

E H.G. Brussel,  
Mar 82  
Brueping

PREM 19/750

S  
807

INDEX OF BRIEFS

1. Index
2. Steering Brief
3. Economic and Social Situation
4. Mandate, including C.A.P.
5. E.M.S.
6. Greece
7. Poland and East/West Relations
- 7a. East/West : East European Indebtedness
- 7b. East/West : Buckley Mission
8. Trade Relations with US and Japan
9. Political Cooperation
  - (a) Afghanistan
  - (b) Transatlantic Relations
  - (c) Middle East
  - (d) Central America
  - (e) Turkey
  - (f) Cyprus
  - (g) C.S.C.E.
10. Fish
11. Enlargement
12. Energy
13. European Foundation
14. 25th Anniversary of Treaties of Rome
15. 1982 Budget
16. European Union - German/Italian Draft Act
17. Greenland
18. Information Technology
19. Preparations for Versailles Summit
20. Channel Fixed Link
21. Community Investment Policy



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)2  
18 March 1982

COPY NO. 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 March 1982

---

STEERING BRIEF

---

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. The Brussels European Council will come at the end of a period when discussions by Foreign Ministers have not resolved the four outstanding points on the Mandate, remitted to them by the November European Council (except in the unlikely event of agreement being realised on the guidelines at the 23 March Foreign Affairs Council). It will also take place just before the meeting of Agriculture Ministers (on 30/31 March and 1 April) at which the UK's determination not to agree to agricultural prices until a satisfactory deal has been struck on the budget is likely to come more out into the open.

2. Other Heads of State/Government will want to concentrate discussion on economic and social and world issues and there will be a marked reluctance to come to grips with the difficult and politically unrewarding issues raised by the Mandate. This will be the last European Council before the Versailles Economic Summit and the smaller Member States who do not attend the Summit will be anxious to ensure that their views are taken into account. We for our part will want the meeting to give impetus to the search for early solutions on

**CONFIDENTIAL**



**CONFIDENTIAL**

the Mandate as a whole. The meeting closely follows the 25th anniversary of the signing of the Treaties of Rome and the Belgian Presidency have arranged a programme to mark the occasion.

3. The only new face at the European Council since last November will be Mr Haughey's (though he has attended previous Councils). On this occasion most of the Heads of State/Government are the leaders of relatively stable Governments but Signor Spadolini's Government remains as shaky as ever and a crisis could arise in the next two or three months; Mr Joergensen's Social Democratic Government is under strong pressure from the left; and Mr Martens' government is facing serious problems including riots by steelworkers and could well fall by the summer.

AGENDA AND DOCUMENTATION

4. The Belgian Presidency have so far given little indication of their thinking about the organisation of discussion but the following are likely to be the main subjects:

(i) Economic and Social Situation. The Commission will produce a paper. The continuing deterioration in the employment situation throughout the Community and the political pressures to which this is giving rise will dominate the discussion. Discussion is likely to cover both the Community's internal situation (unemployment, inflation and macro-economic policies) and external matters, particularly US economic policies and trade with Japan. The external subjects are likely to be discussed in the context of preparation for the Versailles Summit (4-6 June). This item will provide an opportunity for the Prime Minister to make our points about the need for progress on information technology and the completion of the internal market. It is not expected that North/South issues will figure prominently.



**CONFIDENTIAL**

(ii) The Mandate. The nature of the discussion will depend on what, if any, progress is made at the Foreign Affairs Council on 23 March. The European Council will in any case need to review progress since its November meeting which instructed Foreign Ministers to resolve the four key problems on the guidelines.

(iii) European Monetary System. The European Council will be asked to endorse the conclusions of the Economic/Finance Council meeting on 15 March, which look forward to further discussion in May.

(iv) Greece. Mr Papandreou will want to introduce the paper which is expected to have been submitted by then containing Greece's demands for changes affecting Greek membership. He will want the meeting at the least to taken note of the paper and the Greek requirements

(v) Political Cooperation. The main topic here should be Poland and related East-West issues.

5. The programme which the Belgian Presidency envisage for celebrating the 25th anniversary of the signing of the Treaty of Rome starts with an "academic session" to be attended by Heads of State/Government at 10.30am on Monday 29 March and addressed by the Heads of the four Community institutions (Council, Commission, Parliament and Court). This will be followed by a lunch given by King Baudouin.

UK OBJECTIVES

6. (i) It would not be realistic to expect the European Council to settle the budget problem, but our objectives on the Mandate must be: to get the European Council to give a political impetus to the search for a solution by the Foreign Ministers, to convince the Heads of State/Government of the reasonableness of our case on the Mandate and to emphasise our determination to get a settlement at a fair level for a reasonable period;

(ii) To ensure that there is no change in the European Council's endorsement of anti-inflation policies; and to



**CONFIDENTIAL**

obtain agreement to a balanced attitude to the macro-economic and commercial policies of the US and Japan.

(iii) To demonstrate our constructive attitude to the Community by urging the need for more to be done in the field of information technology and for progress in completing the internal market.

OBJECTIVES OF OTHER GOVERNMENTS

7. The Belgian Presidency have given little indication of their plans though they have said they want to concentrate discussion on the Community's economic problems and they will no doubt be seeking to avoid too contentious a discussion about the Mandate. They hope to see the agreement on the European Foundation signed and will no doubt want public attention to be focussed on the celebrations for the 25th anniversary of the signing of the Treaties of Rome. Most other delegations including the French and Germans would also prefer to see the main focus on economic questions and little or no detailed discussion of the Mandate. Their attitude reflects genuine anxieties about the economic policies of the US and, in some cases, also Japan. The Danish Prime Minister has written to his colleagues suggesting that the meeting focus on unemployment and advocating expansionist policies. The Greeks will be mainly concerned to press their case for changes in the terms of their membership.

HANDLING AND TACTICS

8. The Belgian Presidency have assured us that there will be a discussion of the Mandate at the European Council. We will need to make sure, nearer the time, that they intend to handle this satisfactorily. But since we will not be seeking to settle the technical details of the Mandate at this meeting, there seems no need to insist on discussion of this item on the first afternoon.



SUMMARY OF BRIEFS

A. MAIN BRIEFS

ECONOMIC AND SOCIAL SITUATION (A speaking note will be submitted next week)

9. In the discussion of the economic and social situation within the Community (Brief No 3) the Prime Minister will wish to stress the need to maintain policies to reduce inflation, avoiding any premature relaxation, as the key to sustainable economic recovery and the lasting reduction of unemployment. In particular, firm action is needed to keep budgetary deficits under control, since high public deficits are a major factor leading to high European interest rates.

10. This item is also likely to deal with relations between the Community and the US and Japan (Brief No 8), centering on trade problems and macro-economic policy issues. In the discussion of international economic policy the Prime Minister will want to ensure that in the run-up to Versailles, the US and Europeans will agree on a position which will further UK interests. The Community should thus support the thrust of US economic policies, insofar as it is directed towards containing inflation but should make very clear to the US authorities, while avoiding criticising or lecturing them in public, the adverse effects of their large budgetary deficits and high interest rates on the European economies. We want to stress the importance of the Community presenting a firm and united front in urging both the US Administration and the Japanese Government to co-operate in reducing strains on the world trading system.

11. The Prime Minister might take the opportunity of the discussion on the economic and social situation to emphasise the importance the Government attaches to information technology (Brief No 18), our interest in Community involvement, and our support for co-operation between



**CONFIDENTIAL**

European industries involved in this area. She will also want to explain the importance we attach to the completion of the internal market, particularly for services.

30 MAY MANDATE (BRIEF NO 4)

12. The tone of the discussion on this subject will clearly depend on the outcome of the Foreign Affairs Council on 23 March. The UK's main objective at the European Council is to give renewed momentum to the negotiations and, by emphasising the unity of the three chapters to get some cover for the link with the agricultural price-fixing which we intend to maintain. We would like Foreign Ministers to be given a clear remit to negotiate a full solution to the problem, including detailed arrangements on the budget, as rapidly as possible after the European Council. The Prime Minister will want to explain our view on the level of our budget contribution and the political case for a fair settlement which can be defended. We have accepted that we will remain modest net contributors in spite of being one of the less prosperous Member States; we can see no justification for the idea that our refunds should decline regardless of the size of the problem. On the CAP we will want to emphasise the need for Agriculture Ministers to take decisions at the price fixing which take account of the proposed guidelines on the CAP and particularly the guidelines providing for agricultural expenditure to rise less fast than own resources. And we will want to bring out the justification for our insistence that the budget and agriculture be taken together.

EMS (BRIEF NO 5)

13. The European Council will receive an interim report from the Economic/Finance Council which met on 15 March. This will pay tribute to the success of the present arrangements in the EMS, and the importance of convergence and close co-ordination of economic and monetary policies. It will not contain any proposals for specific technical improvements in



the system, because agreement on these, though strongly desired by the French and the Commission, was impeded, chiefly by Germany and the Netherlands. But further study of technical possibilities is foreshadowed, to be reported to the Economic/Finance Council in May. The report could form the basis of a short passage, including a tribute to the working of the EMS so far, the vital need for convergence of economic performance as the basis of stability, and the continuing search for technical improvements, in any summary of the Council's proceedings. There is unlikely to need to be detailed discussion. The brief covers the question of UK membership of the exchange rate mechanism which could be brought up by one of the participants.

