structural measures and less on agriculture.

This approach was generally supported.

/Several

Several countries which had been helpful in searching for a possible solution felt that more time was needed. We therefore agreed to another early meeting of the European Council to try to find a satisfactory settlement. It is left to the next President, the Italian Prime Minister, to judge when that meeting should be called.

I cannot give the House any reassurance about the success of that further meeting.

But if others will show willing I am ready to do the same in the search for a genuine compromise.

I left our partners in no doubt that my room for manoeuvre was limited but I did not feel it right to refuse to make this further effort.

/The European

The European Council also wanted progress on other current Community issues - fisheries, energy and sheepmeat.

These are separate questions which will each be considered on their merits.

Indeed, we are already considering them in that way.

/So far

So far as the budget is concerned, I naturally regret that this meeting did not find a satisfactory solution.

The Community has much to do together in the larger world.

We must now see whether the possible elements which we identified in Dublin can be built up quickly in order to produce an adequate and lasting settlement.

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 03/12/79
Columns 29-47 European Council (Dublin Meeting)

Signed AWayland Date 31 October 2009

PREM Records Team



10 DOWNING STREET

From the Private Secretary

3 December 1979

PRIME MINISTER'S STATEMENT

I enclose the text of the final draft of the statement on the European Council that the Prime Minister will be making in the House this afternoon. I also enclose draft replies for a number of possible supplementaries. The statement has been approved by the Prime Minister: the supplementaries have not.

I should be grateful to receive any comments that you have as well as any additional supplementaries by noon today.

I am sending copies of this letter and enclosure to Tony Battishill (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

TRC

cc Mr Franklin
Mr Trotwell - at Franklin's request
Mr Sanders

FINAL DRAFT
Michael
Top copy with PM

PRIME MINISTER'S STATEMENT ON THE EUROPEAN COUNCIL
IN DUBLIN: MONDAY, 3 DECEMBER 1979

With permission, I will make a statement about the meeting of the European Council in Dublin which my noble Friend the Foreign and Commonwealth Secretary and I attended in Dublin at the end of last week.

Apart from a general debate on the economic situation, including energy, most of the time was devoted to our budget problem. We were not able to reach agreement on an acceptable reduction in our excessive net contribution to the Community budget. Our partners recognise we have a problem, but they are not yet ready to acknowledge the magnitude or seriousness of it for the United Kingdom, or to take the necessary steps to deal with it properly. In spite of North Sea oil we are still among the least prosperous of the member states and are nevertheless expected to be one of the main contributors to the Community budget. On present Community policies, the prospects are that that burden would increase yet further.

We stressed that any solution must be a lasting one. Otherwise the problem would come up yet again with damaging consequences for us and for the Community as a whole.

/ Agreement in

Agreement in Dublin would no doubt have been possible had we been ready to accept that changes to the Financial Mechanism negotiated in 1975 would have settled the matter in full. That would have reduced our net contribution next year by about £350 million, only one-third of what we are expected to pay.

The House clearly expressed its views on such a settlement in the debate last week. We were therefore confident that we would have the full support of hon. and right hon. Members in saying that this was totally inadequate. Removing the constraints which limit the effectiveness of the 1975 Mechanism can very well form the basis for a solution. But, by itself, it is nothing like enough. It does not deal at all with the problem that our receipts per head from Community expenditure are less than half the average for the whole Community.

There was considerable resistance to any action to remedy that part of our problem. Eventually, however, it was agreed that the Commission should bring forward proposals for developing supplementary Community measures which would lead to more Community expenditure in this country.

/ The third

The third element in the Commission's paper which we had before us dealt with the pattern of Community expenditure, suggesting that more should be spent on structural measures and less on agriculture. This approach was generally supported. We also agreed that the solution to our budget problem should not result in raising the one per cent VAT ceiling.

Several countries which had been helpful in searching for a possible solution felt that more time was needed. We therefore agreed to another early meeting of the European Council to make one further effort to find a satisfactory settlement. It is left to the next President, the Italian Prime Minister, to judge when that meeting should be called. I cannot give the House any assurance about the success of that further meeting and I left our partners in no doubt that my room for manoeuvre was limited. Nevertheless, I did not feel it right to refuse to make this further effort. If others will show willing I am ready to do the same in the search for a genuine compromise.

The European Council also wanted progress on other current Community issues - fisheries, energy and sheepmeat. These are separate questions which will each be considered on their merits. Indeed, we are already considering them in that way.

/ So far as the

So far as the budget is concerned, I naturally regret that this meeting did not find a satisfactory solution. The Community has much to do together in the larger world. We must now see whether the possible elements which we identified in Dublin can be built up quickly in order to produce an adequate and lasting settlement.

NOTES FOR SUPPLEMENTARIES

DECISIONS AT DUBLIN "AND NO LATER" - IS THIS A CLIMB-DOWN?

The sum on offer was totally inadequate. I refused to settle on such a basis. But I thought it right to allow a further opportunity to find a solution because there was some movement in our direction and because some Heads of Government tried very hard to help. I did not want to let them down.

WHAT MOVEMENT AT DUBLIN?

The revised Financial Mechanism was on offer - but only as a final settlement. In addition, there was acceptance for the first time of the principle that action could be taken to bring up UK receipts: the Commission was asked to do more work on this. So the right structure and principles are in place for the next discussion. What is required is the will to agree on the amount and to pay it.

ARE YOU OPTIMISTIC?

No. Some member states are reluctant to share the burden which the UK and Germany are now carrying as the major net contributors. We shall see whether a political will emerges in those countries in the next two months to accept a more equitable sharing. Other member states are already disposed to be helpful.

WHO WERE THE FRIENDLY MEMBER STATES?

It would not be right to reveal details of the views expressed. Some have made their views known publicly. That is for them to decide.

/WHAT IS

WHAT IS YOUR NEGOTIATING OBJECTIVE NOW? BROAD BALANCE? COMPROMISE?

My objective remains a broad balance. But I have made it clear that I want to negotiate and that, just as I expect others to move, I, too, will move in order to obtain a genuine compromise.

DOES THE VAT CEILING LIMIT WHAT WE CAN ACHIEVE?

There is room in 1980 for an adequate refund within the ceiling. Beyond that, all Community expenditure may be constrained by the ceiling unless urgent action is taken to cut wasteful expenditure on agricultural surpluses. That is our objective. I do not believe the VAT ceiling need should be an obstacle to meeting our requirements.

WERE ANY LINKAGES ESTABLISHED?

Some of our Community partners do attach importance to making progress on other Community issues. Energy and the common fisheries policy were mentioned and, in the case of France, the development of a common organisation of the market in sheep meat. We too wish to see satisfactory progress but intend to defend British interests. So each must be dealt with on its own merits.

WILL YOU TAKE MEASURES AGAINST THE COMMUNITY BETWEEN NOW AND THE NEXT MEETING?

We are in the Community and will remain active in its on-going business. But we and I hope other Member States will be devoting their energies to finding a solution to the Budget problem. We have no intention of being obstructive while a genuine search for solutions is going on.

WHAT PLANS HAS THE GOVERNMENT IF THE "LAST CHANCE" ALSO FAILS?

Our partners are in no doubt that there would be a serious crisis in the Community if the Budget problem cannot be solved early next year. It would be premature for me to announce what action the Government might take. I do not want to threaten so long as there are those inside the Community who are genuinely and actively seeking a solution.

WILL THE PRIME MINISTER REPEAT HER ASSURANCE THAT WE SHALL DO NOTHING ILLEGAL?

We have every intention of staying within the law. But everyone within the Community must do the same.

WHEN DO YOU EXPECT THE NEXT MEETING?

That is up to the Italian Presidency.

ANY DECISIONS ON THE CAP?

The Commission's proposals ^{were} referred to the Agriculture Council. I made it clear that in their present form they were unacceptable to us, but we do want to see expenditure on surpluses reduced. Action must be fair and effective.

TELEMATICS?

Remitted to Foreign Affairs Council.

ANY AGREEMENT ON PRICING POLICIES FOR NORTH SEA OIL?

No. We are not market leaders.

REPORT OF THE THREE WISE MEN?

Foreign Ministers asked to examine it and report to next meeting of European Council.

UNCLASSIFIED

FM DUBLIN 011130Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 483 OF 01 DECEMBER 79

INFO PRIORITY BONN BRUSSELS UKREP BRUSSELS NIO (BELFAST)
COPENHAGEN THE HAGUE LUXEMBOURG PARIS ROME AND WASHINGTON

THE EUROPEAN COUNCIL: PRESS REACTIONS.

1. THE EUROPEAN COUNCIL DOMINATES THE MAIN IRISH DAILIES AND THE HEADLINES GIVE A FAIR INDICATION OF THE TONE OF THE REPORTS: "THATCHER GOES HOME EMPTY HANDED AFTER BITTER DUBLIN SUMMIT" (IRISH TIMES), "CRISIS SUMMIT A FAILURE - THATCHER'S COMPROMISE" (IRISH PRESS) AND "A SUMMIT DISASTER FOR BRITAIN" (IRISH INDEPENDENT). ATTENTION IS FOCUSED ALMOST EXCLUSIVELY ON THE BUDGET PROBLEM. THE BASIC FACTS ARE REPORTED REASONABLY ACCURATELY, THOUGH LITTLE OR NO SYMPATHY IS SHOWN FOR THE BRITISH POSITION AND THERE IS SOME IRRITATION THAT THE BUDGET SHOULD HAVE ABSORBED SO MUCH TIME.

2. THE IRISH TIMES REPORT STATES THAT THE NINE "NARROWLY AVOIDED A MAJOR CRISIS" AFTER TWO DAYS OF "THE MOST BITTER ARGUING SEEN AT A EUROPEAN SUMMIT" AND GOES ON TO SAY THAT "INSTEAD OF GETTING THE BROAD BALANCE SHE HAD DEMANDED, MRS THATCHER IN FACT GOT NOTHING". THE REPORT ADMITS THAT THE OFFER OF £350 MILLION IS STILL AVAILABLE BUT SUGGESTS THAT THE SOLUTION OF WHICH IT COULD FORM PART "IS APPARENTLY CONDITIONAL ON BRITAIN'S GOOD BEHAVIOUR INSIDE THE EEC" AND MENTIONS IN THIS CONTEXT THE FRENCH PRESIDENT'S INSISTENCE THAT PROGRESS MUST BE MADE ON THE CFP, LAMB AND ENERGY BEFORE ANOTHER EFFORT IS MADE TO REACH A COMPROMISE. ON A MORE POSITIVE NOTE, THE IRISH TIMES DESCRIBES THE PRIME MINISTER'S PERFORMANCE AT HER PRESS CONFERENCE AS "SUPREMELY CONFIDENT" AND REPORTS HER REMARKS IN SOME DETAIL. THE SAME PAPER ALSO STATES THAT CHANCELLOR SCHMIDT WAS "REPORTEDLY IMPRESSED WITH MRS THATCHER'S DEFENCE OF BRITAIN'S OIL PRICING POLICY".

3. THE REPORTS IN THE OTHER TWO PAPERS FOLLOW BROADLY SIMILAR LINES ALTHOUGH THE INDEPENDENT IS CHARACTERISTICALLY SENSATIONAL E.G. "BRITISH PREMIER MARGARET THATCHER HAS GONE HOME IN DEFEAT AFTER A DISASTROUS SHOPPING TRIP TO DUBLIN". THE INDEPENDENT AND THE IRISH PRESS BOTH REPORT A FRENCH SPOKESMAN AS SAYING THAT BRITAIN WOULD HAVE TO SHOW A "COMMUNITY COMPORIMENT" IF A SOLUTION TO THE BUDGET PROBLEM WAS TO BE FOUND.

4. THE IRISH PRESS REPORTS THE PRIME MINISTER AS SAYING THAT IRELAND WAS ONE OF THE COUNTRIES THAT REALISED BRITAIN'S PROBLEM AND THAT MR LYNCH'S CHAIRMANSHIP HAD BEEN "VERY GOOD." THE REPORT SUGGESTS THAT HE PLAYED A BIG PART IN HELPING TO AVOID A DISASTER. MR LYNCH HIMSELF IS REPORTED AS SAYING THAT NOBODY COULD BE SATISFIED WITH THE OUTCOME BUT THAT SOME PROGRESS HAD BEEN MADE.

THE IRISH PRESS ALSO MENTIONS THAT THE PRIME MINISTER SPENT THE NIGHT IN THE BED USED BY QUEEN VICTORIA IN 1897 AND DRAWS ATTENTION TO THE FACT THAT SHE DECLINED TO ANSWER QUESTIONS ON THE NORTH AT HER PRESS CONFERENCE.

5. THE IRISH TIMES AND IRISH PRESS REPORT THE STATEMENTS ISSUED BY THE COUNCIL ON THE US EMBASSY SIEGE IN TEHRAN, ENERGY, CONVERGENCE AND CAMBODIA, BUT WITHOUT COMMENT. THE IRISH INDEPENDENT ONLY MAKES BRIEF REFERENCES TO THE STATEMENTS.

6. ALL THREE PAPERS OFFER EDITORIAL COMMENT. THE IRISH TIMES IS UNUSUALLY RESTRAINED BUT CANNOT RESIST BEING SNIDE: "MRS THATCHER IS GIVING HER EEC PARTNERS ONE LAST CHANCE. IF THEY DO NOT COME UP WITH HER £1,000 MILLION, OR MOST OF IT, BY APRIL OF NEXT YEAR, THEY WILL HAVE TO FACE THE CONSEQUENCES. SHE IS NOT THREATENING TO LEAVE THE EEC SEMICOLON WORSE THAN THAT, SHE IS THREATENING TO STAY IN IT." THE EDITORIAL GOES ON TO SAY: "IF HER PERFORMANCE AT HER PRESS CONFERENCE YESTERDAY IS ANYTHING TO GO BY, THERE ARE PRIME MINISTERS AND FOREIGN MINISTERS AROUND EUROPE TODAY IN A STATE OF SHELL-SHOCK. THE IRISH TIMES SEES LITTLE GROUND FOR HOPE ON THE BUDGET ISSUE BECAUSE OF THE BASIC DEFFERENCE IN APPROACH BETWEEN BRITAIN WHICH IS "ASKING FOR ITS OWN MONEY BACK," AND HER PARTNERS WHO MAINTAIN THAT "OWN RESOURCES" COLLECTED IN THE UK BELONGED TO THE EEC ANYWAY. THE EDITORIAL EXPRESSES THE HOPE THAT THE PRIME MINISTER WILL OFFER "A SUBSTANTIAL REDUCTION IN HER CASH DEMAND" AT THE NEXT COUNCIL BUT CONCLUDES GLOOMILY THAT SHE "MEANS TROUBLE" AND SUGGESTS THAT SHE MAY HAVE BEEN TREATED MORE POLITELY THAN SHE DESERVED.

7. THE IRISH PRESS EDITORIAL IS DOWNRIGHT HOSTILE. IT BEGINS BY SAYING THAT THE PRIME MINISTER PROBABLY GOT THE RESULT SHE INTENDED AND THAT SHE CAN NOW GO HOME AND "TRUMPET ABOUT THE INIQUITOUS FOREIGNERS IN EUROPE WHO WON'T GIVE JUSTICE TO THE LONG-SUFFERING BRITISH TAXPAYER." THE EDITORIAL GOES ON TO SAY THAT THE "BRITISH ANTI-EUROPEAN CAMPAIGN SERVED ONLY TO PREVENT THE SUMMIT DOING

/ AMY

ANY THING USEFUL'' AND CLAIMS THAT ALL OUR PARTNERS HAD ''REASON TO BE ANNOYED WITH THE STALLING TACTICS.'' NORTHERN IRELAND IS TORTUOUSLY DRAGGED IN: ''OF COURSE, NOTHING GOT DONE ABOUT NORTHERN IRELAND THOUGHTHE GERMANS HAVE DIRECT FINANCIAL INTEREST IN THIS MATTER AS THEY ARE OBLIGED TO PAY ON A PER CAPITA BASIS FOR THE MAINTENANCE OF BRITISH TROOPS ON THE RHINE, WHICH TROOPS ARE VERY OFTEN IN THE NORTH AND NOT IN GERMANY AT ALL.'' THE IRISH PRESS SUGGESTS THAT BRITAIN SHOULD REDUCE THE COST OF NORTHERN IRELAND RATHER THAN CREATING ILL-WILL BY ''SERVING FICTITIOUS DEMANDS '' ON HER PARTNERS, AND CRITICISES THE PRIME MINISTER FOR REFUSING TO ANSWER QUESTIONS ON THE NORTH. THE EDITORIAL CONCLUDES ON A NOTE OF SELF-CONGRATULATION: ''ALL IN ALL, IT SEEMS TO HAVE BEEN A NON-DISCRIPIT SUMMIT, ALTHOUGH CHARACTERISED BY EFFICIENT ORGANISATION AND A HOSPITALITY THAT EARNS US HIGH MARKS ABROAD.''

8. THE IRISH INDEPENDENT EDITORIAL IS LOW-KEY. IT COMPLAINS MILDLY ABOUT THE FACT THAT THE BUDGET PROBLEM DOMINATED THE COUNCIL, EXPRESSES SATISFACTION THAT THERE WAS A WILLINGNESS TO COMPROMISE AND HOPES THAT EVERYTHING WILL WORK OUT ALL RIGHT IN THE END.

HAYDON

FCO WHITEHALL

EID (1)

GRS 500

UNCLASSIFIED

FM BONN 011230Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 733 OF 1 DECEMBER

INFO IMMEDIATE UKREP BRUSSELS, DUBLIN

INFO ROUTINE ALL OTHER EEC POSTS

EUROPEAN COUNCIL DUBLIN: FIRST GERMAN REACTIONS

1. TO THE PRESS, CHANCELLOR SCHMIDT YESTERDAY DESCRIBED THE OUTCOME AS QUOTE A COMPROMISE ON A SOMEWHAT SHAKY BASIS UNQUOTE.
2. LATER ON TELEVISION HE EMPHASIZED THAT THE NEGOTIATIONS HAD NOT BROKEN DOWN. THEY HAD HOWEVER BEEN DIFFICULT. A NUMBER OF MEMBER STATES WERE WILLING TO MAKE ACCOMMODATIONS AND THAT HAD BEEN CLEAR FROM THE START. FOR EXAMPLE, THE FRG WAS AND REMAINED PREPARED TO TAKE A FURTHER SUM OF OVER DM 600 MILLION ON TO ITS OWN SHOULDERS IN ORDER TO ALLEVIATE BRITAIN'S UNDOUBTED ECONOMIC AND FINANCIAL DIFFICULTIES. THE FEDERAL GOVERNMENT WAS SUPPORTED IN THIS BY DR KOHL AND OTHER OPPOSITION LEADERS. THE FRG REMAINED READY TO PAY THE LION'S SHARE OF THE COMMUNITY BUDGET. BUT THE BRITISH GOVERNMENT DID NOT REGARD THIS AS SUFFICIENT. QUOTE I HAVE UNDERSTANDING FOR THAT UNQUOTE. HE HOPED THAT A RATHER DIFFERENT, OR POSSIBLY A QUOTE ENRICHED UNQUOTE SOLUTION WOULD STILL BE FOUND. THERE WERE TWO DECISIVE POINTS: THAT NEGOTIATIONS WOULD CONTINUE EARLY NEXT YEAR, AND THAT THE PRIME MINISTER, ALBEIT AT A VERY LATE STAGE OF THE MEETING, HAD SAID THAT SHE WAS NOT (NOT) DEMANDING ALL OR NOTHING. SHE WAS THEREFORE PREPARED TO COMPROMISE.
3. ASKED WHETHER IT WOULD HAVE BEEN POSSIBLE TO AVOID WHAT YOU HAD DESCRIBED AS A QUOTE FAMILY SQUABBLE UNQUOTE IF THIS READINESS TO COMPROMISE HAD COME EARLIER, THE CHANCELLOR SAID THAT THE ANSWER HAD TO BE YES.
4. THE GERMAN PRESS TODAY HAS SOME STRONG HEADLINES: QUOTE DUBLIN LIKE DUNKIRK UNQUOTE (SUEDDEUTSCHE ZEITUNG): QUOTE BRITAIN FAILED WITH HER DEMAND UNQUOTE (GENERAL ANZEIGER): QUOTE LONDON BID TOO HIGH UNQUOTE (WELT). THERE IS HEAVY COVERAGE. APART FROM FACTUAL REPORTS ON THE OUTCOME, MOST PAPERS REPORT THAT THE ATMOSPHERE IN DUBLIN WAS VERY DIFFICULT, WITH THE PRIME MINISTER ISOLATED AND HER PARTNERS IRRITATED BY SOME OF HER STATEMENTS. HOWEVER THE MOOD IMPROVED TOWARDS THE END WHEN THE PRIME MINISTER MADE IT CLEAR THAT

BRITAIN WAS WILLING TO COMPROMISE. STUTTGARTER ZEITUNG REPORTS THAT THE FRG AND LUXEMBOURG WERE WILLING TO GO BEYOND 520 MEAU BUT BRITISH PROPOSALS FOR SUPPLEMENTARY MEASURES WERE REJECTED AS GOING TOO FAR. SEVERAL NEWSPAPERS DESCRIBE THE DANES AS BRITAIN'S MOST ADAMANT OPPONENT.

5. PRELIMINARY EDITORIAL COMMENT IS MODERATE AND FAIRLY SYMPATHETIC. SUEDEDEUTSCHE ZEITUNG SEES THE ARGUMENT THAT BRITAIN KNEW THE RULES WHEN SHE JOINED THE COMMUNITY AS CORRECT BUT A BIT UNFAIR. DE GAULLE'S VETO KEPT BRITAIN OUT UNTIL ECONOMIC DECLINE PREVENTED HER FROM BENEFITTING FROM MEMBERSHIP. WELT SAYS THAT THE PRIME MINISTER WAS NOT ABLE TO REPEAT WELLINGTON'S VICTORY AT WATERLOO LARGELY BECAUSE SHE DID NOT HAVE A MARSCHAL BLUECHER. SCHMIDT WAS NOT WILLING TO PLAY THIS ROLE. ONLY ONE EDITORIAL IS DOWNRIGHT HOSTILE: THE RHEINISCHE POST SEES DUBLIN AS A DISASTER AND AN EMBARRASSING POLITICAL DEFEAT FOR BRITAIN. BRITAIN'S SPECULATIONS WERE COMPLETELY WRONG AND SHE SHOULD NOW ADMIT THAT SHE HAD BID TOO HIGH.

WRIGHT

Fco . WHITCHALL DIST

EID (1)

GRPS 200 A

UNCLASSIFIED

FM COPENHAGEN 010950Z DECEMBER 79

TO PRIORITY FCO

TELEGRAM NUMBER 274 OF 1 DECEMBER

INFO PRIORITY PARIS, BONN, LUXEMBOURG, UKREP BRUSSELS, ROME,
THE HAGUE, DUBLIN.

EUROPEAN COUNCIL: DANISH PRESS REACTIONS.

1. BULLETINS THROUGHOUT YESTERDAY, AND COVERAGE THIS MORNING, TREATED THE MEETING AND ITS OUTCOME AS NEWS OF ONLY SECONDARY IMPORTANCE, OVERSHADOWED NOT ONLY BY THE DANISH DEVALUATION BUT ALSO OTHER DOMESTIC AND FOREIGN NEWS. THE GENERAL LINE IS UNSYMPATHETIC, REFLECTING MR. ANKER JORGENSEN'S CLAIM THAT IT WAS WRONG TO SPEAK OF SOME BEING MORE DISPOSED TO MAKE CONCESSIONS TO US THAN OTHERS, AND THAT THERE WAS A FIRM 8-1 LINE-UP. THERE ARE ALSO REPORTS OF SHARP EXCHANGES BETWEEN MR. JORGENSEN AND MRS. THATCHER, AND EVEN THAT QUOTE MR. JORGENSEN IN REALITY ASSUMED THE ROLE THAT OTHERWISE HAD BEEN EXPECTED OF PRESIDENT GISCARD UNQUOTE. AS TO THE FUTURE, THERE IS A CLEAR TENDENCY TO MAKE A LINK BETWEEN BRITISH CONCESSIONS ON OIL AND FISH, AND ANY POSSIBILITY OF PROGRESS ON THE BUDGET.

2. ONLY POLITIKEN (RADICAL) COMMENTS EDITORIALY. IT TAKES THE LINE THAT THE BUDGET QUESTION HAS BEEN GIVEN INFLATED IMPORTANCE AND HAS BECOME A MATTER OF DOMESTIC POLITICAL PRESTIGE FOR MRS. THATCHER. QUOTE E.E.C. CO-OPERATION WILL AT BEST NOW BE PARALYSED IN A NUMBER OF IMPORTANT AREAS, UNTIL A COMPROMISE IS FOUND UNQUOTE.

WARBURTON

FCO/WHITEHALL DISTRIBUTION

EID (I)

GRS 445

UNCLASSIFIED

FM PARIS 011320Z 11 DEC 79

TO PRIORITY FCO

TELEGRAM NUMBER 926 OF 01 DECEMBER 1979

INFO PRIORITY OTHER EEC POSTS

EUROPEAN COUNCIL; FRENCH PRESS

1. THIS MORNING'S PRESS PRESENTS THE MEETING AS A FAILURE WHICH JUST AVOIDED BEING A CRISIS. PRESIDENT GISCARD'S REMARK THAT THE SUMMIT QUOTE NARROWLY AVOIDED CATASTROPHE UNQUOTE IS WIDELY QUOTED. THERE IS MUCH STRESS ON THE COMMON FRONT OF THE EIGHT IN FACE OF WHAT WAS SEEN AS THE PRIME MINISTER'S INTRANSIGENCE. TYPICAL HEADLINES ARE: QUOTE ENGLAND-EUROPE: DEADLOCK UNQUOTE (MATIN - SOCIALIST); QUOTE AFTER THE FAILURE OF THE DUBLIN SUMMIT: THE CONTINENT ISOLATED UNQUOTE (QUOTIDIEN DE PARIS - INDEPENDENT).

2. THERE IS A GENERAL EXPECTATION IN THE PRESS THAT THE EUROPEAN COUNCIL WILL BRING FORWARD ITS NEXT MEETING TO FEBRUARY AND THAT FISH, MUTTON AND ENERGY WILL THEN ALSO BE ON THE TABLE FOR THE DISCUSSION. PRESIDENT GISCARD'S INSISTENCE THAT THE FIRST TWO MUST BE DISCUSSED IS HIGHLIGHTED. THE RADIO THIS MORNING GAVE PROMINENCE TO A STATEMENT BY A LEADING FRENCH AGRICULTURALIST THAT NO TEARS WOULD BE SHED IF BRITAIN LEFT THE COMMUNITY.

3. AN INTERESTING EDITORIAL IN THE FIGARO BY SERGE MAFFERT COMMENTS THAT ALTHOUGH THE MEETING ENDED IN A HARDENING OF POSITIONS ON EITHER SIDE, IT WAS REASONABLE TO HOPE EVENTUALLY FOR A COMPROMISE: QUOTE TO ACCUSE MRS THATCHER OF WISHING TO TORPEDO EUROPE BECAUSE SHE DEFENDS THE INTERESTS OF HER COUNTRY WITH GREAT DETERMINATION IS TO QUESTION HER UNDERLYING INTENTIONS IN THE SAME WAY THAT PEOPLE USED TO QUESTION THOSE OF DE GAULLE IN REGARD TO FRENCH INTERESTS. BRITAIN WANTS MANY THINGS INCLUDING, NO DOUBT, A FAR-REACHING MODIFICATION OF THE COMMON AGRICULTURAL POLICY FOR WHICH FRANCE FOUGHT SO HARD. THERE IS NOTHING TO SHOW THAT SHE WANTS TO TURN THE COMMUNITY INTO A MERE FREE TRADE AREA UNQUOTE. HE SUGGESTS THAT MRS THATCHER, WHO IS NOT YET USED TO COMMUNITY HABITS AND MENTALITIES, UNDER-ESTIMATED THE RESISTANCE SHE WOULD FACE IN DUBLIN. IN DEMANDING ALL OR NOTHING SO CATEGORICALLY, SHE CONSOLIDATED HER PARTNERS IN A FRONT WHICH FOR ONCE WAS NOT DIRECTED AGAINST FRANCE. IF THE BRITISH DID NOT TAKE ACCOUNT OF THEIR PARTNER'S PREOCCUPATIONS, THE MEETING PLANNED FOR FEBRUARY MIGHT SOUND THE DEATH KNELL OF THE COMMUNITY. THIS WOULD BE IN NOBODY'S INTEREST.

4. HUMANITE (COMMUNIST) CONTINUES ITS LINE THAT GISCARD IS PREPARING A SELL-OUT OF FRENCH INTERESTS, SUGGESTING THAT AGREEMENT ON THE COMMISSION'S PROPOSAL TO REDUCE THE BRITISH BUDGET BY £348 MILLION HAS SIMPLY BEEN POSTPONED.

5. THERE IS GENERAL ACKNOWLEDGEMENT THAT THE MEETING ACHIEVED VERY LITTLE ON OTHER FRONTS, ALTHOUGH MOST PAPERS MENTION THE STATEMENT ON IRAN. LE MATIN COMMENTS THAT QUOTE AT THE MOMENT WHEN WESTERN ECONOMIES ARE AGAIN ON THE EDGE OF A GULF AND THE INTERNATIONAL FOOD SITUATION IS CATASTROPHIC, ONE COULD HAVE HOPED FOR MORE FROM THE LEADERS OF EUROPE THAN WHAT MUST BE CALLED A DISCUSSION BETWEEN SHOP-KEEPERS. THE GRAND EUROPEAN AMBITION MAY PERHAPS HAVE DIED AT DUBLIN UNQUOTE.

HIBBERT

FCO WHITCHALL DIST:

E13 (1)

CONFIDENTIAL

<u>Meeting</u>	<u>Major Decisions to be taken</u>	<u>Effect of delay on other Member States</u>	<u>Effect on UK Interests</u>
3-4 December <u>FISH COUNCIL</u>	(a) 1980 allowable catches ("tac is s")	Annoyance, but probably not much.	Could undermine UK credibility on fish settlement.
	(b) Conservation regime	Expect decisions at this meeting as for (a).	More than for (a). Risks spoiling improved atmosphere on fisheries.
	(c) Third Country agreements	Will annoy Germans and French in particular.	Insignificant. But we would lose some fishing rights if we blocked Norway and Faroes arrangements.
4 December <u>ENERGY COUNCIL</u>	(a) EEC position for IEA Ministerial Meeting	Very little	Very little
	(b) Coking coal decision	Would upset Germans.	Nil
	(c) 1980 targets if not fixed by then	Would annoy all Member States and US.	Nil
5 December <u>COREPER</u>	Midwives Directive (on which UK isolated)	Irritation but no great surprise.	Not significant.
6 December <u>TRANSPORT COUNCIL</u>	(a) Air Transport Air Services Memorandum	-	We stand to benefit but no harm from delay.
	(b) Aircraft noise	-	Little harm from delay
	(c) Road transport quotas	Very little	We want quota extension.
	(d) Commission statement on infrastructure	-	We stand to gain in longer term; no harm from delay.

/10-11 December

CONFIDENTIAL

<u>Meeting</u>	<u>Major Decisions to be taken</u>	<u>Effect of delay on other Member States</u>	<u>Effect on UK Interests</u>
10-11 December <u>AGRICULTURE</u> COUNCIL	(a) Agricultural structures	Italians and Irish annoyed.	Benefit to UK (saving £68 million less £10 million for project in Scotland).
	(b) New Zealand Butter (post-1980 access)	France would welcome delay. We would alienate Commission who support UK.	Delay unwelcome to UK and New Zealand.
	(c) <u>Potatoes</u>	-	Delay damaging to UK. We need a satisfactory regime.
	(d) Commission proposals on <u>agricultural expenditure</u>	All net beneficiaries from CAP (Denmark, Ireland, Benelux, etc) would welcome delay.	Some delay acceptable.
	(e) <u>Wine</u>	France and Italians would lose some aids if delayed. But pressure would be off them to reduce surpluses.	-
	(f) <u>Sheepmeat</u>	Would encourage French to continue ban.	-
	(g) Alcohol regime	Little effect.	Would delay potential refund of £21 million for UK whisky distillers.
17 December <u>ENVIRONMENTAL</u> COUNCIL	(a) <u>Health protection standards</u> (sulphur and lead in the air).	Not significant.	Not significant. (We already have a reserve).
	(b) Protection of <u>whales</u>	Not significant.	Disappointing. It is a UK initiative.
	(c) <u>Chlorofluro-carbons</u>	Not significant.	Not significant.

/17 December

CONFIDENTIAL

<u>Meeting</u>	<u>Major Decisions to be taken</u>	<u>Effect of delay on other Member States</u>	<u>Effect on UK Interests</u>
17 December <u>FINANCE</u> COUNCIL	1980 Budget: Could be matters arising from Parliament's 2nd reading and adoption of budget (e.g. application of maximum rate) which would have bearing on whether Council considered 1980 budget to be legally adopted.	Delay difficult - budgetary matters usually decided by qualified majority. Effect not great, and same for all. If budget declared illegally adopted, Community would operate on "twelfths rule".	-
18 December <u>FOREIGN AFFAIRS</u> COUNCIL	(a) <u>Staffing and pay</u>	Other Member States would probably secretly welcome tough UK line on substance. But UK block could cause a strike which would not be welcome.	Community staff would resent UK block.
	(b) <u>Renewal of steel anti-crisis measures</u> (which expire 31.12.79).	Would be popular with Germans, would be disliked by others, especially Italians and Commission.	Could cause damage to UK industry during critical phase of restructuring.
	(c) <u>EEC-ASEAN agreement</u>	French wish to block.	UK support agreement, but no adverse effect.
	(d) <u>Shipbuilding Scrap and build</u>	Italians alone would be concerned. Little prospect anyway of agreement.	
	(e) <u>US synthetic textiles</u>	Small	UK initiative would prevent action being taken to protect UK industry.
20 December <u>RESEARCH</u> COUNCIL	(a) <u>"Super-Sara"</u> nuclear safety project.	Italians would be upset. JRC would continue. Other Member States little concerned.	Minimal
	(b) <u>Inertial confinement fusion</u>	"	"
	(c) <u>Radiation protection.</u>	"	"

CONFIDENTIAL

<u>Meeting</u>	<u>Major Decisions to be taken</u>	<u>Effect of delay on other Member States</u>	<u>Effect on UK Interests</u>
14-15 January <u>FOREIGN AFFAIRS</u> COUNCIL	(a) <u>Supplementary coal and steel revenue?</u> (b) <u>Extension of social security regulations to self- and non-employed?</u>	All steel and coal producing Member States want agreement. Minimal. Danes already blocking.	- UK initiative. But minimal effect of delay.
21-22 January <u>AGRICULTURE</u> COUNCIL	<u>Price-fixing proposals 1980/1 likely to be put forward by Commission.</u>	Too early to block. decisions not expected.	
11-12 February	<u>Price-fixing proposals discussed.</u>	Negative attitude by UK would begin to annoy.	
March <u>EUROPEAN COUNCIL</u>	(a) <u>3 Wise Men Report</u> (b) <u>New Commission President</u>	Irritation. Would probably not cause concern until May.	Not significant but possible loss of influence on subsequent decisions. In absence of agreement, Mr Jenkins might stay on into 1981.
3-4 March <u>AGRICULTURE</u> COUNCIL	<u>Price-fixing</u>		
6 May <u>TRANSPORT</u> COUNCIL	<u>Harmonisation of summer time dates?</u>	Minimal	Could weaken our chances of getting other Member States to come towards our dates.
3 June <u>SOCIAL AFFAIRS</u> COUNCIL	[Depending on outcome of Dublin summit and ETUC reaction] Further measures to <u>alleviate unemployment</u> (worksharing etc)	Belgium, and to a lesser extent other Member States will be anxious to reach satisfactory conclusion: Germans will be least concerned (sceptical about costs to industry	We do not wish to cause a split with unions, but do wish to avoid binding commitments in this area.

CONFIDENTIAL

<u>Meeting</u>	<u>Major Decisions to be taken</u>	<u>Effect of delay on other Member States</u>	<u>Effect on UK Interests</u>
June <u>AGRICULTURE</u> COUNCIL	<u>Price-fixing</u>	UK obstruction would probably cause heated battle by that date.	
July <u>BUDGET</u> COUNCIL	Establishment of <u>1981 draft budget</u>	If others accepted that Luxembourg compromise could be used to block establishment this would prevent adoption of any budget for 1981. "Twelfths Rule" would operate from February 1981. Major irritant to partners, but about equal misery to all: theoretically those with greater receipts from CAP would be worse hit but would take time for this stage to be reached.	

Transcript by
JAMES LEE of: ,

PRESS CONFERENCE GIVEN BY PRIME MINISTER
MRS. THATCHER, AFTER THE DUBLIN CONFERENCE,
HELD ON FRIDAY, 30TH NOVEMBER 1979
=====

PRIME MINISTER

May I make a few comments first?

One of the difficulties here has been to get clear the nature of the problem. We are not asking for a penny piece of Community money for Britain. What we are asking is for a very large amount of our own money back, over and above what we contribute to the Community, which is covered by our receipts from the Community.

Broadly speaking, for every £2 we contribute we get £1 back. That leaves us with a net contribution of £1,000 million pounds next year to the Community and rising in the future. It is that £1,000 million on which we started to negotiate, because we want the greater part back. But it is not asking the Community for money; it is asking the Community to have our own money back, and I frequently said to them: "Look! We, as one of the poorer members of the Community, cannot go on filling the coffers of the Community. We are giving you notice that we just cannot afford it!"

So that is the nature of the problem. I must say the other very big net contributors are Germany and many of the

others are either broad balance or very substantial beneficiaries. It is we and Germany who are big net contributors and next year we would be the biggest of the lot, although one of the three poorest members.

The second point is, starting from that, that we wanted £1,000 million of our own money back, we could have settled at this particular European Council had we been prepared just to take away £350 million, because that is what was offered provided one was prepared to say that that was the end of the story. Now, you would never have expected me to settle for one-third of a loaf, and indeed, it would still have left Britain with much much much too big a net contribution - a contribution next year of the same size as the German one and many many many times that of France. So, of course, I was not prepared to settle.

Now, that left us in great difficulty for a time and for a time it looked as if we were not going to get any further at all. I expect Mr. Lynch will have told you that the £350 million for which we could have settled is on the contributions side; it would put down our contributions to the budget. The other problem is that we do not get very much back, and it seemed as if the rest of the Council was not prepared to turn its mind to the receipts side and expenditure which should come to Britain.

I am afraid we discussed quite long and hard and it was very very obvious that some of the nations were very anxious to help - very anxious to help. Yesterday, one of the countries suggested that we might have a second Council on this subject, between Councils, and that suggestion was made by one or two other countries.

We then discussed whether it really would be a genuine negotiation, because there is not much point in having a second Council or an early Council unless it is going to be a genuine negotiation, and still, some of the small countries and one of the larger ones were very very anxious that we should not just break or precipitate a crisis at this Council, but we should find a way of going ahead.

Now, most of this morning was taken up by very detailed discussions on that part of the communique which you have before you. You will see that it sets out that the contributions side could be a basis for a solution, but it goes on for trying to find a solution on the receipts side, which would give us a very much larger proportion of what we want.

The question of when another Council is called, to be an advance edition of the Council which should have taken place in March, will be left to the new President of the Council and he will decide.

So, if I were asked to sum up: we could not possibly accept £350 million in full and final settlement of our

claim, so the position has gone into suspense pending another Council.

I must tell you that I am not over-optimistic about the result of that Council, but did not want to precipitate a crisis, in view of our friends in the Council, without genuinely trying to find a solution. So, although not over-optimistic, although not having very much room for manoeuvre, indeed very little room for manoeuvre, we are going to try to have another Council to see if we can find a genuine compromise.

Now, shall I take questions now?

QUESTION (GEOFFREY ???? , WEEK-END WORLD)

If you have been unable to get the other eight Heads of Government to accept the justice of your demand for broad balance here at Dublin, how do you think you can achieve this at the next European Council?

PRIME MINISTER

Well, this is exactly the question which I myself posed in the statement. Is it going to be a genuine negotiation? It is quite clear that there are a number of countries there who are prepared to help and some mentioned some figures. Now, therefore, some are prepared to help and go further, and so we can only go to a next Council standing by some of those who are trying to help us, and see if we can get a solution. As I said, I am not over-optimistic, because the gap between £350 million and £1,000 million is a very very big one; but they were very anxious we should not precipitate a crisis now, and were willing to help. And who am I to turn down offers of genuine help from genuine friends? It would have been a very nasty thing to do not to have said: "All right, one last chance!"

QUESTION

Mrs. Thatcher, the President of the French Republic has given a clear indication that a second meeting of the European Council to even attempt a negotiation and a compromise will not be called unless you have delivered on a number of other policies, including fishing and a common energy policy. This would seem to imply that he believes you either have or will agree to some linkage of these issues with the budget problem. Is this a correct reading of the situation?

PRIME MINISTER

I'm sorry. There is absolutely no linkage at all. If you look at the communique, you will see no linkage whatsoever between the budget - the solution of which stands on its own merits - and of course we want to make progress on fish; of course we want, and are trying to negotiate a regime on sheep meat; we want a satisfactory fisheries policy for Britain and we want a satisfactory sheep meat policy for Britain, and those stand on merit. But, yes we do want them sorted out, but there is no linkage at all between them. The communique makes that very clear.

QUESTION

If you say now that there is only one last chance.that there might be a campaign of disruptive tacticspolicy if Britain does not eventually get its way, does that still hold good from Dublin today?

PRIME MINISTER

Britain has a very just and equitable case. It is a case which was in line with one of the assurances given us when we entered the Community and which is committed to writing: that if inequitable situations arose, then it would be up to the Community to find a solution. Such a situation has arisen. We are asking the Community to find a solution. We refuse to accept the settlement they offered and we are going to one last chance.

Now let us just see what that produces before we make the threats. We have a number of friends who are very anxiously trying to help us. Let us just stand by them.

QUESTION (JOHN DICKIE, DAILY MAIL)

Other delegations have suggested that their readiness to attend another meeting is based on a statement by you that you are prepared to compromise. What is your interpretation of Britain's room to compromise?

PRIME MINISTER

Just exactly what I said in my opening statement. They offered £350 million as a full and final settlement. I could not possibly accept that. I have not very much room for manoeuvre, because we are very very heavy net contributors and most of those with whom we are in fact negotiating are net beneficiaries. I have not very much room for manoeuvre, but room I have I am prepared to use to seek to find a genuine compromise.

QUESTION (NEW YORK TIMES)

Following on that question, you seemed to stress twice the word "final".. "full and final". Are you prepared..are you suggesting that you might be prepared for a kind of two-tier or two-stage settlement?

PRIME MINISTER

No. I think - subject to your correction - the use of the word "final" was in connection with the settlement that they offered us, namely that they offered the £350 million which comes from the modifications of the corrective mechanism; that they offered that in the spirit that that would be a full and final settlement of the problem. I could not accept that. To accept a third of a loaf when you are asking for a whole loaf, is no settlement of a problem, and it was that which I could not possibly agree to. That was the use of the word "final".

QUESTION

Prime Minister, you did however refer to the phrase "a last chance" at the next Council. Is that how you feel?

