

Confidential Filing

Visits to London by ex-Prime Minister,
Gordon Brown.

LUXEMBOURG

5
806

June 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
25-7-79		14-10-87					
25-2-80							
13-10-80							
27-10-80							
30-10-80							
31-10-80							

PREM 19/521

Telegram sent to Blackpool

vb

Wuxenby

14 October 1981

The Prime Minister has asked me to thank you for your telegram of birthday greetings, for which she was most grateful.

WFSR

Monsieur Gaston Thorn, G.C.M.G.



luxembourg
76
cc TSY
JS

10 DOWNING STREET

From the Private Secretary

31 October 1980

Dear Roderie,

ATTENDANCE AT THE EUROPEAN COUNCIL

As I have told you on the telephone, the Prime Minister has approved the line in the draft telegram enclosed with your letter to me of 31 October.

I am sending a copy of this letter to John Wiggins (HM Treasury).

Yours ever

Richard Alexander

R.M.J. Lyne, Esq.
Foreign and Commonwealth Office.

JS

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Foreign and Commonwealth Office

London SW1A 2AH



31 October 1980

Dear Michael,

Attendance at European Council

Luxembourg Telegram 335 reports comments by M Thorn on the suggestion made during his visit that he should attend the European Council. (For ease of reference I / enclose a copy).

He would normally have attended as Foreign Minister but will have resigned before the Council as he is President-designate of the Commission.

Attendance is a matter for Presidency guidance; for us to push M Thorn's case could needlessly raise hackles in other Member States, particularly France. It would be enough for us to let it be known we think he should attend.

Similar considerations apply to pressing the case for Davignon. The suggestion has been made. It is for others to pursue it: it is clear that M Thorn is not in favour so the Presidency are unlikely to.

Subject to your views, we propose to instruct HM Embassies / in terms of the attached draft telegram.

I am copying this letter to John Wiggins at the Treasury.

yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

Michael Alexander Esq
10 Downing Street
London

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GPS 210

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FM LUXEMBOURG 281650Z

TO PRIORITY FCO

TELNO 335 OF 28 OCTOBER

INFO PRIORITY UKREP BRUSSELS ROUTINE PARIS AND BONN

INFO SAVING OTHER EC POSTS.

THORN'S REACTIONS TO HIS VISIT TO LONDON ON 27 OCTOBER

1. THORN'S CHEF DE CABINET TOLD ME TODAY THAT THORN WAS GRATEFUL TO THE PRIME MINISTER AND YOURSELF FOR THE RECEPTION YOU HAD GIVEN HIM ON MONDAY. HE HAD BEEN HEARTENED BY HIS VISIT. IN PARTICULAR, HE HAD WELCOMED WHAT HE CLAIMED WAS THE PRIME MINISTER'S IDEA THAT HE SHOULD HIMSELF BE PRESENT AT THE EUROPEAN COUNCIL ON 1/2 DECEMBER. HE COULD NOT CARRY THIS IDEA FORWARD HIMSELF. BUT THORN WONDERED IF THE UK COULD RAISE IT IN PARIS AND BONN. KASEL SAID THAT IT WOULD, IF THE IDEA OF THORN'S ATTENDANCE FOUND GENERAL FAVOUR AND WAS TO BE IMPLEMENTED, BE NECESSARY TO PUT THE NOMINATION OF THE COMMISSION AT THE BEGINNING OF THE COUNCIL'S AGENDA.

2. KASEL SAID THAT THORN ALSO WELCOMED THE PROPOSAL THAT JENKINS SHOULD PRESENT AN END OF TERM REPORT TO THE COUNCIL: AND THAT THE COUNCIL SHOULD ISSUE BROAD GUIDELINES FOR THE COMMUNITY'S WORK IN 1981: IT WAS IN THAT CONTEXT THAT THORN THOUGHT IT WOULD BE PARTICULARLY USEFUL FOR HIM TO ATTEND. KASEL ADDED THAT THORN HOPED WE WOULD NOT PURSUE THE IDEA THAT DAVIGNON MIGHT ALSO BE PRESENT. HE DID NOT THINK IT WOULD BE A GOOD PRECEDENT: AND OTHERS, LIKE ORTOLI, WOULD ONLY WANT TO GET IN ON THE ACT AS WELL.

FCO PASS SAVING TO:

BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN

THOMAS

REPEATED AS REQUESTED

LIMITED

E.C.D.(E)

WED

RID

PS

PS/LPS

PS/PVS

MR BULLARD

MR FERGUSSON

MR HANNAY

LORD BRIDGES

COPIES TO
PS/ CHANCELLOR OF EXCHEQUER

THIS TELEGRAM
WAS NOT
ADVANCED

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File No.....

Department ECD(I)

OUTWARD

Security Classification
CONFIDENTIAL

Drafted by
(Block Capitals) J N T SPRECKLEY

TELEGRAM

Precedence
IMMEDIATE

Tel. Extn.....

DESKBYZ

FOR
COMMS. DEPT.
USE

Despatched (Date)
(Time)Z

POSTBYZ

PREAMBLE

(Time of Origin) Z (G.M.T.) (Restrictive Prefix).....

(Security Class.) CONFIDENTIAL (Caveat/
Privacy marking)

(Codeword) (Deskby)..... Z

TO IMMEDIATE LUXEMBOURG Tel. No. of
(precedence) (post)

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) ROUTINE: PARIS, BONN, UKREP BRUSSELS

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- PS/LPS
- PS/PUS
- Lord Bridges
- Mr Hannay
- Mr Fergusson
- ECD(I)
- ECD(E)
- WED

Copies to:-

- PS/Chancellor of Exchequer
- Mr Wright and Mr Franklin, Cabinet Office
- No 10 Downing St.

[TEXT]

YOUR TELNO 335 OF 28 OCTOBER
ATTENDANCE AT EUROPEAN COUNCIL

1. You should tell Kasel that the Prime Minister would of course have no objection to Thorn's attendance at the European Council, or to his telling the Luxembourg Prime Minister so.
2. We do not think that it would be appropriate for us to pursue the idea with the other Member States. It is a matter for the Presidency. You may tell Kasel, however, that the Prime Minister would have no objection if M Werner told his colleagues she would be happy to see Thorn at the Council.
3. As for Davignon, we take Thorn's point and will not pursue.

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: CC(80) 37th. Conclusions, Minute 3

Date: 30 October 1980

Signed AWayland Date 10 May 2011

PREM Records Team



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PS / NO 10

Handwritten signature

Record of meeting between the Foreign and Commonwealth Secretary and the Foreign Minister of Luxembourg held in the Foreign and Commonwealth Office at 11 am on 27 October.

Present

Rt Hon The Lord Carrington KCMG MC	M. Gaston Thorn GCVO, GCMG
Sir Ian Gilmour BT MP	M. R Hastert CMG (Luxembourg Ambassador)
Sir M Butler	M. Dondelinger, (Luxembourg representative to the EEC)
Lord Bridges	M. M Kasel, Chef de Cabinet
Mr M D Franklin	
MR J C Thomas	
Mr D H A Hannay	
Mr P Lever	
Mr G Faulkner	

1. M Thorn said that he saw his present round of visits as an opportunity to sound out Member States' views on the main issues facing the Community rather than putting forward his own ideas. There were three main problem areas: the Community budget, Enlargement and Institutional Relations.
2. M Thorn thought the Community should develop more effective institutional arrangements. In particular, he was concerned that there was no Council which co-ordinated the conduct of the whole range of Community business. The General Affairs Council had originally fulfilled this role, but it had developed into just another specialist Council concentrating on Foreign Affairs. The European Council itself was not suitable. One could not expect Heads of State/Governments to be involved in too much detail. National Governments faced a similar problem in relation to the handling of Community business.
3. Lord Carrington explained that the UK already had an integrated system, since every Cabinet meeting included in its agenda an item on European Community Affairs. The main problem area was the relationship between the Agriculture and Budget Councils. He understood that Agriculture Ministers had been talking informally



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amongst themselves of asking for price increases of 17% for 1981. How was this compatible with the 1981 draft Budget? M Thorn thought that the figure was nearer 8 - 10%. Lord Carrington commented that even that figure was too much, but the central problem was how some discipline could be imposed. Sir Ian Gilmour suggested that the real problem was that Agriculture Ministers had the tacit support of their Governments in deciding agricultural price increases.

4. Sir M Butler commented that the imminent exhaustion of own resources would change this pattern. It would not be possible for the Commission to present a draft or supplementary Budget which exceeded the 1% VAT ceiling. If Agriculture Ministers were to agree excessive increases in future, chaos would ensue. M Thorn replied that the Community faced the twin task of increasing own resources and reforming the CAP. Lord Carrington said that agricultural expenditure would never be contained if the 1% ceiling was increased. M Thorn agreed that it would not be possible to increase the ceiling before agreement had been reached on restructuring of the Community budget.

5. Reverting to the problem of better co-ordination of Community business, Lord Carrington said that, if Foreign Ministers were expected to control the overall direction of Community policy, they would face an enormous burden. The Community had grown and faced a wide range of complex and technical issues. M Thorn agreed that this was a problem. He suggested as an alternative that the European Council might have a role. President Giscard had suggested the possibility that the European Council should agree on priorities for the Community's work during the following six months and instruct the Commission and specialist Councils to achieve certain targets before their next meeting. Lord Carrington said that the problem would be to agree what the priorities were. There was also already an excessive tendency for other ministers to refer matters to the European Council rather than solving them themselves.



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6. Lord Carrington said that in 1981, the main problem facing the Community would be the question of the Community Budget. He would like to see the Commission initiating the negotiations by presenting a range of options rather than specific solutions. M Thorn said that it would be difficult for the Commission to put forward a range of options in a totally neutral way. He would prefer the Commission to put forward solutions (though not necessarily a single solution), but on the basis of prior informal soundings of Member States' attitudes so that their views could be taken into account in the Commission's formal proposals. The Commission had some six months to make its preparation. The UK's Presidency would be particularly important since the questions of Enlargement, the Community Budget and the Common Agricultural Policy, which were all linked, would come to a head during it. Sir M Butler suggested that although there was obviously a connection between Enlargement and the Community Budget, the issues were not as intimately linked as was being suggested. M Thorn thought that there was a close linkage between the issues. Enlargement had major implications for the Community's policy on agriculture. The French had suggested that it raised three main issues:- (a) whether Southern producers should have the same revenue as Northern farmers; (b) how the Community could achieve its aim of ensuring earnings in agriculture were comparable with those in other sectors; (c) the problem of olive oil, which raised questions about the Community's policy on margarine and soya.

7. Sir M Butler said that Portugal and Spain could not be kept waiting for ever. There was therefore, a need for keeping the negotiations on Enlargement and Mediterranean agriculture as separate as possible from the restructuring exercise. M Thorn agreed that there should not be undue delay, but it was clear that, given French views, it would not be possible to deal with Enlargement before an agreement on restructuring had been achieved. If Enlargement was to become a reality by 1983, the Community would have to negotiate on agriculture with Spain during the latter half of 1981. It was therefore inevitably linked with the question of restructuring. Lord Bridges suggested that, although the two negotiations might happen at the same time, it might be wise to

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keep the question of Enlargement separate from the restructuring exercise.

8. Lord Carrington asked whether restructuring would be on the agenda for the next European Council. M Thorn thought not, but that was precisely why he was advocating that the European Council should set priorities for the work of the Community. Lord Carrington said that it might be possible for the European Council to set certain general priorities.

9. Lord Carrington

9. Lord Carrington asked how much was being done by other Member States on restructuring. M Thorn said he thought that very little had been done so far. Faced with the need for a tight public expenditure policy in the FRG, the German Government were likely to want to take a tough stance on Community expenditure. Discussion in the Council on 25 October on steel demonstrated that the Germans were no longer prepared to act as pay-masters to the Community. Lord Carrington commented that he well understood their position. The UK had had the same problem in a more dramatic form.

