

European Council Meeting <sup>PART 8</sup>  
London at Lancaster House

26/27 November 1981

Policy

SEE ALSO PART 9

EUROPEAN  
POLICY

PE 1: Oct 79

PE 8: Oct 81

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>27.10.81</del>							
<del>4.11.81</del>							
<del>6.11.81</del>							
<del>10.11.81</del>							
<del>24.11.81</del>							
PREM 19/463							

PART 8 ends:-

Franklin to MODSTA Q2.02373

24/11/81

PART 9 begins:-

FCS to PM PM/81/54

25/11/81



CONFIDENTIAL

24/11  
Lund Bay

Qz.02373

MR ALEXANDER

EUROPEAN COUNCIL: BUDGET GUIDELINES

1. The draft guidelines on the budget approved by the Prime Minister have now been shown to the Germans, the French and the Secretary General of the Commission. The German reaction was generally favourable but they wished to see a more explicit reference to the German budget problem. M. Noel also thought the Commission would be able to give its general support to the guidelines but made one or two drafting suggestions. The reaction of officials in the Elysee was that President Mitterrand would find it easier to negotiate the details of another ad hoc solution to the UK's budget problem than to agree to guidelines which might seem to call in question some of the Community's principles. While showing some flexibility on duration, they offered only a 3 year arrangement under which refunds to the UK would be degressive, no larger than those in the 30 May agreement and in which the "over payment" for 1980 and 1981 was taken into account.

2. In the light of these reactions officials from the Treasury, the FCO, the Ministry of Agriculture and the Cabinet Office have reviewed the text of the guidelines, as attached to your letter of 20 November to Mr Richards. We feel that, in spite of the French reaction, it would still be worth trying to secure agreement at the European Council to such guidelines. To increase the chances of so doing, we would recommend that they should be circulated before the meeting to all the Heads of Government and that the following amendments should be made:-

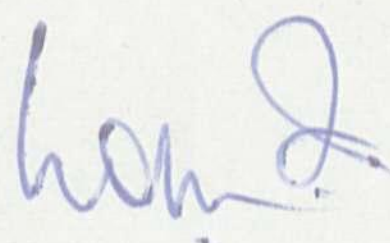
- (i) In paragraph 4, which deals with the corrective arrangement, the concept of relative prosperity should now be linked with the reference to objective criteria and the last sentence amended to point out that corrective payments would be degressive to the extent that the development of Community policies met our needs. These changes should be helpful to the French without conceding their view that there should be built-in degressivity.

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(ii) The last phrase in paragraph 5 should be amended in a direction which will be helpful to the Germans, following a suggestion by M. Noel. The Germans themselves may wish to produce a text which is even more explicit. It is also suggested that, instead of referring expressly to the 1% ceiling, the text would be less provocative to a number of other member states if it referred to the available financial resources of the Community.

--- 3. A revised text with these amendments incorporated is attached,  
--- together with a draft telegram to posts. The Prime Minister will no doubt wish to consider it at her briefing meeting later today.

4. I am copying this minute, and enclosures, to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and the Minister for Agriculture.



M D M FRANKLIN

24 November 1981

GUIDELINES FOR BUDGET CHAPTER

1. The object of the Community budget is to finance agreed Community policies. At the same time the creation or recurrence of an unacceptable situation for any member state must be avoided and the overall convergence of the economies of member states must be fostered, without imposing an undue burden on any member state.

2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.

3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.

(ii) M. Chast  
4. The corrective arrangement will need to deal not only with the problem already recognised by the Community when the Financial Mechanism was agreed, but also with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure. The arrangement will be based on objective criteria which take account of relative prosperity as between member states so that there will be no need for an annual negotiation. ~~It will operate degressively to the extent that progress is made on the basis of paragraph 2 above.~~

5. The financing of the corrective arrangement will be achieved within the agreed VAT ceiling available Community resources and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net

budgetary impact. The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether they already have a problem arising from the Community budget.

6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after seven years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

File No. ....

OUTWARD

Security Classification

Department .....

TELEGRAM

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Distribution:-

(TEXT)

30 MAY MANDATE: BUDGET GUIDELINES

1. My i.p.t. contains the text of guidelines on the budget (Chapter III) which you should transmit immediately to the office of the Prime Minister/President of the country to which you are accredited. You may also provide copies to the Foreign and Finance Ministries.

2. In handing this over you should say that, since last week's Council meetings, we have been reflecting on how to make progress on budgetary questions despite the considerable differences revealed in recent discussions which have meant that we did not feel able to put forward the draft budget guidelines at the same time as those on the other 2 chapters. As your interlocutor will be aware from her recent message the Prime Minister

Copies to:-

/is

is particularly concerned that preparations on Chapter III should have lagged so far behind those on other Chapters and that failure to make progress there could jeopardise the objective we all share of giving the internal development of the Community a new impetus when the European Council meets in London.

3. You should not seek to explain the text in detail but you should say that it represents a major effort by the Presidency to build on the small amount of common ground that has emerged in recent weeks. No doubt there will be criticism of it; certainly we, as the UK, consider it falls well short of what we had been hoping to achieve by this stage of the Mandate discussions. But it does, without prejudicing firmly held views on the amount and the method of any budgetary corrective arrangement, seek to establish operational guidelines within which a solution can be found.

4. (For Paris) [Treasury considering what should be said in light of Mr Franklin's meeting]

5. (For Bonn) You should draw the attention of the Germans to the change at the end of paragraph 5 which is intended to meet their wishes.

6. (For UKREP) You will wish to point out that in revising the text we have taken account of Noels suggestions for changes in paragraphs 4 and 5.

7. (For The Hague) [reply to expected message from Van Agt]

NOTHING TO BE WRITTEN IN THIS MARGIN



Ref: A06079

CONFIDENTIAL

MR. ALEXANDER

Prime Minister's Briefing Meeting for the European Council  
Tuesday, 24th November at 5.00 pm

I have set out below a list of those attending the Prime Minister's Briefing Meeting this afternoon:

Foreign and Commonwealth Secretary

Minister of Agriculture

Sir Brian Hayes, MAFF

Sir Michael Butler, UKREP, Brussels

Sir Kenneth Couzens )

Mr D. J. S. Hancock } Treasury

~~Mr. J. L. Bullard~~ )

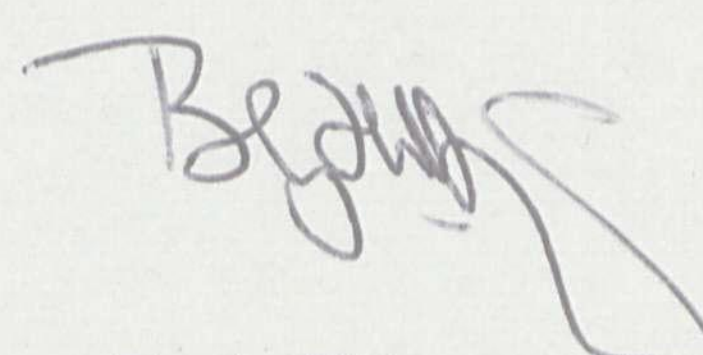
Lord Bridges ) FCO

Mr D. H. A. Hannay )

Sir Robert Armstrong } Cabinet Office

Mr M. D. M. Franklin }

Mr. John Coles Fco/No.10



B. G. Hilton

24th November 1981

CONFIDENTIAL

LE PRÉSIDENT DE LA RÉPUBLIQUE

PARIS, le 24 novembre 1981

Chère Madame le Premier Ministre,

Je vous remercie du message que vous m'avez adressé pour m'indiquer de quelle façon vous envisagiez d'aborder les problèmes qui se posent au prochain Conseil Européen de Londres.

Je souhaite vivement que soit reconnue la nécessité de parvenir à un accord sur les trois principaux chapitres de la négociation.

Je pense comme vous qu'il nous faut réussir à dégager des arbitrages durables s'inspirant des règles de la Communauté. C'est dans cet esprit que je me rendrai à Londres avec la volonté d'aboutir.

Sincèrement vôtre et meilleurs sentiments personnels,

*François Mitterrand*

François MITTERRAND

Madame Margaret THATCHER  
Premier Ministre  
de Grande-Bretagne

L O N D R E S

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*fg. Amt.*

Foreign and Commonwealth Office

London SW1A 2AH

24 November 1981

*Raw Muthand.*

EUROPEAN COUNCIL, ITALIAN POSITION

I enclose, in advance of any comment, a copy of an Aide Memoire handed to the Lord Privy Seal by the Italian Ambassador today. I understand it is additional to a reply which the Prime Minister has separately received from Sig Spadolini to her message of 19 November.

I am copying this letter with enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Minister for Agriculture, Fisheries and Food, and Sir Robert Armstrong.

*Yours sincerely*

*Antony Gomersall*

pp. S J Gomersall  
PS/Lord Privy Seal

M O'D B Alexander Esq  
No 10 Downing Street

AIDE MEMOIRE

Italy's position with regards to the problems raised by the implementation of the 30th May mandate is as follows:

1. Italy is well aware of the importance of the problem concerning the financial imbalance, but cannot accept a solution which disregards the other problems still open, nor could she be satisfied with a solution accompanied by merely declaratory - and therefore not resolute - statements with regards to the other two items of the present negotiation (i.e. the development of the common policies different from the Common Agricultural Policy and review of the Common Agricultural Policy).

2. In order to achieve the objective of economic and monetary union, Italy believes that a system of coordination of national economic policies is necessary to bring about a real convergence. It is equally essential that progress is made with regards to energy and research policies, as well as social and regional policies.

Even if definite solutions cannot be put forward in the course of the European Council, precise indications and deadlines should be given to the Commission and the General Affairs Council in order to find short-term solutions.

With further regard to the common policies and in view of the limit imposed to the Community's own resources - due to the present impossibility of increasing them because some Governments are unwilling to accept, for the time being, the lifting of 1% of the VAT ceiling - it is nevertheless important for Italy to emphasize the need to increase the resources of NIC.

cont.d

This especially in order to favour the implementation of the energy policy and the introduction of new technologies.

3. Italy is willing to accept a formula of management of the Common Agricultural Policy directed at a careful use of resources and struggle against the formation of surpluses. But cannot accept an aprioristic limitation of agricultural expenses.

With regards to dairy products, the solution Italy put forward, which contemplates a lowering of the guarantee to producers, aims at avoiding surpluses. In any case, it seems abnormal that there are countries which are at the same time producers of dairy surpluses and net beneficiaries and are not prepared in any way to reduce their benefits in order to favour the adjustment of the budget contributions.

4. With regards to the Common Agricultural Policy Italy furthermore believes it necessary that, within such policy, the maximum consideration be given to Mediterranean products. Therefore, and also in the light of the enlargement of the Community, both the Commission's and the British Presidency's documents are not acceptable to Italy.

It must be clear to all that it would not be possible to reach consensus within the European Council on an agreement based on the reduction of agricultural funds to the detriment of no-surplus produce or of those growers located in the poorest regions of the Community.

cont.d

5. Italy is willing to look for formulae aiming at correcting the imbalance in the United Kingdom's budget contributions. Such formulae nonetheless must not be of such nature as to represent acceptance by the EEC of the principle of "just return". Italy in fact is not prepared to renounce her fundamental belief, which is at the basis of the 30th May mandate, which maintains that a balance must be reached not by recurring to budget expedients, but by developing the common policies and the convergence of national economic policies.

Although not accepting the principle that the benefits deriving to the member States by belonging to the EEC must be measured only in terms of budget, Italy nevertheless believes that, in the framework of the agreements, more attention must be paid to the political and psychological reasons which are at the basis of Bonn's preoccupations.

24th November, 1981.



Foreign and Commonwealth Office

London SW1A 2AH

24 November 1981

Dear Michael,

European Council:  
German/Italian Proposals on European Union

As the Prime Minister knows, there is likely to be a short discussion of the German/Italian proposals on European Union in the course of the European Council. It is desirable that we should have some draft language up our sleeve for the Council's conclusions on this point. I enclose a draft text which takes account of the Prime Minister's views as set out in your letter of 16 November.

It is likely that in the course of the discussion on European Union the question of the procedures to be followed in examining the proposals will be raised. In particular there may be pressure (from eg the Germans, Belgians and Commission) to set up a special ad hoc group to examine the proposals, which cover both Community and non-Community subjects. We would prefer to work towards separate discussion of these aspects in the Community and Political Cooperation frameworks respectively, as the brief makes clear. If there is argument, the Prime Minister could make clear that it is not appropriate for the European Council to waste time on this procedural point and remit the question to Foreign Ministers.

I am sending a copy of this letter and enclosure to Michael Franklin.

Yours ever,

*Francis Richards*  
(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street  
London SW1

## DRAFT CONCLUSION ON GERMAN/ITALIAN PROPOSALS ON EUROPEAN UNION

The European Council welcomed the initiative by the Governments of Germany and Italy in tabling proposals for a European Act. The Council invited the Foreign Ministers to examine these proposals and to report back to the European Council in 1982. They agreed that the Foreign Ministers should make the necessary procedural arrangements and noted in this connection the political significance of the proposals and the fact that they covered both Community and non-Community matters. They agreed that the Commission should be associated with the Foreign Ministers' examination of the proposals.



*The Italian Ambassador  
to the United Kingdom*

T 162/81.  
✓ cc Mr F Richards FCO

*La  
Am*

London, 24th November, 1981

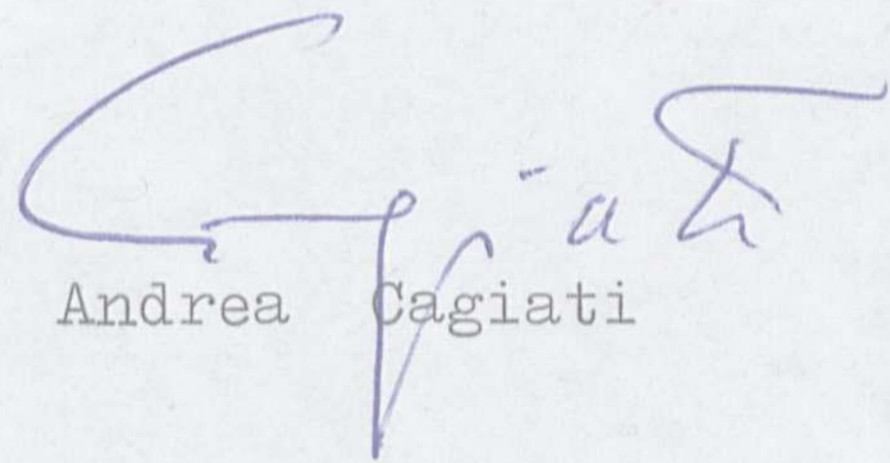
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*Dear Michael,*

I take pleasure in enclosing herewith the text of a message addressed to the Prime Minister by Signor Giovanni Spadolini, President of the Italian Council of Ministers, regarding the forthcoming European Council.

I am also sending a rough translation for convenience.

*Sincerely yours*

  
Andrea Cagiati

Encs.

M. O'D. B. Alexander, Esq.,  
Private Secretary to the  
Prime Minister (Overseas Affairs),  
10 Downing St.,  
London S W 1

Text of a message, dated 23rd November 1981, addressed to  
The Rt. Hon. Margaret Thatcher by Signor Giovanni Spadolini,  
Italian Prime Minister.

"Signor Primo Ministro,

ho ricevuto il Suo messaggio del 20 novembre e desidero ringraziarLa per avere voluto gentilmente farmi parte dei suoi orientamenti e delle sue idee preliminari in ordine alla discussione sul Mandato, che avremo nella prossima sessione del Consiglio Europeo fra qualche giorno a Londra. Ho molto apprezzato questa Sua iniziativa, che ho trovato estremamente utile e tempestiva. Ne ho perfettamente compreso le motivazioni e lo spirito, che condivido, e, a conferma di quanto Le dissi in occasione del nostro recente incontro a Londra, tengo ad assicurarLe la mia piena e fattiva collaborazione per un positivo esito del Vertice Europeo, anche sui temi del Mandato.

Sono infatti anch'io convinto che se vogliamo far progredire il progetto della costruzione europea ed in particolare della integrazione comunitaria, sarà necessario pervenire in questa occasione a decisioni equilibrate e costruttive.

Ho constatato con compiacimento che i suoi orientamenti di massima sulle conclusioni da adottare al Consiglio Europeo recepiscono idee e valutazioni da tempo sostenute dal mio Governo e che ebbi il piacere di esporLe nel corso dei nostri colloqui a Downing Street. Mi riferisco, in particolare, alla necessità di assicurare uno stretto e sostanziale parallelismo, nella discussione e nelle conclusioni operative, fra i tre settori del Mandato.

Solo se riusciremo a mantenere una visione globale dei diversi aspetti del Mandato e una prospettiva sufficientemente

cont.d

ampia al negoziato, sarà possibile mediare in maniera equilibrata gli interessi dei vari Stati membri e conciliare altresì i problemi di oggi con l'ispirazione a costruire, insieme, una comunità più solidale, che sappia far fronte alle attese dei nostri Popoli.

Leggerò con estremo interesse e la più favorevole predisposizione il progetto di conclusioni che sarà fatto circolare dalla Presidenza Britannica, fermo nell'impegno di dare il mio pieno contributo perchè la sessione di Londra costituisca un momento di crescita e di sviluppo della Comunità Europea.

Giovanni Spadolini".

ROUGH TRANSLATION

From: Signor Giovanni Spadolini, Italian Prime Minister

To: The Rt. Hon. Margaret Thatcher, MP

Date: 24th November, 1981

"My dear Prime Minister,

I have received your message of the 20th November and wish to thank you for your kindness in letting me know your views and your preliminary ideas about the discussion on the mandate, which shall be held in the forthcoming session of the European Council in London. I very much appreciate your initiative, which I find extremely useful and timely. I have perfectly understood its motivations and its spirit, which I share, and, in order to confirm what I expressed to you during our recent meeting in London, I wish to assure you of my full and active collaboration for a positive outcome of the European Summit, also on the points relating to the mandate.

In fact, I share your conviction that if we intend to advance the European construction project, and in particular the Community integration, it will be necessary to reach some balanced and constructive decisions on this occasion.

I note with pleasure that your views on the conclusions to be adopted by the European Council embody ideas and assessments which have long been held by my Government and which I had the pleasure of illustrating to you during our talks at Downing Street. I refer in particular to the need to ensure a close and substantial parallelism among the three points of the mandate during the discussions, as well as in the operative conclusions.

cont.d

Only if we succeed in keeping a global vision of the various aspects of the mandate and a sufficiently broad perspective during the negotiations, will it be possible to mediate, in a balanced way, the interests of the various member States and, moreover, reconcile today's problems with the inspiration to build together a more united Community, capable of meeting the expectations of our Peoples.

I will read with extreme interest and with the most favourable attitude the project of conclusions which will be circulated by the British Presidency, in my firm commitment to give my full contribution in order to ensure that the London session will be a further step towards the growth and development of the European Community.



Foreign and Commonwealth Office  
London SW1

Telephone 01- 233 5629

CABINET OFFICE  
8807  
FILE NO.....

S Wentworth Esq  
Cabinet Office

Your reference

Our reference

Date 24 November 1981

*Dear Stephen*  
BUDGET GUIDELINES

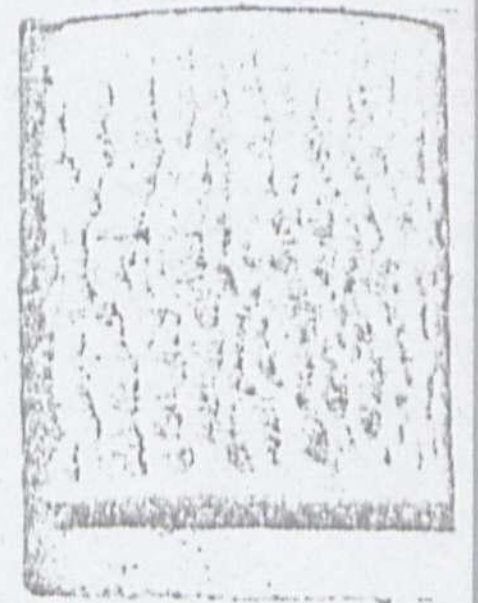
I attach revised draft telegrams instructing posts to hand over the guidelines, in the light of this mornings discussion.

*Yours ever*

*J R de*

J R de Fonblanque  
European Community Dept (I)

- cc: Mr Franklin )
- Mr Elliott ) Cabinet Office
- Mr Goodenough)
- Mr Hancock) Treasury
- Mr Edwards)
- Mr Andrews) MAFF
- Mr Haddon )
- Lord Bridges
- Mr Hannay



	Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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 7 TO IMMEDIATE ATHENS  
 8 TELEGRAM NUMBER  
 9 AND TO IMMEDIATE ALL EC POSTS AND UKREP BRUSSELS  
 10 30 MAY MANDATE: BUDGET GUIDELINES  
 11 1. My i.p.t. contains the text of guidelines on the budget  
 12 (Chapter III) which you should transmit immediately to the office  
 13 of the Prime Minister/President of the country to which you  
 14 are accredited. You may also provide copies to the Foreign and  
 15 Finance Ministers.  
 16 2. In handing this over you should say that, since last week's  
 17 Council meetings, we have been reflecting on how to make progress  
 18 on budgetary questions despite the considerable differences  
 19 revealed in recent discussions which have meant that we did not  
 20 feel able to put forward the draft budget guidelines at the same  
 21 time as those on the other 2 chapters. As your interlocutor  
 22 will be aware from her recent message, the Prime Minister is  
 23 particularly concerned that preparations on Chapter III should  
 24 have lagged so far behind those on other Chapters and that  
 25 failure to make progress there could jeopardise the objective

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Drafted by (Block capitals) J R DE FONBLANQUE		
Telephone number 233-5629		
Author of despatch		
Com. of despatch		

OUT TELEGRAM (CONT)

	Classification and Caveats <b>CONFIDENTIAL</b>	IMMEDIATE	Page 2
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- 1 <<<<
  - 2 we all share of giving the internal development of the Community
  - 3 a new impetus when the European Council meets in London.
  - 4 3. You should not seek to explain the text in detail but you
  - 5 should say that it represents a major effort by the Presidency
  - 6 to build on the small amount of common ground that has emerged
  - 7 in recent weeks. No doubt there will be criticism of it;
  - 8 certainly we, as the UK, consider it falls well short of what
  - 9 we had been hoping to achieve by this stage of the Mandate
  - 10 discussions. But, whereas a premature discussion of figures
  - 11 could set back the negotiation, we believe that agreement on
  - 12 guidelines would help it forward.
  - 13 4. (For Paris) See MIFT for Paris only.
  - 14 5. (For Bonn) You should draw the attention of the Germans to
  - 15 the change at the end of paragraph 5 which is intended to meet
  - 16 their wishes.
  - 17 6. (For UKREP) You will wish to point out that in revising
  - 18 the text we have taken account of Noel's suggestions for changes
  - 19 in paragraphs 4 and 5.
  - 20 7. (For The Hague) reply to expected message from Van Agt 7.

22 CARRINGTON

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Catchword



File No.

Department ECD(I)  
Drafted by J R DE FONBLANQUE TELEGRAM  
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OUTWARD

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Distribution:-

[TEXT]

MY 2 I.P.T.S.

1. In handing over the budget guidelines text, you should make the following additional points, which you may leave as an informal piece of paper.

2. UK Ministers have considered carefully the points made by Mr Beregovoy and his colleagues to Sir Robert Armstrong and Mr Franklin at their meeting on 23 November.

3. So far as the temporary nature of the new corrective arrangement is concerned, we have proposed in the guidelines that the solution to the Budget problem should be reviewed after 7 years to consider the progress made towards the Community's long-term budgetary objectives and whether any changes are needed. We would be ready to discuss the date for the review. But the principle underlying the review must be that the agreed solution to the problem should remain in

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operation if the problem continues to exist.

4. Whatever the duration of the corrective arrangement, there will need to be objective criteria to measure what should be corrected. Like the figures in the 30 May Agreement, any pre-determined lump sum would probably prove in the eyes of one side or the other to be too much or too little. Moreover, the UK did not want before 30 May to work on the basis of forecasts. Surely the French Government ought now to see some force in our argument. The agreed method of measuring the extent of the correction needed to meet the UK problem should apply ex post facto to the actual outturn of the budget.

5. We can accept the concept of degressivity if by this is meant that, as the budgetary problem is relieved by the development of new policies and the control of agricultural expenditure, less reliance will automatically be placed on the corrective arrangement. The Commission's report made it quite clear that the problem facing the UK was not one of adaptation or adjustment by the UK but of the structure of the Community budget, in particular the preponderance of agriculture in it, and the relative size of British agriculture in the economy.

6. As regards the size of the correction, we understand that it is the view of the French authorities that the 30 May agreement indicated the right order of magnitude for a solution to the budgetary problem. Our view is different. We did not devise the 30 May agreement and accepted it only with reluctance. Having accepted it along with all the other Member States, we all must now abide by its terms. One of these was the pledge to replace this temporary ad hoc solution by structural changes to come into

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force in 1982. Given that the problem cannot be solved in the near future by . . . changes in other Community policies, the structural changes proposed must include a corrective arrangement based on defensible <sup>criteria</sup> principles. These, in our view, should include relative prosperity - and that <sup>criteria</sup> principle is not consistent with any transfer of resources from the less-prosperous to the more prosperous members of the Community.

7. It would follow that we see no grounds that would justify a net transfer by the taxpayers and consumers of the United Kingdom to the taxpayers and producers of the rest of the Community, so long as the GNP per head of the United Kingdom remained below Community average. But we would not rule out being left with a modest net contribution which would represent <sup>a share</sup> ~~some part~~ of the administrative expenditure of the Community which the Commission included in their allocated Budget. We, of course, already make a substantial contribution to the unallocated Budget.

8. We thought it necessary to set out our reactions to the points you made to Armstrong and Franklin. We would of course be prepared to discuss figures but this is not now practicable before or at this European Council. We hope you will be willing to look seriously at these guidelines which will, we believe, help to carry the negotiation forward without prejudicing the position of either side on the method of dealing with the problem or the amount involved. In particular we would draw your attention to the substantial modification we have made to paragraph 4, where we have included a reference to degressivity.

Neill

MB



10 DOWNING STREET

THE PRIME MINISTER

24 November 1981

*Dear Mr. Wistrich*

Thank you for your letter of 23 November and for the message set out in it. You may be sure that I will bear in mind what you say during the meetings of the European Council later this week.

*Yours sincerely  
Margaret Thatcher*

Mr. Ernest Wistrich

JS

CONFIDENTIAL

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FM ROME 241700Z NOV 81

[FRAME GENERAL]

TO IMMEDIATE FCO

TELEGRAM NO. 492 OF 24 NOV 81

INFO IMMEDIATE UKREP BRUSSELS

INFO SAVING TO OTHER EC POSTS.

MY TELEGRAM NO. 485: EUROPEAN COUNCIL: ITALIAN POSITION.

1. I GAVE LUNCH FOR THE ITALIAN FOREIGN MINISTER TODAY AT WHICH HE GAVE COMMUNITY REPRESENTATIVES IN ROME AN OUTLINE OF THE MOOD IN WHICH THE ITALIAN DELEGATION WOULD BE GOING TO LONDON ON THURSDAY.

MANDATE.

2. AGREEING THAT THE MANDATE WAS CLEARLY THE CENTRE-PIECE OF THE COUNCIL, COLOMBO SAID THAT THERE WERE THREE POSSIBLE OUTCOMES:

A) FAILURE (WHICH MUST BE AVOIDED):

B) AN AGREEMENT (AN OPTIMISTIC PROSPECT, AND ONLY POSSIBLE IF AGREEMENT COVERED ALL THREE CHAPTERS): OR

C) AN IDENTIFICATION OF A SERIES OF OPTIONS AND CONSEQUENT SPECIFIC GUIDELINES FOR THE DEVELOPMENT OF THE COMMUNITY.

ILLUSTRATIVE EXAMPLES OF THE LATTER EMBRACED, NOT UNNATURALLY, DECLARED ITALIAN INTERESTS SUCH AS YES OR NO TO EXPANSION OF COMMUNITY BORROWING: YES OR NO TO DEVELOPMENT OF NEW POLICIES AND IF YES, WHICH: ELIMINATION OF SURPLUSES BUT NOT AT THE EXPENSE OF PENALISING THOSE COUNTRIES NOT RESPONSIBLE FOR PRODUCING THEM: REINFORCEMENT OF SUPPORT FOR MEDITERRANEAN AGRICULTURE TO AVOID ADDING TO THE COMMUNITY'S ALREADY UNACCEPTABLY HIGH LEVELS OF UNEMPLOYMENT. ON THE BUDGET, EVERYONE ACCEPTED THAT SOME COMPENSATION MUST BE PAID TO THE UK. AS TO THE FRG'S PROBLEM, THERE WAS A PSYCHOLOGICAL AND POLITICAL REQUIREMENT TO OFFER HER SOMETHING.

EUROPEAN ACT

3. COLOMBO REHEARSED THE GENESIS OF AND MOTIVES FOR HIS AND GENSCHER'S PROPOSALS FOR A EUROPEAN ACT, BUT SAID NOTHING NEW. HE DID NOT EXPECT THE EUROPEAN COUNCIL TO DO MORE THAN TO TAKE NOTE AND REMIT THE DRAFTS TO FOREIGN MINISTERS FOR STUDY. THEY HAD BEEN PITCHED DELIBERATELY MODESTLY (BEARING IN MIND THE HISTORY OF MORE GRANDIOSE PROPOSALS SUCH AS THE TINDEMAN'S AND THREE WISE MEN'S REPORTS), AS A BASIS FOR DISCUSSION, NOT AS A RECIPE. THEY ATTEMPTED TO REFLECT REAL NEEDS NOT CURRENTLY CATERED FOR IN THE INSTITUTIONAL FRAMEWORK OF THE COMMUNITY.

VISIT BY PRESIDENT OF THE COMMISSION.

4. THORN VISITED ROME AS PART OF HIS TOUR OF CAPITALS ON 23 NOVEMBER. COLOMBO SAID THAT HIS VISIT WAS A DISAPPOINTMENT TO THE ITALIANS. HE ARRIVED IN A PESSIMISTIC MOOD AND BROUGHT NO

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/FRESH

## CONFIDENTIAL

FRESH INSIGHTS. OFFICIALS ADDED THAT THORN WAS SOMEWHAT COMFORT-  
ED BY THE ITALIANS' PROFESSED INTENTION TO SEEK AS MUCH COMMON GRO-  
UND AS POSSIBLE AND TO URGE AGREEMENT TO LEAVING FOR FURTHER REFLEC-  
TION PROBLEMS WHERE WIDE DIFFERENCES REMAINED, PROVIDED ANY PARTIAL  
AGREEMENT REACHED WAS DULY BALANCED. THEY HAD THE IMPRESSION THAT  
THORN WAS LOOKING FOR SOME WAY OF EXERCISING A LAST-MINUTE PERSONAL  
ROLE.

5. FCO PSE PASS SAVING ADDRESSEES.

ARCULUS

FRAME GENERAL  
EC) (1)

[PASSED AS REQUESTED]

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URGENT

TO THE ATTENTION OF MRS MARGARETH THATCHER, PRIME MINISTER  
WITH COPY TO BE ADDRESSED TO LORD CARRINGTON, MINISTER OF  
FOREIGN AFFAIRS

DEAR MRS THATCHER,

WILLY BRANDT, TOGETHER WITH THE PRESIDENT OF THE GROUP OF EUROPEAN PROGRESSIVE DEMOCRATS (DEP) SCOTT HOPKINS, THE PRESIDENT OF THE COMMUNIST GROUP FANTI, THE PRESIDENT OF THE LIBERAL GROUP MARTIN BANGEMANN, THE PRESIDENT OF THE GAULLIST GROUP DE LA MALENE AND 95 OTHER DEPUTIES WHO HAD NOT EARLIER SIGNED THE PANNELLA RESOLUTION AGAINST HUNGER IN THE WORLD ADOPTED WITH ABSOLUTE MAJORITY BY THE EUROPEAN PARLIAMENT ON 30TH SEPTEMBER 1981, HAVE JUST ADDRESSED AN URGENT APPEAL ENCLOSED IN THE LETTER TO THE HEADS OF STATES OF THE GOVERNMENTS OF THE 10 E.C. COUNTRIES WHO WILL MEET IN LONDON ON 26 AND 27 NOVEMBER. THEY INVITE THE EUROPEAN SUMMIT-MEETING TO INCLUDE IN ITS AGENDA A DISCUSSION ON SPECIFIC ACTIONS TO BE TAKEN TO END THE NEW HOLOCAUST AND THE EXTERMINATION BY HUNGER. THE AIM IS TO CONCEIVE THOSE INITIATIVES IN SUCH A WAY THAT THEY BECOME THE FUNDAMENTAL BASIS OF A NEW PHASE CONCERNING DEVELOPMENT AND GIVE IT A NEW BOOST, AS WELL AS TO TRANSFORM THE POLITICAL AND HUMANITARIAN OBJECTIVES INTO POLITICAL AND CONCRETE COMMITMENTS LAID DOWN IN THE MANIFESTO OF THE 54 NOBEL PRIZE WINNERS.