PRIME MINISTER

On the budget, yes, because we had a directive, as it were, from the Strasbourg Council to this Council first to find the facts of the problem and secondly, for the

Commission to propose solutions. Now the Commission has found the facts. I did not find anyone who actually argued with the facts. The Commission proposed solutions. The solutions were of three kinds:

One: the structural nature of the budget goes far too heavily on agriculture and far too little on investment and regional policies, and therefore you need to alter the structure of the budget, which is long-term getting down to changing the proportion taken by the Common Agricultural Policy. We agree with that solution.

The second solution it proposed was a solution on the corrective mechanism, on the contributions side. That was the £350 million solution. That was not enough, but we are prepared to take that as a start.

The third part of the solution - and the essential component - is that because Great Britain receives less than half the average receipts per head that the Community receives, that our receipts should go up. So, in other words, we get more of our own money back by way of receipts.

Now, it is that that the Council was unwilling to look at, but some members were prepared to look at. In the final communique, you will see that paragraph 3 of the piece relating to the budget, directed to that, says that in addition the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence and which will also lead to greater participation by the United Kingdom in Community expenditure. That is the third part of the

solution. So, structure, contributions, receipts.

We agree with structure, but it will take a long time - too long for the budget. We would agree with the contributions solutions, except that it was not enough; and we now have to go on to receipts. But we cannot just go on talking, and why it has to be a last chance is we need the solution for our financial year 80/81 which is April/April. That is why the next Council meeting is last chance. It is a much much more complicated subject than many people realize.

QUESTION

(not clear, wants to put a question on Northern Ireland)

PRIME MINISTER

No, I am afraid you cannot. This..I'm sorry..I am afraid you cannot. This is a press conference about the European Council. I am sorry, no. When I say no, I mean it.

QUESTION

Will you continue, after Dublin, to see a broad balance between Britain's payments and receipts?

PRIME MINISTER

Well, of course. That is the negotiating position which you take up. That is the position we are on now, but

the Council is on £350 million; I have not much room for manoeuvre, but we have to start out from there and see where we get.

QUESTION

Is there any chance that Britain will pursue a foot-dragging policy on its oil price increases and not follow so avidly in the steps of OPEC? I believe this criticism of Britain's oil-pricing policy was made at the Council Meeting.

PRIME MINISTER

Well, it was certainly not made at length, but let me give you the facts. Are you an expert on oil? You might be the world's biggest expert on oil...are you, because if you are I can make it short.

QUESTIONER

I am not,

PRIME MINISTER

Right! The OPEC price of oil is determined usually by reference to one particular oil, which is South Arabian marker crude. All other grades above that, have a price linked to South Arabian marker crude. Ours is not the marker crude, but our grade of oil is rather above that and it is the same grade as possessed by Libya, Algeria, Nigeria

and ourselves. The OPEC price for that is now about 26 dollars a barrel. The four of us usually move at prettywell the same time. We have moved after Libya and Algeria moved to put up their price to 26 dollars a barrel. Nigeria moved at about the same time and as you well know, we have had great trouble in Nigeria for the simple reason that all our oil in Nigeria has been nationalized and BP no longer has access to that supply. So our price went up to 26 dollars a barrel after similar grades in Algeria and Libya, about the same time as Nigeria. I may say that we are still having to buy in some oil at prices 30, 35, 40, 45 dollars a barrel, and it is not only spot market prices - the fact is that some governments are selling at non-OPEC prices and about 15% of all the oil which changes hands changes hands not at OPEC prices, but in fact at very much higher prices arranged between governments.

In fact, we have still been selling at 26 dollars a barrel to countries which have been buying at a far higher price per barrel, and there is no justification for any criticism of Britain. Those countries which have had access to oil at 26 dollars a barrel, when we have not been selling on spot market, have had a thoroughly good deal.

Right! Now, let us get away from South Arabian marker crude!

QUESTION

....from Mr. Lynch.... all resources, duties and levies, were owned by the Community and the member countries only acted as a collecting agent. Is this a principle you accept? That is number one.

Number two: in view of what must be slight disappointment at the outcome of this Summit, will you at agricultural council level play a full part in arriving at settlements of all the various issues outstanding?

PRIME MINISTER

The solutions proposed by the Commission in the Paper before the Council this time were all in tune with Community rules, regulations - both the letter and the spirit. That is quite clear and that question therefore should never arise.

What, in fact, the Council did was to give us a solution on the contributions side which modifies the contributions we were to make, but it was all in tune with the "own resources" philosophy. None of the proposals for solving our problem were outside the Community framework of principles.

What the Council refused to do - and the Commission had proposed we should do - was go on from the contributions side to consider how very little we receive of the Community's expenditure and if they had brought those receipts up, then we could in fact come into broad balance.

So we sorted out the contributions side. It does not infringe "own resources". We have not yet sorted out the receipts side.

QUESTION (STEPHEN MILLIGAN, "ECONOMIST")

I wonder if I could ask you a question of tactics. You are saying that you want the money by the next financial year, and yet two-thirds of what you are proposing - two-thirds of the loaf that you would like - would be in extra receipts by extra Community spending, presumably by new Community policies.

Now the record of the Community is such that new spending takes a long time to agree and even longer to implement. Do you really think it is possible to get new spending which will actually be cash in Britain by the end of this year or the end of next year?

PRIME MINISTER

It is possible if there is the will. It is perfectly possible if there is the will. You could have a very simple mechanism. One of the mechanisms we proposed for bringing receipts up was a very simple one - that there should be a cash refund of our money..I am only talking about our money, no-one else's..there should be a cash refund of our money to bring our receipts up to the average level of receipts in the Community.

As a matter of fact, if it were brought up to average level of receipts in the Community, it would take us way over the top of the amount which takes us into broad balance. It is perfectly possible and there is enough left within the 1% VAT ceiling - perfectly possible, if there is the will.

I say to you, I am not over-optimistic, but please do not think we are asking for money from other European nations. We are not. We just cannot go on financing the rest of the European Economic Community to the tune that we are or anything like it.

QUESTION

Mrs. Thatcher, given the conviction with which you state your case, have you considered withholding or reducing Britain's contributions to the budget and would you consider this a valid option if there is no solution at the next Summit meeting?

PRIME MINISTER

We want to try to have one last change. After that, I will have to consider all kinds of things and that would be one possibility ^{but} /we must look very carefully at both the legal and practical implications.

QUESTION (MURRAY, LIVERPOOL DAILY POST)

Prime Minister, what response did you have from your colleagues round the table to your warning about the political problems that are arising in Britain, especially the fact that public support for membership is rapidly crumbling in view of the fact ^{of} /the resistance met to what you are trying to do?

PRIME MINISTER

What response did I have? Obviously, one puts that point very clearly, particularly as we have been a party that is what I might call very "Communitaire" for the larger reasons. We believe that it is better for Britain to be in the Community and better for the Community to have Britain and highly damaging to the Free World if the Community - a community of free nations based on free movement of capital and ideas and people - cannot get on together and solve our problems within.

So I did make that point strongly. You asked me what response there was. I can tell you. It was that they have political problems too!

QUESTION

Mrs. Thatcher, the European Council expressed its deep concern at the tragic situation in Cambodia. I would like to ask you ^{whether} /you feel it should be a little more tangible than just expressing deep concern. Do you feel that

the rich countries of the West should in fact - and particularly the European Community - set up a special fund for situations like Cambodia?

PRIME MINISTER

But as you know, we in Britain have contributed a great deal to the relief of Cambodia - something like £4 million from Britain - and then we also contribute to the Community Relief Fund as well, and people in Britain have contributed very generously, so I do not think we can be taken to account at all for not contributing - we have, and on a reasonable scale.

I might just use your question to make one point that perhaps has not been made to you.

One of the things I said to our Council colleagues was this: "Do you realize that we in Britain, under the present budget, are contributing more to wealthy Europe than we are to the whole of the Third World?" The figures next year are £1,000 million net to Europe, and our contribution to the Third World is of the order of £785 million. And I said that just does not begin to make any sense; that the Community keeps us to a system which gets more of Britain's money to the Community than Britain actually gives to the Third World, and I might say, our contributions to the Third World in terms of percentage of GNP are above those of some of the Community countries.

QUESTION (LUIGI FORNI (LA NAZIONE IN FLORENCE))

Mrs. Thatcher, you have said that you hope for genuine negotiations. May I ask you - and this is also a philological question - how would you describe with an English adjectivation, the negotiations conducted so far?

PRIME MINISTER

Well, how would I describe it? Totally unsatisfactory. Otherwise, we would have got a solution.

My first problem, in a way, has been to get over the nature of the problem. I mean, some people think I am asking for other people's money. I am not. We in Britain, together with Germany, are the financiers of the European Economic Community. We are a poor country. We are the seventh poorest out of the nine, whereas Germany is one of the wealthier ones. We, next year, will contribute more than Germany. We are saying we cannot go on financing the Community; we cannot go on putting money in the Community's coffers. We are giving notice of that and we want a very large proportion of our own money back, because we need it at home and we are having to cut expenditure at home.

The first difficulty here - I do not disguise it from you - has been to get over that fundamental thing to the Community, that all we are doing is asking for our own money back because we cannot go on being Europe's biggest benefactor.

QUESTION

Do you include Ireland among the countries which are trying to be helpful?

PRIME MINISTER

Yes. I must say that Ireland was very good in the Presidency and really did realize our problem.

QUESTION (CHRISTOPHER HUME, "THE ECONOMIST")

Prime Minister, do you still believe that Britain should never break Community rules or defy a European Court judgment?

PRIME MINISTER

Look! If you have a Community in which everyone observes the rules, then no-one should break them!

QUESTION

Prime Minister, I wonder if I could ask you to clarify one point. If I understood correctly your answer to a previous question, you do accept the view that own resources are Community funds. How do you square this with your insistence that Britain wants its money back?

PRIME MINISTER

Because..let me come at it a third time..a third time.
"Own resources" has its adaptations through the Dublin financial mechanism, so that mechanism applied with some of

the constraints removed gives us £350 million back, but that is in accordance with Community framework of principles and practice.

You say how do I square that with wanting my own money back. Because if we had the kind of Community spending policy that gave a fair deal to Britain, we would get that money back by way of Community expenditure on things in Britain. What it does at the moment is take the money and spend it very much more on other nations. That leaves us an unfairly high net contribution.

We are saying if they put up our receipts even to average receipts per head in the Community, we should get more than our own money back. So we are not asking for that right up to average, but for something below average.

You really have to look at the budget, with respect, from three viewpoints: one, that the agricultural policy takes far too big a percentage and therefore you must look at the structure of the budget and reduce the agricultural proportion; secondly, you look at the contributions which they have and thirdly, you must look at the distribution of receipts; and it is there that we lose out.

QUESTION

Several times in the past weeks, you gave the British people to understand that this problem had to be solved in Dublin. Now, for reasons which you have explained, you are

going back empty-handed on the morning after Dublin talking again about the next Council meeting being the time when the problem has to be solved.

Do you think your campaign for reform is starting to lack credibility?

PRIME MINISTER

No, not in the least.

First, we could have gone back to settle for £350 million. I am not prepared to settle for as small^{an} amount as that.

Secondly, we are not going right forward to the March meeting, although I have not the slightest shadow doubt that if it is not solved it will be discussed there, and even though the March meeting is before my financial year.

What we are asking for is an advanced Council meeting at which this can be discussed. I say "what we are asking for"; what they agreed on. I said we could not wait until March. That was my position.

If this communique related only to discussing it at the next Council meeting at the end of March, that was not acceptable to me. Now, ^{at} that point - I will be frank with you - it looked as if we would precipitate a crisis immediately and break, but again, some of our friends came in and said they were all prepared to go to an earlier meeting and that the new President should judge when that earlier meeting was called.

Now what was I faced with then? Either precipitating a crisis immediately or recognizing that quite a number of people within the Community, round the table, were trying to help and were asking for an advance Council meeting. So at that point, I am bound to say, I stood by those who were trying to help me and said: "Right, we will take one last chance, but it is not good enough for that to wait until the end of March at the regular meeting."

QUESTION

.....crisis if she had not given a little more time. Is she talking about the possible withdrawal?

PRIME MINISTER

No, I made it perfectly clear. We are in the Community and we are staying in and no-one has the right to turn us out. We are in the Community and staying in, because I believe it is for the good both of Britain and for the larger world that what I call the free nations of Europe are able to work together.

So I would have had to have gone straight back at the next Cabinet to discuss exactly how we would tackle it and exactly what measures we would take and, of course, it would have precipitated a crisis within the Community.

But let us have it quite clear, the Treaty does not give powers to the Community to expel members.

QUESTION

I would like to discuss a little bit. You say "We want to get our own money back!" Now, we consider - the old members at least - the Community as a club and you pay your fee according to the existing rules and you do not like the result.

Now I think there are two possibilities: you either try to improve the rules and if you don't succeed you can't withdraw from the club, but you think of a third possibility - wrecking the club.

PRIME MINISTER

No, it is very convenient for those who are very big beneficiaries from the Community, although above average income, to argue that the Community rules should stand with no modification. Of course I recognize that. Very convenient for those nations who have above average income and who benefit enormously from the contributions therefore of others, because they are net beneficiaries to argue that the rules and the mechanism should not be changed.

I would submit that for them to argue that, that though they are above average and net beneficiaries, for them to argue that a below-average income nation should be a very considerable contributor is inequitable and unacceptable and it is unacceptable within the terms of the Commission document approved by the Council in November 1970 which accompanied the Accession Document to the Treaty.

SAME QUESTIONER

I don't argue with your reasoning. I ask about your reaction. If you don't get your way, would you withdraw? You say "No", so what other solution would you have if you can't get your way to wreck the Club?

PRIME MINISTER

I am afraid you must wait and see to that, but other nations have in the past pointed the way!

QUESTION

You said that you wanted to increase Britain's receipts from the Community and I was just wondering in what directions do you want this money to be spent on? We have heard the three headings: agriculture, coal extraction and transport. Have you put your mind to this? Have you got definite projects in mind?

PRIME MINISTER

As a matter of fact, both the coal and transport and regional would take the receipts right up - the three things - but, I make it quite clear, it has to be that Community expenditure substituting for British expenditure in order to get some balance of our public expenditure right. But it is perfectly possible.

QUESTION

Was there at any stage..did British membership of the EMF come up in the discussion?

PRIME MINISTER

We really scarcely discussed EMF. It just came in perhaps once or twice in someone's speech on the first debate we had on the economy and it came up only in the connection ^{which} /the stability of currency which EMF had brought about had been helpful.

But, of course, as you know, had we been in, our currency would have gone right off the top of the grid because at that time, at the beginning of the Iran troubles, when being a petro-currency, we went right up to 2 dollars 30, right up in relation to the European currencies, and that is one reason why it is much more difficult for us to come in than others.

The other reason, of course, is that we have just released all exchange controls and we want obviously to see how they work.

One last question.

QUESTION

You mentioned the beginning of the British financial year as a kind of deadline. Are we right in assuming that the beginning of the negotiations on the agricultural prices for the following year are also some kind of a deadline?

PRIME MINISTER

We must have what I would call "redress" for the financial year 80/81.

It is true that our financial year starts in April - until the following April 81, and so long as we got a refund within that financial year, it would in fact sort out the massive expenditure to Europe which you see in our Public Expenditure White Paper.

So, in theory, you are quite right. One could wait for the actual rebate much longer, but it is about time one arranged how much and when it is going to come.

QUESTION

..asking about the price review for the European prices under the

PRIME MINISTER

The Agricultural Price Review is ^{not} /normally settled at least until June. I seem to remember that we had Strasbourg and the price settlement at approximately the same time last year - in June. I seem to remember getting telephone calls on what had happened there after I had decided what we had done in Strasbourg - at about this time after the conference.

Right, gentlemen and ladies, thank you very much.

=====

30 / 11 / 79

I regret that we have failed to carry out the tasks we set ourselves at Strasbourg.

There is no way of disguising the fact that this confronts all of us in the Community with a grave crisis. We will have to solve it together. I intend to continue to work within the Community for an acceptable solution.

But first I must consult my colleagues in London about this situation and about the British Government's future course of action.

Pending such consultation, I must reserve my position on the other matters which we have discussed at this meeting and there can accordingly be no agreed conclusions.

I shall need to consider with my colleagues the British Government's position on these matters.

/ I would have

- 2 -

I would have no objection if the Presidency wished to report on its own responsibility that various matters had been discussed and that consideration of them would be resumed in due course.

UNCLASSIFIED

FM DUBLIN 302000Z NOVEMBER 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 482 OF 30 NOVEMBER

INFO PRIORITY PARIS COPENHAGEN THE HAGUE ROME

LUXEMBOURG BONN UKREP BRUSSELS BRUSSELS WASHINGTON

EUROPEAN COUNCIL, DUBLIN 29/30 NOVEMBER : PRESS
CONFERENCE BY PRIME MINISTER LYNCH AND THE PRESIDENT OF
THE COMMISSION

1. MR LYNCH SUMMARISED THE PRESIDENCY CONCLUSIONS WHICH
WERE SUBSEQUENTLY RELEASED TO THE PRESS.

2. HE SAID THAT THE CONVERGENCE/EEC BUDGET QUESTION HAD
TAKEN UP MUCH OF THE TIME OF THE CONFERENCE. THE PRESIDENCY
HAD SPARED NO EFFORT, AT MINISTERIAL AND OFFICIAL LEVEL, IN
PREPARING THE DISCUSSION, INCLUDING A SERIES OF BILATERALS. HE
WAS DISAPPOINTED THAT THESE EFFORTS HAD NOT RESULTED IN A
DEFINITIVE SOLUTION AT THIS MEETING. PART OF THE PROBLEM LAY IN
THE WAY THAT OWN RESOURCES WERE REGARDED, IN FACT THE MEMBER
STATES COLLECTED THEM ON BEHALF OF THE COMMUNITY. THEY BELONGED
WHOLLY AND TOTALLY TO THE COMMUNITY. THE SYSTEM WAS A FUNDAMENTAL
OF THE ACQUIS COMMUNAUTAIRE. THE UK HAD TAKEN A DIFFERENT VIEW.

3. IT HAD BEEN MORE OR LESS AGREED ON THIS QUESTION THAT :

(1) THE OWN RESOURCES SYSTEM COULD NOT BE TOUCHED :

(2) THERE WAS NO QUESTION OF LE JUSTE RETOUR:

(3) ANY SOLUTION MUST BE COMMUNITY FINANCED.

MOST MEMBER STATES ALSO AGREED THAT ANY SOLUTION SHOULD BE LIMITED
IN TIME AND PRESERVE EXISTING POLICIES INTACT.

4. MR ROY JENKINS SAID THAT THIS HAD BEEN THE MOST DIFFICULT
OF THE NINE EUROPEAN COUNCILS THAT HE HAD ATTENDED. NEVERTHELESS,
IT HAD ENDED BETTER THAN IT BEGAN. HE HAD ALWAYS BEEN SCEPTICAL OF
THE MEETING ENDING IN COMPLETE SUCCESS OR IN COMPLETE FAILURE.
COMPLETE FAILURE HAD BEEN AVOIDED. THIS REFLECTED A VERY RESPONSIBLE
EEC ATTITUDE TO THE DANGERS WHICH IT FACED IN THE OUTSIDE WORLD.

5. THE NEXT STAGE WOULD BE DIFFICULT. NO ONE COULD BE CERTAIN OF SUCCESS AT THE NEXT EUROPEAN COUNCIL. THE COMMISSION'S PAPER HAD BEEN GENERALLY WELCOMED AND USED AS A BASIS OF DISCUSSION. THE NEXT EUROPEAN COUNCIL MIGHT BE BROUGHT FORWARD IF THE INCOMING PRESIDENCY JUDGED THAT THE CONDITIONS FOR A SUCCESSFUL MEETING EXISTED.

6. WITH THE BUDGET QUESTION DOMINATING DISCUSSION, OTHER ISSUES HAD BEEN DEALT WITH RATHER CURSORILY. BUT HE PICKED OUT THREE POINTS: FIRST, THE CLEAR TIMETABLE FOR DEVELOPING THE EUROPEAN MONETARY FUND; SECOND THE "GOOD AND POINTED" DISCUSSION OF ENERGY; AND THIRD, THE CAP DISCUSSION WHERE THERE HAD BEEN AGREEMENT THAT IT WAS ESSENTIAL TO CONTROL AND LIMIT AGRICULTURAL EXPENDITURE.

7. IN ANSWER TO QUESTIONS, THE FOLLOWING POINTS WERE MADE:

(1) ASKED ABOUT THE LIKELY SCALE OF FINANCIAL RELIEF AVAILABLE TO THE UK AT THE NEXT EUROPEAN COUNCIL, MR LYNCH SAID THAT THE AMOUNT RESULTING FROM REMOVING THE CONSTRAINTS IN THE DUBLIN FINANCIAL MECHANISM HAD BEEN DEBATED BUT WITHOUT AGREEMENT. MR JENKINS SAID THAT THERE HAD BEEN A "GENERAL DISPOSITION" TO TAKE OFF ALL THREE BRAKES IN THE DUBLIN MECHANISM (BALANCE OF PAYMENTS CRITERION, TRANCHE SYSTEM AND THREE PERCENT CEILING) BUT ONLY AS PART OF A GENERAL SETTLEMENT. ON THE RECEIPTS SIDE, THERE WERE NO PRECISE FIGURES. THERE WAS NOW TIME FOR REFLECTION. THE COMMISSION HAD BEEN ASKED TO EXPLORE THIS ASPECT IN MORE DETAIL. MR LYNCH ADDED THAT THE NEXT EUROPEAN COUNCIL WOULD BE APPROACHED IN "A SPIRIT OF COMPROMISE";

(2) ASKED WHAT FACTORS COULD MAKE THE DECISION AT THE NEXT EUROPEAN COUNCIL EASIER, MR LYNCH SAID THAT THE OUTLOOK WAS DIFFICULT. AT THIS MEETING, MOST MEMBER STATES HAD BEEN "QUITE SYMPATHETIC" TO THE UK AND HAD INDICATED FINANCIAL AMOUNTS. BUT THEY HAD NOT BEEN ABLE TO GO ANY FURTHER. BILATERAL CONTACTS WOULD TAKE PLACE TO SEE IF THE CLIMATE COULD BE IMPROVED. ONLY TIME WOULD TELL;

(3) ASKED TO COMMENT ON PRESIDENT GISCARD'S REPORTED STATEMENT THAT ANY SETTLEMENT OF THE UK PROBLEM MUST BE PRECEDED BY PROGRESS ON FISH, ENERGY AND LAMB, MR LYNCH SAID THAT THESE ISSUES ALL FORMED PART OF THE ECONOMIC AND SOCIAL PROCESS IN THE EEC, MR JENKINS INTERJECTED TO SAY THAT NO LINKAGE WITH THE BRITISH BUDGET QUESTION WAS INTENDED IN THE PRESIDENCY CONCLUSIONS.

8. THE PRIME MINISTER'S PRESS CONFERENCE WAS RELAYED BY DIRECT TELEPHONE LINK TO THE FCO AND WILL BE TRANSCRIBED AND DISTRIBUTED FROM THERE.

HAYDON

COPIES SENT TO
No. 10 DOWNING STREET

FILES
EID
ES+SD
FRD
ECON.D
NEWS.D
OID
WGD
PS
PS/LPS

PS/PUS
SIR A DUFF
LORD BRIDGES
MR BULLARD
MR FRETWELL
MR FERGUSON
CABINET OFFICE

COPIES TO:
H.M. TREASURY

PRIME MINISTER

Energy Draft

Attached is the exiguous draft prepared - accurate I think but the authorised version will not be available till 9.00 am.

The main points to note are given below.

Part I

End of first paragraph. Most people wanted to have any "develop a comprehensive and consistent energy policy". This was an unclear and dangerous formulation and I insisted successfully on the amendments made.

Towards the end you will see alternatives A and B. A is what everyone else wants, B is my suggested alternative. A is dangerous for us since its whole purpose would be to try and get a bigger share of UK oil in emergency. It is in any case not justified since an emergency scheme of sharing has only recently been agreed. My suggested text is based on a draft by the Commission.

Part II

In the first paragraph I insisted on removing the words "as rapidly as possible" on the technical ground that the European Council could not confirm what it had not already decided - although the Strasbourg Communique talked about developing indigenous energy resources it did not say as rapidly as possible. This phrase applied to oil and even coal would be unacceptable.

In the second paragraph considered by Energy Ministers is my insertion since there seems no case for accepting these policies at Council level before Energy Ministers have had a go at them. Worth noting too that in an earlier draft it was proposed to accept in principle oil import targets for 1990 but I said this was nonsense.

/ Part III

Part III

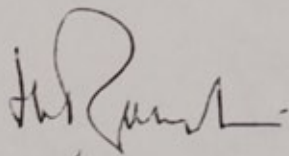
At the end of the first sentence [] and by encouraging production_7 is my insertion. This is part of the old argument that we do not see why we should fail to get support for coal production which helps the Community as a whole with so much help going to other countries for all manner of things.

On the second paragraph, the first []_7 are pressed for by Luxembourg and the second by the Dutch. We can leave them to fight it out but should go for the strongest possible general support of nuclear power in which we shall be backed by the French.

Part IV

No special points for us. The insertion is at the wish of the Germans who particularly want to keep in a reference to ECE.

I am sending a copy of this minute to the Private Secretary to the Foreign and Commonwealth Secretary.

A handwritten signature in dark ink, appearing to be 'J. R. ...', written in a cursive style.

30 November 1979

PART 1

The European Council discussed the world energy situation which remains a ^{very} matter of serious concern. In view of renewed price increases, ~~and~~ continuing uncertainties about supply and production levels, and the changing structure of the world oil market, the European Council considers ~~it imperative~~ that efforts must be made both by producing and by consuming countries to create conditions for ^{greater stability,} ~~stable~~ supply. The Community for its part must ~~now~~ ^{more effective} develop a ~~comprehensive and consistent~~ energy policy, ^{in light of these needs}

The European Council confirms the will of the Community to adopt measures in the context of similar efforts by other industrialized countries ^{to reduce consumption of oil}

^{requests} It ~~invites~~ the Council of Energy Ministers to agree on a supplementary programme of energy saving representing broad equivalence of efforts in all Member States.

~~The European Council requests the Council of Energy Ministers at their meeting on 4 December to make In the same context, a final decision on national import objectives for 1980, is to be taken shortly.~~

A. ^{The rest} ^{The strengthening of} ^{Measures to be taken in case of oil shortage} ^{should be considered} ^{must be} strengthened in the direction of an increased Community internal solidarity, [so that oil supplies can be delivered as fairly as possible to all Member States.]

The Community's policy regarding ^{transparency of the oil markets} ~~spot markets~~ will be to monitor the results of existing measures and to put into practice the extensions already decided in principle. [and any other steps which may be adopted on the basis of present studies]

~~It will be an aim of the Community to avoid uneven building of stocks by Member States.~~

B. ^{U.K.} [Further consideration should be given to strengthening measures to reduce consumption in the event of a serious oil shortage]

PART 2

The European Council confirmed its resolve to develop ~~as~~ rapidly as possible indigenous energy sources, particularly coal, nuclear and hydrocarbons as well as the research and development programmes into renewable energy sources, ^{and conservation} ~~in~~ particular, the following principles should be adopted:

- ~~ceilings on Community oil imports should be extended beyond 1985~~
- ~~in energy for electricity generation oil must be replaced by coal and nuclear~~
- ~~the ratio of growth in energy demand to economic growth must continue to be reduced.~~

Flexible but specific policies should now be [adopted] [considered by Energy Ministers]; at a Community level, for the period to 1990. These could include

- the principle of ceilings on Community oil imports should be extended beyond 1985.
- targets should be set for replacing oil by coal and nuclear sources for electricity generation
- the ratio between growth in energy consumption and economic growth should be reduced.

PART 3

The increased use of coal, particularly Community coal, as a replacement for oil will be encouraged by promotion measures aimed at intensifying the rate of substitution^[and by encouraging production]. These measures must not endanger the agreed production target for Community coal, nor hinder the substitution of oil by non-Community coal in some member countries.

The European Council ^{reaffirms its decisions at Strasbourg and.} views with concern the delay in implementing nuclear programmes and urged that Community and national action should aim at reversing this trend, under conditions which are safe and acceptable to the public. ~~[The~~
^{Moreover it favours} ~~particular by way of~~ a closer concertation between Member States regarding the siting of power stations^{in border areas,} and the protection of public health and environment. ~~] [The Council notes the need for more debate~~
to reassure public opinion in ^{some} ~~these~~ countries which have not yet decided their stance.]

PART 4

The European Council concluded that as energy problems affect all countries in the world no lasting solution of these problems can be achieved without closer understanding and co-operation between the industrialized, the oil producing and the non-oil developing countries. ~~It recommended that~~ Efforts should be made to promote discussion with oil producing countries with the object of adopting policies in both consumer and producer countries which would allow the transition ^{to a better market equilibrium} ~~away from oil~~ without serious damage to the economy of the world as a whole.

The European Council hopes that progress can be made in all the instances where energy policy is being debated. Such fora include OECD, ECE, UN.

20/11/79

Introduction

My colleagues will remember that it was in Strasbourg that we first discussed the problem of the size of the UK's net contribution to the EEC Budget in 1980 and onwards.

We asked the Commission then to find the facts and report and to suggest solutions.

Problem

Britain's position in this respect is unique in the Community. We have an income per head which is well below the average.

Yet we are expected to make the biggest net contribution to the EEC.

Six of the countries here are much better off than we are; and they are growing faster than we are.

/ But with

But with the exception of Germany, those countries either break even or benefit substantially from the budget.

Whether you calculate it as 1814 million units of account or as 1552 million, we - a less well-off country - make a huge net transfer that is unacceptable and inequitable. We therefore seek a fair and equitable solution.

Difference between Dublin now and Dublin 1975

The present financial mechanism was of course negotiated at Dublin but this was under extremely different circumstances. First, the previous Government was then renegotiating entry before a referendum.

Now, we are wholly committed to the Community for larger reasons ie it is best for us and for Europe that the countries of free Europe grow together, consult together and on many things act together.

/ Here we

Here we are and here we stay.
Second, then the problem was in
general terms about the future -
now it is about hard cash next year.

At time of Entry

May I just take colleagues back to the
assurances given us at time of entry.

Realising that the course of events
could not be predicted, the
the Commission prepared and the
Council of Ministers approved a
document which was then transmitted
to the UK.

Its subject was

"The financial arrangements in an
enlarged Community."

At the end of paragraph 20 the documents says:

"Indeed should unacceptable situations
arise within the present Community, or an
enlarged Community, the very survival of
the Community would demand that the
Institutions find equitable solutions."

That document was dated

13 November 1970.

/ The new

The new Commission document before us specifically reminds us of those words.

We are relying on that assurance now.

Broad Balance

Before referring to the present Commission document now before us, colleagues will note that we are asking for "broad balance" between contributions and benefits.

Some of my own people would say that being below average income and well below, we should argue that we should become net beneficiaries, and that transfers from the European budget could be expected to go more to the poorer members than the better off.

/ But I am not

But I am not arguing for that.

We are not asking for net gain from the Budget.

Britain does not expect to be financed by any of our partners.

We are asking only to be broadly in balance. At a time when we are cutting expenditure at home on things like education, housing, social services, a net contribution to Europe of £1000 m. is deeply resented as unfair.

I hope that we shall be able to complete the work we started at Strasbourg and take the requisite decisions.

Turning now to the proposals on the Commission's paper, I should like to make a number of points:

/ (i)

- (i) The precise figure for our net contribution depends on how MCAs are allocated. In our view it is the exporter who benefits from MCAs. But I know that some colleagues would argue differently, and I will therefore discuss on the importer benefits basis - 1552 million units instead of 1814 million. If I were in fact to accept that basis, I should already be accepting that we should be net contributors to the extent of 262 million units of account. I may want to come back to that point later.
- (ii) The Commission's paper to which I now refer in detail shows that the problem can be solved within the framework of Community principles. I welcome that. It means that today we can concentrate our discussion on substance. The Commission has specifically left to us decisions on amounts.

/ The Commission

The Commission paper deals first with the
structure of the budget.

It asks that we endorse the principle
of shifting some expenditure away
from agriculture to structural and
investment policies.

I believe that such a move would be in the
right direction, so long as it does
not involve us all in a great
expansion of the budget.

But I believe that its effects would only
be gradual.

It would do little or nothing to
solve immediate problems.

/ On the contributions

On the contributions side, the paper deals
with the financial mechanism.

So far the mechanism has failed to
benefit us.

I hope therefore that we can remove
the restrictions it contains.

We should remove

- the balance of payments test
- the 3 per cent limit
- the tranche system

and we should remove also

- the test of 85 per cent GNP and
substitute "below average GNP per
head"
- the 120 per cent growth criterion.

If those changes were put into effect the
UK contribution would be reduced
by 520 meua net.

This reduction would be achieved
by established Community methods.

/ That would

But that would leave us still contributing more than 1000meua net - not far short of Germany and vastly more than France (which has a GNP 40% greater than ours.

I turn therefore, as does the paper, to the other side of the budget problem: receipts.

If contributions are the resources of the Community, the distribution of receipts from the budget largely determines the pattern of burdens and benefits - who will gain and who will pay.

Here too the UK is in a unique position. Our receipts per head are less than half the Community average.

UK receipts per head:	28 eua
Community average receipts per head:	59 eua
Shortfall: receipts per head	30.6eua
total	1707 million eua
Net refund if UK contributes	1408 million eua <u>7</u>

/ From the Commission

From the Commission report at the time of accession (approved by the Council and to which I have already referred) - we expected, and so did our colleagues who endorsed it, that we should by now be getting a much higher share of receipts.

The 3rd Commission proposal - that on expenditure to help UK receipts - is therefore a necessary component in any solution.

The method we ourselves have suggested would be straightforward, simple and effective.

Alternatively we could follow the Commission's idea of payments linked to expenditure in the UK of a structural character, which would qualify under Community policies.

They have suggested some examples.

/ Whatever the

Whatever the methods, if UK receipts per head were brought into line with the Community average, the UK would benefit by an extra 1400 million units of account.

I could easily justify such a sum.

Indeed, since we are well below average income, I could justify more.

I hope that at least the gap between our receipts per head and the Community average can be reduced by three quarters - not closed completely but narrowed by about 75%.

That would mean that UK receipts would need to be increased by about 1000 million units of account net.

/ The two methods

The two methods, the removal of constraints on the financial mechanism and raising receipts to a level which would bring us nearer to the average would relieve the UK of having to transfer 1550 million units of account net of her income to the Community. As I said at the outset, looking at it on the exporter benefits basis, we should still be a net contributor to the extent of 200-300 million units of account.

The Commission has suggested the methods of dealing with the problem - Communautaire methods which I accept.

The details and amounts have to be determined here.

I believe that the amounts I have suggested would be fair.

The arrangement would last as long as the problem.

If and when the UK income per head becomes above average, we should expect to pay above average net contributions.

Finally

I must leave you in no doubt about the great political problem at home caused by this budget question.

If any other country were in the same position as we are, they would be making the same case with the same force and conviction.

And they would expect the same sort of response from their partners as we are expecting today.

/ Deeply

- 14 -

Deeply committed to Europe as we are, we
should find it difficult to explain
to our people if we do not
succeed in remedying our problems.

When there is so much trouble in the world,
the last thing we need or want is
a crisis within the Community.
I hope therefore that here today
we can prevent that happening,
because there is so much for us to
do together in the larger world.

Draft 29/11/79

Introduction

Raised in Strasbourg.

- Problem of size of net contribution of UK to EEC Budget in 1980 and onwards.

Commission asked to find the facts and report and to suggest solutions.

Problem

Unique in Community

In that - having well below average income per head, we are nevertheless asked ^{required} to make biggest net contribution to the EEC.

Six of the countries here - much better off than we are
- growing faster than we are.

/But

But with exception of Germany, those countries either break even or benefit substantially from the budget.

The huge net transfer we make (1554 or 1814 EUA according to method of calculation) from a less well-off to much better off - is unacceptable, and inequitable. We therefore seek a just and fair solution.

Difference between Dublin now and Dublin 1975

3. Aware that present financial mechanism negotiated at Dublin This time - discussions on a totally different basis

Then before a Referendum and renegotiating entry.

Now - wholly committed to EEC Community for larger reasons, i.e. best for us and for Europe that the countries of free Europe grow together, consult together and on many things act together.

/Are in -

Are in - ~~have no intention of~~
here we are and here we stay
~~changing that position, therefore~~
~~we stay.~~

Therefore arguing within Community
about a problem which can be solved
between partners of Community.

4. At time of entry

May I just take colleagues back to
assurances given us at time of entry.

Realising that the course of events
could not be predicted, there was a
document approved by the Council before
transmission to the UK. Its subject
was

"The financial arrangements in an
enlarged Community.

At the end of paragraph 20 it says.

"Indeed should unacceptable
situations arise within the present
Community, or an enlarged Community, the
very survival of the Community would demand that
the Institutions find equitable solutions."

Dated 13 November 1970

/We are

We are ^{relying on} praying in aid that assurance now.

5. BROAD BALANCE

Before referring to the present Commission document now before us, colleagues will note that we are asking for "broad balance" between contributions and benefits. Some of my own people would say that being below average income and well below, we should argue that we should become net beneficiaries, and that transfer from the European budget could be expected to go more to the poorer members than the better off.

~~We are not arguing for just that~~

But I am not arguing for that. We are not asking for net gain from the Budget. We are ^{asking} only to be broadly in balance. In a time when we are cutting expenditure at home on things like education, housing, social services, a net contribution to Europe of £1000 m. is deeply ^{unfair} resented as unjust. Hope we shall be able to complete the work we started at Strasbourg and take the requisite decisions.

Portugal does not appear to be financed by any of our partners

6. Turning to the proposals on the Commission's paper - should like to make a number of points

- (i) The precise figure for the net contribution depends on how MCAs are allocated. In our view it is the exporter who benefits from MCAs but I know that some colleagues would argue differently and I will therefore discuss on the importer benefits basis. 1552 ^{million} units instead of 1814 ^{million}. If I were in fact to accept that basis, I should already be accepting that we should be net contributors to the extent of 262 meua. I may want to come back to that point later.

/(ii)

(ii) The Commission's paper to which I now refer in detail shows that the problem can be solved within the framework of Community principles. Welcome that, - can therefore concentrate discussion on substance.

The Commission has specifically left it to us to make the decision on the amount.

(iii) The paper deals first with Structure of the budget.

Asks that we endorse the principle of shifting some expenditure away from agriculture to structured ^{and} investment policies.

Believe that such a move would be in the right direction, but it must not involve us all in ~~more expenditure~~. *a great expansion of the budget.*

Believe its effects ^W should only be gradual - would do little or nothing to solve immediate problem.

/Believe

Believe value of this point will depend on how precise a directive the European Council is prepared to give that expenditure will be redirected.

(iv) On the contributions side - paper deals with the financial mechanism - so far it has failed to benefit us. Therefore hope that we can remove the restrictions it contains.

Remove - balance of payments test
- 3 per cent limit
- tranche system

and

- test of 85 per cent rather than "below average GNP per head
- 120 per cent growth criterion.

If those changes were put into effect UK contribution would be reduced by 520 meua^{net} and in accordance with a normal Community method of financing.

This could be achieved by ...

That would leave us still contributing more than 1000m e.u.a. ^{next} - not far short of Germany - vastly more than France (which has GNP ^{over 40%} 50% greater than UK).

Turn therefore, as does the paper, to other side of budget problem.

(v) Receipts. If contributions are

the resources of the Community, the distribution of ~~the burdens and~~ ^{receipts from the budget} ~~benefits depends largely~~ ^{determined} on the patt ern of receipts ^{burdens and benefits - who will give and who will pay.}

U.K. Here too - in unique position.

Our receipts per head - less than half the Community average

From Commission report at time of accession (approved by the Council and to which I have already referred) - we expected, and so did our colleagues who endorsed it, that we should by now be getting much higher share of receipts.

UK 28 eua per head
Average 59 eua per head

Community expenditure to help UK receive more receipts -

The 3rd Commission suggestion is therefore a necessary component in any solution.

They have suggested that we look at special measures to increase low level of receipts. We have suggested a straightforward way of doing that which would be simple and effective.

But alternatively we could follow Commission's idea of receipts linked to expenditure in UK of a structured character, based on Community policies.

If UK receipts per head were brought into line only with the Community average - UK would receive 1400^me.u.a. I can easily justify such a sum - indeed being well below average income, I could justify more. I hope that our receipts could be something over 1000^me.u.a. which would reduce by about 3/4 the gap between our receipts and the Community average.

8 for per head at the Community average

It is important to give us increased 15 per cent net of 1000 mark

40% net by 100%

not closed completely but narrowed by 75% then would mean the net receipts would be

As I said
at the meeting

The two methods, the removal of constraints on the financial mechanism and raising receipts to a level which would bring us nearer to the average would relieve the UK of having to transfer 1550^m e.u.a. ^{net} of her income to the Community. [Looking at it on the exporter ^{benefits} ~~pay~~ basis - we should still be a net contributor to the extent of 262^m e.u.a.]

The Commission has suggested the method of dealing with the problem - ~~a~~ Communautaire method^s which I accept. The details and amounts have to be determined here.

I believe that the amounts I have suggested would be fair.

The arrangement would last as long as the problem. If and when the UK income per head becomes above average, we should expect ^{to} pay above average net contributions.

Finally

I must have you in as much about the

~~Cannot over-emphasise~~ great political problem
at home caused by this budget question. *MM. shall*
Deeply committed to Europe as we are, we shall find
it difficult to explain *to our people* if we do not ~~receive redress~~ *process in summary*
~~for~~ our problems. *P* When there is so much trouble
in the world, the last thing we need *is* ~~is~~ *or want* friction *a crisis*
within the Community. I hope therefore that *we* can
~~remove its causes here~~ *follow the happening* because there is *to* much for
us to do together in the larger world.

Draft 29/11/79

Introduction

My colleagues will remember that ~~the~~ ^{it was in Strasbourg} ~~was first~~ ^{but we} ~~discussed~~ ^{be} raised in Strasbourg.
+ Problem of ^{the} size of ^{the UK's} net contribution of UK to ^{the} EEC Budget in 1980 and onwards.
~~was first raised in Strasbourg.~~
~~We asked them.~~ ~~then them~~
Commission asked to find the facts and report and to suggest solutions.

Problem

^{Britain's position in his report} ^{in the Community}
~~Unique~~ ^{in the} ~~Community~~ ^{is unique.} ^{We have}
~~In that~~ ^{an income per head which is} ~~having~~ ^{well below} ~~average.~~ ^{Yes}
~~income per head,~~ ^{we are nevertheless}
~~required~~ ^{to make} ~~biggest~~ ^{biggest} ~~net~~ ^{net} ~~contribution~~ ^{contribution}
to the EEC.

Six of the countries here ^{are} ~~much~~ ^{much} better off than we are; ^{and they are} ~~growing~~ ^{growing} faster than we are.

/But

Are in - have no intention of changing that position. Therefore we stay.

Therefore arguing within Community about a problem which can be solved between partners of Community.

*Understand
the Commission in
is very important*

4. At time of entry

May I just take colleagues back to the assurances given us at time of entry.

Realising that the course of events could not be predicted, ~~there was a document approved by the Council before transmission to the UK.~~ ^{the Council of Ministers} ~~there was a document approved by the Council before transmission to the UK.~~ ^{which was transmitted} Its subject was

"The financial arrangements in an enlarged Community.

At the end of paragraph 20 ^{the document} ~~it~~ says.