10. Lord Carrington asked whether, in talking about the question of Community institutional arrangements, M Thorn had in mind the possibility of new institutions. Mr Thorn said not. He would, however, like Lord Carrington's view on the question of appearance by the European Council President at the European Parliament after each European Council, to report the outcome. The next two Presidencies, the Netherlands and Luxembourg, were in favour. The French opposed the idea on the grounds that since it was constitutionally impossible for the French President to appear before their National Assembly, it would not be appropriate for him to do so before the European Parliament. And they also took the view that no-one else should act unilaterally, without a Community decision (which they would block). M Werner was in a quandary. Lord Carrington suggested that Giscard's opposition to this idea was based more on his views of the role of the Parliament rather than his constitutional position. But the Parliament was a fact of life and it was necessary to deal realistically with it. He himself was inclined to favour the suggestion, but would take the Prime Minister's views on it. It

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was in all our interests to have good relations with Parliament, particularly so in the case of the French, as they were pressing for Strasbourg as the site. If necessary, Barre could attend instead of Giscard. M Thorn agreed. In his experience, it was much better presentationally for the President to give such a report. He might not be able to tell the Parliament everything, but his presence there would be a major step forward. Lord Carrington asked whether Foreign Ministers might be an acceptable substitute. M Thorn said they would not. The President of the Foreign Affairs Council already went before the Parliament. He would raise the question again in the Foreign Affairs Councils.

LOME PROTOCOL : ZIMBABWE ACCESSION

11. There was a brief exchange on the question of signature of the agreement on Zimbabwe's Accession in the Lome Protocol. M Thorn said there was Belgian objections to this being done on 4 November in the margins of the Political Co-operation meeting.

NEW ZEALAND BUTTER

12. Lord Carrington referred to the problem of New Zealand butter and emphasised the necessity of reaching agreement before the end of 1980. M Thorn said the Presidency would do its best to bring this about.

ECD(I)

30 October 1980

Distribution:-

PS

PS/LPS

PS/Lord President

PS/PUS

Lord Bridges

Mr Bullard

Mr Hannay

Mr Fergusson

Sir M Butler, UKREP

British Embassies, EC Capitals and Spain, Portugal and Greece

Mr Spreckley, ECD(I)

Mr Fitzherbert, ECD(E)

Planning Staff

WED

Economists

Mr M D Franklin, (Cabinet Office)

Mr D Hancock, (HM Treasury)

Mr D H Andrews, (MAFF)

Private Secretary, No. 10 ✓

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A handwritten signature in dark ink, appearing to be 'Randy'.

NOTE FOR THE RECORD

VISIT OF PRESIDENT-ELECT THORN

M. Thorn, accompanied by the Luxembourg permanent representative to the EC (M. Dondelinger), the Luxembourg Ambassador (M. Hastert) and M. Kasel called on the Chancellor at 10.15 a.m. on Monday, 27 October. The Chancellor was supported by Sir Michael Butler, H.M. Ambassador to Luxembourg (Mr Jeremy Thomas) and Mr Hancock. The Chancellor welcomed Mr Thorn and the other Luxembourg visitors. Mr Thorn commented that there now seemed to be a better prospect that the German Government would agree to the EC arrangements to limit steel production, including special steels.

2. The Chancellor emphasised the importance the UK Government attached to the achievement of a permanent solution to the problem of this country's net contribution to the Community Budget. There was very great difficulty in getting Parliament and the British public to accept any net contribution, given the fact that income per head in Britain was now well below that of most other Community countries. These difficulties were increased by the fact that he was now obliged to seek further reductions in previously planned UK public expenditure programmes. Mr Thorn acknowledged the importance of the problem and the need to reach a permanent solution to it. He noted that there was a close relationship between this issue, the maintenance of the present 1 per cent VAT limit on "own resources", the costs of the Common Agricultural Policy (CAP), and the enlargement of the Community. He noted that there remained a side issue outstanding on the question of the refunds to the UK under the 30 May agreement: in principle the Greeks would have to be asked to pay a contribution towards the UK refunds in 1982, in respect of the 1981 Budget, and they were likely to refuse to accept this. (It was, of course, accepted that no contribution could be sought from Greece in 1981, in respect of the 1980 Budget).



3. The Chancellor and Mr Thorn agreed that changes in the CAP were the key to the solution of the present series of inter-related problems. Mr Thorn said he had been taken aback to discover the Commission were thinking of increases of 17 per cent in agricultural prices; the Chancellor remarked that increases of even 8-10 per cent would be too large - he thought it essential to move towards market clearing prices so as to mop up the surpluses. M. Dondelinger suggested that a 17 per cent increase in prices would require an increase in co-responsibility levies. The UK representatives pointed out that this course of action would be a device for evading the 1 per cent VAT ceiling. If the levy was used to finance the consequences of a price increase going beyond what would otherwise have been agreed, then it constituted a tax on consumers. There were serious objections of constitutional propriety to a system of decision-taking which permitted a Council, composed of Agricultural Ministers alone, to impose a general consumption tax for the benefit of only one section of the Community electorate, namely the agricultural industry.

4. Mr Thorn suggested that consumers on the continent of Europe were less inclined to challenge the principles of the CAP than their UK counterparts. Sir Michael Butler questioned whether the CAP had in fact developed in accordance with those principles; discussions in the mid-1960s had never suggested that prices had to be set so as to achieve a given level of farm incomes - the objectives of the CAP were community preference, a greater degree of European self-sufficiency, and the assurance of adequate food supplies at reasonable prices. The Chancellor noted that these objectives were not very different from those of the deficiency payment

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system operated by the UK before accession to the Community. Mr Thorn noted the importance which Governments had attached to providing farmers with incomes comparable with those of the rest of society, an objective which the Chancellor thought had proved difficult to reconcile with the need for consumers to be offered food at reasonable prices. Despite the very heavy Luxembourg dependence on milk production, Mr Thorn recognised that change in the CAP was essential; as things were the requirements of the CAP left no money for the Community to develop other policies, and if this situation were not changed the Community would be unlikely to survive.

5. M. Dondelinger pointed out that serious negotiations on re-structuring the Community Budget would begin under the UK presidency. Sir Michael Butler emphasised the need for bilateral exchanges, and informal discussions in Coreper, in advance of the formal presentation of the Commission's proposals next spring. A variety of policies would be needed to deal with the problem of agricultural surpluses; but price restraint would be fundamental. It was noted that the Commission could not legally budget to exceed the 1 per cent ceiling, while the French Government's insistence on fixing agricultural prices before their presidential election added a new dimension to the problems. The point was also made that if the Community ran out of money, a variety of undesirable practices - for example sending agricultural products into intervention in other countries - would come into operation.

6. The discussion ended at 10.45 a.m.

JW

A J WIGGINS
29 October 1980



Distribution

Financial Secretary
Sir Kenneth Couzens
Mr Hancock
Mrs Hedley Miller
Mr Ashford
Mr Edwards
Mr D F Roberts
Mr M Alexander - 10 Downing
Street
PS/Foreign and Commonwealth
Secretary
PS/Minister of Agriculture
Sir Michael Butler (UKREP)
Mr M D M Franklin, Cabinet
Office

PS
PS/SIR I GILMOUR
PS/MR HURD
PS/PUS
SIR J GRAHAM
MR J C MOBERLY

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IMMEDIATE

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NEWS D

RESIDENT CLERK

GRS 900

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FM LUXEMBOURG 291530Z OCT 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 345 OF 29 OCTOBER

INFO ROUTINE WASHINGTON, TOKYO, UKREP BRUSSELS, UKDEL NATO,
UKMIS NEW YORK, CAIRO, TEL AVIV, TUNIS, AMMAN, DAMASCUS, BAGHDAD
BEIRUT, JEDDA

INFO SAVING BRUSSELS, PARIS, BONN, ROME, DUBLIN, COPENHAGEN,
THE HAGUE, ATHENS, LISBON, MADRID, MUSCAT, ABU DHABI, RABAT,
TRIPOLI, SANA'A, KHARTOUM, DUBAI, ALGIERS, DOHA, BAHRAIN,
ADEN, KUWAIT AND MOGADISHU

EUROPEAN POLITICAL COOPERATION: POLITICAL COMMITTEE: LUXEMBOURG,
28/29 OCTOBER

MIDDLE EAST: FOLLOW UP TO THORN MISSION
SUMMARY

1. DISCUSSION CONCENTRATED ON:

- (1) THE GENERAL SHAPE OF THE WORKING GROUP REPORT,
- (11) POSSIBLE FURTHER CONTACTS WITH THE PARTIES,
- (111) WHAT THE EUROPEAN COUNCIL SHOULD DECIDE ON 1 DECEMBER.

2. IT WAS AGREED THAT THE WORKING GROUP SHOULD PRESS ON WITH
PREPARATION OF ITS REPORT ELABORATING THE VENICE PRINCIPLES
AND THAT ON 4 NOVEMBER MINISTERS SHOULD DISCUSS THE REPORT
AND THE USE TO WHICH IT SHOULD BE PUT. A UK SUGGESTION THAT
THE NINE SHOULD CONDUCT SUBSTANTIVE CONTACTS WITH THE PARTIES
IN ADVANCE OF THE EUROPEAN COUNCIL RECEIVED LITTLE SUPPORT.

IN ADVANCE OF THE EUROPEAN COUNCIL RECEIVED LITTLE SUPPORT. THERE WERE DIFFERING VIEWS ON THE CONTENTS OF AN EVENTUAL EUROPEAN COUNCIL STATEMENT.

DETAIL

REPORT

3. GENERAL SATISFACTION WAS EXPRESSED AT THE WORKING GROUP'S PROGRESS ON THE REPORT. HOWEVER DUPONT (FRANCE) DOUBTED THAT A DOCUMENT OF THE LIKELY LENGTH OF THE REPORT WHEN FINALISED WOULD BE USABLE BY FOREIGN MINISTERS AND HEADS OF STATE AND GOVERNMENT. A SUMMARY WOULD BE NEEDED, WHICH COULD SERVE AS A MANDATE FOR CONTACTS TO BE UNDERTAKEN AFTER THE EUROPEAN COUNCIL AND MIGHT ALSO BE SUITABLE FOR PUBLICATION AT AN APPROPRIATE MOMENT. MACKERNAN (IRELAND) AGREED.

4. BULLARD (UK) SAID THAT A SUMMARY COULD BE CONSIDERED WHEN THE REPORT ITSELF HAD BEEN FINISHED. THE QUESTION OF PUBLICATION WAS A VERY SENSITIVE ONE WHICH THE EUROPEAN COUNCIL WOULD HAVE TO CONSIDER. IN THE MEANWHILE THERE WAS AN OVERRIDING NEED FOR CONFIDENTIALITY FOR THE CONTENTS OF THE REPORT, GIVEN THE EXTREME SENSITIVITY FOR BOTH SIDES OF SOME OF THE IDEAS BEING DISCUSSED.

5. BLECH (FRG) REFERRED TO THE NEED TO TAKE INTO ACCOUNT THE IMPLICATIONS OF THE NINE'S WORK FOR THE CAMP DAVID PROGRESS. HE WARNED AGAINST RAISING ARAB EXPECTATIONS UNDULY HIGH. HE OPPOSED PUBLICATION OF ANY DOCUMENT IN PRESENT CIRCUMSTANCES AND FEARED THAT A SUMMARY ALONG THE LINES SUGGESTED BY DUPONT WOULD SIMPLY RETURN THE WORK OF THE WORKING GROUP BACK TO THE VENICE PRINCIPLES.