THEREFORE, 100 PARLEMENTARIANS, AMONG WHOM THE MOST REPRESENTATIVE NOW HAVE JOINED THE 247 COLLEAGUES WHO HAD ADOPTED THE RESOLUTION AGAINST HUNGER, ASKING THE GOVERNMENTS TO ASSURE IN 1982 THE SURVIVAL OF AT LEAST 5 MILLION HUMAN LIVES, CONDEMNED OTHERWISE BY THE PRESENT SITUATION.

IN ADDITION TO WILLY BRANDT WHO WAS THE FIRST TO SIGN THE APPEAL, SUCH PROMINENT PERSONS AS M. PONIATOWSKI, PRESIDENT OF THE COMMISSION OF DEVELOPMENT, OTTO D'HABSBURG AND SEVERAL GREEK, ITALIAN FRENCH AND DANISH COMMUNISTS, AS WELL AS THE LEADERS OF THE CONSERVATIVES SCOTT HOPKINS, OF THE LIBERALS BANGEMANN AND OF THE GAULLIST DE LA MALENE WHO ALL BELONG TO THE GROUP OF MEP'S WHO DID NOT SUPPORT A FEW WEEKS AGO, THE RESOLUTION OF THE E.P., ARE NOW AMONG THE SIGNERS OF THE APPEAL.

THUS, AT LEAST 350 OUT OF 434 MEMBERS OF THE EUROPEAN PARLIAMENT HAVE SINCE THEN TAKEN SUCH A CLEAR POSITION THAT IT WILL BE DIFFICULT TO CONTINUE TO IGNORE IT.

THE APPEAL OF MR. BRANDT HAS BEEN BROUGHT TO THE ATTENTION OF THE TEN GOVERNMENTS DURING THIS WEEKEND.

ABOUT 130 BISHOPS FROM ALL OVER THE WORLD HAVE ALSO EXPRESSED THEIR OPINIONS ON THE SUBJECT AND THEY URGE YOU TO TAKE THE OBJECTIVES OF THE EUROPEAN PARLIAMENT INTO CONSIDERATION AND TO TRANSLATE THEM INTO CONCRETE ACTION WITHOUT DELAY.

FURTHERMORE, THIS MORNING IN ROME, 150 DEPUTIES, OF WHOM 130 BELONG TO THE MAJORITY OF THE SPADOLINI COALITION GOVERNMENT, HAVE TABLED A PROPOSITION FOR A RESOLUTION WHICH EVEN GOES BEYOND THE POLITICAL AND FINANCIAL COMMITMENTS MADE BY THE EUROPEAN PARLIAMENT, AND THEY ALSO DEMAND THAT DECISIONS BE TAKEN IN LONDON, IN ORDER TO PUT THE MANIFESTO OF THE 54 NOBEL PRIZE WINNERS AND THE RESOLUTION OF THE E.P. INTO ACTION.

A DELEGATION OF MEMBERS OF THE EUROPEAN PARLIAMENT, OF SIGNERS OF THE NOBEL PRIZE MANIFESTO, WILL BE PRESENT IN LONDON AND WE HAVE THE HONOUR TO SOLICIT ON THEIR BEHALF THE OPPORTUNITY, EVEN VERY BRIEFLY, TO ADDRESS THE HEADS OF STATES AND GOVERNMENTS, WHO WILL BE THERE.

YOURS SINCERELY,

FOOD AND DISARMAMENT INTERNATIONAL - C.D.I. - P.E.  
3, BD DE L'EMPEREUR 1000 BRUSSELS  
TEL. 511.6.55 TELEX 63992



THE UNDERSIGNED MEMBERS OF THE EUROPEAN PARLIAMENT,

RECALLING THAT THE EUROPEAN PARLIAMENT, BY AN ABSOLUTE MAJORITY OF ITS MEMBERS, ADOPTED A RESOLUTION SUPPORTING AND TRANSLATING INTO PRACTICAL POLITICAL COMMITMENTS THE POLITICAL AND HUMANITARIAN OBJECTIVES SET OUT IN THE MANIFESTO OF THE 54 NOBEL PRIZE WINNERS,

POINTING OUT THAT THIS RESOLUTION HAS SINCE RECEIVED SPECIFIC AND UNPRECEDENTED SUPPORT AND RESPONSE FROM HEADS OF STATE, UNITED NATIONS LEADERS AND SPIRITUAL AND RELIGIOUS LEADERS, THUS DEMONSTRATING THAT ONE OF THE INSTITUTIONS OF THE EUROPEAN COMMUNITY HAS MADE A DECISION WHICH HAS BROUGHT AND WILL CONTINUE TO BRING HOPE AND ENCOURAGEMENT TO EUROPE AND TO THE COMMUNITY,

POINTING OUT THAT IT IS NOW TIME TO TAKE PRACTICAL STEPS TO WARD OFF THE NEW HOLOCAUST AND BANISH THE SCOURGE OF HUNGER AND TO MAKE THESE MEASURES THE KEYSTONE OF A NEW PHASE OF DEVELOPMENT AND THE STARTING POINT FOR DEVELOPMENT OF A NEW TYPE ,

#### I N V I T E

THE EUROPEAN COUNCIL WHICH IS ABOUT TO MEET IN LONDON TO SET ASIDE A SPECIFIC ITEM ON ITS AGENDA FOR CONSIDERATION OF EACH OF THE RELEVANT POSITIONS ADOPTED BY THE EUROPEAN PARLIAMENT, AND IN THE MEANTIME CALL UPON THE FOREIGN MINISTERS OF THE TEN TO PREPARE THE STATEMENTS OF PRINCIPLE AND THE PRACTICAL DECISIONS OF THEIR GOVERNMENTS ON THIS MATTER.

LISTE DES SIGNATAIRES:

BRANDT WILLY

TINDEMANS LEO

FAURE EDGAR

SCOTT-HOPKINS SIR JAMES PRESIDENT DU GROUPE DES DEMOCRATES  
EUROPEENS

BANGEMANN MARTIN PRESIDENT DU GROUPE LIBERAL ET DEMOCRATIQUE

FANTI GUIDO PRESIDENT DU GROUPE COMMUNISTE ET APPARENTES

PANNELLA MARCO PRESIDENT DU GROUPE DE COORDINATION TECHNIQUE ET  
DE DEFENCE DES GROUPE ET DES PARLEMENTAIRES  
INDEPENDANTS

DE LA MALENE CHRISTIAN PRESIDENT DU GROUPE DES DEMOCRATES  
EUROPEENS DE PROGRES

CASSAMAGNAGO CERRETTI SIG. RA MARIA LUISA VICE-PRESIDENT DU GROUPE  
DU PARTI POPULAIRE EUROPEEN

BERSANI GIOVANNI PRESIDENT DU COMITE PARITAIRE ACP/CEE

DANKERT PIETER VICE-PRESIDENT DU PARLEMENT EUROPEEN

ROGERS ALLAN VICE-PRESIDENT DU PARLEMENT EUROPEEN

ZAGARI MARIO VICE-PRESIDENT DU PARLEMENT EUROPEEN

PONIATOWSKI MICHEL PRESIDENT DE LA COMMISSION DU DEVELOPPEMENT  
ET DE LA COOPERATION

CATHERWOOD SIR FRED PRESIDENT DE LA COMMISSION DES RELATIONS  
ECONOMIQUES EXTERIEURES

DE PASQUALE PANCRAZIO PRESIDENT DE LA COMMISSION DE LA POLITIQUE  
REGIONALE ET DE L'AMENAGEMENT DU TERRITOIRE

FERRI MAURO PRESIDENT DE LA COMMISSION JURIDIQUE

PEDINI MARIO PRESIDENT DE LA COMMISSION DE LA JAUNESSE, DE LA  
CULTURE, DE L'EDUCATION, DE L'INFORMATION ET DES SPORTS

SPINELLI ALTIERO

SEGRE SERGIO

HABSBURG OTTO

VISENTIN BRUNO

VON HASSEL KAI UWE

SCRIVENER MME CHRISTIANE

ADONNINO PIETRO

ANTONIOZZI DARIO

ARFE GAETANO

BADUEL GLORIOSO SIG. RA MARIA FABRIZIA

BALFE RICHARD

BATTERSBY ROBERT

BETTIZA VINCENZO

BEYER DE RYKE LUC

BLANEY NEIL T.

BOMBARD ALAIN

BONACCINI ALDO BONIN

BONINO SIG. RA EMMA

BOURNIAS LEONIDAS

BOYES ROLAND

BUCHAN MRS JANIEY

CABORN RICHARD  
CALVEZ CORENTIN  
CAFFINNA MARIO  
CAFFINNA UMBERTO  
CARETTONI-ROMAGNOLI SIG. RA TULLIA  
CASTELLINA SIG. RA LUCIANA  
CECOVINI MANLIO  
CHAMBEIRON ROBERT  
CHARZAT MME GISELE  
CLWYD MRS. ANN  
COLLA MARCEL  
COLLESELLI ARNALDO  
DE GOEDE MRARIE  
DE GUCHT KAREL  
DEL DUCA ANTONIO  
DELEAU GUSTAVE  
DESOUCHES MME MARIE-JAQUELINE  
DIANA ALFREDO  
DONNEZ GEORGES  
D'ORMESSON OLIVIER  
EISMA DOEKE  
ENRIGHT DEREK  
EWING MRS WINIFRED  
EYRAUD LOUIS  
FISCHBACH MARC  
FUILLET MME YVETTE  
GALLUZZI CARLO ALBERTO  
GAUTIER FRITZ  
GENDEBIEN PAU-HENRI  
GOUTHIER ANSELMO  
HAAGERUP NIELS  
HOFF FRAU MAGDALENE  
HOFFMANN MME JAQUELINE  
IPPOLITO FELICE  
IRMER ULRICH  
ISRAEL GERARD  
JACKSON CHRISTOPHER  
JOHNSON STANLEY  
JUNGT MICHEL  
KELLETT-BOWMAN EDWARD  
KUHN HAINZ  
LAGAKOS LEONIDAS  
LALOR PATRICK  
LAVANOS ALEXANDROS  
LEZZI PIETRO  
LIZIN MME ANNE-MARIE

MACARIO LUIGI  
MAECIOCCHI SIG. RA MARIA-ANTONIETTA  
MARKOPOULOS CHRISTOS  
MEAN  
MOREAU MME LOUISE  
NARDUCCI ANGELO  
NIKOLAOU MR KONSTANTINOS  
NIKOLAOU MRS KALIOPE  
ORLANDI FLAVIO  
PAPAEFSTRATIOU EFSTRATIOS  
PAPANTONIOU JOANNIS  
PATTERSON GEORGE  
PELIKAN JIRI  
PERY MME NICOLE  
PESMAZOGLOU IOANNIS  
PETERS JOHANNES  
PININFARINA SERGIO  
PLASKOVITIS SPYRIDON  
PRICE PETER  
PROUT CHRISTOPHER  
PRUVOT MME MARIE-JANE  
PULETTI RUGGERO  
QUIN MRS JOYCE  
RADOUX LUCIEN  
RIEGER HELMUT  
RIPA DI MEANA CARLO  
RUFFOLO GIORGIO  
SABLE VICTOR  
SALISCH FRAU HEINKE  
SASSANO MARIO  
SCHIELER RUDOLPH  
SCHMID GERHARD  
SCHWARTZENBERG ROGER  
SEELER HANS  
SHERLOCK ALEXANDER  
SEIBEL-HEMMERLING FRAU LISELOTTE  
SPAACK MME ANTOINETTE  
SQUARCIALUPI SIG. RA VERA  
SUTRA DE GERMA GEORGES  
THEOBALD-PAOLI MME YVONNE  
TRAVAGLINI GIOVANNI  
TREACY SEAN  
TYRREL ALLAN  
VANDEMEULEBROUCKE JAAK  
VAN MIERT KAREL  
VAN MINNEN JOHAN  
VERGES PAUL  
VERONESI PROTOGENE  
VIEHOFF MEVR. P. J.  
VIGEMOPOULOS NIKOS  
XXXXXXXXXXXXXXXXXXXX  
VITALE GIUSEPPE  
WAGNER MANFRED  
WEBER FRAU BEATE  
WIECZOREK-ZEUL FRAU HEIDEMARIE  
ZECCHINO ORTENSIO

**The European  
Movement  
(British Council)**

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No 551817

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London SW1A 2HA  
Tel 01-839 6622

The Rt. Hon. Margaret Thatcher MP.,  
President of the European Council,  
10 Downing Street,  
LONDON SW1

23 November 1981

R23 pps?

Nothing relevant.

Dear Prime Minister,

Senator Guiseppe Petrilli, President of the International European Movement and of the Italian Council of the Movement, and Mr. Basil de Ferranti MEP., Chairman of the British Council of the European Movement, have asked me to send you the following message in advance of the meeting of the European Council, due to take place this week:

"The Italian and British Councils of the European Movement, which met in London on 20 November, have expressed their concern at the emergence of difficulties during the preparations for the next meeting of the European Council. The gravity of the economic crisis and the international tensions make it indispensable for the European Community to take vigorous action.

To this end, it is essential that the forthcoming negotiations should look beyond purely budgetary considerations. After all, even technical problems are likely to be resolved if progress is made towards further political and economic European integration by the adoption of bold initiatives capable of meeting the dangers which face us and which respond to the legitimate expectations of the European peoples."

Yours sincerely,

Ernest Wistrich  
Director

**Presidents of Honour of  
the European Movement**

M. Georges Berthoin  
Prof Dr Walter Hallstein  
The Rt Hon Harold Macmillan  
M Jean Rey

**Patrons**

The Rt Hon David Steele MP  
The Rt Hon Margaret Thatcher MP

**Presidents**

The Rt Hon Lord Duncan-Sandys CH  
The Rt Hon Sir Geoffrey de Freitas KCMG  
The Rt Hon Lord George-Brown  
Lord Gladwyn GCMG GCVO CB  
The Rt Hon Lord Harlech KCMG  
The Rt Hon Edward Heath MBE MP  
The Rt Hon Lord Home KT  
The Rt Hon Lord Houghton CH  
The Rt Hon Roy Jenkins  
The Rt Hon Dr Dickson Mabon MP  
Sir John Sainsbury  
The Rt Hon Lord Thomson

**Chairman**

Mr Basil de Ferranti DSc MEP

**Deputy Chairman**

The Rt Hon Dr Dickson Mabon MP

**Vice-Chairmen**

Lord Banks CBE  
Mr John Pinder OBE

**Hon Treasurers**

Mr Geoffrey Drain CBE  
The Rt Hon Maurice V. Macmillan MP

**Hon Secretaries**

Miss Beryl Goldsmith  
Mr Norman Hart

**Director**

Mr Ernest Wistrich CBE



10 DOWNING STREET

Brian,

We spoke. Herewith

- (a) amended text of the first five paras of the Report by the Presidency on the draft conclusions;
  - (b) an amendment to the lead in to Chapter 1 of the Draft Conclusions;
- as discussed with & approved by the Prime Minister

Paul

23/11

EUROPEAN COUNCIL

30 May Mandate

Report by the Presidency

*Approved by Annie Auster  
& communicated to FCO*

*fs.*

*Pres - 23/41*

1. The Members of the European Council will find in the Annex the text of draft conclusions on the Mandate.
2. This text takes the form of guidelines for the future development of a number of Community policies.
3. So far as Chapter I (Development of Community Policies other than the Common Agricultural Policy) and Chapter II (Common Agricultural Policy) are concerned, the texts presented are based on the recent discussion of the Council (Foreign Affairs) and the Mandate Group. So far as Chapter III (Budgetary problems) is concerned, differences are still too wide to allow the circulation of draft guidelines.
4. The texts circulated have been drawn up by the Presidency, with the co-operation of the Commission for submission to and consideration by the Heads of State and Government themselves. They contain a number of passages in square brackets which show areas where clear disagreement still exists.
5. The following is an indicative list of points which appear to the Presidency to require discussion at the European Council. But it is not the intention of the Presidency to try to limit the discussion in any way to this list. If any delegation considers that other major issues of importance should also be discussed, it will of course be free to raise them.

I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

Overall Community economic strategy

(To be completed, as necessary, after the European Council discussion of the economic and social situation.)

1. The European Council agreed ...



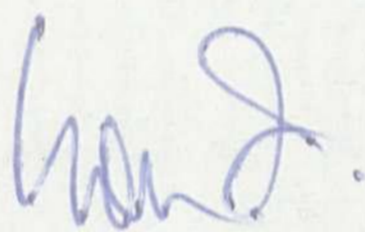
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MR ALEXANDER

--- The Prime Minister may find it helpful before her briefing meeting tomorrow to have the attached draft brief which suggests how she might guide the discussion on the Mandate.

I am sending a copy to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and the Minister of Agriculture.



M D M FRANKLIN

23 November 1981

Lyster

Carole T. J. Duffield  
P. Anderson.

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EUROPEAN COUNCIL: THE MANDATE

Brief for the Prime Minister on Handling.

1. In opening the discussion on the Mandate the Prime Minister will want to make clear that she is looking for discussion at the level of Heads of Government on <sup>some specific</sup> ~~these~~ areas where Foreign Ministers have not been able to reach agreement and where they need to give directives to enable officials to draft the conclusions. She will want to say that it is essential to make progress on all three chapters. She would have preferred to avoid going into detail but there are unfortunately a number of subjects on which no agreement has been possible at a lower level and it will be necessary for the Heads of Government to go through these one by one. She will want to urge them to make a real effort on the various points, on the understanding that the conclusions as a whole will form a package: agreement on one or another point will be understood to be conditional on agreement on the package as a whole. If there are other points, not covered in the Presidency's report, which anyone wishes to raise, these might be taken at the end of the discussion. But a point by point discussion, of the points listed in the Presidency report seems indispensable.

2. At this point the Prime Minister might pause for comments but she will want to resist any attempts to make general statements and suggest these be left to the end.

3. On timing, she will want to suggest that it is essential to get through all three chapters before dinner. She will want to leave at least an hour before she proposes to break for dinner for discussion of Chapter 3. If discussion on Chapter 2 is unduly slow she may want to break it off at this point, though there is no need to announce this in advance.

CHAPTER 1: DEVELOPMENT OF COMMUNITY POLICIES

4. In introducing this chapter the Prime Minister might say that, thanks to the progress made by Foreign Ministers there are only two problems to be dealt with and she hopes to cover these fairly quickly.

/Borrowing

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Borrowing and Lending

Opening Statement

5. The issues are whether the New Community Instrument (NCI) (under which the Community borrows on the market and on-lends for projects in the field of energy, industry and infrastructure) can be transformed into a European Fund and increase in size.

Handling

6. The Prime Minister might turn to Spadolini and Mitterrand who are the main supporters of expansion and to Schmidt who opposes an increase, before proposing a compromise, which would include agreement on the name change and on a general commitment, without a figure, to an increase in the Fund.

Possible Summing Up

7. I have noted the gap between the positions of some delegations but I would suggest that the most we can all agree on today is that we should convert the New Community Instrument into a Fund and we should agree in principle on the desirability of an increase but leave the amount to be settled later.

Regional Fund

Opening Statement

8. The question we need to resolve here is whether the quota section of the Regional Fund should be concentrated on the poorer Member States (Greece, Ireland, Italy, UK) or whether, as at present, there should be quotas for all Member States. I understand that most Member States are prepared to agree to the change.

Handling

9. I would like to turn to Mitterrand and Eyskens who, I understand, had difficulty with this proposal.

Possible Summing Up

10. I wonder whether we could not all agree that in the new regional fund the highest priority should be given to the regions in the less prosperous Member States.

CHAPTER 2: COMMON AGRICULTURAL POLICY

Handling

11. Agriculture will be a difficult and detailed part of the discussions but one to which several member states attach great importance. While it may be necessary to intervene from the Chair to cut short the discussion, eg by suggesting that the discussion on individual commodities should be remitted to the Agriculture Ministers, to do so prematurely could prejudice discussion of Chapter 3.

A. Price Policy

Handling

12. It might be helpful to get the discussion off to a good start by, in effect, offering a compromise from the Chair at the start.

Opening Statement/Possible Summing Up

13. All our discussions are, of course, subject to reaching agreement on the complete mandate. Against this background I think it should be possible to find a guideline for price policy which we could agree without too much debate. It would have to recognise the need for:-

- (a) A prudent price policy;
- (b) Which takes account of Article 39 of the Treaty and the concern there for the incomes of farmers;
- (c) The need <sup>to have a balance between supply and demand</sup> ~~to improve market equilibrium for several commodities;~~ and
- (d) The need, in appropriate cases, to take account of the relationship between Community support prices and support prices in the main competitor countries.

B. Cereals

Opening Statement

14. We need to look at two aspects of cereals together. There appears to be a fair degree of support for reducing cereals prices in real terms to achieve a better balance between cereals and livestock. But there are differences of view on action to stabilise imports of cereals substitutes.

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Handling

15. After introduction invite Van Agt, Mitterrand and Schmidt to speak.

Possible Summing Up

16. (a) All are agreed that the Community should make reductions in the real price of cereals.
- (b) There remain differences on the need to control imports of cereals substitutes but perhaps we can agree that the Council should complete the negotiations on the stabilisation of imports of manioc and should authorise exploratory discussions with third country suppliers on certain other individual substitutes which compete with cereals. [Not including soya and other oil seeds.]

C. Milk

17. The milk sector is complicated and many different ideas have been put forward by the Commission and different member states. Dairy surpluses have been reduced; but most seem to be agreed that arrangements of some kind are needed to alert producers to the dangers of surplus production.

Handling

18. After introduction might invite Fitzgerald, Mitterrand, Van Agt, Jorgensen to speak. Discussion is likely to reveal continuing differences on method. This could be the occasion to intervene and suggest a remit to agriculture Ministers.

Possible Summing Up

19. (a) It is clear that the complex problems of dealing with this sector will have to be tackled by agriculture ministers when they settle the 1982 price fixing.
- (b) But it should be possible for the European Council to agree that effective measures to deal with surplus production of milk must be introduced and ask the Agriculture Council to settle the modalities.

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D. Mediterranean Agriculture (wine, fruit and vegetables and olive oil)

Opening Statement

20. Discussion in the Foreign Affairs Council has shown that it is important for some member states (France, Italy and Greece) to have specific guidelines on mediterranean products. The Presidency draft now includes specific wording on each commodity (wine, fruit and vegetables, olive oil). I hope we can agree that this represents an acceptable way of taking the work forward.

Handling

21. Invite Papandreou and Spadolini to speak; but also Schmidt who will be cautious. Discussion may well be sufficiently vague for a rather broad summing up.

Possible Summing Up

22. May not be able to improve on existing text. Detailed work now referred to the Agriculture Council.

E. Exports: Long Term Contracts

Opening Statement

23. For several delegations agreement to develop long term contracts for exports is a matter of great importance. But for other delegations there are doubts about financial aspects and the implications for the Community's broader trade policy. No opposition to the Community's present and substantial role as an agricultural exporter.

Handling

24. Fitzgerald, Jorgensen (in favour) and Schmidt, Van Agt (against) might be invited to speak. There is no prospect of agreement.

Possible Summing Up

25. Opinions are still divided. Perhaps we can agree that the Council should be invited to examine specific proposals for the negotiation of framework agreement for particular products. This should help to clarify the position so that the Council can judge whether the advantages envisaged by some outweigh the doubts and difficulties envisaged by others.

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F. Budgetary Aspects: Growth Rate of Agricultural Expenditure

Opening Statement

26. There is general concern about the level of expenditure on the Common Agricultural Policy which has resulted in several different approaches being suggested to containing its level. One formulation is that it should grow at a rate markedly less than the growth of the own resources base. A second formulation is that it should grow at two thirds that rate. Another suggestion is that the proportion of the budget taken by agriculture should be reduced to 60 per cent. And some delegations do not want any of these ideas.

Handling

27. Mitterrand, Schmidt, Jorgensen could be invited to give their views. Prime Minister might then call on Eyskens, who is likely to propose a compromise formulation.

Possible Summing Up

28. Could we all agree with the Eyskens formulation? viz that we invite the Council and Commission to implement the guidelines so that agricultural expenditure in the years ahead grows [markedly] less rapidly than the growth of own resources.

[Note: UK would prefer "markedly" but it is unlikely to command general support.]

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CHAPTER 3: BUDGETARY ASPECTS

Opening Statement

29. It is disappointing that progress on this Chapter seems to have lagged behind progress on the other two. I would have preferred to aim for agreement on the whole problem at this meeting but I fear that this is impossible, in view of the lack of progress so far. Our aim is to make solid progress on the principles of a solution even if we cannot expect to reach final agreement on the details today.

30. I am sure there is a good deal of common ground on which we can all agree. We all agree that the object of the Community Budget is to finance agreed policies but that, at the same time, unacceptable situations must be avoided. We support the need for convergence and to avoid imposing undue burdens on any Member State.

31. We are also agreed that in the longer term the answer lies in the development of better balanced Community policies. That is why we have been discussing Chapters 1 and 2. But this will take time and in the meantime a corrective arrangement will be needed if unacceptable situations are to be avoided. (Note: These paragraphs cover the material in the first three paragraphs of the Budget Guidelines. At this point the Prime Minister may wish to pause and see if there are any comments before going on to the material in the remaining paragraphs of the Budget Guidelines).

Handling

of the

32. I suggest we now consider the nature/problems which need to be resolved and the means of doing so.

33. First I think it is clear that the problems arise both from excessive contributions, as already recognised by the Financial Mechanism and from inadequate receipts. I hope we can agree that we must avoid an annual negotiation on the figures and that this means that the arrangement must be based on objective criteria, which should obviously take account of the relative prosperity of Member States. (The Prime Minister might pause for comments at this point).



CONFIDENTIAL

34. Second I am sure we all agree that the financing of the arrangements must be achieved within the available Community resources and without putting at risk the financing of other policies. Moreover the financing must take account of Member States ability to pay ie whether they have more or less than average Community GDP as well as whether they already have a problem arising from the Community Budget. (Pause for comments).

35. Third I think we should all be able to agree that the arrangements should start in 1982. It will be for the Council to adopt the necessary detailed decisions on proposals from the Commission. (Pause for discussion).

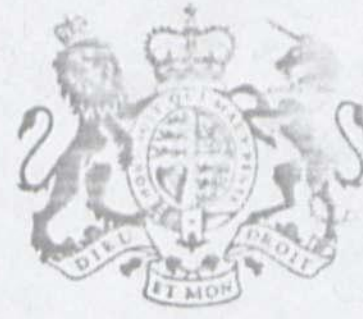
36. Fourth I suggest that the arrangements agreed should be subject to review after a period of seven years to consider whether any changes are needed. (Pause for comments).

Possible Summing Up

37. We had a useful discussion and I think we should now see if officials can improve the budgetary guidelines text on the basis of our discussion.

OR

I really do not think we have made enough progress for officials to be able to draft. We will need to continue this discussion over dinner.



JFH

27/11

Kate Foss

10 DOWNING STREET

*From the Private Secretary*

23 November 1981

I enclose a copy of a letter which we have just received from the Chairman of the Consumers in the European Community Group (UK). As you will see Ms Foss asks that her letter should be circulated to the European Council. I should be grateful for early advice and for a draft reply which the Prime Minister might send to Ms Foss.

I am sending copies of this letter and its enclosure to Kate Timms (Ministry of Agriculture, Fisheries and Food), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

JFH



Rt Hon Margaret Thatcher MP  
10 Downing Street  
London  
SW1

Consumers in the European  
Community Group (UK)

24 Tufton Street  
London SW1P 3RB  
Telephone 01-222 2662

23rd November 1981

Dear President of the European Council,

When the European Council meets in London on Thursday, its discussions will doubtless cover issues of great concern to consumers. In particular, we understand that talks will take place on reform of the costly Common Agricultural Policy which has for so long penalised consumers through unnecessarily high food prices.

I write from Consumers in the European Community Group, which collectively represents the main UK voluntary and professional organisations with consumer interests on EEC policies, to urge the Council to consider the impact of some of the EEC's major policies upon the EEC's 268 million consumers. We ask you to look particularly at those policies which involve an element of protectionism.

#### Reform of the CAP

Firstly, we ask the Council to give strong support to the proposals in the Commission's "Mandate" report to bring CAP prices better into line with world prices and with supply and demand. This implies a substantial reduction in the level of EEC support prices. The EEC consumer movement has long pointed out that artificially high prices are the cause of the EEC's notorious surpluses which are subsidised at great cost for sale on the world market. The high prices choke demand; for example many of our low-income members would love to buy "surplus" beef but cannot afford it. They encourage overproduction. They give scant help to needy farmers but reward the large businesses which produce most.

We hope that a reduction in support prices will also be reflected in a lower level of protectionism applied against imports into the Community. We are especially concerned about excessive taxes on North American hard wheat - essential to British bread and taxes of up to 22% on imported fruit and vegetables even when there is no Community production. The level of import duties on beef, so punitive as almost to discourage imports altogether, concerns our members, as well as access to the popular New Zealand lamb, butter and cheese.

Chairman Kate Foss  
Secretary Ann Davison

The Multi-Fibre Arrangement (MFA)

We also hope that the Heads of State will act to reduce EEC protectionism through the Multi-Fibre Arrangement towards imports of textiles and clothing. This raises the price of basic items of clothing at a time when many families are fighting to make ends meet on very small budgets. CEEG members are very unhappy with the logic of the Multi-Fibre Arrangement that restricts imports from the poorer countries, like India, Sri Lanka and Pakistan which most need the trade. The evidence suggests that their exports to us have simply been replaced by the surge in imports from the richer countries like the USA, since the MFA imposes no controls on imports from the developed countries. Whilst we are of course concerned about unemployment in the textile industry, we doubt that the MFA, with its one-sided restrictions is achieving much more than a transfer of our imports from poor countries to rich.

Air fares

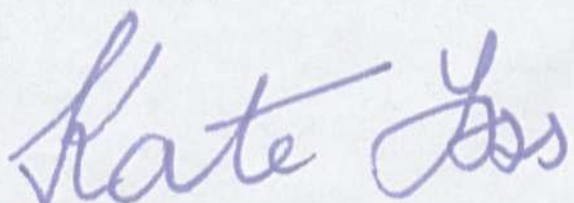
As a third initiative to promote competition, we would ask the EEC Heads of State to bring the competition rules of the Treaty of Rome to bear, at last, on air transport. The current system of restrictions on both flights and fares means that many people who would have liked to travel within their Community have been unable to afford to do so.

Product liability

There is, finally, one measure of consumer protection under discussion within the EEC, which is so important to consumers that we would like to bring it to your attention. As long ago as 1976 the Commission proposed to make manufacturers strictly liable for any injuries caused by defects in their products. The EEC consumer movement has backed this eagerly. The directive would give consumers simpler and fairer access to compensation for injury caused by defective products. In the UK, for instance, it would close the loophole whereby retailers are strictly liable to compensate for injury caused to purchasers of their products but non-purchasers normally have no such rights. They have to prove that the manufacturer of a defective product was negligent. CEEG together with other EEC consumer organisations is extremely concerned at attempts to give manufacturers an escape clause by introducing a "state of the art" defence. This would allow manufacturers to claim that they should not be liable because they could not have known of the fault due to the state of scientific knowledge at the time. Because this would result in so much extra uncertainty and litigation, the Consumers' Consultative Committee in Brussels has gone as far as to say that the directive with such an amendment would no longer be a consumer protection measure and should in this case be removed from the Consumer Programme.

We would be extremely grateful if the text of this letter could be circulated to the members of the Council. Because of the importance of the issues raised, we are copying it to the press as well as to the European Bureau of Consumer Unions whose members in the other EEC countries argue the same case.

Yours sincerely,



Kate Foss  
Chairman

Brussels, 23 November 1981

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MAN 18

R E P O R T

from: the Presidency  
to: The European Council

Subject: Mandate of 30 May

1. The Members of the European Council will find in annex the text of draft conclusions on the Mandate.
2. This text takes the form of guidelines for the future development of a number of Community policies.
3. So far as chapter I (development of Community policies other than the common agricultural policy) and chapter II (common agricultural policy) are concerned, the texts presented are based on the recent discussion of the Council (Foreign Affairs) and the Mandate Group. So far as chapter III (budgetary problems) is concerned, differences are still too wide to enable the circulation of draft guidelines.
4. The texts circulated have been <sup>drawn up</sup> ~~established~~ by the Presidency, with the co-operation of the Commission for submission to and consideration by the <sup>heads of state - Govt. themselves</sup> ~~European Council~~ itself. They contain a number of passages in square brackets where clear disagreements still exist.

.../...

- new 5. The following is an indicative list of points which appear to the Presidency to require discussion at the European Council. But it is not the intention of the Presidency to try to limit discussion in any way to this list. If any delegation considers that other major issues of importance should also be considered, it will of course be free to raise them.

chapter I: development of policies other than the CAP

- (i) New Community instrument: increase in size and transformation into European Fund (paragraph 9).
- (ii) Regional Fund: concentration of quota section in less-prosperous Member States (paragraph 23).

chapter II: common agricultural policy

- (i) Criteria for price policy : (paragraph 3).
- (ii) Cereals : Cereals prices and limitation of imports of substitute products (paragraph 7(a)).
- (iii) Milk : control of milk production beyond guarantee threshold through modulation of guarantees arrangements (paragraph 7(b)).
- (iv) Mediterranean agriculture : future arrangements for wine, fruit and vegetables, olive oil (paragraph 10(a) - (c)).
- (v) Exports : long-term contracts for exports of agricultural products (paragraph 12(b)).
- (vi) Budgetary aspects : growth rate of agricultural expenditure (paragraph 18).

chapter III; budgetary problems

- (i) Unacceptable situations: nature and Member States affected.
  - (ii) Means of preventing unacceptable situations: criteria for determining size of correction, duration of arrangement, means of financing.
-

Subject: MANDATE OF 30 MAY

Draft conclusions of the European Council prepared by the  
Presidency (Second Revise)



PREAMBLE

1. The European Council recalled the fundamental objectives of peace, freedom and progress on which were based the original decision to establish the Community and to put behind them the excesses of economic and political nationalism which had been the cause of great suffering to their nations. The history of the last thirty years had shown the major contribution which the Community had made to the achievement of these objectives.