"Indeed should unacceptable situations arise within the present Community, or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

That document ^{was} dated 13 November 1970

/We are

The ^{new} Commission document before us ^{specifically} reminds us of this ⁴ ~~situation~~ ^{words} ~~in these~~ words.
We are ~~praying~~ ^{relying on} in aid that assurance
now.

5. BROAD BALANCE

Before referring to the present Commission document now before us, colleagues will note that we are asking for "broad balance" between contributions and benefits. Some of my own people would say that being below average income and well below, we should argue that we should become net beneficiaries, and that transfer from the European budget could be expected to go more to the poorer members than the better off.

Britain does not expect
to be financed by
any of our partners.

~~We are not asking for net gain from the Budget.~~
But I am not arguing for ~~that~~. We
are not asking for net gain from the Budget.
We are ~~only~~ ^{asking only} to be broadly in balance. At
a time when we are cutting expenditure at
home on things like education, housing, social
services, a net contribution to Europe of
£1000 m. is deeply resented as ~~unfair~~. ^{unfair} Hope we
we shall be able to complete the work we
started at Strasbourg and take the requisite
decisions.

6. ^{now} Turning to the proposals on the Commission's paper, I should like to make a number of points

(i) The precise figure for the net contribution depends on how MCAs are allocated. In our view it is the exporter who benefits from MCAs. But I know that some colleagues would argue differently, and I will therefore discuss on the importer benefits basis — 1552 ^{million} units instead of 1814 ^{million}. If I were in fact to accept that basis, I should already be accepting that we should be net contributors to the extent of 262 ^{million} ~~meua~~. So I may want to come back to that point later.

*million units
of account*

/(ii)

(ii) The Commission's paper to which I now refer in detail shows that the problem can be solved within the framework of

Community principles. I welcome that, ^{It means but today we} can therefore concentrate ^{an} discussion on substance. The

^{Commission has specifically left decisions to us decisions on ourselves}

~~(iii) The paper deals first with the structure of the budget.~~

^{P. The Commission paper deals first with the structure of the budget. It}
ASKS that we endorse the principle of shifting some expenditure away from agriculture to structural ^{and} and investment policies.

structural

^I believe that such a move would be in the right direction, ^{so long as it does not} but it must not involve us all in ^{a need expansion of the budget} ~~expansion~~.

But ^I believe ^{its} effects ^{would} should only be gradual. ^{It} would do little or nothing to solve immediate problem.

^
see
↓

I believe

~~Believe value of this point will depend on how precise a directive the European Council is prepared to give that expenditure will be redirected.~~

← ~~(20)~~ On the contributions side, ~~the~~ paper deals with the financial mechanism. ~~So far it has failed to benefit us, therefore hope that we can remove the restrictions it contains.~~

Remove 3% of the amount

- ~~We should~~ *the*
- Remove - balance of payments test
- 3 per cent limit
- tranche system

(captain) (A. Stone budget)

- and ~~we should~~ *remove also.*
- test of 85 per cent *rather GNP*
 - ~~test~~ *and substitute* "below average GNP per head"
 - 120 per cent growth criterion.

If those changes were put into effect, ~~the~~ UK contribution would be reduced by 520 meua net. ~~and it would be reduced by established and in accordance with a normal Community method of financing.~~

This reduction would be achieved by established Community methods.

But that would leave us still contributing more than 1000m e.u.a. - not far short of Germany, and vastly more than France (which has GNP ^{50%} greater than ~~UK~~ *ours*).

Turn therefore, as does the paper, to ^{the} other side of budget problem: receipts.

~~(*) Receipts~~. If contributions are the resources of the Community, the distribution of ~~the burdens and benefits~~ depends largely on the pattern of receipts.

~~U.K.~~ Here too ^{the UK is} in unique position. Our receipts per head ~~are~~ less than half the Community average.

^{We} From ^{We} Commission report at time of accession (approved by the Council and to which I have already referred) - we expected, and so did our colleagues who endorsed it, that we should by now be getting ^a much higher share of receipts.

from the budget receipts is largely determined by the pattern of burdens and benefits who will gain and who will pay.

[in margin]

UK receipts per head - 28 units

(X)

*U.K. - 28 e.u.a.
per l. 27. 59
(Shortfall 30.6
1707.
net refund if UK contributes 1400.)*

UK receipts per head:	28 eua
Community average receipts per head	59 eua
Shortfall: receipts per head	30.6 eua
total	1707 million eua
Net refund if UK contributes	1408 million eua

(X)

that on expenditure ~~it is to~~ ^{help U.K.} ~~will affect~~ receipts -
proposed ~~to~~ ^{be a} ~~component~~

The 3rd Commission suggestion is therefore a necessary component in any solution.

The method we ourselves have suggested

~~They have suggested that we look at special measures to increase low level of receipts. We have suggested a straightforward way of doing that which would be simple and effective.~~

Alternatively we could follow Commission's idea of ~~receipts~~ ^{payments} linked to expenditure in UK of a structured character, ~~based on~~ ^{which would qualify under} Community policies. ~~They~~ ^{have suggested some examples.}

Whatever the method, if UK receipts per head were brought into line with the Community average, ^{we} UK would ~~receive~~ ^{benefit} ~~and~~ 1400 ^{per head} ~~and~~ I can easily justify such a sum. Indeed, since being well below average income, I could justify more. I hope that ~~our receipts could be~~ ^{at least} ~~something over~~ 1000 ^{per head} ~~which would reduce by about 3/4~~ ^{the gap} ~~between our receipts and the Community average~~

million units of account

big

million units of account

I hope that at least the gap between our receipts ^{per head} and the Community average can be reduced by $\frac{3}{4}$ ^{three quarters} ~~by~~ ^{completely} ~~closed~~

~~but reduced by~~ ^{narrowed by} ~~not 75%~~ ^{UK} That would mean that UK receipts would need to ~~be increased to~~ ^{close} ~~the gap~~ ¹⁰⁰⁰ ~~at~~ ^{million units of account} ~~not~~ ^{to give a net benefit of} 1000 ~~per head~~

1200 million units of account

to be

The two methods, the removal of constraints on the financial mechanism and raising receipts to a level which would bring us nearer to the average, would relieve the UK of having to transfer 1550 ^{million units} ~~of her income~~ ^{to the Community.} ^{At 1.5 unit at the whole} Looking at it on the exporter ^{value} basis, we should still be a net contributor to the extent of 262 million units.

million units
net

200-300
million units
net

~~2300~~
The Commission has suggested the method of dealing with the problem - ^{of} Communautaire methods which I accept. The details and amounts have to be determined here.

I believe that the amounts I have suggested would be fair.

The arrangement would last as long as the problem. If and when the UK income per head becomes above average, we should expect ^{to} pay above average net contributions.

Finally ~~I must leave you in no doubt~~ ^{I must leave you in no doubt} ~~about the~~ ^{about the}

~~Cannot over-emphasise~~ great political problem at home caused by this budget question.

Deeply committed to Europe as we are, we ^(should) shall find it difficult to explain ^{to our people} if we do not ^{manage to remedy} receive redress ^{for} our problems. (When there is so much trouble

in the world, the last thing we need ^{is a crisis in} ~~is~~ ^{here do they we} ~~is~~ within the Community. I hope therefore that ^{we can} ~~we can~~ ^{prevent that happening today} ~~remove its causes here~~ because there is ^{so} much for

us to do together in the larger world.

If any other country were ^{making} in the same ^{as we are} position, they would be ^{under}

the same case with the ^{and conviction} sure ^{freedom} ^{the same sort of response} ~~the~~ ~~of~~ ~~the~~ ~~Community~~

to report ^{as we do} ^{from their partners} ^{today} ^{seeking} ~~as we are~~ ~~to~~ ~~do~~

① Budget.

② Some form of agreement - limit.

EUROPEAN COUNCIL ON 29 AND 30 NOVEMBER 1979 IN DUBLIN

CONCLUSIONS OF THE PRESIDENCY

PM

This is what officials have done overnight.
Ed Franck
30/11

ECONOMIC AND SOCIAL SITUATION

Prospects for the Community Economy

The Heads of State or Government discussed developments in the Community economy and prospects for 1980, particularly in the light of the deflationary effects of the oil price increases. They recognized that despite the progress achieved by the co-ordinated economic approach agreed at the European Council in Bremen, the objectives sought, particularly maintaining growth and combatting inflation, had not been achieved in full.

In an effort to overcome the current economic difficulties a common approach continues to be essential. Priority must be given to combatting inflation. This is, in the medium and long term, a condition for solving the problems of growth, structural change and hence employment. The existence of the European Monetary System also underlines the necessity for a co-ordinated approach in tackling the balance of payments effects of the new oil price rises. The fight against inflation and unemployment should not be made more difficult through attempting to compensate by increases in money incomes for the real transfer of purchasing power which has taken place to the oil producing countries. Moreover, monetary policy should continue for the time being to support efforts to counter inflation. Modernization of and investments in Community industry must continue to enable it to adapt more quickly to new patterns of demand.

SM

The present difficulties require an improved co-ordination of the economic and monetary policies of Member States.

[With this in mind, the European Council confirms its intention to set up the European Monetary Fund in accordance with the timetable envisaged. To this end, the European Council invites the Commission to submit, for its next meeting in March, 1980, a report setting out the progress made in this field and the difficulties encountered.] Furthermore, the present difficulties require that the Community continue to pursue a common approach in conjunction with other industrialised countries. The European Council re-affirmed its determination to conduct economic policies in line with the principles and strategy agreed at the European Council in Strasbourg.

Even with the down-turn in the international economy the Community is expected to achieve at least a moderate rate of growth next year, and may avert acceleration in the rate of inflation.

The employment problem

The European Council discussed the serious unemployment situation in the Community. They agreed that the continuation and intensification of national and Community efforts to improve economic structures, primarily through increased investment, was of fundamental importance.

A more co-ordinated approach to employment problems should be defined. The European Council accordingly requests the Commission to submit proposals on specific measures which could be framed to promote more incisive Community action to deal with the unemployment problem.

The European Council noted the recent adoption by the Council of Ministers of a Resolution on the re-organisation of working time and asked the Commission to pursue their ~~efforts in this area in~~ consultation with the Social Partners.

Telematics

The European Council discussed the questions raised in a Commission communication drawing attention to the importance of data technologies both for European industry and society.

The European Council ^{took note of the Commission's proposals for} approved the principle of a common strategy ^{and invited the Council to study the Commission's} ~~for the development of these technologies in Europe~~ ^{considerations} and ~~asked the Commission to submit for the Council's~~

~~consideration proposals which would have regard to the interests, including the industrial aspirations of all the Member States.~~

Convergence and Budgetary Questions

ENERGY



①

The European Council discussed the world energy situation which remains very serious. In view of renewed price increases, continuing uncertainties about supply and production, and the changing structure of the world oil market, the European Council considers that efforts must be made both by producing and consuming countries to create greater stability. [In the light of these needs the Community for its part must now develop a more effective energy policy.]

Review
ready
consideration
2 copies

It invites the Council of Energy Ministers to agree on a supplementary programme of energy saving representing broad equivalence of efforts in all Member States.

1a

The European Council requests the Council of Energy Ministers at its meeting on 4 December to take a final decision on national import objectives for 1980.

[Measures to be taken in case of an oil shortage must be strengthened in the direction of an increased Community internal solidarity so that oil supplies can be delivered as fairly as possible to all Member States.] (1)

IEA



[Further consideration should be given to the strengthening of measures to restrict consumption in the event of oil shortage.] (2)

[The Community's policy regarding transparency of the oil market will be to monitor the results of existing measures and to put into practice the extensions already decided in principle, and those which may be adopted on the basis of present studies.] (3)

(1) United Kingdom reservation.
(2) Alternative draft proposed by the United Kingdom delegation.
(3) Reservations by the German and Dutch delegations.

2

The European Council confirmed its resolve to develop indigenous energy resources, particularly coal, nuclear and hydrocarbons and to promote the research and development programmes in the energy field with particular regard to renewable energy sources.

Flexible but specific policies should now be adopted at Community level for the period to 1990.

They should include the following:

- the principle of ceilings on Community oil imports should be extended beyond 1985
- targets should be set for replacing oil by coal and nuclear for electricity generation (1)
- the ratio between the growth of energy consumption and economic growth should be further reduced. (2)

The increased use of coal, particularly Community coal, as a replacement for oil will be encouraged by promotion measures aimed at intensifying the rate of substitution and by encouraging production (3). These measures must not endanger the agreed production target for Community coal, nor hinder the substitution of oil by non-Community coal in some member countries.

*Don't put emphasis
Don't adopt a coal policy*

(1) Danish reserve.

(2) The United Kingdom delegation suggested that these matters might be left for consideration by the Council of Energy Ministers.

(3) This addition is suggested by the United Kingdom delegation.

[[As the European Council already pointed out at its Strasbourg meeting, without the development of nuclear energy in the coming decades, no economic growth will be possible. It views with great concern the delay in implementing nuclear programmes and urges that Community [and national] ⁽¹⁾ action should aim at reversing this trend, under conditions which are safe and acceptable to the public. It notes that more public debate is needed to resolve doubts about nuclear power in those countries where policy is still in question. [Moreover it favours a closer concertation between Member States regarding the siting of power stations in border areas and the protection of public health and environment] ⁽²⁾.]] ⁽³⁾

3 The European Council concluded that as energy problems affect all countries in the world no lasting solution of these problems can be achieved without closer understanding and co-operation between the industrialized, the oil producing and the non-oil developing countries. Efforts should be made to promote discussion with oil producing countries with the object of adopting policies in both consumer and producer countries which would allow the transition to a better market equilibrium without serious damage to the economy of the world as a whole. The European Council considers it most desirable that significant and rapid progress be made in all international fora where energy is discussed i.e. the United Nations, OECD/IEA and the Economic Commission for Europe, with a view to establishing a consensus and co-operation on the adjustments required by the changing situation in the world.

⁽¹⁾ Danish reservation.

⁽²⁾ French reservation.

⁽³⁾ Danish reservation on the whole paragraph.

Reports on European Union

The European Council received and noted the reports by the Foreign Ministers and the Commission on the progress achieved towards European Union in the past year. The European Council noted the importance of developments in the past year towards the achievement of European Union and in particular:

- the signature of the Instruments of Accession of the Hellenic Republic to the European Communities
- The establishment of the European Monetary System
- The direct elections to the European Parliament.

The European Council affirmed the importance of these concrete steps in demonstrating ^{the} Communities' commitment to proceed towards and to create the conditions for further progress towards an ever closer Union among the peoples of Europe.

The European Council decided that, as has been done previously, these Reports should be published in an appropriate form.

Report of the Committee of Wise Men

The European Council warmly thanked the Committee of Wise Men for the timely presentation of its valuable report on adjustments to the machinery and procedures of the Community institutions, prepared in discharge of the mandate given by the European Council in Brussels in December 1978.

The European Council decided to publish the report and agreed that the President of the Council would transmit a copy of the report to the Presidents of the other Institutions *for information* ~~as a matter of courtesy~~.

The European Council asked the Foreign Ministers in the appropriate framework to examine the report with a view to preparing the discussion at the next meeting of the European Council.

Future of ideas main ideas

Energy

Flot.

2.4 to higher
than in 1972

Consult with colleagues about review

Review ^{General Points} or ^{consequence} because have to
consult colleagues in ^{more} ^{order} to
be later

Very little res- for manoeuvre → prepared to be with
Totally independent - how → some points as France
By which don't allow me to go very far.

C.A.P.

More reductions - independent methods
are not prejudged.

Clear prospect
1 constitute
no pers -
receipt side.

Totally independent - can't accept it.

2nd effort.

- would be any good.

Not unreasonable

Crisis

- consult colleagues.

520

1572

CONCLUSIONS OF THE PRESIDENCY

ECONOMIC AND SOCIAL SITUATION

Prospects for the Community Economy

*Televised in the
short-hand for the
viewing conference
of computer and tele-communication
technology.*

The Heads of State or Government discussed developments in the Community economy and prospects for 1980, particularly in the light of the deflationary effects of the oil price increases. They recognized that despite the progress achieved by the co-ordinated economic approach agreed at the European Council in Bremen, the objectives sought, particularly maintaining growth and combatting inflation, had not been achieved in full.

In an effort to overcome the current economic difficulties a common approach continues to be essential. Priority must be given to combatting inflation. This is, in the medium and long term, a condition for solving the problems of growth, structural change and hence employment. The existence of the European Monetary System also underlines the necessity for a co-ordinated approach in tackling the balance of payments effects of the new oil price rises. / The fight against inflation and unemployment should not be made more difficult through attempting to compensate by increases in money incomes for the real transfer of purchasing power which has taken place to the oil producing countries. Moreover, monetary policy should continue for the time being to support efforts to counter inflation. / Modernization of and investments in Community industry must continue to enable it to adapt more quickly to new patterns of demand.

The present difficulties require an improved co-ordination of the economic and monetary policies of Member States. With this in mind, the European Council confirms its intention to set up the European Monetary Fund in accordance with the timetable envisaged. To this end, the European Council invites the Commission to submit, for its next meeting in March, 1980, a report setting out the progress made in this field and the difficulties encountered. Furthermore, the present difficulties require that the Community continue to pursue a common approach in conjunction with other industrialised countries. The European Council re-affirmed its determination to conduct economic policies in line with the principles and strategy agreed at the European Council in Strasbourg.

Even with the down-turn in the international economy the Community is expected to achieve at least a moderate rate of growth next year, and may avert acceleration in the rate of inflation.

The employment problem

The European Council discussed the serious unemployment situation in the Community. They agreed that the continuation and intensification of national and Community efforts to improve economic structures, primarily through increased investment, was of fundamental importance.

A more co-ordinated approach to employment problems should be defined. The European Council accordingly requests the Commission to submit proposals on specific measures which could be framed to promote more incisive Community action to deal with the unemployment problem.

The European Council noted the recent adoption by the Council of Ministers of a Resolution on the re-organisation of working time and asked the Commission to pursue their consultations with the Social Partners.

Telematics

The European Council discussed the questions raised in a Commission communication drawing attention to the importance of data technologies both for European industry and society. The European Council took note of the recommendations of the Commission and invited the Council (Foreign Ministers) to study a common strategy for the development of these technologies in Europe.

CONVERGENCE AND BUDGETARY QUESTIONS

The European Council held an exchange of views on convergence and budgetary questions. They re-affirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performances requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community.

To these ends the European Council expressed its determination to promote the adoption of measures to improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between these economies. They further declared the need, particularly with a view to the enlargement of the Community and necessary provisions for mediterranean agriculture, to strengthen Community action in the structural field.

The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget.

It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution should not result in raising the 1 per cent VAT ceiling.

In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure.

The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council. / The President of the Council will convene the European Council as soon as the conditions for such a meeting have been fulfilled.

The European Council recognized the need to reach rapid Community solutions to the problems of fisheries, energy and organization of the market in sheepmeat within the framework of the principles laid down in the Treaty.

ENERGY

The European Council discussed the world energy situation which remains very serious. In view of renewed price increases, continuing uncertainties about supply and production, and the changing structure of the world oil market, the European Council considers that efforts must be made both by producing and consuming countries to create greater stability. In the light of these needs the Community for its part must now develop a more effective energy policy.

The European Council requests the Council of Energy Ministers at its meeting on 4 December to take a final decision on national import objectives for 1980.

The European Council confirmed its resolve to develop indigenous energy resources, particularly coal, nuclear and hydrocarbons and to promote the research and development programmes in the energy field with particular regard to renewable energy sources.

The European Council concluded that as energy problems affect all countries in the world no lasting solution of these problems can be achieved without closer understanding and co-operation between the industrialized, the oil producing and the non-oil developing countries. Efforts should be made to promote discussion with oil producing countries with the object of adopting policies in both consumer and producer countries which would allow the transition to a better market equilibrium without serious damage to the economy of the world as a whole. The European Council considers it most desirable that significant and rapid progress be made in all international fora where energy is discussed i.e. the United Nations, OECD/IEA and the Economic Commission for Europe, with a view to establishing a consensus and co-operation on the adjustments required by the changing situation in the world.

Reports on European Union

The European Council received and noted the reports by the Foreign Ministers and the Commission on the progress achieved towards European Union in the past year. The European Council noted the importance of developments in the past year towards the achievement of European Union and in particular:

- the signature of the Instruments of Accession of the Hellenic Republic to the European Communities
- The establishment of the European Monetary System
- The direct elections to the European Parliament.

The European Council affirmed the importance of these concrete steps in demonstrating ^{the} Communities' commitment to proceed towards and to create the conditions for further progress towards an ever closer Union among the peoples of Europe.

The European Council decided that, as has been done previously, these Reports should be published in an appropriate form.

Report of the Committee of Wise Men

The European Council warmly thanked the Committee of Wise Men for the timely presentation of its valuable report on adjustments to the machinery and procedures of the Community institutions, prepared in discharge of the mandate given by the European Council in Brussels in December 1978.

The European Council asked the Foreign Ministers in the appropriate framework to examine the report with a view to preparing the discussion at the next meeting of the European Council.

The European Council decided to publish the report and agreed that the President of the Council would transmit a copy of the report to the Presidents of the other Institutions for information.

The European Council also adopted the following statements on Iran and Cambodia:

IRAN

1. The Heads of State or Government and the Foreign Ministers of the Nine, meeting in the European Council, considered the grave situation created by the occupation of the Embassy of the United States in Tehran and the holding of members of its staff as hostages in flagrant breach of international law.
2. The European Council strongly reaffirmed the statement which was issued by the Foreign Ministers of the Nine at their meeting of 20 November in Brussels. It is fundamental that diplomatic missions should be protected. The failure to uphold this principle and the taking of hostages to exert pressure on Governments are totally unacceptable. It is the duty of all Governments to oppose energetically such a breach of international law.
3. The Nine member States of the European Community fully respect the independence of Iran and the right of the Iranian people to determine their own future. They are conscious of the importance which the Iranian people attach to the changes which have taken place in their country. But in the same measure as they respect the rights of Iran they call on Iran to respect fully the rights of others and to observe the established principles that govern relations between States. Respect for these principles is essential to the effort to secure order and justice in international relations which is in the interest of all states including Iran.

4. The Governments of the Nine, supported by public opinion in their countries, expressed in particular by the European Parliament, solemnly appeal to Iran to respect these fundamental rights and duties so long established in international law. They urge most strongly that the Iranian authorities take action immediately to release the hostages in complete safety and allow them to return to their own country.

CAMBODIA

1. The European Council expressed its deep concern at the tragic situation in Cambodia.
2. It recalled that the European Community and its member States are contributing substantially to international relief efforts now under way. It emphasised the urgent need to ensure that international efforts to bring humanitarian relief to those in need in Cambodia and to Cambodian refugees in Thailand will be fully effective. It appeals to all those in a position to help and in particular to the parties most directly concerned to ensure that humanitarian relief will reach those in need.
3. It expresses its particular concern regarding the dangers confronting the refugee camps on the Thai-Cambodian border as a result of the continuing hostilities.
4. In the view of the Governments of the Nine a solution of the wider problems which confront Cambodia should be based on an independent and neutral Cambodia, with a genuinely representative government, free from any foreign military presence and maintaining friendly relations with all the countries of the region.

Two points were made in yesterday's discussion which I should like to answer. The first was that our problem would be largely solved if Britain would change the pattern of its trade more rapidly, so as to trade more with the Community and less with third countries.

I am not sure that my colleagues realise how substantially our trade patterns have in fact shifted towards the Community in the six years of our membership. In 1972 imports from other Community countries accounted for under 32% of our total imports. The figure now is 38%. This represents an increase of 20% in six years. I note incidentally that the comparable figures over the same period show for Germany a decline of 7%, for France a decline of 8% and for Italy a decline of 9%.

I would add this. All of us know how attached people are to traditional modes of consumption and patterns of trade: and this is perhaps particularly true in food. How easy, for example, do our French friends think it would be to persuade the French consumer in, say, five years, to abandon the baguette in favour of the British loaf.

The second point made, in answer to what I said about the short-fall of UK receipts per head as compared with the Community average, was that the distribution of Community expenditure among the Member countries must derive from Community policies.

I thought that that was what the Commission was in fact saying in the third part of its latest paper. It spoke about special measures to increase UK receipts, but it made it clear that those measures must be based on Community policies.

I must again say, as I said before, that the simplest and most straightforward way of dealing with our problem would be our own suggestion for a receipt-based mechanism. But I do not want to insist on that.

I am absolutely ready to accept the principle that the distribution of Community expenditure must be derived from Community policies, so long as its application yields reasonable results. This is a question of methods, not of principles. Let us decide what result, in terms of amounts, would be reasonable. Then let us invite the Commission and our officials to work out for us solutions which, within that principle, yield the result which we have agreed upon.



EUROPEAN COUNCIL, DUBLIN: 29/30 DECEMBER 1979

PROBLEMS OVER DUTCH GAS DISPOSAL

Supplementary Note by the Department of Energy

1. The Groningen Onshore gas field is operated by NAM (Shell and Esso) in partnership with the Dutch Government (acting through Dutch State Mines). Gasunie (effectively 50% Government owned) is the sole purchaser, and makes onward supply contracts including exports. All such supply deals are effectively under Government control since the 6 April 1963 agreement establishing Gasunie gave the Government specific powers of approval in respect of Gasunie's marketing plans.
2. Under the Natural Gas Prices Act 1974 the Government has powers to fix minimum prices for domestic and export contracts. These powers were taken to put pressure on purchasers to revise prices in existing contracts to reflect the enormous oil price increases. Without actually invoking the law, the Dutch in fact succeeded in renegotiating upwards their export contracts. The Dutch informed the Commission beforehand about the new price law. The Commission accepted that the law was not in itself contrary to the Treaty though they would watch its implementation in case it should in practice contravene Treaty Articles 34 (if frequent price changes were thought to amount to a quantitative restriction) or Articles 86 and 90 (if differential pricing between customers breached the competition rules). The Commission's Answer to a European PQ in April 1975 on this is attached.
3. The major problem of Treaty conflict arose in relation to offshore gas discovered about 1970 by Placid International Ltd (a small North American company).
4. In November 1972 Placid signed an agreement to export the gas to Germany. But under Article III Section 25 of the Dutch Royal Decree (of 1967, later re-enacted in 1976) governing offshore oil and gas the Government may insist that all gas be supplied to Gasunie if the Government consider that it is needed in the Netherlands. In the event, when Placid submitted their German contract for approval they were told that the gas must be supplied to Gasunie.
5. Germany complained to the Commission who requested the Dutch Government to reverse their decision (on the grounds that it contravened the Article 34 prohibition on export restrictions) and to amend Article III Section 25 of their Decree. However, the Dutch then agreed a compromise solution with the Germans whereby they would share the gas 50:50. We understand that the Dutch wrote to the Commission informing them of this arrangement, but maintaining at the same time that no amendment to their domestic Decree was necessary as Article



III Section 25 did not in itself contravene the Treaty and that only its application in a particular case might do so. The Commission appear to have acquiesced in this and took no further action.

DEPARTMENT OF ENERGY
28 November 1979

WRITTEN QUESTION No 703/74

by Mr Gerlach

to the Commission of the European Communities

(30 January 1975)

Subject: Natural gas supplies from the Netherlands

1. Is the Commission familiar with the Dutch law on natural gas prices?
2. Does the Commission share the view of the Dutch Government, as expressed in a Government statement, that a rise in natural gas prices may have to be brought about by breaking supply contracts?
3. Does the Commission consider it compatible with the EEC Treaty for the Dutch Minister to prohibit the supply of natural gas at a lower price than the minimum price he himself fixed?
4. Does the Commission also consider it compatible with the Treaty for the Minister to take measures to prevent further supplies to customers where deliveries would otherwise be made below the minimum price?

No C 108/14

Official Journal of the European Communities

15.5.75

Answer

(4 April 1975)

1. The Netherlands Government notified the Commission of the draft law on natural gas prices on 14 October 1974.

2, 3 and 4. It would be unrealistic to freeze the price of natural gas given the limited amount of natural gas available and the marked increase in the prices of other sources of energy. Most contracts for the delivery of natural gas from the Netherlands to other Member States contain clauses linking natural gas prices to increases in fuel oil prices. The Commission understands that the remainder are being renegotiated.

In its Opinion to the Netherlands Government the Commission stated that the law in question does not of itself contravene the principle of free movement or the Treaty's rules on competition but that its application could hinder free movement of goods in a manner contrary to Article 34 of the Treaty and infringe Articles 86 and 90 of the Treaty and lead to distortions of competition. The Netherlands Government has also been requested to notify the Commission, before a decision is taken, of the minimum prices to be charged for deliveries of natural gas to other Member States.

Secretary of State

Could we ask you to hold this
note, in case the Prime Minister needs it
please?

K.E. Conway

PRIME MINISTER

U.K. Benefit from Oil Price Increases

1. German officials close to Chancellor Schmidt have been arguing that for every dollar that the oil price increases, the UK benefits to the tune of about £260 million. They were reported as quoting this figure in The Times of 28 November. They go on to compare this scale of benefit with the £1,000 million we are claiming in the Budget argument, pointing out that our oil price (light oil) has risen by about 12 dollars a barrel this year. And they link this argument with their allegations about aggressive UK oil pricing.

2. There is perhaps some risk that Chancellor Schmidt will use this argument.

3. The answer is in three parts:-

(i) We are at present importing more than we are exporting. If the oil price goes up there is no net benefit to us at all - unless, marginally, our price goes up further than the price of our imports. We may be a modest net exporter in 1980 and any net benefit will then be confined to the gain on those modest net exports.

(ii) Even in respect of net exports, part of the increased revenue accrues to foreign oil companies, not to the UK. The £260 million is the benefit to the sellers of oil (the companies), not to the UK: still less to the UK Government.

(iii) The rises in oil prices depress activity in most industrial countries, including our own. That reduces our growth (and also reduces government revenue).

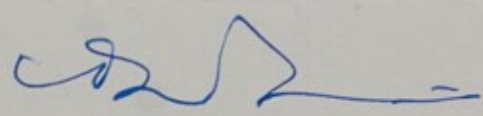
4. Of course it is true that when oil prices rise we are better off than countries without it, because we are insulated from much of the balance of payments effect (not all, because the general deflation still hits us). But it is still misleading to talk of £260 million as the gain to the UK from every dollar increase, and to compare this with the transfer of £1 billion through the Budget.

29 November 1979

ms

PRESIDENCY SCENARIO

1. The Presidency intend that the Ministers should foregather at 15.00 in the Salle d'Honneur (No 112 in the State Corridor). When they are all present then they will go to St George's Hall for the beginning of the meeting.
2. The first subject to be discussed will be the economic and social situation in the Community, which may include Energy. After an orientation debate (lasting perhaps till 5 pm) the Presidency then intend to send these subjects (with the draft Conclusions) to official working groups (see para 5 below).
3. The European Council will then discuss convergence until dinner time (ie from about 5pm until 7.30pm).
4. At the Prime Ministers' dinner, Mr Lynch intends to raise his visit to the US, Iran and the Middle East, and convergence, with debate on the latter going on after dinner. The Foreign Ministers will discuss political co-operation subjects as prepared for them by the Political Committee (probably Iran, CSCE, disarmament, and Rhodesia).
5. Meanwhile, there will probably be two Working Groups starting at about 21.00:
 - (a) an Energy Working Group which will meet in St George's Hall
 - (b) a General Working Group (ie "COREPER") which will discuss all the other subjects, but will probably not touch convergence until after the Heads of Government have discussed it at dinner.
6. Tomorrow morning, there will almost certainly be a Foreign Ministers' meeting at 8.30am in St Patrick's Hall to clean up the texts produced by officials overnight. There will then be the usual group photograph at 9.30 am and the meeting itself will start at 10.00 covering (if necessary) convergence, and agriculture, energy (if not already dealt with), European Union, Three Wise Men, and Europe in the 1990s.



29 November 1979

C D S Drace-Francis

Prime Minister

Arrangements

We believe that Mr Lynch intends:

1 hour on Economic and Social Affairs
(the stuff about work-sharing is a dead duck,
which no one is likely to want to pursue)

From then on until 6.30/7.p.m., Budget:

Lynch to open

Jenkins to speak second

You to speak third.

Over dinner, five subjects:

(1) Lynch's visit to US

(2) Iran and the Middle East

(3) NATO nuclear problem (upstream in Schmidt's mind)

(4) East-West relations

(5) Budget / convergence.

This should give enough for instructions for overnight drafting.

(if not during first hour)
After dinner / Schmidt with more energy, with a
view to discussion tomorrow morning.

Schmidt has to leave immediately after lunch
tomorrow, to prepare for his Party meeting on
Saturday.

RET

29. xi. 79

United Kingdom Oil Import Objectives and Commitment

Set out below is a brief summary of the objectives on oil imports to which the UK is committed.

1979 The EEC agreed (in Paris in March 1979) to attempt to limit consumption to 500m tonnes in 1979, of which the UK allocation is 89.9m tonnes. The UK will not stay within its allocation (excess of about 3m tonnes) but is not expected to exceed it as greatly as many other member states will exceed theirs.

The IEA agreed to reduce demand for oil from the world market by 2m b/d., below that forecast, corresponding to about a 5% reduction in forecast IEA consumption. The UK will reduce its demand for oil from the rest of the world by 5% as a result of increased production from allowing flaring.

1980 No final agreement on import objectives for 1980 has yet been reached within either the EEC or the IEA, but in negotiation the UK has offered to restrict imports to 12m tonnes.

1985 The EEC agreed at Tokyo to limit oil imports between 1980 and 1985 at an annual level not higher than in 1978. This represents some 472m tonnes, and within this figure the UK has agreed to an objective of -5m tonnes. (i.e to be a net exporter of 5m tonnes).

The IEA has agreed to a limit to imports into IEA countries of 26m b/d. In this context the UK has again agreed to an objective in 1985 of -5m tonnes.

1990 No agreement on import objectives in 1990 has yet been reached in either the EEC or the IEA.

Oil Import Targets: UK figures

1980

- a) 1980 oil consumption currently forecast at 95m tonnes.
- b) impossible to forecast 1980 production with certainty; experience suggests prudent to take bottom end of Brown Book range 85-105m tonnes, which did not take account of gas flaring restrictions which could reduce production by up to 5m tonnes.
- c) In accepting 12m tonnes net imports for 1980 we agree that we are giving ourselves no latitude or safety margin (closure of Brent would mean production loss of 12m tonnes).

1985

- a) 1985 oil consumption is forecast in the range 99-104m tonnes.
- b) 1985 UK production forecasts previously used in EEC and UK was 100-150m tonnes - the cause of strong political pressure on us to accept net exports of 20-30m tonnes i.e middle of previous production range.
- c) Our opening net import bid was 15m tonnes. We envisaged fallback to 0 - i.e net self-sufficiency, but accepted -5m tonnes (with OD(E) agreement) to enable agreements to EEC national targets on eve of 26 September Tokyo follow-up.
- d) France and Germany have criticised implied lower production, claiming that at Tokyo UK net exports of 23m tonnes were envisaged. We did not subscribe to that figure.
- e) Commission in latest energy balances for UK and others (produced on their responsibility. We have not accepted all the figures) have accepted -5 oil imports with associated consumption and production assumptions.

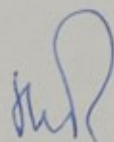
Oil Import Targets

	<u>Proposed 1980</u>	<u>1985</u>	<u>1978 Actuals</u>
Belgium	30	31	26.5
Denmark	16.5	11	16.5
Germany	143	141	138.5
France	117	111	111
Ireland	6.5	8	6
Italy	103.5	124	95
Luxembourg	1.5	2	1.5
Netherlands	42	49	36
United Kingdom	12	-5	41
	—	—	—
EEC	472	472	472

At this morning's Briefing meeting the Brown Book was referred to. Copies of the 1978 Brown Book and the 1979 Brown Book are attached.

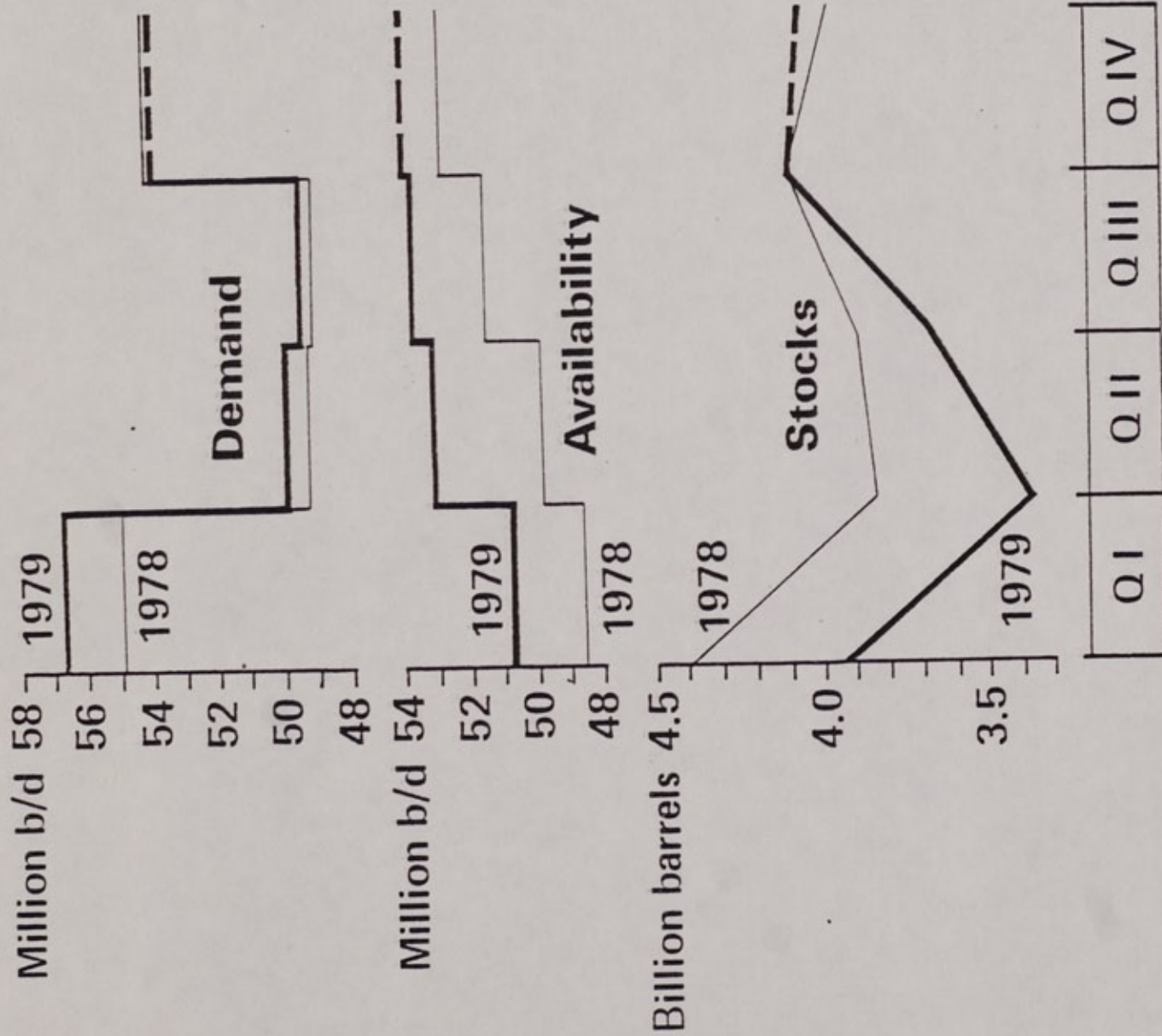
The forecasts of UK Continental Shelf oil production are to be found on page 3 and 4 of the former and page 3 of the latter.

Our EEC import target for 1985 is -5m tonnes. Given that we believe our consumption will then be 99 to 104m tonnes p.a. this assumes production of up to 110m tonnes. Other EEC countries have argued that we ought to allow something in the middle of the range of 100 to 150m tonnes (the 1978 Brown Book range).

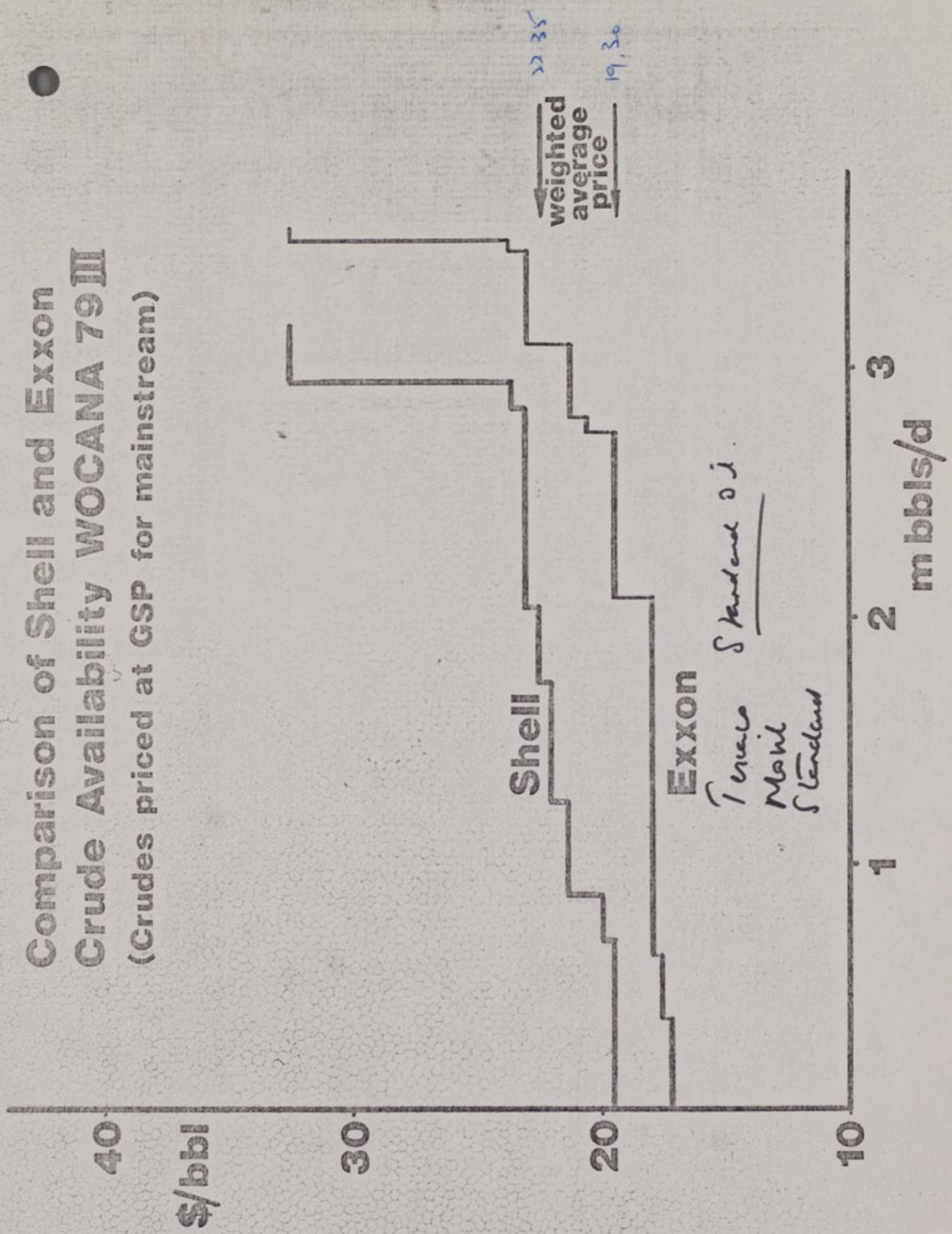


28 November 1979

WOCA SUPPLY AND DEMAND



**Comparison of Shell and Exxon
Crude Availability WOCANA 79III**
(Crudes priced at GSP for mainstream)



The 1979/1980 Demand Supply Scene - WOCA

1. Oil demand growth has slowed over 1979. Fourth Quarter '79 is expected to show a slight drop over '78/IV.

The 1979 supply has been well up on 1978 and inventories have been restored and about same level as a year ago.