CONTACTS

6. BULLARD (UK) SAID THAT THE EUROPEAN COUNCIL WOULD CLEARLY NEED TO CONSIDER HOW CONTACTS SHOULD BE PURSUED AFTER ITS MEETING. BUT THE MANDATE OF THE WORKING GROUP AND THE MINISTERIAL CONSENSUS AT ECHTERNACH BOTH POINTED TO FURTHER SUBSTANTIVE CONTACTS BEFORE THE COUNCIL AS WELL. THE PROCESSES OF WORKING OUT THE NINE'S IDEAS AND OF MAINTAINING CONTACT WITH THE PARTIES SHOULD BE COMPLEMENTARY AND MUTUALLY FRUITFUL. THE NINE'S CREDIBILITY WAS AT STAKE. CONTEMPTUOUS NOISES WERE ALREADY BEING HEARD FROM ISRAEL ABOUT THE NINE'S EFFORTS. VISIBLE ACTIVITY WAS NEEDED TO COUNTER THIS. THERE WAS NO NEED FOR A DETAILED LIST OF QUESTIONS FOR SUCH CONTACTS. THEY WOULD ARISE NATURALLY FROM THE WORKING GROUP'S REPORT ITSELF. THE UK HOPED THAT THE PRESIDENCY WOULD USE THE MONTH OF NOVEMBER TO TAKE THE LEAD IN FURTHER CONTACTS, SEEKING WHATEVER ASSISTANCE

TO TAKE THE LEAD IN FURTHER CONTACTS, SEEKING WHATEVER ASSISTANCE IT REQUIRED. THE UK WAS READY TO HELP.

THYSBAERT (BELGIUM) SAID THAT NEW QUOTE OPERATIONAL UNQUOTE CONTACTS COULD ONLY COME AFTER THE EUROPEAN COUNCIL. ADVANTAGE SHOULD NEVERTHELESS BE TAKEN OF APPROPRIATE OCCASIONS TO MAINTAIN THE FORMAL LINK WITH THE PARTIES. DUPONT (FRANCE) SAID THAT SUBSTANTIVE CONTACTS COULD ONLY COME AFTER THE EUROPEAN COUNCIL, WHOSE DECISIONS SHOULD NOT BE ANTICIPATED. HE AGREED THAT THE OPPORTUNITIES OF THE EURO-ARAB DIALOGUE MEETING IN LUXEMBOURG ON 12/13 NOVEMBER AND THE ARAB SUMMIT IN AMMAN IN LATE NOVEMBER SHOULD BE TAKEN TO MAINTAIN CONTACT WITH THE PARTIES BUT NEW IDEAS SHOULD NOT BE PUT FORWARD AT THEM. REININK (NETHERLANDS), DYVIG (DENMARK) AND BLECH (FRG) ALL EXPRESSED HESITATION ABOUT ANY NEW CONTACTS BEFORE THE EUROPEAN COUNCIL, AS PROPOSED BY THE U.K.

SHAPE OF EUROPEAN COUNCIL DECISION

8. DYVIG (DENMARK) SAID THAT ANY COUNCIL DECISION SHOULD BE SIMPLY IN THE FORM OF A PROGRESS REPORT. DUPONT (FRANCE) SAID IT WAS FOR THE EUROPEAN COUNCIL TO DECIDE ON THE QUESTION OF A EUROPEAN INITIATIVE. REININK (NETHERLANDS) SAID THAT THE ESSENCE OF ANY STATEMENT SHOULD BE A REAFFIRMATION OF THE VENICE PRINCIPLES. NEW PRINCIPLES WERE NOT NEEDED.

9. MERTZ (PRESIDENCY), SUMMING UP, SAID THAT THE NINE SHOULD CONTINUE TO DEMONSTRATE THEIR INTEREST IN CONTRIBUTING TO A MIDDLE EAST SETTLEMENT. THE OPPORTUNITIES OFFERED BY THE MEETINGS IN LUXEMBOURG AND AMMAN SHOULD CERTAINLY BE USED. THE FOREIGN MINISTERS' MEETING ON 4 NOVEMBER WOULD NEED TO GIVE FURTHER GUIDANCE, CONCENTRATING ON:

- (1) THE REPORT ITSELF,
- (II) THE USE TO WHICH THE REPORT SHOULD BE PUT (WHETHER THERE SHOULD BE A SUMMARY, WHETHER IT SHOULD BE PUBLISHED ETC),
- (III) CONTACTS (IE WHAT SORT OF FURTHER CONTACTS SHOULD THERE BE BEFORE THE EUROPEAN COUNCIL,)
- (IV) WHAT THE NINE SHOULD AIM TO DO AFTER THE EUROPEAN COUNCIL,
- (V) THE TIMETABLE ON PREPARATION OF WORK FOR THE EUROPEAN COUNCIL.

FCO PASS SAVING: BRUSSELS, BONN, THE HAGUE, COPENHAGEN, DUBLIN, PARIS, ROME, ATHENS, LISBON, MADRID, MUSCAT, ABU DHABI, RABAT, TRIPOLI, SANA'A, KHARTOUM, DUBAI, ALGIERS, DOHA, BAHRAIN, ADEN, KUWAIT AND MOGADISHU

cc No. 10

Michael Alexander

GPS 21φ

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FM LUXEMBOURG 28165φZ
TO PRIORITY FCO
TELNO 335 OF 28 OCTOBER
INFO PRIORITY UKREP BRUSSELS ROUTINE PARIS AND BONN
INFO SAVING OTHER EC POSTS.

THORN'S REACTIONS TO HIS VISIT TO LONDON ON 27 OCTOBER

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FCO PASS SAVING TO:
BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN

THOMAS
LIMITED
E.C.D (E)
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MR BULLARD
MR FERGUSSON
MR HANNAY
LORD BRIDGES

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COPIES TO
PS/ CHANCELLOR OF EXCHEQUER

THIS TELEGRAM
WAS NOT
ADVANCED

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file RB
Luxembourg

10 DOWNING STREET

From the Private Secretary

27 October 1980

CALL BY M. THORN

I enclose a copy of the record of the Prime Minister's discussion earlier today with M. Gaston Thorn.

I am sending copies of this letter and its enclosure to John Wiggins (H.M. Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

R. M. J. Lyne, Esq.,
Foreign and Commonwealth Office.

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✓ copied to Master Set,
EUROPOL: Appt of Euro Commission
May 1980.

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRIME MINISTER OF LUXEMBOURG, M. GASTON THORN, AT 10 DOWNING
STREET ON MONDAY 27 OCTOBER 1980 AT 1215 HOURS

Present:

Prime Minister	M. Thorn
Mr. M. Alexander	M. Kasel

* * * * *

Commission Portfolios

The Prime Minister asked about the prospects for the allocation of portfolios within the new Commission. M. Thorn said that he had been informed by the Foreign and Commonwealth Secretary about the Prime Minister's wishes. The difficulty for him was that the majority of Commissioners wanted to stay put and to keep their present portfolios. The position of the French Government was not untypical: President Giscard had told him that he would have preferred to change both his Commissioners but since he wished to hang on to the portfolios he would probably end up by keeping both M. Ortoli and M. Cheysson in post. This meant that M. Thorn had very little flexibility. Effectively the only portfolios which he seemed likely to have at his disposal would be Transport, Personnel, Social Affairs, Competition and Energy. It had been proposed that Agriculture and Fish might be separated, but M. Gundelach would not agree to this. M. Davignon would like to absorb the Energy portfolio. Although Industry and Energy would make a good pairing, M. Davignon perhaps had enough responsibilities already. (The Prime Minister made it clear that this was her view also). Generally, it would be sensible to cut down the number of Commissioners, particularly given the prospect of Greek, Spanish and Portuguese appointments. The Prime Minister agreed.

CAP

The Prime Minister said that it was essential to find a different way of financing the Community's agricultural surpluses.

/ It was

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It was ridiculous to go on producing surpluses on the present scale, the more so since they had the effect of undermining the economies of agricultural producers elsewhere. The restructuring of the CAP would, of course, be extremely difficult. It was therefore essential to stick to the 1% VAT ceiling.

M. Thorn said that he agreed and knew that President Giscard was also determined to stick to the 1% VAT ceiling. It was essential to secure reforms in the near future. There was an enormous potential, e.g. in France, for increased agricultural production. If these increases were to occur before reform had been secured, it would become impossible to secure changes.

It was symptomatic of the present difficulties that the Commission appeared to be about to propose agricultural price increases of 17% for next year. The Prime Minister said that no such proposal would get past the British Government. She would not even be prepared to accept price increases at half this level.

M. Thorn said that he had hoped the Prime Minister might accept something between 6% and 8%. Luxembourg could live with increases of that order.

Community Budget

M. Thorn said that he hoped the main work on restructuring the Community Budget could be done during the U.K. Presidency. The Prime Minister said that she thought it would take longer.

M. Thorn said that he envisaged that the Commission would put forward its proposals in July next year. It would, however, be necessary to do a great deal of preparatory work during the Dutch Presidency. He hoped to arrange a number of bilateral talks between the Presidency and members of the Community in the period March to June. His objective would be to ensure that whatever proposals were put forward by the Commission would be on lines that were at least broadly acceptable to the Community as a whole. He recognised that some of these informal contacts would have to take place before the French Election, but he saw no difficulty in that. Most of the work would have to be done by the next Commission since the papers under preparation by the present Commission seemed to be almost exclusively analytical.

/ The Prime Minister

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The Prime Minister commented that most members of the Community would probably refuse to show their hand before the Commission had tabled its proposals. M. Thorn said this was certainly true as far as the French were concerned.

European Council

M. Thorn asked how the Prime Minister envisaged the agenda for the European Council meeting at Luxembourg in December. President Giscard had made it clear that he thought it would be inappropriate to discuss most of the major Community problems, e.g. unemployment, energy, the CAP and restructuring. He wanted a primarily political agenda. In M. Thorn's view this would be inappropriate and would not be understood by public opinion. The Prime Minister said that she agreed. It would be essential to have a general debate on economic issues. The problems of the CAP and on Budget restructuring could not be ignored. Nor could the problems being experienced by industry and trade, e.g. petrochemicals, cars, steel and the Multi-Fibre Arrangement. Mr. Jenkins should be encouraged to give a wide-ranging report which dealt with future problems as well as with the achievements of his Commission. There was no need to look for decisions. But the problems had to be identified and general directions laid down. M. Thorn said he fully agreed. He hoped that the Prime Minister would be prepared to argue for an agenda along the lines she had described. The Prime Minister added that if there was to be a discussion of this kind, particularly if there was to be a review of problems in the industry/trade area, she would see considerable advantage in having M. Davignon present.

Commenting more generally on European Council meetings, the Prime Minister said that she continued to think that three Summits a year was excessive. If there were only two a year, fewer decisions would be appealed upwards and more substance given to the work of the other meetings of Councils of Ministers. M. Thorn said that it would be difficult to reverse the present trend.