Collaboration and integration between their economies were now realities which no Government could disregard. The welfare and progress of each of their peoples was more than ever dependent on the harmonious development of the Community itself and of the other nations in it.

2. It recognized that developments on the international scene, both in the economic and in the political fields made it essential to strengthen the role of the Community and of its ten Member States acting in concert at all levels.

If this did not happen, there was a real risk of a process of regression in which national interests would prevail over the general interest of the Community. Moreover the Community and its Member States increasingly had responsibilities towards the outside world, in particular to the peoples of the Third World for whom it provides the largest market and also the largest source of official Government aid.

3. It was in this overall context that the European Council reviewed the development of Community policies in conformity with the Decision of 30 May 1980 and on the basis of the Commission's report of June 1981.

4. It concluded that, despite the important progress made, the Community's development had been uneven, as the Commission had recognized in its report. If the Community was to live up to the hopes and aspirations of the people of Europe, and to

.../...

recover its dynamism, European integration must be strengthened and diversified. The Community needed now to build on the achievements of the common agricultural policy and the tariff-free market by removing the remaining obstacles to the development of trade and by finding effective answers to the current social and economic problems which faced all Member States, concentrating its resources where they are most needed. The harmonious development of the Community required that Community instruments and mechanisms be developed which permit action geared to the situation and specific needs of the least-prosperous Member States in an effort to tackle their structural problems.

5. It therefore decided to give a renewed impetus to the development of Community policies on a broad front.

The following chapters set out the framework within which it agreed that this renewal of the Community should be carried forward.

*to* European Council tools <sup>note</sup> ~~into instruments~~  
~~the procedure with~~ at the level of  
or otherwise by the Council President

## I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

### Overall Community economic strategy

(to be completed, as necessary, after the European Council's discussion of the economic and social situation)

1. The European Council agreed that an overall economic strategy in the Community is essential to combat unemployment and inflation and to encourage convergence. Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustainable economic growth and reducing unemployment. At the same time the Community should pursue the reduction of its dependence on external sources of energy, in particular oil.
2. In addition to measures taken at a world-wide level in pursuit of these common objectives, the European Council underlined the contribution that Community policies can make especially in all the areas set out below.

#### A. Employment policy

3. The European Council agreed that as a complement to macro-economic policy decisions effective action in the social field to alleviate unemployment should be taken at both the Community and the national level.
4. At the Community level full use should be made of all appropriate Community instruments and policies, as set out in succeeding sections of these conclusions.
5. It agreed that the Council (Social Affairs) should review as a matter of urgency the various existing means of consulting the social partners with a view to making them a more effective channel for a genuine dialogue. (See also paragraphs 18 and 19.)

B. Economic policy

6. The European Council agreed that the achievement of the Community's overall objectives would require stronger economic disciplines and concertation. The Community should ensure, through a careful comparison of national policies, that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community as well as with the object of consolidating the EMS. It therefore called for a more effective coordination of national economic policies and invited the Commission and the Council (ECOFIN) to make fuller use of the machinery set up for that purpose and to consider whether it needed strengthening.

C. Monetary policy

7. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It agreed that it should be further developed both as a key element in progress towards economic and monetary union and the creation of a European Monetary Fund, and to encourage a more stable international economic environment. It invited the Council (ECOFIN) to take stock during 1982 of the preparatory work done on these matters and in particular to take the necessary steps:
- to achieve greater concertation of national monetary policies;
  - to encourage the use of the ECU for Community loans and on financial markets by both public and private borrowers;
  - to seek improvements in monetary co-operation with the Community's principal partners, in particular insofar as exchange rate and interest rate policies were concerned.

D. Borrowing and Lending policy

8. The European Council welcomed the moves recently made to expand the scope of the Community's financial instruments, (EIB, ECSC, EURATOM and the NCI) in order to promote investment

including investments in infrastructure as part of a progressive industrial and economic strategy. While recalling the need to maintain the ability of the Community and its Member States to borrow on suitable terms in the international and domestic capital markets, it agreed that there should be expansion as appropriate of these instruments to further agreed Community policies.

9. [The European Council decided to transform the new Community instrument for loans into a European Fund to increase investment in infrastructure, industrial renewal and self-sufficiency in energy in the Community and agreed that the Fund's loan capacity should forthwith be increased by 3 billion ECU to be raised on the market at a rate corresponding to the needs.]

E. External economic policy

10. The European Council agreed that, given the importance of the Community's external trade, it should seek to develop its external economic policy on the basis of common positions. In this way it would give effect to its special responsibility as the principal world trader and to its commitment to the open trading system. It underlined that, in view of the serious economic problems faced by all, genuine reciprocity was necessary. This required both a strengthened dialogue with the Community's main industrial partners and recognition of the needs of the developing countries.

F. Common Market and Industrial Strategy

11. The European Council recognized that the changes which had come about in recent years as regards both the structure of world markets and energy costs require a major industrial response. There was therefore a need for an industrial strategy at the Community level in order to develop industry, make it competitive and create productive jobs in Europe.

.../...

(i) Internal market and competition policy

The European Council recognized that the completion of the internal market, in accordance with the Treaties, would make an important contribution to solving the economic problems currently facing Member States, in particular by facilitating industrial co-operation and restructuring at the European level. A closely linked objective was the enforcement of proper conditions of competition, in particular transparency and effective control in the field of State aids, which would stimulate innovation and durable employment and enhance the international competitiveness of Community industry. Accordingly it called for a further intensive effort to secure decisive progress in 1982 concentrating on the following:

- (a) an effective competition policy including stricter discipline regarding aids, both single and cumulative, distorting competition;
- (b) progress towards establishing a common legal framework for Community industry, where this would bring tangible economic benefits for Community industry;
- (c) the effective implementation of the liberalization within the Community of public purchasing arrangements, in particular for high technology products, in order to take full advantage of a market on a continental scale;
- (d) the creation of a free market for services as provided for by the Treaties. An important objective is the early adoption of measures to give effect to the freedom to provide insurance services within the Community;
- (e) progress in equivalence of professional qualifications;

- (f) the simplification of formalities and procedures to reduce frontier delays affecting the free movement of goods within the Community on the Benelux model;
- (g) a renewed effort to harmonize existing technical provisions and certification procedures as well as to prevent the proliferation of new national measures, where these create real or potential barriers to trade. A decision should be taken before the end of 1981 on the treatment of third country products, in order to enable those Directives affected by this problem to be adopted.

12. The European Council welcomed the decisions which had been taken by the Community in the steel sector and noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA.

(ii) Innovation, research and development

13. The European Council, conscious that the Community had lagged behind American and Japanese competition, agreed that Member States and the competent authorities of the European Community should expand and concert their research and development effort in order to promote industrial restructuring and innovation. The Community's efforts should be concentrated in areas where the Community has a comparative advantage and should be focussed to support agreed policy objectives. It welcomed the priority given

*with the ...*

by the Council (Research) to the principle of a common strategy consisting of increased concertation of national and Community policies on the basis of common objectives and requested the Commission to prepare more detailed proposals. These proposals should be examined by the Council (Research) in March 1982 and decisions should be taken not later than July 1982.

14. It welcomed the adoption by the Council of the regulations on micro-electronics, and invited the Commission to consider with Member States other appropriate actions with a view to securing the wider benefits which would follow from the development of high technologies and other industries of the future.

15. It noted the Commission's communication on innovation emphasizing the key role which the successful application of innovation by industry, including small and medium enterprises, could have in ensuring the healthy development of the Community; and invited the Commission to bring forward specific practical proposals so that decisions could be taken before the end of October 1982.

(iii) Energy Policy

16. The European Council considered that the Community's energy strategy must be based on common objectives to be achieved by co-ordinated action on the part of the Member States, observing collective discipline, and by action on the part of the Community when this will lead to greater efficiency for the Community as a whole.

17. It agreed that priority should be given to the following points:



- (a) monitoring the progress of Member States towards agreed Community objectives including those for energy saving, on the basis of annual reports by the Commission and appropriate recommendations;
- (b) investment on an economic basis in the production <sup>de production</sup> and efficient use of energy should be brought up to a high level, where appropriate with the support of Community instruments. Community action should be fitted into the framework of efforts at the national level to attain agreed Community objectives. It noted that the Commission would rapidly complete its examination of energy investments, including those in the rational use of energy, and make specific proposals during the first quarter of 1982;
- (c) a common approach to pricing policy based on economic principles and transparency in the energy market;
- (d) an effective and united Community response to limited shortfall in oil supplies and the attendant dangers of disproportionate oil price increases. The Community should pursue its consultations with other industrialized countries, whose participation was necessary for the effectiveness of the action;
- (e) a balanced and co-ordinated approach in relations on energy matters with third countries. It reaffirmed its support for the establishment of an energy affiliate to the World Bank as one suitable instrument for this;
- (f) research and development in the energy sector should continue to receive priority and be focussed on essential projects where action at the Community level was necessary. Demonstration projects chosen in the light of the evaluation of existing programmes and designed to promote the industrial application of new techniques should also be continued.

G. Social Policy

18. The European Council emphasized the importance it attached to the concerted use of all appropriate Community instruments to encourage better living and working standards for the men and women making up the Community work force. It underlined that a coherent approach should be taken both at national and at Community level to promote access for school-leavers to education, vocational training, other forms of training or work-experience, instead of being unemployed. Particular attention should be given to developing the employment potential, especially in small and medium-sized enterprises and co-operatives, by easing the process of expansion, innovation and development of new technology. This implied also a renewed effort in the field of training.
19. The European Council underlined the need for consideration at the Community level of different aspects of the re-organization of working time, taking account of the competitive position of the Community. The Commission's forthcoming proposal for a Community initiative on part-time and temporary work and flexible retirement should be examined by the Council as a matter of urgency in closer consultation with the social partners.
20. It considered that the review of the Social Fund, which should be completed by 1 July 1982, provided an occasion to make it more effective and more relevant to present day conditions. It agreed that the financial resources of the Fund should continue to grow in real terms and that, while the Fund should continue to support a major effort in the field of vocational training, it should also in future concentrate more on the need to ensure better access to the labour market for the young. It should also encourage occupational mobility where problems were caused by industrial restructuring following Community decisions.

21. The Fund's resources should continue to be particularly directed towards areas of greatest need, including those suffering from the decline in traditional manufacturing industries.

#### H. Regional policy

22. The European Council agreed that it was essential to maintain and develop the Community's efforts in the regional sphere so that all Community policies and instruments could play their full role in promoting convergence. It stressed the value of a better co-ordination of national regional aids and Community efforts.

23. With regard to the review of the European Regional Development Fund, on which decisions should be taken not later than 1 April 1982, the European Council agreed that the financial resources of the Fund should continue to grow in real terms and that the quota section of the Fund should concentrate its activities on regions of greatest need [of the less-prosperous Member States]. The non-quota section, whose operations, while not subject to geographical limitations, might give preference to the less-prosperous Member States, could be increased and should be particularly directed to deal with structural imbalances caused by problems of industrial decline or by the effects of certain Community policies.

*Common  
Fund  
Plan.*

#### I. Transport

24. The European Council considered that the development of a unified internal market implied a need for positive action in the transport field to improve communications, particularly in the more remote areas of the Community. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States,

.../...

while taking account of the diversity of Member States' transport requirements, of the desirability of evolving a coherent European transport policy and of the Community's relations with third countries. It invited the Council (Transport) to intensify their work in this field and to speed up the rate of progress on the Commission's proposals, notably those first put forward in 1976 on aid for transport infrastructure. It also agreed that the Commission proposals on air services and air fares should be examined in a positive spirit.

Implementation

25. The European Council requested the Council to take the necessary decisions in all these areas. It agreed that it would itself review the progress made at the June 1982 meeting of the European Council, on the basis of a report by the Commission.

II. THE COMMON AGRICULTURAL POLICY

1. The European Council affirmed the fundamental role of the common agricultural policy in the Community, and agreed on the need for the policy to continue to develop in harmony with other policies, at the same time fully respecting the objectives of the Treaty, notably Article 39, and the principles of unity of the market, Community preference and financial solidarity.

2. Taking full account both of its considerable achievements and of the problems which have manifested themselves and persist, it concluded that the common agricultural policy should in future be developed in conformity with the guidelines set out in the following paragraphs.

[ 3. The Community should pursue a prudent price policy, having regard in particular to the need:

*S. Smith*  
✓

(a) to ensure a fair standard of living for the agricultural community;

(b) to achieve in some sectors a greater market equilibrium by tackling the problem of structural surpluses;

*Agreed by U.K.*

(c) to aim, progressively and in real terms, to reduce the difference between the level of Community support prices for appropriate products and the level of comparable support prices for similar products in the main competitor countries.]

*[Support price for cereals]*

4. Monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980.

*& make similar agreed*

5. The Commission was invited to study the particular problem for farm incomes arising from differential rates of inflation and to report by 1st April 1982.

.../...

6. The following paragraphs lay down for certain products guidelines for arrangements to adjust the level of guarantee when production in an individual sector exceeds an agreed guarantee threshold. The modalities for other sectors will vary depending on the circumstances, taking into account the Commission's memorandum of 23 October 1981.

*Discussed with us.*

Modalities for products

7. The following modalities should be adopted:

(a) Cereals [The Community's prices for cereals should be progressively reduced in real terms so as to achieve a better hierarchy of agricultural prices. This would reduce the gap between Community support prices and comparable support price levels in main competitor countries. This policy will reduce and in the long term remove the competitive advantage enjoyed by imports of products which substitute for cereals.] [Discussion with the principal third country suppliers should be undertaken by the Community, where necessary, to stabilize the volume of imports of such substitutes in the short and medium term.]

*Agreed*

*Discussed with us*

*Plan for future*

*Plan for 225*

The modulation of guarantees for cereals should take the form of a reduction in the intervention price if production exceeds the guarantee threshold.

(b) Milk *Reduce* Modulation of the guarantee should be achieved:

(i) [by continuing the existing co-responsibility levy at its present level] [with a general exemption for a certain quantity of milk from each herd in order to assist the incomes of small producers.]

*Reduce E No with No 5*

*General exemption for small farmers*

*Amend*  
(ii) [by the introduction of a supplementary levy on additional deliveries of milk to dairies so that producers participate in the cost of disposing of production in excess of the guarantee threshold.]

*No.*  
(iii) [through a special levy applied on intensive milk production.]

*Amend.*  
(iv) [by a reduction in the intervention price if production exceeds the guarantee threshold.]

### Structural Policy

8. The European Council recognized the need for an active policy for improving agricultural structures, adapted to the particular needs of individual regions. The problems of less-favoured agricultural regions, including some Mediterranean areas, which are heavily dependent on rural occupations for employment, merit special attention.
9. The European Council noted the Commission's intention to present, by the end of 1982, proposals for integrated programmes, to take account of the special problems affecting the less-advantaged regions in the Mediterranean countries.

### Mediterranean agriculture

10. The European Council agreed that there is an urgent need to review the existing provisions for olive oil, wine and fruit and vegetables. The Council should carry forward urgently, with a view to taking decisions not later than 1st April 1982, its examination of the Commission's suggestions

for amending the acquis in the context of enlargement, having regard to the related paragraphs in the Commission's memorandum of 23 October 1981 and these guidelines. [They should also have regard to the following considerations:

- (a) for wine, the Council should rapidly decide on the changes in the wine regime needed to improve the market balance while safeguarding the incomes of producers in this sector;
- (b) for fruit and vegetables, the Council should decide the necessary changes in the market regime, taking account of the need to afford a fair level of support for producers;
- (c) for olive oil, the Council should decide the necessary changes in the market regime taking account of the budgetary and other implications arising from future enlargement of the Community. ]

*Ret on need to contain budgetary costs*

Export and Import Policy

- 11. The Community should continue to co-operate, for appropriate products, with other major trading partners with a view to achieving greater stability in world markets.
- 12. In its policy concerning trade in agricultural and processed agricultural products, including Mediterranean products, the Community should have regard to Community preference, to the Community's international obligations, and to the good management of the markets and the budget. In particular:

- (a) The Community should pursue an active export policy.



Cominde

Will  
D. White  
L. Green  
D. Jones

(b) [The Council should adopt framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and provisions to be included.]

urgent  
control

Agreement Framework

(c) The Commission should monitor the level of imports of products which could affect the Community markets.

National Aids

13. The European Council noted that national aids represent a significant proportion of the overall expenditure on agriculture within the Community. Aids to agriculture complement in some cases the Community's expenditure on agriculture; but they can also singly or cumulatively distort competition and encourage surplus production. The Member States must therefore ensure greater respect for the Community rules and procedures concerning national aids, and the Commission should ensure that these provisions are more strictly observed by applying the necessary disciplines and sanctions. The Council should adopt, on a proposal from the Commission, a regulation specifying which aids are to be notified, which are prohibited, and which are authorized.

14. The Commission was invited to submit to the Council a study of the economic impact of national aids, taking account of their consequences for agricultural production, incomes and financial solidarity.

Budgetary aspects

15. The European Council welcomed the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure.

.../...  
E

16. It invited the Council and Commission to build on this achievement by strengthening effective management and financial control to ensure the most efficient use of the Community's financial resources. The effectiveness of all measures under the CAP should be kept under review.

17. If the above guidelines are implemented, agricultural spending in the years ahead will continue to grow less rapidly than the Community's own resources.

18. [It should be the objective to reduce the proportion of the budget taken by agricultural expenditure to not more than 60 per cent in 1983. This category of expenditure should therefore for the time being grow markedly less rapidly than the Community's own resources.]

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*Just*

[The rate of growth in agricultural expenditure shall be not more than 2/3 of the rate of growth of the own resources base. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions to ensure that agricultural expenditure remains within that limit. It will be the responsibility of the Commission to manage agricultural expenditure within this limit.]

*u.k.  
F.R.G.*

*Sp. Fin. Unit Issues*

Implementation

19. The European Council accordingly invited the Commission to make the appropriate proposals, and the Council to take the necessary decisions, to ensure that the adaptations outlined in the preceding paragraphs enter into force from the 1982/83 season.

1982

*Production  
member*

III. BUDGETARY PROBLEMS

1. The European Council reviewed the Community's budgetary arrangements on the basis of the report from the Commission and in accordance with the agreement of 30 May 1980. It confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable situation for any Member State and in this way of ensuring that a sound basis was provided for the Community's future development and enlargement. It reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. It noted that until now a preponderant share of the Community budget had been devoted to expenditure on the CAP. It stated as its firm intention that the further development of Community policies, to which their decisions on expanding Community activity in such areas as social, regional and industrial policy had given renewed impetus, combined with the application of the agreed guidelines to the CAP, should enable the budget to contribute to the objective of economic convergence. It would at the same time help to reduce the likelihood of unacceptable budgetary situations for individual Member States. [This process would however take time and it recognized that it would therefore be necessary to make provision for dealing with the problems which would remain until the desired results were achieved by these means. It therefore agreed that from 1982 the measures based on the following operational guidelines should be applied]:

(Operational guidelines on budgetary problems to be agreed.)

2. The European Council in addition took the view that a more stringent and effective budgetary policy would contribute to a balanced pattern of Community activities and expenditure.

[In order to attain this objective it invited the Commission to make urgent proposals which would establish a budgetary framework designed to set annual indicative priorities for the Community's overall expenditure.]

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FM ROME 210800Z NOV 81

TO IMMEDIATE FCO  
TELEGRAM NO. 485 OF 21 NOV 81  
AND TO IMMEDIATE UKREP BRUSSELS AND PARIS PRIORITY TO OTHER EC  
POSTS.

YOUR TELEGRAM NO. 266 OF 20 NOVEMBER:  
EUROPEAN COUNCIL: 26/27 NOVEMBER.

1. I HANDED THE PRIME MINISTER'S MESSAGE TO BERLINGUER (DIPLOMATIC ADVISER TO SPADOLINI) YESTERDAY EVENING. HE READ IT WITH APPROVAL.
2. BERLINGUER TOOK THE OPPORTUNITY OF GIVING ME AN ACCOUNT OF SPADOLINI'S VISIT TO PARIS. SPADOLINI AND MITTERRAND CLEARLY GOT ON WELL TOGETHER (AND THIS MAY ENABLE SPADOLINI TO EXERCISE A USEFUL INFLUENCE ON MITTERRAND AT THE EUROPEAN COUNCIL). MITTERRAND MADE IT CLEAR THAT HE WAS DETERMINED TO SEE EUROPEAN DEVELOPMENT MOVING FORWARD, MAINLY ON THE ECONOMIC FRONT. THEREFORE HE WANTED RESULTS FROM THE COUNCIL FOR THE COMMUNITY - AND OF COURSE FOR ITS MEMBERS. BECAUSE OF THE DEADLINES AHEAD (EG CAP PRICE FIXING) DECISIONS COULD NOT BE POSTPONED. THE FRENCH ACCEPTED THAT PROGRESS MUST BE MADE ON ALL THREE CHAPTERS.
3. THIS GENERAL ATTITUDE WAS REASSURING BUT OF COURSE THE FRENCH WERE TOUGH ON THE PARTICULAR, NOTABLY ON CHAPTERS 2 AND 3 OF THE MANDATE. ON CHAPTER 2 THEY WANT TO MAINTAIN THE SACRED PRINCIPLES, AND TO AVOID INDISCRIMINATE CUTS IN SPENDING; THEY GAVE NO INKLING OF HOW THE PROBLEM OF AVOIDING SURPLUSES MIGHT BE DEALT WITH. BUT THEY DID WANT TO SEE OPERATIONAL GUIDELINES REACHED IN ORDER TO PREVENT A CRISIS WHEN THE NEXT PRICE FIXING COMES ROUND.
4. THEY WERE ALSO RIGID ON CHAPTER 3, WANTING ONLY A TEMPORARY, LIMITED AND DEGRESSIVE MECHANISM FOR US, AND NOTHING FOR THE GERMANS, ALTHOUGH THEY MAY BE INFLUENCED BY HOW FAR THE GERMANS ARE PREPARED TO GO ON CHAPTER 1.
5. ON THESE POINTS AND PARTICULARLY ON THE BRITISH BUDGET PROBLEM, SPADOLINI SPOKE TO MITTERRAND AS HE HAD UNDERTAKEN TO DO IN LONDON. HE HAD THE IMPRESSION THAT THE FRENCH DID NOT FULLY UNDERSTAND OUR POSITION. HIS STAFF SUGGESTED THAT IT WOULD BE WORTH WHILE OUR HAVING ANOTHER GO ON AT THEM PRIVATELY BETWEEN NOW AND THE COUNCIL.
6. BERLINGUER SAID THAT THORN WILL BE IN ROME ON 23 NOVEMBER. (ON 24 NOVEMBER I AM GIVING A PRESIDENCY LUNCHEON IN HONOUR OF COLOMBO, WHICH MAY GIVE A FURTHER OPPORTUNITY TO PUT OVER MESSAGES TO THE ITALIANS).

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7. BERLINGUER SUMMED UP BY SAYING THAT ITALY WOULD AS USUAL PUT COMMUNITY INTERESTS ABOVE HER OWN, THOUGH HOPING TO GET SOMETHING OUT OF THE PACKAGE. THEY RECOGNISED THE DIFFICULTY ABOUT BREACHING THE 1 PER CENT LIMIT AND THIS WAS THE REASON WHY THEY WERE PRESSING FOR THE EXPANSION OF COMMUNITY LENDING CEILINGS. OF COURSE THEY WANTED TO SEE THE SOCIAL/REGIONAL FUNDS EXPANDED AND MORE MONEY AVAILABLE FOR RESEARCH. THE FRENCH SHARED THEIR INTEREST IN MEDITERRANEAN PRODUCE.

8. SPADOLINI'S INTEREST IN AVOIDING A FAILURE AT THE EUROPEAN COUNCIL MAY BE TURNED TO OUR ACCOUNT. HIS POLITICAL REPUTATION IS FOUNDED ON HIS ABILITY TO FIND SOLUTIONS AND HE WILL ALSO BE ABLE TO USE THE SKILLS OF COLOMBO AND RUGGIERO. GIVEN THE USUAL ITALIAN SENSITIVITIES, IT WILL BE DESIRABLE TO GIVE HIM THE IMPRESSION THAT HE IS BEING KEPT FULLY INFORMED AS THINGS DEVELOP. AS I UNDERSTAND IT, YOU DO NOT INTEND TO UNDERTAKE ANY BILATERALS BETWEEN NOW AND THE COUNCIL ITSELF. SHOULD YOU DECIDE TO DO SO, AND TO OMIT ITALY, I HOPE THAT YOU WILL SEND A MESSAGE TO COLOMBO OR AUTHORISE ME TO SPEAK TO HIM. YOU MIGHT LIKE IN ANY CASE TO CONSIDER OUR SHOWING THE ITALIANS, AS WELL AS THE FRENCH AND GERMANS, OUR DRAFT GUIDELINES FOR THE BUDGET PROBLEM (SEPARATE MESSAGES TO SCHMIDT AND MITTERRAND IN YOUR TUR).

ARCULUS

FRAME GENERAL  
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LIST OF BRIEFS

1. Index of Briefs
2. Steering Brief
3. 30 May Mandate: Development of Community Policies
4. 30 May Mandate: Agricultural Aspects
5. 30 May Mandate: Budgetary Aspects
6. Economic and Social Situation
7. Institutional Questions
8. Fish
9. Enlargement
10. North/South
11. /Not used/
12. Progress Towards European Union
13. Political Cooperation (Middle East, East/West)
14. Cyprus
15. Greece and the European Community

PRGM Set destroyed  
Master Set preserved  
(EHE(L) (81) series) or FCO class

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*Lo Amt*  
*Ronnie Minister*

Foreign and Commonwealth Office

London SW1A 2AH

20 November 1981

*Amt - 20/11*

*Dear Michael*

Greece and the European Community

One of the briefs for the European Council on 26-27 November is on 'Greece and the European Community'. The Prime Minister may, however, find it useful to have a summary of the other major foreign policy issues which the new Greek Government are addressing in case she has occasion to discuss the broader questions with Mr Papandreou in the margins of the Council.

The new Greek Government's foreign policies are influenced by the belief that Greece is a developing country which should look to the Balkans and the Middle East, as well as to Europe, for a 'triangular relationship'; and by national fervour which reflects considerable anti-American and anti-Turkish feeling.

Greece and NATO

Mr Papandreou was sharply critical of Greece's re-integration into the military structure of NATO earlier this year. The implication of much of his election propaganda was that he would pull Greece out of the Alliance, get rid of all nuclear weapons from Greek soil and also terminate the US bases agreement. Recent pronouncements have been more cautious, implying that Greece would seek the dissolution of both NATO and the Warsaw Pact and meanwhile might stay in the former. Mr Papandreou has insisted on the need for a guarantee of Greece's frontiers from whatever direction, maintaining that NATO provides no protection against Turkish aggression in the Aegean. He may push that issue in relation both to Greece remaining in the military structure and to the future of the American bases.

Mr Papandreou is also his own Minister of Defence and is expected to attend the NATO DPC meeting in Brussels on 8 December.

Greece and Turkey

Mr Papandreou attacked his predecessors for making concessions to Turkey over the Aegean disputes: his line was nationalistic and tough. On taking office he declared that the threat to Greece came from the east, not the north, and that Greece must redeploy her armed forces accordingly. The apparent move towards confrontation with Turkey was in contrast to his cautious approach on other issues. But Mr

/Papandreou

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Papandreou has, since early November, taken a markedly more friendly line, exchanging 'olive branches' with the Turkish Prime Minister.

A number of disputes in the Aegean remain unresolved. They include air traffic control, which Greece exercises to within a few miles of the Turkish coast; territorial waters (Turkey has said that Greek extension to 12 miles would be a casus belli and evidently suspect Mr Papandreou of seeking guarantees in order to cover such a move); and the extent of the continental shelf. A flare up is a danger if extreme positions are adopted on any of these issues.

#### Cyprus

On taking office Mr Papandreou referred to Cyprus as 'part of Greece's national space'. He seemed likely to encourage intransigence by the Greek Cypriots in blocking any UN initiative at the intercommunal talks, insisting as a pre-requisite on the withdrawal of all foreign troops. He also said in public that the British Sovereign Base Areas should go (but withdrew when challenged by the British Ambassador). The threat of more active Greek intervention in Cyprus remains but so far the new Government does not seem to have tried actually to frustrate the intercommunal talks, though it has certainly not helped them.

I am sending a copy of this letter to David Wright (Cabinet Office).

A handwritten signature in dark ink, appearing to read 'B J P Fall', written in a cursive style.

(B J P Fall)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

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T Message ?

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*La Paul*

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FRAME GENERAL  
FM FCO 201100Z NOV 81  
TO FLASH ATHENS  
TELEGRAM NUMBER 266 OF 20 NOVEMBER  
AND TO FLASH OTHER EC POSTS AND UKREP BRUSSELS  
EUROPEAN COUNCIL: 26/27 NOVEMBER:  
MESSAGE FROM PRIME MINISTER

1. FOLLOWING IS TEXT OF MESSAGE FROM PRIME MINISTER TO OTHER  
HEADS OF STATE/GOVERNMENT AND PRESIDENT OF THE COMMISSION.  
GRATEFUL IF YOU COULD ENSURE DELIVERY TODAY.

BEGINS

WE ARE NOW ONLY A WEEK AWAY FROM THE MEETING OF THE EUROPEAN  
COUNCIL IN LONDON. LAST JUNE WE SET OURSELVES THE TARGET OF  
REACHING DECISIONS ON THE MANDATE ON THIS OCCASION.  
MUCH WORK HAS BEEN DONE BY THE FOREIGN MINISTERS AND BY THE  
MANDATE GROUP. BUT IT IS CLEAR THAT THERE ARE SEVERAL ISSUES  
THEY HAVE NOT BEEN ABLE TO RESOLVE. THESE THEREFORE FALL TO US  
TO CONSIDER. WE WILL BRING SEVERE CRITICISM ON THE COMMUNITY,  
TO WHOSE FUTURE DEVELOPMENT WE ARE ALL COMMITTED, IF WE FAIL  
TO ACHIEVE OUR PUBLICLY DECLARED OBJECTIVE OF TAKING DECISIONS  
THIS YEAR. THE HARD FACT IS THAT IT WILL BE NO EASIER TO TAKE  
THE DECISIONS NEXT SPRING. SO I HOPE VERY MUCH THAT I WILL  
HAVE YOUR CO-OPERATION IN WORKING TO MAXIMISE THE AREAS OF  
AGREEMENT WHEN WE MEET NEXT WEEK.

ONE THING THAT DOES SEEM CLEAR FROM THE DISCUSSION SO FAR IS THAT  
THERE IS NO ALTERNATIVE TO TAKING MATTERS FORWARD ON A BROAD FRONT.  
OUR AIM MUST BE TO MAKE EQUAL AND SOLID PROGRESS ON ALL THREE MAIN  
CHAPTERS OF THE NEGOTIATION. TO RELAUNCH THE COMMUNITY WE  
NEED TO DEVELOP COMMUNITY POLICIES, TO MAKE CHANGES IN THE CAP  
AND TO AVOID UNACCEPTABLE SITUATIONS.

AS REGARDS COMMUNITY POLICIES OTHER THAN THE CAP, A CONSIDERABLE  
NUMBER OF COMMITMENTS AND ORIENTATIONS FOR THE FUTURE DEVELOP-  
MENT OF THE COMMUNITY HAVE BEEN WORKED OUT BY THE FOREIGN

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MINISTERS. IN OTHER CASES, DEADLINES FOR DECISIONS ARE LAID DOWN. ONLY A VERY FEW QUESTIONS REMAIN FOR US TO SETTLE. WE HAVE THE PROSPECT HERE OF CARRYING FORWARD IN AN IMPORTANT WAY THE WORK OF THE COMMUNITY IN FINANCIAL, ECONOMIC, SOCIAL, REGIONAL, INDUSTRIAL AND OTHER POLICIES.

THE DISCUSSIONS ON THE CAP HAVE, NOT SURPRISINGLY, LEFT OPEN MORE ISSUES. THE CAP IS OF MAJOR IMPORTANCE TO THE COMMUNITY. THE GENERAL ECONOMIC CLIMATE HAS CREATED DIFFICULTIES FOR OUR AGRICULTURE AS FOR OTHER SECTORS OF THE ECONOMY. BUT THERE IS A WIDESPREAD FEELING THAT WE NEED TO GIVE A NEW SENSE OF DIRECTION TO THE COMMON AGRICULTURAL POLICY. IT IS UP TO US AS HEADS OF GOVERNMENT TO LAY DOWN THE GENERAL GUIDELINES.

THESE CAN BE SUBSEQUENTLY IMPLEMENTED IN DETAIL BY THE COMPETENT COMMUNITY BODIES. WE SHALL THEREFORE NEED TO SPEND SOME TIME AT OUR MEETING IN LONDON ON THE OUTSTANDING ISSUES IDENTIFIED IN THE PAPER WHICH HAS BEEN CIRCULATED BY THE PRESIDENCY, AFTER CONSULTATION WITH THE COMMISSION.