2. Despite this the spot prices and spot sales of crude are still increasing. Spot crude sales now probably exceed 5 million b/d - i.e. 15% of OPEC production, or nearly 25% of OPEC production less Saudi Arabian production.

Of this 5 million b/d perhaps one third to a half is being sold by producer governments at spot market prices and remainder at a more modest mark up say GSP plus a few dollars.

The increase in spot volumes has essentially come out of the international majors availability - which has been cut overall by around 25%. As a consequence international majors have been obliged to cut third party crude sales, mainly to Japan (which has increased Japan's nervousness and stimulated their urge to scramble). Term contracts have been massively replaced by spot deals.

Iran is typical of current blackmail situation (Japanese picked up probably half the ex-US destination 700,000 b/d Iran crude).

3. Fundamentally purchasers have no confidence. Supply is uncertain and accident prone. New spot deals, via traders or G/G use stocks/distribution channels inefficiently.

4. Moreover longer term many OPEC countries seem determined to drop production levels (the low spenders). Partly as consequence of higher prices, partly "100 year" mentality.

(It is hard to see any reason for the Saudis to keep up the extra 1 million b/d currently in the system.)

OPEC could comfortably go from current 31 to 25 million b/d.

5. What happens post 17/12/79 OPEC meeting,

Probably no real concensus. But Saudi price rise seems certain. With probably price chaos continuing.

1980 looks grim - continued pressure on crude spot market, reduced volumes - possible further accidents.

Maybe 4 million b/d shortages during 1980/I!

SECRETARY OF STATE FOR ENERGY
10, WHITE HALL PLACE SOUTH
LONDON SW1A 2JG

01 211 6402

T Lankester Esq
Private Secretary to the
Prime Minister
Downing Street
LONDON SW1

28 November 1979

Dear Tim,

I attach a note on oil pricing and Dutch gas for the Dublin European Council.

I am copying this to the Private Secretaries of the Foreign Secretary, the Chancellor of the Exchequer, the Lord President and to Sir Robert Armstrong.

Yours aw,

Denis

DENIS WALKER
PRIVATE SECRETARY

CONFIDENTIAL

EUROPEAN COUNCIL - DUBLIN.

29/20 NOVEMBER, 1979.

ENERGY

Brief by the Department of Energy.

This supplementary brief consists of:

1. Note on the determination of UKCS Crude Prices.
2. Note on Government interventions in UKCS crude pricing.
3. Table 1 : Sequence of increases in World Crude Oil Prices, 1979.
4. Table 2 : Levels of World Oil Prices through 1979.
5. Table 3 : Formal OPEC Pricing Decisions in Past Twelve Months.
6. Table 4 : Graphical illustration of relative prices of Arabian Light and Forties Crude oil, 1979.
7. Table 5 : Relative Stability of Term Oil Prices, 1977-78.
8. Note on Crude Oil Quality Comparisons.
9. Note on Sequence of Events in ENOC's Forward Oil Sales.

Determination of UKCS Crude Prices

1. There is no official selling price for UKCS crude oil. Prices are market determined.
2. Since most oil produced on the UKCS is held within the affiliated channels of the multinationals, ENOC is the largest third party trader of UKCS crudes.
3. But only one sixth of the oil ENOC is currently selling is its own equity oil. Participation oil makes up the bulk of the remainder. This oil has to be purchased by ENOC at market price before ENOC can offer it for sale. ENOC has no right to acquire this oil below market price. It is not, therefore, a free price setter.
4. HMG has no statutory power to determine UKCS prices. Reserve powers of price control exist in the Energy Act 1976, but may be exercised only when an Order in Council has been made, occasioned either by the need to implement formal obligations to the EEC or International Energy Agency or by a fuel emergency in the UK. This power would, in any case, not extend to crude oil traded offshore.

CONFIDENTIAL

Supplement 2 to Annex B

Government Interventions in UKCS

Crude Pricing

1. There was no intervention by HMG in UKCS crude prices in January 1979. The OPEC official crude prices for the first quarter of 1979 had been agreed at Abu Dhabi on 16 December 1978. In the intervening period before prices for UKCS crude were set by the producers in the first days of 1979, Iranian crude oil exports were cut off altogether. The resultant hardening of the market led to UKCS prices in the first quarter some 70 c. p. barrel above the official price for Nigerian light. This lead persisted through the first quarter of 1979 but has not occurred since (but see para. 7 below).
2. General alarm about price trends in April 1979 led to UKCS producers (including ENOC) taking care not to exceed the new official prices set for comparable crudes as a result of the OPEC meeting in Geneva at the end of March.
3. Further ad hoc price increases by Algeria, Nigeria and Libya in May 1979 resulted in an exceptional revision of UKCS crude prices from 1 June (ie. 1 month before the new quarter). Saudi Arabia held its previously declared official price for the quarter (but subsequently back-dated the next increase to June 1st). UKCS prices clearly followed the North African lead. HMG did not intervene.
4. In July 1979, following a further OPEC price increase, HMG made its first positive intervention. Sellers of participation oil to ENOC were pressing the Corporation to breach the new OPEC price ceiling of £23.50 p. barrel on grounds of inadequate quality and location differentials within that price. ENOC was instructed not to accede. Department of Energy officials wrote to two recalcitrant companies pressing them to accept ENOC's offered price. This pressure succeeded.

B.P.
22 for
410,000 barrels day x 7 1/2

CONFIDENTIAL

Supplement 2 to
Annex B.

Contd/2.

5. Following the Tokyo Summit, the Secretary of State for Energy wrote to 27 oil companies urging moderation in spot market transactions.

6. In October 1979, first Libya, then Algeria again increased their official price, beyond the OPEC ceiling. Six out of 14 sellers of participation oil to ENOC pressed the Corporation to follow suit forthwith. Department of Energy officials intervened with these six companies on 24 and 26 October to urge restraint. This held the position temporarily, but ENOC was forced to acknowledge to its suppliers that if Nigerian prices followed Libyan and Algerian prices (as expected) UKCS crude prices would move similarly from November 1. Otherwise ENOC could have been forced to arbitration, a course which was expected to result in a price above that of the official price of North African crudes (because of spot market influences).

7. When the Nigerians announced their price increase (from 6 November) ENOC accordingly moved its prices from 1 November.

8. Two companies persist in rejecting the adequacy of ENOC's price. Department of Energy officials wrote to these companies urging them to come into line on 27 November. One is being interviewed today (28 November).

MEASURE OF EXISTING UKCS PRICE MODERATION

9. All OPEC prices quoted in this note have been official prices. Many OPEC producers are charging a premium for part of their supplies or selling on the spot market. Less than 2% of UKCS crude oil is believed to be traded spot. If UKCS oil were all traded at spot prices of, say, £40 p.barrel, this would:

- i) create an immediate balance of payments benefit of £1.9 billion p.a.
- ii) increase Petroleum Revenue Tax revenue by about half. (The estimate for PRT take in 1979-80 is £1.4 billion).

Of this effective export subsidy from present UKCS pricing practice, £1.1 billion arises on exports to the EEC (£400m on exports to Germany).

TABLE 1

Supplement 3
to Annex B

DIFFERENTIAL SEQUENCE OF PRICE INCREASES (\$/BBL)

Country	Saudi Arabia	Iran	Iraq	Kuwait	Libya	Algeria	Nigeria	UK
Crude	Arab Light 34°	Iran Light 34°	Kirkuk 34°	Kuwait 31°	Es Sider 37°	Sahara Blend 44°	Bonny Light 37°	Forties 36°
Price at Dec 31 1978	12.70	12.81	12.88	12.22	13.68	14.10	14.10	14.00
Date Effective January 1	+0.64	+0.64	+0.64	+0.61	+0.84	+0.70	+0.70	+1.50
February 15				+1.20				
February 21					+0.68			
March 3					+0.70			
<u>April 1</u>	+1.21	+3.12	+2.43	+1.77	+2.18	+3.75	+3.70	+2.80
May 1			+0.70					
May 15		+0.60		+0.60				
May 16					+0.70	+2.45	+2.46	
May 27					+2.31			
June 1	+3.45	+1.30	+0.64	+2.40				+2.45
July 1		+3.53	+4.71	+0.49	+2.19	+2.50	+2.51	+2.50
Oct 1		+1.50		+1.94				
Oct 15					+2.77			
Oct 20			+0.18					
Oct 24						+2.77		
Nov 1								+2.77
Nov 6							+2.77	
PRICE NOW	18.00	23.50	22.18	21.43	26.05	26.27	26.24	26.02
% INCREASE OVER DEC 1978	41.7	83.5	72.2	83.6	90.4	83.6	86.1	85.9

SEQUENCE OF PRICE RISES (£/BBL)

Supplement 4

to Annex B

Country	Saudi Arabia	Iran	Iraq	Kuwait	Libya	Algeria	Nigeria	U.K.
Crude	Arab Light	Iran Light	Kirkuk	Kuwait	Es Sider	Saharan Blend	Bonny Light	Forties
PRICES Dec, 78	12.70	12.81	12.88	12.22	13.68	14.10	14.10	14.00
Jan 1	13.34	13.45	13.52	12.83	14.52	14.80	14.80	15.50
Apr 1	14.55	16.57	15.95	15.80	18.08	18.55	18.50	18.30
Jul 1	18.00	22.00	22.00	19.49	23.28	23.50	23.47	23.25
Oct 1		23.50		21.43				
Oct 15					26.05			
Oct 20			22.18					
Oct 24						26.27		
Nov 1								26.02
Nov 6							26.24	
Price Now.	18.00	23.50	22.18	21.43	26.05	26.27	26.24	26.02
Rise over 78	5.30	10.69	9.30	10.21	12.37	12.17	12.14	12.02
%Rise	41.7	83.5	72.2	83.6	90.4	86.3	86.1	85.9

Table 3Formal OPEC Pricing Decisions in Past Twelve Months1. 16th December 1978 : Meeting at Abu Dhabi

	OPEC Marker crude - Arab Light proposed increases:-	
	<u>\$/bbl</u>	<u>% increase</u>
	<u>F.o.b.</u>	<u>(over 1978)</u>
<u>1978</u>	12.70	-
1 Jan 1979	13.335	5%
1 April 1979	13.843	9%
1 July 1979	14.161	11.5%
1 Oct. 1979	14.542	14.5%
	<hr/>	<hr/>
1979 Average	13.97	10.0%

2. 26th March 1979 : Meeting at Geneva

Agreed to bring forward to April 1st crude price increase originally agreed in December for October 1st.

Arab light therefore increased on April 1st from \$13.335 to \$14.54/bbl.

Each member country free to add market premia to its price (some had already done so).

3. 26th June - 28th June 1979 : Meeting at Geneva

- i) Marker crude price rise from \$14.55 to \$18.00/bbl;
- ii) Member countries free to add market premia, for individual crudes, as well as quality and freight differentials, but premia not to exceed \$2.00/bbl;
- iii) The maximum price for any crude not to exceed \$23.50/bbl.

4. 17th December 1979 : Next Meeting at Caracas

SEQUENCE OF PRICE INCREASES

\$ per bbl

ARABIAN LIGHT —————

NIGERIAN LIGHT
.....

NORTH SEA FORTIES - - - - -

28

26

24

22

20

18

16

14

12

DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN
1979

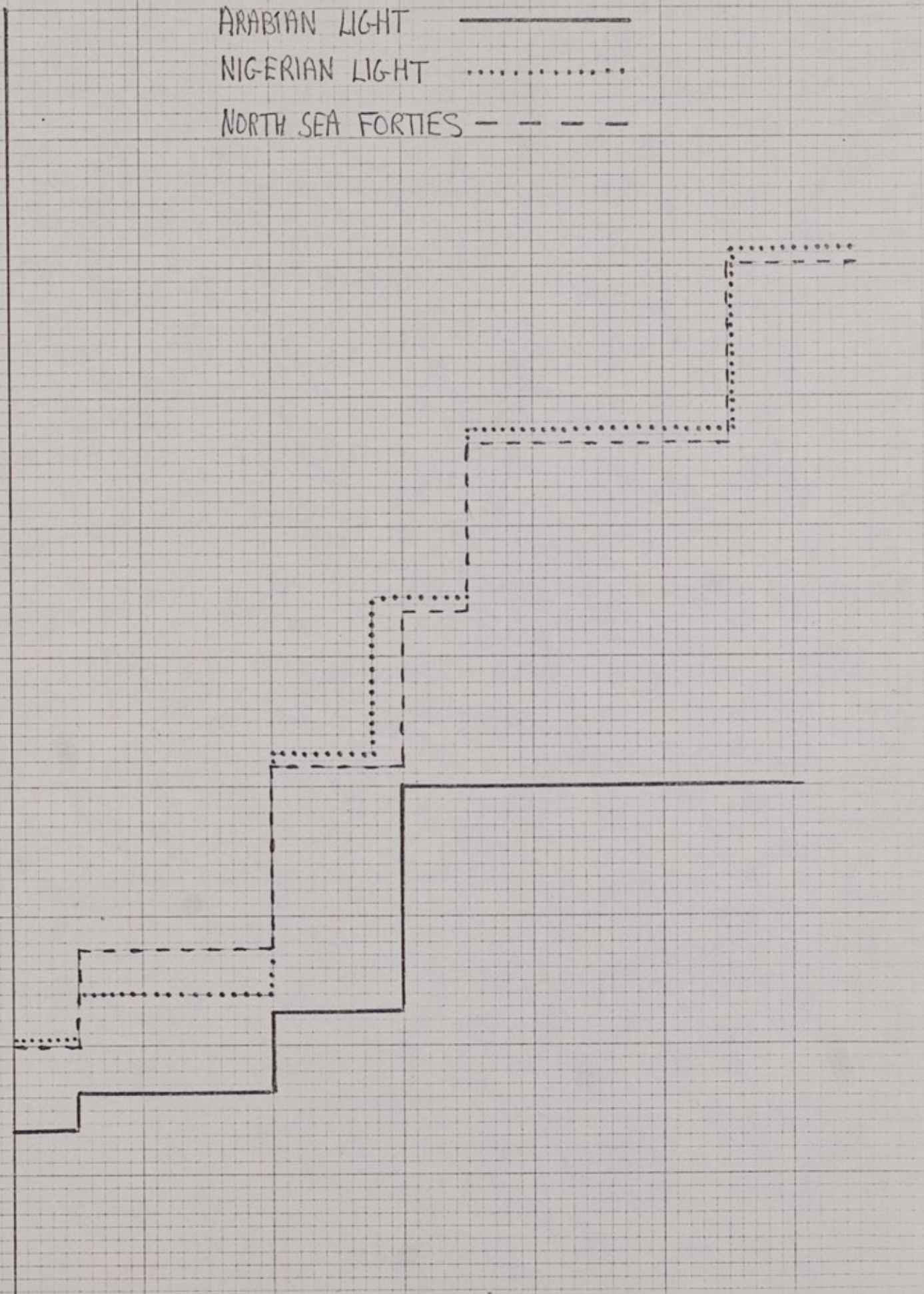


TABLE 5
RELATIVE STABILITY OF TERM OIL PRICES

1977 - 78

	<u>Forties</u> (Market determined price)	<u>Arabian Light</u> (Official price)	<u>Libyan Es Sider</u> (Official price)	<u>Nigerian Light</u> (Official price)
1977				
Q1	14.10 - 14.30	12.09	13.74	14.31
Q2	14.15 - 14.35	12.09	13.74	14.61
Q3	13.95 - 14.15	12.70	14.00	14.61
Q4	13.70 - 13.90	12.70	14.00	14.61
1978				
Q1	13.65 - 13.80	12.70	13.80	14.31
Q2	13.60 - 13.75	12.70	13.68	13.93
Q3	13.70 - 13.90	12.70	13.68	13.85
Q4	13.95 - 14.60	12.70	13.68	13.95

CRUDE OIL QUALITY COMPARISONS

1. Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.

2. There are two major aspects:

i) Yield differentials

The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasolene, naphtha and gas oil. From light North Sea and North African crudes these products may total 60 - 70% of the product yield, whereas Gulf crudes yield 50% or less of these products.

ii) Sulphur Content

The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4 % in some other Gulf crudes.

3. Under normal market conditions, North Sea crudes could be expected to command a quality premium of about \$2 per barrel over Arabian Light.

SEQUENCE OF EVENTS IN ENOC FORWARD OIL SALES

1. The Chancellor of the Exchequer's Budget announcement on 12 June indicated that the Government intended to reduce the PSBR in the current financial year, partly by the disposal of Public Sector assets to the value of about £1 billion.
2. Lord Kearton submitted a proposal to the Secretary of State for Energy on 31 August to reduce the 1979/80 PSBR by the sale of oil forward as an alternative to the disposal of some of ENOC's assets.
3. This proposition was accepted by 'E' Committee on 12 September and the Secretary of State made an announcement that the Government had agreed to ENOC's proposal to reduce the 1979/80 PSBR by selling oil forward on 14 September.
4. Immediately after this ENOC entered into negotiations with its customers.
5. The Chancellor said in a Press Notice on 16 October that ENOC expected to raise £400m - £500m through its forward sales.
6. ENOC announced on 13 November that it had completed negotiation of its forward oil sales programme.

Representations Made:

US Secretary of State for Energy wrote to the Secretary of State for Energy on 12 October.

French Embassy made representation on 23 October.

US Treasury Secretary telephoned Chancellor 6 November.

TOP COPY
DESTROYED.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

T Lankester Esq
Private Secretary to the
Prime Minister
Downing Street
LONDON SW1

28 November 1979

Dear Tim,

I attach a note on oil pricing and Dutch gas for the Dublin European Council.

I am copying this to the Private Secretaries of the Foreign Secretary, the Chancellor of the Exchequer, the Lord President and to Sir Robert Armstrong.

Yours ever,

Denis

DENIS WALKER
PRIVATE SECRETARY.

M. BP refinery had to be SNOC when 5/12 of N. Sea prod'n.
Income from SNOC ^{and} selling oil of ^{market} value.
Value is much less than in ^{London} selling price.
Govt will have ^{control} of ^{oil} price.
BP not buying ^{and} oil & some oil spot. Then sell to SNOC.
But SNOC ^{and} ^{oil} price ^{and} ^{oil} price - how is all in Govt. SNOC
then ^{and} ^{oil} price ^{and} ^{oil} price all in Govt. or has been
BP paid for it.

DH. SNOC selling BP crude only to UK refineries - not to foreigners.

handover does not mean this is so.

DH. Some of crude BP ^{supply} ~~sell~~ to SNOC is then sold back to BP. (but they don't
then ^{and} ^{oil} price ^{and} ^{oil} price).

P.M. BP is subsidising SNOC on foreign customers.

hand'w. BP ready to do this because they need the volume of supplies.

CONFIDENTIAL

EUROPEAN COUNCIL - DUBLIN.

29/20 NOVEMBER, 1979.

ENERGY

Brief by the Department of Energy.

This supplementary brief consists of:

1. Note on the determination of UKCS Crude Prices.
2. Note on Government interventions in UKCS crude pricing.
3. Table 1 : Sequence of increases in World Crude Oil Prices, 1979.
4. Table 2 : Levels of World Oil Prices through 1979.
5. Table 3 : Formal OPEC Pricing Decisions in Past Twelve Months.
6. Table 4 : Graphical illustration of relative prices of Arabian Light and Forties Crude oil, 1979.
7. Table 5 : Relative Stability of Term Oil Prices, 1977-78.
8. Note on Crude Oil Quality Comparisons.
9. Note on Sequence of Events in ENOC's Forward Oil Sales.

Determination of UKCS Crude Prices

1. There is no official selling price for UKCS crude oil. Prices are market determined.
2. Since most oil produced on the UKCS is held within the affiliated channels of the multinationals, ENOC is the largest third party trader of UKCS crudes.
3. But only one sixth of the oil ENOC is currently selling is its own equity oil. Participation oil makes up the bulk of the remainder. This oil has to be purchased by ENOC at market price before ENOC can offer it for sale. ENOC has no right to acquire this oil below market price. It is not, therefore, a free price setter.
4. HMG has no statutory power to determine UKCS prices. Reserve powers of price control exist in the Energy Act 1976, but may be exercised only when an Order in Council has been made, occasioned either by the need to implement formal obligations to the EEC or International Energy Agency or by a fuel emergency in the UK. This power would, in any case, not extend to crude oil traded offshore.

Sum total is only 1/2 of total price. (also 1/2 of total price of 21 barrels)

Known expense to oil price by 1/2 is being because some price increases from there more money than they need.

Known price is based on fact even regardless of political problems because no maintenance is being done.

OPEC accounts for 60% of free world production.

The Tokyo 7 takes about 25% of free world consumption.

7 1/2 barrels = 1 tonne

CONFIDENTIAL

Supplement 2 to Annex B

Government Interventions in UKCS

Crude Pricing

1. There was no intervention by HMG in UKCS crude prices in January 1979. The OPEC official crude prices for the first quarter of 1979 had been agreed at Abu Dhabi on 16 December 1978. In the intervening period before prices for UKCS crude were set by the producers in the first days of 1979, Iranian crude oil exports were cut off altogether. The resultant hardening of the market led to UKCS prices in the first quarter some 70 c. p. barrel above the official price for Nigerian light. This lead persisted through the first quarter of 1979 but has not occurred since (but see para. 7 below).
2. General alarm about price trends in April 1979 led to UKCS producers (including ENOC) taking care not to exceed the new official prices set for comparable crudes as a result of the OPEC meeting in Geneva at the end of March.
3. Further ad hoc price increases by Algeria, Nigeria and Libya in May 1979 resulted in an exceptional revision of UKCS crude prices from 1 June (ie. 1 month before the new quarter). Saudi Arabia held its previously declared official price for the quarter (but subsequently back-dated the next increase to June 1st). UKCS prices clearly followed the North African lead. HMG did not intervene.
4. In July 1979, following a further OPEC price increase, HMG made its first positive intervention. Sellers of participation oil to ENOC were pressing the Corporation to breach the new OPEC price ceiling of £23.50 p. barrel on grounds of inadequate quality and location differentials within that price. ENOC was instructed not to accede. Department of Energy officials wrote to two recalcitrant companies pressing them to accept ENOC's offered price. This pressure succeeded.

CONFIDENTIAL

Supplement 2 to
Annex B.

Contd/2.

5. Following the Tokyo Summit, the Secretary of State for Energy wrote to 27 oil companies urging moderation in spot market transactions.

6. In October 1979, first Libya, then Algeria again increased their official price, beyond the OPEC ceiling. Six out of 14 sellers of participation oil to ENOC pressed the Corporation to follow suit forthwith. Department of Energy officials intervened with these six companies on 24 and 26 October to urge restraint. This held the position temporarily, but ENOC was forced to acknowledge to its suppliers that if Nigerian prices followed Libyan and Algerian prices (as expected) UKCS crude prices would move similarly from November 1. Otherwise ENOC could have been forced to arbitration, a course which was expected to result in a price above that of the official price of North African crudes (because of spot market influences).

7. When the Nigerians announced their price increase (from 6 November) ENOC accordingly moved its prices from 1 November.

8. Two companies persist in rejecting the adequacy of ENOC's price. Department of Energy officials wrote to these companies urging them to come into line on 27 November. One is being interviewed today (28 November).

MEASURE OF EXISTING UKCS PRICE MODERATION

9. All OPEC prices quoted in this note have been official prices. Many OPEC producers are charging a premium for part of their supplies or selling on the spot market. Less than 2% of UKCS crude oil is believed to be traded spot. If UKCS oil were all traded at spot prices of, say, \$40 p.barrel, this would:

- i) create an immediate balance of payments benefit of £1.9 billion p.a.
- ii) increase Petroleum Revenue Tax revenue by about half. (The estimate for PRT take in 1979-80 is £1.4 billion).

Of this effective export subsidy from present UKCS pricing practice, £1.1 billion arises on exports to the EEC (£400m on exports to Germany).

TABLE 1

Supplement 3
to Annex B

DIFFERENTIAL SEQUENCE OF PRICE INCREASES (\$/BBL)

Country	Saudi Arabia	Iran	Iraq	Kuwait	Libya	Algeria	Nigeria	UK
Crude	Arab Light 34°	Iran Light 34°	Kirkuk 34°	Kuwait 31°	Es Sider 37°	Sahara Blend 44°	Bonny Light 37°	Forties 36°
Price at Dec 31 1978	12.70	12.81	12.88	12.22	13.68	14.10	14.10	14.00
Date Effective <u>January 1</u>	+0.64	+0.64	+0.64	+0.61	+0.84	+0.70	+0.70	+1.50
February 15				+1.20				
February 21					+0.68			
March 3					+0.70			
<u>April 1</u>	+1.21	+3.12	+2.43	+1.77	+2.18	+3.75	+3.70	+2.80
May 1			+0.70					
May 15		+0.60		+0.60				
May 16					+0.70	+2.45	+2.46	
May 27					+2.31			
June 1	+3.45	+1.30	+0.64	+2.40				+2.45
July 1		+3.53	+4.71	+0.49	+2.19	+2.50	+2.51	+2.50
		+1.50		+1.94				
Oct 1								
Oct 15					+2.77			
Oct 20			+0.18					
Oct 24						+2.77		
								+2.77
Nov 1							+2.77	
Nov 6								
PRICE NOW	18.00	23.50	22.18	21.43	26.05	26.27	26.24	26.02
% INCREASE OVER DEC 1978	41.7	83.5	72.2	83.6	90.4	83.6	86.1	85.9

SEQUENCE OF PRICE RISES (\$/BBL)

Supplement 4
to Annex B

Country	Saudi Arabia	Iran	Iraq	Kuwait	Libya	Algeria	Nigeria	U.K.
Crude	Arab Light	Iran Light	Kirkuk	Kuwait	Es Sider	Saharan Blend	Bonny Light	Forties
PRICES Dec, 78	12.70	12.81	12.88	12.22	13.68	14.10	14.10	14.00
Jan 1	13.34	13.45	13.52	12.83	14.52	14.80	14.80	15.50
Apr 1	14.55	16.57	15.95	15.80	18.08	18.55	18.50	18.30
Jul 1	18.00	22.00	22.00	19.49	23.28	23.50	23.47	23.25
Oct 1		23.50		21.43				
Oct 15					26.05			
Oct 20			22.18					
Oct 24						26.27		
Nov 1								26.02
Nov 6							26.24	
Price Now.	18.00	23.50	22.18	21.43	26.05	26.27	26.24	26.02
Rise over 78	5.30	10.69	9.30	10.21	12.37	12.17	12.14	12.02
%Rise	41.7	83.5	72.2	83.6	90.4	86.3	86.1	85.9

Table 3Formal OPEC Pricing Decisions in Past Twelve Months1. 16th December 1978 : Meeting at Abu Dhabi

	OPEC Marker crude - Arab Light proposed increases:-	
	<u>\$/bbl</u>	<u>% increase</u>
	<u>F.o.b.</u>	<u>(over 1978)</u>
<u>1978</u>	12.70	-
1 Jan 1979	13.335	5%
1 April 1979	13.843	9%
1 July 1979	14.161	11.5%
1 Oct. 1979	14.542	14.5%
	<hr/>	<hr/>
1979 Average	13.97	10.0%

2. 26th March 1979 : Meeting at Geneva

Agreed to bring forward to April 1st crude price increase originally agreed in December for October 1st.

Arab light therefore increased on April 1st from \$13.335 to \$14.54/bbl.

Each member country free to add market premia to its price (some had already done so).

3. 26th June - 28th June 1979 : Meeting at Geneva

- i) Marker crude price rise from \$14.55 to \$18.00/bbl;
- ii) Member countries free to add market premia, for individual crudes, as well as quality and freight differentials, but premia not to exceed \$2.00/bbl;
- iii) The maximum price for any crude not to exceed \$23.50/bbl.

4. 17th December 1979 : Next Meeting at Caracas

SEQUENCE OF PRICE INCREASES

\$ per bbl
30

ARABIAN LIGHT —————
NIGERIAN LIGHT
NORTH SEA FORTIES - - - - -

28

26

24

22

20

18

16

14

12

DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | JAN |

1979

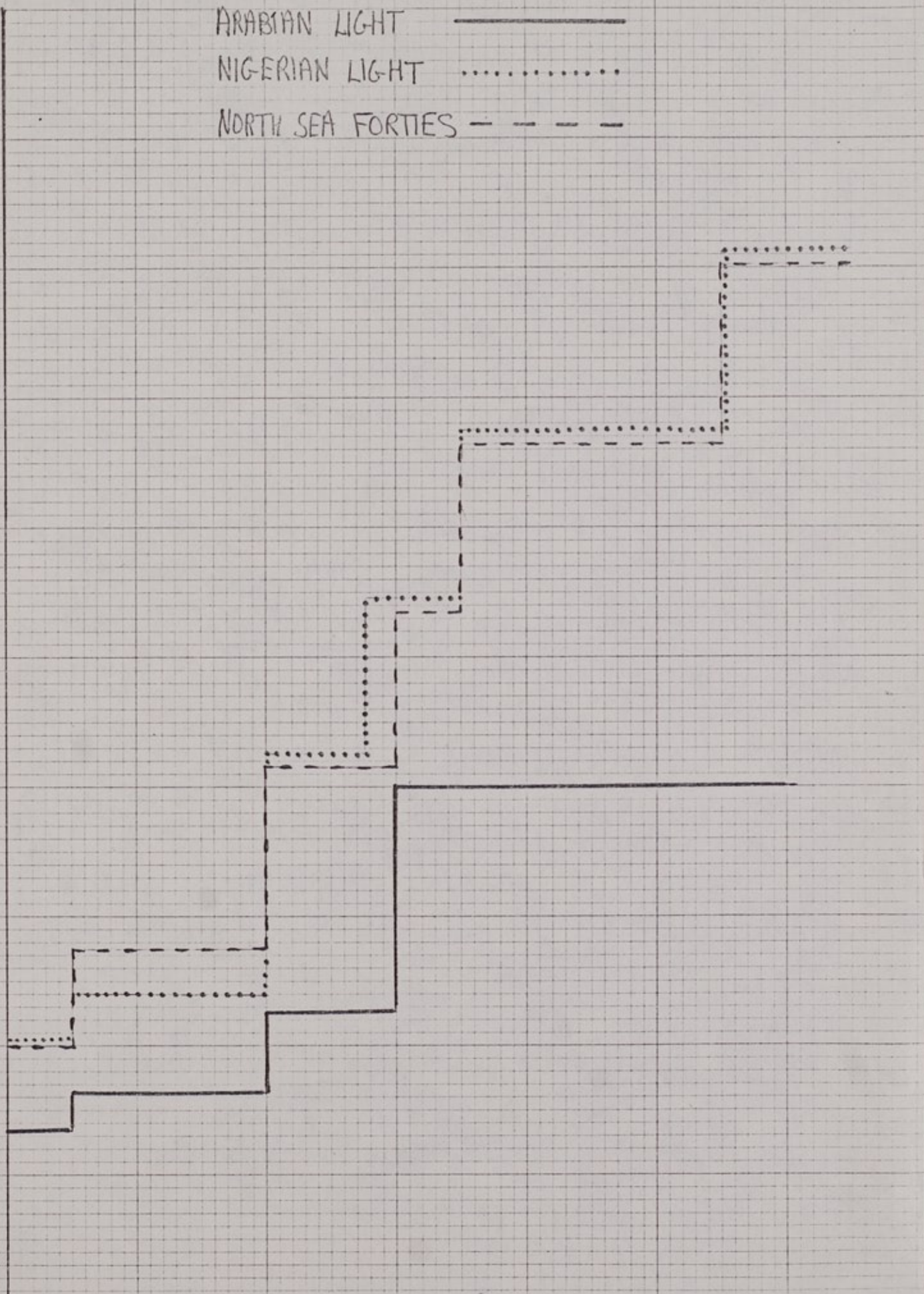


TABLE 5
RELATIVE STABILITY OF TERM OIL PRICES

1977 - 78

	<u>Forties</u> (Market determined price)	<u>Arabian Light</u> (Official price)	<u>Libyan Es Sider</u> (Official price)	<u>Nigerian Light</u> (Official price)	
1977	Q1	14.10 - 14.30	12.09	13.74	14.31
	Q2	14.15 - 14.35	12.09	13.74	14.61
	Q3	13.95 - 14.15	12.70	14.00	14.61
	Q4	13.70 - 13.90	12.70	14.00	14.61
1978	Q1	13.65 - 13.80	12.70	13.80	14.31
	Q2	13.60 - 13.75	12.70	13.68	13.93
	Q3	13.70 - 13.90	12.70	13.68	13.85
	Q4	13.95 - 14.60	12.70	13.68	13.95

CRUDE OIL QUALITY COMPARISONS

1. Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.

2. There are two major aspects:

i) Yield differentials

The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasoline, naphtha and gas oil. From light North Sea and North African crudes these products may total 60 - 70% of the product yield, whereas Gulf crudes yield 50% or less of these products.

ii) Sulphur Content

The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4 % in some other Gulf crudes.

3. Under normal market conditions, North Sea crudes could be expected to command a quality premium of about \$2 per barrel over Arabian Light.

SEQUENCE OF EVENTS IN ENOC FORWARD OIL SALES

1. The Chancellor of the Exchequer's Budget announcement on 12 June indicated that the Government intended to reduce the PSBR in the current financial year, partly by the disposal of Public Sector assets to the value of about £1 billion.
2. Lord Kearton submitted a proposal to the Secretary of State for Energy on 31 August to reduce the 1979/80 PSBR by the sale of oil forward as an alternative to the disposal of some of ENOC's assets.
3. This proposition was accepted by 'E' Committee on 12 September and the Secretary of State made an announcement that the Government had agreed to ENOC's proposal to reduce the 1979/80 PSBR by selling oil forward on 14 September.
4. Immediately after this ENOC entered into negotiations with its customers.
5. The Chancellor said in a Press Notice on 16 October that ENOC expected to raise £400m - £500m through its forward sales.
6. ENOC announced on 13 November that it had completed negotiation of its forward oil sales programme.

Representations Made:

US Secretary of State for Energy wrote to the Secretary of State for Energy on 12 October.

French Embassy made representation on 23 October.

US Treasury Secretary telephoned Chancellor 6 November.

CONFIDENTIAL

From: THE PRIVATE SECRETARY



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

M O D B Alexander Esq
10 Downing Street
SW1

28th November 1979

fy
Am

Dear Michael

PRIME MINISTER'S VISIT TO DUBLIN: 29/30 NOVEMBER 1979

... The Prime Minister may like to have some notes on Northern Ireland matters for any private talk that she may have with the Taoiseach during this visit. I attach a short speaking note and background notes.

As you are well aware, there is room for plenty of change in respect of several of the matters dealt with in these notes, and to the extent that you yourself are not keeping up with these changes, we shall ensure that you are informed. (You are likely to be quite up-to-date over the Conference; we may want to let you know of developments over security.)

I am sending a copy of this letter to Paul Lever.

Yours sincerely
Mike Hopkins

M. W. Hopkins

CONFIDENTIAL

PRIME MINISTER'S VISIT TO DUBLIN: 29/30 NOVEMBER 1979

SPEAKING NOTE FOR PRIVATE TALK WITH THE TAOISEACH

Your tour of the US seems to have gone well. I gather your robust denunciations of the IRA were given a rather less hostile reception than you are used to. That shows that all our efforts to get the facts across are paying off. We are grateful to you for keeping up the good work so energetically on this occasion. I shall seek to continue the educational process on my visit next month.

We are also grateful for your support for our efforts to establish a generally acceptable system of government in Northern Ireland. The path to that goal is as rocky as ever, but we shall not be deterred. We still hope to get sufficient support from the parties to convene the proposed conference. Pressure needs to be exerted on the parties at all levels, from the grass roots to the top. If we cannot have a Conference we shall seek alternative means of making progress.

There has been some good progress on cross-border security since we met in London early in September. Your security forces have made some excellent finds of arms and ammunition in Dublin docks and near the border. Jointly organised patrols have begun to work well. I am glad that you have held the line against your critics over the measures agreed between Messrs O'Kennedy, Collins and Atkins. There is still more to do in implementing these. For instance -

- i) Most of the practical details have been sorted out on helicopter overflights. But before we can implement the agreement the respective military authorities have to settle a question over communications for air safety purposes.

ii) We look forward to the actual deployment of the task force and technical unit to the border, and the establishment of the border surveillance unit, as planned.

iii) We need to show that the extra-territorial legislation, the alternative to extradition, is actually working, so that we can be seen to give effect to our agreement to make more use of it.

I hope that you will help to see that these matters get a fair wind.

O.R.

BACKGROUND NOTES

Mr Lynch's visit to the US was generally helpful (though he did not feel able to help us over the US embargo on arms for the RUC). He attacked the IRA forthrightly, and did not bang the drum for Irish unity.

His government have also given quiet support to our political initiative, encouraging the scheme for a Conference and refraining from criticism of the working paper for ruling out discussion of an "Irish dimension". They will need to keep on counselling moderation.

On security cooperation, The Irish have successfully kept their critics of the 5 October agreements at bay, but we must ensure that these embarrassments do not cause them to go slow on implementation and clearing up the minor remaining problems:

- i) Arrangements still need to be devised to allow British and Irish helicopters to communicate with each other and with ground bases, for air safety purposes. We hope to settle this soon.
- ii) It is important that the Garda should get the specialised units, which they agreed to set up, out on the ground.
- iii) We agreed on the need to make more use of the extra-territorial legislation to bring fugitive terrorists to Justice. We are particularly anxious to see a prosecution against two men in connection with an incident in South Armagh in June. Evidence has been furnished to the Garda by the RUC and the papers have

CONFIDENTIAL

.R.

been with the Irish DPP for several weeks, awaiting a decision on a prosecution. The RUC are getting regular cooperation and facilities from the Garda on most important issues, and a formal request to be permitted to interrogate suspects in the Republic would set this at risk; the Prime Minister is not recommended to raise that matter.

There are no pressing economic matters on which the Prime Minister need take the lead. However in case Mr Lynch mentions cross-border economic cooperation, she may like to know that:

- i) Useful progress has already been made in the context of the Anglo-Irish Economic Cooperation Committee. The UK and the Republic are applying together to the EEC Regional Fund for tourism projects in border areas. We are, of course, willing to consider any further practical and mutually beneficial ideas for cooperation between North and South.
- ii) The UK Government is keen to reconnect the two electricity systems. So we believe are the Irish; it would be to the mutual advantage of North and South. (The existing interconnector is non-operational at present, having been blown up by the IRA. Urgent consideration is being given to its re-establishment and a meeting of officials was held in Dublin on 21 November to discuss operational problems).

CONFIDENTIAL

Faint, illegible text at the top of the page, possibly a header or introductory paragraph.

28 NOV 1979



Main body of faint, illegible text, appearing to be several paragraphs of a document.

Lower section of faint, illegible text, possibly a conclusion or a separate paragraph.



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3785
SWITCHBOARD 01 215 7877

From the Permanent Secretary
Sir Kenneth Clucas KCB

28 November 1979

M Alexander Esq
10 Downing Street
LONDON SW1

Prime Minister

RMW
- 28/11/79

Dear Alexander,

... Martin Vile has asked me to send directly to you the enclosed table of statistics giving information on UK trade with the other Member States of the EEC. We have included crude balances.

For the record, the figures are derived from the Overseas Trade Statistics, which means that exports and imports are valued according to cost at the UK port. "Agriculture" is made up of Food and Live Animals (Section 0 of the Standard International Trade Classification) and Beverages (Division 11). "Manufactures" is made up of Section 5 to 8 of the SITC. Total trade covers all trade with the market and not just the components shown.

I am sending a copy of this to Martin Vile.

Yours ever
R M Watson

R M WATSON
Private Secretary

UK Trade with the EEC '8'

£ million Ots basis

1978

Jan-Oct 1979

	Agriculture	Manufac- tures	Total Trade	Agriculture	Manufac- tures	Total Trade
1. UK Exports to						
West Germany	224	2227	3105	190	2252	3379
France	359	1884	2530	246	1896	2477
Italy	96	876	1124	80	954	1186
Netherlands	211	1620	2256	142	1573	2426
Belgo/Lux	154	1876	2202	126	1672	2005
Denmark	36	519	841	27	461	840
Irish Republic	225	1486	2045	234	1523	2092
Total EEC '8'	1304	10488	14103	1055	10331	14405
2. UK Imports from						
West Germany	231	4093	4513	226	4403	4815
France	541	2404	3212	486	2538	3380
Italy	185	1548	1935	194	1615	2061
Netherlands	485	1461	2525	476	1531	2848
Belgo/Lux	95	1530	1831	89	1573	1890
Denmark	551	340	963	474	338	891
Irish Republic	635	728	1606	543	726	1388
Total EEC '8'	2724	12103	16584	2488	12725	17273
3. Crude Trade Balances						
West Germany	- 8	-1866	-1407	- 36	-2151	-1436
France	- 182	- 520	- 681	- 240	- 642	- 903
Italy	- 89	- 671	- 811	- 114	- 660	- 875
Netherlands	- 274	+ 159	- 269	- 324	+ 41	- 422
Belgo/Lux	+ 58	+ 346	+ 371	+ 37	+ 99	+ 115
Denmark	- 515	+ 179	- 121	- 447	+ 123	- 51
Irish Republic	- 410	+ 758	+ 439	- 309	+ 797	+ 704
Total EEC '8'	-1419	-1615	-2481	-1433	-2393	-2868

1979 NOV 28

1979

28 NOV 1979

121196

UN Exports to	Administrative	Number-	Number-	Total
	Value	Items	Items	Value
West Germany	1004	1004	1004	1004
France	1004	1004	1004	1004
Italy	1004	1004	1004	1004
Netherlands	1004	1004	1004	1004
Belgium/Lux	1004	1004	1004	1004
Denmark	1004	1004	1004	1004
Irish Republic	1004	1004	1004	1004
Total EC '81	7108	7108	7108	7108
UN Imports from				
West Germany	1004	1004	1004	1004
France	1004	1004	1004	1004
Italy	1004	1004	1004	1004
Netherlands	1004	1004	1004	1004
Belgium/Lux	1004	1004	1004	1004
Denmark	1004	1004	1004	1004
Irish Republic	1004	1004	1004	1004
Total EC '81	7108	7108	7108	7108
Grds Trade Balances				
West Germany	0	0	0	0
France	0	0	0	0
Italy	0	0	0	0
Netherlands	0	0	0	0
Belgium/Lux	0	0	0	0
Denmark	0	0	0	0
Irish Republic	0	0	0	0
Total EC '81	0	0	0	0

CONFIDENTIAL



From the Minister's Private Office

Michael Alexander Esq
Private Secretary
10 Downing Street
LONDON SW1

copy to: Fishing Industry: EEC
Fishing Policy: May 1979.