/ Middle East

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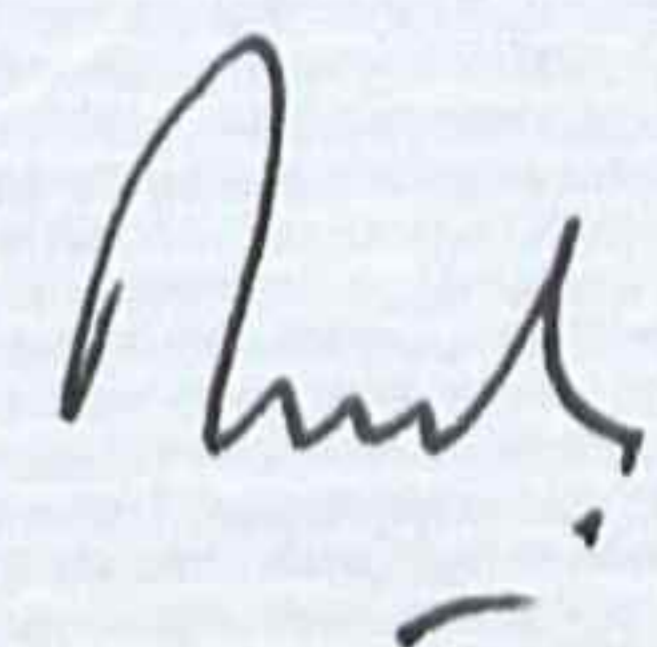
Middle East

The Prime Minister asked M. Thorn for his assessment of the present situation in the Middle East. M. Thorn said that he did not think the United States could, on their own, find a solution to the Arab/Israel dispute. There was a role for Europe. However, Europe's policy should be neither anti-American nor "for the glory of Europe". Europe had in recent months played a necessary role in exerting pressure on Mr. Begin. We should continue to pursue a pragmatic approach analysing the problems and keeping in the closest touch with the United States as we went along. The Arabs were already aware of Europe's new willingness to assume a measure of responsibility for the problems of the area and welcomed this. The Prime Minister said she warmly agreed about the need to avoid drifting apart from the United States.

The Prime Minister asked M. Thorn for his impressions of Yasser Arafat. M. Thorn said he was not at all sure what to make of Arafat. He was certainly an able man and aware of all the aspects of the situation. He had been anxious in his meetings with M. Thorn to appear reasonable and flexible. Nevertheless he was also extremely ambitious and anxious to be a head of state. He had told M. Thorn that he would be content initially to have a 'handkerchief of territory' provided it was with full sovereignty. This had left M. Thorn with the impression that whatever he was given he would try to expand. He did not exclude confederation with Jordan as a final outcome but would insist on having sovereignty in the first instance. In response to a question from the Prime Minister, M. Thorn said that he did not think that Arafat was particularly close to Moscow. Certainly he claimed that he was not a Communist and never would be. He received the larger part of his financial backing from the Arabs. His link with the Communists stemmed from the fact that he had initially received the strongest and most unconditional support from Syria which was, of course, closely linked with Moscow.

The discussion ended at 1300.

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Mr. Alexander

LIST OF GUESTS ATTENDING THE LUNCHEON TO BE GIVEN BY THE PRIME MINISTER
IN HONOUR OF HIS EXCELLENCY MONSIEUR GASTON THORN, MINISTER FOR FOREIGN AFFAIRS
OF THE GRAND DUCHY OF LUXEMBOURG ON MONDAY, 27 OCTOBER 1980 AT 1.00 PM FOR
1.15 PM

The Prime Minister

His Excellency Monsieur Gaston Thorn

Minister for Foreign Affairs
of the Grand Duchy of Luxembourg

His Excellency the Ambassador of the Grand Duchy of Luxembourg

Monsieur Jean Dondelinger

Luxembourg Permanent Representative
to the European Commission

Monsieur Jean-Jacques Kasel

Private Secretary to M. Thorn

The Rt. Hon. Lord Carrington

The Rt. Hon. Sir Ian Gilmour, MP

Sir Michael Butler

UK Representative to the
European Commission

Mr. Jeremy Thomas

HM Ambassador, Luxembourg

The Lord Bridges

FCO

Mr. Michael Franklin

Cabinet Office

Mr. Michael Alexander



Ref. A03335

PRIME MINISTER

The New Commission

The FCO brief suggests the line you might take in talking to Monsieur Thorn on Monday about the distribution of portfolios in the new Commission. Strictly speaking, this is for the new Commission to decide; but Monsieur Thorn will expect you to let him know Her Majesty's Government's views and to ask him to take them into account.

2. Our first priority is to retain the Budget portfolio for Mr. Tugendhat and to ensure thereby that he will have a major role to play in the budget restructuring exercise.

3. Mr. Ivor Richard (who will be seeing Monsieur Thorn after your meeting) would like to get the Development portfolio, with Industrial Affairs as his fallback. Either of these would be worth getting. Treasury Ministers are inclined to think that we should go for Competition Policy, believing that this could help to achieve a freer market e.g. on air fares and insurance. The Commissioner in charge of Competition Policy could have some influence in these areas; but he could also be influential in the opposite direction - preventing the Commission taking too legalistic a view e.g. about our Regional Development Grants or our North Sea oil policies. However, it is not one of the most sought after portfolios (although the Dutch are supposed to be interested), and it would be better tactics at this stage to show more interest in Development or Industrial Affairs if we want to keep those options open.

4. In trying to influence the portfolio which Mr. Ivor Richard gets, you will want to bear in mind that he is keen to use his time as Commissioner to try to change the direction of the Labour Party's policy on Europe. This objective would obviously be made more difficult if he had a portfolio which brought him too frequently into conflict with some of the attitudes of the Left. Viewed in this light, both the Industrial and the Competition Policy portfolios offer both



opportunities and risks; but on balance I would judge the Development portfolio to be the safest, since the Commission traditionally takes a fairly forthcoming attitude on relations with the ACP countries and in the North/South dialogue generally. By the same token, we would have to expect that, if Mr. Richard was the Development Commissioner, and trying at the same time to win greater Labour Party support for the Community, we might from time to time find him saying things which would not be welcome to the Government.

ROBERT ARMSTRONG

24th October, 1980

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Foreign and Commonwealth Office

London SW1A 2AH

24 October 1980

kg.
Paul

Dear Michael,

Prime Minister's meeting with M. Thorn

As requested in Mike Pattison's letter to Christopher /
Jebb of 26 August, I am enclosing briefing for the Prime
Minister's use for her tete-a-tete with M. Thorn on
27 October at 12.15. The main body of the brief is for
background purposes only but the steering brief suggests
the areas the Prime Minister might cover with M. Thorn.

Yours etc

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
London

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VISIT OF M THORN: 27 OCTOBER

STEERING BRIEF FOR PRIME MINISTER

1. M Thorn is making a tour of EC capitals in his dual capacities as President of the Council and President-designate of the Commission. In his talks with the Prime Minister, he will almost certainly have the latter chiefly in mind. A personality note is attached.
2. He will certainly want to discuss with the Prime Minister the main point on his agenda, the shape of the new Commission and the allocation of portfolios of the new Commissioners (Brief 2(a)). M Thorn, who can be prickly on such matters, is reported to be upset by the manner of announcement of the appointment of Mr Richard. This came before he appeared before the Parliament and left him rather exposed to criticism from MEPs that neither he nor they were consulted about Commission appointments. The fact of the matter is that Lord Carrington told M Thorn of the Prime Minister's choice on 7 October and he expressed himself content. He cannot say he was not consulted. Mr Richard will be calling on M Thorn at the Luxembourg Embassy during the afternoon.
3. Another item which M Thorn is likely to raise is budget restructuring, (Brief 2b). The preparation of the report provided for in the 30 May Agreement will be an early and major task facing the new Commission. The Commission paper is not due until June 1981 and by that time Member States will probably be aware of the general lines of each others' thinking. It would be helpful if the Commission could be encouraged to be open-minded in their approach to the restructuring problem and to present options rather than a single solution. A major element in any effective solution will have to be proposals to reduce the cost of the CAP. On this, we must encourage M Thorn to take a radical approach. Some of our partners are likely to be pressing him for the opposite. While achievement of a lasting solution to our own Budget contribution problem will be a key objective for us, we do not want to give it exclusive prominence at this early stage. We will of course want to keep closely in touch with the Commission on an informal basis as our and their thinking develops.
4. The brief on restructuring follows closely the line agreed by Ministers in OD on 13 October. M Thorn's approach to this subject will

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be conditioned by his past and his future. As a long standing representative of the Community's smallest Member he attaches paramount importance to the strength of the Community's institutions and to what he regards as Community orthodoxy. He will want to be sure that the Commission will play its full role in the negotiations. His attitude on maintaining the 1% ceiling and restructuring within it is unlikely to be helpful.

5. A number of other current Community issues which could come up are covered in Briefs 2(c) and 2(d) but we see no need for the Prime Minister to raise them.

6. M Thorn may also want to say something about his Middle East tour as President of the Council and his views on the Arab/Israel issue (Brief 3). This should have been covered in detail during the informal meeting of Foreign Ministers which is to take place in Luxembourg over the previous weekend. The Prime Minister may however wish to draw on points in Brief 3. For the rest, M Thorn is likely to want to talk generally about world affairs. Among other major issues which may come up are the Iran/Iraq war and energy questions. These are covered in Brief 4.

EUROPEAN COMMUNITY DEPARTMENT (INTERNAL)

23 October 1980

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VISIT OF M THORN : 27 OCTOBER

BRIEF 2a: Commission Portfolios and Institutional QuestionsCommission Portfolios

1. Decision is, of course, for new Commission under Thorn's chairmanship. How does he see the picture? May help if we give you some preliminary idea of our thinking. Understand Tugendhat would like to continue with budget. Welcome and support that. His proven expertise valuable in period when budgetary matters will be of crucial significance. Important he be given, under President, proper coordinating authority within Commission on all matters with budgetary implications. As for Richard a bit early to say much, given paucity of firm decisions on who is staying from old Commission and what qualifications other newcomers might have. He has wide experience of relations with developing countries which could be valuable and he is attracted by the idea; Industrial affairs another possibility in which he has shown interest. His legal training and background could be useful, e.g. for competition portfolio. Perhaps useful if we compare notes again at time of European Council.

Commission Staffing

2. New Commission bound to have to take a number of decisions on senior staff appointments. We attach importance to achieving 'harmonious geographical distribution' - (jargon for our share). Replacement of present British Director General for Energy who is retiring important for us (also Transport when the present British Director-General retires.) Have given Commission names of two highly qualified external candidates with energy experience (le Cheminant and Herzig) and indicated that Audland would also have our support if Commission insisted on in-house promotion.

3. Remain worried about imbalance to our detriment at lower levels, A4, A5 (Principals in our parlance), and A6/7. At A4 and A5, Germany had 222, France 209, Italy 199 and the UK 150 on 30 June. Hope new Commission, in implementing Greek accession and Spierenburg recommendations on staffing reforms, will do best to remedy this imbalance. Not healthy; and jeopardises future promotion policy to higher levels.

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European Parliament : Site [If raised]

4. Understand Luxembourg concern. Agree decision is for all Member States to take. Present situation wasteful in time and money; hope satisfactory solution can be found.

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ESSENTIAL FACTS

New Commission

1. UK has nominated Mr Tugendhat and Mr Richard. European Council on 1/2 December will nominate complete new Commission; formal appointment will be on 1 January 1981 when Greece can legally take part in decisions; new Commission will take office on 6 January. M Thorn has been taking soundings of other Member States. The latest state of play on other Member States' intentions is at Annex.

Portfolios

2. We shall wish Mr Tugendhat to be a vice-President and to retain the Budget portfolio, strengthened to give him more influence in the restructuring exercise. We have identified three other portfolios which could be of value to the UK and might be attainable: Development, Industrial Affairs and Competition policy. A British incumbent in the Development portfolio should help to redress the very poor share of aid contracts we get at the moment under the European Development Fund. Mr Richard is well qualified. But M Cheysson may be re-appointed and, if he is, our chances of dislodging him are slight. Industry is another portfolio we would like to have. The responsibility for the steel and textile industries is particularly important for us. Here too, the present incumbent M Davignon may stay, in which case our chances are slight. A third portfolio of interest is Competition where a Commissioner sensitive to the political importance to us eg. of regional aids and North Sea Oil could be useful.

3. At this stage it would be best to show some general interest in all three portfolios, until the situation becomes clearer about the fate of the incumbents. Too strong a display of interest in Development, for example, might only strengthen the French determination to hold on to it.