GREECE (BRIEF NO 6)

14. Mr Papandreou will want to introduce the paper which the Greeks will have submitted to the Commission on Greece and the EC. Our objective, and probably that of most other Member States, will be to limit discussion to matters of procedure, no doubt including a commitment to study the document carefully. It is likely to contain more or less the expected list of demands for changes in the arrangements governing Greece's membership in various fields, some of which, particularly in the agricultural field, will cause real difficulties.

POLITICAL COOPERATION

15. Our interest lies in a thorough discussion of Poland and related East-West issues (Brief 7). Others may be expected to raise their own hobby-horses. The Italians and Germans may pursue their respective ideas for improvements in the machinery of transatlantic consultations (Brief 9b). M Mitterrand may raise Central America, where he wishes the Ten to adopt a higher profile (Brief 9d). The Danes or Dutch may seek discussion of Turkey in the light of Mr Tindemans' visit to Ankara on behalf of the Ten on 19 March (Brief 9e). Mr Papandreou may pursue his attempt to involve the Ten in



**CONFIDENTIAL**

the Cyprus question (Brief 9f). Afghanistan and CSCE (Briefs 9a, 9g) and the Middle East (Brief 9c) may also be raised, although there is no pressing need for discussion at this stage.

25TH ANNIVERSARY OF TREATIES (BRIEF NO 14)

16. This brief outlines the events which will precede the European Council: an academic session, the signature of the agreement establishing the European Foundation, and the formal lunch given by the King of the Belgians.

B. BACKGROUND BRIEFS

EUROPEAN FOUNDATION (BRIEF NO 13)

17. It is proposed that those documents necessary for the establishment of the Foundation be signed by Foreign Ministers: one during the academic session and the others during the Council itself. The brief gives the background.

FISH (BRIEF NO 10)

18. We shall wish to reaffirm our willingness to negotiate constructively for a revised Common Fisheries Policy and our hope that early progress can be made.

ENLARGEMENT (BRIEF NO 11)

19. Progress and prospects over Spanish and Portuguese accession could come up: the French have been showing some signs of wanting to delay Spanish entry and let the Portuguese in first because of the greater problems Spain would cause to them. We should take the line that both sets of negotiations are still progressing reasonably satisfactorily and that it would be wrong to consider separating them and proceeding at a different pace for Portugal than for Spain. A 'mini-package' of minor chapters was agreed with Portugal in the margins of the February Foreign Affairs Council and a similar mini-package is likely



**CONFIDENTIAL**

to be agreed with the Spaniards in the margins of the March Council. But for both countries little progress can be made on agriculture, fish and budget chapters, until the Community's own internal policy has been sorted out. This emphasises the need for early conclusions on the present price fixing discussions in which the Mediterranean acquis is also being considered.

ENERGY (BRIEF NO 12)

20. There is no need for substantive discussion of energy issues, though the state of the world oil market may be considered in discussion of the current economic situation. Supply of oil continues to exceed demand, with consequent downward movement of oil prices. Recent reductions in North Sea oil prices will be welcome to EC partners, since this means lower costs to industry and the consumer. The 16 March Energy Council reaffirmed the need, despite the weakening of the oil market to implement Community policies aimed at reducing dependence on imported energy sources. The brief also covers recent announcements about UK electricity and gas prices which others could suggest are not consistent with our policy of pricing energy at economic levels.

1982 BUDGET (BRIEF NO 15)

21. The problems over the Community's 1982 Budget arose from differences between the Council and the European Parliament on the areas of expenditure for which the latter can fix the budgetary provision (so called "non-obligatory" expenditure). M Tindemans is to represent the Council in a dialogue on budgetary procedure with the Parliament and Commission. The Council has also initiated European Court proceedings against the Parliament and the Commission. Our position is that we regret that the present dispute has arisen in spite of our efforts during our Presidency to improve relations with the Parliament and we hope that the dialogue will lead to an agreement. But if it does not, we want the situation clarified by the Court.



**CONFIDENTIAL**

GENSCHER/COLOMBO (BRIEF NO 16)

22. The Genschler/Colombo proposals for a "European Act" may be raised, but there is unlikely to be substantive discussion since the Foreign Ministers are due to consider the question again on 24 May. We shall want to make clear our willingness to examine the proposals constructively and could, if necessary, agree to a statement by the European Council endorsing the need for the exercise to be brought to a successful conclusion.

GREENLAND (BRIEF NO 17)

23. No substantive discussion of Greenland's withdrawal from the Community is expected. In looking at any proposals which the Danish Government put, we would want to examine carefully the implications of any new status for Greenland, and should not encourage the Danes to think that the negotiations will rubber stamp anything they ask for.

PREPARATION FOR VERSAILLES ECONOMIC SUMMIT (BRIEF NO 19)

24. The Commission or the Belgians may raise this question. The French want only one Community representative (preferably M Thorn) at the restricted sessions. The Belgians are likely to press the Community to abide by the 1977 decision that both Commission and Presidency should attend all sessions at which matters within Community competence are discussed. We should leave the French as hosts to sort this out.

Foreign and Commonwealth Office  
18 March 1982



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)3 (Revise)  
25 March 1982

COPY NO.

1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

ECONOMIC AND SOCIAL SITUATION  
Brief By HM Treasury

OBJECTIVE

1. To secure endorsement of the need for sound macro-economic policies in the Community.

POINTS TO MAKE

2. Our individual Governments have many worries in common. They are well displayed in the Commission paper:

- Unemployment, especially of young people, made worse by rapid expansion of the working population in some countries.
- Inflation, both in its economic and social effects and in the painfulness and difficulty of the process of reducing it.
- Prospects for activity and output, better than the past very poor year, but still at best modest and at worst fragile.
- External worries, interest rates, trade threats, uncertainty of oil prices.

3. As a Community, we share a further dimension of concern. The performances and policies of individual members have been and continue to be extremely uneven. The Commission paper points to some of the contrasts. It rightly suggests that they deny us the convergence without which we cannot enjoy the confidence of stable monetary relations or exploit our potential collective economic strength.



4. The roots of most of these problems lie in the past. We must not repeat mistakes of the past which have contributed to them. This means recognising and accepting, with determination, that there is no route to healthy, sustainable growth of our economies through a rapid burst of expansion. It means focussing on policies and measures which will maintain pressure against inflation and stimulate productive and lasting developments.

5. The Commission paper, with its areas of suggested Community and individual action, points to elements of the strategy which needs to be adopted against this background. Broadly agree, but with some differences of emphasis:

- reduction of inflation must be the priority, as a necessary condition for improved competitiveness and the creation of higher levels of employment on a durable basis. Even those of our countries which, by current European standards, have relatively modest or falling levels of inflation cannot afford major relaxations. Those whose rates of inflation are still very high need to give particular priority to this problem. Rates of inflation in the United States and Japan are well below the Community average;
- public sector borrowing needs to be restrained. For the Community as a whole, it rose as a proportion of GDP during 1981, in part explained by the unavoidable effects of recession. But there are prospects of further rises in some of our countries in 1982, even as the pressure of recession and its effects begins to ease a little, and this has worrying implications for the Community as a whole, not least because it is potentially destabilising. Attention needs to be focussed on this problem both in the interests of controlling inflation and in the interests of providing scope for a recovery of our productive industries;
- investment is critically important. Applaud some points in the Commission paper: continued focus on energy saving which should not be relaxed under the influence of recent



**CONFIDENTIAL**

moderation of oil prices; emphasis on productive capital investment; and the emphasis on small businesses and innovative developments which can be particularly valuable in providing new areas of employment and in meeting the challenges of changing technology;

- external relations: as discussed separately, need for continuing dialogue with other leading countries, especially about the impact on the world at large, including the Community, of their trade performances and their mixes of fiscal and monetary policies. The main task of achieving sustainable and harmonious development within the Community lies in the convergence of our own individual policies and performance; but it is right to point to developments outside which could be disruptive.

6. Finally, unemployment. This remains our greatest social problem, in all our countries. Most Member countries have packages of schemes designed to alleviate the worst aspects of unemployment, and concentrating on the provision of training and job opportunities for young people. The United Kingdom is among them, and tribute is due to the Commission and the arrangements we have collectively made for assistance from the Regional and Social Funds in this context. But general reduction in unemployment must stem from genuine recovery of output growth which follows from lower inflation and lower interest rates.

7. This is not a comfortable message, not a recipe for immediate political popularity. But the different strengths and weaknesses of different national economies throughout the world, and within the Community, demonstrate that it is right. Joint understanding and acceptance of this message within the Community could perhaps fortify each individual Member in the difficult task of pursuing it.



**CONFIDENTIAL**

A : Defensive paragraphs on unemployment

BACKGROUND B: Commission Report on Economic & Social Situation.

8. The status of the Commission's paper is that of a background note. Last December the European Council approved guidelines for economic policy in the Community for 1982 and it is too soon to reconsider those.