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

~~Prime Minister~~

fs
Pms

2
Pms 28/11

28 November 1979

FISHERIES

1. In case the subject of fishing is raised at the European Council, the Prime Minister may wish to know that Mr Walker met M. le Theule, the French Minister for Fisheries in Paris on 26 November and that a constructive and encouraging discussion took place in a friendly and positive atmosphere.
2. Both Ministers recognised that tough and extended negotiations would have to be faced before agreement could be reached on the Common Fisheries policy. Both of them emphasised the domestic political importance of the coastal fishing constituencies. But they both agreed that the interests of Europe as well as those of the fishing industries required an early and satisfactory settlement of the Common Fisheries policy; that agreement between France and the United Kingdom was an essential ingredient of that policy; and that the French and the British approaches were not basically different.
3. The Ministers also agreed that negotiations must now be intensified. My Minister will be sending to M. le Theule, later this week, a list of the problems that the British Government would want tackled in the negotiations and the French Minister will then add his own list. On the basis of this combined schedule, French and British officials are to be asked to consider how the problems could be overcome so that Ministers can then meet again before the January Fisheries Council to take the negotiations further.

1.

/4. The meeting

4. The meeting with the French Minister completes our first round of bilaterals with EEC Fisheries Ministers and my Minister now believes that there is a genuine commitment in all Member States, including France, to the search for a satisfactory renegotiation of the Common Fisheries policy.

GARTH WATERS
Principal Private
Secretary



CABINET OFFICE
 A 6747.....
 28 NOV 1979
 FILING INSTRUCTIONS
 FILE No.

Foreign and Commonwealth Office

London SW1A 2AH

28 November 1979

Sir Robert Armstrong KCB CVO
 CABINET OFFICE

Prime Minister

Para 2+3

Am

Dear Robert,

1. I have a few minor comments on the draft opening statement for the Prime Minister on the budget item at Dublin, attached to your minute of 27 November. I also have one new suggestion.
2. The draft statement may succeed in drawing the others on to the negotiating ground which suits us best: we would aim to pocket the revised financial mechanism and concentrate the debate on the extent and nature of the action required on the receipts side. But we ought to consider what will happen if the others refuse to play and simply insist that they are not prepared to do more than 1-200 meva on the receipts side.
3. It seems to us that in this situation the Prime Minister might try an alternative tack, by pressing the others to make clear not how far they will go to reduce the UK contribution, but how much in their view the UK should reasonably be expected to contribute. Michael Butler tells me he has found this an effective way of putting his colleagues onto the defensive. The aim is to force the others to say whether they really consider it right that the UK should contribute for instance as much as Germany, or three or four times more than France. If they can be brought to acknowledge that this would be unreasonable, one could make a renewed effort to press them to agree to a reasonable figure for our net contribution. The size of the necessary remedial action (on the basis of the Commission's proposals) can then be deduced. I enclose a short speaking note suggesting how the point might be made.
4. My three minor comments are:
 - a) in the last sentence of paragraph 2 it would be better to say "as the Community told us in 1970", not "as the Council of Ministers promised in 1970". The quotation is from the Commission report referred to in paragraph 13 of the draft. Although the report was transmitted to the negotiating conference "following examination by the Council" I think it better to avoid a categorical assertion that it contained a promise by the Council.
 - b) you might think it worth including, perhaps at the end of paragraph 6, a reference to the Strasbourg Council conclusions on the lines "We agreed in Strasbourg that decisions should be taken at this meeting and we now have to complete that task."

CONFIDENTIAL



c) on a typing point the figure in the last sentence
of paragraph 17 should be 262 million.

[Handwritten signature]

[Handwritten signature]
Michael Palliser

cc: Sir Kenneth Couzens KCB,
HM TREASURY

CONFIDENTIAL

CONFIDENTIAL



Prime Minister

I have been thinking further about Dublin after our talk yesterday evening. I think the important points are as follows:

1. I hope you will begin and end your statement with firm conviction and belief in the future value of the Community not only for its Members but for the Western World at large.
2. You will obviously be as firm as firm can be on the absolute necessity of an alteration of major proportions - indeed broad balance - of our net contribution. This need not take too long to say.
3. I hope you will make much of the assurance given by the Community as a whole to us in our negotiations. The moment of truth has now come and the Community must find a solution. Otherwise it runs very grave risks indeed. I hope you will put a greater accent, and therefore steer the argument on to what would be a reasonable contribution by the UK rather than on how much we need to get back from our present contribution. I suggest you do not throw away the MCA argument as easily as your draft speech proposes, but go on to say that while it would not be unreasonable for us to pay net £100 million or so it certainly cannot be reasonable that we pay as much or more than Germany and many times more than France. You would then use the battle ground of figures rather than mechanism which I believe would be more embarrassing for the others and rewarding for you.
4. You clearly will not get anything like as far as you need at Dublin. The Community has never been renowned for taking unpleasant decisions (which this of course is for all our partners) without long wrangling. I hope that if you make it clear that by not meeting your point the Community is running risks of crisis proportion that either the Presidency or some other Head of Government will suggest a further meeting. It would be better from our point of view if this came from someone else but failing that then I hope that you will.
5. I do hope you won't worry too much about "the cards in your hand"; although each of the possibilities mentioned in the paper which you commissioned did not in themselves mean much there is no doubt that a major country like us can if we wish disrupt the Community.
6. Now is not the time to take any decision about what action we should take if neither Dublin nor the next meeting gives you what you need. But as I will in all probability be far away by then

/I would just

CONFIDENTIAL

- 2 -

I would just like to say that I hope that you will make the punishment fit the crime and you may ultimately need to withhold payments. But equally we would do well to shame them even more if in one or two other areas of Community life we gave an earnest of our belief in the need for the cohesion of the Community and its influence. This also would apply to "political co-operation".

I am copying this minute to Peter Carrington and Robert Armstrong.

S.

SOAMES
28 November 1979

28 NOV 1978



CONFIDENTIAL

SECRET



4 Prime Minister

Handwritten signature

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

27/11

27 November, 1979 ^{F. 22. K.}

Dear Michael,

I understand the Prime Minister asked for a note about the possibility of preventing the EEC Commission from withdrawing money from its account at the Bank of England.

... I attach a note on this point.

Yours ever,
A. M. W. Battishill

A. M. W. BATTISHILL

M. Alexander, Esq.,

The Commission Accounts in the UK

The EEC's "own resources" collected in the UK are paid into the Commission's account with the Paymaster General (ie HM Treasury). From that account money is paid out on the Commission's instructions either to meet obligations in the UK or to the Commission's account with the Bank of England, from which the Commission draws to meet obligations in other member states.

2. The Bank of England Act 1946 contains a general power permitting the Treasury to give directions to the Bank after consultation with the Governor. This power has never been overtly used, but legal advice is that it can only be used to give general, as distinct from specific, directions to the Bank. Moreover, a specific direction to the Bank not to honour requests by the Commission to make withdrawals from its account at the Bank would raise important general implications for banking propriety and have implications for the relationship between the Bank and its other overseas clients. For these reasons a direction would be likely to be opposed by the Governor during the required consultation.

3. If such a direction were given, it would be open to the Commission to open an account with another bank or make other arrangements for withdrawing its money from its account with the Paymaster General. Typically, the balance in the Commission's account at the Bank of England is fairly low (it was £21m on 27 November 1979 but is often less than £10m), so blocking it would not financially embarrass the Commission to any great extent.

4. On the other hand, the balance in the Commission's account with the Paymaster General is typically larger (it can at times be £250m or more). On the instructions of Ministers, the Treasury could refuse to honour an instruction from the Commission to make a payment out of this account to the Commission's account at the Bank of England, or delay making such a payment. The position would then be that the

UK would have failed to make a payment which it was under a legal obligation to make. Normally the Commission's instructions are honoured within 24 hours.

Conclusion

5. If it were desired to stop the Commission drawing "own resources" monies out of the UK, the easier and more effective course would be to instruct the Treasury to refuse to honour requests from the Commission to make payments out of its account with the Paymaster General to its account with the Bank of England. However, such a refusal would entail the UK failing to make a payment which it has a legal obligation to make.

Ref. A0764

MR. ALEXANDER

cc. Mr. Franklin
Mr. Middleton, Treasury
Mr. Fretwell, FCO

kg.

Prime Minister

230
262
1850

27/xi

I attach notes for an opening statement by the Prime Minister on the budget item for the European Council at Dublin.

2. These notes are basically the work of Mr. Middleton, and are on the lines we discussed on 25th November. There is, however, one point at which we have suggested a slight modification of the line. On Sunday afternoon we talked about ending up with a "bid" for relief of some 1640 million units of account in 1980. It seems to us that, having at the outset expressed willingness to discuss the figures in terms of "importer pays MCA" and taking credit on that basis for a net contribution of 262 meua, the Prime Minister would be in danger of even further alienating the goodwill of her colleagues in Dublin if she ended up with a bid which significantly exceeded that figure.

3. I attach spare copies of the notes, in case the Prime Minister wishes to circulate them for consideration at this afternoon's restricted meeting.

RA

(Robert Armstrong)

27th November, 1979

European Council, 29th November: Prime Minister's Opening Statement

I said at Strasbourg that my objective and that of my Government was to put the relationship of the United Kingdom and its partners in the European Community on a firm and lasting basis. I want now to explain again why the vital interests of both the United Kingdom and the Community are at stake in this matter of the United Kingdom's budgetary contribution.

2. In 1980 the United Kingdom will transfer to the rest of the Community through the European Budget more - much more - than any other country. Six of the countries represented round this table are already much better off than we are. You are all growing more quickly. With the exception of Germany, you at worst break even and in most cases benefit substantially from the Budget. That is, I think we all agree, an unacceptable situation: the sort of unacceptable situation to which, as the Council of Ministers promised in 1970, the very survival of the Community would demand that the institutions should find equitable solutions.

3. In asking for such a solution, I am asking our partners to help my colleagues and me in the efforts which we are now taking to restore the British economy. We have already taken painful measures. Public spending is being cut, in order simply to hold the level of public borrowing. Even so interest rates have risen to unprecedented levels. We are going to have to make even deeper inroads into the spending plans we inherited from our predecessors. We must spend less. We are determined to keep the amount of money in circulation under strict control. I know you share my belief that these are the right measures - many of you have told me so in private and in public. You cannot blame me for the fact that they were not taken earlier. But you also understand that we must face a hard time before the economy recovers.

4. We are determined to honour our commitment to the defence of Europe. That we have spared from the axe. But we are cutting our social programmes on health, education and welfare, and we are likely to have to cut further. I do not ask that we should become net beneficiaries from the Community Budget - though I could make a case for that. But when I am asking the British people to accept cuts in their own social standards, I cannot in the same breath ask them

to shoulder a burden of over a thousand million pounds - equivalent to two pence in every pound on direct personal taxation - to help other people in Community countries most of which are more prosperous and have stronger economies. How can I explain to them that this would be a reasonable outcome of Community policies?

5. Please do not think that this is an artificial or exaggerated difficulty. I am asking you to recognise that I have not only a serious economic problem but also a real and formidable political problem. My colleagues and I are fully committed to the development of the European Community and of making a success of British membership. But we need the support of the British people - their positive support, as in the referendum four years ago, not just grudging acquiescence. They are unanimous on this matter of our budgetary contribution. A solution to the budgetary problem is not only an economic necessity but also a political necessity - not just for the United Kingdom but for the strength and effectiveness of the Community.

6. My wish is to lead a strong Britain and take a full part in building a strong Europe. A Europe which is strong economically and strong in defence. We shall not be deflected from our commitment to Europe. But the unacceptable burden arising from the Budget is a major obstacle in the way of progress. It is in our power, at this meeting, to set this obstacle aside. To set it aside in such a way that it does not return to plague us in two or three years' time. To set it aside so that we can all concentrate our efforts on the major challenges we face, in Europe and outside it, in the coming decade.

7. The size of the budgetary problem is quite apparent from the documents which the Commission have placed before us. The British people will pay out, in 1980, 1814 million European Units of Account to people in other Community countries.

8. This precise figure rests on allocating MCAs to the exporter. I believe that to be right: in my view it is the exporter - not the importer - who benefits from the MCAs on the butter that comes into the United Kingdom from other Community countries. I know that some of you would argue differently, and we obviously cannot conduct any sort of discussion if we have to refer all the time

to two sets of numbers. So I am willing to discuss the figures on an importer benefits MCA basis. But that still makes the United Kingdom's contribution 1552 million units of account. If I were to accept that our contribution should be made on this basis, I should already be accepting that we should be net contributors to the extent of 262 million units of account. So I must reserve my position on that, and I may want to come back to it later.

9. The United Kingdom has made its own suggestions for tackling the problem. Others of you do not like some of them, and they are not fully reflected in the latest Commission paper. That is disappointing to us. Nevertheless if others are willing to do so, I am ready to take the Commission's paper as a basis for our discussion. I am grateful to the Commission for setting out the facts on the budgetary problem. Their paper of 21st November (COM(79) 680) shows that the problem can be solved within the framework of Community principles. I welcome that, because it enables us to concentrate our discussion on the really important issues. The Commission's paper suggests a way forward in three areas.

10. First, on the structure of the Budget. The Commission have asked us to endorse the principle that action should be taken to shift the weight of Community expenditure from agriculture to structural and investment policies. This should have happened long since. Such a move would be in the right direction, though it must not involve us all in more expenditure. But its effects can be only small in the short term, and would contribute little or nothing to solving the immediate problem. And its value will depend on how precise a directive the European Council is prepared to give that expenditure will be redirected.

11. Second, the 1975 Financial Mechanism. So far that has failed to benefit us, because we have been in the transitional period. I hope that as part of a solution we might be able to agree that the Mechanism should be reformed so as to remove the restrictive elements in it. So as to make sure that we do not move into similar difficulties in a year or two's time, I believe the restrictive elements to be removed should include not only the balance of payments test, the 3 per cent limit and the tranche system but also the test of 85 per cent rather than simply below average GNP per head, and the 120 per cent growth criterion.

With these changes the Financial Mechanism would reduce the United Kingdom contribution by 520 meua according to the normal method of financing. This would enable the Financial Mechanism at least to begin achieving its original purpose, and to offer a reasonable safeguard for the future on the contributions side.

12. But on its own it is not enough. We should still be paying net more than a thousand million units of account. We should still be contributing about the same as Germany, and vastly more than France which has a GNP about 50 per cent greater than that of the United Kingdom. It would not put the Community budget on to a sound basis or meet economic or political necessities in the United Kingdom.

13. It has to be recognised that the United Kingdom is in a unique position on receipts from Community policies. Well over half of our budgetary problem arises from inadequate receipts. On any reckoning United Kingdom receipts per head are less than half the Community average. The Commission report prepared at the time of our accession negotiations in 1970 (GB/33/70) shows that we were entitled to expect that we should by now be getting a much higher level of receipts than has materialised. The third Commission suggestion is therefore a necessary component in any solution.

14. The Commission have suggested that we should look at special measures over a period of years to increase the low level of United Kingdom receipts from the Community. We have suggested a straightforward mechanism to bring up United Kingdom receipts. This would be simple, direct and effective. We should not lose sight of this suggestion.

15. But if my colleagues find difficulty with that suggestion, I am ready to consider the idea of extra receipts linked with United Kingdom public expenditure of a structural character leading to economic improvement and based on Community policies. The Commission have made suggestions about the sort of expenditure involved.

16. But token amounts will not do, if Community expenditure in the United Kingdom is to be raised enough to bring the United Kingdom closer to the position of other member countries and thus to provide an adequate solution to the budgetary problem.

17. If United Kingdom receipts per head were by this means brought in line with the Community average, the United Kingdom would gain 1400 meua. I could of course justify such a sum - but, as I say, I do not ask for it. Something less - involving an addition of about a thousand million units of account of expenditure - to bring our receipts up to about 70 per cent of the Community average, would, together with the removal of the constraints in the 1975 Financial Mechanism, relieve the United Kingdom of transferring some 1550 million units of account in 1980, which is broadly equivalent to the 1552 which we are due to pay on an importer MCA basis. Looking at it on the "exporter pays MCA" basis, we should still be contributing a net 265 million units of account to the Budget.

18. This is the way in which I invite the Council to deal with the problem: by a combination of the financial mechanism relieved of restraints, and extra receipts under a special regime up to a clearly prescribed level. The Commission have proposed the methods and mechanisms, and we can ask them to work out the details. As they quite rightly tell us, it is for us to determine the amounts.

19. On the basis I have suggested to you, the pattern of payments and benefits would then be fair. The arrangements would need to last as long as the problem to which they relate. We should not then need to have this sort of discussion again. We should have done more ^{than} / avert a crisis. We should have taken a major step towards putting the finances of the Community on a sound and durable basis. We should in doing so have shown the solidarity of the Community, and we should have strengthened it internationally, at a time when the world needs a strong Europe, able to give a clear lead to the councils of the world.

GR 1250

CONFIDENTIAL

FRAME GENERAL

DESKBY 280900Z

FM UKREP BRUSSELS 271900Z NOV 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 6418 OF 27, NOVEMBER

INFO PRIORITY DUBLIN

MY TELNO 6391: EUROPEAN COUNCIL DRAFT CONCLUSIONS

1. IRISH PERMANENT REPRESENTATION HAVE ISSUED FOLLOWING DRAFT CONCLUSIONS ON ENERGY:

THE EUROPEAN COUNCIL DISCUSSED THE WORLD ENERGY SITUATION WHICH REMAINS EXTREMELY PREOCCUPYING. IN VIEW OF RENEWED PRICE INCREASES AND CONTINUING UNCERTAINTIES ABOUT SUPPLY AND PRODUCTION LEVELS, AND THE CHANGING STRUCTURE OF THE WORLD OIL MARKET THE EUROPEAN COUNCIL CONSIDERS IT IMPERATIVE THAT ORDER BE RESTORED TO THE OIL MARKET. THIS MEANS THAT EVERY EFFORT MUST BE MADE BY THE COMMUNITY TO STABILIZE AND IF POSSIBLE REDUCE CONSUMPTION OF OIL, NOT ONLY BECAUSE THE SUPPLY SITUATION WILL AT BEST REMAIN STATIC AND MAY POSSIBLY DETERIORATE BUT ALSO IN ORDER TO LIMIT THE VULNERABILITY OF OUR ECONOMIES TO SHARP PRICE INCREASES OR TEMPORARY SUPPLY SHORTAGES. FROM THE POINT OF VIEW OF THE COMMUNITY THE ESSENTIAL AIM MUST BE TO SECURE STABLE ENERGY SUPPLIES AT CURRENT WORLD PRICES IN CO-OPERATION WITH THE PRODUCING COUNTRIES.

THE EUROPEAN COUNCIL IS OF THE VIEW THAT IT IS ESSENTIAL FOR THE COMMUNITY AND MEMBER GOVERNMENTS TO DEVELOP AS RAPIDLY AS POSSIBLE INDIGENOUS ENERGY SOURCES, PARTICULARLY COAL, NUCLEAR AND HYDROCARBONS AS WELL AS RENEWABLE ENERGY USES AND TO INCREASE SHARPLY THE EFFICIENCY OF ENERGY USE, AS AGREED AT THEIR LAST MEETING IN STRASBOURG. IN THIS CONTEXT THE EUROPEAN COUNCIL RECOGNIZES THE IMPORTANCE THAT NORTH SEA OIL CAN PLAY IN REDUCING THE PRESSURES OF THE OIL MARKET ON THE COMMUNITY. ENERGY PROGRAMMES MUST BE GIVEN MAJOR PRIORITY, AS LACK OF ENERGY WILL OTHERWISE SEVERELY LIMIT ECONOMIC GROWTH AND LEAD TO FURTHER UNEMPLOYMENT.

THE EUROPEAN COUNCIL IS CONFIDENT THAT THE EFFORTS ALREADY MADE BY THE COMMUNITY TO REDUCE THE CONSUMPTION OF OIL ARE BEGINNING TO BEAR FRUIT. A SUBSTANTIAL DISSOCIATION BETWEEN THE RATE OF GROWTH OF THE COMMUNITY INTERNAL PRODUCT AND THE RATE OF INCREASE OF COMMUNITY ENERGY CONSUMPTION CAN ALREADY BE OBSERVED. THEY ARE ALSO CONFIDENT THAT THE INCREASED TRANSPARENCY OF "SPOT" MARKETS WHICH WILL RESULT FROM MEASURES ALREADY TAKEN OR CURRENTLY BEING STUDIED SHOULD LEAD TO A STABILIZATION OF THIS SIDE OF THE OIL MARKET.

WHILE STRESSING THE IMPORTANCE OF THE AGREED TARGETS AND OF THEIR BREAKDOWN INTO INDICATIVE NATIONAL FIGURES, THE EUROPEAN COUNCIL CONSIDER THAT SPECIFIC MEASURES MUST NOW BE TAKEN TO IMPLEMENT THEIR POLICY OBJECTIVES.

MEASURES TO BE TAKEN IN CASE OF OIL SHORTAGE MUST BE STRENGTHENED IN THE DIRECTION OF AN INCREASED COMMUNITY INTERNAL SOLIDARITY SO THAT OIL SUPPLIES CAN BE DELIVERED AS FAIRLY AS POSSIBLE TO ALL MEMBER STATES/

ENERGY CONSERVATION POLICIES MUST BE CONTINUED. THE IMPLEMENTATION AND THE RESULTS OF MEASURES ALREADY TAKEN SHOULD BE MONITORED CLOSELY, PARTICULARLY REGARDING INSULATION STANDARDS OF NEW BUILDINGS, AND HEATING OR AIR CONDITIONING OF EXISTING ONES.

IN THE SHORT AND MEDIUM TERM, REPLACEMENT OF OIL BY COAL AND NUCLEAR ENERGY MUST TAKE PLACE ON A BROAD FRONT AND ALL MEASURES LIABLE TO ACCELERATE IT MUST BE CAREFULLY SCRUTINISED.

THE INCREASED USE OF COAL, INCLUDING COMMUNITY COAL, AS A REPLACEMENT FOR OIL WILL BE ENCOURAGED BY PROMOTION MEASURES AIMED AT INTENSIFYING THE RATE OF SUBSTITUTION. THESE MEASURES MUST BE SUCH THAT THE USE OF NON-COMMUNITY COAL MUST NOT ENDANGER THE AGREED PRODUCTION TARGET OF 250 MT/YEAR FOR COMMUNITY COAL, WHILE THE EXISTENCE OF THIS INDIGENOUS PRODUCTION MUST BE NO OBSTACLE TO THE SUBSTITUTION OF OIL BY NON-COMMUNITY COAL IN SOME MEMBER COUNTRIES. SUBSTITUTION ITSELF IS GIVEN THE HIGHEST PRIORITY BY THE EUROPEAN COUNCIL.

CONFIDENTIAL

SUBSTITUTION OF OIL BY NUCLEAR ENERGY FOR THE PRODUCTION OF ELECTRICITY IS ALSO VITAL, UNDER CONDITIONS OF ADEQUATE PUBLIC SAFETY. THE EUROPEAN COUNCIL STRESSES THE NEED TO CATCH UP WITH DELAY IN NUCLEAR PROGRAMMES AND EMPHASISES THE IMPORTANCE OF NUCLEAR REACTOR SAFETY STUDIES AND EXPERIMENTS.

THE USE OF SOLAR ENERGY FOR THE HEATING OF INDIVIDUAL HOUSES MUST BE ENCOURAGED BY SPECIFIC INCENTIVES WHILE OTHER USES OF SOLAR ENERGY AND OTHER LONGER-TERM ALTERNATIVE ENERGY SOURCES, INCLUDING NUCLEAR FUSION, SHOULD CONTINUE TO FORM A MAJOR PART OF COMMUNITY R + D PROGRAMMES.

THE EUROPEAN COUNCIL INVITES THE COUNCIL (ENERGY) TO RECORD ITS VARIOUS POLICIES FOR ENERGY SAVING AND OIL SUBSTITUTIONS IN PLANS FOR THE PERIOD TO 1990 AGAINST WHICH PROGRESS CAN BE MONITORED.

THE EUROPEAN COUNCIL CONSIDERS THAT THE WORLD ECONOMY CANNOT SUSTAIN AN UNDISCIPLINED ESCALATION OF OIL PRICES, WHICH WILL HAVE A SERIOUS EFFECT ON THE INTERNAL STABILITY OF ALL STATES, AND ON RELATIONS BETWEEN STATES. SUCH ESCALATION EFFECTIVELY FRUSTRATES ANY HOPES OF SOCIAL AND ECONOMIC PROGRESS BOTH IN DEVELOPING AND DEVELOPED NATIONS IRRESPECTIVE OF THEIR SOCIAL SYSTEM. -THE EUROPEAN COUNCIL THEREFORE TAKES THE VIEW THAT NATIONAL RESTRAINT IS INCUMBENT UPON BOTH PRODUCERS AND CONSUMERS AND THAT CO-OPERATION IS ESSENTIAL BETWEEN ALL MEMBERS OF THE WORLD COMMUNITY. THE EUROPEAN COUNCIL CONSIDERS IT MOST DESIRABLE THAT FURTHER SIGNIFICANT AND RAPID PROGRESS BE MADE IN ALL INTERNATIONAL FORA WHERE ENERGY IS DISCUSSED, I.E. IN THE FRAMEWORKS OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, THE ECONOMIC COMMISSION FOR EUROPE, THE NORTH SOUTH DIALOGUE AND DISCUSSIONS WITH OIL PRODUCING COUNTRIES WITH A VIEW TO ESTABLISHING A CONSENSUS AND CO-OPERATION ON THE ADJUSTMENTS REQUIRED BY THE CHANGING ENERGY SITUATION IN THE WORLD.

CONFIDENTIAL

2. CABINET OFFICER: PLEASE PASS ABOVE TO MR BUTLER AT TOMORROW'S BRIEFING MEETING.

FCO ADVANCE TO:

FCO - PS/SOFS PS/LPS BRIDGES FALL FRETWELL

CAB - GROVER FRANKLIN

D/EN - D LE B JONES LUCAS

BUTLER

FRAME GENERAL

[ADVANCED AS REQUESTED]

EID (I)

ES & SD

4

CONFIDENTIAL

RESTRICTED

ERS 840

CONFIDENTIAL

FRAME GENERAL

DESKBY 280920Z

FM UKREP BRUSSELS 271656 Z NOV 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 6415 OF 27 NOVEMBER

INFO PRIORITY DUBLIN.

MY TELNO 6391: EUROPEAN COUNCIL DRAFT CONCLUSIONS

1. IRISH PERMANENT REPRESENTATION HAVE NOW ISSUED A REVISED VERSION OF THE SECTION ON THE ECONOMIC AND SOCIAL SITUATION AND UNEMPLOYMENT AS FOLLOWS:

ECONOMIC AND SOCIAL SITUATION

PROSPECTS FOR THE COMMUNITY ECONOMY

THE HEADS OF STATE OR GOVERNMENT DISCUSSED THE DIMINISHED PROSPECTS FOR THE COMMUNITY ECONOMY IN 1980, PARTICULARLY IN THE LIGHT OF THE UNFAVOURABLE TURN IN THE INTERNATIONAL ECONOMIC SITUATION AND THE DEFLATIONARY IMPACT OF NEW OIL PRICE INCREASES. THEY RECOGNISED THAT DESPITE THE IMPETUS RECEIVED FROM THE COORDINATED ECONOMIC APPROACH AGREED AT THE EUROPEAN COUNCIL IN BREMEN, PROGRESS IN MAINTAINING GROWTH AND IN COMBATTING INFLATION HAD FALLEN SHORT OF THE OBJECTIVES SOUGHT. THE SHORTFALL WAS LARGELY ATTRIBUTABLE TO DEVELOPMENTS IN OIL SUPPLIES AND PRICES WHICH HAD ALSO BEEN REFLECTED ON THE INTERNATIONAL LEVEL, IN INCREASING DISEQUILIBRIA IN EXTERNAL PAYMENTS BALANCES AND IN MONETARY INSTABILITY. DESPITE SOME POSITIVE ELEMENTS, THE PROSPECTS FOR THE COMMUNITY ECONOMY IN 1980, ESPECIALLY THE DANGER THAT PROGRESS IN RELATION TO EMPLOYMENT IS LIKELY TO BE ARRESTED GAVE RISE FOR CONCERN. IN AN EFFORT TO OVERCOME THE CURRENT ECONOMIC DIFFICULTIES A COMMON APPROACH CONTINES TO BE ESSENTIAL.

|THE

RESTRICTED

RESTRICTED

THE EFFORT TO ACHIEVE MODERATION IN ENERGY USAGE AND THE REDUCTION OF OIL IMPORTS MUST BE CONTINUED. THE EXISTENCE OF THE EUROPEAN MONETARY SYSTEM UNDERLINES THE NECESSITY FOR A COORDINATED APPROACH IN TACKLING THE BALANCE OF PAYMENTS EFFECTS OF THE NEW OIL PRICE RISES. ANY ATTEMPT BY COUNTRIES TO SHIFT THE PAYMENTS IMBALANCES RESULTING FROM OIL PRICE INCREASES TO OTHER COUNTRIES WOULD BE COUNTERPRODUCTIVE. THE FIGHT AGAINST INFLATION AND UNEMPLOYMENT SHOULD NOT BE MADE MORE DIFFICULT THROUGH ATTEMPTING TO COMPENSATE BY INCREASES IN MONEY INCOMES FOR THE REAL TRANSFER OF PURCHASING POWER WHICH HAS TAKEN PLACE TO THE OIL PRODUCING COUNTRIES. MOREOVER A RESTRICTIVE MONETARY POLICY SHOULD CONTINUE TO OPERATE FOR THE TIME BEING IN THE INTERESTS OF COUNTERING INFLATION. BECAUSE OF THE UNFAVOURABLE OUTLOOK FOR UNEMPLOYMENT IT IS DESIRABLE THAT AS AND WHEN PROGRESS IS MADE IN CURBING INFLATION THE STANCE OF POLICY SHOULD BECOME MORE SUPPORTIVE. MODERNISATION OF AND INVESTMENTS IN COMMUNITY INDUSTRY MUST CONTINUE TO ENABLE IT TO ADAPT MORE QUICKLY TO NEW PATTERNS OF DEMAND.

THE PRESENT DIFFICULTIES REQUIRE AN IMPROVED COORDINATION OF THE ECONOMIC AND MONETARY POLICIES OF MEMBER STATES AND A COMMON APPROACH BY THE COMMUNITY IN CONJUNCTION WITH OTHER INDUSTRIALISED COUNTRIES IS ESSENTIAL. THE EUROPEAN COUNCIL REAFFIRMED ITS DETERMINATION TO CONDUCT ECONOMIC POLICIES IN LINE WITH THE PRINCIPLES AND STRATEGY AGREED AT THE EUROPEAN COUNCIL IN STRASBOURG AND AT THE TOKYO SUMMIT, WELCOMED THE RECENT AGREEMENT OF THE COUNCIL ON THE CONCLUSION OF THE TOKYO ROUND AND THE SIGNATURE OF THE SECOND LOME CONVENTION. EVEN WITH THE DOWN-TURN IN THE INTERNATIONAL ECONOMY THE COMMUNITY IS EXPECTED TO ACHIEVE AT LEAST A MODERATE RATE OF GROWTH NEXT YEAR, ON AVERAGE ABOUT 2 PER CENT, AND TO AVERT ACCELERATION IN THE RATE OF INFLATION. THOSE MEMBER STATES WITH A RELATIVELY STRONG BALANCE OF PAYMENTS POSITION TOGETHER WITH A LOW LEVEL OF INFLATION ARE BETTER PLACED TO MAINTAIN THE MOMENTUM OF DOMESTIC DEMAND IN THEIR RESPECTIVE ECONOMIES THUS BENEFITING THEIR TRADING PARTNERS.

RESTRICTED

THE UNEMPLOYMENT PROBLEM

THE EUROPEAN COUNCIL DISCUSSED THE SERIOUS UNEMPLOYMENT SITUATION IN THE COMMUNITY. THEY AGREED THAT THE CONTINUATION AND INTENSIFICATION OF NATIONAL AND COMMUNITY EFFORTS TO IMPROVE ECONOMIC STRUCTURES, PRIMARILY THROUGH INCREASED INVESTMENT WAS OF FUNDAMENTAL IMPORTANCE. THEY NOTED WITH APPROVAL THE RECENT ADOPTION BY THE COUNCIL OF MINISTERS OF A RESOLUTION ON THE REORGANISATION OF WORKING TIME AND ASKED THE COMMISSION AND THE COUNCIL TO PURSUE THEIR EFFORTS IN THIS AREA IN CONSULTATION WITH THE SOCIAL PARTNERS.

2. CABINET OFFICE: PLEASE PASS ABOVE TO MR. BUTLER AT TOMMORROW'S BRIEFING MEETING.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/PUS, BRIDGES, FRETWELL, SPRECKLEY
CAB - FRANKLIN, THOMAS
TSY - COUZENS, JORDAN-MOSS
NO 10 - WHITMORE, ALEXANDER

BUTLER

(ADVANCED AS REQUESTED)

FRAME GENERAL

EID (1)



Mr Ascander

With the compliments of

SIR MICHAEL PALLISER'S office

FOREIGN AND COMMONWEALTH OFFICE, SW1

28/11/1979

APS/PUS

PS/PUS
17051
Fa. Am

FRANCE/ENERGY

1. You asked in your minute of 26 November whether the Saudi and Iraqi oil which President Giscard said the French were getting at a lower price than they had to pay for North Sea oil was the same oil.

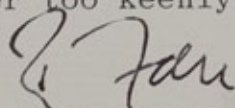
2. It is not. North Sea oil, like the similar quality light crudes from Algeria, Libya and Nigeria, traditionally enjoys a premium over the heavy, high sulphur Middle East crudes, of which the Saudi and Iraqi are typical. The price differentials have long been recognised in the industry, and are applied automatically when the price of the marker crude (the best quality Saudi Arabian) changes.

3. The Iraqis have recently increased their government selling price and are charging a form of key money on new contracts. If therefore the French are continuing to get Iraqi oil at less than North Sea prices, it is likely to be under a government-to-government contract negotiated some time ago.

4. On the other hand, the Saudi Arabian price is cheaper than current North Sea prices by more than established quality differential, because the Saudis have been almost alone in not raising their prices in advance of the OPEC meeting in December. The French and others therefore have a point when they criticise North Sea producers for having shown less moderation than the Saudis. It can be argued against them that:

- (i) it is doubtful how much of the benefit of low Saudi prices reaches the consumer as opposed to the American majors who are the main purchasers;
- (ii) there would be difficulty in maintaining an African and a North Sea price for comparable qualities of oil;
- (iii) it would be still harder to maintain a system where North Sea prices depended on the varying extent of HMG's influence over the companies concerned;
- (iv) BNOC's participation contracts require them to buy North Sea oil at the market price or be taken to arbitration; and
- (v) lower prices in the North Sea would have no effect on the general level of prices on the world market.

That being said, I have some sympathy with the German view that BNOC follow the market rather too keenly.



B J P Fall

Energy, Science & Space Department

27 November 1979

Ref. A0776

PRIME MINISTER

Points for the Briefing Meeting

You will already have discussed tactics for the budget issue with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. If there is any need for further discussion e.g. on your opening statement you might take it at the end with the restricted group of those who are going to Dublin (plus the Chancellor). Mr. Butler (Permanent Representative in Brussels) may have last-minute intelligence about the intentions of other member states.

2. On the other subjects likely to come up in Dublin:-

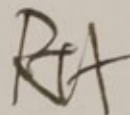
- (a) Economic and social situation. An opportunity for you to explain the Government's policies and our current economic difficulties (no other Community country faces a decline in real GNP next year). (The Chancellor to comment.)
- (b) Employment and social policy. We can live with the resolution agreed by the Social Affairs Council on "work sharing", but Mr. Hudson (Department of Employment) is available if you have any questions.
- (c) Energy. This could be troublesome. We shall come under pressure from the Germans and others to give assurances about oil price policy (not giving any excuse to the OPEC hawks to raise prices) and perhaps about consultation within the Community e.g. on our depletion policy. The defensive line and the speaking note annexed to the brief was all that could be agreed in OD(E). Does the Secretary of State for Energy think there is anything more you could safely say to our Community partners on prices and/or supplies?
- (d) CAP. Mr. Walker is strongly opposed to the methods suggested by the Commission for reducing the surpluses especially of milk and sugar and hence saving 1 billion eua in a full year. But even the French agreed in

*Leaving
Surpluses*

CONFIDENTIAL

the Budget Council recently that CAP expenditure on surpluses should be brought under control. Could not the European Council endorse the proposal to cut the agricultural budget next year by 1 billion eua (as a first step) leaving Agriculture Ministers to argue how it should be done? (Mr. Walker to comment.)

- (e) Sheepmeat. The French appear to be intransigent. Should you refuse any discussion in Dublin? Or, if it would clearly help to achieve a budget deal, should you be ready to make any move towards the French on the nature of the Community regime or e.g. a commitment as to the date by which the Council should take a decision? (Mr. Walker to comment.)
- (f) "Telematics". We can endorse the view that this is a suitable subject for the Community, but not all of the Commission's ideas. You may not need to intervene in Dublin, but what are the points to watch? (Mr. Lippitt of the Department of Industry can comment.)
- (g) Report of the Three Wise Men. Is President Giscard likely to try to pull a fast one e.g. on the Presidency of the European Council? (The Foreign and Commonwealth Secretary to comment.)
- (h) The other points on which you have contingent briefs should not need discussion.



ROBERT ARMSTRONG

27th November, 1979

① Paper aimed for instructors to
Commitment Monday
- Cochitoc \rightarrow 1852-1856 - Under

② Review of the Red-
The Paragonite is - cuts,
Predicted cost tax - full scale
in - here 1 in New City,

ADVANCE COPIES

FRAME GENERAL

25 XEROX COPIES

CO.
P.S.
PS/LORD PRIVY SEAL
PS/PUS
MR BULLARD
MR FRETWELL
MR BUTLER
Lord Bridges

~~RESIDENT CLERK~~
HD/EID(1)(4)
HD/NEWS
HD/FRD
HD/....
HD/....
HD/....

PLUS FCO

Edo for

CABINET OFFICE

MR M D M FRANKLIN
MR D M ELLIOTT
MR J THOMAS
Mr Jones
Mr Gilchrist

D.O.T.

Mr Cooper

PLUS OGDS

Mr Atkinson *DOT*
Mr Whitmore }
Mr Alexander } *No 10*
FW

H.M. TREASURY

SIR K COUZENS
MR ASHFORD
Mr Jordan - Moss

M.A.F.F.

MR B D HAYES

CONFIDENTIAL
FRAME GENERAL

DESKBY 271200Z

IMMEDIATE

FM UKREP BRUSSELS 271051Z NOV 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 6391 OF 27 NOV
INFO PRIORITY DUBLIN.

ADVANCE COPY

EUROPEAN COUNCIL PREPARATIONS

1. FOLLOWING IS TEXT OF PRESIDENCY DRAFT CONCLUSIONS
DISTRIBUTED BY IRISH PERMANENT REPRESENTATION IN
BRUSSELS THIS MORNING (ECONOMIC AND SOCIAL SITUATION,
TELEMATIQUE, EUROPEAN UNION AND THREE WISE MEN
ARE COVERED, BUT NOTHING ELSE)

BEGINS:

ECONOMIC AND SOCIAL SITUATION

PROSPECTS FOR THE COMMUNITY ECONOMY.

THE EUROPEAN COUNCIL CONDUCTED A DISCUSSION ON THE REDUCED PROSPECTS
FOR THE COMMUNITY ECONOMY IN 1980, PARTICULARLY IN THE LIGHT OF THE
UNFAVOURABLE TURN IN THE INTERNATIONAL ECONOMIC SITUATION AND THE
DEFLATIONARY IMPACT OF THE NEW OIL PRICE INCREASE. IT WAS
RECOGNISED THAT:

UNFAVOURABLE TURN IN THE INTERNATIONAL ECONOMIC SITUATION AND THE
DEFLATIONARY IMPACT OF THE NEW OIL PRICE INCREASE. IT WAS
RECOGNISED THAT:

-DESPITE THE IMPETUS RECEIVED FROM THE COORDINATED ECONOMIC APPROACH
AGREED ON AT THE EUROPEAN COUNCIL IN BREMEN THE PROBLEMS OF
LOW GROWTH AND HIGH INFLATION WERE NOT EASED IN 1979. DEVELOPMENTS
IN OIL SUPPLIES AND PRICES SINCE THE BEGINNING OF THE YEAR HAD
CONTRIBUTED SIGNIFICANTLY TO THESE PROBLEMS. GROWTH EXPECTATIONS
IN THE COMMUNITY FOR THIS YEAR HAD NOW DROPPED BACK TO ABOUT 3
PER CENT WHILE THE AVERAGE RATE OF INFLATION IS MOVING UP TO 9
PER CENT OR MORE AND THE CURRENT BALANCE ON EXTERNAL ACCOUNT IS
EXPECTED TO MOVE INTO DEFICIT. PROGRESS ON THE EMPLOYMENT FRONT
IS LIKELY TO BE ARRESTED IN 1980, BECAUSE OF SLOWER
GDP GROWTH, WITH UNEMPLOYMENT EXPECTED TO RISE IN THE COMMUNITY
AS A WHOLE.

-IN AN EFFORT TO OVERCOME THE CURRENT ECONOMIC DIFFICULTIES A
COMMON APPROACH WOULD CONTINUE TO BE ESSENTIAL. THE EFFORT TO
ACHIEVE MODERATION IN ENERGY USAGE AND THE REDUCTION OF OIL IMPORTS
MUST BE CONTINUED. THE EXISTENCE OF THE EUROPEAN MONETARY SYSTEM
UNDERLINES THE NECESSITY FOR A COORDINATED APPROACH IN TACKLING THE
BALANCE OF PAYMENTS EFFECTS OF THE NEW OIL PRICE RISES. ANY
ATTEMPT BY COUNTRIES TO SHIFT THE PAYMENTS IMBALANCES RESULTING
FROM OIL PRICE INCREASES TO OTHER COUNTRIES WOULD BE COUNTER-
PRODUCTIVE. THE FIGHT AGAINST INFLATION AND UNEMPLOYMENT SHOULD
NOT BE MADE MORE DIFFICULT THROUGH ATTEMPTING TO COMPENSATE BY
INCREASES IN MONEY INCOMES FOR THE REAL TRANSFER OF PURCHASING POWER
WHICH HAS TAKEN PLACE TO THE OIL PRODUCING COUNTRIES. MOREOVER
A RESTRICTIVE MONETARY POLICY SHOULD CONTINUE TO OPERATE FOR THE
TIME BEING IN THE INTEREST OF COUNTERING INFLATION. MODERNISATION
OF AND INVESTMENTS IN COMMUNITY INDUSTRY MUST CONTINUE TO ENABLE
IT TO ADAPT MORE QUICKLY TO NEW PATTERNS OF DEMAND. BECAUSE OF THE
UNFAVOURABLE OUTLOOK FOR UNEMPLOYMENT IT WAS DESIRABLE THAT AS AND
WHEN PROGRESS WAS MADE IN CURBING INFLATION THE STANCE OF POLICY
SHOULD BECOME MORE SUPPORTIVE.