4. As to the portfolios for non-British members, the field is too open yet to express any strong views. If M Thorn suggests splitting fisheries from agriculture or giving up the President's responsibility for information policy, (he has to find one more portfolio than the present Commission), we should raise no objection, while making clear that we hope the present difficult negotiations on fish can first be brought to a successful conclusion under Gundelach's direction.

UK Member of M Thorn's Cabinet

5. We believe M Thorn wishes to have an English-speaking member of his Cabinet. We have identified Britons both in the Commission and Whitehall who could be candidates if M Thorn wanted a UK national; and have told M Thorn's present chef de Cabinet we would help if he wants us to. We have given the names to Mr Tickell who is in contact, as chef de Cabinet of the outgoing President, with M Thorn's people. It is not recommended that Ministers should raise this subject. To do so could be counter-productive.

Commission Staffing

6. UK is under-represented in the Commission, particularly in the A4, A5 (principals) and A6/7 grades which form the essential pool from which candidates for more senior posts are taken. The Commission's examination of its own structure in the light of the Spierenburg Report on its functioning, and the need to make room for Greek nationals provide an opportunity to press our claims for a better balance. We have already taken this problem up with Mr Jenkins and Mr Tugendhat and need to continue to do so with the new Commission. It is particularly important to ensure that there is a British successor to Mr Leonard Williams, the Director-General for Energy, who is soon to retire. We shall also want to keep the post of Director General for Transport in British hands when the present incumbent leaves shortly.

European Parliament : Site

7. In the face of growing pressure from the MEPs for a single working place, and probably majority support for Brussels, France has proposed that Member States take a decision under Article 216 of the Treaty (which requires unanimity) to fix permanent seats for the institutions. They want Strasbourg established as the permanent site of the Parliament. Luxembourg currently houses the Parliament's Secretariat and a new building for plenary sessions; it has no interest in seeing Strasbourg become the sole permanent seat. We would in the long term like to see Parliament established in Brussels but UK interest is to avoid getting drawn into the argument prematurely.

European Parliament : Salaries

8. The Parliament has suggested to the Council that MEPs salaries should be a percentage of a Commissioner's or set independently; be

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paid from Community funds; and be subject to the national coefficient applied to the salaries of Community officials living and working in the different Member States. The Council has replied - to our satisfaction - that for the moment we should stick to the present system under which MEPs are paid at national rates from national exchequers. The Parliament sees control of its own salaries as an important symbol of its independence from the Council: a working group of the Parliament's management committee has drafted a report which will recommend MEPs should receive salaries of between £19,000 and £23,000.

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COMMISSION PORTFOLIOS - 1981

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

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VISIT OF M THORN: 27 OCTOBER

BRIEF 2B: RESTRUCTURING OF COMMUNITY BUDGET
POINTS TO MAKE

1. Commitment to review major turning point in Community development. Valuable opportunity to set house in order. Make full use.
 2. Cannot be shirked. Triple challenge of:
 - (a) 1% VAT ceiling;
 - (b) enlargement;
 - (c) commitment to avoid unacceptable situation.
 3. UK preliminary thought. Approach open minded. Exploratory stage.
 4. Must keep to timetable i.e. Commission paper by June; aim at solution by end 1981. Otherwise likely dislocation of Community business. Commission proposals in good time.
 5. UK committed to finding Community solutions to Community problem.
 6. Fundamental problem: rapid growth/dominance of CAP; stunted growth of other policies. Former must be controlled to make room for latter within 1% ceiling. Must also ensure pattern prevents recurrence of unacceptable situation.
 7. Must find solution within 1% ceiling. Raising unacceptable to number of Member States but would also make problem worse. If breached no effective constraint on CAP spending; cost of enlargement; UK net contribution larger.
 8. Important that decisions affecting 1981 budget (especially price-fixing) should not prejudice finding of long-term solution.
- Agriculture
9. Commission proposals on Agriculture will set tone and scope. Important they are widely framed. No use shutting off options before Member States have had chance to discuss.
 10. Must cut cost of CAP and reduce surpluses. They undermine Community finances and political support for Community.
 11. Do not question principles and objectives of CAP, but structural

/surpluses

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surpluses and problems must be tackled to prevent collapse of CAP.

12. Broad objectives of reform should be:

- (a) elimination of structural surpluses, especially milk;
- (b) reduction in CAP's share of budget;
- (c) progress towards market clearing prices;
- (d) preservation of healthy agricultural industry.

13. Believe central element must be policy of severe price restraint. Prepared to consider combining it with direct aids to help those hardest hit.

14. Recognise restraint itself unlikely to be sufficient. Ready to consider how it can be supplemented. Already Council commitment in principle to super levy for milk. For cereals price support must relate to volume of production. For beef, intervention should be reduced. Quantitative restrictions appropriate for other commodities eg. Mediterranean products.

15. Opposed to across-the-board extension of basic co-responsibility levy principle. Avoids tackling central problem.

16. Strongly support reduction of CAP's share of budget as medium term objective. Finance Ministers should consider urgently in relation to 1981. Synchronisation of price-fixing and budget procedures might help.

17. 1981 Price fixing: must not prejudice restructuring. Rumours of 8-10% totally unacceptable. Hope Commission proposals will be set at realistically low level. Surplus products should be treated more severely.

18. A New Stresa Conference: (if raised). Not averse to such an approach. Need to be carefully prepared. CAP reform only one part of restructuring. Conference would presumably need to cover all aspects?

Non-Agricultural

19. If CAP cut, scope for expansion of RDF/Social Fund and possibly new policies. UK approach positive. Outstanding proposals: coal, /structural

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structural measures for transport, fisheries.
New policies: urban/industrial decay; energy.

20. These policies cannot solve problem by itself. Massive budget expansion would be needed.

21. Role in preventing unacceptable situation only effective if preponderantly beneficial to States likely to find themselves in this situation.

21. Revenue side: changes should be considered. May not be possible to avoid unacceptable situation by action on expenditure alone.

22. No doubt Commission will consider French/German idea of ceiling on net benefits/contributions.

/ESSENTIAL FACTS

ESSENTIAL FACTS

1. UK preliminary work: papers produced by Departments cover most of the ground. No firm conclusions but clear that if unacceptable situation to be avoided, combination of measures will be needed. Important at this stage not to rule out possibilities.
2. Commission preliminary work: present Commission is to produce line by line examination of budget, detailed papers on CAP and on other major spending policies. Will prepare groundwork but leave new Commission to come forward with proposals. Useful to sow in M Thorn's mind idea of retaining wide range of proposals.
3. Timetable: present deadline set in para 7 of 30 May Council Agreement (i.e. Council will attempt to solve problem by structural changes but if this not possible proposals along lines of 1980/81 solution will be put forward to cover 1982). German public position is still that review must be complete by end 1981 though Schmidt earlier indicated privately that he thought early 1982 more realistic. Our interests best served by sticking to letter of 30 May Agreement (i.e. initially in favour of end 1981 deadline).
4. 1% VAT ceiling: French and Germans support UK view on maintenance of ceiling. Raising would make problems more difficult since it would open sluice gate for more agricultural spending.
5. CAP Reform
This is a useful opportunity to outline our preliminary thinking and impress on M Thorn the importance of the Commission initiating a wide ranging debate on CAP reform presenting a series of options to the Council rather than putting forward a single recipe. It will also be important to convince M Thorn that the Commission proposals for 1981/82 agricultural prices must not prejudice the restructuring exercise. (There have already been rumours that Gundelach is contemplating increases of 8-10%). We need to disabuse M Thorn of the idea that we could accept increases of this dimension.
6. When he saw the Secretary of State early this year, M Thorn suggested that one possible way for the Community to deal with CAP reform might be the convening of a new Stresa Conference. This was the conference held in July 1958 as required by Article 43 of the Treaty to draw up the detailed rules and regulations of the Common Agricultural Policy. We have no over-riding objection to the idea of a conference, but it is not clear what it would achieve particularly as restructuring goes wider than CAP reform. It is not yet clear whether M Thorn will still wish to pursue this idea.
7. Non-Agricultural: various proposals in existence. UK proposals for Community policy to encourage indigenous production of coal - others have blocked because benefits UK disproportionately but this is precisely kind of policy we must have if unacceptable situation to be avoided. Moreover their argument is based on "juste retour" for each Community policy - contrary to their

/position

position in the budget negotiation. Other proposals on the table : structural measures in fisheries/transport infrastructure. Neither would bring significant benefit to UK in present form but both offer potential . New policy areas: urban/industrial decay, energy. Considerable potential. Would be useful to sound out whether M Thorn has any particular suggestions/preferences.

8. Enlargement: likely to bring further problems in that acceding States will have significant call on funds which at present benefit UK (RDF/Social Fund). If Commission follow line taken over Greece's share of RDF, UK could become net contributor to both these.

9. Revenue side: possibility of change should not be ruled out. Likely to prove difficult to avoid unacceptable e situation without some means of bringing level of gross contributions into line with GNP share.

10. Ceiling on net benefits: French/German idea has not been filled out yet. This could be important as negotiation develops promising area for UK if idea of override mechanism gained ground. However , we must be careful not to get into lead in proposing this: will be seen clearly as dictated by self-interest with risk of isolating us in negotiation. At present most we should do is to encourage Commission to look further into French/German idea.

VISIT OF M THORN ; 27 OCTOBER

BRIEF 2C : COMMUNITY - OTHER INTERNAL ISSUES

POINTS TO MAKE

Fisheries [If raised]

1. Useful progress made in CFP negotiations, especially agreement on a Conservation Regulation at 29 September Council.
2. Fully support Presidency in their efforts to speed up the negotiations in order to achieve 1 January 1981 deadline for revised CFP.
3. UK firmly committed to seeking agreement as soon as possible. But settlement must be seen to be fair by UK industry which is still coming to terms with enormous losses of fishing in third country waters. Settlement must cover all elements identified in Council declaration of 30 May 1980.

ERDF Greek Share [If raised]

4. Provision for Greek quota must be at the expense of 6 more prosperous Member States. Cannot accept or reject the proposed 15% quota; need more information to justify the figure.

1981 Budget (if raised)

5. Not happy with outcome of 24 September Budget Council. But would have been in a worse position if we had prevented establishment of figures by joining Italians to block qualified majorities.
6. Commission and Parliament clearly agitated. Likelihood of rejection seems small at present.
7. Careful handling of second Budget Council required. Council will have to show a little flexibility on non-obligatory spending. But no question of cave-in in present economic circumstances.

Steel (if raised)

8. (Subject to developments over the weekend) Have seen the outcome of the special Council on Steel. Glad that the Community was able eventually to take a decision, and carry all Member States with it. Now need effective arrangements with external suppliers.

ESSENTIAL FACTS

Fisheries

1. 30 May Foreign Affairs Council declaration called for revised CFP to be in effect by 1 January 1981. Negotiations protracted and difficult, but progress made on 29 September enabling agreement on a Conservation Regulation. Outstanding elements are quotas, access, marketing, enforcement and structural policy. Quotas and access are the most difficult; essential for UK interests that access should be discussed in parallel with quotas.
2. Next Fisheries Council 20 October. Luxembourg Presidency are trying hard to push negotiations along; anxious to meet end-of-year deadline mainly for sake of their Presidency's reputation. Their chairmanship of Councils lacks political weight and has not been particularly effective.

ERDF Greek share

3. Commission has proposed a 15% quota for Greece on accession, with reductions in the quotas of existing Member States based on relative GDP. The UK quota share would fall from 27.03% to 23.34%. We think that the UK, Italy and Ireland should retain their present shares, and have queried the basis of the 15% figure. Other Member States have been less questioning, but the Italians have suggested that the proposed quota share is too large. For political and economic reasons, the Greeks attach importance to 15%. They have raised it at Prime Ministerial level.
5. The question was discussed at COREPER on 16 October, and the Commission have promised answers to our questions on the 15% within two weeks. At official level, EQO will be discussing the issue next week to determine our position, and reconcile our important trading interests in Greece.