9. The Commission's latest forecast is slightly more pessimistic about output prospects than in December, but is more optimistic than we are now about the chances of reducing inflation in France and Italy. The paper puts too much emphasis on unemployment and depressed output, and not enough on the need to reduce inflation, and restore competitiveness and profits. It also tediously pursues the idea that renewed emphasis on the EMS, with a few technical changes and aspirations, could have significant effect. But it does contain some sensible suggestions (picked up in "Points to Make" above).

10. Output fell about 0.5 per cent in the Community in 1981 with the biggest falls occurring in Luxembourg, the UK, Netherlands, Belgium and Germany: however France and Ireland probably grew. This is very much in line with the Commission's forecast given to Council last March. This year the Commission is forecasting growth of one and a half per cent in the Community's GDP, with growth rates of around 2.5% for France and Denmark and about 1.5 per cent for Germany, Greece, Ireland and Italy. The UK is marked down for growth of 1.1 per cent, the Netherlands for 0.8 per cent, and Belgium and Luxembourg for negligible growth.

Unemployment rose from 6.1 per cent of the civilian labour force in 1980 to 7.9 per cent in 1981, and the Commission forecasts another one percentage point rise this year - half a per cent more pessimistic than they were in October. Unemployment is above 10 per cent in Ireland, Belgium and the UK and the Commission expects Italy and the Netherlands to reach that rate later this year.

11. Consumer price inflation peaked in April 1980, averaging 14.1 per cent in the Ten for the whole of that year and 12.5 per cent in 1981. Ireland (23 per cent) has currently taken over the lead from Greece (22½ per cent), though Italy (17 per cent) and France (14 per cent) remain high. The Commission forecasts only a modest further fall in inflation to 10.6 per cent this year with the rate



CONFIDENTIAL

rising only in Greece (to  $24\frac{1}{2}$  per cent) and undramatic falls in Ireland, Italy and France. Earnings (compensation of employees per head) declined from  $13.4$  per cent in 1980 to  $11.7$  per cent in 1981, with a decline to an average 10 per cent forecast for 1982.

12. The Community's current account deficit fell from  $\$37$  billion in 1980 to around  $\$20$  billion in 1981 - about  $\$10$  billion better than forecast last March - and is now forecast to halve, to  $\$10$  billion, in 1982 (though we think the Commission have considerably underestimated Germany's surplus at only  $\$2$  billion).

13. Interest rates are still high by historical standards, though they have fallen in most countries since last year. Real prime lending rates in mid-March were  $1.7$  per cent in France,  $2\frac{1}{2}$  per cent in the UK,  $4\frac{1}{2}$  per cent in the Netherlands, 5 per cent in Italy and  $6\frac{1}{2}$  per cent in Germany. The fact that real rates are positive in a recession is an indication of firm monetary policies, though Italy and the Netherlands do not have published targets of monetary growth. The French government, having largely ignored M. Barre's target for M2 of 10 per cent in 1981, has announced a monetary target range of  $12\frac{1}{2}$  to  $13\frac{1}{2}$  per cent growth this year and had recorded 11.3 per cent growth by November last year. German Central Bank Money in January was well within its targetted range, though Chancellor Schmidt has recently asked the Bundesbank to permit monetary growth in the upper half of the range ( $4 - 7$  per cent).

14. Fiscal policy slackened in all member states last year except the UK, when measured by governments' general borrowing requirements as a per cent of GDP; for the whole Community the figure rose from 3.6 per cent in 1980 to an estimated 5.0 per cent last year. The Commission forecasts around 5 per cent again this year, with falls in Germany, the UK, Belgium and possibly the Netherlands being offset by the slacker policies of France, Denmark and Greece. On 10 March, President Mitterrand told the French Council of Ministers that the government's deficit in the 1983 budget should not exceed 3 per cent, but it is far from clear how this can be achieved given the momentum of this year's large increase in spending.



**CONFIDENTIAL**

15. Measures to alleviate the worst aspects of unemployment in the UK are already substantial and probably greater than in other countries. For example the part of Chancellor Schmidt's new employment measures designed to combat youth unemployment will only cost around £25 million a year while the cost of the Youth Opportunities Programme/Youth Training Scheme alone was £425 million in 1981-82. The Community's European Social Fund provided £59 million towards the Y.O.P. and also gave substantial assistance to the Training Opportunities Scheme (TOPS), the Training for Skills Programme and UK training schemes for handicapped people; in all it allocated £141 million to the UK in 1981.

16. At a recent meeting of OECD Employment Ministers (4-5 March 1982 - the first for six years), the agreed communique stated that efforts to create jobs and lower unemployment "could only be pursued with success in the framework of a concomitant and effective combat against inflation".

17. The French franc: the recent pressure on the franc is a product of political as well as economic forces, the government's poor showing in cantonal elections this month having increased political uncertainty. Among the economic causes are a large and growing current account deficit, loss of competitiveness vis-a-vis Germany, high inflation, high wage settlements, and the momentum unleashed by this year's increase in public spending which will be very hard to rein back next year as President Mitterrand now wishes. A serious attempt to rein it back would cause major strains within the government and its constituent parties.

18. For detailed treatment of Investment and Information Technology policies see Briefs No. 21 and 18 respectively.

HM TREASURY  
25 March 1982



EHG(B)(82)3

Annex A

1. The following paragraphs could be used defensively, if the Danish Prime Minister is insistent that Community countries must give the highest priority to the reduction of unemployment.
2. Well understand deep concern about level of unemployment and about enormous social and economic problems it creates. Have to recognise that we cannot bring it suddenly to a halt. Process is gradual. Glad to say UK policies are having some success. Rate of increase in unemployment has slowed down markedly. Other labour market indicators - overtime, short time working and unfilled vacancies - are pointing in the right direction.
3. Recent Budget shows that British Government persevering with policies designed to continue progress in reducing inflation, so as to restore a base for economic growth, improved output and increased employment.
4. Employers and trade unions in the UK must be given credit for their successes in improving productivity, making wage bargaining more responsible, and achieving better industrial relations.
5. Much certainly remains to be done. But believe the main thing is to go on striving to get at the roots of the problem. Only this will provide ultimate solution by creating real jobs. Am clear that reflation not the way to help unemployed. Would undermine progress made in reducing inflation and restoring confidence to industry and financial markets. Any short-term gain in an apparent increase in the number of jobs would not be sustained.
6. Nevertheless special measures can certainly help in the meantime. In recent Budget the British Government have expanded special employment measures, and announced a new scheme. This shows my Government's concern to help the groups worst affected, especially our young people. Perhaps we can share experience in this area.



EHG(B)(82)3

**CONFIDENTIAL**

UNOFFICIAL TRANSLATION

Annex B

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 141 final

Brussels, 22 March 1981

THE ECONOMIC AND SOCIAL SITUATION  
OF THE COMMUNITY

---

(Communication from the Commission to the European Council,  
Brussels, 29 and 30 March 1982)

INTRODUCTION

This communication is intended to serve as a basis for the discussions which the European Council is to have on the economic and social situation in the Community. The first part of the paper presents an assessment of the immediate prospects. The second part gives a brief summary of the economic policy guidelines demanded by those prospects. The third part sets out the Community's own contribution to that strategy. Specific action to promote employment is outlined in part four.

**CONFIDENTIAL**



1. ASSESSMENT OF THE ECONOMIC SITUATION AND THE IMMEDIATE PROSPECTS

- 1.1 The Community's economy will have been characterized in 1980-81 by negative growth (-0.5%), by a modest reduction in the rate of inflation and by a sharp increase in the rate of unemployment (approximately a third). On the whole, the fall in the balance of payments deficit has been fairly rapid, showing a reduction on average from - 1.3% of the GDP in 1980 to - 0.8% in 1981.
- 1.2 For 1982, the growth in the GDP could be of the order of 1.6% - lower than was forecast in December - and the rate of inflation could be approximately 10.5%. The burden of the current balance of payments deficit will fall to - 0.4% of the GDP. These estimates are based on the forecast of a high rate of export accompanied by replenishment of stocks, mainly cyclical in character. It is thought that the upward trend in unemployment will continue though the increase will be less sharp. Unemployment is likely to exceed 9% of the working population during the course of 1982, under the influence, particularly, of the increase in the supply of labour which is a feature of the period 80-85.
- 1.3 These prospects leave practically untouched the main fundamental problems that have faced the Community economy for a number of years.
- First, the problem of energy.  
The decrease in the volume of imports of energy products - due partly to negative growth and partly to real savings - did not prevent the burden of the net bill for oil from increasing once more to 3.9% of the GDP in 1981. In spite of a relatively favourable trend in the price of oil, albeit offset by the exchange rate of the dollar, priority must still be given to easing constraints in the field of energy.
  - the trend of investments is disturbing: the Community devotes on average a little less than 20% of its GDP to investment,



whereas in Japan the corresponding rate is close on 32%. The causes of this situation are well known: the level of interest rates, low profits, uncertainties regarding demand prospects. The results are serious: investment is not contributing sufficiently to economic adjustment, either by reducing dependence in respect of energy or by strengthening competitiveness.