-THE PRESENT DIFFICULTIES REQUIRE AN IMPROVED COORDINATION OF THE
ECONOMIC AND MONETARY POLICIES OF MEMBER STATES. A COMMON APPROACH
BY THE COMMUNITY IN CONJUNCTION WITH OTHER INDUSTRIALISED
COUNTRIES CONTINUED TO BE ESSENTIAL. THE EUROPEAN COUNCIL REAFFIRMED
ITS DETERMINATION TO CONDUCT ECONOMIC POLICIES IN LINE WITH THE
PRINCIPLES AND STRATEGY AGREED AT THE EUROPEAN COUNCIL IN STRASBOURG
AND AT THE TOKYO SUMMIT, WELCOMED THE RECENT AGREEMENT OF THE
COUNCIL ON THE CONCLUSION OF THE TOKYO ROUND AND THE SIGNATURE OF
THE SECOND LOME CONVENTION.

COUNCIL ON THE CONCLUSION OF THE TOKYO ROUND AND THE SIGNATURE OF THE SECOND LOME CONVENTION.

-EVEN WITH THE DOWN-TURN IN THE INTERNATIONAL ECONOMY THE COMMUNITY IS EXPECTED TO ACIEVE AT LEAST A MODERATE RATE OF GROWTH NEXT YEAR, ON AVERAGE ABOUT 2 PER CENT, AND TO AVERT ACCELERATION IN THE RATE OF INFLATION. THOSE MEMBER STATES WITH A RELATIVELY STRONG BALANCE OF PAYMENTS POSITION TOGETHER WITH A LOW LEVEL OF INFLATION ARE BETTER PLACED TO MAINTAIN THE MOMENTUM OF DOMESTIC DEMAND IN THEIR RESPECTIVE ECONOMIES THUS BENEFITING THEIR TRADING PARTNERS.

THE UNEMPLOYMENT PROBLEM.

THE EUROPEAN COUNCIL DISCUSSED THE SERIOUS UNEMPLOYMENT SITUATION IN THE COMMUNITY. THEY NOTED WITH APPROVAL THE RECENT ADOPTION BY THE COUNCIL OF MINISTERS OF A RESOLUTION ON THE REORGANISATION OF WORKING TIME AND ASKED THE COMMISSION AND THE COUNCIL TO PURSUE THEIR EFFORTS IN THIS AREA IN CONSULTATION WITH THE SOCIAL PARTNERS.

COMMISSION COMMUNICATION ON "STRUCTURAL CHANGES IN THE 1980S"

THE EUROPEAN COUNCIL HAD A GENERAL DISCUSSION ON THE BASIS OF A PAPER SUBMITTED BY THE COMMISSION WHICH LOOKED AT THE BROAD STRUCTURAL PROBLEMS FACING EUROPE IN THE 1980S. THESE INCLUDE THE CONTINUING AND FUNDAMENTAL NATURE OF THE ENERGY CRISIS, EUROPE'S FALLING SHARE OF THE WORLD POPULATION, THE NEED FOR MODERNISATION OF INDUSTRY AND THE ADAPTATION TO NEW CONDITIONS, THE CREATION OF THE REQUIRED LEVEL OF INVESTMENT TO PROVIDE ADEQUATE GROWTH LEVELS, AND THE IMPACT OF NEW TECHNOLOGIES ON THE COMMUNITY.

THEY WERE AGREED THAT THE GRAVITY OF THESE PROBLEMS UNDERLINED THE NECESSITY FOR CONCERTED ACTION BY THE COMMUNITY IN OVERCOMING THE CONSTRAINTS WHICH THEY PRESENTED.

COMMISSION COMMUNICATION ON "STRUCTURAL CHANGES IN THE 1980S"

THE EUROPEAN COUNCIL HAD A GENERAL DISCUSSION ON THE BASIS OF A PAPER SUBMITTED BY THE COMMISSION WHICH LOOKED AT THE BROAD STRUCTURAL PROBLEMS FACING EUROPE IN THE 1980S. THESE INCLUDE THE CONTINUING AND FUNDAMENTAL NATURE OF THE ENERGY CRISIS, EUROPE'S FALLING SHARE OF THE WORLD POPULATION, THE NEED FOR MODERNISATION OF INDUSTRY AND THE ADAPTATION TO NEW CONDITIONS, THE CREATION OF THE REQUIRED LEVEL OF INVESTMENT TO PROVIDE ADEQUATE GROWTH LEVELS, AND THE IMPACT OF NEW TECHNOLOGIES ON THE COMMUNITY.

REQUIRED LEVEL OF INVESTMENT TO PROVIDE ADEQUATE GROWTH LEVELS, AND THE IMPACT OF NEW TECHNOLOGIES ON THE COMMUNITY.

THEY WERE AGREED THAT THE GRAVITY OF THESE PROBLEMS UNDERLINED THE NECESSITY FOR CONCERTED ACTION BY THE COMMUNITY IN OVERCOMING THE CONSTRAINTS WHICH THEY PRESENTED.

COMMISSION COMMUNICATION ON "EUROPEAN SOCIETY AND THE DATA TECHNOLOGIES : TOWARDS A COMMUNITY RESPONSE"

THE EUROPEAN COUNCIL HAD A DISCUSSION ON THE ISSUES RAISED IN A COMMISSION COMMUNICATION DRAWING ATTENTION TO THE IMPORTANCE OF DATA TECHNOLOGIES BOTH FOR EUROPEAN INDUSTRY AND FOR SOCIETY. THE EUROPEAN COUNCIL REQUESTED THE COMMISSION TO SPELL OUT MORE FULLY THE MAIN LINES OF A STRATEGY FOR THE DEVELOPMENT OF THE DATA TECHNOLOGIES IN EUROPE WHICH WOULD HAVE REGARD TO THE INTERESTS AND CONCERNS INCLUDING THE INDUSTRIAL ASPIRATIONS OF ALL THE MEMBER STATES AND WHICH WOULD ENABLE THE COUNCIL TO TAKE APPROPRIATE DECISIONS AS SOON AS POSSIBLE.

CONVERGENCE AND BUDGETARY QUESTION.

POUR MEMOIRE.

ENERGY.

POUR MEMOIRE.

EUROPEAN MONETARY SYSTEM.

POUR MEMOIRE.

REPORTS ON EUROPEAN UNION.

THE EUROPEAN COUNCIL RECEIVED AND NOTED THE REPORTS BY THE FOREIGN MINISTERS AND THE COMMISSION ON THE PROGRESS ACHIEVED TOWARDS EUROPEAN UNION IN THE PAST YEAR. THE EUROPEAN COUNCIL NOTED THE IMPORTANCE OF DEVELOPMENTS IN THE PAST YEAR TOWARDS THE ACHIEVEMENT OF EUROPEAN UNION AND IN PARTICULAR:

-THE SIGNATURE OF THE INSTRUMENTS OF ACCESSION OF THE HELLENIC REPUBLIC TO THE EUROPEAN COMMUNITIES,

-THE ESTABLISHMENT OF THE EMS

-THE DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT

THE DIRECT ELECTIONS TO THE EUROPEAN PARLIAMENT

THE COMPLETION OF THE REPORT OF THE COMMITTEE OF WISE MEN ON INSTITUTIONAL ADAPTATION IN THE CONTEXT OF ENLARGEMENT.

THE EUROPEAN COUNCIL AFFIRMED THE IMPORTANCE OF THESE CONCRETE STEPS IN DEMONSTRATING THE COMMUNITIES' COMMITMENT TO PROCEED TOWARDS AND TO CREATE THE CONDITIONS FOR FURTHER PROGRESS TOWARDS AN EVER CLOSER UNION AMONG THE PEOPLES OF EUROPE.

THE EUROPEAN COUNCIL REAFFIRMED ITS COMMITMENT TO EUROPEAN UNION AND REAFFIRMED THE IMPORTANCE IT ATTACHES TO THE OPPORTUNITY WHICH PRESENTATION OF THESE REPORTS PROVIDES FOR AN ASSESSMENT OF THE PROGRESS ACHIEVED. THE EUROPEAN COUNCIL DECIDED THAT, AS HAS BEEN DONE PREVIOUSLY, THESE REPORTS SHOULD BE PUBLISHED IN AN APPROPRIATE FORM.

THREE WISE MEN.

THE EUROPEAN COUNCIL WARMLY THANKED THE COMMITTEE OF WISE MEN FOR THE TIMELY PRESENTATION OF ITS VALUABLE REPORT ON ADJUSTMENTS TO THE MACHINERY AND PROCEDURES OF THE COMMUNITY INSTITUTIONS, PREPARED IN DISCHARGE OF THE MANDATE GIVEN BY THE EUROPEAN COUNCIL IN BRUSSELS IN DECEMBER 1973.

THE COUNCIL NOTED THAT THE REPORT MADE RECOMMENDATIONS FOR DECISION BY VARIOUS INSTITUTIONS AND ACCORDINGLY DECIDED TO TRANSMIT THE REPORT TO THESE INSTITUTIONS WITH A REQUEST THAT THEY TAKE APPROPRIATE ACTION TO EFFECT PRACTICAL IMPROVEMENTS IN THEIR WORKING. THE COUNCIL OF FOREIGN MINISTERS WAS INVITED TO TAKE EARLY DECISIONS ON MATTERS WITHIN ITS COMPETENCE, TO MONITOR ACTIVELY FOLLOW-UP ACTION BY OTHER INSTITUTIONS AND TO COORDINATE REPORTS ON ACTION TAKEN OR INTENDED, TO BE PRESENTED TO THE NEXT MEETING OF THE EUROPEAN COUNCIL. AT THAT MEETING THE EUROPEAN COUNCIL WILL TAKE DECISIONS ON THE RECOMMENDATIONS INVOLVING ITSELF. IT WAS AGREED THAT THE REPORT SHOULD BE PUBLISHED.

ENDS.

FCO PASS ADVANCE COPIES TO:-

FCO PS/SOFS, PS/LPS, PS/PUS, BRIDGES, FRETWELL, SPRECKLEY, JONES-PARRY, POSTON.

FCO PS/SOFS, PS/LPS, PS/PUS, BRIDGES, FRETWELL, SPRECKLEY,
JONES-PARRY, POSTON.

CAB FRANKLIN, THOMAS, GROVER

DOI ATKINSON

DOT COOPER

NO.10. WHITMORE, ALEXANDER

TSY COUZENS, JORDAN-MOSS.

BUTLER.

NNNN

SENT AT 1221/27 JC

RECD AT 1221/27 RD

RR COPENHAGEN

ADVANCE COPY

RR THE HAGUE

RR BRUSSELS

RR BONN

RR LUXEMBOURG

X-10

PS
PS/LPS
PS/PUS
LORD BRIDGES
MR FRETWEN
HD EID-1

IMMEDIATE

GRS 450

CONFIDENTIAL

DESKBY F C O 271900Z

FROM PARIS 271805Z NOV 79

TO IMMEDIATE F C O

TELEGRAM NUMBER 898 OF 27 NOVEMBER 1979

INFO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE ROME, DUBLIN, COPENHAGEN, THE HAGUE, BRUSSELS,
BONN AND LUXEMBOURG.

Prime Minister
27.11.79
PS/M.10 Doughty
Treasury (2)
R.C.

(Fics)

ant

PREPARATIONS FOR DUBLIN SUMMIT :
FRENCH VIEWS AND TACTICS

1. WHEN I CALLED ON THE SECRETARY GENERAL OF THE ELYSEE TODAY I FIRST ASKED HIM WHAT HIS IMPRESSION HAD BEEN OF THE LONDON MEETING BETWEEN PRESIDENT GISCARD AND MRS THATCHER (WAHL HAD NOT HIMSELF BEEN PRESENT). HE SAID THAT THE PRESIDENT HAD BEEN VERY PLEASED WITH THE ATMOSPHERE AT THE MEETING AND WITH THE EXTENT TO WHICH BRITISH AND FRENCH POLICIES CONVERGED AND COINCIDED ON MOST SUBJECTS OF IMPORTANCE IN THE WORLD. HE HAD BEEN DISAPPOINTED ON ONLY TWO QUESTIONS, ALTHOUGH BOTH WERE OF GREAT IMPORTANCE AND BOTH WERE COMMUNITY SUBJECTS - THE BUDGET QUESTION AND SHEEPMEAT.

2. WAHL SAID THAT THE PRESIDENT WAS PERPLEXED AT THE BRITISH ATTITUDE ON THE BUDGET. HE COULD NOT SEE HOW PROGRESS COULD BE MADE UNLESS THE BRITISH GOVERNMENT WAS PREPARED TO DISCUSS DETAILED FIGURES. THERE HAD BEEN NO SIGN THAT THE BRITISH GOVERNMENT WAS PREPARED TO MOVE FROM THE FIGURES FOR A BROAD BALANCE PRODUCED BY ITS OWN ARITHMETIC. THE COMMISSION AND OTHERS HAD PRODUCED IDEAS WHICH POINTED IN THE DIRECTION OF SOLVING THE PROBLEM, BUT THE BRITISH GOVERNMENT HAD NOT SHOWN ENTHUSIASM FOR ANY OF THEM.

3. I REPLIED THAT FOR ITS PART THE BRITISH SIDE WAS PERPLEXED BECAUSE OF THE FAILURE OF ITS PARTNERS TO RISE TO THE LEVEL OF THE VERY GREAT LOAD WHICH WAS BORNE BY BRITAIN. IT WAS UNDERSTANDABLE THAT OTHERS SHOULD BE DISMAYED AT THE SIZE OF BURDENS WHICH THEY MIGHT BE ASKED TO BEAR, BUT IT WAS STRANGE WHEN THEY SHOWED NO SIGN OF UNDERSTANDING THE POLITICAL UNACCEPTABILITY OF THE GREAT BURDEN WHICH THE UK WAS BEARING. I SPOKE TO WAHL ON THE LINES OF THE STATEMENT IN YOUR TELEGRAM TO UKREP BRUSSELS NUMBER 1308 AND I GAVE HIM A PIECE OF PAPER WHICH WAS THE TEXT IN THAT TELEGRAM EDITED SO AS NOT TO BE A PERSONAL STATEMENT. HE SAID THAT HE WOULD PUT THIS BEFORE THE PRESIDENT. HE COMMENTED THAT HE THOUGHT IT SHOWED A LITTLE MORE FLEXIBILITY THAN THE PRESIDENT HAD DETECTED DURING HIS VISIT TO LONDON.

4. AS REGARDS SHEEPMEAT, WAHL SHOWED NO MORE READINESS TO BE CONSTRUCTIVE THAN M. MEHAIGNERIE SHOWED TO MR WALKER YESTERDAY EVENING, NOR DID HE PUT UP MUCH OF A DEFENCE FOR THE FRENCH POINT OF VIEW. IT SEEMED CLEAR THAT SHEEPMEAT WAS BEING RESERVED BY PRESIDENT GISCARD AS A BARGAINING COUNTER FOR DUBLIN.

5. WAHL ACKNOWLEDGED BRITISH HELPFULNESS IN THE COUNCIL OF MINISTERS OVER THE HANDLING OF THE EUROPEAN ASSEMBLY'S AMENDMENTS TO THE COMMUNITY BUDGET FOR 1980.

6. FOR FURTHER DETAILS ABOUT LIKELY FRENCH ATTITUDES ON VARIOUS SUBJECTS ON THE AGENDA SEE MY TWO IMMEDIATELY FOLLOWING TELEGRAMS.

HIBBERT

NNNN

CCN PARA 3 LINE 3 CENTRE SHD READ ".....WHICH WAS BEING BORNE BY BRITAIN."

SENT/RECD 271853Z BC/DE



SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

L. S. [Signature]

Tim Lankester Esq
Private Secretary
No 10 Downing Street
LONDON SW1

26 November 1979

Dear Tim,

DUBLIN SUMMIT: FISHERIES

I have been asked to pass on the attached telex message which has just arrived from the Convener of Grampian Regional Council. I am also sending a copy to Garth Waters (MAFF).

*Yours sincerely,
[Signature]*

GODFREY ROBSON
Private Secretary

22890 SCOTOL G
739277 GREGCO G

THE OFFICE OF
THE SECRETARY OF STATE FOR SCOTLAND
DOVER HOUSE
WHITEHALL

DEAR SIRs,

KINDLY PASS THE FOLLOWING MESSAGE TO 10 DOWNING STREET:

TO 'THE RT. HON. MRS. MARGARET THATCHER MP.

DEAR PRIME MINISTER

THE FISHERIES COMMITTEE OF GRAMPIAN REGION WISH YOU ALL SUCCESS IN YOUR DISCUSSIONS WITH OUR EEC ASSOCIATES IN DUBLIN. WE WISH TO EMPHASISE THE WHOLE HEARTED AND UNDIVIDED SUPPORT OF THIS COMMITTEE, REPRESENTING ALL SECTORS OF THE SCOTTISH INDUSTRY, FOR THE STAND OF THE SECRETARY OF STATE FOR SCOTLAND IN THE HOUSE OF COMMONS LAST WEDNESDAY, WHEREBY THE INTEREST OF THE FISHING INDUSTRY WOULD NOT BE TRADED OFF AGAINST OTHER POSSIBLE BENEFITS IN REACHING AGREEMENTS WITH THE EEC WITHIN THE WIDER CONTEXT OF OVERALL EEC POLICY. WE LOOK FORWARD TO SECURING AN EARLY AGREEMENT OVER THE PROPOSED COMMON FISHERIES POLICY WHICH WOULD ENSURE THE BRITISH GOVERNMENT'S RIGHTS TO IMPOSE UNILATERAL NON-DISCRIMINATORY CONSERVATION MEASURES IN UK WATERS IF THE EEC'S REGULATORY BODY FAILS TO TAKE MEASURES TO PROTECT FISH STOCKS. THE INDUSTRY ALSO EMPHASISES THE NEED FOR THE POLICING OF CONSERVATION MEASURES BY COASTAL STATES, THE RESERVATION OF AGREED EXCLUSIVE ZONES FOR UK FISHERMEN, FURTHER ZONES WITH PREFERENTIAL ACCESS FOR UK VESSELS, THE REMAINING AREAS ONLY TO OPEN TO ALL EEC MEMBERS WITH AGREED REALISTIC QUOTAS, AND TO MAINTAIN THE PACKAGE DEAL APPROACH TO NEGOTIATIONS SO THAT NO PARTICULAR PART OF OUR CASE IS ENDANGERED.

MAY I ASSURE YOU OF THE WHOLE INDUSTRY'S APPRECIATION OF YOUR GOVERNMENTS ENDEAVOURS TO DATE AND REPEAT THE COMMITTEES ALL OUT SUPPORT IN YOUR DEFINED POLICY AIMS FOR THE INDUSTRY.

A.F. MUTCH JUMP.
CHAIRMAN,
FISHERIES COMMITTEE OF THE GRAMPIAN REGION
CONVENER, GRAMPIAN REGIONAL COUNCIL.''

WITH MANY THANKS
H. FARQUHARSON
P.A. TO CHIEF EXECUTIVE
GRAMPIAN REGIONAL COUNCIL

739277 GREGCO G
22890 SCOTOL G

0-155-0



27 NOV 1979



PA

PA
1. MR ALEXANDER

2. MR WHITMORE

To see + return

MJS

MR SANDERS

SUNDAY NEWSPAPERS ON THE EURO-BUDGET

You will have seen that the Sunday newspapers uniformly took a tough line on our approach to the Budget meeting in Dublin. Since some of it may be played back to the Prime Minister tomorrow, you should have a note of it.

2. The Sundays had a briefing from me on Friday afternoon at which I did nothing to suggest we were other than firm in our demand for justice. I did not, however, canvass options post-Dublin though I was pushed into admitting that, if we did not get what we want, "we could, I suppose, be awkward to the Nth degree" as the French had been.

3. I am, however, concerned at the use of the word "fleece" in both the 'Observer' (which directly attributes the word to the Prime Minister) and the 'Sunday Telegraph'.

4. This arises from the fact that at the end of the briefing, having taken them fairly carefully through our case, I said conversationally that at one of my briefings earlier in the week I had been asked whether I was anti-Common Market.

5. I replied like this:

"I know all this makes me sound anti-Market. But the truth is that the Government wants to play a full part in Europe and is committed to it. I personally voted to go in, admittedly more for political than economic reasons. But, I am sure like millions of others, I did not vote to go in to be fleeced".

6. Some reporting in the Sundays of this remark is without principle and I shall be talking to Adam Raphael.

7. The 'Observer' also quotes someone as saying the German idea that we should not be in such a rush to follow the Market price for our oil as "confounded cheek". These are my exact words, but again it is a bit much to have remarks attributed to officials giving an unattributable briefing.

B

B INGHAM

26 November 1979

CONFIDENTIAL

GRS 910

CONFIDENTIAL

FRAME GENERAL

FM UKREP BRUSSELS 261859Z NOV 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 6377 OF 26 NOVEMBER.

Prime Minister

Paul
- 27/11

COMMITTEE OF PERMANENT REPRESENTATIVES (AMBASSADORS),
26 NOVEMBER 1979

and

PREPARATION FOR THE EUROPEAN COUNCIL

SUMMARY

1. PRESIDENCY DID NOT PRESENT ANY DRAFT CONCLUSIONS, BUT WENT THROUGH AGENDA AND DOCUMENTATION WITH COMMENTS AS FOLLOWS.

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

2. NOTERDAEME (BELGIUM), WITH SUPPORT FROM DANES AND THE ITALIANS, GRUMBLED THAT THE PAPER WAS ENTIRELY ECONOMIC IN CONTENT. DILLION (IRISH CHAIRMAN) SAID THAT THE PRESIDENCY WOULD TAKE ACCOUNT OF THE OUTCOME OF THE SOCIAL AFFAIRS COUNCIL IN THEIR CONCLUSIONS. AUDLAND (COMMISSION) CONFIRMED AFTER CHECKING THAT THERE WOULD BE NO SEPARATE COMMISSION PAPER ON SOCIAL AFFAIRS.

ENERGY

3. DILLION SUGGESTED THAT THE DEBATE AT DUBLIN MIGHT COVER IRAN, OPEC, U.S. POLICIES, AND PERHAPS COAL AND NORTH SEA OIL (WHICH COULD BE ASSOCIATED WITH OTHER DISCUSSIONS, IE CONVERGENCE). LUBBERS (NETHERLANDS) SAID PARAGRAPHS 7 AND 10 OF THE COMMISSION'S PAPER ON NUCLEAR ISSUES WERE TOO SIMPLISTIC: THE STRASBOURG WORDING WOULD BE PREFERABLE. DONDELINGER (LUXEMBOURG) AGREED.

4. I SAID WE WERE STILL STUDYING THE COMMISSION'S PAPER, BUT WERE BROADLY IN SYMPATHY WITH ITS RECOMMENDATIONS (PARAGRAPH 15). SOME OF THE EARLIER PARAGRAPHS NEEDED EXPERT EXAMINATION AND THE EUROPEAN COUNCIL SHOULD INVITE THE ENERGY COUNCIL TO TAKE EARLY DECISIONS, WITHOUT HAVING A DETAILED DRAFTING SESSION ITSELF AT DUBLIN. ON NORTH SEA OIL, PICKING UP DILLION'S REFERENCE, I EXPRESSED THE HOPE

CONFIDENTIAL

/THAT OUR

CONFIDENTIAL

THAT OUR POLICIES HAD NOW BEEN FULLY EXPLAINED AND UNDERSTOOD. THE UK DID NOT FAVOUR ANY LINKAGE BETWEEN UNLINKED ISSUES. CALAMIA (ITALY) REGRETTED THE LACK OF REFERENCE TO ALTERNATIVE ENERGY SOURCES. NANTEUIL (FRANCE) EXPRESSED CAUTION ABOUT THE RECOMMENDATION IN PARAGRAPH 15 (II) ON COAL. POENSGEN (FRG) THOUGHT THERE SHOULD BE A FULL DISCUSSION OF ENERGY AT THE EUROPEAN COUNCIL, IN WHICH TRANSPARENCY OF THE OIL MARKET WOULD BE THE MOST IMPORTANT ISSUE.

CAP

5. I ASKED ON WHAT BASIS THE SAVING OF 1000 MUCE QUOTED IN THE COMMISSION'S PAPER WAS CALCULATED, IN PARTICULAR WHAT THE EFFECT WOULD BE AS REGARDS 1980. NOEL (COMMISSION) SAID THE PAPER ASSUMED THE CURRENT LEVEL OF PRICES OVER THE FULL 1980 YEAR. IF THE PACKAGE WAS NOT AGREED UNTIL THE PRICE FIXING, THE SAVING WOULD BE MUCH LESS AND IF PRICES WERE CHANGED DURING THE YEAR, THERE WOULD NEED TO BE A RECALCULATION. LATER RIBERHOLDT (DENMARK) URGED THAT THERE SHOULD BE NO LINK BETWEEN THE COMMISSION PAPER AND THE UK BUDGET PROBLEM.

THREE WISE MEN

6. DILLON CONFIRMED THAT THE EUROPEAN COUNCIL WOULD PROBABLY AGREE TO PUBLISH THE REPORT AND BRING IT TO THE ATTENTION OF THE INSTITUTIONS MENTIONED IN IT. IT MIGHT ALSO COMMENT ON ITS OWN ROLE AS ANALYSED IN THE REPORT. IN ANSWER TO A BELGIAN QUERY ABOUT FOLLOW-UP, HE SAID THE FOREIGN MINISTERS WOULD PROBABLY BE ASKED TO STUDY THE REPORT AND PRODUCE RECOMMENDATIONS FOR THE NEXT EUROPEAN COUNCIL.

CONVERGENCE

7. I MADE AND SUBSEQUENTLY CIRCULATED THE STATEMENT IN MIFT.

8. POENSGEN (GERMANY) SAID THAT THE EUROPEAN COUNCIL SHOULD START BY LOOKING AT THE PROBLEM AS A WHOLE AND SHOULD NOT SEEK TO DEAL ONLY WITH CERTAIN ELEMENTS. THE EMPHASIS IN THE COMMISSION PAPER WAS HELPFUL AS A STARTING POINT FOR THE DISCUSSION. RIBERHOLDT (DENMARK) AGREED. THE EUROPEAN COUNCIL SHOULD CONSIDER CONVERGENCE AS A WHOLE WITH THE UK

CONFIDENTIAL

PROBLEM AS AN ANNEX. THE EMPHASIS SHOULD BE ON MEDIUM-TERM PROSPECTS. HIS AUTHORITIES WERE PREPARED TO FACE THE BUDGETARY IMPLICATIONS OF A REBALANCING OF COMMUNITY POLICIES, BUT THEY COULD NOT ACCEPT A LINKAGE BETWEEN THE UK BUDGETARY PROBLEM AND AGRICULTURE. THERE HAD BEEN A CONSPICUOUS LACK OF PROGRESS IN A NUMBER OF OTHER FIELDS TO WHICH HIS GOVERNMENT ATTACHED CONSIDERABLE IMPORTANCE. HE WAS THINKING OF ENERGY AND OF FISH, WHICH WAS OF CRUCIAL IMPORTANCE TO HIS GOVERNMENT. CALAMIA (ITALY) REFERRED TO PARAGRAPH 6 OF THE COMMISSION'S PAPER (BETTER BALANCE BETWEEN COMMUNITY POLICIES). HE FELT THAT THE FORMULATION SHOULD BE TIGHTENED UP. IN PARTICULAR, SPECIFIC MENTION SHOULD BE MADE OF OBJECTIVES. THE PRESENT IMBALANCE IN COMMUNITY POLICIES WAS SUCH THAT THE FORMULA AS WRITTEN COULD NOT USEFULLY FORM THE BASIS FOR FURTHER WORK.

TELEMATIQUE

9. DAVIGNON (COMMISSION) PRESENTED HIS PAPER (SEE SEPARATE TELEGRAM NO 6372).

FCO ADVANCE TO:-

FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, FRETWELL, SPRECKLEY.
CAB - FRANKLIN, THOMAS, WALSH
MAFF - EVANS
NO 10 - ALEXANDER
TSY - PS/CHANCELLOR, COUZENS, JORDAN-MOSS, HEDLEY-MILLER,
ASHFORD, BAKER, THOMPSON.
CSD - PS/LORD PRESIDENT
B/E - BALFOUR, BULL

BUTLER

FRAME GENERAL

RID (I)

(ADVANCED AS REQUESTED)

CONFIDENTIAL

GR 75

CONFIDENTIAL

FM FCO 261100Z NOV 79

TO IMMEDIATE DUBLIN

TELEGRAM NUMBER 250 OF 26 NOVEMBER

Lg
Am

YOUR TEL 452 OF 23 NOV. EUROPEAN COUNCIL

1. HELICOPTER RECONNAISSANCE. AFTER FURTHER DISCUSSION WITH RAF IT IS AGREED THAT A RECONNAISSANCE AND STAND BY IS TOO HEAVY A PREMIUM TO PAY FOR AN INSURANCE POLICY. IN THE EVENT OF AN EMERGENCY COULD WE EXPECT IRISH ARMY AIR CORPS HELICOPTER TO BE PROVIDED?

2. ASSUMING THAT SUCH A REQUEST WOULD BE MET. THE RAF TASKING HAS BEEN STOOD DOWN.

CARRINGTON

FILES
SECURITY-D
RID
PUSD
PCD
PS
PS/LPS
PS/PVS
SIR.A DUFF

COPIES TO
PS/NO 10 DOWNING ST

CONFIDENTIAL

CONFIDENTIAL

GR 600

CONFIDENTIAL

FM UKREP BRUSSELS 261750Z NOV 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 6374 OF 26 NOVEMBER
INFO PRIORITY ALL EEC POSTS.

EUROPEAN COUNCIL: AGRICULTURE.

1. AS SEEN FROM HERE THERE IS SOME DANGER OF OUR APPEARING TO ADOPT CONTRADICTORY POSITIONS IN THE CAP, ESPECIALLY FOLLOWING THE WAY MR WALKER'S STATEMENT ON SUGAR AND OUR POSITION IN THE BUDGET COUNCIL HAVE BEEN TREATED IN THE PRESS. ON THE ONE HAND WE ARE STRONGLY IN FAVOUR OF EARLY ACTION TO CURB CAP SURPLUSES AND COSTS WHILE ON THE OTHER APPEARING TO OPPOSE ALL MEASURES WHICH COULD BRING THIS ABOUT. THE BRIEF ON THE COMMISSION'S PAPER ON AGRICULTURE (COM(79)690 FINAL) FOR DUBLIN WILL NEED TO BE DRAFTED WITH THIS IN MIND.

2. I SUGGEST THAT THE PRIME MINISTER SHOULD WELCOME THE FACT THAT THE COMMISSION IS PROPOSING MEASURES TO CURB EXPENDITUE ON CAP SURPLUSES. SHE COULD EMPHASISE THE URGENCY OF THE TASK AND SAY THAT THE BRITISH GOVERNMENT WILL COOPERATE POSITIVELY IN THE CONSIDERATION OF THE COMMISSION'S PROPOSALS IN THE APPROPRIATE FORA. AT THE SAME TIME SHE SHOULD AVOID ENDORSING THE PAPER IN ANY WAY WHICH WOULD SANCTIFY ITS DETAILED PROPOSALS. THE ARITHMETIC AND ASSUMPTIONS UNDERLYING THEM ARE BOTH VAGUE AND DOUBTFUL. THERE IS NOTHING ON PRICE POLICY. OUR AIM SHOULD BE TO PRESS FOR ACTION TO REDUCE THE COSTS OF THE CAP WHILE AVOIDING DISCUSSION IN DUBLIN ABOUT EXACTLY HOW TO DO IT WHICH WOULD ONLY GET IN THE WAY OF OUR MAJOR OBJECTIVE ON THE BUDGET.

3. OTHERS MAY HOWEVER WANT A DISCUSSION OF THE COMMISSION'S PAPER OR A SUBSTANTIVE PASSAGE IN THE COMMUNIQUE. IN THAT EVENT THE PRIME MINISTER WILL WISH TO HAVE POINTS TO MAKE BOTH ON THE RELATIONSHIP BETWEEN THE CAP PAPER AND THE BUDGET PROBLEM AND ON THE SPECIFIC COMMISSION PROPOSALS.

CONFIDENTIAL

14

CONFIDENTIAL

4. ON THE FORMER, SHE COULD ASK FOR THE COMMISSION WHAT THE CUT OF 1 BILLION MEUA IN A FULL YEAR (PARA 3 OF THEIR PAPER) IS A REDUCTION FROM? IS IT FROM THE PROJECTED COST IN THE TRIENNIAL FORECASTS OR IS IT ALREADY TAKEN ACCOUNT IN THEM (THESE ASSUME AN ANNUAL INCREASE IN THE CAP OF 6 PER CENT)? SHE COULD ALSO ASK WHAT ASSUMPTIONS THE COMMISSION ARE MAKING ABOUT PRICE POLICY. ARE THEY STILL HOLDING TO A RIGOROUS POLICY ON PRODUCTS IN SURPLUS IN ORDER TO RESTRAIN PRODUCTION AND INCREASE CONSUMPTION? THE COMMUNITY'S AIM MUST SURELY BE TO CONTAIN CAP EXPENDITURE IN 1981 AND TO REDUCE IT IN FUTURE YEARS.

5. ON THE COMMISSION'S SPECIFIC PROPOSALS, SHE COULD SAY:

(A) ON MILK, THAT WE HAVE SUPPORTED THE EXISTING CO-RESPONSIBILITY LEVY ON MILK AND WOULD FAVOUR ACTION IN THIS FIELD WHICH WOULD HAVE THE EFFECT OF REDUCING DAIRY SURPLUSES, PROVIDED THAT IT WAS NOT COMPENSATED FOR BY PRICE INCREASES AND WAS NON-DISCRIMINATORY. SHE COULD ADD THAT THE COMMUNITY WOULD NEED TO THINK VERY CAREFULLY ABOUT ARRANGEMENTS WHICH AMOUNTED TO THE INTRODUCTION OF A QUOTA SYSTEM (THE SUPER LEVY).

(B) ON SUGAR, SHE COULD AGREE THAT A REDUCTION IN THE SURPLUSES WOULD NOT BE POSSIBLE WITHOUT A REDUCTION IN QUOTAS. THE QUOTAS MUST HOWEVER, BE ALLOCATED IN A WAY WHICH REFLECTS EQUITY AND ECONOMIC EFFICIENCY.

FCO ADVANCE TO:

FCO - PS/SOFS PS/LPS PS/MR HURD BRIDGES FRETWELL SPRECKLEY
HAZLE

CAB - FRANKLIN ELLIOTT WALSH

MAFF - WATERS EVANS HAYES DAVIES

TSY - PS/CHANCELLOR COUZENS JORDAN-MOSS MRS HEDLEY-MILLER ASHFORD
BAKER THOMSON

NO10 - ALEXANDER

(ADVANCED AS REQUESTED)

BUTLER

FILES
EID
LORD BRIDGES
MR FRETWELL

COPIES TO
ADVANCE ADDRESSEES

2

CONFIDENTIAL



Michael Alexander Esq

With the compliments of

SIR MICHAEL PALLISER

FOREIGN AND COMMONWEALTH OFFICE, SW1
, 197 .

CONFIDENTIAL

GRS BOA
CONFIDENTIAL

FM BONN: 251000Z NOV 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 714 OF 26 NOVEMBER

INFO IMMEDIATE UKREP BRUSSELS, ALL OTHER EEC POSTS, UKDEL OECN

Pennie Winter

Paul

YOUR TELNO 411: NORTH SEA OIL PRICES

1. COUNSELLOR (ECONOMIC) SPOKE ACCORDINGLY TODAY TO THE AUSWAERTIGES AMT (DIECKMANN) AND MINISTRY OF THE ECONOMY (GEBERTH: SCHMIDT), LEAVING A COPY OF HIS SPEAKING NOTE, WHICH THOSE CONCERNED UNDERTOOK TO BRING PROMPTLY TO THE ATTENTION OF GENSCHER AND LAMBSDORFF RESPECTIVELY. BOYD SPOKE SIMILARLY WITH LAHNSTEIN'S PRIVATE SECRETARY AND SCHULMANN'S OFFICE.

2. WE HAD PREVIOUSLY BRIEFED SELECTED SENIOR OFFICIALS CAREFULLY ON THE BASIS OF YOUR TELS. 281,359 AND 384. OUR CENTRAL ARGUMENTS ON PRICES AND RELATED NORTH SEA OIL MATTERS ARE THEREFORE FAMILIAR IN BONN.

3. OUR CONTACTS TODAY CONFIRMED THAT THE GERMANS DO NOT NOW CHALLENGE THE SUBSTANCE OF UKCS PRICING POLICY. IT CUTS ACROSS GERMAN DOCTRINE TO DEPRESS PRICES AGAINST THE TREND. THE MINISTRY OF THE ECONOMY ALSO REGRET THAT THE CRITIQUE OF UK POLICY HAS BECOME QUOTE OVER-SIMPLIFIED UNQUOTE. THE GERMANS DO HOWEVER RESENT THE MANNER AND TIMING OF BNOC'S PRICE RISES IN PARTICULAR, SINCE LAST JANUARY. GRANTED THAT BNOC FOLLOW THE MARKET THEY DO SO IN THE GERMAN VIEW ALL TOO EAGERLY. THE GERMANS WERE PARTICULARLY DISTURBED BY THE NOVEMBER PRICE RISE WHICH IN THEIR VIEW SET DANGEROUS SIGNALS FOR THE DECEMBER OPEC MEETING. THE SAUDIS HAVE ALREADY EXPLOITED BRITISH NORTH SEA PRICES IN DISCUSSION WITH THE GERMANS IN BONN.

4. GEBERTH MADE THE FOLLOWING POINTS:

- A) NO-ONE DISPUTED THE UK'S ATTITUDE TO THE PRICE MECHANISM;
- B) THERE WAS UNDERSTANDING IN BONN FOR OUR ATTITUDE TO DEPLETION;
- C) OUR ATTITUDE TO COMMUNITY IMPORT TARGETS HAD BEEN A DISAPPOINTMENT AFTER THE APPARENT PROMISE OF THE BROWN BOOK. BUT THIS ISSUE WAS IN GEBERTH'S VIEW DEAD AND SHOULD REMAIN SO.

5. THE STATED DESIRE OF MINISTRIES IN BONN IS MORE TACT AND BETTER TIMING BY BNOC. NONE HAS RAISED SPOT SALES ALTHOUGH DIECKMANN RAISED PRE-PAYMENT WITHOUT INTEREST. NONE HAS SO FAR

/PROMOTED

CONFIDENTIAL

CONFIDENTIAL

PROMOTED NEW SUGGESTIONS ON NORTH SEA OIL FOR DUBLIN, BEYOND A STATED COMMITMENT TO MODERATION OVER PRICES (GEBERTH) OR THE COSMETIC COMMITMENT TO CONSULT (THIELE, KANZLERAMT). WE HAVE MADE IT VERY CLEAR THAT THE SUBJECT REMAINS SENSITIVE FOR THE UK AND THAT WHILE WE ARE ALWAYS PREPARED TO EXPLAIN OUR POLICIES ANY ATTEMPT TO TWIST OUR ARM ON NORTH SEA POLICY AT DUBLIN WOULD BE VERY ILL RECEIVED.

6. WE WELCOME THE SUGGESTION THAT MR. HOWELL MIGHT SPEAK TO LAMBSORFF ON THE TELEPHONE BEFORE THE EUROPEAN COUNCIL. WE HAVE THE IMPRESSION THAT THE MINISTRY OF THE ECONOMY WOULD WELCOME THIS. WE UNDERSTAND THAT LAMBSORFF WILL BE IN BONN TOMORROW AND WEDNESDAY.

WRIGHT

DEPARTMENTAL DISTN.
ES & SD
FRD
TRED
ECON D
EID
NEWS D

ADDITIONAL DISTRIBUTION
OIL

2

CONFIDENTIAL

CONFIDENTIAL

Extract of a meeting note between Pm/Jenkins 26/11/79

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET ON MONDAY 26 NOVEMBER 1979 AT 1015

Original on Euro PD: Pm's meeting with Mr Jenkins: May 1979.

Present

The Prime Minister

Mr. Roy Jenkins

Mr. M. O'D. B. Alexander

Mr. C.C.C. Tickell

* * * * *

European Council Agenda

The Prime Minister said that she hoped the discussion in Dublin would get on to the problems of the Budget at an early stage in the proceedings. The first item on the agenda was to be the economic and social situation. She hoped that no-one would try to extend the discussion unduly. It was essential that there should be a serious discussion of the Budget problem followed by the issuing of clear instructions to officials so that they could draft overnight. If there were to be a discussion at dinner, there would have to be an official note-taker present. But her own preference would be to continue the pre-dinner discussion until 8 or 9 p.m. and to have a later dinner. Mr. Jenkins said that he agreed about the need for an early and substantive discussion of the Budget but that he thought a short preliminary discussion on a non-controversial subject would be useful. The only draw-back might be that some members of the Council might prefer a pause for thought in the discussion on the Budget before formulating instructions to officials.

The Budget

The Prime Minister said that she hoped other members of the Council would come to Dublin prepared to move from their present positions. She was not prepared to change her own demands. She was looking for a refund lying somewhere between the present net contribution on an importer pays basis (1552 meua) and that

CONFIDENTIAL

/on an

European Council, Dublin

Mr Whitmore and I called on Mr Dermot Nally in the Taoiseach's office on Friday afternoon, 23 November. Mr Staples from the Embassy accompanied us. Mr Nally was supported by the team which called on Lord Bridges on 15 November - Mr Heaslip, Dr Clarke and Mr Horgan.

2. Mr Nally said their current thinking at official level on the handling of the agenda was as follows:-

(a) economic and social situation to be taken first together with the Commission report on 1990 (telematique) and worksharing (depending on the outcome of the Social Affairs Council);

(b) convergence/budget would be the second item to be taken on Thursday (the other items being scheduled for the second day). They would expect the Taoiseach to invite Mr Roy Jenkins to speak at the beginning and then the Prime Minister. In this way, there could be a good discussion in the Council and Heads of Government could, if necessary, continue at dinner;

(c) the Commission paper on the CAP would be taken either under Item 1 or Item 2;

(d) for the second morning, the items were energy, report of the Three Wise Men, European Union. Under the energy item, the idea of appointing an Energy Supremo within the Community might be mooted;

(e) under other business, the French would raise sheepmeat, relations with the European Parliament (if the Budget Council had not solved the issues on the 1980 Budget) and possibly make a statement on the seat of the European Parliament. In the Irish view, there would not be detailed discussions on sheepmeat: how the French would raise it depended upon how discussion of the Budget had gone.

CONFIDENTIAL

(f) the Belgians wanted a re-affirmation that the original timetable for the European Monetary Fund would be respected. Did we have a bombshell to deliver on EMS? (I assured them that we did not.)

3. The Presidency were circulating draft conclusions on all items except on budget/convergence. On this item, they had some ideas but would wait for the discussion.

4. On the substance of the budget issue, we made it clear that only a conclusion indicating the amount of the relief to be granted to the UK, the duration of any arrangement and the mechanism or mechanisms to be used would satisfy the UK. Mr Heaslip suggested that the European Council might only be able to agree on an "operative framework". We said that the Prime Minister would have to be able to say clearly what size of refund had been agreed. We did not preclude arriving at the result through a combination of two or more elements but fudging the figures would not do. (The Irish spoke with some feeling about the difficulties they had had in reconciling the outcome of the EMS discussions last December with their previous public statement about the amount of financial help they needed.)