ON THE BUDGET CHAPTER, THE DISCUSSIONS SO FAR HAVE NOT PROVIDED US WITH A COMMON BASIS FOR DISCUSSION. BUT I BELIEVE, LOOKING AT THE PREPARATORY WORK, THAT THE ENTIRELY LEGITIMATE CAUTION OF ALL DELEGATIONS WHEN DEALING WITH SUCH A FINANCIALLY SIGNIFICANT MATTER HAS MASKED THE EMERGENCE OF SOME POINTS OF CONSENSUS. THERE DOES SEEM, FOR INSTANCE, TO BE GENERAL AGREEMENT THAT THE LONG TERM SOLUTION TO AVOIDING THE RECURRENCE OF AN UNACCEPTABLE SITUATION MUST BE SOUGHT IN THE ADAPTATION OF COMMUNITY POLICIES THEMSELVES. THIS SHOULD BE PUT IN HAND FORTHWITH. IT IS ALSO, I THINK, AGREED THAT THE ADAPTATION WILL TAKE TIME AND THAT THE RATE OF ITS PROGRESS IS NOT ENTIRELY PREDICTABLE: AND THAT IN THE MEANTIME SOME SPECIAL CORRECTIVE ARRANGEMENT WILL BE NEEDED. FINALLY, IT IS COMMON GROUND THAT IT WOULD BE IN NO-ONE'S INTEREST TO HAVE TO COME BACK TO THIS ISSUE YEAR AFTER YEAR.

WHAT IS STILL DISPUTED IS THE AMOUNT, DURATION AND METHOD OF THE NECESSARY ADJUSTMENT, AS WELL AS ITS APPLICATION, AND WHETHER IT SHOULD BE GENERAL OR LIMITED TO THE UK. WHAT I THINK WE MUST TRY TO DO NEXT WEEK IS TO ENLARGE THE AREA OF AGREEMENT BETWEEN

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US AND REGISTER IT CLEARLY IN OPERATIONAL GUIDELINES WHICH WILL PERMIT THE REMAINING DETAILED WORK TO BE CARRIED OUT EXPEDITIOUSLY THEREAFTER.

I THOUGHT IT MIGHT BE USEFUL TO SET OUT MY PRELIMINARY THINKING IN ADVANCE. AS USUAL THE TIME AVAILABLE TO US WILL BE LIMITED AND I WOULD LIKE TO PUT IT TO THE BEST USE. TO SUCCEED IN TAKING DECISIONS NEXT WEEK WILL BE A GREAT BOOST FOR THE COMMUNITY AS A WHOLE.

SEPARATE ADDITION TO CHANCELLOR SCHMIDT

I HAVE BEEN REFLECTING ON WHAT YOU SAID DURING OUR TALK IN BONN. WE ARE WORKING ON SOME DRAFT GUIDELINES FOR THE BUDGET PROBLEM WHICH MY OFFICIALS WILL SHOW TO YOURS: AND ALSO TO THE FRENCH. I HOPE VERY MUCH WE WILL BE ABLE TO FIND A GOOD MEASURE OF AGREEMENT BETWEEN US.

SEPARATE ADDITION TO PM SPADOLINI

I DID VERY MUCH VALUE OUR TALKS ON THESE MATTERS WHEN YOU VISITED LONDON. I HOPE YOUR NEXT VISIT WILL SEE US BRINGING SOME OF THE ISSUES WE DISCUSSED TO FRUITION.

SEPARATE ADDITION TO PRESIDENT MITTERRAND

I THINK IT WOULD BE USEFUL TO FOLLOW UP THE SUGGESTION FROM M. BEREGOVOY OF A CONTACT BEFORE NEXT WEEK AND I HAVE ASKED SIR ROBERT ARMSTRONG AND MR FRANKLIN TO GO TO PARIS ON MONDAY. WE ARE WORKING ON SOME DRAFT GUIDELINES ON THE BUDGET ISSUE WHICH WE WOULD LIKE TO SHOW YOU AND ALSO THE GERMANS, FOLLOWING MY TALK WITH CHANCELLOR SCHMIDT EARLIER THIS WEEK.

SEPARATE ADDITION TO M. THORN

I LOOK FORWARD TO SEEING YOU AGAIN ON 24 NOVEMBER TO DISCUSS THE EUROPEAN COUNCIL. WE WILL HAVE TO WORK CLOSELY TOGETHER. I AM MOST GRATEFUL FOR ALL THAT YOU AND YOUR COLLEAGUES ARE DOING TO ACHIEVE SOME SOLID PROGRESS.

SEPARATE ADDITION TO DR FITZGERALD

I VALUED OUR DISCUSSIONS ON THIS WHEN WE MET RECENTLY. I HOPE WE WILL BE ABLE TO MAKE REAL PROGRESS WHEN WE MEET IN LONDON NEXT WEEK.

SEPARATE ADDITION TO MR PAPANDREOU

I VERY MUCH LOOK FORWARD TO MEETING YOU IN LONDON NEXT WEEK.

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ENDS

CARRINGTON

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MR ALEXANDERPreparations for the European Council

1. At the informal meeting which the Prime Minister held on 19 November with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer it was agreed that we should be prepared to shew a willingness to consider ways in which we could offer the French some limited help on the CAP if they were clearly prepared to reciprocate on the budget guidelines, and that officials should consider urgently the precise content of the offer which might be made. (Your letter to Mr Richards of today's date refers.)

2. Officials from the Treasury, the Foreign and Commonwealth Office, the Ministry of Agriculture and the Cabinet Office have accordingly considered possible fallback positions on six issues of importance to the French - five on the CAP and one on the new Community instrument (Ortoli facility). The resulting texts of possible alternative conclusions for the European Council are attached.

3. It is not intended to shew the texts themselves to the French in advance of the European Council. But they would provide the basis on which Mr Franklin and I would explain orally to President Mitterand's representatives on 23 November the ways in which we might be prepared to accommodate French interests if they in turn were willing to accept our budget guidelines.

4. Mr Franklin and I will be leaving for Paris on the morning of Monday, 23 November. I should be most grateful for the Prime Minister's approval to our proceeding on this basis.

5. I am copying this minute to the Private Secretaries of the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food.

  
ROBERT ARMSTRONG

(Approved by Sir R Armstrong & signed on his behalf)

20 November 1981

  
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DRAFT EUROPEAN COUNCIL CONCLUSIONS ON 30 MAY MANDATE

DRAFT FALL-BACK TEXTS

CHAPTER I

New Community Instrument (alternative to paragraph 9)

The European Council decided to transform the new Community instrument for loans into a European Fund to increase investment in infrastructure, industrial renewal and self-sufficiency in energy in the Community and agreed that consideration should be given to the conditions for a further increase in the Fund's loan capacity.

CHAPTER II

Price Policy (alternative to paragraph 3)

The European Council considers a prudent price policy to be necessary, at the same time taking account of the objectives of Article 39 of the Treaty, the need to achieve in some sectors a greater market equilibrium, and the relationship between Community support prices and the level of comparable support prices for similar products in the main competitor countries.

Cereals substitutes (alternative to second bracketted passage in paragraph 7(a))

The Council will

- (a) complete negotiations rapidly for the stabilisation of imports of manioc;

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(b) authorise exploratory discussions with third country suppliers of individual products competing directly with cereals with a view to securing agreement on stabilising imports of other individual substitutes on the basis that the gap between Community support prices and comparable support price levels in competitor countries will be reduced.

Note: The text of (b) would not commit the United Kingdom at this stage to substantive decisions. The reference to "products competing directly with cereals" would enable the United Kingdom to argue that soya is not included.

Milk (alternative to paragraph 7(b))

Modulation of the guarantee should be achieved by a combination of

- (a) a linear co-responsibility levy with the existing exemptions
- (b) a supplementary levy on additional deliveries to dairies or modulation of the intervention price if production exceeds a guarantee threshold
- (c) a possible limited exemption from the co-responsibility levy for a certain quantity of milk from each herd if warranted by price decisions and subject to suitable conditions.

Note: We would interpret "subject to suitable conditions" as entailing that at least part of the cost was borne nationally, and would make this intention clear to the French.

Export Contracts (alternative to paragraph 12(b))

The Council should be ready to examine specific proposals for the



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negotiation of framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and the provisions to be included.

Note: This text would not commit the United Kingdom at this stage to substantive decisions.

Financial limit (alternative to paragraph 18)

The Heads of State and Government invite the Council and Commission to implement these guidelines so that agricultural expenditure in the years ahead grows markedly less rapidly than the growth of own resources.

Note: The United Kingdom would agree to drop the word "markedly" only if the Germans had abandoned it first.



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bc Mr Alexander  
Mr Wright  
Mr Elliott

F. Am.

NOTE FOR THE RECORD

THE MANDATE AND THE FRENCH

Following the contacts with French officials last week, including further discussions I had with M. Achard after Friday afternoon's talk, I would judge the current French position to be as follows:-

- (i) President Mitterand would genuinely like something to be settled at the European Council. Despite M. de Nanteuil's performance in the Mandate Group they are not filibustering.
- (ii) they are in no doubt that some solution to the British budget problem is an essential element in any agreement. Nor do they pretend to themselves that it is likely to disappear through the natural development of the Community. But the solution they prefer would include some general reiteration of the Community's determination to act to deal with unacceptable situations as and when they arise ("Community solidarity", or as M. Paye described it, an insurance policy), coupled with another ad hoc refund arrangement for the UK (of a "temporary, degressive and lump sum" kind).
- (iii) they do not have any precise scheme in mind. They have rejected the Commission approach although Achard sees some advantages in it, notably that it avoids the concept of net balances. They are very unlikely to agree to any form of generalised budget scheme which they regard as undermining the basic financial rules of the Community.
- (iv) they do not appear to have reached any understanding with the Germans. Whatever may have passed between Mitterrand and Schmidt, officials do not

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feel committed to do anything to help the Germans on the budgetary front. According to Achard, most of the meeting between French and German officials in the middle of last week was taken up with the CAP and relance.

- (v) they will expect any agreement about the budget to be accompanied by decisions on the CAP which conform to current French thinking; and (although this takes second place) certain elements in the relance memorandum, especially on social policy.

*hand*

M D M FRANKLIN

cc Lord Bridges	FCO
Mr Hannay	"
Mr Hancock	Treasury
Mr Andrews	MAFF
Mr Petrie	Paris
Sir M Butler	UKREP

(1)

PRIME MINISTER

Preparations for the European Council

A problem has arisen in preparing the negotiating position which Mr. Franklin and Sir R. Armstrong will take to Paris on Monday.

You will recall that it was agreed last night that we should be prepared to show a willingness to consider ways in which we could offer the French some limited help on the CAP if they were clearly prepared to reciprocate on the budget guidelines. The limited help was to take the form of amendments to some of the draft conclusions on the Mandate to be put before the European Council next week.

Officials, including officials from MAFF, met this morning. The result of their deliberations is at Flag A. This was of course referred back to Mr. Walker.

Mr. Walker's reaction is at Flag B. As you will see, he feels strongly that the proposal agreed by officials on the possibility of limited exemptions from the co-responsibility levy for small producers should not be put to the French at this stage. Indeed, Mr. Walker thinks that "we should be taking a stance of strong hostility". Officials take the view that important though the gestures we are making on cereal substitutes and export contracts are (and Mr. Walker has no problem with these) the French will certainly notice the omission of any reference to milk.

Mr. Franklin and Sir R. Armstrong leave early on Monday morning. Clearly you could not overrule Mr. Walker, even supposing you were inclined to do so, without a meeting. However, it seems to me that he is going too far in arguing that Messrs Armstrong and Franklin should show strong hostility.

A reasonable mid-point between the position agreed by officials and that taken by Mr. Walker might be for Messrs Armstrong and Franklin to make no reference to milk in their initial presentation; for them to say in response to any French comment that they would have to seek instructions on the question; and for them to ask what the French would be prepared to do on the guidelines in the

/ event that

event that we were to make a move on the co-responsibility levy. Our team will of course in the circumstances have to stress the extreme difficulty for us in making any such gesture.

Agree that Sir R. Armstrong and Mr. Franklin may take the line in the preceding paragraph?

Agree also that they may float the other fall back texts at Flag A over the French? Am.

I also attach (Flag C) the Draft conclusions: this is the document which Lord Carrington mentioned last night. The paragraph references in the draft at Flag A are to this text. I have arranged for a 'touch in' with Sir A. Butler + Mr Franklin on Tuesday.

20 November 1981



B  
D. P. P.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

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PRIME MINISTER

PREPARATIONS FOR THE EUROPEAN COUNCIL

I have now seen your Private Secretary's letter reporting the meeting you had last night with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. I have also had a report of the follow up official discussions this morning in the Cabinet Office.

I recognise of course the desirability of securing a binding commitment to a budgetary corrective arrangement applying for a period of years and on a basis which recognises the criteria we would wish to see adopted. But I remain very sceptical of the chances of our securing anything on the budgetary corrective at this stage which would justify our making concessions of substance to the French on the CAP.

I was therefore concerned by the reference to our being prepared at this stage to show a willingness to offer the French some limited help on the CAP, even though this is made conditional on their being prepared to reciprocate on the budgetary guidelines. The French will tell us clearly enough what their price is for meaningful progress on the guidelines. In offering any weakening of our position on the CAP at this stage we shall clearly in my view run the risk of making concessions of substance which have real and adverse effects, in exchange for insubstantial wording on the budget. I hope you will share my own view that, while pressing our own compromise proposal on the budget, we must avoid putting ourselves in this position.

/I accept ...

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accept that our representatives at Monday's discussions in Brussels will need to indicate a readiness on our part to be flexible on points which the French will want in return for a budget deal. Subject to seeing the detailed briefing which I understand will be submitted to you later today, I accept that we should indicate to the French that we would be ready to examine specific proposals on long-term contracts and authorise exploratory discussions with third countries about stabilising imports of products which compete directly with cereals. I do not, however, consider that we should now accept on milk the possibility of limited exceptions on the milk co-responsibility levy.

I wish you to understand that acceptance of a co-responsibility levy which discriminated in favour of small producers would be highly unfavourable to Britain; it would also be deplored by the Netherlands and Denmark. It would be a cause of immense discontentment on the part of British milk producers. Whilst there may be a settlement on the budget that makes all of this worthwhile, at this moment of the negotiations we should be taking a stance of strong hostility so that, if we have eventually to move, a very considerable price is paid to us in return. If we show flexibility on this now, we diminish our chances of reaching this objective.

In indicating to the French that we would make some movement on the CAP, I am concerned that we should do so in a way which leaves the French in no doubt at all that there will be no substantive decisions on any of these issues except in the context of a fully satisfactory settlement of the budget. It seems to me that we need to be very clear on this point otherwise we give them every opportunity of accusing us later of misleading them.

I should like also to draw attention to one important point in the draft Conclusions reported to me last night. The brief text recording that monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980 is acceptable as it stands, but only provided that it is not interpreted as in any way going beyond those conclusions. The point here is that the 1979 conclusions record agreement on detailed rules for phasing out MCAs by eight countries only, with the United Kingdom declining to be bound by them.

We could not accept any commitment to phase out our own positive MCA, since this would mean reducing support prices to our farmers simply because the pound happened to be relatively strong on the foreign exchanges. This would be very damaging and completely indefensible.

/I am sending...

I am sending a copy of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.

Kate Timmins

for PETER WALKER  
20 November 1981

(Approved by the Minister  
and signed in his absence)

EUROPEAN COUNCIL

30 MAY MANDATE

REPORT BY THE PRESIDENCY

1. The members of the European Council will find in the annex the text of draft conclusions on the Mandate.
2. This text takes the form of operational guidelines for the future development of a number of Community policies.
3. So far as Chapter I (Development of Community Policies other than the Common Agricultural Policy) and Chapter II (Common Agricultural Policy) are concerned, the texts presented are a set of operational guidelines based on the recent discussion of the Council (Foreign Affairs) and the Mandate Group. So far as Chapter III (Budgetary Problems) is concerned, differences are still too wide to enable the circulation of draft operational guidelines.
4. The texts circulated have been established by the Presidency, with the co-operation of the Commission. They contain a number of passages in square brackets where clear disagreements still exist.
5. The points which appear to require discussion at the European Council are:

CHAPTER I: DEVELOPMENT OF POLICIES OTHER THAN THE CAP

- (i) New Community Instrument: increase in size and transformation into European Fund (Para 9).
- (ii) Regional Fund: concentration of quota section in less prosperous member states (Para 23).



CHAPTER II: COMMON AGRICULTURAL POLICY

- (i) Criteria for price policy: (Para 3).
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Subject: MANDATE OF 30 MAY

Draft conclusions of the European Council prepared by the  
Presidency (Second Revise) \_\_\_\_\_

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PREAMBLE

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Collaboration and integration between their economies were now realities which no Government could disregard. The welfare and progress of each of their peoples was more than ever dependent on the harmonious development of the Community itself and of the other nations in it.

2. It recognized that developments on the international scene, both in the economic and in the political fields made it essential to strengthen the role of the Community and of its ten Member States acting in concert at all levels.

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If this did not happen, there was a real risk of a process of regression in which national interests would prevail over the general interest of the Community. Moreover the Community and its Member States increasingly had responsibilities towards the outside world, in particular to the peoples of the Third World for whom it provides the largest market and also the largest source of official Government aid.

3. It was in this overall context that the European Council reviewed the development of Community policies in conformity with the Decision of 30 May 1980 and on the basis of the Commission's report of June 1981.

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4. It concluded that, despite the important progress made, the Community's development had been uneven, as the Commission had recognized in its report. If the Community was to live up to the hopes and aspirations of the people of Europe, and to

recover its dynamism, European integration must be strengthened and diversified. The Community needed now to build on the achievements of the common agricultural policy and the tariff-free market by removing the remaining obstacles to the development of trade and by finding effective answers to the current social and economic problems which faced all Member States, concentrating its resources where they are most needed. The harmonious development of the Community required that the Community instruments and mechanisms be developed which permit action geared to the situation and specific needs of the least-prosperous Member States in an effort to tackle their structural problems.

5. It therefore decided to give a renewed impetus to the development of Community policies on a broad front.

The following chapters set out the framework within which it agreed that this renewal of the Community should be carried forward.

I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

Overall Community economic strategy

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1. The European Council agreed that an overall economic strategy in the Community is essential to combat unemployment and inflation. <sup>and to encourage convergence.</sup> Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustainable economic growth and reducing unemployment. At the same time the Community should pursue the reduction of its dependence on external sources of energy, in particular oil.

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2. In addition to measures taken at a world-wide level in pursuit of these common objectives, the European Council underlined the contribution that Community policies can make especially in all the areas set out below.

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A. Employment policy

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*~~~~~*

4. At the Community level full use should be made of all appropriate Community instruments and policies, as set out in succeeding sections of these conclusions.

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5. It agreed that the Council (Social Affairs) should review as a matter of urgency the various existing means of consulting the social partners with a view to making them a more effective channel for a genuine dialogue. (See also paragraphs 18 and 19.)

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6. The European Council agreed that the achievement of the Community's overall objectives would require stronger economic disciplines and concertation. The Community should ensure, through a careful comparison of national policies, that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community as well as with the object of consolidating the EMS. It therefore called for a more effective coordination of national economic policies and invited the Commission and the Council (ECOFIN) to make fuller use of the machinery set up for that purpose and to consider whether it needed strengthening.

C. Monetary policy

7. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It agreed that it should be further developed both as a key element in progress towards economic and monetary union and the creation of a European Monetary Fund, and to encourage a more stable international economic environment. It invited the Council (ECOFIN) to take stock during 1982 of the preparatory work done on these matters and in particular to take the necessary steps:

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- to achieve greater concertation of national monetary policies;
  - to encourage the use of the ECU for Community loans and on financial markets by both public and private borrowers;
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8. The European Council welcomed the moves recently made to expand the scope of the Community's financial instruments, (EIB, ECSC, EURATOM and the NCI) in order to promote investment

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E. External economic policy

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F. Common Market and Industrial Strategy

11. The European Council recognized that the changes which had come about in recent years as regards both the structure of world markets and energy costs require a major industrial response. There was therefore a need for an industrial strategy at the Community level in order to develop industry, make it competitive and create productive jobs in Europe.

(i) Internal market and competition policy

The European Council recognized that the completion of the internal market, in accordance with the Treaties, would make an important contribution to solving the economic problems currently facing Member States, in particular by facilitating industrial co-operation and restructuring at the European level. A closely linked objective was the enforcement of proper conditions of competition, in particular transparency and effective control in the field of State aids, which would stimulate innovation and durable employment and enhance the international competitiveness of Community industry. Accordingly it called for a further intensive effort to secure decisive progress in 1982 concentrating on the following:

- (a) an effective competition policy including stricter discipline regarding aids, both single and cumulative, distorting competition;
- (b) progress towards establishing a common legal framework for Community industry, where this would bring tangible economic benefits for Community industry;
- (c) the effective implementation of the liberalization within the Community of public purchasing arrangements, in particular for high technology products, in order to take full advantage of a market on a continental scale;
- (d) the creation of a free market for services as provided for by the Treaties. An important objective is the early adoption of measures to give effect to the freedom to provide insurance services within the Community;
- (e) progress in equivalence of professional qualifications;



- (f) the simplification of formalities and procedures to reduce frontier delays affecting the free movement of goods within the Community on the Benelux model;
- (g) a renewed effort to harmonize existing technical provisions and certification procedures as well as to prevent the proliferation of new national measures, where these create real or potential barriers to trade. A decision should be taken before the end of 1981 on the treatment of third country products, in order to enable those Directives affected by this problem to be adopted.

12. The European Council welcomed the decisions which had been taken by the Community in the steel sector and noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA.

(ii) Innovation, research and development

13. The European Council, conscious that the Community had lagged behind American and Japanese competition, agreed that Member States and the competent authorities of the European Community should expand and concert their research and development effort in order to promote industrial restructuring and innovation. The Community's efforts should be concentrated in areas where the Community has a comparative advantage and should be focussed to support agreed policy objectives. It welcomed the priority given

by the Council (Research) to the principle of a common strategy consisting of increased concertation of national and Community policies on the basis of common objectives and requested the Commission to prepare more detailed proposals. These proposals should be examined by the Council (Research) in March 1982 and decisions should be taken not later than July 1982.

14. It welcomed the adoption by the Council of the regulations on micro-electronics, and invited the Commission to consider with Member States other appropriate actions with a view to securing the wider benefits which would follow from the development of high technologies and other industries of the future.
15. It noted the Commission's communication on innovation emphasizing the key role which the successful application of innovation by industry, including small and medium enterprises, could have in ensuring the healthy development of the Community; and invited the Commission to bring forward specific practical proposals so that decisions could be taken before the end of October 1982.

(iii) Energy Policy

16. The European Council considered that the Community's energy strategy must be based on common objectives to be achieved by co-ordinated action on the part of the Member States, observing collective discipline, and by action on the part of the Community when this will lead to greater efficiency for the Community as a whole.
17. It agreed that priority should be given to the following points:

- (a) monitoring the progress of Member States towards agreed Community objectives including those for energy saving, on the basis of annual reports by the Commission and appropriate recommendations;
- (b) investment on an economic basis in the production and efficient use of energy should be brought up to a high level, where appropriate, with the support of Community instruments. Community action should be fitted into the framework of efforts at the national level to attain agreed Community objectives. It noted that the Commission would rapidly complete its examination of energy investments, including those on the rational use of energy, and make specific proposals during the first quarter of 1982;
- (c) a common approach to pricing policy based on economic principles and transparency in the energy market;
- (d) an effective and united Community response to limited shortfall in oil supplies and the attendant dangers of disproportionate oil price increases. The Community should ~~also~~ pursue its consultations with other industrialized countries, whose participation was necessary for the effectiveness of the action;
- (e) a balanced and co-ordinated approach in relations on energy matters with third countries. It reaffirmed its support for the establishment of an energy affiliate to the World Bank as one suitable instrument for this;
- (f) research and development in the energy sector should continue to receive priority and be focussed on essential projects where action at the Community level was necessary. Demonstration projects chosen in the light of the evaluation of existing programmes and designed to promote the industrial application of new techniques should also be continued.

G. Social Policy

18. The European Council emphasized the importance it attached to the concerted use of all appropriate Community instruments to encourage better living and working standards for the men and women making up the Community work force. It underlined that a coherent approach should be taken both at national and at Community level to promote access for school-leavers to education, vocational training, other forms of training or work-experience, instead of being unemployed. Particular attention should be given to developing the employment potential, especially in small and medium-sized enterprises and co-operatives, by easing the process of expansion, innovation and development of new technology. This implied also a renewed effort in the field of training.
19. The European Council underlined the need for consideration at the Community level of different aspects of the re-organization of working time, taking account of the competitive position of the Community. The Commission's forthcoming proposal for a Community initiative on part-time and temporary work and flexible retirement should be examined by the Council as a matter of urgency in closer consultation with the social partners.
20. It considered that the review of the Social Fund, which should be completed by 1 July 1982, provided an occasion to make it more effective and more relevant to present day conditions. It agreed that the financial resources of the Fund should continue to grow in real terms and that, while the Fund should continue to support a major effort in the field of vocational training, it should also in future concentrate more on the need to ensure better access to the labour market for the young. It should also encourage occupational mobility where problems were caused by industrial restructuring following Community decisions.

21. The Fund's resources should continue to be particularly directed towards areas of greatest need, including those suffering from the decline in traditional manufacturing industries.

#### H. Regional policy

22. The European Council agreed that it was essential to maintain and develop the Community's efforts in the regional sphere so that all Community policies and instruments could play their full role in promoting convergence. It stressed the value of a better co-ordination of national regional aids and Community efforts.
23. With regard to the review of the European Regional Development Fund, on which decisions should be taken not later than 1 April 1982, the European Council agreed that the financial resources of the Fund should continue to grow in real terms and that the quota section of the Fund should concentrate its activities on regions of greatest need [of the less-prosperous Member States]. The non-quota section, whose operations, while not subject to geographical limitations, might give preference to the less-prosperous Member States, could be increased and should be particularly directed to deal with structural imbalances caused by problems of industrial decline or by the effects of certain Community policies.

#### I. Transport

24. The European Council considered that the development of a unified internal market implied a need for positive action in the transport field to improve communications, particularly in the more remote areas of the Community. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States,

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while taking account of the diversity of Member States' transport requirements, of the desirability of evolving a coherent European transport policy and of the Community's relations with third countries. It invited the Council (Transport) to intensify their work in this field and to speed up the rate of progress on the Commission's proposals, notably those first put forward in 1976 on aid for transport infrastructure. It also agreed that the Commission proposals on air services and air fares should be examined in a positive spirit.

Implementation

- 9 25. The European Council requested the Council to take the necessary decisions in all these areas. It agreed that it would itself review the progress made at the June 1982 meeting of the European Council, on the basis of a report by the Commission.

I THE COMMON AGRICULTURAL POLICY

1. The European Council affirmed the fundamental role of the common agricultural policy in the Community, and agreed on the need for the policy to continue to develop in harmony with other policies, at the same time fully respecting the objectives of the Treaty, notably Article 39, and the principles of unity of the market, Community preference and financial solidarity.
2. Taking full account both of its considerable achievements and of the problems which have manifested themselves and persist, it concluded that the common agricultural policy should in future be developed in conformity with the guidelines set out in the following paragraphs.
3. The Community should pursue a prudent price policy, having regard in particular to the need:
  - (a) to ensure a fair standard of living for the agricultural community;
  - (b) to achieve in some sectors a greater market equilibrium by tackling the problem of structural surpluses;
  - (c) to aim, progressively and in real terms, to reduce the difference between the level of Community support prices for appropriate products and the level of comparable support prices for similar products in the main competitor countries.]
4. Monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980.
5. The Commission <sup>was</sup> is invited to study the particular problem for farm incomes arising from differential rates of inflation and to report by 1st April 1982.

6. The following paragraphs lay down for certain products guidelines for arrangements to adjust the level of guarantee when production in an individual sector exceeds an agreed guarantee threshold. The modalities for other sectors will vary depending on the circumstances, taking into account the Commission's memorandum of 23 October 1981.

Modalities for products

7. The following modalities should be adopted:

- (a) Cereals The Community's prices for cereals should be progressively reduced in real terms so as to achieve a better hierarchy of agricultural prices. This would reduce the gap between Community support prices and comparable support price levels in main competitor countries. This policy will reduce and in the long term remove the competitive advantage enjoyed by imports of products which substitute for cereals. ] [ Discussion with the principal third country suppliers should be undertaken by the Community, where necessary, to stabilize the volume of imports of such substitutes in the short and medium term. ]

The modulation of guarantees for cereals should take the form of a reduction in the intervention price if production exceeds the guarantee threshold.

- (b) Milk Modulation of the guarantee should be achieved:

- (i) [ by continuing the existing co-responsibility levy at its present level ] [ with a general exemption for a certain quantity of milk from each herd in order to assist the incomes of small producers. ]



- (ii) [by the introduction of a supplementary levy on additional deliveries of milk to dairies so that producers participate in the cost of disposing of production in excess of the guarantee threshold.]
- (iii) [through a special levy applied on intensive milk production.]
- (iv) [by a reduction in the intervention price if production exceeds the guarantee threshold.]

### Structural Policy

8. The European Council recognizes<sup>sed</sup> the need for an active policy for improving agricultural structures, adapted to the particular needs of individual regions. The problems of less-favoured agricultural regions, including some Mediterranean areas, which are heavily dependent on rural occupations for employment, merit special attention.
9. The European Council noted the Commission's intention to present, by the end of 1982, proposals for integrated programmes, to take account of the special problems affecting the less-advantaged regions in the Mediterranean countries.

### Mediterranean agriculture

10. The European Council agreed that there is an urgent need to review the existing provisions for olive oil, wine and fruit and vegetables. The Council should carry forward urgently, with a view to taking decisions not later than 1st April 1982, its examination of the Commission's suggestions

for amending the acquis in the context of enlargement, having regard to the related paragraphs in the Commission's memorandum of 23 October 1981 and these guidelines. [They should also have regard to the following considerations:

- (a) for wine, the Council should rapidly decide on the changes in the wine regime needed to improve the market balance while safeguarding the incomes of producers in this sector;
- (b) for fruit and vegetables, the Council should decide the necessary changes in the market regime, taking account of the need to afford a fair level of support for producers;
- (c) for olive oil, the Council should decide the necessary changes in the market regime, taking account of the budgetary and other implications arising from future enlargement of the Community.]

#### Export and Import Policy

- 11. The Community should continue to co-operate, for appropriate products, with other major trading partners with a view to achieving greater stability in world markets.
- 12. In its policy concerning trade in agricultural and processed agricultural products, including Mediterranean products, the Community should have regard to Community preference, to the Community's international obligations, and to the good management of the markets and the budget. In particular:
  - (a) There should be an active export policy.

- (b) [The Council should adopt framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and provisions to be included.]
- (c) The Commission should monitor the level of imports of products which could affect the Community markets.

#### National Aids

13. The European Council noted that national aids represent a significant proportion of the overall expenditure on agriculture within the Community. Aids to agriculture complement in some cases the Community's expenditure on agriculture; but they can also singly or cumulatively distort competition and encourage surplus production. The Member States must therefore ensure greater respect for the Community rules and procedures concerning national aids, and the Commission should ensure that these provisions are more strictly observed by applying the necessary disciplines and sanctions. The Council should adopt, on a proposal from the Commission, a regulation specifying which aids are to be notified, which are prohibited, and which are authorized.
14. The Commission <sup>was</sup> ~~is~~ invited to submit to the Council a study of the economic impact of national aids, taking account of their consequences for agricultural production, incomes and financial solidarity.

#### Budgetary aspects

15. The European Council welcomed the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure.

16. It invited the Council and Commission to build on this achievement by strengthening effective management and financial control to ensure the most efficient use of the Community's financial resources. The effectiveness of all measures under the CAP should be kept under review.
17. If the above guidelines are implemented, agricultural spending in the years ahead will continue to grow less rapidly than the Community's own resources.
18. [It should be the objective to reduce the proportion of the budget taken by agricultural expenditure to not more than 60 per cent in 1983. This category of expenditure should therefore for the time being grow markedly less rapidly than the Community's own resources.]
- [The rate of growth in agricultural guarantee expenditure shall be not more than 2/3 of the rate of growth of the own resources base. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions to ensure that agricultural expenditure remains within that limit. It will be the responsibility of the Commission to manage agricultural expenditure within this limit.]

#### Implementation

19. The European Council accordingly invited the Commission to make the appropriate proposals, and the Council to take the necessary decisions, to ensure that the adaptations outlined in the preceding paragraphs enter into force from the 1982/83 season.

### III. BUDGETARY PROBLEMS

1. The European Council reviewed the Community's budgetary arrangements on the basis of the report from the Commission and in accordance with the agreement of 30 May 1980. It confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable situation for any Member State and in this way of ensuring that a sound basis was provided for the Community's future development and enlargement. It reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. It noted that until now a preponderant share of the Community budget had been devoted to expenditure on the CAP. It stated as its firm intention that the further development of Community policies, to which their decisions on expanding Community activity in such areas as social, regional and industrial policy had given renewed impetus, combined with the application of the agreed guidelines to the CAP, should enable the budget to contribute to the objective of economic convergence. It would at the same time help to reduce the likelihood of unacceptable budgetary situations for individual Member States. [This process would however take time and it recognized that it would therefore be necessary to make provision for dealing with the problems which would remain until the desired results were achieved by these means. It therefore agreed that from 1982 the measures based on the following operational guidelines should be applied ]:

(Operational guidelines on budgetary problems to be agreed.)