- inflation is still too high, at a time when the European economy is in the trough of an economic cycle. The improvement in 1982 will be insufficient and entirely relative.
- developments in the situation regarding employment are worrying. The rate of unemployment will show a further appreciable increase (15% approximately) for the ninth year in succession in spite of the gradual speeding up of recovery during 1982, which it is thought will bring a growth rate of 2.5% by the end of the year. This recovery depends, of course, very closely on the international situation (world trade, exchange rates and interest rates).



On the most optimistic assumption, recovery will be modest and there is a danger that it may not be sustained. Those responsible for policy must bear that danger in mind.

## 2. ECONOMIC POLICY GUIDELINES

2.1 The policies pursued by Member States must inevitably take into account the particular circumstances of their respective situations.

Having said that, the differences in policy, behaviour and performance give cause for concern in a Community based on a single market and linked, monetarily, by strong mutual commitments. Rates of inflation in 1982 are estimated to be scattered between 4.5% and 24%; extreme rates of unemployment differ by more than six points; the Netherlands has a current balance of payments surplus of 3.9% of the Gross Domestic Product, Ireland a deficit of 9.3% and expected growth rates range from 0.4% and 2.7%. In view of such contrasting situations, the risk and temptation of calling into question the Community patrimony ("acquis communautaire") may be increased.

The fact remains that since their economies are closely interdependent, and since they have to face the same, largely structural, problems and external constraints, the Member States cannot depart from a course of action adhering to the same aims and using the same means.

2.2 From the outlook detailed above, it appears that unemployment is of major concern to all the Member States. Mere maintenance of present policies offers no prospect of a renewal of growth sufficient to improve employment.

As a resurgence in overall demand can be discounted, all available room for manoeuvre in the Member States must be reserved to support investment. Since this national activity has the common aim of restoring growth and employment, it must be closely coordinated at Community level. The Commission therefore thinks it advisable to inform the Heads of State and of Government of the need for such coordinated action. The Commission feels that research into



possible courses of action should be undertaken at Community level so that their scope and the methods to be used both at national and Community level, can be defined at the next European Council.

2.3 This boost to investment might follow the following guidelines:

In the matter of budgetary policy, some Member States have no freedom at all and must therefore continue to give priority to reducing their public sector deficits. In other cases, some room for manoeuvre has been progressively acquired; it must be utilised fully on two conditions:

- . it must directly serve investment, the creation of productive employment or increased competitiveness,
- . it must not start a slide causing the Member States concerned to lose control of their budgetary development.

It is also necessary for most of our Member States to begin systematic medium-term efforts at restructuring public expenditure so as to increase the proportion of expenditure allocated in their budgets to stimulating productive activity.

2.4 Such action requires an increased effort at austerity as regards monetary policy and the growth of incomes

Monetary policy must continue to ensure tight control of national monetary aggregates so that inflation can be reduced; however, where it has been possible to acquire room for manoeuvre, monetary policy should aim for the upper end of the target area adopted for expansion of the money supply.

In any case, adjustment constraints will continue to require that the trend of costs and hence of incomes shall take into account the imperative need to be competitive and to make available the resources required for development of a modern productive base.



### 3. THE COMMUNITY'S CONTRIBUTION

- 3.1 The Community's contribution to the recovery of the economy and to an improvement in the employment situation can be considerable if a decision is taken at the highest level to exploit rapidly and to the full the assets which belong specifically to Europe.

In essence, those assets are: in market terms, the continental dimension; in economic and monetary terms, the multiplier effect of policies of convergence and the project for creating a zone of stability, that is, providing a more stable and reliable framework for economic activity; in external terms, the negotiating strength which is available to the world's leading trade partner.

- 3.2 The Commission proposes that the European Council should select three areas of action to be given priority:

a) The project for creating a zone of monetary stability through the EMS - that is, rendering the general framework of economic policy less uncertain - is absolutely vital.

Following the meeting of the European Council in November 1981 the Commission submitted proposals and the Council made the necessary arrangements to enable a resolution to be adopted at its meeting in May. The objective of the decisions will be to develop in a realistic but significant manner the system's internal strength and its ability to project itself to the outside world. In the Commission's view the aim should be:

- to increase efforts to achieve convergence of policies and performance, necessary to ensure the stability of the EMS;
- to place on a firm footing the instrument of financial diversification and embryonic reserve asset represented by the ECU;
- to
- improve the technical mechanisms of the EMS in a way which is fully compatible with the objectives of domestic monetary policies in the Member States;



- making use of increased European monetary credibility, to propose, to the Community's main partners a system of organised cooperation which would make it possible to avoid fluctuations and unjustifiable levels of exchange or interest rates.

The Commission considers that realistic action on a considerable scale is both possible and desirable at a time when the risks of divergence are increasing and where, in many areas, Europe is finding it difficult to assert itself. It assumes that the European Council will share this view.

b) The continued expansion of investment is a common objective. Its realisation depends in essence on the individual decisions of businessmen but those decisions are themselves determined by the level of competitiveness of the undertaking concerned and also of the economy, by prospects for demand and by the fiscal and regulatory framework laid down for investment. The Community is already taking action in two areas: the development of borrowing and loan mechanisms for which, as it has already stated, the Commission will shortly submit further proposals, and in the field of energy, the gradual definition of a common strategy in which investment is a crucial element.

The Commission looks to the European Council to confirm the importance it attaches to the mobilisation of Community credit to promote investment, particularly in the area of energy.



c) Exploitation of the continental dimension - completion of the internal market for goods, capital and services, development of an industrial strategy at Community level, technology and innovation policies - must now leave the realm of general discussion.

The Commission has proposed clearly - defined courses of action or specific measures in all these areas. Furthermore, signs of an active awareness of a community of interests are emerging in the specialised Councils of Ministers in the fields of industry, energy and research.

The European Council must make it clear that it considers this area to be one in which the European contribution can be the most positive.

At its meetings in June and December the European Council would take the appropriate decisions with regard to aid to investment and to exploitation of the internal market.

#### 4. ACTION TO PROMOTE EMPLOYMENT

4.1 Concern for employment is central to the economic policy guidelines which the Commission is proposing. An improvement in the level of employment must come to a large extent from a resumption of investment and growth.

The level which unemployment has already reached and the prospect of an increase in the working population, by as much as 5 million over the period 1980-85(?), show the extent of the problem. Concerted action by the Member States is essential in order to reverse present trends.

In the previous sections, the emphasis has been placed on the role of investment, and in particular of public investment. This must help to ensure in particular that the expectations of firms regarding the trend of demand become progressively more optimistic and influence their propensity to recruit.



4.2 On the question, moreover, of specific action to promote employment, the Commission proposes that the following priorities, which it has already submitted in its document on job creation, be adopted:

- action to help young people, namely, in the course of the next 5 years, ensuring vocational training and initial work experience, for all young people under 18 years of age, under the auspices of educational institutions as part of special programmes for young people, or under contracts of employment. This priority should be reflected in the operations of the European Social Fund which should devote a considerable proportion of its resources to it.

The objective of sparing those young people the experience of unemployment must be a major commitment for the Community.

- action designed to encourage employers to recruit more workers. Measures to provide assistance should aim to stimulate the creation of jobs that are viable in the long term, as well as a higher level of activity, while containing any inflationary pressure and avoiding any additional expenditure. It is largely for the Member States to launch schemes in these fields, in particular through the management of the contributions and other social welfare costs (?) falling on employers. The Community would support that effort by expanding Social Fund operations intended to provide aid for recruitment.
- action to help small and medium-sized firms and cooperatives, which must include aspects relating to technical assistance and infrastructure (training, access to networks supplying information on new technology and products, etc), falling basically within the province of the public authorities. The Community can contribute to such action by specific use of the resources of the Social and Regional Funds, and, in a wider context, by means of the loan instruments which it intends to allocate more extensively to small and medium-sized firms.