1981 Budget

6. 23/24 September Budget Council took very restrictive view. Growth of non-obligatory expenditure held to 12% for payments and 5% for commitments over 1980 level.
7. Commission have disassociated themselves from outcome. Critical that Council have neutralised Commission's effort to start rebalancing budget by encouraging non-obligatory expenditure at expense of agricultural.
8. Draft Budget is now with Parliament. They will propose amendments and return in time for second Budget Council (24 November). Likely to be hard bargaining between Council and Parliament in December before final adoption by Parliament.

Steel

9. At the 7 October Foreign Affairs Council it was agreed that Member States would agree by written procedure on Commission proposals for Article 58 quotas on production. All Member States other than Germany gave their assent before the deadline of 22 October. The Germans were unwilling to do so, and the Commission therefore invited the Presidency to convene a special Council on Saturday 25 October, in the hope that the Germans could be persuaded that they had exhausted all possibilities and would reluctantly have to

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accept mandatory quotas or at least not invoke the Luxembourg Compromise.

10. The Community steel industry is in crisis. Production grossly exceeds demand. The industry, other than in Germany, supports Article 58 measures. The Germans have lobbied in Member States asking for concessions on the time for which quotas would apply and their coverage. We continue to believe that voluntary measures are not the solution and that Article 58 is necessary. Commission now need to renegotiate voluntary arrangements with the external suppliers - present agreements expire 31 December.

European Community Department (Internal)
23 October 1980

CONFIDENTIAL

VISIT OF M THORN, 27 OCTOBER

BRIEF 2d) COMMUNITY AFFAIRS - EXTERNAL

POINTS TO MAKE

International Trade Questions

1. Recognise that EC cannot afford unjustified protectionism. But at a time of recession essential for Commission to avoid appearing unresponsive to difficulties of domestic industry.

EC/Japan

2. Common EC import regime for Japan is attractive proposition. But Member States cannot be expected to make concessions except in return for concessions of equal value. EC motor industries facing critical difficulties. New Commission must pay special attention to this.

MFA

3. Tough successor to present MFA essential. Commission must make realistic proposals.

US Synthetic Fibres and Chemicals

4. New Commission will need to make major effort with the new US Administration over unfair advantage on oil and gas feedstocks.

EC/New Zealand

5. Very damaging to EC/New Zealand relations if post-1980 access for butter is not settled satisfactorily before the end of this year. New Zealand a political ally and worthwhile market. Commission proposals an acceptable basis for agreement. Decisions must be taken by end of year if Community not to default on an important obligation to a friendly country i.e. in 1975 Dublin Declaration.

Enlargement

6. Enlargement likely to be important issue in 1981 and hence during UK Presidency. UK supports Spanish and Portuguese wish to get on with negotiations. UK believes negotiations can be pursued in parallel with restructuring.

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7. (If appropriate) Agree that some slippage in timing can now be expected, as applicants themselves now seem to accept.

8. Political factors decisive in UK attitude to enlargement but important to get entry terms right in order to keep down cost to Community.

/ESSENTIAL FACTS

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ESSENTIAL FACTS

INTERNATIONAL TRADE QUESTIONS

EC/Japan

1. The Commission has proposed an overall Community strategy towards Japan covering inter alia political questions, technological cooperation and unified policy on import restrictions (to replace national measures). France and Italy which have various import quotas have strongly opposed the Commission's proposals. The UK has no quotas but has various informal industry-to-industry arrangements. In present economic climate we could not accept any reduction in existing level of protection. We therefore wish to see tougher proposals than those the Commission has put forward. Meanwhile the initial Japanese reaction has been discouraging.

Multi-Fibre Arrangement

2. The current MFA expires at the end of 1981. The developing countries have made clear they are looking for a much more liberal regime. The Prime Minister has told the UK industry that we shall be seeking a 'tough' successor. France, Italy, Ireland and Benelux are also likely to want a restrictive successor (as are the US and the Scandinavians). The Germans will be arguing in favour of liberalisation. The new Commission must begin drawing up a detailed draft negotiating mandate early in 1981. The negotiations themselves are not expected to begin in earnest until the Autumn. There is real potential for a serious North/South confrontation.

EC/New Zealand

3. The question of butter access post-1980 remains outstanding. The Commission have proposed a further progressive reduction in quantities to 90,000 tonnes in 1984 but with stability thereafter, with the right to market throughout the Community (instead of just in the UK), and the replacement of the present variable levy system by a fixed levy at a lower level. The French have concentrated their attack on the principle of open-ended access and on alleged over-generosity to New Zealand. They have attracted varying degrees of support from Ireland, Belgium, Denmark, the Netherlands and Italy. The French argue that no decision can be taken beyond 1981 at this juncture.

4. The UK, together with the FRG, supports the Commission's proposal. In a scrutiny debate on 25 July the Government accepted an opposition amendment calling for "permanent access" and a "quota for 1984 of not less than 90,000 tonnes", as proposed by the Commission.

5. The New Zealand Government are becoming increasingly anxious that there should be an early as well as a satisfactory decision. The Agriculture Council discussed the subject for the first time at its informal meeting in Luxembourg on 13/14 October. Gundelach argued forcefully in support of the Commission proposals, stressing that without the cooperation of New Zealand the EC would face even greater difficulty over disposal of surplus production on the world market.

Enlargement

6. Portugal and Spain originally wanted to break the back of the negotiation by the end of this year, to sign a treaty in 1981 and to

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join the Community on 1 January 1983. This timetable no longer realistic. The French attitude to enlargement, always ambivalent, has become more openly negative; and the Community's decision to review its budgetary arrangements in 1981, including the CAP too, has introduced a new element of uncertainty. Both applicant countries have more or less openly abandoned the original timetable, the Portuguese saying that too much emphasis should not be placed on it, the Spaniards letting it be known that they are now working for a 1 January 1984 accession date. Even this may be optimistic. Having consistently pressed for early progress in these negotiations we have established credit with the Portuguese and Spaniards which we do not wish to dissipate by unnecessary frankness in public, or in talks with our partners or the Commission (which gets back to applicants), about the increasing likelihood of delay caused by the need first to complete the restructuring exercise.

EUROPEAN COMMUNITY DEPARTMENT (EXTERNAL)

23 October 1980

 CONFIDENTIAL

VISIT OF M THORN: 27 OCTOBER

BRIEF NO 3: ARAB/ISRAEL

POINTS TO MAKE

1. Congratulate on success of Middle East mission. Acceptance of Venice principles amongst the parties uneven, but valuable for Nine to be in contact with all parties.
2. Iran/Iraq war has distracted international attention, but will only be temporary. Nine's efforts must be maintained visibly and credibly. This means continuing contacts. Work to put flesh on bones of Venice principles cannot proceed in a vacuum but needs input from parties.
3. European Council must address problem and say something, but should not try to extend basic framework of Venice principles.
4. Arab/Israel a test of effectiveness of political cooperation. Nine must demonstrate their capacity to play in independent role.

ESSENTIAL FACTS

1. Following the Venice Declaration (copy attached) M Thorn toured the Arab/Israel parties, including the PLO, to explore their views. He was received with attention and interest by all the parties, although attitudes to the Declaration itself range from outright hostility from Israel, through suspicion on the part of the PLO and Syrians to cautious welcome by Egypt and Jordan. M Thorn heard little new and his report contained nothing memorable. He was clearly unwilling to involve himself further in the Nine's efforts and his impending resignation means he has no further personal role.

2. Discussion in the Nine is now focussed on how to follow up his mission. There is agreement that the Nine are committed to an active role and that contacts with the parties should continue, but no agreement yet on how these contacts should be maintained or what exact role the Nine should seek to play. Work is now proceeding on how the Venice principles could be realised in practice. The results will be considered by the European Council meeting of 1/2 December, when the Nine will again be obliged to take a public position.

3. We have argued that the existing Political Cooperation machinery is not adequate for detailed work on Middle East peace considerations and that a small group to assist the Presidency and maintain contact with parties would be valuable. No agreement has so far been possible, principally because of objections from the French, who may be concerned about the possible institutionalisation of political cooperation. They also appear increasingly concerned that action by the Nine in the Middle East should not jeopardise President Giscard's chances of re-election. This has been reinforced by the recent anti-semitic outrages in Paris.

Camp David

4. The recent tripartite meeting in Washington produced no agreement. The principal negotiators will not now meet again until after the US elections. The likelihood of a tripartite summit this year has receded.

EUROPEAN COMMUNITY DEPARTMENT (EXTERNAL)

23 October 1980



Verbatim Service

VERBATIM SERVICE VSQ73/8Q

FRIDAY

13TH JUNE 198Q

DECLARATION OF THE EUROPEAN COUNCIL ON THE MIDDLE EAST

FOLLOWING IS TEXT OF DECLARATION BY THE NINE FOLLOWING THE MEETING OF HEADS OF STATE AND GOVERNMENT AND FOREIGN MINISTERS IN VENICE ON 13 (THIRTEEN) JUNE.

1. THE HEADS OF STATE AND GOVERNMENT AND THE MINISTERS OF FOREIGN AFFAIRS HELD A COMPREHENSIVE EXCHANGE OF VIEWS ON ALL ASPECTS OF THE PRESENT SITUATION IN THE MIDDLE EAST, INCLUDING THE STATE OF NEGOTIATIONS RESULTING FROM THE AGREEMENTS SIGNED BETWEEN EGYPT AND ISRAEL IN MARCH 1979. THEY AGREED THAT GROWING TENSIONS AFFECTING THIS REGION CONSTITUTE A SERIOUS DANGER AND RENDER A COMPREHENSIVE SOLUTION TO THE ISRAELI-ARAB CONFLICT MORE NECESSARY AND PRESSING THAN EVER.

2. THE NINE MEMBER STATES OF THE EUROPEAN COMMUNITY CONSIDER THAT THE TRADITIONAL TIES AND COMMON INTERESTS WHICH LINK EUROPE TO THE MIDDLE EAST OBLIGE THEM TO PLAY A SPECIAL ROLE AND NOW REQUIRE THEM TO WORK IN A MORE CONCRETE WAY TOWARDS PEACE.

3. IN THIS REGARD, THE NINE COUNTRIES OF THE COMMUNITY BASE THEMSELVES ON SECURITY COUNCIL RESOLUTIONS 242 AND 338 AND THE POSITIONS WHICH THEY HAVE EXPRESSED ON SEVERAL OCCASIONS, NOTABLY IN THEIR DECLARATIONS OF 29 JUNE 1977, 19 SEPTEMBER 1978, 26 MARCH AND 18 JUNE 1979, AS WELL AS IN THE SPEECH MADE ON THEIR BEHALF ON 25 SEPTEMBER 1979 BY THE IRISH MINISTER OF FOREIGN AFFAIRS AT THE 34TH UNITED NATIONS GENERAL ASSEMBLY.

4. ON THE BASES THUS SET OUT, THE TIME HAS COME TO PROMOTE THE RECOGNITION AND IMPLEMENTATION OF THE TWO PRINCIPLES UNIVERSALLY ACCEPTED BY THE INTERNATIONAL COMMUNITY: THE RIGHT TO EXISTENCE AND TO SECURITY OF ALL THE STATES IN THE REGION, INCLUDING ISRAEL, AND JUSTICE FOR ALL THE PEOPLES, WHICH IMPLIES THE RECOGNITION OF THE LEGITIMATE RIGHTS OF THE PALESTINIAN PEOPLE.