2. The Heads of State and Government in addition took the view that a more stringent and effective budgetary policy would contribute to a balanced pattern of Community activities and expenditure.

[In order to attain this objective they invited the Commission to make urgent proposals which would establish a budgetary framework designed to set annual indicative priorities for the Community's overall expenditure.]

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MR FALL

cc: Sir R Armstrong

30 MAY MANDATE: REVISED DRAFT CONCLUSIONS OF THE EUROPEAN COUNCIL

1. At the Foreign Affairs Council on 16/17 November the Foreign and Commonwealth Secretary undertook that the Presidency would revise the draft Conclusions of the European Council on the 30 May mandate to take account of the discussions in the Council and circulate a new text on 20 or at latest by 23 November.

2. The new draft attached has been prepared in consultation with the Secretary General of the Commission. Also attached is a Presidency draft summarizing the major outstanding issues on the mandate that would preface the draft conclusions. I should be grateful for the Foreign and Commonwealth Secretary's agreement to our tabling these two texts as soon as practicable.

3. I am sending copies of this minute and its attachments to the Private Secretaries of the Chancellor of the Exchequer and the Minister of Agriculture and to Mr Alexander at No. 10.

M D M FRANKLIN

20 November 1981

Cabinet Office, SW1

CONFIDENTIAL

EUROPEAN COUNCIL

30 MAY MANDATE

REPORT BY THE PRESIDENCY

1. The members of the European Council will find in the annex the text of draft conclusions on the Mandate.
2. This text takes the form of operational guidelines for the future development of a number of Community policies.
3. So far as Chapter I (Development of Community Policies other than the Common Agricultural Policy) and Chapter II (Common Agricultural Policy) are concerned, the texts presented are a set of operational guidelines based on the recent discussion of the Council (Foreign Affairs) and the Mandate Group. So far as Chapter III (Budgetary Problems) is concerned, differences are still too wide to enable the circulation of draft operational guidelines.

4. The texts circulated have been established by the Presidency, with the co-operation of the Commission. They contain a number of passages in square brackets where clear disagreements still exist.

for submission to and consideration by the Heads of State and Government

following is an indicative list of [ ] to the Presidency

5. The points which appear to require discussion at the European Council.

CHAPTER I: DEVELOPMENT OF POLICIES OTHER THAN THE CAP

- (i) New Community Instrument: increase in size and transformation into European Fund (Para 9).
- (ii) Regional Fund: concentration of quota section in less prosperous member states (Para 23).

But it is not the intention of the Presidency to try to limit discussion in any way to deal with it

considers that the major issues of importance should also be considered



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Subject: MANDATE OF 30 MAY

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Collaboration and integration between their economies were now realities which no Government could disregard. The welfare and progress of each of their peoples was more than ever dependent on the harmonious development of the Community itself and of the other nations in it.

2. It recognized that developments on the international scene, both in the economic and in the political fields made it essential to strengthen the role of the Community and of its ten Member States acting in concert at all levels.

If this did not happen, there was a real risk of a process of regression in which national interests would prevail over the general interest of the Community. Moreover the Community and its Member States increasingly had responsibilities towards the outside world, in particular to the peoples of the Third World for whom it provides the largest market and also the largest source of official Government aid.

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2. In addition to measures taken at a world-wide level in pursuit of these common objectives, the European Council underlined the contribution that Community policies can make especially in all the areas set out below.

*(To be completed, as necessary, after the European Council's discussion of the economic and social situation)*

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3. The European Council agreed that as a complement to macro-economic policy decisions effective action in the social field to alleviate unemployment should be taken at both the Community and the national level.

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10. The European Council agreed that, given the importance of the Community's external trade, it should seek to develop its external economic policy on the basis of common positions. In this way it would give effect to its special responsibility as the principal world trader and to its commitment to the open trading system. It underlined that, in view of the serious economic problems faced by all, genuine reciprocity was necessary. This required both a strengthened dialogue with the Community's main industrial partners and recognition of the needs of the developing countries.

F. Common Market and Industrial Strategy

11. The European Council recognized that the changes which had come about in recent years as regards both the structure of world markets and energy costs require a major industrial response. There was therefore a need for an industrial strategy at the Community level in order to develop industry, make it competitive and create productive jobs in Europe.

(i) Internal market and competition policy

The European Council recognized that the completion of the internal market, in accordance with the Treaties, would make an important contribution to solving the economic problems currently facing Member States, in particular by facilitating industrial co-operation and restructuring at the European level. A closely linked objective was the enforcement of proper conditions of competition, in particular transparency and effective control in the field of State aids, which would stimulate innovation and durable employment and enhance the international competitiveness of Community industry. Accordingly it called for a further intensive effort to secure decisive progress in 1982 concentrating on the following:

- (a) an effective competition policy including stricter discipline regarding aids, both single and cumulative, distorting competition;
- (b) progress towards establishing a common legal framework for Community industry, where this would bring tangible economic benefits for Community industry;
- (c) the effective implementation of the liberalization within the Community of public purchasing arrangements, in particular for high technology products, in order to take full advantage of a market on a continental scale;
- (d) the creation of a free market for services as provided for by the Treaties. An important objective is the early adoption of measures to give effect to the freedom to provide insurance services within the Community;
- (e) progress in equivalence of professional qualifications;



- (f) the simplification of formalities and procedures to reduce frontier delays affecting the free movement of goods within the Community on the Benelux model;
- (g) a renewed effort to harmonize existing technical provisions and certification procedures as well as to prevent the proliferation of new national measures, where these create real or potential barriers to trade. A decision should be taken before the end of 1981 on the treatment of third country products, in order to enable those Directives affected by this problem to be adopted.

12. The European Council welcomed the decisions which had been taken by the Community in the steel sector and noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA.

(ii) Innovation, research and development

13. The European Council, conscious that the Community had lagged behind American and Japanese competition, agreed that Member States and the competent authorities of the European Community should expand and concert their research and development effort in order to promote industrial restructuring and innovation. The Community's efforts should be concentrated in areas where the Community has a comparative advantage and should be focussed to support agreed policy objectives. It welcomed the priority given

by the Council (Research) to the principle of a common strategy consisting of increased concertation of national and Community policies on the basis of common objectives and requested the Commission to prepare more detailed proposals. These proposals should be examined by the Council (Research) in March 1982 and decisions should be taken not later than July 1982.

14. It welcomed the adoption by the Council of the regulations on micro-electronics, and invited the Commission to consider with Member States other appropriate actions with a view to securing the wider benefits which would follow from the development of high technologies and other industries of the future.
15. It noted the Commission's communication on innovation emphasizing the key role which the successful application of innovation by industry, including small and medium enterprises, could have in ensuring the healthy development of the Community; and invited the Commission to bring forward specific practical proposals so that decisions could be taken before the end of October 1982.

(iii) Energy Policy

16. The European Council considered that the Community's energy strategy must be based on common objectives to be achieved by co-ordinated action on the part of the Member States, observing collective discipline, and by action on the part of the Community when this will lead to greater efficiency for the Community as a whole.
17. It agreed that priority should be given to the following points:

- (a) monitoring the progress of Member States towards agreed Community objectives including those for energy saving, on the basis of annual reports by the Commission and appropriate recommendations;
- (b) investment on an economic basis in the production and efficient use of energy should be brought up to a high level, where appropriate, with the support of Community instruments. Community action should be fitted into the framework of efforts at the national level to attain agreed Community objectives. It noted that the Commission would rapidly complete its examination of energy investments, including those on the rational use of energy, and make specific proposals during the first quarter of 1982;
- (c) a common approach to pricing policy based on economic principles and transparency in the energy market;
- (d) an effective and united Community response to limited shortfall in oil supplies and the attendant dangers of disproportionate oil price increases. The Community should also pursue its consultations with other industrialized countries, whose participation was necessary for the effectiveness of the action;
- (e) a balanced and co-ordinated approach in relations on energy matters with third countries. It reaffirmed its support for the establishment of an energy affiliate to the World Bank as one suitable instrument for this;
- (f) research and development in the energy sector should continue to receive priority and be focussed on essential projects where action at the Community level was necessary. Demonstration projects chosen in the light of the evaluation of existing programmes and designed to promote the industrial application of new techniques should also be continued.

G. Social Policy

18. The European Council emphasized the importance it attached to the concerted use of all appropriate Community instruments to encourage better living and working standards for the men and women making up the Community work force. It underlined that a coherent approach should be taken both at national and at Community level to promote access for school-leavers to education, vocational training, other forms of training or work-experience, instead of being unemployed. Particular attention should be given to developing the employment potential, especially in small and medium-sized enterprises and co-operatives, by easing the process of expansion, innovation and development of new technology. This implied also a renewed effort in the field of training.
19. The European Council underlined the need for consideration at the Community level of different aspects of the re-organization of working time, taking account of the competitive position of the Community. The Commission's forthcoming proposal for a Community initiative on part-time and temporary work and flexible retirement should be examined by the Council as a matter of urgency in closer consultation with the social partners.
20. It considered that the review of the Social Fund, which should be completed by 1 July 1982, provided an occasion to make it more effective and more relevant to present day conditions. It agreed that the financial resources of the Fund should continue to grow in real terms and that, while the Fund should continue to support a major effort in the field of vocational training, it should also in future concentrate more on the need to ensure better access to the labour market for the young. It should also encourage occupational mobility where problems were caused by industrial restructuring following Community decisions.

21. The Fund's resources should continue to be particularly directed towards areas of greatest need, including those suffering from the decline in traditional manufacturing industries.

#### H. Regional policy

22. The European Council agreed that it was essential to maintain and develop the Community's efforts in the regional sphere so that all Community policies and instruments could play their full role in promoting convergence. It stressed the value of a better co-ordination of national regional aids and Community efforts.

23. With regard to the review of the European Regional Development Fund, on which decisions should be taken not later than 1 April 1982, the European Council agreed that the financial resources of the Fund should continue to grow in real terms and that the quota section of the Fund should concentrate its activities on regions of greatest need [of the less-prosperous Member States]. The non-quota section, whose operations, while not subject to geographical limitations, might give preference to the less-prosperous Member States, could be increased and should be particularly directed to deal with structural imbalances caused by problems of industrial decline or by the effects of certain Community policies.

#### I. Transport

24. The European Council considered that the development of a unified internal market implied a need for positive action in the transport field to improve communications, particularly in the more remote areas of the Community. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States,

.../...

while taking account of the diversity of Member States' transport requirements, of the desirability of evolving a coherent European transport policy and of the Community's relations with third countries. It invited the Council (Transport) to intensify their work in this field and to speed up the rate of progress on the Commission's proposals, notably those first put forward in 1976 on aid for transport infrastructure. It also agreed that the Commission proposals on air services and air fares should be examined in a positive spirit.

Implementation

25. The European Council requested the Council to take the necessary decisions in all these areas. It agreed that it would itself review the progress made at the June 1982 meeting of the European Council, on the basis of a report by the Commission.

II. THE COMMON AGRICULTURAL POLICY

1. The European Council affirmed the fundamental role of the common agricultural policy in the Community, and agreed on the need for the policy to continue to develop in harmony with other policies, at the same time fully respecting the objectives of the Treaty, notably Article 39, and the principles of unity of the market, Community preference and financial solidarity.

2. Taking full account both of its considerable achievements and of the problems which have manifested themselves and persist, it concluded that the common agricultural policy should in future be developed in conformity with the guidelines set out in the following paragraphs.

3. The Community should pursue a prudent price policy, having regard in particular to the need:

(a) to ensure a fair standard of living for the agricultural community;

(b) to achieve in some sectors a greater market equilibrium by tackling the problem of structural surpluses;

(c) to aim, progressively and in real terms, to reduce the difference between the level of Community support prices for appropriate products and the level of comparable support prices for similar products in the main competitor countries.]

4. Monetary compensatory amounts should be phased out in conformity with the conclusions of the Council on 5/6 March 1979 and of 6/7 May 1980.

5. The Commission is invited to study the particular problem for farm incomes arising from differential rates of inflation and to report by 1st April 1982.

6. The following paragraphs lay down for certain products guidelines for arrangements to adjust the level of guarantee when production in an individual sector exceeds an agreed guarantee threshold. The modalities for other sectors will vary depending on the circumstances, taking into account the Commission's memorandum of 23 October 1981.

Modalities for products

7. The following modalities should be adopted:

- (a) Cereals The Community's prices for cereals should be progressively reduced in real terms so as to achieve a better hierarchy of agricultural prices. This would reduce the gap between Community support prices and comparable support price levels in main competitor countries. This policy will reduce and in the long term remove the competitive advantage enjoyed by imports of products which substitute for cereals. ] [ Discussion with the principal third country suppliers should be undertaken by the Community, where necessary, to stabilize the volume of imports of such substitutes in the short and medium term. ]

The modulation of guarantees for cereals should take the form of a reduction in the intervention price if production exceeds the guarantee threshold.

- (b) Milk Modulation of the guarantee should be achieved:
- (i) [ by continuing the existing co-responsibility levy at its present level ] [ with a general exemption for a certain quantity of milk from each herd in order to assist the incomes of small producers. ]



- (ii) [by the introduction of a supplementary levy on additional deliveries of milk to dairies so that producers participate in the cost of disposing of production in excess of the guarantee threshold.]
- (iii) [through a special levy applied on intensive milk production.]
- (iv) [by a reduction in the intervention price if production exceeds the guarantee threshold.]

### Structural Policy

8. The European Council recognizes <sup>sed</sup> the need for an active policy for improving agricultural structures, adapted to the particular needs of individual regions. The problems of less-favoured agricultural regions, including some Mediterranean areas, which are heavily dependent on rural occupations for employment, merit special attention.
9. The European Council noted the Commission's intention to present, by the end of 1982, proposals for integrated programmes, to take account of the special problems affecting the less-advantaged regions in the Mediterranean countries.

### Mediterranean agriculture

10. The European Council agreed that there is an urgent need to review the existing provisions for olive oil, wine and fruit and vegetables. The Council should carry forward urgently, with a view to taking decisions not later than 1st April 1982, its examination of the Commission's suggestions

for amending the acquis in the context of enlargement, having regard to the related paragraphs in the Commission's memorandum of 23 October 1981 and these guidelines. [They should also have regard to the following considerations:

- (a) for wine, the Council should rapidly decide on the changes in the wine regime needed to improve the market balance while safeguarding the incomes of producers in this sector;
- (b) for fruit and vegetables, the Council should decide the necessary changes in the market regime, taking account of the need to afford a fair level of support for producers;
- (c) for olive oil, the Council should decide the necessary changes in the market regime, taking account of the budgetary and other implications arising from future enlargement of the Community.]

#### Export and Import Policy

- 11. The Community should continue to co-operate, for appropriate products, with other major trading partners with a view to achieving greater stability in world markets.
- 12. In its policy concerning trade in agricultural and processed agricultural products, including Mediterranean products, the Community should have regard to Community preference, to the Community's international obligations, and to the good management of the markets and the budget. In particular:
  - (a) There should be an active export policy.

- (b) [ The Council should adopt framework agreements for the multi-annual supply of products to importing countries, specifying in each case the products and provisions to be included. ]
- (c) The Commission should monitor the level of imports of products which could affect the Community markets.

#### National Aids

13. The European Council noted that national aids represent a significant proportion of the overall expenditure on agriculture within the Community. Aids to agriculture complement in some cases the Community's expenditure on agriculture; but they can also singly or cumulatively distort competition and encourage surplus production. The Member States must therefore ensure greater respect for the Community rules and procedures concerning national aids, and the Commission should ensure that these provisions are more strictly observed by applying the necessary disciplines and sanctions. The Council should adopt, on a proposal from the Commission, a regulation specifying which aids are to be notified, which are prohibited, and which are authorized.
14. The Commission <sup>was</sup> is invited to submit to the Council a study of the economic impact of national aids, taking account of their consequences for agricultural production, incomes and financial solidarity.

#### Budgetary aspects

15. The European Council welcomes the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure.

16. It invited the Council and Commission to build on this achievement by strengthening effective management and financial control to ensure the most efficient use of the Community's financial resources. The effectiveness of all measures under the CAP should be kept under review.

17. If the above guidelines are implemented, agricultural spending in the years ahead will continue to grow less rapidly than the Community's own resources.

18. [It should be the objective to reduce the proportion of the budget taken by agricultural expenditure to not more than 60 per cent in 1983. This category of expenditure should therefore for the time being grow markedly less rapidly than the Community's own resources.]

[The rate of growth in agricultural guarantee expenditure shall be not more than 2/3 of the rate of growth of the own resources base. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions to ensure that agricultural expenditure remains within that limit. It will be the responsibility of the Commission to manage agricultural expenditure within this limit.]

#### Implementation

19. The European Council accordingly invited the Commission to make the appropriate proposals, and the Council to take the necessary decisions, to ensure that the adaptations outlined in the preceding paragraphs enter into force from the 1982/83 season.

III. BUDGETARY PROBLEMS

1. The European Council reviewed the Community's budgetary arrangements on the basis of the report from the Commission and in accordance with the agreement of 30 May 1980. It confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable situation for any Member State and in this way of ensuring that a sound basis was provided for the Community's future development and enlargement. It reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. It noted that until now a preponderant share of the Community budget had been devoted to expenditure on the CAP. It stated as its firm intention that the further development of Community policies, to which their decisions on expanding Community activity in such areas as social, regional and industrial policy had given renewed impetus, combined with the application of the agreed guidelines to the CAP, should enable the budget to contribute to the objective of economic convergence. It would at the same time help to reduce the likelihood of unacceptable budgetary situations for individual Member States. [This process would however take time and it recognized that it would therefore be necessary to make provision for dealing with the problems which would remain until the desired results were achieved by these means. It therefore agreed that from 1982 the measures based on the following operational guidelines should be applied ]:

(Operational guidelines on budgetary problems to be agreed.)

2. The Heads of State and Government in addition took the view that a more stringent and effective budgetary policy would contribute to a balanced pattern of Community activities and expenditure.

[In order to attain this objective they invited the Commission to make urgent proposals which would establish a budgetary framework designed to set annual indicative priorities for the Community's overall expenditure.]

cc CO

HL

20 November 1981

Future meetings of the European Council

The Prime Minister has seen your letter to me of 13 November on this subject. She would like to discuss it at the briefing meeting next week.

I am sending a copy of this letter to David Wright (Cabinet Office).

MICHAEL ALEXANDER

CS

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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WS



FILE

CC HMT ✓  
MAFF ✓  
CO. ✓

10 DOWNING STREET

From the Private Secretary

20 November 1981

Preparations for the European Council

As you know, the Prime Minister had a brief informal discussion last night with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer about our preparations for the European Council in the light of her discussions in Bonn and this week's meetings of the Council of Ministers.

In the course of the discussion it was agreed:

- (a) That the Prime Minister should send a message to the other Heads of State and of Government and to the President of the Commission about the handling of the 30 May Mandate by the Council. I enclose the text of the message as approved by the Prime Minister;
- (b) That Mr. Franklin should visit Bonn and Sir Robert Armstrong and Mr. Franklin should visit Paris in the next few days to try to get agreement, as proposed by Chancellor Schmidt, on guidelines for the Budget Chapter of the Council's conclusions which might be put to the other Heads of Government next week. I enclose the text of the draft guidelines as approved by the Prime Minister;
- (c) That we should be prepared to show a willingness to offer the French some limited help on the CAP if they were clearly prepared to reciprocate on the guidelines.

/ Officials

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- 2 -

Officials should consider urgently this morning the precise content of the offer to be made to the French. If the French were not prepared to make any concessions on the guidelines, we should be prepared to be extremely tough.

Other points which were agreed in the discussion were:

- (a) That the possibility of circulating to the other members of the Community a paper on the Community Budget problem after the European Council should be kept open; and
- (b) That since we could not hope to get endorsement of a permanent financial arrangement, we should go for an arrangement which would be subject to review after 7 years. It was recognised that we might in negotiation have to agree that the review period should be 5 years.

I am sending copies of this letter and its enclosure to John Kerr (H.M. Treasury), Kate Timms (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

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

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DRAFT MESSAGE FROM PRIME MINISTER TO OTHER HEADS OF STATE/  
GOVERNMENT AND PRESIDENT OF THE COMMISSION

We are now only a week away from the meeting of the European Council in London. Last June we set ourselves the target of reaching decisions on the Mandate on this occasion.

Much work has been done by the Foreign Ministers and by the Mandate Group. But it is clear that there are several issues they have not been able to resolve. These therefore fall to us to consider. We will bring severe criticism on the Community; to whose future development we are all committed, if we fail to achieve our publicly declared objective of taking decisions this year. The hard fact is that it will be no easier to take the decisions next spring. So I hope very much that I will have your co-operation in working to maximise the areas of agreement when we meet next week.

One thing that does seem clear from the discussion so far is that there is no alternative to taking matters forward on a broad front. Our aim must be to make equal and solid progress on all three main chapters of the negotiation. To relaunch the Community we need to develop Community policies, to make changes in the CAP and to avoid unacceptable situations.

As regards Community policies other than the CAP, a considerable number of commitments and orientations for the future development of the Community have been worked out by the Foreign Ministers. In other cases, deadlines for decisions are laid down. Only a very few questions remain for us to settle. We have the prospect here of carrying forward in an important way the work of the Community in financial, economic, social, regional, industrial and other policies.

/The discussions

The discussions on the CAP have, not surprisingly, left open more issues. The CAP is of major importance to the Community. The general economic climate has created difficulties for our agriculture as for other sectors of the economy. But there is a widespread feeling that we need to give a new sense of direction to the Common Agriculture Policy. It is up to us as Heads of Government to lay down the general guidelines. These can be subsequently implemented in detail by the competent Community bodies. We shall therefore need to spend some time at our meeting in London on the outstanding issues identified in the paper which has been circulated by the Presidency, after consultation with the Commission.

On the budget chapter, the discussions so far have not provided us with a common basis for discussion. But I believe, looking at the preparatory work, that the entirely legitimate caution of all delegations when dealing with such a financially significant matter has masked the emergence of some points of consensus. There does seem, for instance, to be general agreement that the long term solution to avoiding the recurrence of an unacceptable situation must be sought in the adaptation of Community policies themselves. This should be put in hand forthwith. It is also, I think, agreed that the adaptation will take time and that the rate of its progress is not entirely predictable; and that in the meantime some special corrective arrangement will be needed. Finally, it is common ground that it would be in no-one's interest to have to come back to this issue year after year.

What is still disputed is the amount, duration and method of the necessary adjustment, as well as its application, and whether it should be general or limited to the UK. What I think we must try to do next week is to enlarge the area of agreement between us and register it clearly in operational guidelines which will permit the remaining detailed work to be carried out expeditiously thereafter.

/I thought it

I thought it might be useful to set out my preliminary thinking in advance. As usual the time available to us will be limited and I would like to put it to the best use. To succeed in taking decisions next week will be a great boost for the Community as a whole.

SEPARATE ADDITION TO CHANCELLOR SCHMIDT

I have been reflecting on what you said during our talk in Bonn. We are working on some draft guidelines for the budget problem which my officials will show to yours; and also to the French. I hope very much we will be able to find a good measure of agreement between us.

SEPARATE ADDITION TO PM SPADOLINI

I did very much value our talks on these matters when you visited London. I hope your next visit will see us bringing some of the issues we discussed to fruition.

SEPARATE ADDITION TO PRESIDENT MITTERRAND

I think it would be useful to follow up the suggestion from M. Beregovoy of a contact before next week and I have asked Sir Robert Armstrong and Mr. Franklin to go to Paris on Monday. We are working on some draft guidelines on the budget issue which we would like to show you and also the Germans, following my talk with Chancellor Schmidt earlier this week.

SEPARATE ADDITION TO M. THORN

I look forward to seeing you again on 24 November to discuss the European Council. We will have to work closely together. I am most grateful for all that you and your colleagues are doing to achieve some solid progress.

SEPARATE ADDITION TO DR. FITZGERALD

I valued our discussions on this when we met recently. I hope we will be able to make real progress when we meet in London next week.

SEPARATE ADDITION TO MR. PAPANDREOU

I very much look forward to meeting you in London next week.

A. A. R. R.

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B

GUIDELINES FOR BUDGET CHAPTER

TEXT

COMMENT

1. The object of the Community budget is to finance agreed Community policies.

Community orthodoxy.

At the same time the creation or recurrence of an unacceptable situation for any member state must be avoided.

30 May agreement language "Creation or recurrence" hints at a German problem.

and the overall convergence of the economies of member states must be fostered, *without imposing an undue burden on any member state*

Important for Italians - supported by Ireland, Greece and UK. A peg in the Treaty for making relative prosperity a key factor in any arrangements.

2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.

Broad agreement on this, which accords with 30 May agreement. Progress on Chapter I (development of Community policies) a vital political need for Benelux (and France - reliance) if they are to make concessions on budget. Italians also seeking progress here. French aiming for concessions to their views on Chapter II.

3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.

French and Danes do not yet admit corrective arrangement will be needed but we have presented figures, which have not been controverted, showing that measures contemplated under Chapters I and II cannot solve our problem in the short run. Text makes it clear that permanent mechanism is not envisaged.

4. The corrective arrangement will need to deal not only with the problem already recognised by the Financial Mechanism, *but also* with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure.

Picks up Commission's reference to FEOGA but makes clear problem is wide. Useful recognition that problems arise both from excessive (gross) contributions and from inadequate receipts. (We would need financial mechanism as well as FEOGA scheme if we were to get enough for UK out of Commission approach.)

The arrangement will be based on objective criteria so that there is no need for an annual negotiation.

It should be agreed that annual negotiation would be disruptive and unsatisfactory. Useful peg to introduce objective criteria.

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These criteria should include not only the progress made in reducing the problem of unacceptable situations through the development of Community policies,

but also the relative size of the member state(s) in question and the relationship of their GDP per head to the Community average.

5. The financing of the corrective arrangement will be achieved within the 1% ceiling and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net budgetary impact.

The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether or not they are net contributors.

6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after five years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

Another bow to those who attach importance to Chapter I.

Our objective criteria.

Community orthodoxy favours financing by own resources (like 30 May refunds) but this is unlikely to be possible within 1% ceiling. It might be possible to avoid a net budgetary impact by balancing receipts and contributions in a budgetary sub-head summing to zero.

Average GDP criterion benefits Italy, Ireland and Greece. Net contributor criterion benefits Germany.

1982 implementation avoids issue of third year refunds for UK under 30 May agreement. 31 December 1981 deadline follows intention expressed in the 30 May agreement itself.

Five year review included to meet wishes of those (including France, Denmark, Netherlands) who insist arrangement must be temporary but text maintains presumption that it will continue 'until any changes are needed'.

plw with my letter of to-day's



date

H.A.

Amr

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10 DOWNING STREET

Prime Minister.

I attach

(a) the text of your message  
to other Heads of Govt about  
next week's Council. I have  
somewhat redrafted this;

(b) the text of the guidelines  
which you discussed earlier this  
evening.

It would be helpful if  
you would confirm that you are  
"content" with both.

Yes Mr Amr

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Foreign and Commonwealth Office

London SW1A 2AH

19 November 1981

*fs*  
*Amul*

*Dear Richard*

Lord Carrington thinks it might be useful for the Prime Minister to send a message to her colleagues before the European Council to explain the amount of work which still needs to be done if an acceptable solution is to be found and to give a preliminary reference to the idea of operational guidelines (which we would propose to pursue in more detail with the French and Germans). I enclose a draft of such a message which the Prime Minister may wish to glance at before her meeting this evening.

I am sending a copy of this letter to John Kerr and to Robert Armstrong.

*Yours ever,*

A stylized handwritten signature in dark ink, consisting of a large, sweeping 'B' followed by a smaller 'J P' and a final flourish.

(B J P Fall)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

CONFIDENTIAL

DRAFT MESSAGE FROM PRIME MINISTER TO OTHER HEADS OF STATE/  
GOVERNMENT AND PRESIDENT OF THE COMMISSION

We are now only a week away from the meeting of the European Council in London, which we set ourselves as the target <sup>we set ourselves the target of</sup> last June ~~for~~ reaching decisions on the Mandate ~~at~~ <sup>on</sup> this ~~meeting~~ occasion.

Much work has been done by the Foreign Ministers and by the Mandate Group. <sup>there are several issues</sup> But it is clear that <sup>There</sup> they have not been able to resolve ~~several issues~~ which therefore fall to us to consider. ~~Both in the 30 May Mandate itself and last June we set ourselves the firm objective of taking decisions this year.~~ We will ~~only~~ bring <sup>severe</sup> ~~discredit and~~ criticism on the Community, to whose future development we are all committed, if we fail to achieve <sup>our</sup> ~~the~~ objective, <sup>to which we are publicly</sup> ~~the~~ objective. The hard fact is that it will be no easier to take the decisions next spring, <sup>(indeed it could even be more difficult to do so then.)</sup> So I hope very much that I will have your cooperation in working to maximise the areas of agreement when we meet next week.

One thing that does seem clear from the discussion so far is that there is no alternative to taking matters forward on a broad front, <sup>our</sup> ~~with the aim of making~~ <sup>must be to make</sup> equal and solid progress on all three main chapters of the negotiation. To relaunch the Community we need to develop Community policies, to make changes in the CAP and to avoid unacceptable situations.

As regards Community policies other than the CAP, a considerable number of commitments and orientations for the future development of the Community have been worked out by the Foreign Ministers. In other cases, deadlines for decisions are laid down. Only a very few questions remain for us to settle. We have the prospect here of carrying forward in an important way the work of the Community in financial, economic, social, regional, industrial and other policies.

/The

*publicly declared*

*of taking decisions this year*

The discussions on the CAP have, not surprisingly, left open more issues. The CAP is of major importance to the Community. The general economic climate <sup>has</sup> created difficulties for our agriculture as for other sectors of the economy. But there <sup>is</sup> ~~seems to be~~ a widespread feeling that we need to give a new sense of direction to the Common Agriculture Policy. It is up to us as Heads of Government to lay down the general guidelines, <sup>These</sup> ~~which~~ can be subsequently implemented in detail by the competent Community bodies. ~~So I believe~~ <sup>Therefore</sup> We shall need to spend some time at our meeting in London on the outstanding issues ~~which are~~ identified in the paper which has been circulated by the Presidency, after consultation with the Commission.

On the budget chapter, the discussions so far have not provided us with a common basis for discussion. <sup>But</sup> It does seem to me, ~~however~~, looking at the preparatory work, that the entirely legitimate caution of all delegations when dealing with such a financially significant matter has masked the emergence of ~~at least~~ some points of consensus. There does seem, <sup>for instance,</sup> to be general agreement that the long term solution to avoiding the recurrence of an unacceptable situation must be sought in the adaptation of Community policies themselves, <sup>This</sup> ~~which~~ we should put in hand forthwith, <sup>It is also agreed that the</sup> ~~but that that~~ adaptation will take time and that the rate of its progress is not entirely predictable; and that in the meantime some special corrective arrangement will be needed. <sup>Finally</sup> ~~It is also I think~~ common ground that it would be in no-one's interest to have to come back to this issue year after year. What is still disputed is the amount, duration and method of the necessary adjustment, as well as its application, <sup>and</sup> whether it should be general or limited to the UK. What I think we must try to do next week is to enlarge the area of agreement between us and register it clearly in operational guidelines which will permit the remaining detailed work to be carried out expeditiously thereafter.

/I thought it

I thought it might be useful to set out my preliminary thinking in advance. As usual the time available to us will be limited and I would like to put it to the best use. To succeed in taking decisions next week will be a great boost for the Community as a whole.

## SEPARATE ADDITION TO CHANCELLOR SCHMIDT

I have been reflecting on what you said during our talk in Bonn. We are working on some draft guidelines for the budget problem which my officials will show to yours; and also to the French. I hope very much we will be able to find a good measure of agreement between us.

## SEPARATE ADDITION TO PM SPADOLINI

I did very much value our talks on these matters when you visited London. I hope you next visit will see us bringing some of the issues we discussed to fruition.

## SEPARATE ADDITION TO PRESIDENT MITTERAND

I think it would be useful to follow up the suggestion from M. Beregovoy of a contact before next week and I have asked Sir Robert Armstrong and Mr Franklin to go to Paris on Monday. We are working on some draft guidelines on the budget issue which we would like to show you and also the Germans, following my talk with Chancellor Schmidt earlier this week.

## SEPARATE ADDITION TO M. THORN

I look forward to seeing you again on 24 November to discuss the European Council. We will have to work closely together. I am most grateful for all that you and your colleagues are doing to achieve some solid progress.

## SEPARATE ADDITION TO DR FITZGERALD

I valued our discussions on this when we met recently. I hope we will be able to make real progress when we meet in London next week.

## SEPARATE ADDITION TO MR PAPANDEOU

I very much look forward to meeting you in London next week.

Ref. A06017

MR. ALEXANDER

European Council

At the Prime Minister's meeting with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer this evening she might begin by asking Lord Carrington to report on the meeting of the Foreign Affairs Council this morning (the last before the European Council).