**CONFIDENTIAL**

TABLE I - Main economic aggregates, 1980-82

	GDP volume % change			Private consumption price deflation % change		
	1980	1981	1982	1980	1981	1982
Denmark	-0.2	-1.2	2.5	12.3	11.5	10.1
Germany	1.9	0.0	1.4	5.4	6.0	4.5
Greece	1.6	-0.2	1.2	22.2	23.5	24.0
France	1.3	0.1	2.7	13.2	13.1	13.0
Ireland	1.9	1.7	1.6	18.2	20.0	19.5
Italy	4.0	-0.8	1.5	20.3	19.2	16.5
Netherlands	0.6	-1.1	0.8	6.9	6.7	5.0
Belgium	2.4	-1.4	0.4	6.4	7.6	10.0
Luxembourg	0.4	-3.0	0.1	7.7	8.1	12.0
UK	-1.4	-1.4	1.1	15.9	11.6	10.3
EC	1.4	-0.5	1.6	11.8	11.4	10.6



**CONFIDENTIAL**

	Unemployment rate, as % of civilian labour force (SOEC definition)			Balance of payments on current account, as% of GDP		
	1980	1981	1982	1980	1981	1982
Denmark	6.2	8.3	8.9	-3.4	-3.1	-2.9
Germany	3.4	4.8	6.6	-1.8	-1.2	0.2
Greece	(2.8)	(3.1)	(3.4)	-0.9	-4.0	-3.0
France	6.5	7.8	8.5	-1.3	-1.4	-1.4
Ireland	8.3	10.4	12.0	-8.4	-12.9	-9.3
Italy	8.0	8.9	9.7	-2.5	-2.1	-1.2
Netherlands	4.9	7.5	9.7	-1.4	2.0	3.9
Belgium	9.3	11.5	13.3	-5.2	-6.4	-3.9
Luxembourg	0.7	1.0	1.3	22.2	19.7	(20)
UK	6.9	10.5	11.8	1.4	2.2	0.7
<hr/>						
EC	6.1	7.9	9.1	-1.3	-0.8	-0.4
<hr/> <hr/>						



**CONFIDENTIAL**

	General government net lending (+) or borrowing (-), as % of GDP (3) (? figure not clear)			Money supply, % change (1) (2)		
	1980	1981	1982	1980	1981	1982
Denmark	-5.9	-10.7	-12.1	10.9	10.1	13.0
Germany	-3.5	-4.5	-3.6	6.2	5.0	4.9
Greece	(-3.3)	(-6.3)	(-8.2)	24.7	34.7	27.8
France	-0.4	-2.1	-3.1	9.7	12.3	(13.0)
Ireland	-12.8	-14.4	-12.3	16.9	13.6	13.6
Italy	-7.8	-10.6	-10.3	16.9	17.0	17.0
Netherlands	-3.4	-4.1	-3.7	3.6	6.3	8.8
Belgium	-9.4	-13.3	-12.0	2.7	5.1	(9.5)
Luxembourg	-1.8	-3.3	-3.0			
UK	-3.9	-2.3	-0.8	18.4	10.5	9.0
<hr/>						
EC	-3.6	-5.0	-4.7	11.3	10.9	(9.9)
<hr/>						

(1) The figures relate to the calendar year, except .....(words unreadable).... financial year.

(2) Year-end on year-end.

(3) Excluding loss on bonds issued at below par:  
-2.9, 6.9(?) and -8.5 % respectively.

(4) Excluding private sector participation in investments, amounting to 112 million

Source: Commission departments, based on data available on 2 March 1982. The figures make provisional allowance for the effects of the parity realignment of 21 February 1982 within the EMS.



CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)4

COPY NO. 1

19 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

---

30 MAY MANDATE

Brief by the Foreign and Commonwealth Office

Objectives

1. (i) To secure agreement that Foreign Ministers be instructed to seek early, substantive conclusions on the budget;

(ii) To make clear the reasonableness of the UK case and the nature of our requirements.

(iii) To make clear that decisions on the three chapters must be implemented in parallel.

CONFIDENTIAL



Points to Make

2. [Even if Foreign Ministers make some progress on 23 March] Disappointed at failure to settle this matter in four months since our last meeting. Want to see Community progress on a broad front. On Chapter I we attach importance to the provisional agreement we reached at our last meeting which covers a wide range of subjects where we would like to see the Community move forward. We have been working actively on most of these areas though one or two are inevitably held up pending confirmation of our agreement. On Chapter II, many of the crucial agricultural sector issues are now being addressed in this year's price fixing; and budget issue (Chapter III) still unresolved. Cannot leave these problems unresolved for very much longer without risking serious damage to Community's cohesion and effectiveness.
  
3. Of acute political sensitivity. Press and public interest bound to mount; danger of quite unnecessary major crisis which would be very bad for Community, particularly in present world situation.
  
4. To avoid this, what is needed is early, definitive conclusion to negotiations on all three chapters. They are



all inter-related, and we all along agreed that work on them should go forward in parallel. Need rapid progress on Chapter Three so that solution can be implemented in parallel with decisions on CAP and on-going work on Chapter One. It is our duty as leaders of the Community to ensure that negotiations go forward with renewed impetus.

Substantive Points on Budget - for use if appropriate

5. Method Foreign Ministers should fix method for calculating amount of compensation on lines suggested in para 3 of draft budget guidelines and agree a percentage. This should involve a refund to the UK of a fixed percentage of two gaps:-

- (a) the difference between the UK's actual and GDP shares of total expenditure from the budget, and,
- (b) the difference between the UK's actual and GDP shares of gross contributions to the budget.

6. Amount The corrective arrangement must match the scale of the problem. UK burden, without refunds, in both 1980 and 1981 would have been over 1500m ecu; in 1982 Commission (Thorn) have told us their estimate is 1800, and it could well be more - an intolerable burden for a less prosperous Member State. On grounds of relative prosperity it would be



equitable for UK to be net recipient. Recognise that other more prosperous Member States will not be willing to make financial adjustment required for that - so willing to remain net contributor but only on a very modest scale.

7. Duration Community needs adequate breathing space from this issue - should be at least five years though would have preferred longer. Cannot have negotiations on this every year. Obviously need a review so that we can see whether problem remains and, if so, the scale of it. What is clear is that the Community could not simply turn its back on a continuing problem.

8. Degressivity We accept that as balance of Community spending shifts and our share of receipts increases, our refunds from objective indicator would be reduced. And as overall budget increases, other things being equal, so will our adjusted contribution if compensation is calculated as a percentage of the gaps as we are suggesting. But we could not accept an arbitrary reduction of refunds, regardless of size of underlying problem. And, as we have made very clear, we could not accept guidelines which were open to that interpretation. Can see no justification for it.



CAP Prices

9. Agriculture Council will be discussing during next three days. Not appropriate for us to enter into detailed debate here.

[If nevertheless discussion ensues]

10. Must follow through Mandate discussions and take measures to control growth in surplus production and cost of disposal.

11. This means continuing policy of prudence on prices, effective measures to limit the open-ended guarantee system and a firm commitment that CAP expenditure should grow less rapidly than own resources.

12. On prices, average of 9% too high particularly for surplus products.

13. On milk, coresponsibility proposals not acceptable. Basic levy falls on consumers thereby exacerbating surplus. We need more precise proposals for dealing with any further increase in production in 1982/83. Do not rule out measures to safeguard position of small producers but not prepared to see discrimination against larger producers built into basic



market mechanism.

14. On Mediterranean acquis, changes in all three market regimes (wine, olive oil, fruit and vegetables) should be achieved together in price-fixing. Necessary preparation for enlargement.

More detailed/Defensive points on Budget

15. Need for Financial Mechanism: UK problem has two dimensions:- first, the gap between GDP share and gross contributions share as recognised in Dublin mechanism; second, gap between GDP and receipts shares as recognised in draft guidelines discussed by Foreign Ministers in January. Essential to have measures to deal with gaps defined by both these objective indicators. 1980 and 1981 figures tabled by Commission do not give full picture. Although contributions gap was fairly small (224 and 175m ecu) in 1980 and 1981, this was largely due to statistical impact of sterling exchange rate following oil price rises and we expect the gap to widen to about 700m ecu in 1982; that would be about one-third of the two gaps taken together on basis of Commission's (Thorn's) estimate of 1800m ecu. Objective indicator on its own would therefore not suffice. Moreover, it would have extremely variable and perhaps perverse results - as our GDP fell, so would our compensation. The arrangements must deal with the problem which results from



the combination of paying a disproportionate share of contributions and receiving a disproportionately small share of receipts, while we are among the poorer Member States. Imagine the same situation in a region of any of our countries: a poorer region such as Calabria or Languedoc with high contributions to the national budget and low receipts. How could such a situation be tolerated?

16. Juste Retour: UK not seeking a juste retour. Have never suggested that each Member State should get out exactly what it puts in. Accept basic financial principles of Community. What we advocate is that overall pattern of net transfers should be more closely in line with relative prosperity. That would increase Community solidarity and accord with convergence principle and principles adopted in all national taxation systems.

17. Failure to Adapt: UK problem not result of failure to adapt to Community. Massive shift in trade pattern (43% of trade with Community now compared with 30% before accession). As Commission rightly recognise, problem arises from failure of Community as a whole to develop its policies, as Six suggested they would in our accession negotiations, so that, in particular, agriculture takes smaller share of available resources.



18. One Year Solution [might be suggested by M Thorn]. Cannot understand this suggestion when until now discussions have been in terms of a 4 or 5 year arrangement. Most unwise to go back on what was so nearly agreed by Foreign Ministers in January. One year solution would only postpone the decisions on more lasting arrangements, leaving Community in continuing state of division and paralysis with difficult discussions going on semi-permanently.

19. Financing UK Refunds: We have sympathy with principle of alleviating burdens of less prosperous Member States and have always recognised special German situation. Is there not some way to finance without using up all the budget headroom? Could not agree to raising 1% ceiling, but could accept a special ad hoc arrangement.