5. Mr Nally said the other member states attached importance to four principles:-

(a) the integrity of "own resources": we said this should present no difficulty. The Financial Mechanism could not be considered incompatible;

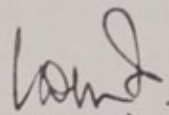
(b) the solution must be a Community one, meaning that it should not fall on national budgets: we took note and said we could consider any form of financing, although we were not going to be caught by the argument that what we wanted was incompatible with the 1 per cent ceiling;

CONFIDENTIAL

(c) there could be no juste retour : we said we were not asking for every member state to get back what it put in: that would not be fair for Ireland, nor reasonable for Germany. France was the only country currently enjoying a "juste retour";

(d) the solution should be temporary: for the French this meant one year (though renewable), but it could be construed as covering the period until the UK's trade pattern came into line with the rest of the Community etc. We said President Giscard had not spoken of 1 year to the Prime Minister; the Commission paper had mentioned 3-4 years; we wanted a solution to last as long as the problem lasted. No one could tell how long it would take for the UK's trade to approximate to the Community average.

6. In general, they took a gloomy view of the prospects for agreement, Mr Horgan in particular dwelling ghoulishly on the fact that some member states did not like the Commission's latest paper and that even the Commission did not make a forthright recommendation that all the restraints should come off the Financial Mechanism. We stressed that the Government must have a politically defensible solution but was ready to negotiate.



M D M FRANKLIN

26 November 1979

cc Mr Whitmore No 10
✓ Mr Alexander No 10
Sir R Armstrong
Lord Bridges FCO

Mr Fretwell FCO
Sir K Couzens Treasury
Mr M D Butler UKREP Brussels
HM Ambassador Dublin

CONFIDENTIAL

QZ 01328

European Council, Dublin

Brief for meeting with Mr Dermot Nally, Friday, 23 November

Substance:

(1) HMG is ready to negotiate, but to be politically defensible the outcome must be a lasting solution reflecting "broad balance". The Government wants an agreement in Dublin.

(2) An approach based on removing the existing constraints on the Financial Mechanism (paragraph 12 of the latest Commission document) is acceptable to us but will not by itself be adequate. We do however have problems with the statement (paragraph 13 of the Commission paper) that the qualifying criteria should remain unchanged.

(3) Acceptable solution will have to deal with our low receipts as well as our excess contribution. The Commission recognise this. However the measures proposed in paragraph 15 are not quantified and in any case seem unlikely to have the immediate effect on our net contribution for 1980 that the size of our unfair burden demands. The European Council will have to agree on more concrete and substantial assistance on the receipts side. In our view, the quickly, simplest and best solution would be a receipts mechanism.

- (4) However we are ready to look at alternative methods, but they -
- (i) need to be durable
 - (ii) should not involve increased public expenditure in the UK
 - (iii) should be compatible with the 1 per cent ceiling
 - (iv) be effective from 1980.

(5) Undertakings that the future pattern of Community expenditure will develop in a way favourable to the UK would be helpful but not as a substitute for immediate remedial action.

(6) The essential elements in a solution - amount of reduction in net contribution, duration of the arrangement, type of mechanism or mechanisms - need to be settled so that when detailed implementing regulations come to be drawn up, there is no room for doubt.

CONFIDENTIAL

(7) We can subscribe to the two basic principles set out in paragraph 9 of the latest Commission document but they are not an obstacle to a satisfactory solution. We have never sought a juste retour and do not do so now. The 1975 mechanism recognised the compatibility of adjustment with the own resources system.

(8) The Italian wishes ~~to~~ Dublin appear to be obscure. A commitment to reduce the share of the budget going to CAP would be helpful. But how does the Presidency envisage handling the discussion on convergence? (of interest to Ireland too).

Procedure

(1) How does the Presidency envisage handling the agenda? What draft conclusions will they produce and when? Welcome the warning by Mr O'Kennedy that meeting might have to continue into afternoon of the second day.

(2) PM has unhappy recollections of the procedural wrangle in Strasbourg and will want to be sure that Presidency will take a firm line on (a) attempts to filibuster (b) introduce irrelevancies (c) prevent officials getting from Council Secretariat a clear account of what their instructions are.

(3) The budget/convergence item should be tackled early e.g. after a short "warming-up" item. Prime Minister will be ready to give her views, but try to avoid too much philosophising and get down to discussion on the key issues

(i) The scale of the action to be taken in relation to the UK problem;

(ii) the length of time for which any arrangements should operate;

(iii) the appropriate machinery to secure corrective action.

Once these are established, officials can work on putting them into Community language. Must allow enough time on the first day for clear instructions.

(4) What are Presidency aims for other agenda items?

no
original on: Euro PSL (Community Budget) Pt 3.



Foreign and Commonwealth Office

London SW1A 2AH

23 November 1979

Submitted to P.A.
Paul

Dear Michael,

Report of the Three Wise Men on European Institutions

At the Foreign Affairs Council on 20 November the Presidency distributed copies of the Report of the Three Wise Men on European Institutions, which the European Council is to consider on 29/30 November.

The Report was circulated under cover of a letter from the Irish Prime Minister; the envelope addressed to the Prime Minister in fact contained the top copy of the letter to the Prime Minister of Luxembourg; we have not yet received the top copy of the letter to the Prime Minister.

A brief on the Report will be provided for the European Council in the normal way. I now enclose:

- (a) a copy of Mr Lynch's covering letter (text as sent to Mr Werner);
- (b) a draft reply from the Prime Minister to the Taoiseach;
- (c) a summary of the main points of the Report, prepared by FCO officials;
- (d) the Wise Men's own summary;
- (e) the text of the Report.

Yours etc
Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

PRIME MINISTER

①

DUBLIN BRIEFING

The main briefing meeting for the European Council in Dublin will, as you know, be on Wednesday next. There will, inevitably, be a largish number of Ministers and officials present. You may think that it would be sensible to have a much smaller meeting with your colleagues previously to discuss tactics in Dublin. It would be possible to fit in such a meeting on the evening of Tuesday in the slot at present reserved for a meeting of MISC 7. This could be deferred without difficulty.

Plus
LPS.
✓

Participation in such a meeting might be limited to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President and, perhaps, Sir Robert Armstrong.

Do you agree?

Done
21.26.79

Yes

Plus

23 November 1979

RESTRICTED

Ref. A0727

MR. ALEXANDER

*✓ Oct. 26/79 - PM's
Puis Stephens: Would you issue
invitations. Would you also invite
Foreign Secretary, Lord President & Chancellor of the
Exchequer to the meeting on Tuesday evening. PM's*

Prime Minister's Briefing Meeting for the European Council: 28th November

The Prime Minister's briefing meeting for the European Council will take place on Wednesday, 28th November. I attach a list of suggested invitees. In addition to those who will be accompanying the Prime Minister to Dublin, it includes the Chancellor of the Exchequer, the Lord Privy Seal, the Lord President, the Minister of Agriculture and the Secretary of State for Energy. The presence of the last two, who might be accompanied by one official each, is desirable because we may come under pressure on sheepmeat and on oil prices. Unless the budget issue has been adequately discussed at a separate meeting, it could be taken at the end of the meeting allowing Mr. Walker and Mr. Howell to leave.

ROBERT ARMSTRONG

23rd November, 1979

RESTRICTED

European Council: Suggestions for Attendance at the Prime Minister's Briefing Meeting: 28th November, 1979

Ministers

Foreign and Commonwealth Secretary*
Chancellor of the Exchequer
Lord President of the Council
Lord Privy Seal
Minister of Agriculture, Fisheries and Food
Secretary of State for Energy

Officials

Sir Robert Armstrong (Cabinet Office)*
Sir Michael Palliser (FCO)*
Sir Kenneth Couzens (Treasury)*
Mr. M. Butler (UKREP)*
Mr. M. Franklin (Cabinet Office)*
Mr. J. Fretwell (FCO)*
Sir Jack Rampton (Department of Energy)
Mr. B. Hayes (MAFF)
Mr. I. Hudson (Department of Employment)

*Will be attending European Council

K. J. P. S.

P. S.

REPORT OF THE THREE WISE MEN ON EUROPEAN INSTITUTIONS

The main points of the report are:-

(i) Aims of Report:

(a) Not to modify institutional balance but suggest practical ways of improving the functioning of each institution to create the best possible administrative conditions for overcoming existing difficulties (pp 13,14).

(ii) European Council

(a) This is the effective source of political guidance in the Community. (pp 15-18).

(b) The European Council should adopt before 1981, in collaboration with the Commission, priorities for the Community as a whole. (pp 19-20)

7 (c) The European Council should be integrated as far as possible within the normal framework of inter-institutional relations. (pp 21-22)

(d) There should be limited agendas, limited attendance, full preparation and follow-up, early circulation of documents. Presidency responsibility for drafting accurate conclusions. (pp 22-26)

(e) Giscard's idea of a longer-term (e.g. 2 year) Presidency for the European Council is rejected. (pp 26-27)

(iii) Council of Ministers

✓✓✓ (a) The machinery is becoming clogged. (pp 31-34)

(b) Clearer definition and more efficient execution of the responsibilities of the Presidency are essential. (pp 35-42)

✓ (c) The Presidency should be free to lighten its own load by entrusting particular dossiers to other Members of the European Council, Council of Ministers or subordinate organs. (pp 43)

(d) Other options, e.g. "troika" formula, are rejected. (pp 44-45)

(e) Council must be free to concentrate on political issues. (pp 46)

7 (f) Should be greater delegation to Commission, COREPER and lower-level bodies. (pp 47-50)

No (g) The "Luxembourg Compromise" is a fact of life so majority voting should be accepted as normal practice in all cases where the Treaty does not require unanimity and no very important interests are involved. (pp 50-52)

/(h)

? (h) There should be greater co-ordination of Community activities at all levels; the Council of Foreign Ministers should play a central role. (pp 52-57)

(i) National administrations must be able to produce timely, considered and coherent instructions. (pp 60-62)

(j) The Presidency must ensure good relations with the Parliament; and the Commission's contribution is vital to the Council's good functioning. (pp 62-63)

(iv) Commission

(a) Exercise of role and responsibilities should be more effective. (pp 64-67)

(b) Report endorses recommendations of Spierenburg Committee - only one Commissioner per Member State after enlargement, etc. (pp 67-69)

(c) The President of the Commission's authority must be reinforced. He must be chosen six months before the Commission's renewal, must be consulted on the selection of Commissioners and have the last word on the allocation of portfolios. (p 70)

(d) The Commission should set up at the start of its term of office a general programme (which can be revised at least once a year) in harmony with the priorities defined by the European Council (see paragraph (ii)(b) above). (p 71)

(e) It should participate actively in the work of the Council which should delegate implementation of policies to the Commission. (p 72)

(v) European Parliament

(a) Must be closer contacts between Parliament and Commission. (p 78)

(b) Commission and Council should take Parliament's Resolutions more seriously. (pp 79-80)

(c) The implementation of the "conciliation procedure" (between Council and Parliament on acts with "appreciable financial consequences") should be improved. (Annex pp 114-118)

(d) The President of the European Council should appear once every six months before the Parliament. (p 81)

(vi) Other

(a) Any system of a "two-speed" Europe must be rejected. (p 90)

/(b)

(b) Use of national languages cannot be limited systematically and by compulsion but essential that pragmatic arrangements are found to reduce number of interpreters at meetings. (pp 93-95)

(vii) Conclusions

(a) In the face of a difficult period for Europe in the next few years the Member States must maintain their solidarity and counter the pressures for protectionism. (pp 99-100)

(b) The first and greatest task for the Community is the maintenance and consolidation of the acquis. (p 106)

(c) Solidarity between the Member States must be given practical expression to help survive immediate dangers and lay foundation for longer-term progress. (pp 107-8)

Foreign and Commonwealth Office

22 November 1979

S U M M A R Y

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

Barend BIESHEUVEL
Edmund DELL
Robert MARJOLIN

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

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

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

.../...

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

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

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

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

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

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

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

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

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

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

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

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

a helpful role in this respect.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONFIDENTIAL



CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

01-~~XXXXXXXXXX~~ 233-7256

22 November 1979

QZ 01326

h.c.c. Mr Whitmore
Mr Elliott
Mr Welsh

Dear Tom

EUROPEAN COUNCIL DUBLIN

I have scribbled out the attached notes for use when Clive Whitmore and I visit Dublin tomorrow afternoon. I should be very grateful for comments from you and other recipients - if possible by close of play tonight but if necessary at our meeting tomorrow morning.

We have of course no authority from Ministers to depart in any way from the Government's declared aims. As I mentioned last night however, I think we have to be careful to combat an impression which may be gaining ground that we have given up hope of a settlement next week. If this conclusion were drawn by others there would be no prospect of their moving further towards us. Perhaps you would look at the draft with this thought particularly in mind.

Yours ever
Michael
M D M FRANKLIN

Commissioner
of the

The Lord Bridges CMG
Foreign and Commonwealth Office
LONDON SW1

cc N J Jordan Esq CB CMG Treasury
M D Butler Esq CMG UKREP

CONFIDENTIAL

DRAFT

European Council, Dublin

Brief for meeting with Mr Dermot Nally, Friday, 23 November

Substance:

(1) HMG is ready to negotiate, but to be politically defensible the outcome must be a lasting solution reflecting "broad balance". The Governments wants an agreement in Dublin.

(2) An approach based on removing the existing constraints on the Financial Mechanism (paragraph 12 of the latest Commission document) is acceptable to us but will not by itself be adequate. We do however have problems with the statement (paragraph 13 of the Commission paper) that the qualifying criteria should remain unchanged.

(3) Acceptable solution will have to deal with our low receipts as well as our excess contribution. The Commission recognise this. However the measures proposed in paragraph 15 are not quantified and in any case seem unlikely to have the immediate effect on our net contribution for 1980 that the size of our unfair burden demands. The European Council will have to agree on more concrete and substantial assistance on the receipts side.

- (4) We are ready to look at alternative methods, but they -
- (i) need to be durable
 - (ii) should not involve increased public expenditure in the UK
 - (iii) should be compatible with the 1 per cent ceiling
 - (iv) be effective from 1980.

CONFIDENTIAL

(5) Undertakings that the future pattern of expenditure will favour the UK would be helpful but not as a substitute for immediate remedial action.

(6) The essential elements in a solution - amount of reduction in net contribution, duration of the arrangement, type of mechanism or mechanisms - need to be settled so that when detailed implementing regulations come to be drawn up, there is no room for doubt.

(7) We can subscribe to the two basic principles set out in paragraph 9 of the latest Commission document but they are not an obstacle to a satisfactory solution. We have never sought a juste retour and do not do so now. The 1975 mechanism recognised the integrity of our own resources system.

Procedure

(1) How does the Presidency envisage handling the agenda?

What draft conclusions will they produce and when? Welcome the warning by Mr O'Kennedy that meeting might have to continue into afternoon of the second day.

(2) PM has unhappy recollections of the procedural wrangle in Strasbourg and will want to be sure that Presidency will take a firm line on (a) attempts to filibuster (b) introduce irrelevancies (c) prevent officials getting from Council Secretariat a clear account of what their instructions are.

(3) The budget/convergence item should be tackled early e.g. after a short "warming-up" item. Prime Minister will be ready to give her views, but try to avoid too much philosophising and get down to

CONFIDENTIAL

discussion on the key issues

- (i) how much of a refund?
- (ii) for how long?
- (iii) who is going to pay?

Once these are established, officials can work on putting them into Community language. Must allow enough time on the first day for clear instructions.

- (4) What are Presidency aims for other agenda items?

22 NOV 1979

11 12 1 2
10 9 8 7 6 5



RESTRICTED

GPS 170

RESTRICTED

FM UKREP BRUSSELS 220917Z NOV 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 6261 OF 22 NOV
INFO PRIORITY DUBLIN.

ds
Am

EUROPEAN COUNCIL ARRANGEMENTS.

1. THE PRESIDENCY URGED AT LAST NIGHT'S ANTICI GROUP MEETING THAT DELEGATION LISTS SHOULD BE FORTHCOMING IN BRUSSELS BEFORE CLOSE OF PLAY ON FRIDAY (23 NOVEMBER), INCLUDING SHEEPMEANT EXPERTS AS REQUESTED BY FRANCOIS-PONCET (MY TELNO 6194, PARA 10). SEVERAL DELEGATIONS ASKED ABOUT PASSES FOR EMBASSY STAFF AND MESSENGERS IN DUBLIN. THE PRESIDENCY SAID THAT THIS WAS A MATTER FOR EMBASSIES TO SORT OUT WITH THE IRISH FOREIGN MINISTRY, BUT THE PRESIDENCY HERE COULD ACCEPT 19 NAMES ONLY AND THAT WAS THE LIMIT. BODYGUARD PASSES WILL BE ISSUED IN DUBLIN.

2. AS SUGGESTED IN DUBLIN TELNO 422, THE 2 MINISTERS' PRIVATE SECRETARIES AND ANTICI GROUP WILL BE GIVEN DINNER IN IVEAGH HOUSE.

FCO PASS ADVANCE COPIES TO:-

FCO PS/SOFS, PS/PUS, BRIDGES, FRETWELL, SPRECKLEY,
GOODENOUGH, DAVIES (PCD)

CAB FRANKLIN

NO/10. ALEXANDER

BUTLER.

FILES

RID (I)

PCD

PS

PS/LPS

PS/PUS

LORD BRIDGES

MR FR FRETWELL

ADVANCED LE PRIORITY

RESTRICTED

FLASH

ADVANCE COPY

+24

THERE WILL BE A FLASH IN ABOUT FIVE MINS

Advance copy

AS

AS / 4AS

AS / AUS

FOR BRIDGES

ML FRETWELL

ECFO 041/21

ZZ FCO

OO COPENHAGEN

OO THE HAGUE

OO ROME

OO LUXEMBOURG

OO DUBLIN

OO PARIS

OO BONN

Prime Minister
The final Commission paper

21/11/79 EID I 4

CAB OFFICE 3

Phil TSY &

FLASH

21.11.79

CSD 1

Ant

AS / NO 10

Downing St

RC

GRS 2150

CONFIDENTIAL

FM UKREP BRUSSELS 211758Z NOV 79

TO FLASH FCO

TELEGRAM NUMBER 6251 OF 21 NOVEMBER

INFO IMMEDIATE COPENHAGEN, THE HAGUE, ROME, LUXEMBOURG, DUBLIN, PARIS, BONN

INFO SAVING BRUSSELS.

EUROPEAN COUNCIL: CONVERGENCE

1. FOLLOWING IS TEXT OF COMMISSION COMMUNICATION TO THE EUROPEAN COUNCIL APPROVED TODAY:

1. INTRODUCTION

THE COMMISSION HAS MADE TWO COMMUNICATIONS TO THE COUNCIL OF MINISTERS (COM(79) 462 OF 12 SEPTEMBER AND COM(79)620 OF 31 OCTOBER) ANALYSING CERTAIN PROBLEMS CONNECTED WITH ECONOMIC CONVERGENCE AND BUDGETARY MATTERS WITHIN THE COMMUNITY. ON THE BASIS OF THESE COMMUNICATIONS THERE HAS BEEN EXTENSIVE DISCUSSION WITHIN THE INSTITUTIONS OF THE COMMUNITY, INCLUDING THE EUROPEAN PARLIAMENT, IN MEMBER STATES AND BY PUBLIC OPINION GENERALLY. THE COMMISSION BELIEVES THAT THE MOMENT IS NOW RIGHT TO PROPOSE TO THE COUNCIL THE APPROACH AND DECISIONS WHICH WILL BE NECESSARY IF PRESENT DIFFICULTIES ARE TO BE RESOLVED.

2. THESE DIFFICULTIES COVER A NUMBER OF INTER-RELATED QUESTIONS, INCLUDING SOME CONCERNED WITH THE COMMON AGRICULTURAL POLICY. THESE NEED TO BE DEALT WITH ON THEIR MERITS, AND ARE THE SUBJECT OF A SEPARATE PAPER BY THE COMMISSION FOR THE EUROPEAN COUNCIL. THE PRESENT COMMUNICATION DEALS WITH THE COMMUNITY BUDGET, BOTH AS CONCERNS CONVERGENCE AND THE PARTICULAR PROBLEMS WHICH HAVE ARISEN FOR THE UNITED KINGDOM.

11. THE STRUCTURE OF THE COMMUNITY BUDGET

3. THE COMMISSION BELIEVES THAT A LARGER PROPORTION OF BUDGETARY SPENDING SHOULD BE DEVOTED TO THE IMPROVEMENT OF STRUCTURES AND TO GENERAL INVESTMENT PURPOSES WITHIN THE COMMUNITY. SUCH EXPENDITURE WAS ENVISAGED IN THE COMMISSION'S LATEST THREE-YEAR FORECAST TO RISE FROM 14 PERCENT IN 1980 TO 22 PERCENT IN 1992 ON THE ASSUMPTION THAT MARKET SUPPORT EXPENDITURE FOR AGRICULTURE WOULD RISE OVER THE PERIOD AT AROUND 6 PERCENT A YEAR.

4. ON EXPENDITURE WITHIN THE AGRICULTURAL SECTOR, THE COMMISSION POINTED OUT IN ITS COMMUNICATION OF 31 OCTOBER THAT AN INCREASING NUMBER OF MEASURES HAD BEEN ADOPTED IN RECENT YEARS TO STRENGTHEN MARKET SUPPORT ARRANGEMENTS FOR MEDITERRANEAN PRODUCTS AND TO IMPROVE THE INCOMES OF THE

RECENT YEARS TO STRENGTHEN MARKET SUPPORT ARRANGEMENTS FOR MEDITERRANEAN PRODUCTS AND TO IMPROVE THE INCOMES OF THE PRODUCERS CONCERNED. THE COMMISSION WILL DO ALL IT CAN TO SECURE THE RAPID EXECUTION OF THESE AND OTHER MEASURES AND THE RAPID ADOPTION BY THE COUNCIL OF FURTHER MEASURES IN OTHER AGRICULTURAL SECTORS OF PARTICULAR INTEREST TO ITALY AND IRELAND. THIS SHOULD LEAD TO A BETTER BALANCE IN THE PATTERN OF AGRICULTURAL PRODUCTION AS A WHOLE.

5. IN THE VIEW OF THE COMMISSION THE APPROACH SUGGESTED BY THE ITALIAN GOVERNMENT OF FIXING OBJECTIVES FOR A RISING PROPORTION OF COMMUNITY EXPENDITURE DEVOTED TO STRUCTURES AND GENERAL INVESTMENT PURPOSES OVER A PERIOD IS USEFUL. THE ACHIEVEMENT OF SUCH OBJECTIVES WILL DEPEND ON THE ABILITY OF THE COMMUNITY TO BRING AGRICULTURAL EXPENDITURE UNDER CONTROL. MOREOVER THE SIGNIFICANCE OF THE EFFECTS WILL BE RELATIVELY SMALL SO LONG AS PRESENT LIMITATIONS ON THE SIZE OF THE BUDGET REMAIN.

6. IN THE LIGHT OF THESE CONSIDERATIONS THE COMMISSION INVITES THE EUROPEAN COUNCIL TO ENDORSE THE PRINCIPLE THAT TO ACHIEVE A BETTER BALANCE BETWEEN COMMUNITY POLICIES, THE RATE OF INCREASE IN EXPENDITURE ON STRUCTURAL AND GENERAL INVESTMENT POLICIES SHOULD FROM 1980 ONWARDS BE SIGNIFICANTLY GREATER THAN THE RATE OF INCREASE IN THE SIZE OF THE COMMUNITY BUDGET. THE COMMISSION FURTHER RECOMMENDS THAT IF DURING THE BUDGETARY PROCESS THIS PRINCIPLE IS NOT RESPECTED, THE COMMISSION UNDERTAKES TO DRAW THE ATTENTION OF THE INSTITUTIONS TO THE SITUATION WITHOUT DELAY.

III. BUDGETARY DIFFICULTIES

7. THE COMMISSION BELIEVES THAT THE ACHIEVEMENT OF A BETTER BALANCE WITHIN THE BUDGET WILL, TOGETHER WITH OTHER FACTORS MENTIONED IN ITS COMMUNICATION OF 31 OCTOBER, EVENTUALLY SOLVE MOST OF THE PRESENT DIFFICULTIES OF THE UNITED KINGDOM IN RESPECT OF THE COMMUNITY BUDGET. BUT IT RECOGNISES THAT FOR THE IMMEDIATE FUTURE THERE IS A SERIOUS PROBLEM.

8. THE TRANSITIONAL PERIOD FOR THE UNITED KINGDOM, IRELAND AND DENMARK WAS DESIGNED TO PERMIT THE GRADUAL INTEGRATION OF THESE MEMBER STATES INTO THE SYSTEM OF COMMUNITY FINANCING. THE COMMISSION BELIEVES THAT THIS APPROACH WAS AND REMAINS RIGHT. IN CONSEQUENCE SUCH FURTHER MEASURES AS MAY BE

RIGHT. IN CONSEQUENCE SUCH FURTHER MEASURES AS MAY BE AGREED SHOULD BE TEMPORARY IN NATURE. THE NECESSARY RESOURCES SHOULD BE FOUND FROM WITHIN THE BUDGET.

9. THE COMMISSION BELIEVES THAT ANY SOLUTIONS ADOPTED SHOULD NOT ONLY BE COMMUNITY SOLUTIONS BUT DESIGNED TO STRENGTHEN THE COHESION AND SOLIDARITY OF THE COMMUNITY. THEY SHOULD CONFORM TO TWO BASIC PRINCIPLES. FIRST THEY SHOULD RESPECT THE INTEGRITY OF THE OWN RESOURCES SYSTEM, SECOND THEY SHOULD NOT HAVE AS THEIR OBJECTIVE TO PUT A MEMBER STATE IN A POSITION OF "JUSTE RETOUR" IN RESPECT OF THE COMMUNITY BUDGET.

10. IN ITS REFERENCE DOCUMENT OF 12 SEPTEMBER THE COMMISSION FORECAST THAT THE UNITED KINGDOM'S FINANCING SHARE WOULD RISE SHARPLY OVER HER FORECAST SHARE OF COMMUNITY GNP BETWEEN 1979 AND 1982. THE MAIN REASON IS THAT PAYMENTS UNDER THE TRANSITIONAL ARRANGEMENTS SET OUT IN ARTICLE 131 OF THE ACCESSION TREATY WILL COME TO AN END.

11. ONE SIMPLE WAY OF APPROACHING THE PROBLEM THUS CREATED WOULD BE TO CREATE A NEW AD HOC MECHANISM TO COMPENSATE FOR ANY BRITISH CONTRIBUTION OF FULL OWN RESOURCES GOING BEYOND A PREDETERMINED PERCENTAGE INCREASE IN A GIVEN YEAR. IN ITS COMMUNICATION TO THE COUNCIL OF 31 OCTOBER, THE COMMISSION INDICATED THAT IF NO PERCENTAGE INCREASE OVER 1979 WERE ALLOWED, THE FORECAST SHARE OF THE UNITED KINGDOM IN FINANCING THE 1982 BUDGET WOULD BE REDUCED BY SOME 500 MEUA GROSS (390 MEUA NET). BUT UNLESS THE BRITISH CONTRIBUTION WERE TO BE FROZEN AT A GIVEN LEVEL, THE ARRANGEMENT WOULD HAVE DIMINISHING IMPACT.

12. A MORE PROMISING APPROACH WOULD BE TO ADAPT THE EXISTING FINANCIAL MECHANISM. THE COMMISSION RECALLS THAT WHEN THE HEADS OF STATE AND GOVERNMENT AGREED IN PRINCIPLE TO CREATE THE MECHANISM IN 1974, THEY HAD EXPRESSLY IN MIND THE COMMUNITY DECLARATION DURING THE ACCESSION NEGOTIATIONS THAT "IF UNACCEPTABLE SITUATIONS WERE TO ARISE THE VERY LIFE OF THE COMMUNITY WOULD MAKE IT IMPERATIVE FOR THE INSTITUTIONS TO FIND EQUITABLE SOLUTIONS". AT ITS MEETING IN STRASBOURG OF JUNE 1979, THE EUROPEAN COUNCIL REQUESTED THE COMMISSION TO EXAMINE THE EXTENT TO WHICH THE MECHANISM COULD PLAY ITS PART IN 1980 AND FULFIL THE OBJECTIVES ASSIGNED TO IT.

• FULFIL THE OBJECTIVES ASSIGNED TO IT.

13. FOR THE REASONS SET OUT IN THE COMMISSION'S REFERENCE DOCUMENT OF 12 SEPTEMBER, PAYMENTS MADE UNDER THE MECHANISM AS AT PRESENT CONSTITUTED COULD SCARCELY SOLVE THE PROBLEM. THE COMMISSION BELIEVES THAT THE QUALIFYING CRITERIA FOR THE OPERATION OF THE MECHANISM REMAIN A VALID MEASURE OF THE RELATIVE PROSPERITY OF MEMBER STATES WITHIN THE COMMUNITY AND SHOULD REMAIN UNCHANGED. BUT TO ENABLE THE MECHANISM TO FULFIL MORE CLOSELY THE ROLE ASSIGNED TO IT, THE COMMISSION RECOMMENDS REMOVAL OF THE LIMITATION THAT IF THERE WERE A BALANCE OF PAYMENTS SURPLUS THE CALCULATION OF THE EXCESS CONTRIBUTION MUST BE RELATED SOLELY TO VAT. THIS WOULD PRODUCE A PAYMENT OF 300 MEUA GROSS (250 MEUA NET) IN RESPECT OF 1980 WHETHER OR NOT THERE WAS A BALANCE OF PAYMENTS SURPLUS. BUT AS THE UNITED KINGDOM WILL ANYWAY FIND ITSELF IN PAYMENTS DEFICIT IN 1979 AND ALMOST

CERTAINLY IN 1980, THE COMMISSION FURTHER RECOMMENDS THAT THE EUROPEAN COUNCIL IN DUBLIN SHOULD DEFINE THE CONDITIONS UNDER WHICH THE TWO FURTHER RESTRICTIONS ON THE OPERATION OF THE MECHANISM COULD BE LIFTED. THESE ARE THE TRANCHE SYSTEM WHICH PROVIDES THAT ONLY A PART OF THE EXCESS CONTRIBUTION IS REIMBURSED; AND THE CEILING OF 3 PER CENT OF THE BUDGET. IF THESE RESTRICTIONS WERE ALSO REMOVED, PAYMENTS UNDER THE MECHANISM IN RESPECT OF 1980 WOULD RISE FROM 300 MEUA GROSS TO SOME 630 MEUA GROSS (520 MEUA NET). (+)

14. THERE WOULD BE DIFFICULTY IN ANY APPROACH DESIGNED TO COMBINE A SYSTEM OF LIMITING INCREASES IN THE BRITISH SHARE OF FINANCING THE BUDGET WITH IMPROVEMENTS IN THE OPERATION OF THE FINANCIAL MECHANISM. THIS IS BECAUSE THE REDUCED SHARE OF FINANCING WHICH WOULD RESULT FROM ANY SUCH LIMITATION WOULD LOGICALLY HAVE TO BE USED IN APPLYING THE FINANCIAL MECHANISM. PAYMENT UNDER THE FINANCIAL MECHANISM WOULD THEREFORE BE REDUCED BY THE AMOUNT RESULTING FROM THE LIMITATION.

15. THIS DIFFICULTY WOULD NOT EXIST FOR ARRANGEMENTS AFFECTING THE EXPENDITURE SIDE OF THE BUDGET. SUCH ARRANGEMENTS WOULD HAVE TO FLOW FROM THE STRENGTHENING OF COMMUNITY POLICES WHICH ARE NECESSARY TO IMPROVE THE COHESION OF THE COMMUNITY AND ARE THEREFORE CENTRAL TO THE INTEREST OF THE COMMUNITY AS A WHOLE. IT WOULD BE POSSIBLE

INTEREST OF THE COMMUNITY AS A WHOLE. IT WOULD BE POSSIBLE TO ENVISAGE SPECIAL, TEMPORARY AND AD HOC MEASURES WHICH WOULD ENSURE A GREATER PARTICIPATION BY THE UNITED KINGDOM IN A NUMBER OF COMMUNITY POLICIES AND WHICH WOULD INCREASE THE PRESENT LOW LEVEL OF COMMUNITY EXPENDITURE IN THE UNITED KINGDOM. SUCH ARRANGEMENTS WHICH WOULD NEED TO BE IN FULL CONFORMITY WITH THE PRINCIPLES SET OUT IN PARAGRAPHS 8 AND 9, COULD, FOR EXAMPLE, TAKE THE FORM OF IMMEDIATE ASSISTANCE FOR EXPLOITATION OF COAL RESOURCES, MEASURES TO PROMOTE TRANSPORT INFRASTRUCTURE, AND SOME AGRICULTURAL IMPROVEMENT SCHEMES. IF THE UNITED KINGDOM WERE TO JOIN THE EUROPEAN MONETARY SYSTEM AN INTEREST REBATE SYSTEM IN RESPECT OF COMMUNITY LOANS COULD COMPRISE ONE VEHICLE FOR SUCH PAYMENTS.

16. IF THIS APPROACH WERE TO BE PURSUED, THE COMMISSION WOULD STRESS THAT ANY CONTRIBUTION SHOULD BE MADE ON THE BASIS OF THE COMMUNITY BUDGET AND SHOULD BE LIMITED IN TIME (PERHAPS THREE OR FOUR YEARS). THE VOLUME OF RESOURCES TO BE FOUND MUST NECESSARILY BE SETTLED BY DISCUSSION WITHIN THE COUNCIL.

17. SO FAR ONLY SHORT AND MEDIUM TERM SOLUTIONS TO THE PROBLEMS OF CONVERGENCE AND THE BUDGET HAVE BEEN DISCUSSED. BUT AS THE EUROPEAN PARLIAMENT HAS POINTED OUT, THE EXISTING POLICIES OF THE COMMUNITY ARE INSUFFICIENT TO BRING ABOUT THE DEGREE OF CONVERGENCE BETWEEN THE ECONOMIES OF THE MEMBER STATES WHICH IS NECESSARY FOR THE PROGRESS AND COHESION OF THE COMMUNITY. THE COMMISSION BELIEVES THAT THE EUROPEAN COUNCIL SHOULD BEAR THIS LONGER TERM CONSIDERATION IN MIND WHEN EXAMINING THE PROPOSALS IN THIS PAPER.

(+) THESE FIGURES, WHICH WERE CONTAINED IN COM(79)622 WERE BASED ON EXCHANGE RATES OF MID-AUGUST 1979.

FCO ADVANCE TO:

FCO - PS/SOFS PS/LPS PS/PUS BRIDGES FRETWELL SPRECKLEY HAZLE

CAB - FRANKLIN ELLIOTT WALSH

TSY - PS/CHANCELLOR PS/FINANCIAL SECRETARY COUZENS JORDAN-ROSS
MRS HEDLEY-MILLER ASHFORD THOMPSON BAKER

CSD - PS/LORD PRESIDENT

NO12 - ALEXANDER

ADVANCED BY REQUEST

CONFIDENTIAL

GRS 1260

CONFIDENTIAL

FRAME GENERAL

DESKBY 210930Z

FM UKREP BRUSSELS 201922Z NOV 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 6194 OF 20 NOVEMBER

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

FOREIGN AFFAIRS COUNCIL 20 NOVEMBER

EUROPEAN COUNCIL PREPARATIONS

SUMMARY

1. AGENDA AND DOCUMENTATION CONFIRMED AS BEFORE WITH FOLLOWING
COMMENTS:

(A) CONVERGENCE: YOU PRESSED FOR ADEQUATE TIME AND EARLY
DISCUSSION, TOGETHER WITH CLEAR PRESENTATION OF THE ISSUE
TO THE EUROPEAN COUNCIL. FRANCE URGED THAT THE COMMISSION
PAPER CONTAIN A SINGLE PROPOSAL, BUT THE COMMISSION DID NOT
COMMIT THEMSELVES. ITALY REQUESTED THAT THE PAPER COVER
THEIR POINT, WHICH THE COMMISSION CONFIRMED IT WOULD.

(B) ENERGY: GERMANY SAID THAT SCHMIDT WOULD WANT TO
DISCUSS THIS SUBJECT IN DEPTH.

(C) THREE WISE MENS REPORT: . DISTRIBUTED. PRESIDENCY WILL
CONSIDER HOW TO HANDLE.

(D) EUROPEAN UNION: PRESIDENCY REPORT APPROVED.

(E) OTHER BUSINESS: FRANCE WILL RAISE SHEEPMEAT AND RELATIONS
WITH THE PARLIAMENT. BELGIUM MENTIONED EMU.

(F) TIMING: PRESIDENCY ENVISAGED THE EUROPEAN COUNCIL
LASTING UNTIL DINNER TIME ON 30 NOVEMBER.

CONFIDENTIAL

| **DETAIL**

CONFIDENTIAL

DETAIL

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY.

2. A PAPER WILL BE PRODUCED BY THE COMMISSION TOMORROW (21 NOVEMBER

CONVERGENCE.

3. O'KENNEDY (IRISH CHAIRMAN) REGRETTED THAT THE COMMISSION PROPOSALS WERE NOT YET READY. HE UNDERSTOOD, HOWEVER, THAT THEY WOULD BE FINALISED TOMORROW AND HE PROPOSED THAT COREPER SHOULD BE ASKED TO DISCUSS THEM ON THURSDAY 22 NOVEMBER AND AGAIN ON MONDAY 26 NOVEMBER. HE EMPHASISED THE NEED FOR MAXIMUM CONTACT TO BE MADE BEFORE THE EUROPEAN COUNCIL BETWEEN MEMBER STATES IF AN UNDERSTANDING WAS TO BE REACHED THERE AND SAID THAT THE PRESIDENCY'S GOOD OFFICES WOULD BE AVAILABLE AS SOON AS THE COMMISSION PAPER HAD BEEN CIRCULATED.

4. YOU SAID THAT YOU WERE HAPPY WITH THE DRAFT AGENDA, BUT THAT YOU WISHED TO EMPHASISE THE IMPORTANCE WHICH WE ATTACHED TO A FULL AND PROPER DISCUSSION OF THE BUDGET QUESTION. IT WAS A MATTER OF VITAL CONCERN TO THE UNITED KINGDOM AND YOU ASKED THE PRESIDENCY TO ENSURE THAT THERE WAS ADEQUATE TIME FOR DISCUSSION. YOU SUGGESTED THAT THIS ITEM SHOULD BE TACKLED AS EARLY AS POSSIBLE. AS REGARDED THE COMMISSION'S PAPER, IT SHOULD SET OUT THE ISSUES SIMPLY AND CLEARLY. IT WOULD BE A TRAGEDY IF NO AGREEMENT COULD BE REACHED AT DUBLIN FOR NO BETTER REASON THAN THAT THE ISSUES HAD BEEN MISUNDERSTOOD. YOU SUGGESTED THAT THE PRESIDENCY MIGHT WISH TO CONSIDER HOW THE NECESSARY ORIENTATIONS COULD BEST BE LAID OUT ONCE THE COMMISSION'S PAPER WAS IN THEIR HANDS. JENKINS (THE PRESIDENT OF THE COMMISSION) SAID THAT THE COMMISSION WERE WELL AWARE OF THE NEED FOR A SATISFACTORY SOLUTION TO BE FOUND TO THIS CRITICAL PROBLEM. THE DECISION TO PROCEED WITH CAUTION HAD BEEN CAREFULLY JUDGED ON THE BASIS THAT MEMBER STATES WERE TOO FAR APART FOR CLEAR PROPOSALS TO BE PRESENTED AT AN EARLIER STAGE. THE COMMISSION WOULD NOW AIM TO BRING TO ITS FINAL PAPER ALL HELPFUL CLARITY. FRANCOIS-PONCET (FRANCE) URGENT THAT THE COMMISSION DOCUMENT SHOULD CONTAIN A SINGLE PROPOSAL, NOT A CHOICE A LA CARTE.

2

CONFIDENTIAL

/JENKINS

JENKINS REPLIED THAT THE COMMISSION WOULD OFFER A TABLE D'HOTE. ZAMBERLETTI (ITALY) LATER SAID THAT THIS SUBJECT MUST BE GIVEN ALL THE NECESSARY TIME FOR REFLECTION AND DECISION. THE ITALIAN PROPOSALS SHOULD NOT BE PUSHED ON ONE SIDE NOR THEIR IMPORTANCE UNDER-RATED. THEIR IMPORTANCE WENT BEYOND THAT OF AN ITALIAN INTEREST AND TOUCHED THE WIDER INTERESTS ON THE COMMUNITY AS A WHOLE. JENKINS CONFIRMED THAT THE COMMISSION'S PAPER WOULD DEAL FULLY WITH THE ITALIAN PROBLEM AND THE PRESIDENCY GAVE AN ASSURANCE THAT ADEQUATE TIME WOULD BE AVAILABLE.

SOCIAL AFFAIRS

5. O'KENNEDY SAID THAT THE EUROPEAN COUNCIL WOULD DECIDE HOW TO TREAT THIS SUBJECT. IT MIGHT BE GROUPED WITH ANOTHER SUBJECT (IE THE ECONOMIC AND SOCIAL SITUATION). JENKINS SAID THAT MUCH WOULD DEPEND ON THE SOCIAL AFFAIRS COUNCIL. IF THE OUTCOME WAS SATISFACTORY, THE EUROPEAN COUNCIL NEED NOT SPEND MUCH TIME ON IT.

ENERGY

6. DOHNANYI (GERMANY), ECHOING WHAT MATTHOFER HAD SAID IN THE ECO/FIN COUNCIL YESTERDAY, STRESSED THAT SCHMIDT WOULD WANT TO DISCUSS THIS SUBJECT IN DEPTH AT DUBLIN.

THREE WISE MEN'S REPORT

7. O'KENNEDY DREW ATTENTION TO THE REPORT WHICH HAD BEEN DISTRIBUTED TO DELEGATIONS THIS MORNING AND ASKED THAT IT SHOULD BE KEPT CONFIDENTIAL. DOHNANYI SAID THAT THE TIME FOR PREPARATION WAS TOO SHORT TO HAVE AN EXTENSIVE DISCUSSION ON THE REPORT AT DUBLIN. O'KENNEDY REPLIED THAT THE PRESIDENCY MIGHT TRY TO DEFINE LIMITED AREAS ON WHICH THE EUROPEAN COUNCIL COULD TAKE DECISIONS, ALTHOUGH THAT ITSELF WAS A SUBJECT FOR THE EUROPEAN COUNCIL TO DECIDE UPON. THE MAIN ISSUE WOULD BE HOW TO FOLLOW UP THE REPORT, EG WHETHER TO SEND IT TO THE FOREIGN AFFAIRS COUNCIL TO PREPARE FOR THE NEXT EUROPEAN COUNCIL. KLAUW (NETHERLANDS) STRESSED THE IMPORTANCE OF PROPER COUNCIL PREPARATIONS ON THIS ISSUE.

EUROPE 1990

8. THE COMMISSION CONFIRMED IN ANSWER TO A QUESTION FROM O'KENNEDY THAT THEY WOULD LIKE TO SEE A DISCUSSION OF SUBSTANCE ON TELEMATIQUE (ON WHICH THEY WERE APPROVING A 4 1/2 PAGE PAPER TOMORROW) FOLLOWING UP THEIR PAPER ON 1990.

³
CONFIDENTIAL

| EUROPEAN

CONFIDENTIAL

EUROPEAN UNION

9. O'KENNEDY REFERRED TO THE PRESIDENCY'S DRAFT REPORT, WHICH WAS APPROVED.

OTHER BUSINESS.

10. FRANCOIS-PONCET SAID THAT FRANCE WOULD WISH TO RAISE TWO POINTS UNDER OTHER BUSINESS:

(A) SHEEPMET

(B) RELATIONS WITH THE PARLIAMENT.