2. Subject to that, decisions are needed on:

- (i) Should we go for guidelines on the budget? The Foreign and Commonwealth Office will circulate a draft, with commentary. Is it acceptable?
- (ii) If so, should we try to sell them to the French and Germans before the European Council? How should this be done? (Mr. Franklin could go to Bonn on Friday afternoon; and I could take up the French approach and have contacts with the Elysée either in London or in Paris on Monday.)
- (iii) A message from the Prime Minister to other Heads of Government. The FCO will circulate a draft for consideration.
- (iv) In order to secure acceptable and effective guidelines on the budget, should we be prepared to make any move on:
  - (a) the maximum borrowing limit under the so-called Ortooli facility;
  - (b) on the principle of long-term contracts for certain agricultural products;
  - (c) possible restraints on imports of certain so-called cereal substitutes (especially manioc and maize gluten feed);
  - (d) how the milk co-responsibility levy should be applied?

3. We should aim at the European Council to agree on operational guidelines which give us the greatest degree of progress on all three "chapters".

*RIA*

ROBERT ARMSTRONG

19th November, 1981

*see letter reporting meeting*

*fa. RIA - 2a/x*

DECLARATION BY THE SAFEGUARD BRITAIN CAMPAIGN  
ON THE OCCASION OF THE MEETING OF EEC HEADS OF  
GOVERNMENT IN LONDON ON 26-27 NOVEMBER 1981

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The Safeguard Britain Campaign is the principal body coordinating the many local and national organisations opposed to the U K's membership of the EEC. All recent tests of public opinion, including those taken by the EEC itself, have shown that membership is against the wishes of a large majority of the people of the U K. It is therefore as a spokesman of majority opinion in Britain that the Campaign claims the right to place before the European Council at the outset of its meeting in the U K the following representations, believing that unless the Council takes full account of them, unrealism and misunderstanding will attend its deliberations.

- 1 A majority of the British people wish Britain's membership of the EEC to be terminated, in accordance with the undoubted legal and moral right of Parliament to repeal or amend the relevant legislation.
- 2 They wish for close and friendly relations with all the neighbouring nations of Northern Europe but are convinced that common membership of an organisation which by-passes or over-rides the Parliament and Courts of the U K will be a permanent source of strife and hostility between themselves and the other nation states in the Community.
- 3 They are unable to reconcile themselves to the loss of British control over what they regard as British sovereign waters or the exploitation and use of British national assets.
- 4 They believe that experience as well as theory have shown that the welfare of agriculture and the consumer in the British economy requires to be secured by policies incompatible with the principles of the Common Agricultural Policy, and that the intended enlargement of the Community



is bound to sharpen that incompatibility.

- 5 They view with dismay the progressive transfer to the Community or to institutions under its aegis the formation of foreign and defence policies in such a way that Her Majesty's Government and Parliament can no longer be fully accountable for the adoption of courses which may involve British lives and British resources.
  
- 6 Finally, we believe that despite the reservations expressed above, the British people are anxious and willing for Britain to participate in, and for its Government to take initiatives within, truly international, as opposed to supranational, bodies. We feel confident that whatever the future relationship between the U K and the EEC may be, it will be the wish of the British people to seek harmonious, mutually beneficial and constructive relations with our European neighbours. We believe that this can best be achieved by a proper regard for the independence and unique character of each nation, and that the most fruitful forms of cooperation frequently arise from the full hearted consent of peoples and their Parliaments.

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Westminster

19 November 1981

Ref: A06034

CONFIDENTIAL

MR. ALEXANDER

European Council: 26th-27th November 1981

Prime Minister's Briefing Meeting, 24th November at 4.00 pm

Now that the Prime Minister has agreed the composition of the United Kingdom delegation to next week's meeting of the European Council (your letter of 17th November to Mr. Fall refers), you may wish to decide who should attend the Prime Minister's preparatory meeting on Tuesday, 24th November at 4.00 pm.

2. The Prime Minister will no doubt wish to invite the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture. It would also be appropriate to invite the following officials, who will all be members of the delegation: Sir Robert Armstrong, Sir Michael Palliser, Sir Brian Hayes, Sir Michael Butler, Sir Kenneth Couzens, Mr. Franklin, Mr. Bullard, Lord Bridges, Mr. Hancock and Mr. Hannay.

B. G. HILTON

B.G. Hilton

19th November 1981

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FM PARIS 191236Z NOV 81

TO PRIORITY FCO [FRAME GENERAL]

TELEGRAM NUMBER 1001 OF 19 NOV 81

INFO ROUTINE UKREP BRUSSELS AND BONN

INFO SAVING ALL OTHER EC POSTS

EUROPEAN COUNCIL

1. PRESIDENT MITTERRAND WILL COME TO NEXT WEEK'S EUROPEAN COUNCIL JUST AFTER COMPLETING HIS FIRST SIX MONTHS IN OFFICE. THE POLITICAL DEBATE IN FRANCE HAS RECENTLY ADOPTED A MORE POLEMICAL TONE AND THE PRESS HAS TALKED ABOUT THE POLARISATION OF PUBLIC OPINION. THERE IS MUCH HUFFING AND PUFFING BY THE OPPOSITION AND ITS ALLIES IN THE PRESS, BUT M. MITTERRAND'S PERSONAL STANDING APPEARS SO FAR TO HAVE BEEN LARGELY UNTOUCHED. HE CONTINUES TO GIVE THE IMPRESSION OF BEING CONFIDENTLY ON COURSE TO CARRY OUT HIS ELECTORAL PROGRAMME. HIS MAIN DIFFICULTIES ARE WITH THE ECONOMY AND ESPECIALLY WITH THE BUSINESS COMMUNITY, WHOSE HELP THE GOVERNMENT MUST HAVE OVER EMPLOYMENT BUT WHICH IS A SOCIALIST GOVERNMENT'S NATURAL OPPONENT.

2. THE GOVERNMENT'S HEAVY LEGISLATIVE PROGRAMME CONTINUES TO MAKE PROGRESS THROUGH PARLIAMENT, EVEN IF MORE SLOWLY THAN PLANNED. THE OPPOSITION DEPUTIES AND SENATORS HAVE MADE SKILFUL USE OF ALL THE PROCEDURAL DEVICES IN THE BOOK TO DELAY THE THREE MAIN GOVERNMENT MEASURES:

(A) THE GOVERNMENT'S DECENTRALISATION BILL, THE CENTRE-PIECE OF ITS REFORM PROGRAMME, IS BEING HEAVILY AMENDED IN THE SENATE WHERE THE OPPOSITION IS IN A MAJORITY. THE BILL IS UNLIKELY TO REACH THE STATUTE BOOK BEFORE THE END OF THE YEAR.

(B) THE NATIONALISATION BILL HAS NOW BEEN APPROVED BY THE NATIONAL ASSEMBLY AND WILL BE DISCUSSED BY THE SENATE SOON. THE GENERAL EXPECTATION IS THAT IT WILL BE THROUGH BY THE TURN OF THE YEAR. IT MAY THEN BE REFERRED TO THE CONSTITUTIONAL COUNCIL FOR A RULING WHETHER IT ACCORDS WITH THE CONSTITUTION, BUT THE COUNCIL WILL PROBABLY NOT WANT A CLASH WITH THE GOVERNMENT.

(C) THE 1982 BUDGET, WHICH CONTAINS CONTROVERSIAL PROVISIONS TO INTRODUCE AN ATTENUATED WEALTH TAX, IS NOW BEING DEBATED IN PARLIAMENT. THE GOVERNMENT HAS ALREADY ACCEPTED A NUMBER OF AMENDMENTS, AND THE SENATE WILL TRY FOR FURTHER CHANGES, BUT THE BUDGET SEEMS LIKELY TO BE APPROVED, AS REQUIRED, BY THE END OF THE YEAR.

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3. PRESIDENT MITTERRAND HAS LITTLE CAUSE YET FOR CONCERN ABOUT THE COHESION OF HIS GOVERNING MAJORITY. THE VARIOUS GROUPS WHICH MAKE UP THE SOCIALIST PARTY (PS) SUPPORT THE GOVERNMENT ON THE CRUCIAL VOTES. THE FOUR COMMUNIST MINISTERS HAVE, IN PUBLIC AT LEAST, LOYALLY SUPPORTED THE GOVERNMENT'S POLICIES. RELATIONS BETWEEN THE SOCIALIST PARTY (PS) AND THE COMMUNIST PARTY (PCF) HAVE BECOME A LITTLE FRICTIONAL, ALTHOUGH NOT TO THE POINT OF CALLING INTO QUESTION THE CONTINUED PARTICIPATION OF COMMUNIST MINISTERS IN THE GOVERNMENT. THE PCF CONTINUES TO EMPHASISE THAT ITS POLICY PROGRAMME IS MORE RADICAL THAN THAT OF THE PS, BUT SO FAR THIS APPEARS MORE AS A MARKER FOR THE FUTURE THAN AS A CHALLENGE TO THE PS/PCF CONTRACT OF GOVERNMENT. THE PRESS HAS SOUGHT TO DRAMATISE THE DIFFERENCES BETWEEN THE GOVERNMENT AND THE CENTRE AND RIGHT OPPOSITION PARTIES, BUT ALTHOUGH THIS MAKES GOOD THEATRE THE SCRIPT IS BEGINNING TO LOSE ITS ORIGINALITY. M. GISCARD REMAINS ABSENT FROM THE POLITICAL STAGE AND M. CHIRAC, CONSCIOUS THAT THE OPPOSITION IS STILL TOO WEAK TO CONJURE UP A STORM, HAS CONTENTED HIMSELF WITH A STATESMAN LIKE CALL FOR CALM.

4. IN FOREIGN AFFAIRS, PRESIDENT MITTERRAND CONTINUES TO EXPRESS ROBUST SENTIMENTS ON EAST/WEST RELATIONS AND HAS TRIED, WITH A FAIR AMOUNT OF SUCCESS IN FRANCE, TO CAPTURE THE HEADLINES ON THIRD WORLD ISSUES. COORDINATION BETWEEN THE ELYSEE AND THE QUAI OR INDEED BETWEEN MINISTERS IN GENERAL IS NOT AS GOOD AS IT MIGHT BE, AND THERE HAVE BEEN SEVERAL PUBLIC BLUNDERS AND CLUMSINESS, ALL OF WHICH HAVE BEEN SHRUGGED OFF IN ONE WAY OR ANOTHER. BEHIND THE INCONSISTENCIES (WHICH THE FRENCH PUBLIC ASCARCELY NOTICES) PRESIDENT MITTERRAND IS MOVING THROUGH THE GEARS TOWARDS HIS OWN BRAND OF INDEPENDENCE. IT HAS MANY GISCARDIAN ELEMENTS, BUT DOES NOT EXCLUDE COOPERATION WITH FRANCE'S ALLIES, BOTH EUROPEAN AND TRANSATLANTIC. AT THE SAME TIME THE DOOR IS BEING KEPT OPEN TO MOSCOW, BUT WITH A FIRMER FRENCH GRIP ON THE HANDLE. THE CONTINUING PRIORITY GIVEN TO INDEPENDENCE IS ILLUSTRATED BY THE RECENT DECISIONS TO DEVELOP NEW NUCLEAR DEFENCE SYSTEMS.

5. PRESIDENT MITTERRAND'S MAJOR PREOCCUPATION MUST STILL BE THE FRENCH ECONOMY, AND MORE PARTICULARLY UNEMPLOYMENT. THE PRIME MINISTER, M. MAUROY, HAS EMBARKED ON A NATION-WIDE TOUR IN AN EFFORT TO GALVANISE PRIVATE COMPANIES AND LOCAL AUTHORITIES INTO TAKING ON MORE PEOPLE. IN OCTOBER THE NUMBER OF UNEMPLOYED PASSED THE TWO MILLION MARK FOR THE FIRST TIME AND THERE IS LITTLE SIGN THAT THE LEVEL IS LIKELY TO COME DOWN. THE MORE RADICAL PROVISIONS IN THE GOVERNMENT'S PROGRAMME, ESPECIALLY NATIONALISATION AND THE WEALTH TAX, HAVE MADE IT MUCH MORE DIFFICULT FOR

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THE NEW ADMINISTRATION TO GAIN BUSINESS CONFIDENCE. UNLESS THIS CONFIDENCE IS RESTORED, THE GOVERNMENT WILL HAVE A HARD TASK IN ITS ENDEAVOURS TO PROMOTE RECOVERY AND INVESTMENT. THE PARIBAS AFFAIR HAS SOURED RELATIONS BETWEEN THE GOVERNMENT AND THE BANKS. FACED WITH THE DIFFICULT PROBLEM OF FINANCING THE MASSIVE DEFICIT ON THE SOCIAL SECURITY BUDGET (F 36 BILLION) THE GOVERNMENT LAST WEEK DECIDED TO INCREASE THE CHARGES LEVIED BOTH ON EMPLOYERS AND EMPLOYEES. THIS DECISION REQUIRED SOME COURAGE AND HAS PROVED UNPOPULAR BOTH WITH THE EMPLOYERS' ORGANISATION AND THE TRADE UNIONS.

6. M. DELORS APPEARS TO HAVE CONVINCED PRESIDENT MITTERRAND THAT THE RIGHT SOLUTION TO THE CONTRADICTIONS OF HIS POLICIES IS TO PURSUE A GRADUAL PRICES AND INCOMES POLICY. THIS IS LIKELY TO PROVE A DELICATE EXERCISE. IT INVOLVES A PROGRESSIVE RESTORATION OF PRICE CONTROLS ON A WIDE RANGE OF GOODS AND SERVICES COMBINED WITH A CAMPAIGN TO PERSUADE TRADE UNIONS TO ACCEPT WAGE RESTRAINT AND CHANGES IN THE WAGE INDEXATION SYSTEM IN RETURN FOR A SHORTER WORKING WEEK, EARLY RETIREMENT AND INCREASES IN WELFARE BENEFITS. THE COUNCIL OF MINISTERS YESTERDAY ANNOUNCED PLANS TO ASK THE NATIONAL ASSEMBLY FOR AN ENABLING LAW AUTHORIZING THE INTRODUCTION OF A PACKAGE OF SOCIAL MEASURES ON THESE LINES BY DECREE BY THE END OF THE YEAR. THIS SUGGESTS THAT THE GOVERNMENT IS BEGGINING TO FEEL ITSELF UNDER PRESSURE. WITHOUT THE COOPERATION OF BOTH EMPLOYERS AND THE TRADE UNIONS OVER A LONG PERIOD THE POLICY STANDS LITTLE CHANCE OF SUCCESS.

7. THERE HAS BEEN AN INCREASE IN INDUSTRIAL UNREST, MAINLY DUE TO SHOP-FLOOR PRESSURE, BUT THE TRADE UNIONS ARE SERIOUSLY DIVIDED. THE COMMUNIST-DOMINATED CGT IS CONTINUING TO FOLLOW A POLICY OF RESTRAINT BUT MUST BE ASSUMED TO BE WAITING FOR AN EVENTUAL OPPORTUNITY TO AMBUSH THE PS.

THE EMPLOYERS' ORGANISATION, THE PATRONAT, HAS JUST ELECTED A NEW HEAD, WHO HAS A REPUTATION FOR OUTSPOKENESS AND MAY PROVE TO BE A COMBATIVE INTERLOCUTOR FOR THE GOVERNMENT. FROM PRESIDENT MITTERRAND'S STAND POINT A MEASURE OF EUROPEAN ENDORSEMENT FOR HIS ECONOMIC AND SOCIAL STRATEGY WOULD BE A USEFUL AND TIMELY BOOST. AT THE PRESENT MOMENT IN FRANCE BOTH SIDES OF INDUSTRY SEEM TO LOOK UPON IT WITH A GOOD DEAL OF WARINESS AND SUSPICION, EVEN THOUGH THERE ARE NOW SIGNS OF A MILD RECOVERY IN OUTPUT DUE TO INCREASED CONSUMER SPENDING AT HOME AND A RISE IN EXPORTS.

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8. IN LONDON PRESIDENT MITTERRAND WILL BE CHIEFLY CONCERNED THAT THE OUTCOME OF THE COUNCIL DOES NOT UPSET HIS DOMESTIC POLITICAL CALCULATIONS. HE WOULD NO DOUBT PREFER THE COUNCIL TO MAKE PROGRESS ON THE MAIN DOSSIERS BUT HE WILL TAKE CARE THAT ANY ADVANCE IS NOT AT FRANCE'S EXPENSE. IF THE SUMMIT IS NOT SUCCESSFUL, PRESIDENT MITTERRAND WILL, NO LESS THAN HIS PREDECESSORS, TRY AND ENSURE THAT NO BLAME ATTACHES TO FRANCE.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

HIBBERT

(REPEATED AS REQUESTED)

THIS TELEGRAM  
WAS NOT  
ADVANCED

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PS TO NO 10 DOWNING STREET

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DESKBY 191830Z ROME ATHENS BONN THE HAGUE PARIS COPENHAGEN

DUBLIN UKREP BRUSSELS BRUSSELS LUXEMBOURG

DESKBY 200800Z CAIRO TEL AVIV RABAT

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TO IMMEDIATE ROME

TELEGRAM NUMBER 257 OF 19 NOVEMBER

AND TO IMMEDIATE THE HAGUE BONN

INFO IMMEDIATE PARIS AND OTHER EC POSTS .

CAIRO, TEL AVIV AND RABAT WASHINGTON

PRIORITY UKMIS NEW YORK

SINAI MFO

1. AS YOU MAY KNOW THE FRENCH ARE IN TOUCH WITH THE GREEK GOVERNMENT IN AN ATTEMPT TO FIND A FORMULA TO WHICH THEY CAN BOTH AGREE FOR THE STATEMENT TO BE ISSUED BY THE TEN. THERE SEEMS AT LEAST A POSSIBILITY THAT THEY WILL FAIL, OR AT LEAST NOT ACHIEVE A RESULT IN TIME TO ENABLE US TO GO AHEAD WITH THE COMMUNICATIONS TO THE US, ISRAELI AND EGYPTIAN GOVERNMENTS OVER THE WEEKEND SO THAT AN ANNOUNCEMENT COULD BE MADE IN LONDON AND OTHER CAPITALS ON MONDAY, 23 NOVEMBER. WE BELIEVE THAT THIS IS THE LATEST DATE TO WHICH WE CAN LEAVE SUCH AN ANNOUNCEMENT WITHOUT RISKING A VERY ADVERSE REACTION AT FEZ, OR, IF THE ANNOUNCEMENT WERE TO BE DELAYED UNTIL AFTER THE FEZ MEETING RISKING THE PASSING OF RESOLUTIONS THERE DESIGNED TO DETER US WHICH WOULD COMPEL US TO MAKE OUR CONTRIBUTION IN THE WORST POSSIBLE CIRCUMSTANCES. ACCORDINGLY I HAVE COME TO THE CONCLUSION THAT IN THE ABSENCE OF AGREEMENT BETWEEN THE GREEK AND THE FRENCH GOVERNMENTS ON A FORMULA IN THE COURSE OF TOMORROW MORNING WE MUST CONSIDER WHETHER THE FOUR CONTRIBUTORS SHOULD NOT GOAHEAD WITHOUT A FORMAL STATEMENT BY THE TEN, BUT WITH NATIONAL STATEMENTS BY AS MANY OF OUR PARTNERS AS ARE PREPARED TO COME OUT IN OUR SUPPORT. MY HOPE WOULD BE THAT AT LEAST THE BENELUX COUNTRIES AND THE FRG WOULD BE

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PREPARED TO MAKE SUCH STATEMENTS AND THAT DESPITE THE DIFFICULTIES WE HAVE ENCOUNTERED SO FAR WE COULD REASONABLY EXPECT TO BE ABLE TO INCLUDE A PASSAGE IN THE STATEMENT TO BE MADE AFTER THE EUROPEAN COUNCIL IN SUPPORT OF THE FOUR CONTRIBUTORS.

2. BULLARD IS SPEAKING BY TELEPHONE TO THE ITALIAN AND DUTCH POLITICAL DIRECTORS ON THE ABOVE LINES AND ASKING FOR A CLEAR EXPRESSION FROM THEM IN THE COURSE OF TOMORROW MORNING OF THEIR GOVERNMENTS' READINESS TO GO AHEAD WITH US WITHOUT A FORMAL STATEMENT IN SUPPORT BY THE TEN.

3. HE IS ALSO SPEAKING TO PFEFFER TO ASK WHETHER THE FRG WOULD BE PREPARED TO MAKE A NATIONAL STATEMENT OF SUPPORT.

4. WE KNOW FROM PARIS TEL NO. 989 (NOT TO ALL) THAT THE ELYSEE DO NOT REGARD A STATEMENT BY THE TEN AS ESSENTIAL AND PRESUME FROM THIS THAT THE FRENCH GOVERNMENT WILL BE PREPARED IN THE LAST RESORT TO GO AHEAD WITHOUT ONE.

PARIS MAY WISH TO COMMENT WITHOUT AT THIS STAGE CONSULTING THE THE FRENCH.

5. WE HAVE ALSO HAD A CLEAR INDICATION FROM THE BELGIAN POLITICAL DIRECTOR THAT FOR THEIR PART THE BELGIAN GOVERNMENT WOULD BE WILLING IF NECESSARY TO GO AHEAD, ISOLATING THE GREEKS (PARA 3 OF STRASBOURG TEL NO 920)

6. IF THEREFORE WE HAVE NOT HEARD OF GREEK/FRENCH AGREEMENT BY NOON GMT TOMORROW WE MAY BE ASKING YOU FOR A FORMAL AGREEMENT FROM FRENCH, ITALIAN AND DUTCH GOVERNMENTS TO THE FOUR OF US GOING AHEAD ON OUR OWN. IN THAT CASE WE WOULD USE THE COMMUNICATION TO THE US GOVERNMENT ALREADY AGREED, BUT WITH THE RE-INSERTION OF THE PHRASE DELETED AT THE GREEK REQUEST IN (I)(QUOTE IN ACCORDANCE WITH THE TREATY OF PEACE BETWEEN EGYPT AND ISRAEL UNQUOTE) AFTER THE WORDS QUOTE ISRAELI WITHDRAWAL UNQUOTE. WE SHOULD ALSO USE THE NATIONAL STATEMENTS ALREADY AGREED. THE TIMETABLE WOULD BE:

- (A) DELIVERY OF THE COMMUNICATION TO THE US GOVERNMENT ON SATURDAY MORNING, WASHINGTON TIME:
- (B) DELIVERY OF THE COMMUNICATION TO THE EGYPTIAN AND ISRAELI GOVERNMENTS ON SUNDAY MORNING, LOCAL TIME: 0
- (C) DELIVERY OF ANY OTHER NATIONAL MESSAGES TO ARAB LEADERS

2

CONFIDENTIAL

/ ON SUNDAY



CONFIDENTIAL

37547 - 1

ON SUNDAY AFTERNOON OR MONDAY MORNING, LOCAL TIME (ACTION  
POSSIBLY IN FEZ):

(D) STATEMENT IN PARLIAMENT AT 15.30 GMT ON MONDAY, 23 NOVEMBER..

CARRINGTON

STANDARD

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ARAB/ISRAEL DISPUTE

- 3 -

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UNICE

UNION DES INDUSTRIES DE LA COMMUNAUTÉ EUROPÉENNE

ECD (1) for urgent advice

of PS

Mr Alexander

16 January 81

h/w briefs

(Recd. 24 November)

Lord Carrington  
Minister of Foreign Affairs  
c/o the Permanent Representative of the  
United Kingdom of Great Britain and  
Northern Ireland with the European Communities  
Rond Point Schuman, 6  
1040 Bruxelles

7  
29/xi

LE SECRETAIRE GENERAL

BS/LD 1.C.1

19 November 1981

Dear Sir,

On 25 November Mr Guido Carli, the UNICE President,  
and I will have the privilege of meeting the Presi-  
dent of the European Council, Mrs Margaret Thatcher.

We shall be officially handing over, and enlarging  
on, the attached resolution which is not to be  
released for publication until 1500 hours on 25  
November.

This resolution is relevant to the issues arising in  
connection with the new drive towards European inte-  
gration, which is to be debated by the European  
Council.

Yours faithfully,

B. Sassen

Enclosure.

UNICE Resolution in connection with the European Council,  
26-27 November.

Introduction.

UNICE welcomes the resumption of the wide-ranging debate about European revival.

It looks to the European Council to undertake appropriate political commitments and agree on specific guidelines as regards the three aspects of the Mandate of 30 May 1980 :

- the development of Community policies
- adjustment of the Common Agricultural Policy
- avoiding unacceptable budgetary situations.

UNICE is of the opinion that, over and above strict budgetary management, what is required, if the Community is to work properly and if the real solution to budgetary imbalances is to be found, is the application of new Community policies which benefit all Member countries rather than accounting adjustments.

If the Community is to start moving forward again, there must be a strengthening of Community institutions in accordance with the spirit and the rules of the Treaties.

UNICE is conscious of the fact that political cooperation has become an essential element in Community integration.

Priority Objectives.

UNICE considers that the Community should give priority to two main challenges :

- strengthening - indeed, re-establishing - the competitiveness of the European economy as a whole; this implies consolidating the internal market and mastering inflation with a view to ensuring higher growth and fighting unemployment;

- the reduction of the growing divergences between economic performances in Member countries; this implies a more far-reaching and binding concertation of economic and industrial policies, so as to achieve stable growth and strict compliance with commonly agreed commitments.

If the Community is to develop along these lines, there should be new Community policies which would foster coherence in the EEC, involving a disciplined approach by Member States, enabling them to pool their advantages and make the most productive use of them.

#### Reinforcement of the Internal Market.

To reinforce competitiveness the internal market should be built up not only through the elimination of obstacles to the free movement of goods and freedom to provide services, but also by harmonisation of legal, economic, fiscal and social conditions where this would foster business activity. This approach also implies cutting down on the spread of State subsidies which result in redividing the markets. All these measures should aim at transforming the present trading Community into a real production Community and providing a continent-wide framework for an industrial and financial system capable of meeting international competition. The implementation of a Community strategy requires a genuine European industrial policy no longer confined to sectors in difficulty, but concerned to promote innovation and advanced technology. This implies a set of measures :

- to facilitate cooperation between companies and the process of restructuring within the EEC;
- to encourage research and development in companies as well as joint projects, especially in high technology;
- to ensure that enterprises get equal treatment with rivals in non-Members countries;
- to encourage investment on fair terms of competition;
- to promote the creation and development of small and medium sized enterprises;
- to ensure that harmonisation efforts serve to improve the framework of enterprise activity;
- to maintain the freedom of world trade.

#### Sound Economic Policies.

UNICE also holds the view that firm and responsible economic management by member States can play a major part in strengthening the industrial base of the Community by reducing costs and diminishing uncertainties. One of the basic conditions for renewed

economic growth in the EEC is the ability to cut back inflation. Hence every effort should be made to reduce inflationary pressures by bringing the money supply under control and reducing public deficits.

UNICE, also, deplors the lack of order in international monetary affairs and lays stress on the need for :

realistic and reliable rates of exchange; stable and lower rates of interest; open and freely operating capital markets.

To achieve these objectives it is necessary to have stability in economic relations, based on greater convergence in economic performances.

Coordination of a more binding nature of the economic, monetary and financial policies of Member States, in the interest of growth based on stability, would mean strict compliance with the economic policy aims set out in the recent medium term economic policy programme, including consolidation of the EMS. National attitudes and policies must be consistent with the commonly agreed aims. Some effective means of supervision should be introduced.

#### An active social policy.

An improvement in the employment situation ultimately depends on getting back to a higher growth rate. UNICE is, therefore, in agreement with the Commission's statement that if a satisfactory long term level of employment is to be achieved, European industry must maintain its ability to compete on world markets by developing productive investment and cutting production costs.

In the present period of low economic growth in the Community, the persistent rise in social costs represents a considerable burden on enterprises. Restraint in wage costs and social charges is a decisive factor in creating new job-openings.

An active employment policy should aim at greater geographical and job mobility with the Social Fund playing a more effective role. An end to restrictions and the compartmentalisation of the labour market is also called for. Such a policy should promote and be compatible with industrial innovation.

UNICE is extremely concerned at the high level of unemployment in the Community, which is affecting young people in particular. Like the Community authorities, it thinks that priority should be given to measures to remedy this situation, and it is ready to help seek lasting solutions to this problem.

#### Adjustment of the CAP.

While recognising the central part played by the CAP in the development of the Community, and the need to have regard for the fundamental principles of this policy, UNICE recommends that improvements should be made in the way the policy is implemented with a view to reducing the rate of growth in agricultural expenditure, and to aligning production more closely on consumption. UNICE considers that the rate of growth in agricultural outlay in the future should not prevent other Community expenditure for structural purposes from rising at a faster rate than the budget itself.

#### Adaptation of Regional Policy.

Regional Policy should be adapted to Community needs of the 1980s, which are not the same as those of the 1960s. First of all, world recession has reduced production possibilities in backward rural regions and in depressed zones where the traditional industries are concentrated. Secondly, the recession has also created problems in regions relatively prosperous up to now, while at the same time restricting public resources available. A more balanced approach to Community regional development requires more attention to promoting the local development potential of the regions concerned. Furthermore, the reduction in regional disparities should also mean more efficacious Community spending, and a greater awareness of the regional impact of the various Community policies and decisions.

#### Energy Policy.

The energy challenge calls for a Community energy policy based on a more rapid convergence of national energy policies supported by specific Community measures. Because of the interdependence of the European economies, such a policy is essential, both for member countries which are big importers of energy and those states which depend little on supplies from outside.

Increased investment in security of supply and energy efficiency calls for greater efforts on the part of Member States to abide by the principles of price policy adopted by the Council in June 1980.

Community policy should give more attention to the problem of the non-financial obstacles to energy investment. In certain carefully selected areas which are of major Community interest, further Community financial incentives to investment in energy are desirable, so long as the financing arrangements do not cause economic distortions. To this end, the use of the NCI in the energy field should be extended. On the other hand, the use of energy taxation as a means of financing investments or as an instrument for regulating or guiding energy prices is a wrong approach to the real problems of energy. This cannot be justified either nationally or at the Community level.

#### Use of Community Instruments.

The various EEC financial instruments should be adapted to the new needs of Community policies and their use should be conditional on compliance with jointly agreed commitments. In particular, community credit policy (EIB, NCI, ECSC, EURATOM, etc.) should contribute to the realisation of the common objective of increasing competitiveness.

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CONFIDENTIAL

Qz 02364

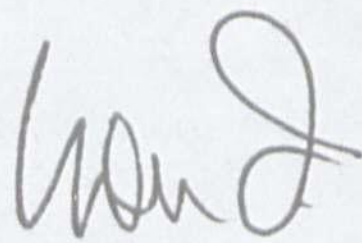
MR ALEXANDER

cc: Sir Robert Armstrong

EUROPEAN COUNCIL: MANDATE

In connection with the Prime Minister's meeting this evening, I attach the draft of guidelines for the budget chapter, with commentary. These have been prepared by officials of the Treasury, FCO, Cabinet Office and UKREP. Ministers will wish to consider whether the text is acceptable, and if so, whether we should discuss it with the French and the Germans (and the Commission) before the European Council.

2. A copy of this minute with the enclosure goes to the Private Secretary of the Foreign Secretary and the Chancellor of the Exchequer.



M D M FRANKLIN

19 November 1981

Encl.

CONFIDENTIAL



GUIDELINES FOR BUDGET CHAPTER

TEXT

1. The object of the Community budget is to finance agreed Community policies.

At the same time the creation or recurrence of an unacceptable situation for any member state must be avoided

and the overall convergence of the economies of member states must be fostered, *without imposing an undue burden on any member state.*

2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.

3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.

4. The corrective arrangement will need to deal not only with the problem already recognised by the Financial Mechanism *but also* with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure.

The arrangement will be based on objective criteria so that there is no need for an annual negotiation.

COMMENT

Community orthodoxy.

30 May agreement language. "Creation or recurrence" hints at a German problem.

Important for Italians - supported by Ireland, Greece and UK. A peg in the Treaty for making relative prosperity a key factor in any arrangements.

Broad agreement on this, which accords with 30 May agreement. Progress on Chapter I (development of Community policies) a vital political need for Benelux (and France - reliance) if they are to make concessions on budget. Italians also seeking progress here. French aiming for concessions to their views on Chapter II.

French and Danes do not yet admit corrective arrangement will be needed but we have presented figures, which have not been controverted, showing that measures contemplated under Chapters I and II cannot solve our problem in the short run. Text makes it clear that permanent mechanism is not envisaged.

Picks up Commission's reference to FEOGA but makes clear problem is wide. Useful recognition that problems arise both from excessive (gross) contributions and from inadequate receipts. (We would need financial mechanism as well as FEOGA scheme if we were to get enough for UK out of Commission approach.)

It should be agreed that annual negotiation would be disruptive and unsatisfactory. Useful peg to introduce objective criteria.

CONFIDENTIAL

These criteria should include not only the progress made in reducing the problem of unacceptable situations through the development of Community policies,

but also the relative size of the member state(s) in question and the relationship of their GDP per head to the Community average.

5. The financing of the corrective arrangement will be achieved within the 1% ceiling and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net budgetary impact.

The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether or not they are net contributors.

6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after five years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

Another bow to those who attach importance to Chapter I.

Our objective criteria.

Community orthodoxy favours financing by own resources (like 30 May refunds) but this is unlikely to be possible within 1% ceiling. It might be possible to avoid a net budgetary impact by balancing receipts and contributions in a budgetary sub-head summing to zero.