5. ALL OF THE COUNTRIES IN THE AREA ARE ENTITLED TO LIVE IN PEACE WITHIN SECURE, RECOGNIZED AND GUARANTEED BORDERS. THE NECESSARY GUARANTEES FOR A PEACE SETTLEMENT SHOULD BE PROVIDED BY THE UN BY A DECISION OF THE SECURITY COUNCIL AND, IF NECESSARY ON THE BASIS OF OTHER MUTUALLY AGREED PROCEDURES. THE NINE DECLARE THAT THEY ARE PREPARED TO PARTICIPATE WITHIN THE FRAMEWORK OF A COMPREHENSIVE SETTLEMENT IN A SYSTEM OF CONCRETE AND BINDING INTERNATIONAL GUARANTEES, INCLUDING (GUARANTEES) ON THE GROUND.

6. A JUST SOLUTION MUST FINALLY BE FOUND TO THE PALESTINIAN PROBLEM, WHICH IS NOT SIMPLY ONE OF REFUGEES. THE PALESTINIAN PEOPLE, WHICH IS CONSCIOUS OF EXISTING AS SUCH, MUST BE PLACED IN A POSITION, BY AN APPROPRIATE PROCESS DEFINED WITHIN THE FRAMEWORK OF THE COMPREHENSIVE PEACE SETTLEMENT, TO EXERCISE FULLY ITS

RIGHT TO SELF-DETERMINATION.

7. THE ACHIEVEMENT OF THESE OBJECTIVES REQUIRES THE INVOLVEMENT AND SUPPORT OF ALL THE PARTIES CONCERNED IN THE PEACE SETTLEMENT WHICH THE NINE ARE ENDEAVOURING TO PROMOTE IN KEEPING WITH THE PRINCIPLES FORMULATED IN THE DECLARATION REFERRED TO ABOVE. THESE PRINCIPLES APPLY TO ALL THE PARTIES CONCERNED, AND THUS THE PALESTINIAN PEOPLE, AND TO THE PLO, WHICH WILL HAVE TO BE ASSOCIATED WITH THE NEGOTIATIONS.

8. THE NINE RECOGNIZE THE SPECIAL IMPORTANCE OF THE ROLE PLAYED BY THE QUESTION OF JERUSALEM FOR ALL THE PARTIES CONCERNED. THE NINE STRESS THAT THEY WILL NOT ACCEPT ANY UNILATERAL INITIATIVE DESIGNED TO CHANGE THE STATUS OF JERUSALEM AND THAT ANY AGREEMENT ON THE CITY'S STATUS SHOULD GUARANTEE FREEDOM OF ACCESS FOR EVERYONE TO THE HOLY PLACES.

9. THE NINE STRESS THE NEED FOR ISRAEL TO PUT AN END TO THE TERRITORIAL OCCUPATION WHICH IT HAS MAINTAINED SINCE THE CONFLICT OF 1967, AS IT HAS DONE FOR PART OF SINAI. THEY ARE DEEPLY CONVINCED THAT THE ISRAELI SETTLEMENTS CONSTITUTE A SERIOUS OBSTACLE TO THE PEACE PROCESS IN THE MIDDLE EAST. THE NINE CONSIDER THAT THESE SETTLEMENTS, AS WELL AS MODIFICATIONS IN POPULATION AND PROPERTY IN THE OCCUPIED ARAB TERRITORIES, ARE ILLEGAL UNDER INTERNATIONAL LAW.

10. CONCERNED AS THEY ARE TO PUT AN END TO VIOLENCE, THE NINE CONSIDER THAT ONLY THE RENUNCIATION OF FORCE OR THE THREATENED USE OF FORCE BY ALL THE PARTIES CAN CREATE A CLIMATE OF CONFIDENCE IN THE AREA, AND CONSTITUTE A BASIC ELEMENT FOR A COMPREHENSIVE SETTLEMENT OF THE CONFLICT IN THE MIDDLE EAST.

11. THE NINE HAVE DECIDED TO MAKE THE NECESSARY CONTACTS WITH ALL THE PARTIES CONCERNED, THE OBJECTIVE OF THESE CONTACTS WOULD BE TO ASCERTAIN THE POSITION OF THE VARIOUS PARTIES WITH RESPECT TO THE PRINCIPLES SET OUT IN THIS DECLARATION AND IN THE LIGHT OF THE RESULTS OF THIS CONSULTATION PROCESS TO DETERMINE THE FORM WHICH SUCH AN INITIATIVE ON THEIR PART COULD TAKE.

ENDS VSQ73/8Q ... LPS...

VISIT OF MR THORN

BRIEF 4a

IRAN/IRAQ

POINTS TO MAKE :

Situation on the Ground

1. An impasse is emerging. Neither side prepared to give in. But neither has capacity to defeat the other decisively, As long as the war drags on the risk remains of the conflict widening to include other countries. Any major supply of arms by third parties could prolong the conflict.

Prospects for Peace-making

2. It is in all our interests to work in the UN and elsewhere to prevent extension or prolongation of the conflict. We support all initiatives to end the hostilities. So far mediation by the Islamic Conference or the UN has seemed to offer the best prospect of ending the war. See no immediate role for an EC initiative, but important that the Nine consult closely about developments.

Straits of Hormuz

3. Flow of ships normal in the Straits of Hormuz. Immediate threat to shipping in the Gulf has receded for the moment but risk is still great. Naturally discussing with our allies and friends in the area and elsewhere contingency plans for the protection of shipping in case a deterioration in the situation makes this necessary.

4. There are currently two Royal Navy ships patrolling outside the Gulf, off Oman, HM Coventry and Alacrity (plus one auxiliary). These will be joined on 29 October by two more warships and associated support vessels.

/Shipping

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Shipping in the Shatt-al-Arab

5. There are several ships trapped in the Shatt-al-Arab but they are out of immediate danger. There is one British ship between Khorramshahr and Abadan still exposed (HM Altanin).

Oil

6. We agree with the IEA assessment that the supply situation for the IEA group is manageable for some months, provided that there is no recourse to the spot market. The US and Japan play such an important role in the world market. It is, therefore, essential for the Community to continue to co-operate closely with the IEA.

Consultations with our allies

7. With naval forces in the region, we are consulting with the Americans about how we might use our ships if it became necessary to ensure continued access to the Gulf by merchant ships!

(If appropriate) The Americans have put on record their intention to keep the Straits of Hormuz open. They will be under pressure to act quickly in a crisis! Better that they should do so only after consultation with European allies and perhaps Gulf states.

8. Objective of any action should, in our view, be to restore confidence of world shipping community. Essential in a crisis to keep cool and respond in lowest possible key. Meanwhile, vital not to provoke precisely the incident we are hoping to avoid by precipitate action. So maintenance of confidence is essential. Our two warships in the area are under orders now to stay outside and patrol the Gulf of Oman. We have other warships in the Indian Ocean which are currently taking part in a naval exercise with the US 7th Fleet.

ESSENTIAL FACTS :

Situation on the Ground

1. In the last two days the Iraqi offensive aimed at capturing key ports of Khorramshahr and Abadan, has made slow but steady progress. Iraqi tanks now encircle the two towns and Ahwaz is under constant bombardment. Street fighting continues.

Attempts at Mediation

2. Prospects for a fresh Security Council Resolution are slim. The emergency session of the Security Council ended on 20 October. Both Iran and Iraq presented their cases on standard lines. However, there are recent signs that Iran

bring the
war to an
end.

would welcome an initiative by the Security Council designed to

3. The Islamic Conference has renewed its efforts at mediation. The Secretary-General, Habib Chatti, has visited Iraq and Iran, and had discussions with President Bani Sadr and Khomeini. Following his meeting with Habib Chatti, President Bani Sadr announced that he had received a fresh proposal for a delegation of several Islamic Heads of State. He is to submit this proposal to the Iranian Defence Council for consideration.

4. The new Non-Aligned Movement good-will mission will shortly be under way. Six NAM foreign ministers are to visit Iran and Iraq in a fresh bid to stop the fighting.

5. In Beirut the Palestine leader, Abu Azad, has published a peace plan proposed by the PLO. The four point plan includes a cease-fire followed by Iraqi unilateral retreat back to the frontiers of the Algiers Agreement of 1975, or the Treaty of Constantinople of 1914, together with an Iranian agreement for negotiations in a neutral country and control over the Iraqi retreat by Islamic and Non-Aligned countries.

Shipping in the Shatt-al-Arab

6 HMS Altanin : The majority of the HM Altanin crew are still on board. Morale is very low. We are in touch with the Iraqi authorities about the possibility of moving ships southwards, but we are doubtful how practical this is in present circumstances. We are looking at our contingency plans for war insurance but in a low key so as not to alarm industry.

Oil

7 As a recent IEA statement makes clear, the position on oil supplies gives no cause for immediate concern. Total loss of Iran/Iraq oil is 3.6 to 3.8 mbpd (15% OPEC and 10% of Western total imports). There has been some increase in other Gulf OPEC production (one mbpd). IEA countries still have several months surplus. But if the war drags on, anxieties will rise and psychological factors could lead countries to resort to the stock market, even though the situation does not warrant this.

Straits of Hormuz : Consultations with our allies

8. The attached article from the Herald Tribune may lead to questions from those of the Nine not involved in the consultations with the Americans.

9. Early American suggestions for talks on oil and insurance were agreed to be unnecessary.

10 Bilateral RN and US Navy talks on naval matters have taken place in London. The Americans have shown us their contingency plan.. We have expressed reservations and there are signs that our criticisms are getting home to the Americans. Navy to Navy talks now reveal a closer identity of purpose and tactics, particularly on the concept of naval 'escort' operations. The Australian Navy has also taken part. Separately we are pressing the Americans to elaborate with us appropriate political control machinery. The Secretary of State's invitation to four power talks was refused by France and Germany, but HM Ambassador

/Washington

SECRET

Washington will hold talks with Mr Christopher in Washington.

13. The French, through their naval commander in the Arabian Sea, have been co-operating with the US Navy in arranging methods and channels for communication and co-ordination. They should, therefore, be familiar with the concept of an 'escort' operation as discussed between us and the Americans. But they have so far declined to discuss such matters other than on the naval level and bilaterally with the Americans. The quadripartite talks on 27 October will, however, offer an opportunity for an exchange of views on specific naval issues.

VISIT OF M THORN, 27 OCTOBER

BRIEF NO 4(b): ENERGY QUESTIONS

POINTS TO MAKE

1. Oil Supply Situation [Iran/Iraq war]

We concur with IEA assessment that the oil situation is manageable for some months yet. All our efforts should go into ensuring that there is no panic. Thanks to the recession, demand in most industrial countries is well down, so the gap between supply and demand is not great at present. A lot will depend on the severity of the winter in Europe and the U.S. and the willingness of the Saudis to keep up increased production, as well as events on the ground in Iran/Iraq. Stock policies crucial for market balance: companies should be encouraged to draw on stocks rather than resort to spot market. Action should be co-ordinated through IEA: USA and Japan play a major part in world oil market and must be involved. Community should stay in touch with IEA and keep the situation under review.

2. Community discussions of energy

Member States have a common interest in reducing consumption of oil, limiting dependence on imported oil and developing alternative energy sources. We attach importance to development of Community co-operation and are keen to seek ways of extending this co-operation effectively.

3. Commission Energy Initiative

Issues are complex and require careful study. UK ready to participate constructively. As first step, shall examine carefully Commission's forthcoming assessment of scope for increased Community support for energy projects in Member States.

4. Coal

UK has put forward proposals for a Community fund to help finance investment in coal production in Member States. Coal has a vital role to play in achieving the objective, expressed at successive European Councils, of reducing dependence on imported energy and on oil. We look forward to further Community action in support of the coal sector.

/ DEFENSIVE

DEFENSIVE POINTS

5. Production and disposal of North Sea Oil

North Sea Oil is already making, and will continue to make, an important contribution to the Community's requirements for oil. Two-thirds our exports of North Sea Oil now go to our European partners. Production will continue to increase into the mid-1980's; and we expect the present pattern of exports to Community countries to be maintained.