NEITHER OF THESE WERE MINOR ITEMS BUT THEY SHOULD NOT BE ADDED TO THE FORMAL AGENDA. IT WAS NONETHELESS IMPORTANT THAT THE EXPERTS ON SHEEPMET IN PARTICULAR SHOULD BE AVAILABLE IN THE WINGS. THE PRESIDENCY TOOK NOTE.

11. JANSSEN (BELGIUM) SAID THAT PROGRESS WITH THE SECOND STAGE OF THE EUROPEAN MONETARY SYSTEM SHOULD BE DISCUSSED. (THIS REPEATS A REQUEST MADE IN THE 19 NOVEMBER FINANCE COUNCIL BY THE BELGIAN MINISTER.) THE PRESIDENCY COMMENTED THAT THERE COULD BE NO SUBSTANTIVE DISCUSSION BUT THERE WAS NO REASON WHY THE EUROPEAN COUNCIL COULD NOT GIVE A DIRECTION TO THE COUNCIL TO EXPEDITE WORK IN HAND.

TIMING

12. THE PRESIDENCY DREW MINISTERS ATTENTION TO THE FACT THAT THE EUROPEAN COUNCIL MIGHT CONTINUE AS FAR AS DINNER ON THE SECOND DAY. THIS WAS UNUSUAL BUT THE LENGTH OF THE AGENDA MIGHT WELL MEAN THAT IT WAS INEVITABLE AS HAD HAPPENED IN BRUSSELS IN DECEMBER 1973. FRANCOIS-PONCET SAID THAT HE COULD NOT COMMIT HIS HEAD OF STATE TO THE EXTRA TIME WHICH WOULD BE UNUSUAL AND COULD POSSIBLY BE TAKEN AS A PRECEDENT.

FCO ADVANCE TO

FCO - PS/SOFS, PS/LPS, PS/PUS, BRIDGES, BULLARD, FRETWELL, SPRECKELY
GOODENOUGH, HAZLE

CAB - FRANKLIN, THOMAS,

NO 10 - ALEXANDER

BUTLER

(ADVANCED AS REQUESTED)

FRAME GENERAL

EID (E)

4

CONFIDENTIAL

Cabinet / Cabinet Committee Document

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

Reference: EQ(S)(79)26

Date: 14 November 1979

Signed Wayland Date 31 October 2009

PREM Records Team

SECRET

3

Ref. A0650

Top Copy on: Euro Pol,
Pt 3,
EEC Budget.

PRIME MINISTER

Community Budget

The paper we have prepared for Wednesday's discussion sets out the questions to be considered in deciding what might or might not be an acceptable outcome at Dublin. You will wish to take the meeting through them and hear what the others present think. The Chancellor of the Exchequer has probably got his sight set on a reduction of between two-thirds and three-quarters, but will be especially concerned to ensure that we do not make another mistake and that this time the solution should be sufficiently robust to be certain of working in any foreseeable circumstances. The Foreign and Commonwealth Secretary may be more inclined to settle for, say, a half now with promises about a further reduction in the future. You will have your own views, and you need not necessarily reveal at this meeting precisely what your own sticking points will be: another meeting just before Dublin may be necessary (especially as the Chancellor will not be at Dublin). But you will need to decide in the light of this meeting what is and is not likely to have the support of your colleagues; and how much and when to tell your colleagues in Cabinet of your intentions.

2. The gap between our minimum requirements and what the French and others are willing to concede will be big. We shall probably be offered a new Financial Mechanism, but much may turn on the question whether the Community can adapt existing mechanisms to give us what we need, or whether we have to seek to be directly compensated for our low receipts. Only the Belgians have so far shown any disposition to go that far: reluctance on the part of the rest will be strong and deep-rooted. One possibility which has been mooted but is not dealt with in the paper is some kind of special fund or lump sum for a specific project or projects of benefit to the United Kingdom. Whether, if offered, this would be worth looking at would depend on how big the sum was; for how long it would be available; and whether it could be tied in with existing rather than new public expenditure. We do not have to rule this out; our partners may well be reluctant to propose it.

SECRET

3. Even if the prospects for a successful outcome in Dublin are uncertain, it would be wrong to conclude now that we shall fail. No-one is in any doubt about your determination and other Governments will only now be seriously applying their minds to how far they are really prepared to go. One of the features you may like to raise is the problem of how little we appear to have to offer in return. We do not need to negotiate on the budget other than on its merits, or to see it as part of a bargain; but we have to face the reality of the fact that other Governments will have to justify to their Parliaments and public opinion giving something up in our favour. To do that, they will need to point to something they have got out of us. This Government has already had to promise a more constructive European commitment to get even as far as we have. On the specific issues, you ruled out at your meeting on 17th October saying anything on EMS. But I wonder whether you should not reconsider including some words in the Dublin communique of the kind you have already used publicly i. e. that it is the Government's objective to join EMS but that the timing will need to be a matter for discussion with our partners. On the CAP, you could subscribe to its importance for the Community while still criticising the surpluses (we shall still have the 1 per cent VAT ceiling as a means of holding down the cost). You will not want to have fisheries brought up at Dublin but you may be pressed bilaterally by Giscard to guarantee historic rights for his Breton fishermen. And he may need your help on sheepmeat. As you know, OD(E) has been looking at the energy card but so far has not come up with anything of real positive merit. This is partly out of a natural desire to safeguard our own position first, and partly because of the difficulties that would be caused with the Americans and the Japanese if we gave the rest of the EEC preference over other IEA countries. With developments in Iran, the rest of the Community will be more worried than ever about prices and security of supplies. Unless we can show some understanding, we shall have North Sea oil thrown at us as a reason why we should shoulder the budget burden.

4. If it becomes clear that no solution in Dublin is possible, OD has agreed that the next step would be to insist on another early meeting of the European Council. This would be unprecedented, and would certainly mark the seriousness of the crisis. You would need to make it clear that, so far as we were concerned, the rest of the Community's work would be in suspense; so the sooner the

SECRET

European Council reconvened, the better. There might be a disposition to invite, say, Mr. Lynch and Mr. Jenkins to search for an acceptable compromise in the meantime: we could hardly object. The important thing would be to keep up the pressure. The others will not relish the prospect of a prolonged crisis, and nor should we. Even if the TNF has gone well at the NATO Council, we shall not want to see Western Europe preoccupied with an internal crisis. The Soviet Union will be only too ready to exploit such a situation. And the closer we get to the German and French elections, the harder it will be for them to move.

5. This suggests that our tactics should be directed at getting a solution if possible before the end of the year but at least as early in 1980 as possible. It would be understood by our partners, even if unwelcome to them, that during this period we would be unco-operative. There are Council meetings on research and transport in early December. We could stop anything being settled. We could, if we so wished, prevent the Community adopting any further mandates for negotiations with Spain and Portugal (although that would lead to pressure on us from those countries). We would not be able to prevent the adoption of the 1980 budget and if we were to prevent progress on fisheries we risk running up against adverse rulings from the Court. Blocking decisions to regulate the steel industry in 1980 would also be against our interests. Going into 1980, we could threaten to invoke "the Luxembourg compromise" to prevent any increase in farm prices (for which the pressure next spring is likely to be greater than last time). In his OD paper, the Foreign and Commonwealth Secretary recommended a graduated response with a selective policy of obstruction. If it were agreed that we should go for an early settlement, there would be something to be said for simply blocking all forms of new expenditure from which we would not benefit.

6. Chancellor Schmidt's reaction to what you told him was that we were putting our membership at stake. Some of your Cabinet colleagues reacted in the same way. It may well be true that failure to find a reasonably satisfactory solution of the budget problem would eventually bring the question of continued membership back to the centre of the British political stage - something which our partners in the Community would like to avoid as much as the Government would. But that is a very different matter from threatening to pull out if we do not get our way. I doubt whether there would be a majority in the Cabinet for that course

SECRET

and I also doubt whether it would be very effective as a threat to our partners. So the best answer to Chancellor Schmidt (and others who may take the same line) is that Britain wants to be a good and whole-hearted member of the Community, and has no intention of leaving; and that we therefore intend to press our case from within: to sit it out and, if necessary - of course we hope it won't be - make life awkward for everyone else. When General de Gaulle was dissatisfied, he did not leave the Community but he brought it to a standstill. His empty chair tactic proved to be the wrong one: we can achieve the same result as effectively and with less risk to our own interests by remaining in our place and being as bloody-minded as we know how. This would be very vexatious for our partners, but it would be extremely difficult for them to evict us.

7. We should not however reveal any of this before Dublin. To do so would destroy any chance we might have of pocketing what is on offer at Dublin and still continuing to argue the toss over the rest.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

13th November, 1979

SECRET AND PERSONAL

Ref. A0649

PRIME MINISTER

2
Top Copy on Euro. Pol,
KE3,
EEC Budget

This personal note attempts to set the scene for the visit of President Giscard and the meeting of the European Council at Dublin. It supplements an "official" Cabinet Office brief, which I attach.

2. The reduction we shall achieve in our contribution to the EEC Budget will depend in the end on Germany and France: in other words, on Schmidt and Giscard. We have to remember that the first Community crisis that hit these two after taking their present offices was the Labour Government's demand for "renegotiation" of the terms of British entry. There was, by all accounts, some fairly plain speaking by both of them in the course of that episode. In the end, however, they made it possible for Mr. Wilson and Mr. Callaghan to "succeed" in renegotiation: Schmidt and Giscard each had his own reason for wanting us to be in rather than out, and they were convinced that both Mr. Wilson and Mr. Callaghan on balance - and perhaps for negative as much as positive reasons - wanted Britain to stay in.

3. What is the position five years later?

4. Schmidt made his position clear at Bonn a fortnight ago. He acknowledges the strength of our case for a reduction of our net contribution, and understands the seriousness of the problem. He would rather we were in the Community than out of it. He needs us, in political and defence terms. He will be helpful, within limits. But he will not go as far as "broad balance". This is partly for domestic reasons - not increasing the German contribution by too much; it is partly that he will not want to be too far in front of the other members of the Community; and above all because he will not be prepared to push the French too hard. His relationship with Giscard has grown much closer in the last five years; he foresees a period of great political uncertainty ahead, as a result primarily of the weakness of American leadership, and in this period his first priority is to maintain the closeness of the French connection; and he has not been impressed by the European performance of Britain under the Labour Government.

SECRET AND PERSONAL

5. Schmidt does not seem to be unduly worried about his own domestic political position. But he has an election at the end of next year, and we know that he and Genscher are apprehensive about the position of the FDP, whose share of the vote is only just above the 5 per cent which they must achieve to be represented at all in the German Parliament. That would, even without the French, set limits on the extent to which he can or will help.

6. Giscard has to face a Presidential election in May 1981 - less than eighteen months from now. He must be thinking about the need to protect his domestic political position: he has to fend off the challenge of Chirac who represents the Gaullist element on the French right (never wholly reconciled to British membership), as well as to test the left. His worries must have been compounded by the scandal surrounding the suicide of his Minister of Labour. The farming vote is of great importance to him.

7. I would think that Giscard himself would prefer us to continue in membership of the Community. But the political and defence considerations which must affect Schmidt probably affect Giscard less strongly; he would be less concerned than Schmidt at the prospect of our coming out of the Community; and I have no doubt that he calculates that, despite North Sea oil, we need the Community more than the Community needs us (this is a judgment that you may want to test with the Foreign Secretary).

8. Giscard, like Schmidt, remembers "renegotiation", and was disenchanted with Britain as a member of the Community under the Labour Government. He too will be looking for evidence that under your leadership Britain will become a more whole-hearted member of the Community, and looking for evidence of the genuineness and depth of the European commitment which you have publicly stated. That does not mean that he will not expect you to fight for British interests: the French are expert at protecting their own national interests, and do not think the worse of other people for protecting theirs. But he as well as Schmidt will want to be sure that you see British national interests as including continuing British membership of the Community and that you and your colleagues are committed to preserving and strengthening the Community, and to closer European co-operation, as well as to protecting our national interests.

SECRET AND PERSONAL

9. Schmidt is less likely to look for some definite quid pro quo from us for his support on the budget question. Giscard, on the other hand, will do so: not just because the French always do, but because he will need, in domestic political terms, to have something which he can claim as a benefit for France. This does not mean that we have to negotiate in terms of a bargain: we can discuss the budget issue on its merits. But we must not blind ourselves to the fact that he will be looking for, and will need, some signs of movement from us on other points. And he would no doubt prefer it on things which interest his farmers and fishermen: he will think that, if we claim to want to be good partners in the Community, we should be responsive to his political needs just as we expect him to be responsive to ours.

10. Both Giscard and Schmidt will see it as one of the tests of our commitment to the Community that we should look for solutions to our budget problem that are within the framework of Community rules and principles and do not ^{do} _h violence to them. There is increasing evidence that there will be little or no support for new mechanisms based on net contributions or on GNP figures.

11. A smaller net contribution for us means larger net contributions (or smaller net receipts) for our partners. On a question of timing, you already have it in mind that the Community itself and many of the member countries (including France) work to a financial year which coincides with the calendar year. Those countries will have made up their budgets for 1980, and we are very late in the day in asking for changes that will take effect on their budgets in that year. On the other hand there may be some help in the fact that our financial year runs from April to March: benefits which accrued to us in the Community's fiscal year 1981 would to some extent be reflected in our financial year 1980-81.

12. The case in equity for getting our net contribution to somewhere near broad balance is strong. It is not equitable that we should be seventh by the GNP per head standard, and pay the largest net contribution of all. We have the 1971 undertaking when we came in that if unacceptable situations should arise "the very survival of the Community would demand that the institutions find equitable solutions".

SECRET AND PERSONAL

13. But the argument of equity may not be the one which will carry most weight with our partners, or the most advantageous one for us to rest our case on, for two reasons:

- (a) An argument from equity carries with it the implication that our partners have treated us inequitably. It invites them to contest the basis of the argument, in an almost legalistic fashion, by counter-arguments to the effect that our problem results not from their inequity but from our own failures and weaknesses. That road may lead to sterile debates rather than constructive negotiations.
- (b) An argument from equity also invites other partners to compare their situations with our own, and to look for the respects in which they can claim to be suffering from inequity, or to be in no less difficult a situation than ourselves. Some of our partners will certainly claim that their economic situations and prospects are no less difficult - in their own way - than ours.

14. Thus the argument from equity may stimulate resistance from our partners. Is there another line of argument which would go more with the grain?

15. There is a considerable fund of goodwill in the Community towards you and your Government. They believe that you are committed to Europe in a way your predecessors were not; they admire your policies, and the strength of purpose with which you are pursuing them; and they want those policies to succeed. There is some reason to believe that they all, including Giscard, will be more responsive to a line of argument which says in effect: you gave our predecessors transitional arrangements (the transitional period under Article 131 and the 1975 financial mechanism which has proved to be ineffective) which, because of their other policies, they failed to take advantage of; we have different and better policies, but we need time; give us the same amount of time that they wasted, and just see what we do with it; we are not the only people who need time: the Community needs time for the development of structural changes (notably, reform of CAP) which most of us think are needed; so the Community's need for time and ours coincide.

SECRET AND PERSONAL

16. If in Dublin we are having to negotiate about mechanisms as well as figures, we shall be in considerable danger of coming away with nothing, except loss of goodwill. As I have already indicated, if we are arguing for new mechanisms based on net contributions or on GNP figures, we are likely to encounter resistance. Thus there would be negotiating advantage if, following the line of argument I have just described, we were to go on to say to our partners in effect: we do not want to call in question the structure of the Community or its received principles; we do not even ask you necessarily to consider new mechanisms; we should be content to work on the basis of adapting and developing the existing mechanisms (the 1975 financial mechanism and, if our partners think that this provides a suitable framework, the provisions of Article 131), or of ad hoc arrangements within Community principles, provided these methods can yield the sorts of figures we need and you are prepared to accept, and will last for a reasonable period of years (i. e. four years, to match your predecessors' four "wasted" years).

17. This line might help to narrow the area of negotiation: we should be able to avoid negotiating about mechanisms. We could leave the Commission to sort that out, and report back to the Council of Finance Ministers. Mechanisms are in any case a subject of such complexity as to be difficult to deal with at Heads of Government level. You could then concentrate at Dublin on the figures.

18. What is the range of figures in which we look for a solution? The indications are that both the French and the Germans are thinking in terms of removing the constraints on the 1975 financial mechanism, which would produce a reduction in our net contribution by £380 million to £700 million. We cannot, I believe, have any hope of getting agreement to a smaller net contribution than the French; if that is right, the maximum reduction we could hope to achieve would be by about £750 million to about £300 million. This suggests that a solution will in practice have to lie within the range £300 to £750 million. If we could get a solution near the upper end of that range, it could be presented both in this country and in Europe as a reasonable outcome:

SECRET AND PERSONAL

it would compensate us for the fact that the proportion of the Community budget accounted for by the CAP had not come down to 40 per cent, as predicted at the time of our entry, while enabling us to claim that we were ready to accept and not bill our partners for the consequences of our own economic inadequacy in recent years.

19. The disadvantage about the kind of approach I have outlined in paragraphs 15 to 18 of this note is that it is a temporary solution: it does not go to the receipts side of the balance sheet, and if in four years' time there had not been other economic or structural changes which improved our net contribution, we should have to have another battle. But we shall in any case have to fight our corner in future discussions of structural change, and the advantage of the approach I have outlined is that we ought to get more benefit (i. e. hard cash) out of it in the next two or three years than our partners will concede on any other basis. But we should certainly combine it with a determination to pursue the reform of the CAP (on which we shall have strong German support) and other structural changes which both contain the total and improve (so far as we are concerned) the distribution of Community expenditure. These questions will also come up at the Dublin meeting (which should not be confined exclusively to the budget problem), and we should have to make it a condition of our approach on the budget question, whatever it is, that the Community commits itself to the initiation of a programme of structural change, and above all reform of the CAP.

20. You have a tough negotiation on your hands, if you are to get at Dublin a reduction reasonably near the top of the £300 to £750 million range I have indicated in paragraph 18. It is arguable that, on the sort of approach I have outlined, you would be making the most of the goodwill you enjoy in the Community, and cutting with rather than against the grain; and that, because you were cutting with the grain, you would cut deeper.

21. There will be a great desire on the part of our partners and of the Commission not to have an unsuccessful outcome to the Dublin meeting. We should make the most of that in order to try to get what we want at Dublin. It may be, however, that, in order to achieve as much as we need to achieve, we

SECRET AND PERSONAL

shall have to precipitate a "crisis of the Community" at Dublin. I do not think that we need shrink from that, if it is necessary, provided that we can keep the situation under control, and in particular that:

- (a) we do not put our membership of the Community at stake;
- (b) we make it clear that we want a quick settlement, and have no desire for a long drawn out crisis.

It is not in our own national interest that the Community should be in prolonged crisis through 1980, with all that that would mean in terms of its ineffectiveness in a very uncertain international economic and political scene. Moreover, we know that this prospect looms large in Schmidt's thinking: we shall risk losing such support as we hope to have from him if we do not seek to resolve the budget problem quickly as well as satisfactorily, so that the Community can be solidly together in the coming year. Lastly, because Schmidt faces elections at the end of 1980 and Giscard in the spring of 1981, we cannot calculate that a better solution will be available later in 1980 than at the beginning of it. If therefore we cannot agree a solution at Dublin, we should press for an early resumption of the meeting. I guess that, in practice, it could hardly be before the second or third week of January 1980, but we might want to propose an earlier date, as a demonstration of our desire to solve the problem quickly.

ROBERT ARMSTRONG

(Robert Armstrong)

13th November, 1979

~~Mr. Alexander~~

PRIME MINISTER

cc. Paymaster General
Mr. Gow

RUN UP TO DUBLIN - NOVEMBER 29/30

1. You should be aware of the joint No. 10/FCO efforts now being made to influence the media, especially in Europe, in the run up to the European Summit.
2. Last week (Wednesday) the FCO held a briefing for about 40 correspondents resident in the UK of the main press, radio and TV companies in the eight other member States. This is being followed up by FCO lunches, at which we are represented, for selected national groups of European journalists to brief them on our attitude. A similar effort is being made by our posts in the Eight.
3. In addition, both the FCO and myself have regular meetings with Western European correspondents as a group and the message is being hammered home in these forums as well as during my regular weekly meeting with resident U.S. correspondents who are very interested in the subject.
4. The FCO and ourselves have identified a series of questions which crop up most frequently and provided a Question and Answer brief (see Annex I). I propose to issue this through the Paymaster General's office to Ministers as a briefing note if you are content.
5. We are, of course, inundated with requests for interviews with you in advance of Dublin. You have decided not to see French journalists in advance of Giscard's visit but we need to consider whether you should continue to lie low (apart, of course, from speeches and Parliamentary occasions) in the week immediately before Dublin.

/6. Journalists

6. Journalists ringing me from the EEC tend to confirm that the message that you really do mean business in Dublin has got through to the capitals. Equally, they state that, while it is accepted that we have a case, our partners will not give us broad balance. Their interest now is not, therefore, in our case but in what happens if you do not get your way in Dublin. And that you cannot and will not tell them. Nor do you wish to encourage defeatist talk. There is not, therefore, a particularly useful basis for interviews, except as a means of getting your point of view on the record immediately before Dublin.

7. Are you therefore content to rely so far as the foreign press is concerned on Ministerial (at Euro-Councils) and official briefing pre-Dublin?

8. There are, however, several domestic requests for interviews of which you should be aware:

- (i) From "Panorama" for the evening of Monday, November 26; they have secured an interview with the French Foreign Minister (M. Francois-Poncet) on November 22 and are anxious to give you a straight 10 minute interview after M. Francois-Poncet, whose text you will be able to have. Leaving aside the cloud at present hanging over "Panorama", I consider that the British Government's point of view should be put over in the programme but recommend that either Lord Carrington or the Chancellor of the Exchequer should take it on. Do you agree?
- (ii) From LWT's "Weekend World" - not specifically related to the Eurobudget since this is a long-standing invitation for a one hour interview with Brian Walden, but it would be concerned with economic strategy, of which the Eurobudget

is a part; my own view is that this is not the time to take up the invitation. Do you agree? We might, however, nominate a Treasury or Industry Minister.

(iii) From The Sunday Times. Keith Richardson, their Chief European Correspondent who is a considerable admirer and supporter of yours, will be writing about the subject this coming weekend but has asked for an interview with you for the November 25 issue. Unfortunately, he is almost certain to write a crisis story and the only way in which he will be able to take it forward is to try to get some inkling of how you might play "failure" in Dublin. I cannot, therefore, see much advantage in your seeing him. Do you agree?

(iv) From The Guardian. John Palmer, a way-out Leftie, but a first-class journalist who is writing good stuff about the UK and the EEC, wants to do a Question and Answer feature with you. The same considerations apply as with The Sunday Times and I do not recommend that you see him. Do you agree?

-You will, of course, have a joint press conference with Giscard on November 20 and subsequently Questions on November 22 and 27 to get over any points you wish to make. I have also re-arranged your visit to the Lobby for November 22 when the Eurobudget is likely to be a main topic of conversation.

I shall be minuting you separately on the arrangements for Dublin and its follow up.



B. INGHAM

12 November, 1979

UK CONTRIBUTION TO THE EEC BUDGET: QUESTIONS AND ANSWERS

You are setting your sights too high.

Nonsense; the injustice has gone on too long. We foresaw the problem at the time of entry negotiations but the Community then argued that rising UK receipts and falling percentage of expenditure on agriculture would solve it. They also said that if an unacceptable situation arose, the very survival of the Community would require that it be rectified. Unacceptable situation has now arisen and a solution must be found which lasts as long as the problem.

What do you mean by broad balance? Would you accept a compromise?

The Prime Minister has made it very clear that she wishes to see a broad balance between our contribution and our receipts from the Community. According to Community estimates in 1980 we are to contribute over 20% while receiving less than 10%. Without putting a precise figure which clearly will be the subject of discussion at Dublin, nothing could be plainer.

You are not a poor country with your abundance of oil, gas, coal and fish, which you are often singularly reluctant to share with the Community.

Yes we are fortunate. So are others. Mexico has oil but is not a rich country. The fact is that the generally accepted yardstick of relative prosperity is per capita GNP. The benefits of oil are reflected in this - but we remain the 3rd poorest member of the Community at 75% of average per capita GNP. We must also bear in mind other natural resources in the various states eg Dutch natural gas or German coal. We would like to see policies adopted by the Community which take more account of the coal reserves within the Community. Much of our oil already goes to the Community; $\frac{1}{2}$ our production is exported and $\frac{1}{2}$ of exports go to EEC. As for fish, 60% of the Community's catch in the waters of member states is taken from UK waters. So of course we contribute very considerably and our partners benefit substantially. As members of the Community no question of our retaining all that fish for our own use. What we want is an equitable fisheries policy settlement that gives our fishermen a fair share of the fish in our waters.

Why the hurry to solve the problem entirely at Dublin? The problem was foreseen at the time of negotiation so why can't you accept a progressive solution?

A progressive solution would not be satisfactory. The problem is with the 1980 budget to which we will contribute over \$1 billion net. This issue must be dealt with on its merits and in a manner which ensures that Ministers will not be confronted with it again. As the percentage of the Community's budget spent on agriculture is more reasonably balanced by the development of Community

industrial and regional policies and our own trade becomes increasingly integrated with the Community, the problem will gradually disappear.

Do you say you are not in the business of doing deals, but all life's bargain - your attitude is surely unrealistic?

We do not see why the Community should ask us to pay for getting a fair solution on the budget. Certainly we are ready to work for parallel progress across the whole front of Community business but each area raises its own economic and political problems. We should not create links where they do not naturally exist.

You are in this predicament because you have to pay an excessively large amount of levies because you import such a large proportion of food from outside the Community.

The proportion of our imports from the rest of the Community has risen substantially since we joined and will probably continue to rise. We have adjusted to the Community market faster than any other member state. Imports of manufactures from the Community have risen from 31% to 38% and of food from 32% to 42%. We totally reject the implications of this criticism: EEC aim is to encourage world trade (Article 110) not stifle it. To force the consumer to make a particular choice is quite unacceptable both to this government and to the Community as a whole.

You have not maximised your potential receipts from the Community.

If this is true it is only because of the excessive amount of the Community budget, nearly 74%, which is spent on agriculture from which we receive very little benefit. At the time of accession it was generally accepted that non-agricultural spending would absorb an increasing share of the budget. If we have not benefited from the Community it is not our fault.

Doesn't Britain's Green Pound policy exacerbate the problem of our budgetary contribution?

No. Our policy is designed to devalue the Green Pound during the life of the present Parliament in order to provide our farmers with conditions which are broadly competitive with the rest of the Community. That is a perfectly reasonable policy which has marginal effects on our budgetary problem. In fact the UK MCA is now smaller and recently dropped to zero.

/Even if ...

Even if Britain manages to convince West Germany, Italy and some other members of the need for a correcting mechanism for the budget, how will we convince the French, whose support is essential for a speedy solution?

Agree that the French position is crucial. This will be an important topic for discussion when President Giscard visits on 19/20 November. We believe our grievance is well understood and our position is wholly reasonable. We hope that French will assist us in Dublin in finding a solution.



10 DOWNING STREET

From the Private Secretary

12 November 1979

European Council Dublin

The Prime Minister has seen your letter to me of 6 November about the agenda for the European Council. She is content with the proposals in it.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

George Walden, Esq.,
Foreign and Commonwealth Office.

GB



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG
CABINET OFFICE

European Council Dublin

The Prime Minister has seen your minute to me of 7 November on this subject. She agrees with the proposals in Mr. Walden's letter to me of 6 November. (I have written to Mr. Walden informing him of this.) She also agrees that we should stick to the agenda order which the Irish have suggested.

The briefing meeting will be held on the morning of Wednesday, 28 November. I will let you know shortly precisely when.

As regards the composition of the party for Dublin, the Prime Minister agrees that all those named in paragraph 4 of your minute should participate. She agrees that you and Sir Michael Palliser should come. She does not agree that Lord Bridges should attend.

12 November 1979

MOBBA

SB

Ref: A0598

CONFIDENTIAL

MR. ALEXANDER

Prime Minister.

What matters about the agenda is that the Budget is high on it. But you will I think want to stress the points at

2. The composition of the Party in para 4 would be as for Shabun, Sir R. Amshing, Sir N. Pallen + Lord Bondes (para 5) would be additional. But this is a very important meeting.

European Council Dublin: 29th-30th November *Agree proposals?*

The Irish Presidency have indicated that the main items for the European Council at Dublin on 29th-30th November are likely to be:-

Prud - 7/41

- (a) Economic and Social Situation in the Community
- (b) Budget/Convergence
- (c) Social Affairs
- (d) Energy
- (e) The Report of the Three Wise Men
- (f) Structure of the Community in 1990
- (g) Progress towards European Union

The Foreign and Commonwealth Office, in their letter of 6th November to you, have sought the Prime Minister's views on this outline agenda and on the line which the Foreign and Commonwealth Secretary would propose to take when it is discussed by Foreign Ministers on 20th November.

2. The Prime Minister will recall that in Bonn Chancellor Schmidt suggested grouping social affairs and energy with the discussion on the economic and social situation. This has attractions; but if they were all taken before the budget/convergence item they would crowd out discussion of our budgetary problem on the first day. For this reason it might be better not to go along with this suggestion if the Germans make it, but to stick to the agenda order which the Irish have suggested. In endorsing the Foreign and Commonwealth Secretary's suggestions, the Prime Minister will want to underline the vital need to allow enough time on the first day for the discussion of our (and the Italian) problem.

agreed

A.

B.

3. 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 by midday on Friday, 23rd November. I should be grateful if you would let me know when in the following week the Prime Minister will wish to hold a briefing meeting.

** We have kept the morning of Wed, 28 November free. Prud*

CONFIDENTIAL

4. As regards composition, in addition to the personal staffs of the Prime Minister and the Foreign and Commonwealth Secretary, the Prime Minister will no doubt wish to include the following official advisers: Mr. Franklin (Cabinet Office); Mr. Fretwell (FCO); Sir Kenneth Couzens (Treasury); and Mr. M. Butler (UKREP). A further official from the Treasury will be needed to assist with calculation of the effects of the various mechanisms which may be offered as a solution of the United Kingdom budgetary problem. As the Presidency will call together one or two working groups to discuss the draft conclusions and follow up points remitted to them by the Council, the team proposed is the minimum we can manage with.

5. This is for various reasons likely to be a difficult and crucial meeting, and I think that on this occasion it would be a good idea if Sir Michael Palliser and I were to be of the party. Sir Michael Palliser would very much like to bring Lord Bridges as well; Lord Bridges has just taken over as the Deputy Under Secretary of State on the "economic" side of the FCO, and quite apart from the contribution he could make it would be valuable to him and to us that he should familiarise himself with the issues and personalities at Dublin. *

RA

(Robert Armstrong)

No - Jan too many. We work better with only a few.
* This would make a total party of.

7th November 1979

including ourselves, Selectives etc of about 20, a comfortable load for the Andover.

Phms
7/11

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 November 1979

Dear Michael,

PREPARATIONS FOR THE EUROPEAN COUNCIL, DUBLIN: 29/30 NOVEMBER 1979

At the Foreign Affairs Council on 29/30 October, the Irish Presidency outlined their preliminary thinking on the subjects which the European Council might discuss. These are listed in the enclosed note.

You will see that, apart from a general introductory discussion, on traditional lines, of the economic and social situation in the Community, the first main item for discussion is the budget/convergence problem. This is satisfactory.

Energy is included; and there is a possibility that others might seek to create a link with the budget question. But there are no grounds on which we could reasonably object to a discussion of developments in the energy field since Strasbourg and Tokyo.

Others may seek to add fisheries and sheepmeat to the agenda. However, the decision of the Fisheries Council to meet again on 3 and 4 December to consider the factual basis for possible agreement improves the chances of avoiding a substantive debate on fish at the European Council.

We do not want a long discussion on sheepmeat either. If, however, it has not previously been settled in the Agriculture Council it may be difficult to prevent a reference to the European Council either by the French or by their critics.

This outline agenda will be reviewed at the Foreign Affairs Council on 20 November. The Foreign and Commonwealth Secretary would propose to express general agreement with the Presidency's proposals, and to resist any suggestion that fisheries or sheepmeat should be included; though he would not be in a position to block discussion if others wanted it. (It has always been accepted that each Head of Government is free to raise any subject at any meeting of the European Council.) He will, of course, stress the need for the Council to devote enough time on the first day to the budget question to enable a solution to be reached before the end of the meeting.

I shall be grateful to know whether the Prime Minister is content.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

(G G H Walden)

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL

EUROPEAN COUNCIL, DUBLIN, 29/30 NOVEMBER 1979

SUBJECTS PROPOSED FOR DISCUSSION BY THE IRISH PRESIDENCY

1. ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

A general introductory item on traditional lines. ✓

2. BUDGET/CONVERGENCE ✓

3. SOCIAL AFFAIRS

The Presidency suggest that, in view of the serious employment situation in the Community, the subject should be considered by the European Council, taking into account the results of the 22 November Social Affairs Council, which will consider work-sharing.

4. ENERGY

The Commission have agreed to produce a paper on post-Strasbourg and Tokyo developments covering the five months up to the European Council.

5. THE REPORT OF THE COMMITTEE OF THREE WISE MEN

6. STRUCTURE OF THE COMMUNITY IN 1990

The Commission have asked that their Report, submitted to the Strasbourg European Council in June, on structural development prospects until 1990 should be discussed further. They will submit a supplementary paper on "telematique" (ie the promotion of the use of micro-electronics in European industry).

7. PROGRESS TOWARDS EUROPEAN UNION

Following a decision by the European Council in November 1976, in the context of work on the Tindemans Report, Foreign Ministers and the Commission report back to Heads of Government annually on progress towards European union. A routine item on which little or no discussion should be needed.

6 NOV 1979



European

Policy

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Sir Robert Armstrong

Run-up to the European Council

The Prime Minister has seen your predecessor's minute of 23 October on this subject. She has made no comment. The minute has been to some extent overtaken by subsequent discussion in OD about the possibility of sending a Ministerial emissary around Community capitals. But in so far as it may still be thought desirable to have a separate contact with the Presidency, e.g., about the way the Council agenda is to be handled, I think we may assume that the Prime Minister would be content for such contact to take place.

M. O'D. E. ALEXANDER

26 October, 1979.

CONFIDENTIAL

9

CONFIDENTIAL

Ref. A0488

PRIME MINISTER

Run-up to the European Council

In my minute of 19th October I mentioned the desirability of some contact with Mr. Lynch before the Dublin European Council, which of course he will be chairing. Mr. Lynch is unlikely to be willing to come to London yet again and there are obvious objections to your going to Dublin. The Foreign and Commonwealth Secretary is planning to have a meeting with Mr. O'Kennedy although a date has not yet been fixed. Alternatively, or in addition, you could, for example, send Mr. Whitmore and Mr. Franklin to Dublin as your personal emissaries to discuss the handling of the Dublin Summit with Mr. Lynch's own advisers.

2. In this connection I understand that when Mr. Roy Jenkins saw the Taoiseach last weekend, Mr. Lynch expressed the wish to have another talk with Mr. Jenkins immediately before the European Council to discuss the handling of the meeting. Since it is our Budget problem which will dominate the discussions and Mr. Jenkins was not able to tell you a great deal yesterday about the Commission's own position, you may consider that it would also be useful for you to have a further meeting with Mr. Jenkins nearer the time. This might take place either immediately before or immediately after he has seen Mr. Lynch. Another meeting with the President of the Commission would not however be a substitute for direct contact with the Irish.

MR.
PP
(John Hunt)

ms

23rd October, 1979

Ref: A0463

Top Copy a
Euro P81, May 79
mtg with Jenkins.

Dublin P81

SECRET

PRIME MINISTER

Run-Up to the European Council

You are seeing Mr. Roy Jenkins on Monday, 22nd October. In addition to the other briefing being provided I think you may find it helpful to have this note on the key stages in the run-up to the November European Council. It will also be relevant to the OD discussion on 24th October when the various negotiating cards are to be considered. The sequence will be as follows.

1. The Commission Paper

The Commission expect to finalise this by the end of October. All the signs are that it will set out a range of options and include corrective mechanisms which would be acceptable to us as well as other less satisfactory possibilities. But the Commission may well not come down in favour of a particular solution, we would not want them to unless it is one we could accept in which case this would of course be very helpful. You will want to probe Mr. Jenkins on this.

2. November Finance and Foreign Affairs Councils

The Commission's report is likely to be discussed by both the Finance Council on 19th November and the Foreign Affairs Council probably on 20th November. If, as we hope, the Commission's paper is reasonably helpful to our case it is bound to be exposed to attack at these meetings by the financial experts and others in the member States who are likely to see their own interests suffering if we get what we want. We should therefore see these as damage-limitation operations, since a decision of the magnitude we are seeking can only be taken at Head of Government level. We cannot however evade the process of discussion in the Finance and Foreign Affairs Councils without incurring the risk of postponement at Dublin on the ground that the issue had not been sufficiently prepared for Heads of Government. The other member States will be staking out positions: and we must stick firmly to our stated requirements. We must however ensure that the

SECRET

question is put to the European Council in as clear and helpful a form as possible. We shall therefore need to get an instruction to COREPER to prepare a suitable paper for Heads of Government which simply sets out the issues which they will be called upon to decide. If, contrary to our present expectations, the Commission's report does not even include options which would produce the result we want, we shall of course be ready to table proposals of our own.

3. Bilaterals

Although we may not see much real movement before Dublin, the various bilateral contacts at top Ministerial level will be important in getting over the Government's determination to see this basic inequity put right. Schmidt recognises that something has to be done although he naturally wants to limit the financial burden on Germany. He will probably go along with whatever consensus emerges: but he will not fight our battles for us and he will not be ready to have a major disagreement with Giscard. It will however be essential to press him as far as possible during the Bonn bilateral on 31st October.

The Anglo-French Summit on 19th-20th November will have a special significance, not only because Giscard is likely to be the main person who has to be won over but because it comes closest in time to the Dublin meeting. Although French officials are taking a very tough line indeed Giscard has not shown his hand and it will be a matter of nice judgment nearer the time whether it will be right to give him any hint of what we would regard as "acceptable". There is little if anything in the Community field which we can, or would want to, offer him to secure his co-operation but there are possibilities of constructive discussion in other fields of interest to him (e. g. East/West and nuclear) which might improve the atmosphere. I will send you a separate note about the nuclear aspect.

You will not be seeing Mr. Lynch again before Dublin but we ought to arrange some direct political contact if only about the handling of the meeting (see below).

SECRET

4. The European Council

While we shall have taken every opportunity to get the political message across at the highest level in advance of Dublin, it seems inevitable that the real negotiation on figures will take place there. It will therefore be essential to ensure that the first day at Dublin is devoted to this topic so that the usual overnight meeting of officials can be given clear instructions.

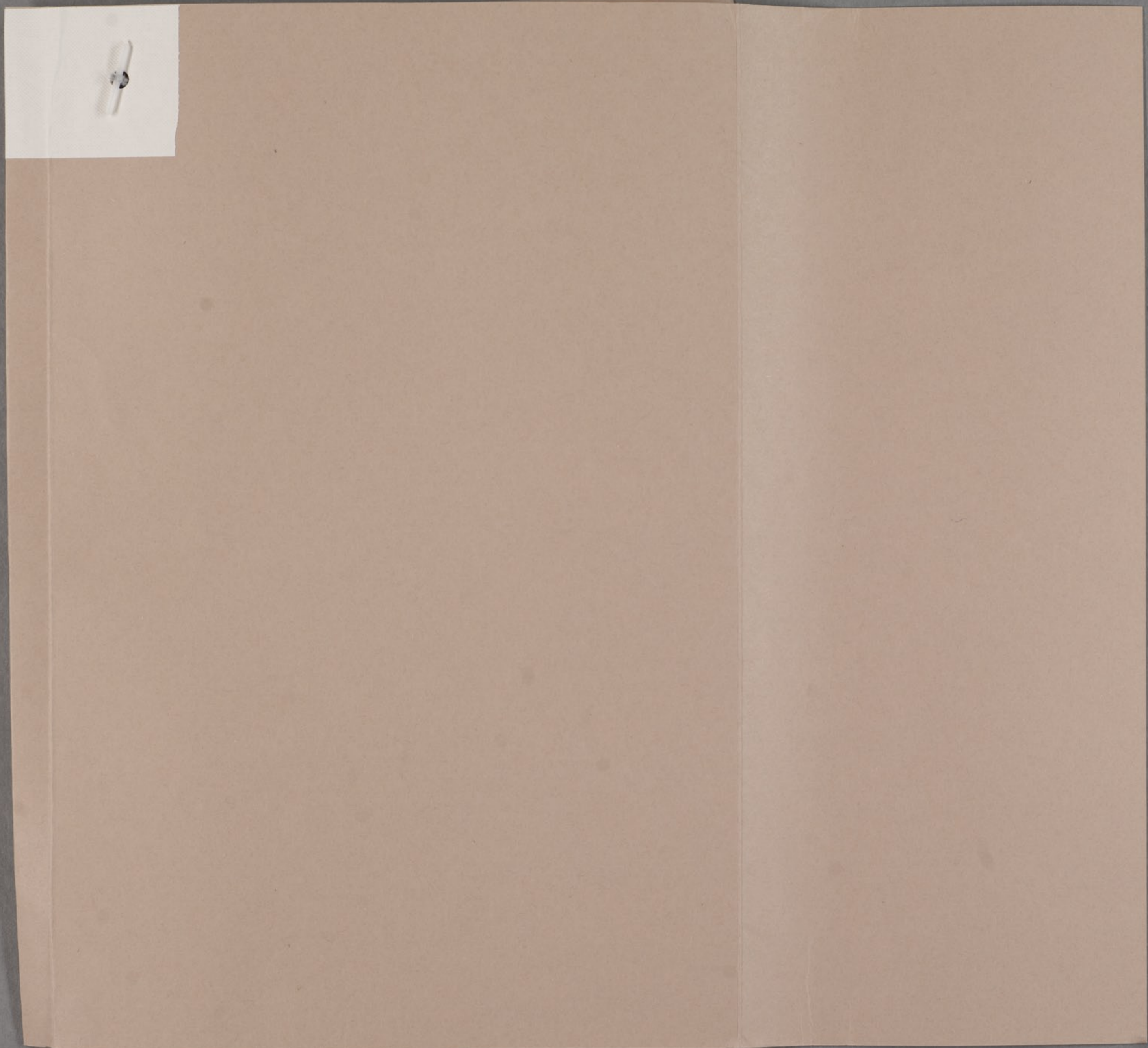
It also follows that we need to keep our demand for "broad balance" formally on the table up to the opening of the Dublin meeting. Before then, however, Ministers will need to have considered what might be an acceptable outcome. In his paper (OD(79) 33 the Foreign and Commonwealth Secretary recommends that this should be done in a small informal group of Ministers without any written record: this meeting should probably take place after the Schmidt visit and before Giscard.

Ministers will be considering papers on ways in which we can exert pressure within the Community to secure our budget objectives. It seems unlikely that there is scope for any direct trade-off ("We will do this if you will do that"): in any case we should not have to make concessions to correct a demonstrable unfairness. On the other hand our stance on other current issues will have an influence on the attitude of other member States towards our requirements. We shall have to monitor this carefully.

JOHN HUNT

(John Hunt)

19th October 1979





END

Filmed at the National
Archives (TNA) in London

February 2010