20. CAP/Budget Link: CAP expenditure is a root cause of the British budget problem. The effect of the CAP is to impose substantial burdens on British consumers and taxpayers for the benefit of producers and taxpayers in other, often more prosperous, Member States, which have a higher degree of self-sufficiency in agricultural products. Decisions on agricultural prices and related measures taken in 1982 will be a crucial determinant of the level of the



**CONFIDENTIAL**

UK's unadjusted net contribution in the years ahead. Many of the Commission's proposals, such as aid for small milk producers and Mediterranean agriculture, would make the UK's budget position worse. Moreover, as was clearly recognised in the Commission's report of June 1981, it is only by controlling the cost of the CAP that the Community will be able to expand its other policies, such as the Social and Regional policies, and rectify the imbalance in its expenditure. This is why, in the negotiations about Chapter Two of the Mandate, we and the Foreign Ministers, considered such matters as a prudent price policy; the future treatment of Mediterranean products; the regime for cereals; the modulation of guarantees; the treatment of milk surpluses; what, if anything, should be done to mitigate the effect of policies to contain milk surpluses on small milk producers; and a ceiling on the rate of growth of agricultural expenditure. The negotiations about these questions are now being continued in the context of the review of agricultural prices. It is clear that for all these reasons the discussions on the budget problem and on farm prices are organically linked, and that as has been agreed all along, decisions on all three chapters must be implemented in parallel.



BACKGROUND

CAP Prices

21. The Commission's proposals were published on 27 January. They have since been discussed by the Agriculture Council on 15-16 February and 15-17 March. Other Member States will be looking to reach a settlement at the Agriculture Council on 31 March-2 April. It would be best to avoid detailed discussion at the European Council, but this may not be possible.

Commission Proposals

22. These provide for price increases averaging about 9% ranging from 6-7% (cereals) to 12% (oilseeds). On milk, the proposed increase is 9%. The basic co-responsibility levy would continue at 2.5% with a lower rate of 1.5% on the first 60,000 kgs from each herd in order to help small and medium producers. If milk production increases above 0.5% in 1982, the Commission will propose unspecified measures. On cereals, a co-responsibility scheme is proposed whereby prices in the following year would be reduced by 1% for every million tonnes by which production exceeds a set target. The Commission intend also to complete negotiations on restraint of manioc imports and examine possible regulation of trade in other cereals substitutes. For



Mediterranean products, price increases include 9% for olive oil and wine and 8-10% for fruit and vegetables. Other proposals include: a green pound revaluation of four points (and by similar amounts for the Deutschmark and Dutch Guilder), reduction in the UK butter subsidy, continuation of the UK beef premium and an increase in school milk aid of 9%.

UK Attitude

23. Ministers agreed on 11 February that the UK should block the 1982 CAP price-fixing until a satisfactory settlement had been obtained on the budget, that we should argue for price increases lower than those proposed, that we should resist any attempt to propose restrictions of imports on cereals substitutes, that we should press for an outcome consistent with keeping the growth of agricultural expenditure below that of own resources, that in the context of seeking lower price increases, we should resist the precise proposal for revaluing the green pound and that we should support those seeking to include changes in the Mediterranean acquis in the price-fixing.

Other Member States' Attitudes

24. France, Ireland, Italy, Greece, Belgium and Luxembourg



have all argued for higher price increases and the less prosperous among them for special measures. Denmark wants more than 9% for livestock. The Netherlands and Germany would probably settle at around 9% provided they could get away with lower green rate revaluations than the Commission have proposed.

25. However, the EMS realignment on 21 February gave Belgium, Luxembourg and Denmark scope for devaluation of their green currency which will reduce their interest in a high price settlement. But they have been persuaded to delay any devaluation at least until 1 April. Italy can also devalue the green lire by a modest amount and Greek farmers will benefit from a transitional step towards Community prices negotiated under the Accession Treaty as well as by the common price increase agreed. But both countries will want account taken of their "special" situations.

26. France has sought to establish a clear link between the price-fixing and changes in the market regimes for wine and fruit and vegetables. We support the idea of such a link, but it must include olive oil as well. Agreement on these products now would help towards the early establishment of a common Community position for the enlargement negotiations



**CONFIDENTIAL**

and avoid having to buy off the French and other Mediterranean countries twice over. In practice it will be very difficult within the next few weeks to find an agreed solution to the intractable problem of olive oil.

Foreign and Commonwealth Office

19 March 1982

**CONFIDENTIAL**



Assumptions

Let Y = 100%  
 W = 90% Receipts  
 Z = 90% VAT  
 V = 50% (Levies & duties)

Million ecu

<u>Row</u>			<u>Relevant %</u>	<u>Refund to UK</u>
1	Unadjusted Net Contribution in 1982	= 1800		
2	Objective Indicator gap in 1981	= 1370	100	1370
3	Objective Indicator gap in 1982	= 1100		
4	Excess refund	270	90	- 240
				<u>1130</u>
5	Gross Contribution gap in 1982	= 700		
6	VAT part in 1982	= 300	90	270
7	Duties and levies part in 1982	= 400	50	200
8	Refund to UK in 1982			1600



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)5 (Revise)

COPY NO

1

23 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

Objective

If there is continued disturbance in currency markets, to leave the discussion to others. Otherwise, to note Ecofin Council's report about the future development of the system.

Points to make

2. (On Ecofin report). Convergence and co-ordination of economic policies are clearly the key to the future health of the EMS. UK ready to join in further study of possibilities by competent committees. In the meantime, ready to take note of Ecofin Council's report.
3. (Realignment procedures - assuming no very recent realignment). Procedures and arrangements for February realignment conference unsatisfactory. Too many leaks and too much publicity before, during and after meeting. Welcome forthcoming review of procedures by Ecofin.
4. (Sterling's membership of margins arrangements). We keep the matter under review.

**CONFIDENTIAL**



Background

5. (Current situation - will necessarily not be fully up to date on 29-30 March). Since October 1981 there have been two EMS realignments involving in each case more than one currency; another early general realignment seems to be in prospect. This contrasts with experience between the beginning of the EMS (March 1979) and October 1981 - during which period there was only one major realignment involving more than one currency. Many saw this earlier stability as temporary, reflecting in part the general weakness of the Deutschemark against the dollar: it certainly did not reflect any underlying economic convergence between EC countries. In recent weeks the French in particular have been having to give heavy support to the Franc in the foreign exchange markets, and also had to raise short term interest rates from under 15% to 18% in the week ending 19 March. The Franc has been at the bottom of the EMS band, but the Belgian franc, Lira and also the Irish Punt have come under downward pressure. The Belgians let it be known at the last realignment that they wanted a larger devaluation than they achieved and this has no doubt accounted for some of the pressure on their currency. The foreign exchange markets are now expecting a further realignment shortly; it is as always possible that such expectation will become self fulfilling.

Conclusions of Ecofin Council

6. Discussion of the future of the system is overshadowed at present by the disturbed state of the currency markets.

7. The November European Council agreed that the time was not right for a move to the so-called "institutional" stage of the EMS, when there would be a European Monetary Fund, probably with powers



**CONFIDENTIAL**

similar to those of a central bank. It commissioned the Ecofin Council to report back to its meeting in March on the scope for "non-institutional" developments in the EMS. The Report from the Ecofin Council fulfils this mandate.

8. Ecofin had considered a somewhat more ambitious package of measures proposed by the Commission. These were not adopted, largely because of opposition from the Germans and the Dutch. The Germans in particular do not want to be forced to take more than 50 per cent ecus in settlement of intervention debts within the system. They do not want other countries to be able to demand automatic access to DM for intervention within the margin limits. They are sceptical about the Commission's desire somehow to enforce the private use of ecu denomination. They emphasise that convergence of economic performance, not minor technical changes, is the real foundation for the wellbeing of the EMS.

9. So the Ecofin report had to be more muted than the Commission (and the French) wished. It refers to the success of the present arrangements, and the importance of convergence and close co-ordination of economic and monetary policies. It refers to the possibility of a few marginal improvements in the field of private use of the ecu, and in conducting the external relationships of the system. It does, finally, call for further study by the competent bodies of the scope for other changes which Ecofin can look at again in May. It remains to be seen whether this search will be more productive than the last.

10. The UK seeks to play a sensible and forthcoming role in all the discussions. It is unlikely that, given the German position, with which we have some sympathy, any UK interest will be threatened.

**CONFIDENTIAL**



Realignment proceedings on 21 February

11. These were not satisfactory. The Belgian request for a 12 per cent devaluation was large and disruptive, and the Danish request for 7 per cent was hastily tagged on without adequate justification. The Chancellor of the Exchequer had to take the chair because the Belgians and the Danes were interested parties. He was dismayed at the procedures, especially at the publicity surrounding the original request and built up during the day by a series of improvised press conferences. Ecofin have asked the Monetary Committee to re-examine procedures. The eventual outcome of 8½ per cent for the Belgians and 3 per cent for the Danes was not unreasonable although it is not clear that the outlook is stable.

Sterling

12. These events may have made most countries reluctant to choose the present time to press us to join the margins arrangements. Our line remains one of support for the EMS, and full participation in all aspects except the exchange rate arrangements. We have good reason for caution : there are a number of factors that mark sterling out as different from other EMS currencies, and in particular as a major international currency we face the possibility of having to deal with potentially huge flows of mobile international funds between sterling and the Deutschemark whenever conditions in the market are unsettled. Although we do not yet feel able to join the mechanism, it is a matter we keep under review as circumstances change.