Average GDP criterion benefits Italy, Ireland and Greece. Net contributor criterion benefits Germany.

1982 implementation avoids issue of third year refunds for UK under 30 May agreement. 31 December 1981 deadline follows intention expressed in the 30 May agreement itself.

Five year review included to meet wishes of those (including France, Denmark, Netherlands) who insist arrangement must be temporary but text maintains presumption that it will continue 'until any changes are needed'.

CONFIDENTIAL

BELGIAN ECONOMIC SITUATION  
FUNDING NATIONAL INSURANCE

The national insurance fund was (correctly) reported in the British press last week to have only enough money to cover one more week's unemployment benefits. However, this situation not unusual at this time of year in Belgium and our embassy believe that the funds required ~~to~~ ("complementary credits")<sup>to</sup> keep payments flowing will either be authorised by decree of the caretaker government or parliament will be summoned to vote the money. This would probably have been done already but for the holding of general elections earlier this month.

Underlying Problems

Balance of payments deficit.

Growth of PSBR from 6.2% of GNP in 1976 to a forecast of nearly 14% this year.

Loss of competitiveness in Belgian industry

Investment funds preempted by support for ageing industries, eg steel and textiles.

Indexation of wages and salaries, social security benefits etc.

Recent Developments

The consumer price index rose by 7.8 per cent in the twelve months to October

The unemployment rate rose by 21.6 per cent in the twelve months to October, when it reached 9.9 per cent.

Industrial production declined in the most recent month for which figures are available, July and as a result was down by 7.7 per cent compared to a year earlier.

Interest rates: Treasury Bills are at 15½ per cent, Bank rate at 13 and commercial bank loans to prime customers at 15 or 16 per cent.

The Belgian franc is comfortably within its margin for fluctuation in the EMS.

*R. R. Garside*

R R GARSIDE  
November 1981

## 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:

EQS(81) 27

Date:

18 November 1981

Signed

Wayland

Date

30 August 2011

**PREM Records Team**



SS  
Marco PANNELLA

14/12

10 DOWNING STREET

*From the Private Secretary*

16 November 1981

12/11/81

I enclose a letter which the Prime Minister has received from S. Marco Pannella of the European Parliament about North/South relations. Subject to your views, I see no need for the Prime Minister herself to reply to this letter and should be grateful if you could arrange for a reply to be sent on her behalf to S. Pannella, with a copy to us for our records here.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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Movimento  
per l'Italia libera  
nella Libera Europa

00186 Roma  
Piazza Capranica, 95  
Tel. (06) 6795005

**M.I.L.L.E.**

Rome, November 16th, 1981

Subject: Appeal of MILLE to the European Council  
(London, 26-27 November, 1981)

Madam,

Herewith I take the liberty to apply to you in the name of MILLE, an Opinion-Movement founded in 1976, which expresses the voices of those electors who really believe in the values of Western World.

Herein enclosed I send you the text of the appeal the MILLE addresses to the Chairman and Members of the European Council at the eve of the next Meeting in London.

I would very much appreciate if you could examine this appeal with due attention, taking it into account during the deliberations of the European Council.

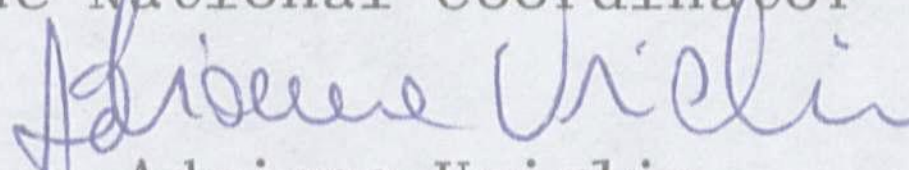
I look forward to know what you think about it and for what regards a further development of the actual position of the MILLE.

Please accept, Madam, the expression of my highest esteem,

Yours sincerely,

Encl.: 1 (I+E)

M. I. L. L. E.  
The National Coordinator

  
Adriana Usiglio

\_\_\_\_\_  
Mrs. Margaret THATCHER  
Premier  
President of the European Council

LONDON

Or. I

FOR AN IMMEDIATE RELAUNCH OF THE EUROPEAN COMMUNITY

APPEAL of the M. I. L. L. E.

in view of the next European Council

(London, 26-27 November, 1981)

Premise

The single European countries not always succeed in resolving their internal problems or in taking part, with the necessary force, in the dialogues of the "biggs". This not only has a damaging effect on these countries, but also implies the impossibility to show the world the opinion of Europe regarding important themes such as Peace, Underdevelopment and Energy crisis.

It is therefore necessary to accelerate and complete the process of European integration. For this aim the legal and institutional instruments that already exist may be of great help if there is a clear and resolute political will to apply these fully.

.../...

2)

In the belief that the next meeting of the European Council represents the occasion, no more procrastinable, to express that will, the M.I.L.L.E. addresses to the Chairman and Members of the European Council the following

APPEAL

- 1) The European Council reaffirms that the strengthening of the States Members and of the Community, both on the intra-communitarian relations, as well as on the relationships with the rest of the world, should be accomplished by communitarian methods, that is through the European Community Institutions.
- 2) The European Council declares the will of the Governments of the States Members that the Treaty establishing the E.E.C. should be wholly respected, in particular with regard to the application of the voting rules therein provided.
- 3) The European Council states that the Council of the European Communities, in order to obtain greater progress towards the Union of Europe, should make use of the possibilities the E.E.C. Treaty offers, in particular those of art.235.
- 4) The European Council decides, as already many times required by the European Parliament, to put at the disposal of the Community, already for the budget of 1982, more financial resources for the social and regional policies, which, together with the agricultural policy, form the basis of a true economical union of the States Members.
- 5) The European Council agrees to infuse life into the political cooperation among the States Members by use of the communitarian institutional structures.
- 6) The European Council emphasizes the importance of the European Parliament's role and strengthens its power inviting the other European Institutions, precisely the Commission and the Council, to comply as much as possible with its advices and resolutions.
- 7) The European Council gives large publicity to its own deliberations to relaunch the Community, as suggested under the aforementioned points, in order to involve more and more the populations of the States Members in the European construction.

Rome, November 15th, 1981



PER IL RILANCIO IMMEDIATO DELLA COMUNITA' EUROPEA

APPELLO del M. I. L. L. E.

in vista del prossimo Consiglio Europeo

(Londra, 26/27 novembre 1981)

Premessa

I singoli Paesi europei non riescono nè a risolvere molti dei propri problemi interni nè ad inserirsi, con il peso necessario, nel dialogo dei "grandi" e questo non solo li danneggia ma fa anche perdere al mondo la possibilità che sui grandi temi della pace, del sottosviluppo e della crisi energetica si ascolti la voce dell'Europa.

E' perciò indispensabile accelerare e completare il processo di integrazione europea. A questo obiettivo possono rispondere gli strumenti giuridici ed istituzionali già esistenti se vi è una chiara e decisa volontà politica di utilizzarli appieno.

.../...

2)

Convinto che la prossima riunione del Consiglio Europeo costituisce l'occasione non più procrastinabile per esprimere tale volontà, il M.I.L.L.E. rivolge al Presidente ed ai Membri del Consiglio Europeo

1'APPELLO  
=====

affinchè esso:

- 1) ribadisca che il rafforzamento degli Stati membri e della Comunità, sia sul piano intracomunitario che su quello delle relazioni con il resto del mondo, deve essere attuato col metodo comunitario e quindi per mezzo delle Istituzioni della Comunità Europea.
- 2) dichiari la volontà dei Governi degli Stati membri che il Trattato istitutivo della C.E.E. sia integralmente rispettato, in particolare con l'applicazione delle regole di voto ivi previste.
- 3) stabilisca che il Consiglio delle Comunità europee, per la realizzazione di ulteriori progressi verso l'Unione europea si avvalga delle possibilità offerte dal Trattato CEE, in particolare dell'art.235.
- 4) decida, come più volte richiesto dal Parlamento Europeo, di mettere a disposizione della Comunità, già nel bilancio per il 1982, maggiori risorse finanziarie per la politica sociale e per la politica regionale, politiche che, parallelamente a quella agricola, sono alla base di una vera unione economica fra gli Stati membri.
- 5) convenga di dare un maggiore impulso alla cooperazione politica tra gli Stati membri, utilizzando le strutture istituzionali comunitarie.
- 6) sottolinei l'importanza del ruolo del Parlamento europeo e ne rafforzi i poteri invitando le altre Istituzioni europee, più precisamente la Commissione ed il Consiglio, ad uniformarsi quanto più possibile ai suoi pareri e alle sue risoluzioni.
- 7) dia ampia pubblicità alle proprie deliberazioni per il rilancio della Comunità, come suggerito ai punti precedenti, per coinvolgere sempre più le popolazioni degli Stati membri nella costruzione europea.

°  
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Roma, 15 novembre 1981

ROBERT VAN SCHENDEL  
LE-PRÉSIDENT INTERNATIONAL  
DU MOUVEMENT EUROPÉEN

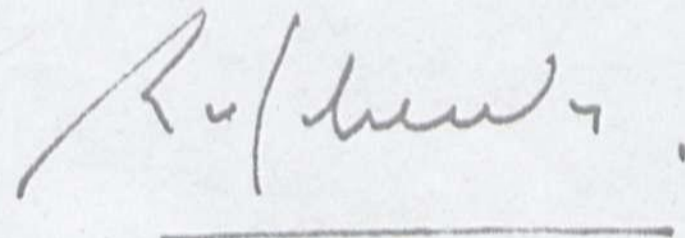
1040 BRUXELLES  
RUE DE TOULOUSE, 47-49  
☎ 02-230.08.51

Bruxelles, le 16 novembre 1981.

Madame le Premier Ministre,

J'ai l'honneur de vous adresser sous ce pli le texte de la résolution adoptée par le Conseil fédéral du Mouvement Européen qui s'est réuni récemment à Strasbourg sous la présidence de m. Giuseppe PETRILLI.

Veillez agréer, je vous prie, Madame le Premier Ministre, les assurances de ma haute considération.



Robert van SCHENDEL

Madame Margaret THATCHER  
Premier Ministre  
10 Downing Street  
GB-LONDON

FEDERAL COUNCIL

POLITICAL RESOLUTION

Strasbourg, 30-31 October 1981

The Federal Council of the European Movement, meeting in Strasbourg, on 31 October 1981

Emphasises the gravity of the economic situation, characterised by stagnation or a general recession and an extremely worrying level of unemployment, without halting an inflationary process for all that;

Deplores the weakness of the European Governments which are obviously keeping to national parameters in an attempt to check a transnational structural crisis which reduces their chances of intervention and aggravates all sorts of social tensions;

Establishes that there is a constant deterioration in the international situation corresponding to their state of affairs seen in the multiplication of areas of tension which render the present political balance extremely fragile;

Stresses the complexity and interdependence of the challenges presently facing the European Countries; the danger that an economic boost based on security of energy supplies and increased cooperation with the Third World may be frustrated by the heightening of military opposition between the two blocs; the risk of a nuclear conflict;

Denounces the inadequacy of the answers to these challenges furnished until now by the Community agreements and institutions which are venturing to hide a budgetary compromise based on pure book-keeping principles behind expressions of good intentions as much as the resorption of the Community institutions within a system regulated by the traditional rules of intergovernmental cooperation;

Regrets that the Commission and the European Governments have not made progress on the use of the ECU in all internal and external transactions and reaffirms that in this perspective it is indispensable to implement the European Monetary Fund on the agreed date;

Recognises nevertheless that the latest proposals of the Commission in execution of the 30 May 1980 Mandate represent a first step in the direction, in particular where it underlines the need for a global approach to all the economic and political problems facing the Community;

Regrets the delay in enlarging the Community to include Portugal and Spain and recalls that the participation of these countries would reinforce the economic and political development of the whole Community and would contribute to consolidating the democratic system in these countries where public opinion can only be deeply disappointed by the Community's excuses,

Indicates that the action undertaken by the European Parliament following the vote of 9 July last concerning the elaboration of amendment proposals to the Community Treaties to be submitted to the national constitutional organs for ratification - constitutes the realistic side of the alternative in relation to the present procedures which are completely incapable of resolving problems;

Appeals to the Council of the Communities to fully discharge its responsibilities as a Community organ by positively welcoming the proposals of the Parliament and the Commission and by urgently taking all the decisions which the general political interests of the Community demand as much as on internal plane as the external one;

Affirms that the security of Europe cannot only be attained by defensive measures but by a policy intended to abolish the menace which weighs so heavily over our divided continent; this policy can be achieved by means of increasing economic, political and cultural cooperation and by seeking common policies which lead to multilateral disarmament;

Urges the European Movement to implement everything needed to mobilise public opinion still further in favour of such a far reaching design by channelling the worries which the safeguarding of peace arouses at present towards the only response which is not impulsive: the progressive implementation of a Federal European Government, capable of taking independent responsibilities in relation to common security.

---

M. O'D. B. Alexander, Esq.



CABINET OFFICE

With the compliments of  
The Private Secretary to the  
*Secretary of the Cabinet*

70 Whitehall, London SW1A 2AS  
Telephone 01-233 8319

CONFIDENTIAL



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A05973

16th November, 1981

*will request if required*

I have written to you separately about Sir Robert Armstrong's conversation with Monsieur Attali on the next meeting of Personal Representatives. During that conversation, Sir Robert referred to the discussion which the Chancellor of the Exchequer had had with Monsieur Delors in which the possibility had been raised of a high-level contact between representatives of the Prime Minister and the President before the European Council. Monsieur Attali said that he was aware of the conversation. He was himself dealing with "the dossier" on preparation for the European Council. He would be available for a meeting at a time convenient to both sides and would be happy to come to London for that purpose.

Sir Robert said that he thought it would be preferable to look at the need for a meeting once this week's Councils had taken place. If there were to be a meeting in which he was involved he would wish to be accompanied by Michael Franklin. They agreed to be in touch again this week.

Following this conversation with Monsieur Attali, Monsieur Beregovoy telephoned Sir Robert on Friday morning. He said that he was aware of the conversation which had taken place the previous day and clearly indicated that, if any meeting were to take place, this should be between him and Sir Robert Armstrong. Sir Robert again said that he would want to look at the question of a meeting after next week's Council meetings. Monsieur Beregovoy seemed content with this and agreed that they should be in touch later this week.

I am sending a copy of this letter to Michael Alexander and to John Kerr in the Treasury.

**D. J. WRIGHT**

(D. J. Wright)  
Private Secretary

R. A. Burns, Esq.

Mr Alexander

*E. Powell*



*fill*

*With the Compliments of*

D M Elliott

CABINET OFFICE  
Whitehall  
London SW1A 2AS  
Telephone: 01-233 7294



Mr Alexander

You will wish to see this before Bonn (though Mr Franklin suggests that you may not want to show it to the Prime Minister)

CABINET OFFICE
19 455
16 NOV 1981
FILING INSTRUCTIONS
FILE NO. ....

Private Secretary suggests that you may not want to show it to the Prime Minister  
POSSIBLE MESSAGE TO MEMBERS OF THE EUROPEAN COUNCIL

11/16/11

1. I attach drafts of a possible set of messages from the Prime Minister to the other members of the European Council to be sent later this week.
2. The timing will be tight. The messages will need to issue after a possible resumed Council on 19 November but before the weekend, if they are to be put to best use.
3. I understand the Secretary of State wants to consider this further, particularly the idea of a visit by him to Paris to brief President Mitterrand.

*D. Hannay*

(D H A Hannay)

16 November 1981

cc: Sir M Butler, UKRep  
Mr Franklin  
Mr Sprackley EGD(I)

(by MUFAX with request to ensure that the PUS and Lord Bridges have copies of the drafts before they go to Bonn)

Mr Alington

Mr R. Alington will wish to have this before his Bonn visit. I am sending a separate copy to Mr Alexander.

11/16/11

THESE POINTS WILL BE DISCUSSED AT THE MEETING OF THE  
STATE GOVERNMENTS AND MEMBERS OF THE COMMISSION

We are now only a week away from the meeting of the  
European Council in London which we set ourselves as  
the target last June for reaching decisions on the  
Mandate.

Much work has been done by the Foreign Ministers and by  
the Mandate Group, but it is clear that they have not  
been able to resolve several issues which therefore fall  
to us to consider. Both in the 30 May Mandate itself  
and last June we set ourselves the firm objective of  
taking decisions this year. We will only bring  
discredit and criticism on the Community, to whose  
future development we are all committed, if we fail  
to achieve this objective. The hard fact is that it  
will be no easier to take the decisions next spring,  
indeed it could even be more difficult to do so then.  
So I hope very much that I will have your cooperation  
in working to maximise the areas of agreement when we  
meet next week.

One thing that does seem clear from the discussion so  
far is that there is no alternative to taking matters  
forward on a broad front, with equal and solid progress  
being achieved on all three main chapters of the  
negotiation. Of course there are differences of  
emphasis between us as to the relative importance of  
each chapter, but I hope we can agree from the start to  
work on them in parallel with the object of aiming at  
the greatest possible amount of progress on all three.  
To relaunch the Community we need to develop Community  
policies, to make changes in the C.A.F. and to avoid  
unacceptable situations.

Looking at the state of the preparatory work  
the single most pre-occupying aspect for the Presidency  
is the extent to which discussion on the budgetary

/chapter

chapter and the search for solutions there has lagged behind. In each of the other two chapters there are of course still differences of significance. In these is also much common ground; and the basis on which we will have to discuss and resolve the differences is clear. On the budget no such clear basis exists and the road we have to travel is a good deal longer if, as I believe we must, we are to agree operational guidelines for that chapter too.

It does seem to me, however, looking at the preparatory work, that the entirely legitimate caution of all delegations when dealing with such a financially significant matter has masked the emergence of at least some points of consensus. There does seem to be general agreement that the long term solution to avoiding the recurrence of an unacceptable situation must be sought in the adaptation of Community policies themselves, which we should put in hand forthwith; but that that adaptation will take time and that the rate of its progress is not entirely predictable; and that in the meantime some special budgetary arrangement will be needed. It is also I think common ground that it would be in no-one's interest to have to come back to this issue year after year. What is still disputed is the amount, duration and method of the necessary adjustment, as well as its application, whether it should be general or limited to the UK. What I think we must try to do next week is to enlarge the area of agreement between us and register it clearly in operational guidelines which will permit the remaining detailed work to be carried out expeditiously thereafter.

I thought it might be useful to set out my preliminary thinking in advance. As usual the time available to us will be limited and I would like to put it to the best use. To succeed in taking decisions next week will be a great boost for the Community as a whole.

SEPARATE ADDITION TO CHANCELLOR SCHMIDT

I very much enjoyed our talk earlier this week.  
I have asked Peter Carrington to go Paris to bring  
President Mitterrand into the picture on what we  
discussed. I hope very much we will be able to find  
a good measure of agreement between us.

SEPARATE ADDITION TO PM SPANDOLINI

I did very much value our talks on these matters when  
you visited London. I hope your next visit will see  
us bringing some of the issues we discussed to fruition.

SEPARATE ADDITION TO PRESIDENT MITTERRAND

I have asked Peter Carrington to go to Paris to brief  
you personally about the preparations for the meeting.  
I hope you will be able to find time to see him.  
I greatly valued our discussions in September and hope  
we will be able to make good progress when we all meet  
in London next week.

SEPARATE ADDITION TO M. THORN

I look forward to seeing you again on 24 November to  
discuss the European Council. We will have to work  
closely together. I am most grateful for all that you  
and your colleagues are doing to achieve some solid  
progress.

SEPARATE ADDITION TO DR FITZGERALD

I valued our discussions on this when we met recently.  
I hope we will be able to make real progress when we  
meet in London next week.

/SEPARATE ADDITION

SEPARATE PROVISION TO 1. 1. 1. 1. 1. 1.

I very much look forward to meeting you in London next week.

CONFIDENTIAL

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

CONFIDENTIAL COVERING SECRET



FILE

cc CO

10 DOWNING STREET

Encl Pd

*From the Private Secretary*

MR. FRANKLIN  
CABINET OFFICE

European Council: 26/27 November  
A Possible Game Plan

The Prime Minister has seen and taken note of your minute to me of 13 November. Her only comment was to the effect that the Germans had already rejected the limits scheme.

\* ~ ~ ~ ~ ~ \*

I am sending a copy of this minute to Sir Robert Armstrong.

M. O'D. B. ALEXANDER

16 November 1981

CONFIDENTIAL COVERING SECRET

SPG

\* ~ ~ ~ ~ ~ \* Passage deleted and retained under Section 3(4).

Wayland

30 August 2011



*Prime Minister*  
*For discussion at the briefing*  
*meeting?*

Foreign and Commonwealth Office

London SW1A 2AH

13 November 1981

*Dear Michael,*

*Print 16/11*

*Yes*

Future meetings of the European Council

In your letter of 9 November, you said that the Prime Minister had told Dr FitzGerald that she was considering proposing, at the European Council, that the number of meetings should be reduced from three to two each year. The point was also raised in the discussion with Signor Spadolini.

Lord Carrington agrees with the Prime Minister that two European Councils a year should normally be quite enough for the business which needs to be done. He thinks that the Prime Minister should, however, be aware that:

- (a) the original decision in 1974 to have three European Councils a year was a compromise between those who would have preferred two and those who were seeking four;
- (b) for 1982, we have already accepted the two dates proposed by the Belgians (29/30 March and 28/29 June). The Danes have also proposed a date (3/4 December) for their European Council, though we have not yet accepted it.
- (c) More important, the signs are that the two European Councils in the first half of the year will in fact fit in quite well with the likely timetable for the Mandate negotiations. The end of March Council will fit in with the price fixing, while the June Council may possibly be needed to bring the negotiations to a conclusion.

In these circumstances, Lord Carrington feels that there would be advantage in pursuing our objective of reducing the number of European Councils in the medium term ie for 1983 not 1982.

I am sending a copy of this letter to David Wright in the Cabinet Office.

*Yours ever,*

(F N Richards)  
Private Secretary

*Francis Richards*

M O'D B Alexander Esq  
 10 Downing St

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



MS

10 DOWNING STREET

Prime Minister

Following a discussion with  
him earlier today I asked  
Mr Franklin to summarise the  
position as it now stands on  
the preparations for the Council.  
I attach the result, with which  
I agree.

Paragraph deleted and retained  
under Section 3(4).

Wayland  
30 August 2011

Ant



*Strawford  
Council*



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*P.A. has seen*

*h.g.*

*Am*

Qz 02363

MR ALEXANDER

cc: Sir R Armstrong

EUROPEAN COUNCIL 26/27 NOVEMBER: A POSSIBLE GAME PLAN

1. It is clear that we cannot hope to negotiate figures at the European Council on 26/27 November. On the other hand we must capitalise on the link which others have established between the three chapters and their fear that we are going to make a row about the budget. With the possible exception of the Danes, they are all ready to do something for us - though less than we need. If we could get agreement on method this would be a very substantial step forward. But at least we should get certain guiding principles agreed which will make the subsequent negotiating task easier. We should not get ourselves so obsessed about the best method of dealing with the budget that we lose sight of the main aim: a satisfactory outcome in terms of the general level of the UK's budgetary contribution to the Community.

2. The Foreign Affairs Council on 16/17 November, which will have before it a new text of draft conclusions (20 pages) covering all three chapters, is unlikely to get very far. A further meeting of the Foreign Affairs Council on at least the morning of Thursday 19th November will probably be necessary. It will then be left to the Presidency to produce a new text for the European Council.

3. The Anglo/German summit on Wednesday 18th November will be the opportunity to find out where the Germans stand; (and to encourage Schmidt not to put everything off until next Spring. We will ask the Germans for a reaction to the latest Treasury scheme. The possible outcomes are:-

*He has  
already  
replied.*

- (i) the Germans decide to back our scheme. In this case we should put it forward at the Council on 19th November;
- (ii) the Germans say our scheme is interesting but only acceptable if the UK continues to be a substantial net contributor. The Treasury would still like to float the scheme in these circumstances, but the FCO think this would be unwise. Sir M Butler believes it would put us in a weak

/negotiating

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negotiating position. It would be very unlikely to contribute to positive conclusions at the European Council;

- (iii) the Commission will have decided at their weekend meeting to propose a system of financing their scheme which will give relief to the Germans, and the Germans will have decided to back it. In this event we ought to give serious consideration to saying that, if everyone else is willing to negotiate on the Commission's scheme, so would we be, provided there was also an effective Financial Mechanism;
- (iv) the Germans will still not have made up their minds on Wednesday. In this event - perhaps the most likely - we should then decide to go hard for operational guidelines which will cover the German position but not commit us to one method or the other. After all the method is less important than achieving a satisfactory budget outcome. A possible draft agreed with FCO and Treasury is attached.

4. To have any chance of success at the European Council we should need to have some prior understanding at least with the French and the Germans. We cannot bounce the other member states entirely, but we must not give them draft language too soon before the European Council itself. In particular, we shall have to try to isolate the Danes at the European Council itself.

5. As soon as possible after the Anglo/German Summit, the Prime Minister should consider with the Foreign Secretary and the Chancellor:-

- (i) whether to go for guidelines on the lines of those attached;
- (ii) if so how best to sell them first to the French and the Germans;

/(iii)

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(iii) whether she should send a message to all Heads of Governments expressing concern at the lack of progress on Chapter III and the need for equal progress on all three chapters; and sketching out possible guidelines on the budget.

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*hand*

M D M FRANKLIN

13 November 1981

Encl.

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## GUIDELINES FOR BUDGET CHAPTER

1. The objectives of the Community budget are to finance agreed Community policies while avoiding the creation or recurrence of an unacceptable budgetary situation for any member state and while contributing to the overall convergence of the economies of member states.
2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.
3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.
4. The corrective arrangement will need to deal not only with the problem already recognised by the Financial Mechanism but also with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure. The arrangement will be based on objective criteria so that there is no need for annual negotiations. These criteria should include not only the progress made in reducing the problem of unacceptable situations through the development of Community policies, but also the relative size of the member state(s) in question and the relationship of their GDP per head to the Community average.
5. The financing of the corrective arrangement will be achieved within the 1 percent ceiling and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net budgetary impact. The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether or not they are net contributors.
6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.



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7. The detailed arrangements so agreed will be reviewed after five years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

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Marco PANNELLA  
*Deputato al  
Parlamento europeo*

Rt Hon Margaret THATCHER  
House of Commons  
LONDON SW1A

Bruxelles, 12th november, 1981

Dear Colleague,

irrespective of our verdict on the Cancun Conference, the objectives proposed in the Manifesto of the 54 Nobel prize winners, translated and adopted by the European Parliament by an unprecedented majority, and with the very clear emergence of new alignments and points of convergence, unfortunately failed to find any echo but only met with deaf ears. However it is not our intention to stand back and contemplate with resignation the worsening disaster confronting us and the collapse of every new, tangible and immediate hope or proposal.

The next few days will witness the expiry of the deadline set for the Commission and the Council of the European Communities for preparing the emergency plan and discussing the financial appropriations as set out in the resolution.

As present, the situation is as follow:

1. The decision of the European Parliament remains fully valid, with all the institutional and political force vested in it under the powers recognized by the Treaties of Rome.
2. The European Commission, i.e. in particular the President, Gaston Thorn, and Commissioner Pisani, has the duty and the responsibility to carry out the mandated entrusted to it, i.e. to submit (even if in summary general terms) the proposal for a financial project to save at least 5 million lives in 1982.
3. The Council of Ministers can, theoretically, adopt four decisions:

- (a) to leave in practical terms without reply or follow-up the European Parliament's resolution, which is undoubtedly a source of disturbance since it claims to change the anti-hunger programmes already drawn up by each of the 10 governments;
- (b) to reject the European Parliament's resolution either by a majority or unanimously, or even with only one government opposed;
- (c) to approve unanimously the principle that the Community will proceed to comply with the European Parliament's requests, but with the financial contribution limited to countries declaring their approval of the resolution;
- (d) to accept, with the procedures and limits set out heretofore, only that part of the resolution concerning the extraordinary aid and the UN initiative, while rejecting the item relating to the immediate and integral appropriation of the 0.7% of gross national product.

It is in any case only the definite interest of, and attention brought to bear by, public opinion and those eminently qualified to represent or to activate it that permits the hope that this decision may not be the worst of those which I have illustrated.

Unfortunately, it is not ill will alone, but sheer disbelief that we are faced with, the lack of self-confidence, the tendency to resign themselves fatalistically to events on the part of these, our ruling governments - however good and estimable individually - so that, if we do not help them by prodding them on and also by shaking them out of their passive lethargy, it is my sincere belief that the battle for life will once again be lost for now, and forever lost for victims.

If the most eminent opinions, which have in the past been at great variance with each other, have come together to propose, nay to demand action and a policy which can finally be understood by public opinion not only in Europe, and in the

countries in which we live, but also throughout the world, we believe that this new reality can and must give rise to initiatives in each and every one of our parliaments.

In order for this to be possible, dear colleague, it is of paramount importance that we keep each other informed, so that each of us may act according to his or her beliefs and make the choice he or she considers most appropriate. It is for this reason that I venture once more to bring the matter to your attention and to send you, for information, the motion which is about to be submitted to the Chamber of Deputies of the Italian Republic and which has already, in the space of just 48 hours, been given backing up by over 100 members from nearly all parliamentary groups.

It is, dear colleague, in a spirit of friendship that I venture to express concern over the fact that, in your parliament, as far as we know, no tangible initiative has yet emerged, following or convergent, with the Nobel prize winners' Manifesto, the European Parliament resolution and the parliamentary initiatives undertaken in a number of other parliaments and about which we made a point of keeping you specifically informed in the course of the summer.

It would be regrettable, aside from any contingent consideration, were this situation to continue and we therefore trust that your parliament will ensure its own contribution towards the adjustment which we believe must be made in North-South policy and in development aid policy.

I say this with all humility and with the deepest respect for the democratic traditions of your country.

It would be for us a duty and a valuable instrument of action to be able to inform members of parliaments of other countries immediately of your initiative, prior to the European Council meeting on 26th and 27th November in London and possibly even prior to the meeting on 17th November in Strasbourg.



This occasions represent, for us, two extremely important if not absolutely final deadlines for the achievement of the objectives set out in the European Parliament's resolution.

If, on the occasion of these meetings -one of which I shall surely attend, since the Foreign Ministers of the 10 EEC member countries will, for the first time, be meeting on the 17th of November with the enlarged Bureau of the European Parliament, of which I am a member, and at which the problem of hunger and its practical implications will be certainly raised,- it were possible for us to document initiatives under way in other national Parliaments or if the Council of Ministers as a whole and each Minister singly, were faced by messages and pressure to achieve this end, then the hopes of seeing the European Parliament's resolution applied would certainly not be in vain.

As far as we are concerned, as perhaps you already know, we are using every legal method to preerve hope and to maintain our campaign (these include parliamentary, political, humanitarian, and cultural initiatives, public demonstrations, non-violent campaigns such as my own hunger-strike which is still under way and in which I am to be joined by others, the preparation we are attempting of a vigil on Christmas Eve in Rome, and the various marches wich have already taken place in many European capitals).

The objective of our non-violent campaign is to live with at least one tenth of those who are otherwise certainly condemned to death due to hunger or malnutrition in 1982.

Dear Colleague, please forgive me for addressing you once more unbidden, and accept my very best wishes for yourself and for those you love,

*Marco Pannella*

P.S. Please send your answer to :

Marco PANNELLA, 3, Bd. de l'Empéreur, 1000 BRUXELLES (Belgium)

The House,

confirming its support to the Manifesto Appeal of the 54 Nobel prizewinners,

taking note of Resolution 375 of the European Parliament adopted on September 30th 1981, signed by the absolute majority of MEP and supported by Members of Government, international organizations and religious authorities,

confirming the commitment already undertaken in its resolution of July 30th 1981,

States,

that the Italian government declares war to hunger by means of extraordinary and immediate aid to the men, women and children who would otherwise die, thus undertaking - through the necessary action at Community and international level - to implement the Resolution of the European Parliament,

The Government must therefore :

- increase public development aid appropriations to 0.70% GNP as of 1982, thus at last implementing U.N. Resolution 2626 of October 24th 1970,
- associate with the setting up of the Community fund of 5 billion EUA needed to "save from death by hunger or malnutrition at 5 million human lives before the end of 1982", by subscribing its share or any additional amount necessary,
- ensure that the Commission of the EEC and the Council of Ministers of the Community comply with deadline laid down in the Resolution for setting up an emergency plan by requesting an immediate formal decision of the Council,
- ensure that the Council of Ministers of the Community or, as an alternative, as many Member States as possible, together with the Italian government, refer the "problem of world hunger in all its aspects as a serious threat to international peace and security" to the United Nations Security Council as a matter of urgency,
- earmark the sum of 3 billion dollars to finance its own emergency plan to save at least 3 million lives from death by hunger in 1982, mobilizing all possible means, if necessary disarmed army personnel and equipment
- invite to Rome within the next 30 days heads of specialized U.N. organizations to study a practical aid plan,

- return to the House before the end of the year the above-mentioned plan, with a project concerning legislative and budget instruments.