6. Increased production in supply crisis

As members of the IEA and Community, we will participate in the sharing arrangements which come into operation in circumstances of supply crisis. We are working with the Commission in context of Oil Supplies Group on study of a number of measures to deal with a situation of oil supply shortage including possible scope for increasing production. Virtually no scope for increasing production in the short term. UKCS production is currently at, or very near, the maximum consistent with good oilfield management.

ESSENTIAL FACTS

Oil Supply Situation

1. Loss of Iranian and Iraqi oil exports amounts to some 3.6 - 3.8 million barrels per day. No Western countries had been importing from Iran immediately before the conflict. Of Community countries France, Italy and Ireland imported most from Iraq. But stocks are very high (Community stocks are 113 days). Agreement reached within IEA on measures to restrain spot purchases, to draw on stocks, to reinforce conservation and substitution, and for member governments to consult actively. The IEA emergency sharing scheme has not had to be implemented, but if the supply situation deteriorates further it may have to be. The European Community has no comprehensive allocation system but has more limited demand - reduction and sharing arrangements.

Commission energy initiative

2. Commission ideas for a common energy policy suggest a combination of energy price and tax harmonisation and a programme of investment in energy, financed by a system of energy taxation which might combine an import levy with a production tax. Commission ideas for price and tax harmonisation are complex, and further consideration of these will involve both Energy and Finance Ministers. We see merit in harmonising specific prices and taxes would raise complex issues of national energy and fiscal policy. After brief preliminary discussion of Commission initiative at 13 May Energy Council, Commission embarked on examination of scope for increased Community investment in energy projects in Member States for a report to the next Energy Council.

North Sea Oil

3. Latest figures, covering first 8 months of 1980, show that of the 24.3m tonnes of oil exported, some 16.1m tonnes went to other members of the EC.

4. On 21 July the Secretary of State for Energy made an announcement on depletion policy. We consider that the controls envisaged (primarily deferring development of certain fields

/ discovered

discovered after 1975 and limiting gas flaring) are in accord with our international obligations to the Community and the IEA, that depletion policy will smooth out and extend the pattern of UKCS production, and that the total amount of oil produced from the North Sea will not be reduced. Our Community partners will keep a close eye on how depletion policy is implemented.

Coal

5. In October 1979 the Secretary of State for Energy circulated to the Commission and to his Energy Council colleagues a paper suggesting Community support for investment in coal production. This was subsequently discussed, and the ideas pursued in greater detail, at Working Group level, in November 1979 and March 1980, but discussion was kept in low key in order not to undermine the separate attempt to secure Community support for the UK coal industry in the context of the Budget negotiations. Mr Howell's proposals, however, remain 'on the table'.

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File

289
cc: Mrs. Goodchild

10 DOWNING STREET

From the Private Secretary

13 October 1980

VISIT OF M. THORN

The Prime Minister has seen your letter to me of 8 October about M. Thorn's visit. She has agreed the guest list which you proposed.

MO'D BA

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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TWA



RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

8 October 1980

Prime Minister
If you think that 8/4 guest list is somewhat unbalanced, we could omit, say, Lord Bridges & the Lord Privy Seal.

Also guest list as submitted or reduced as above?

List as submitted - not

Dear Michael,

Paul 9/14

Visit of M. Thorn

In your letter of 9 September to Stephen Gomersall, you requested a guest list for the working lunch for M. Thorn on 27 October.

The Luxembourgers are under some pressure at the moment with M. Thorn's tour of the Middle East, his Presidency of the Council and his impending Presidency of the Commission, so we only have a provisional list of the Luxembourg team. The following will, on present form, be coming to the talks (and could all appropriately be included in the lunch):

- M. Thorn
- M. Dondelinger (Luxembourg Permanent Representative to the EC)
- M. Kasel (Private Secretary)
- M. Hastert (Luxembourg Ambassador in London)

We propose that the British guests at the lunch might be:-

- Prime Minister
- Secretary of State
- Lord Privy Seal
- Sir M Butler
- Mr Franklin (Cabinet Office)
- Lord Bridges
- Mr Thomas (HM Ambassador, Luxembourg)
- Private Secretary

I should be grateful to know if this list is acceptable to the Prime Minister.

Yours truly
Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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HS

BF family

26. 10. 80.

Euro Pol

1 October 1980

Visit of M. Thorn

Further to your letter to me of 29 September, the Prime Minister has agreed to receive M. Thorn at 1215 on 27 October for 40 minutes talks before lunch that day.

MICHAEL ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.



Prime Minister.

①



(a) Lunch for 12 at 1.00 for 1.15.

Foreign and Commonwealth Office

(b) Talks at 12.30. After?

London SW1A 2AH

12.15.7.

29 September 1980

Paul
30/9

Dear Michael,

Visit of M. Thorn: 27 October

You wrote on 9 September to Stephen Gomersall about M. Thorn's visit. Lord Carrington agrees that it would be best to offer a working lunch to M. Thorn. We shall submit a guest list nearer the time.

M. Thorn will be having discussions with Lord Carrington, the Lord Privy Seal and the Chancellor of the Exchequer during the morning of 27 October. If you agree, he might call on the Prime Minister for half an hour's talk before lunch.

Yours WGA

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Thorn

9 September 1980

21 EF 24.10.80

Visit of M. Thorn

Further to your letter to me of 8 September, I suggest that the Prime Minister's lunch for M. Thorn might be a working one limited to 12 guests. If you agree I should be grateful to receive a draft guest list by Friday, 10 October. If you wish to propose that lunch should be a larger, more social affair, perhaps you would let me know soon. In the latter event we should need the guest list a little earlier.

21 I should be grateful to receive briefs for the talks with M. Thorn on Friday, 24 October.

M. O'D. B. ALEXANDER

S J Gomersall, Esq
Lord Privy Seal's Office

80



Foreign and Commonwealth Office

London SW1A 2AH

8 September 1980

Dear Mike,

VISIT OF M. THORN : 27 OCTOBER

Thank you for your letter of 29 August to George Walden.

We are most grateful for the Prime Minister's offer to give lunch to M. Thorn on Monday, 27 October. He responds to personal courtesies of this kind. The invitation has been conveyed to him and he has gladly accepted. If convenient for the Prime Minister, we suggest that lunch might be at 12.45pm preceded by half an hour of talks.

These will provide a useful opportunity for an exchange of views about the new Commission and about any ideas M. Thorn may have by then on the handling of the budget restructuring exercise.

The Chancellor of the Exchequer may also wish to see Thorn during the visit; and we are in touch with his office about this.

As you know Lord Carrington is on holiday; we have therefore not yet been able to confirm arrangements for his own talks with M. Thorn. His office will let you know what they are when Lord Carrington returns.

I am sending a copy of this letter to Peter Jenkins (Treasury).

*Yours ever,
Stephen Gomersall.*

S J Gomersall
Private Secretary to the
Lord Privy Seal

Mike Pattison Esq
10 Downing Street

8/28/80



Euro. Pol.

10 DOWNING STREET

From the Private Secretary

29 August 1980

8/24/80

I wrote to Christopher Jebb earlier in the week about M. Thorn's request for a meeting with the Prime Minister on Monday 27 October.

The Prime Minister is content to see M. Thorn. She feels, however, that she should offer some entertainment, and would be prepared to give him lunch if this seemed appropriate.

8-9-80

I should be grateful if you could take this up with the Luxembourg authorities and let us know what arrangements seem most suitable. For the moment, we will keep the Prime Minister's diary clear between 1115 and 1430.

7/08

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

9B

✓ Noted: C.S. 2118

PRIME MINISTER

(through Miss Stephens)

Gaston Thorn is arranging a series of brief meetings with Community Heads of Government. The Luxembourg Embassy is staffed by one secretary at the moment, who tells me 27 October is pencilled into M. Thorn's programme for London. She has no information about the subject matter of this round of visits, other than that M. Thorn is travelling in his capacity as Chairman of the Council of Ministers and President Designate of the Commission. She believed that he was seeking only a brief meeting, and would not expect any formal entertainment.

We must entertain him.

27 October is the date that the House returns. Apart from your regular Monday morning meetings, you have no engagements, although it had been earmarked for work on the CTU speech. I therefore agreed that we could pencil in a 45 minute meeting with M. Thorn beginning at 1115.

Subject to further information about the purpose of M. Thorn's tour, are you content to confirm this appointment?

Yes - lunch?

not

MA

2 August 1980

Luxembourg

WORKING VISIT, MR GASTON THORN, LUXEMBOURG FOREIGN MINISTER
MONDAY 25 FEBRUARY 1980

0855 hrs Arrive Heathrow Flight LG401 from Luxembourg.
Accompanied by M Weyland - Economic Director MFA
M Kasel - Chef de Cabinet

Brabazon Suite, Terminal 2. Greeted by Brigadier
Lewthwaite on behalf of FCO. British Airports
Special Facilities informed.

Customs/Immigration waivers arranged.

Cars arranged by Luxembourg Embassy.

1100 hrs Talks with the Secretary of State at FCO

1300 hrs Luncheon in Honour of M Thorn
for 1 Carlton Gardens
1315 hrs

1515 hrs Depart for Heathrow
approx.

1600 hrs Arrive Heathrow. De Havilland Suite
approx British Airport Facilities Manager
(Mr Baxendale) in attendance.
Brigadier Lewthwaite will be present
on behalf of FCO.

1630 hrs Depart for Luxembourg on BA 394

L L C Pawley (233-4613)
Visits Section
Protocol and Conference Department

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Luxembourg

PRIME MINISTER

Gaston Thorn

Did you promise M. Thorn, in Strasbourg, that you would see him on the morning of 5 July?

Your programme for that day is extremely full, including not only Cabinet and Questions but a meeting of OD on Rhodesia in the morning.

If you agree, I shall arrange for a message to be sent to M. Thorn's office regretting very much that you will not, after all, be able to see him this time but asking him to let you know when he next expects to be passing through.

Yes,

*Court - Cabinet
& Questions*

2 July 1979

*HMA, Luxembourg
& FCO informed.*

*YH
2/7/79*

Luxembourg

MR. CARTLEDGE

BY
O/R. 3/17

We spoke whilst you were in Tokyo about the message from the Luxembourg Embassy to the effect that M. Thorn is to be in London on the morning of 5 July. As you suggested I spoke to Patrick Wright about this. He called back today to say that he had been in touch with M. Thorn's office, who readily accepted that it would in practice be impossible to arrange a call that morning. The matter can therefore be forgotten with no loss of face on either side.

MA

29 June 1979

LDX 963/27

FDW G 60/27

O TOKYO

GPS 120

CONFIDENTIAL

FM FCO 262359Z JUN

TO IMMEDIATE TOKYO

TELNO 272 OF 26 JUNE.

FOLLOWING PERSONAL FOR CARTLEDGE, PRIME MINISTER'S PARTY FROM
PATTISON.

THE LUXEMBOURG EMBASSY TELEPHONED TODAY WITH A MESSAGE FROM
GASTON THORN THAT HE WILL BE IN LONDON ON THE MORNING OF
THURSDAY 5 JULY.

THIS APPARENTLY FOLLOWS UP A CONVERSATION HE HAD WITH THE PRIME
MINISTER AT STRASBOURG. ARE WE TO ATTEMPT TO ARRANGE A MEETING?

THIS WOULD BE A DIFFICULT DAY WITH CABINET FOLLOWED BY QUESTIONS.
CARRINGTON

NNNN

Sole recipient *Mr Cartledge*
who should instruct Embassy
on any further distribution.

J Maguire EXT. 221.

IMMEDIATE
CRYPTIC

0246/27