HM Treasury  
23 March 1982



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)5 Addendum  
24 March 1982

COPY NO

1

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

---

EUROPEAN MONETARY SYSTEM :

CONCLUSIONS OF THE ECO/FIN COUNCIL OF 15 MARCH 1982

---

The Council is pleased to note that the European Monetary System has worked well during the past three years, and has been an essential factor in achieving a more stable and orderly development of exchange relations in the Community and economic and monetary policies with a greater emphasis on stability and economic development. However, the attempt at the convergence of economic policies, especially as regards budgets, production costs and employment, must be reinforced if the aim of the creation of a zone of monetary stability in Europe is to be attained.

2. The Council thus, is agreed on the importance of increasing in a realistic but meaningful manner the internal strength of the EMS and its capacity for external expression.

3. To this end the Council, after thorough discussion, concluded that it was possible and desirable to develop the EMS further by more actively co-ordinating the Member States' economic and monetary policies of the Member States, by pragmatically strengthening the technical mechanisms for mutual assistance, by encouraging and developing the use of the ECU and by improving monetary co-operation between the Community and third countries.

**CONFIDENTIAL**



4. The Council signified its political agreement on many points, in particular the Commission's suggestions on the private use of the ECU, the measures to enhance convergence and the organizational features of the external relations of the EMS. It considers, however, that the EMS mechanisms have to go even further.

5. The Council requests the Monetary Committee and the Committee of Governors to co-operate closely in submitting the opinions necessary for the Council to adopt a resolution and take positive decisions at its May meeting.

HM Treasury  
24 March 1982



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)6 Revise  
23 March 1982

COPY NO

1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

GREECE AND THE EC

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To defer substantive discussion of the Greek paper.

POINTS TO MAKE

2. Grateful for the clear statement of the Greek position contained in their paper. Will study it carefully.
3. Commission will no doubt be considering how best to handle the various issues raised in the paper. [If necessary] Content that we should agree to call on them to do so.

BACKGROUND

Reference: A. Greek paper [to be circulated separately]  
B. Summary of paper: Athens telno 108 of 23 March

4. Despite their anti-EC stance before last October's elections, Mr Papandreou's PASOK Government have been careful not to talk of withdrawal or extensive renegotiation.
5. The Greeks have played a full, if sometimes rather irritating part in Community business. On POCO, their performance has been poor over the Middle East and East/West relations. For the past few weeks they have been working on a paper for presentation to the Commission listing their requirements (or 'demands') for changes in

**CONFIDENTIAL**



CONFIDENTIAL

the terms of Greece's membership of the EC to take account of what PASOK consider to be Greece's status as a relatively less developed country.

6. The paper was handed to the Presidency on 22 March, and was made available to delegations attending the Foreign Affairs Council. It is rather less detailed than expected (summary in reference 'B'), and the list of demands is less extreme than might have been feared. Most of them involve more money for Greece from the various Community funds, though the paper also calls for temporary derogations from Community competition rules, and special measures for Greek agriculture, particularly to help small farmers. Both of these, but particularly the first, are likely to cause considerable difficulties, though not primarily for the UK. But the general approach seems to be designed to avoid the need for Treaty amendment and to be based on a firm Greek intention to remain in the Community.

7. The European Council is certainly not the appropriate forum for substantive discussion of the paper, which should be resisted. However, Mr Papandreou is expected to make clear at the European Council his wish that the Council of Ministers should ask the Commission to make proposals on the subjects raised in the paper. In terms of the European Council's discussion, this should call for no more than a general reference to the existence of the paper and the need to study it carefully; but if Mr Papandreou insists we could go along with a call to the Council to ask the Commission to report.

Foreign and Commonwealth Office  
23 March 1982

CONFIDENTIAL



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82) 6 ADDENDUM  
24 March 1982

COPY NO 7

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

GREECE AND THE EC

Note by Foreign and Commonwealth Office

Attached is a copy of the Greek paper, which is  
Reference A to the Revise of this Brief.

Foreign and Commonwealth Office

24 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

THE FOREIGN MINISTER OF GREECE

Athens, 19 March 1982

Mr. President,

I have the honour to submit to you a document with the position of the Greek Government on its future relations with the European Communities. It is the intention of the Prime Minister Mr. Papandreou to raise this issue at the forthcoming European Council.

Please accept, Mr. President, the assurance of my highest consideration.

(s.) YIANNIS EARALAMEOPULOS

His Excellency  
Mr. Leo Tindemans  
President of the Council  
of the European Communities  
Brussels

**CONFIDENTIAL**



**CONFIDENTIAL**

POSITION OF THE GREEK GOVERNMENT ON GREECE'S RELATIONS WITH  
THE EUROPEAN COMMUNITIES

1. The economy of Greece differs markedly from that of the Community as regards both its level of development and its structures.

The special features of the Greek economy hamper its smooth functioning within the Community framework, the more so because the Greek Accession Treaty ignored them.

Community rules and mechanisms continue to be shaped and to operate to suit the central and developed economies for which they were of course originally conceived, whereas they have an adverse effect upon regional and less developed economies.

Because the enlargement of the Community did not go hand-in-hand with adjustment and differentiation of Community rules to take account of the special nature of the economy of Greece, the accession of Greece is either exacerbating some of our nation's problems or making their solution more difficult.

The repercussions of accession upon the economy of Greece were of course aggravated because they appeared at a time of serious international crisis.

Thus the economic problems which at present confront Greece principally spring from structural weaknesses, inequalities and imbalances within the economy, but their severity stems to some degree both from the international crisis and from the consequences of accession.

2. The Greek Government feels that it must draw the attention of the Community both to the special nature of Greece's problems and to the policy which it has devised to deal with them, in the hope that the Community will effectively recognise the need for special arrangements permitting the development of the Greek economy and, more generally, of Greece's links with the Community, without

**CONFIDENTIAL**

/ dispute



dispute or conflict and to the advantage of both sides.

The Greek Government is ready to examine together with the Community the possibility of working out such special arrangements which would be consistent with Greek social and economic programmes and contribute to the attainment of its development objectives.

In this context, "special arrangements" should be taken to mean that, on the basis of consideration of the general interest and the necessary political resolve, a decision should be taken to introduce differentiation into the management of Community policies and to evolve new mechanisms which will make due allowance for the special nature of the economy of Greece.

3. The structural defects of the Greek economy are briefly the following:

*Weak economy*  
?

- an over-developed tertiary sector, a wide-spread black economy and a pronounced degree of parasitism. ?
- agricultural production accounts for only 17.2% of GNP whereas the agricultural population is 30% of the total population.
- the limited contribution (19.6%) of processing industries to GNP.

Weaknesses within each sector are as follows:

Industry:

- 85% of companies employ fewer than five persons.
- Greece imports 80% of its capital equipment (machines).
- investment in processing industries represents only 4% of GNP.



Agriculture

- under-employment of a large part of the active population which, under present circumstances, cannot be absorbed into other sectors of the economy, and certainly not in the workers' home areas.
- the extremely small size of agricultural holdings and their great fragmentation.
- the inadequacy of the infrastructure and organisation for marketing and processing agricultural products.

Lastly, a basic feature of the structure of the Greek economy is the existence of very great social and regional inequalities, and great disparities in incomes, along with the distorted over-development of the Athens area.

4. The fact that the international economic crisis has hit an economy which while suffering from structural inadequacies has simultaneously to contend with the unsteady effects of accession has led to a serious aggravation of its current problems.

Between 1978 and 1981 the following developments may be noted:

- the rate of inflation increased and hovered during those years around 25%, more than double the rate of previous years and of the average for the Community,
- the rate of increase in GNP fell appreciably each year and in 1981 the figure was negative for the first time.
- the current trade deficit doubled and in 1981 rose to 6.5% of GNP despite the continuing recession.
- the public sector deficit increased dramatically and in 1981 came to 17% of GNP.

A 2.3 bi



5. It became necessary to take urgent measures to reverse this negative trend so as to ensure the minimum level of economic balance and stability required to deal with structural weaknesses.

The Greek Government expects that the measures it has taken on financial, monetary and credit matters will have the following effects in 1982:

- a slight increase in national income

2.2 1/2 %

- a slight fall in the balance of payments deficit

- a fall in the rate of inflation and

to below 20%

- an appreciable decline in the public sector deficit, which it is estimated will be reduced from 17% to 12% of GNP despite the continuing imperative need to devote 5% of GNP to defence expenditure.

1982

18 mths compulsory military service.

At the same time, as part of the more general incomes and social policy, the Government took a series of measures for the redistribution of income in favour of the economically weakest classes who had suffered particularly in recent years; these measures are in fact the basis, in the first instance, of the awaited revival of the economy.

The Government's economic policy for 1982 is supplemented by certain institutional measures which, on the one hand, derive from the particular need - in view of the threatening dimensions of the phenomenon - to remedy the situation of undertakings which are overburdened by debt and, on the other hand, are designed to create incentives to investment.