List of signataires

Christian Democratic Group :

Usellini, Silvestri, Costamagna, Rubino, M.S.Piccoli, Caccia, Pucci, Tesini, De Poi, Perrone, F. Bressani, Gitti, G. Bernardi, Abbate, Picano, Grippo, Pisoni, Napoli, M.Manfredi, C. Pomicino, Mastella, Lo Bello, Faraguti, P. Fiori, G. Fiori, Zoppi, Fornasari, Pezzati, Viscardi, Mazzola, Fusaro, Cattanei, Caroli, Sangalli, Felici, Cerioni, Allocca, Fontana, Borruso, Boffardi, Anselmi, Gava, Ciannamea, Casati, Carlotto, Scalia, Balestracci, Tassone, Carenini, De Mita, E. Rubbi, Evangelisti, Erminero, Belussi, Lamorte, Tombesi, Carelli, Pandolfi, Patria, Misasi, Pumilia, G. Fontana, Rocelli, Briccola, Bassetti, Ligato, A. Rossi.

Socialist Group :

Lombardi, Covatta, Mondino, M. Ferrari, Santi, Bassanini, Fortuna, A. Canepa

Republican Group :

Agnelli

Liberal Group :

Biondi, Bozzi

Proletarian Unity Group :

Catalano, Crucianelli

Social Democratic Group :

Sullo, Reggiani, Vizzini, Cuojatti

Indipendent :

M. Galli, Dujany

Radical Group :

Aglietta, Ajello, Baldelli, Bonino, Cicciomessere, Crivellini, Boato, Rippa, Pinto, Roccella, De Cataldo, Sciascia, Teodori, Faccio, Mellini  
Tessari

Summing  
e

Mr. Wright

Briefing for the European Council  
London: 26-27 November

Thank you for your minute of  
10 November. I agree.

M. O'D. B. ALEXANDER

10 November, 1981.

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

Hope that this request  
should be lined down?

10 November 1981

Yes not  
Phms 10/11  
not

Dear Michael

European Council: Participation

In the course of the Foreign Affairs Council lunch in Luxembourg on 26 October, M Cheysson asked that delegations to the European Council should be increased to three from the usual two. He clearly had in mind making a seat available for M Chandernagor, the Minister at the Quai d'Orsay who has responsibility for European questions. Lord Carrington replied that this would need further consideration.

The Secretary of State believes that the Prime Minister will share his own lack of enthusiasm for any response to M Cheysson which might open the way to the European Council turning into a 33 rather than a 22 participant occasion (not to mention the consequences when the Community is enlarged again). Nothing in the history of the European Council since its creation at the Paris Summit in December 1974 or in subsequent discussions of how it should operate (eg in the context of the Report of the Three Wise Men) would point towards enlarging attendance in this way - quite the contrary. There have been only two examples of 'outsiders' being admitted to the European Council meeting: in both cases, it was a question of a specialist attending for a particular item for the benefit of the Council as a whole, not the addition of an extra representative to a national delegation.

Sir M Butler has taken soundings with a number of his COREPER colleagues in Brussels. It seems clear from those contacts that none of our other partners positively favours Cheysson's proposal. Those who expressed a view were either opposed or neutral. Sir M Butler doubts whether many of his

/colleagues

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colleagues in fact consulted their Foreign Ministers. Nevertheless, the way seems open for Lord Carrington to write to M. Cheysson, politely turning down his request, while making it clear that in doing so we are acting as the Presidency reflecting the results of informal consultations with the Permanent Representatives of other member states, rather than as the UK using the Presidency to obstruct a French wish.

*Handover*  
*[Signature]*

PP (F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

CONFIDENTIAL

Ref. A05928

MR ALEXANDER

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Briefing for the European Council, London: 26-27 November 1981

I regret that we are going to face difficulty in keeping to the timetable for briefs described in my minute of 5 November and subsequently agreed by you. The involvement of certain officials in the Anglo-German Summit, and the possibility that there will have to be a meeting either of the Mandate Group or of the Foreign Affairs Council on 19 November in Brussels to finalise preparations for the European Council, means that the usual meeting of senior officials to consider the terms of the Steering Brief will not take place until the evening of 19 November. This will make it impossible to circulate the Steering Brief by noon on Friday 20 November. The best course might now be to submit the Steering Brief separately, by 4.00 pm on 20 October. We would aim to submit the subject briefs by the 12.00 noon deadline already agreed.

2. I should be grateful if you could let me know whether these arrangements are acceptable to you.



D J WRIGHT

10 November 1981

BP

MR. WRIGHT

Briefing for the European Council

I agree that it would be acceptable if the briefs for the European Council reached us here at noon on Friday, 20 November.

M. O'D. B. ALEXANDER

6 November, 1981.

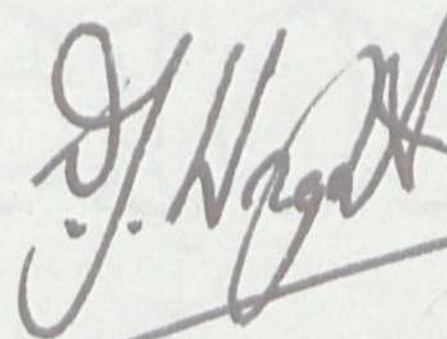


010  
Ref: A05899

MR. ALEXANDER

Briefing for the European Council, London  
26th-27th November 1981

The preparation of the briefs for the next European Council is now being put in hand. I should be grateful for your confirmation that it would be acceptable if they reached you by noon on Friday, 20th November. This follows our understanding that since the European Council will be on a Thursday and Friday rather than, as on the two previous occasions, a Monday and Tuesday, the Prime Minister will wish to hold her preparatory meeting on Tuesday 24th November rather than during the previous week. When the Prime Minister has decided who is to attend the European Council, we shall be glad to provide advice as to whom you might ask to attend the preparatory meeting.



D. J. Wright

5th November 1981



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Prime Minister (2)

As. [Signature]

[Signature]

European Council: French Views

I saw M. Attali at the Elysée on Tuesday afternoon. After forty minutes he had to leave for a meeting with M. Delors, and I continued for sometime afterwards with his deputy, M. Morel.

2. Asked how I saw the prospects for the European Council, I said the Prime Minister was concerned with the lack of progress in the Mandate Group and at the Foreign Affairs Council. With three weeks to go, it was a matter of concern that, while some progress had been made on the first volet, there remained serious differences on the CAP and there was not even a basis for negotiation on the budget issue. We were clear that the three volets had to be brought up to the same state of preparation. The Prime Minister was determined to get decisions and not to have long communiqués which merely disguised the absence of agreement.

3. M. Attali said he saw the prospects in much the same way. The French wanted something on the relance; he mentioned espace sociale, energy and Community lending (the N.I.C.). He was more optimistic about the CAP (I said we would have real difficulty about differentiation in favour of small producers: he said this was 'political'). On the budget, he repeated the standard French line: balance in the Community could not be judged by the budget alone (this directed more at the Germans than at the U.K.); restructuring had to be achieved as far as possible through Community policies, there could not be a new set of Community rules and therefore alleviation for the U.K. could only be temporary and degressive. Nor could the latest Commission figures be ignored. They would not be prepared to negotiate again on the basis of forecasts.

4. I said there were three aspects to the budget problem: the amount of corrective needed; the duration; and method. On the first, this would be a matter for negotiation. The fact that the U.K.'s net contribution for 1980 and 1981 was lower than forecast could only be a good thing since we clearly paid too much; the chances were that the figures would go up again in 1982 and thereafter; and anyway the uncertainty of the calculation pointed strongly in favour of a system which allowed the Community to decide what the budgetary flows ought to be: the corrective would then be a residual. On duration, another ad hoc solution would not be acceptable. The need for a corrective might not last for

/ever

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ever but the system should avoid the risk of recurring problems for the Community. As to method only two ideas were on the table: our own, which had some similarity to the German approach, and the Commission's: did the French have views?

5. In the subsequent exchanges, and later with M. Morel the impression I had was:

a. that there was flexibility in the French position on duration. Having mentioned one year at the outset, Attali rapidly moved to 'years' and Maurel said the French definitely did not want recurring negotiations in the Council. But they did not think it was realistic to contemplate an arrangement which would encompass enlargement (this echoing a German thought as put to us by terrier);

b. that the French had no fixed ideas on method. They rejected the Commission system not on principle but because it had found little support in the Community. They rejected our system because it was based on net balance; and finally suggested that the answer might lie in 'something between the two';

c. that they will seek to argue that we did too well in 1980 and 1981 results and that this should be taken into account in deciding on our refund for later years.

6. They were clearly aware of the Chancellor's talk with M. Delors and said that he had spoken to the President on his return from London. We could take it that what M. Delors had said represented the French Government's position. The President accepted that something had to be done for the United Kingdom and wanted 'Mrs. Thatcher's meeting in London to be a success'. Before leaving, M. Attali said he thought we should envisage a further meeting after the Foreign Affairs Council and before the European Council (I subsequently told Maurel what Delors had said to the Chancellor. He said Attali was in close touch with M. Delors, and that we could take it that this contact was what he had in mind.)

7. The conversation with M. Morel covered:

a. a repetition of M. Mitterand's concern that the European Council should be properly prepared. I outlined all the efforts we intended to make up to and including 19 November;

b. fisheries: M. Mitterand might well feel obliged to raise it at the European Council, it formed part of the 30 May settlement. I said we were anxious to make progress but raising it at the European Council



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would not help;

c. attendance at the European Council: Cheysson's suggestion that two Ministers should be invited to attend had plainly not emanated from the Elysée.

(M.D.M. Franklin)

4 November, 1981.

c.c.

Mr. Alexander (No. 10)  
Sir R. Armstrong (Cabinet Office)  
Lord Bridges (F.C.O.)  
Mr. Hancock (H.M. Treasury)  
Sir M. Butler (UKRep Brussels)  
Mr. Petrie (H.M. Embassy, Paris)

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10 DOWNING STREET

From the Private Secretary

27 October 1981

You will have been informed in Luxembourg by telephone of the Prime Minister's agreement to the circulation today of the first draft of the Presidency conclusions for next month's meeting of the European Council. The Prime Minister did so on the basis that it was necessary for discussion of the conclusions to begin well in advance of the meeting if there was to be any possibility of the Council itself reaching agreed conclusions. The Prime Minister, who has just returned from Mexico and is pre-occupied with tomorrow's Censure Debate in the House of Commons, has not approved, or indeed read, the draft as such.

The Prime Minister has asked me to make it clear that she attaches substantial importance to the understanding, referred to in my letter to you of 19 October, which she has reached with President Mitterrand on this question. In her view, the Presidency's conclusions should be brief; should deal only with matters actually discussed by the Heads of State and Government; and should be used to record substantive results reached in discussions. If there are no substantive results there will, in the Prime Minister's view, be no need for any conclusions.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER (

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

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R.A. p a  
9 Oct.

10 DOWNING STREET

~~Michael A.~~ See letter to  
F. Richards. <sup>And</sup>  
Michael Franklin telephoned -

he needs to make the draft text on  
Tues and be grateful for guidance  
as to whether the PM need see it  
and/or her view. He is in  
Luxembourg on Mon + Tue.

Michael S

23/10

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QZ.02334

PS/FOREIGN AND COMMONWEALTH SECRETARY

30 MAY MANDATE: PREPARATION FOR THE EUROPEAN COUNCIL

OD Committee has agreed that in the 30 May Mandate negotiations we should work towards an agreement at the November European Council on the budget and on CAP reform as well as the future development of other Community policies within the 1 per cent VAT ceiling.

2. The Mandate Group has held a series of meetings and the Foreign Affairs Council will discuss all these issues on 26 October. The British Presidency has said that, in order to make further progress, we will table the first draft of conclusions for the European Council on Tuesday, 27 October in time for discussion at the meeting of the Group on 28 October. A copy of the proposed text is attached. It has been cleared at official level with all the Departments principally concerned.

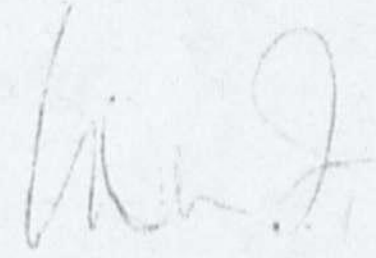
3. As a Presidency document it necessarily, as far as possible, takes account of views expressed by all member states and reflects agreement where it has so far been reached. At the same time the text is designed to safeguard and promote our national objectives wherever possible. On non-agricultural policies (Chapter I) there are a few points where the text includes square brackets but this is generally where decisions are expected in the near future. In Chapter II, on CAP reform, it has been necessary to include alternative texts covering the range of opinion. Chapter III reflects the lack of consensus on how to deal with the budget problems. Apart from an introductory section which, if adopted, would be helpful to our case, it summarises what has been put on the table by, respectively, the Commission, the UK, the Germans and the French.

4. The draft text has been discussed with the Commission and when we table it we shall make it clear that it takes account of Commission views. In the ensuing discussion, we will of course be free to defend the United Kingdom viewpoint and criticise that of other member states.

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5. I should be grateful for the Secretary of State's authority to table this draft text, subject to any minor changes which may seem necessary as a result of the discussion in the Foreign Affairs Council on Monday.

6. I am copying this minute to the Private Secretaries to the members of OD(E), the Secretaries of State for Environment, Industry, Transport, Energy and Employment. I am also sending a copy to Mr Alexander at No 10.



M D M FRANKLIN  
Cabinet Office

23 October 1981



DRAFT CONCLUSIONS OF THE EUROPEAN COUNCIL

I. DEVELOPMENT OF COMMUNITY POLICIES (OTHER THAN THE CAP)

1. The Heads of State and Government considered the development of Community policies in the light of the Commission's report called for by the agreement of 30 May 1980.

2. The European Council considered that despite the important progress already made, the Community's development had been uneven as the Commission had recognised in its report. A fresh impetus to the development of its policies was needed. If the Community was to live up to the hopes and aspirations of the people of Europe, and to recover its dynamism, European integration must be strengthened and diversified. The Community must now build on the achievements of the Common Agricultural Policy and the tariff-free market by expanding its activities in other areas, by removing the remaining obstacles to the development of its trade and by finding effective answers to its current social and economic problems.

3. The European Council therefore agreed on the importance of giving a renewed impetus to the development of Community policies on a broad front.

They recognised that only such an impetus could enable the Community effectively to contribute to solving the major economic and social problems currently confronting the Member States.

#### Overall Community Economic Strategy

4. The European Council discussed in detail the present social and economic situation of the Community which must be clearly seen in the context of the international economic situation. It welcomed some modest signs of an up-turn in the Community economies, but expressed the greatest concern at the present unemployment and inflation levels.

5. The European Council therefore agreed that the essential need for economic recovery and reductions in unemployment called for priority to be given to reducing inflation, encouraging productive investment and raising competitiveness. At the same time, it is essential that the Community pursue the reduction of its dependence on external sources of energy.

6. At the Community level, productive investment could be stimulated through the development of the Community's financial instruments (EIB, ECSC, Euratom

and the NIC). The European Council welcomed the moves which have recently been made to expand the scope of these instruments through the doubling of the EIB's issued share capital and the renewal of the New Community Instrument. The European Council agreed that in due course there should be further expansion consistently with the preservation of the Community's ability to borrow on suitable terms in the international and domestic capital markets. The Council welcomed the constructive Commission proposals for greater co-ordination between the structural funds and the borrowing and lending instruments and for greater use of interest rate subsidies. It considered that the practical implications should be studied urgently. It also agreed that lending policies should pay particular attention to assisting small and medium size enterprises in the Community.

7. The achievement of these overall investment objectives will have to be accompanied by stronger economic disciplines. The Community can contribute through a policy of concerted action to achieving growth at the highest sustainable level. Moreover, a more active co-ordination of national economic policies is necessary in order to ensure their compatibility

with economic and monetary objectives established at a Community level. The Council invited the Commission and the Ecofin Council to ensure that such co-ordination was achieved, in making better use of the existing machinery.

#### Monetary Policy

8. The European Council welcomed the success of the EMS in creating a zone of currency stability in Europe. It should be further developed, over time, as a key element in progress towards eventual economic and monetary union. The European Council agreed that the EMS also had a role to play in encouraging the development of a more stable international economic environment. They stated their determination to see that the necessary steps are taken to:

- achieve greater concertation of national monetary policies
- encourage the use of ECU both for Community loans and on financial markets
- seek improvements in monetary co-operation with the Community's principal partners.

9. Another essential factor was the success of the anti-inflationary policies being pursued not only in

the Community but in other industrialised countries. The European Council noted with concern the continuing high level of interest rates in many countries and expressed the view that all countries should recognise the effects of their domestic policies on others. Community countries for their part will, to this end, seek continuing close contacts with the other major industrialised countries.

#### Internal Market and Competition Policy

10. The European Council believes that the completion of the internal market, in accordance with the Treaties, would make an important contribution to the solution of the economic problems currently facing Member States, in particular by facilitating industrial cooperation and restructuring. A closely linked objective is the need to enforce proper conditions of competition, in particular transparency in the field of state aids, which would stimulate innovation and permanent employment and enhance the international competitiveness of Community industry. Accordingly the Council called for the initiation in 1982 of a further intensive effort, beginning with the areas listed below:

- (a) The elimination of aids distorting

competition was essential to the proper functioning of the internal market. The Commission was encouraged to continue to pursue vigorously its responsibilities under the Treaties to ensure fair competition, in particular by enforcing strictly the existing aids codes in certain sectors. They should present new proposals without delay, where circumstances so required, for strengthening the rules of competition.

(b) The Commission and the Council were encouraged to review the progress made so far towards establishing a common legal framework for Community industry and to give priority particularly to proposals which will demonstrably result in tangible economic benefits for Community industry while taking account of the interests of both the environment and consumers.

(c) The creation of a free market for services as provided for by the Treaties should be pursued vigorously. [An important objective is the early] [The Council welcomed the recent] adoption of measures to give effect to the freedom to provide insurance services within the Community. More progress should be made on the harmonisation of

professional qualifications. The simplification of the present complex and restrictive procedures governing air services and air fares in the Community should lead to increased competition which will benefit the consumer and deserves special attention.

(d) Customs and tax collection procedures should be simplified to reduce frontier delays affecting free movement of goods within the Community. The Council was invited to examine urgently the proposals submitted by the Commission for simplification in the customs, fiscal and statistical fields.

(e) The fragmentation of the internal market should be rectified through greater efforts to harmonise existing technical standards and certification procedures where these create real or potential barriers to trade and through improved procedures to inhibit the proliferation of new restrictive standards at national level. Decisions should be taken urgently on the treatment of third country products, where relevant.

11. The Council is requested to take the necessary major

decisions in these areas as soon as possible. The European Council will review progress at its second session in 1982 on the basis of a report from the Commission with the object of completing the main work by the end of 1982.

#### Industrial Policy

12. The European Council reaffirmed the value of action at Community level to promote the strength and competitiveness of the Community's industry. They recognised that the major changes which have come about in the previous decade as regards both the structure of world markets and energy costs necessitates major industrial readjustments. In this context they welcomed the major decisions which had been taken by the Community in the steel sector and they noted the vital importance for the future of the Community's textile industry of a satisfactory outcome to the current negotiations on the MFA. At the same time, they emphasised that measures were needed to give a boost to technological innovation and to an ambitious policy of research and development.

13. The European Council took note of the Commission's Communication on Innovation and emphasised the key role which the successful application of innovation by industry could have in ensuring the healthy development of the



Community. They invited the Council to give its views rapidly on the policy recommendations outlined by the Commission so that the Commission could thereafter bring forward specific practical proposals.

14. [The European Council welcomed the adoption by the Council of instruments on micro electronics and telecommunications, which it saw as a significant step towards the development of a Community policy in this field in accordance with the Commission's communication on new technology.] It reaffirmed its belief that the Community should pay particular attention to the development of high technology enterprises which are fundamental to ensuring the competitive position of the Community industry. The European Council invited the Commission to consider with Member States other areas where action by the Community would be appropriate.

15. The European Council recognised the contribution which Research and Development could make to improving competitiveness in both new and traditional industries. It called for an expansion in the research efforts of the Community and Member States in the context of industrial restructuring and innovation, covering areas of high priority where action at Community level would be

beneficial. It welcomed the current review of the Community's research and development effort and urged that science and technology policy should be closely integrated with the Community's other policies.

#### Social and Employment Policy

16. The Council emphasised that the battle against inflation was a key element in improving the grave unemployment situation currently afflicting the Community. Direct action in the social field to alleviate employment problems should also be considerably strengthened.

17. The means used should be greater complementarity in the social policies of Member States; a steady increase in the resources of the Social Fund, which should grow faster than the general budget as a whole if it was to achieve its objectives; and intensified use of the existing machinery for consulting the social partners.

18. Tackling the problem of unemployment among young people should be given top priority in the review of the Social Fund. Support for vocational training should continue to be the major element in the Fund. As part of the review of the Fund, consideration should be given to the Fund's role in job creation, particularly in the context of the young and

of the long-term unemployed. The Fund's resources should be concentrated in areas of greatest need, including both under-developed regions and areas experiencing severe unemployment, in particular those suffering from the decline in traditional manufacturing industries. The Council welcomed the Commission's intention to propose simpler and speedier operating methods.

#### Regional Policy

19. The economic prospects make it essential to maintain and extend the Community's efforts in the regional and social sphere so that Community instruments can play their full role in promoting convergence. The Council believed that the co-ordination of national regional policies was particularly important. It was also important to take into consideration the regional impact of other policies before they were finalised. (to be completed in the light of further Commission papers).

#### Energy Policy

20. The European Council agreed that a coordinated approach in pursuit of common objectives provides an effective framework for the Community's Energy strategy. The European Council noted that major objectives in the field of energy have already been defined and urged the Commission to report regularly on progress towards their attainment, and to make proposals for further action as circumstances

required.

21. In particular, the Council agreed on the need for priority to be given to the following points:

(a) Investment on an economic basis in the production and efficient use of energy should be maintained at a high level. The Commission should complete its examination of energy investments and make proposals as to where action at Community level might be appropriate.

(b) A coherent common approach to pricing policy based on economic principles and transparency in the energy market was essential to the attainment of the Community's energy objectives. The Council welcomed the Commission's intention to submit proposals to improve price transparency.

(c) The Community should be ready to provide an effective and united Community contribution to planning for limited short-falls in oil supplies and the attendant dangers of disproportionate oil price increases. The Council welcomed the progress made in this matter by energy Ministers and invited them to pursue their consultations with other industrialised countries, whose participation was essential to effective action.

(d) The Community should continue to seek a balanced and coordinated approach in its relations on energy matters with third countries. The Council attached importance

both to security and diversification of supply and to energy cooperation with the developing countries to help them meet their needs and to help reduce pressures on world oil supplies.

(e) Research and development in the energy sector should continue to receive priority within a coordinated and comprehensive research programme, and be focussed on essential projects beyond the resources of Member States and of private enterprise. Programmes to promote the industrial application of new techniques should also be continued.

#### Transport

22. The European Council took the view that the development of a unified internal market implied a need for positive action in the transport field to improve communications in the EC. This action should aim to increase the efficiency and freedom of circulation of goods and passengers between Member States, while taking account of the diversity of Member States' transport requirements and of the Community's relations with third countries. Transport Ministers should intensify their work in this field and should speed up the rate of progress on the Commission's proposals first put forward in 1976 on aid for transport infrastructure.

## II. THE COMMON AGRICULTURAL POLICY

1. The European Council considered the future development of the Common Agricultural Policy in the light of the Commission's Report on the Mandate of 30 May 1980 (Com(81)300/3) and subsequent discussion in the Mandate Group, the General Affairs Council and the specialist Councils. It noted that over the 20 years of its application the Common Agricultural Policy had helped to provide security of food supply, increased productivity and improved farm incomes during a period of profound social change in European agriculture. It therefore reaffirmed its commitment to achieving the objectives of the Treaty through a common policy based on the unity of the market, Community preference and financial solidarity.

2. The European Council also took note of the problems to which the Commission has drawn attention, in particular that the Community is now more than self-sufficient for most major products and that sound market management and budgetary constraints call for improved control of the unwelcome effects of the operation of market organisations. It noted with satisfaction the economies in Community expenditure

which have recently been achieved, and endorsed the Commission's conclusions that adjustments are both possible and necessary. The Council agreed that, in order to continue to accomplish the Community's internal objectives and to fulfil its external obligations, adjustments to the operation of the policy should be made in accordance with the following guidelines:-

(a) Having full regard to the objectives of the CAP as set out in Article 39 of the Treaty and the need to deal with the problem of structural surplus, the Council should pursue a rigorous price policy which reflects market realities ,

[Alternative A.

designed to align common prices progressively over a defined period with the level of prices]

[Alternative B

designed in the case of certain products to give full weight to the level of prices]

for similar products in other comparable markets.

[The European Council agreed that the gap between Community cereals prices and those in the USA would be progressively reduced by 1988].

(b) In view of the urgent necessity of implementing for individual commodities measures to control and as soon as possible reduce surplus production and to contain the increased cost of certain regimes, the Council should adopt, on the basis of proposals by the Commission, production thresholds and appropriate measures to limit the Community's guarantees once these thresholds are attained. The methods of limiting the guarantee will vary from product to product. They should be framed in a way to deter increased production without imposing a new burden on consumers and without

[Alternative A.  
discriminating between different categories of  
producers]

[Alternative B.  
placing undue burdens on small farmers]



(Further elaboration on milk and cereals and Mediterranean products in light of latest Commission paper).

[(c) To the extent justified to reinforce policies under guidelines 1 and 2, direct measures to support the incomes of certain farmers might be envisaged]

(d) In order to promote the orderly international marketing of products, the Community should, for appropriate commodities, liaise with other major exporters with a view to achieving greater stability of world markets. The Community should continue to pursue an active export policy for agricultural and processed agricultural products consistent with its international obligations and with the objective of limiting the costs of disposal of production which is surplus to domestic requirements. [The Council should adopt, on appropriate proposals from the Commission, framework agreements with individual importing countries relating to multi-annual supply of agricultural products consistent with budgetary constraints and international obligations. The Council should consider in each case the commodities to be covered and the specific

provisions of the agreement].

(e) [Alternative A.

The European Council invites the Commission to continue to monitor the level of imports of commodities which could affect the market for Community produce and report as appropriate to the Council. The improvement to be secured in the hierarchy of prices through a policy of particular restraint in the cereals sector should achieve a higher level of usage of domestic cereals production on Community markets.]

[Alternative B.

Levies should be introduced on imports of cereals substitutes. In the case of products not consolidated in GATT tariff quotas should be established corresponding to average imports, with a deterrent levy to apply to imports beyond the quotas].

(f) The problem in less favoured agricultural regions, particularly those regions including some Mediterranean areas which are heavily dependent on rural occupations for employment, merit special

consideration. The Council should consider promptly, on the basis of the guidelines laid down in sub-paragraphs (a) and (b) above, the proposals which the Commission has made for the adjustment of the Mediterranean acquis in the context of enlargement. The Council noted the intention of the Commission to present proposals for integrated programmes by the end of 1982.

(g) National aids to agriculture can distort competition, encourage surplus production and add to the budgetary costs, thus undermining the operation of the Common Agricultural Policy. The Council welcomes the Commission intention to strengthen the rules and procedures relating to the control of aids in the agricultural sector so that stricter discipline is achieved, particularly in relation to those aids which singly or cumulatively have a substantial effect on the market in particular sectors.

(h) The European Council welcomes the substantial reduction in the rate of growth in agricultural guarantee expenditure in the last 2 years. This has been achieved in part as a result of sound management of expenditure and careful regard by the Council and

Commission to the costs of price and other decisions which have contained the growth of agricultural expenditure. The European Council urges the Council and the Commission to maintain and strengthen effective financial control over all agricultural expenditure and to ensure that the expenditure is cost-efficient. Provided these guidelines are implemented, agricultural spending in the years ahead should continue to grow [markedly] less rapidly than the Community's own resources, making it possible to release additional resources to reinforce Community solidarity in other sectors.

[Alternative A.

It shall be the firm objective for the future that the proportion of the budget taken by agriculture be reduced to X% over Y years].

[Alternative B.

The rate of growth in agricultural guarantee expenditure shall be not more than X% of the rate of growth of the own resources base. It will be the responsibility of the Council, acting on proposals by the Commission, to adopt the necessary decisions to ensure that agricultural expenditure remains within

that limit. It will be the responsibility of the Commission to manage agricultural expenditure within this limit].

3. The European Council requested the Commission to apply these guidelines so that they would begin to take effect in 1982. To this end the European Council invited the Commission to make the necessary proposals, and the Council to adopt the necessary Regulations in the context of the 1982/83 Agricultural Price Fixing.

### III. BUDGETARY PROBLEMS

1. The European Council reviewed the Community's budgetary arrangements on the basis of the report from the Commission and in accordance with the agreement of 30 May 1980. They confirmed the necessity, taking account of the situation and interests of all Member States, of avoiding the emergence or recurrence of an unacceptable budgetary situation for any Member State and in this way of ensuring that a sound basis was provided for the Community's future development and enlargement. The European Council reaffirmed the basic principles of the Community's financial arrangements and in particular the own resources decision. They noted that until now a preponderant share of the Community budget had been allocated to expenditure on the CAP. They stated as their firm intention that the further development of Community policies, to which their decisions on expanding Community activity in such areas as social, regional and industrial policy had given renewed impetus, combined with the application of the agreed guidelines to the CAP, should bring about a better balance in the budget and enable it to contribute to the objective of economic convergence. It would at the same time help to reduce the likelihood

of unacceptable budgetary situations for individual Member States. This process would however take time and they recognised that it would therefore be necessary to make provision for dealing with the problems which would remain until the desired results were achieved by these means. The European Council therefore agreed that from 1982 the following measures shall be applied:-

[Approach A

Community solidarity requires that a remedy should be found to the United Kingdom's unacceptable situation, which is mainly caused by the UK's relatively low level of receipts from the FEOGA Guarantee Section. The UK should therefore receive a fairly high level of compensation calculated by comparing its share of Community GNP with its share of FEOGA guarantee expenditure, using a reference period of several years. This compensation should be financed if possible through the budget on the basis of the own resources system. If this were impracticable however it could be financed by abatements in the receipts of other Member States from the FEOGA guarantee section. In establishing the abatement percentages account should be taken of the need for solidarity between the more

prosperous and less prosperous Member States. (The Commission has also undertaken to report by the end of this year on the existing financial mechanism in order that this mechanism continue in being if it is needed.) These arrangements should apply for a limited period but long enough for the effects of the new guidelines on the development of Community policies and the CAP to be felt, and should be subject to review]

[Approach B

The effects of the budget on individual Member States should in future be consciously decided on the basis of defensible and objective criteria, notably relative prosperity and population size. In taking these decisions the Community should ensure that the outcome of the budget conforms with the principle that resources should flow from more prosperous to less prosperous Member States and so contribute to the goal of economic convergence between Member States. The necessary corrective payments should be made without affecting the own resources system or undermining the operation of agreed Community policies. These payments will continue until such time as the development of Community policies renders them unnecessary to avoid unacceptable situations.]



[Approach C

No member state should make an unlimited net contribution to the Community Budget; and any net contribution should be determined by reference to relative ability to pay.]

[Approach D

If and when a need for a budget corrective mechanism were demonstrated, this should be only for countries with GDP per head well below the Community average. Any payment would take the form of a lump sum and be limited in time and degressive.]

Prime Minister

Content for Lord Carrington to propose  
that the European Council should continue  
after lunch on the second day?

Foreign and Commonwealth Office

WR  
15/10

London SW1A 2AH

13 October 1981



Dear Willie,

European Council: 26/27 November 1981

Although the dates of 26/27 November have long been written into the diaries of members of the European Council, they will probably be planning on the basis that this means the usual pattern of an afternoon session on 26 November and the morning of 27 November. Lord Carrington believes that this may well not allow enough time, given that there will be other items on the agenda (including the standard and time-consuming 'economic and social situation in the Community'), for discussion of the 30 May Mandate, by far the most important item on the agenda from both our Presidency and our national points of view. He would like the Prime Minister's agreement, therefore, to put his colleagues in the Foreign Affairs Council on notice that the UK Presidency envisage a rather longer European Council than normal. It would begin as usual at lunch time on the first day, but would probably extend into the afternoon of the second day.

Lord Carrington proposes that the first item on the European Council's agenda should be a first tour de table on the Mandate. This would be taken after lunch (which is being given by the Queen at Buckingham Palace) on 26 November and should produce enough of a steer to enable officials to spend the evening working on the text of the Mandate part of the communique while the European Council gets on with other items on the agenda. The second day discussions may continue into the afternoon.

The idea of the European Council running on into the afternoon of the second day is not new and has happened on previous occasions when there have been difficult items on the agenda. In order to be sure that the other Heads of Government are ready for this, it would be wise to warn them soon. If the Prime Minister agrees that it is desirable, it could be put to our partners by the Secretary of State at the next meeting of the Foreign Affairs Council on 26/27 October. He could say that the Presidency expected that the European Council would have a lot of ground to cover and thought it would be wise to cater for the possibility that its meeting might have to continue after lunch on the Friday until the business was concluded. We would be making arrangements to permit this and hoped that the other Heads of Government would also allow for it in their programmes.

Yours ever,

(F N Richards)  
Private Secretary

Willie Rickett Esq  
10 Downing St

*Willie*  
*in PM's diary but better*  
*check with her lunch in*  
*see that available but I*  
*hope it will not be needed*  
*agreed with President Dillenkofer that*  
*we should by not-*

*unless decision*  
*are needed - I shall*  
*stick to this*  
*not.*