6. The Greek Government feels that financial, credit and monetary measures alone are not an adequate basis for a successful economic policy and that the need is for a decisive long-term political solution to structural inadequacies. The development of the Greek economy will be based on national

/programming



*Have witnessed wages  
operation - reduced all  
lower/middle range incomes.*

programming, oriented towards solutions to sectoral problems and regional imbalances. The Government is preparing a five-year programme for economic development and the restructuring of the Greek economy, the implementation of which will begin on 1 January 1983. The programme provides for the modernisation of the Greek economy to enable it to meet the demands imposed by international competition. This objective will, however, be fulfilled within the framework of basic and unswerving politico-economic options.

The first option is the development of industry with a view particularly to boosting production, increasing added value, developing strategic industries and advanced technology industries and also supporting small and medium-sized undertakings.

*Co's can't pay back debts  
or even interest on debt. If  
with govt. will change  
loan into equity.*

An equally crucial option, however, is keeping the population on the land, within the framework of increased administrative and economic decentralization.

Essential prerequisites for this are:

- support for agricultural incomes;
- substantial aid for the co-operative movement;
- the improvement of social and cultural infrastructures in the country.

*Govt. allow  
massive redundancies*  
*Try to get  
more scientists &  
technicians.*  
*Went - no down*

7. The basic choice of objectives is first and foremost a industries problem and a responsibility for the Greeks themselves. At the same time, however, the harmonious development and convergence of the economies of the Member States are basic aims of the Treaty establishing the Community.

*Want large scale  
of co-operatives.*

The Greek Government believes that the development policy which it has forged does not merely correspond to Greece's own national interests.

*Want higher  
increases in  
farm prices.*

/The Community



The Community has repeatedly declared the need for Community action to combat inequalities between its regions and members. These declarations have not, however, borne fruit either because suitable mechanisms have not yet been created or because existing policies and mechanisms fail to operate in accordance with the necessary criteria or in the right direction or do not operate effectively because the resources made available are inadequate.

Particularly inadequate is the transfer of resources from the Community budget to the less-developed countries and especially to Greece. In order to have an entirely positive effect, such transfers would - and this never happens - have to offset the negative economic consequences deriving from the trend of trade whether at international level or between the internal market and imports, or from the unfair distribution of activities and the unfavourable terms of trade within the Community which adversely affect the least-developed members and particularly Greece. The result of this situation is the constant widening of imbalances within the Community. For Greece especially, these disparities are the result not only of the very particular structural inadequacies of the Greek economy but also of the unfavourable treatment by the Community of Mediterranean regions as compared with the others with regard to intervention prices, levels of support and the level of protection of Mediterranean products.

To this should be added the fact that even within the Mediterranean area the Greek economy receives unfavourable treatment. Indeed, a number of regulations providing for greater intervention and participation by Community financial instruments in Mediterranean programmes and Mediterranean regions have not been extended to Greece.

It should also be noted that the common organisation of markets which covers on average 95% of the agricultural production of the other nine countries only covers 75% of that of Greece, which is in general less effectively covered.

/8. The discussions



8. The discussions in the framework of the mandate of 30 May show that there is now awareness within the Community that its way of functioning is going to create unacceptable situations. In the opinion of the Greek Government the most important of these is the widening of economic imbalances between the more and less developed members. This problem is one of absolute priority for the cohesion of the Community.

The mandate of 30 May traces out certain guidelines which show that the problem has been properly understood. However, the reforms envisaged are not such as to provide a thorough-going solution to regional imbalances as they do not afford the means of achieving the objectives set.

9. The Greek Government believes that the peculiar problems of the Greek economy can be overcome through a series of new regulations different from those which govern present relations between Greece and the EEC.

This new situation presupposes the extension and strengthening of the Community's financial instruments and at the same time the recognition by Community bodies of the possibility, in specific cases and for a reasonable period of time, of derogating from certain Community rules. In particular the following are necessary under the five-year development programme:

- (a) increased Community support for specific projects for the development of sectors, branches and regions, and
- (b) the recognition by Community bodies for a sufficiently long period of the need for derogations from Community competition rules (granting of development incentives, provisional and regulated protection of newly-created industries, granting of export aid for small and medium-sized undertakings, exemption from production limits).

The Greek Government believes that these arrangements can be based in part on the activation of Protocol No. 7 to the Act of Accession of Greece which recognises the need to settle special problems of concern to Greece and recommends that the Community



institutions implement all the means and procedures laid down by the EEC Treaty, particularly by making adequate use of Community resources. It also recognises in particular that, in the application of Articles 92 and 93 of the EEC Treaty, it will be necessary to take into account the objectives of economic expansion and the raising of the standard of living of the population.

to  
10. With particular reference/the various Community financing instruments, we consider that:

- the criteria must be reviewed so that the way in which resources are granted and used corresponds to the particular features of the social, economic and administrative situation in Greece;
- the resources available must be increased and the activities of the Funds co-ordinated;
- participation in the financing of projects must be considerably increased and expenditure on social infrastructure covered;
- a new Fund with special resources must be created for the development of the Mediterranean regions with its own resources;
- there must be greater scope for financial resources to be procured by the NCI.

11. We attribute particular importance to the financing of special long-term programmes for the least-favoured regions of Greece (islands, frontier and mountain regions) to cover everything from small land improvement projects to tourist development and the development of small industry crafts and agro-industrial units. We feel that there must be combined invention by the Community Funds and the financing mechanisms of the Community with the above development projects being financed up to 80%.

The specific geographical position of Greece (which has no land frontiers with the Community but an enormous island surface



area) requires particular attention on the part of the Community bodies, given that transport costs, particularly from the Greek islands, are so high as to reduce even further the competitiveness of products from such regions.

12. The Greek Government considers that Athens and Thessaloniki cannot be excluded from finance by the Community Funds. Living conditions in Athens, for example, (environmental pollution, traffic congestion, total lack of town-planning, absence of an efficient social infra-structure) constitute an enormous economic problem, the solution of which will require considerable financial resources to be made available. In the Athens and Thessaloniki regions both the projects carried out and the criteria which will be applied for financing them will of course be adapted to the problems involved, i.e. the aim will be infrastructure development to improve the quality of life, decentralisation of industrial activity to the provinces, etc.

13. One point to be stressed is that Greek agriculture, having as it does to operate side by side with the developed and modernised agricultural systems of the other Member States, faces acute problems under the CAP rules.

In order to alleviate these problems, the Community must provide finance and technical aid for carrying out major land improvement projects, for developing certain sectors, such as fishing by means of the efficient exploitation of Greek lagoons, for setting up and organising agro-industrial complexes and for developing co-operatives.

However, the immediate problem of income support for small farmers remains of vital importance. Given the high rate of inflation in Greece and until such time as it is brought down close to Community average, the proposed Community increases will be useless for Greek farmers, particularly when it is borne in mind that, given the structure of the Greek economy, intervention prices constitute for them the decisive element in their relations with the commercial and industrial sectors.



The problem of income support can only be dealt with by means of exceptional arrangements including direct and indirect aid for incomes, to be provided to a large extent by the Community. It must also be stressed that national aid to farmers is proportionally much higher than Community aid to this sector, and that per capita expenditure from national aid is greater in countries with a high per capita income.

14. The Greek Government hopes that the Council of Ministers will recognise the particular nature of Greece's problems.

This applies with respect both to direct measures of an urgent nature and to the general economic policy guidelines which, under a five-year programme for the restructuring of the Greek economy, will reflect fundamental economic policy options decided upon by the Greek Government.

As a concrete expression of such recognition, the Greek Government would request the Council to instruct the Commission to study the problems referred to in the Memorandum and to ask it to propose special arrangements to solve them.

The Greek Government will co-operate with the Commission and in the meantime will finalise its positions and proposals on certain individual sectors. Until special arrangements are decided upon, the Greek Government hopes that the measures in favour of other Mediterranean regions will be extended to Greece and that, in line with what has been stated above, a positive solution will be found for the vital problem of support prices for agriculture products and related forms of agricultural incomes support.

The Greek Government is also awaiting with understandable and considerable interest the further course of discussions currently taking place at various levels on proposals to which it attributes particular importance, and in particular those concerning new Regulations for Mediterranean products, the provision of new Community resources for the implementation of comprehensive programmes in the Mediterranean regions and the reform and strengthening of Community funds and financing bodies.



The Greek Government considers that recognition by the Community of the need to deal with the particular problems of Greece, in conjunction with progress towards a more general reform of Community policies, constitute the minimum possible for creating conditions for Greek membership of the European Communities which will not be in conflict with basic Greek national interests.

Personnel of Community  
used to supporting prices  
of temperate products  
Prod. products hardly felt  
look in.

N/S problem is world-wide.  
Within Community the N/S is going  
to become more tangible  
Basis of Community unity is inequality  
Decision of previous fact to go  
ahead with GEC membership was  
political - not - economic.

Now Community must make decision -  
CONFIDENTIAL to solve Greece's problem  
if not Greece must look  
to other soluti. Nat. & direct.



**CONFIDENTIAL**

BGRS 1000

RESTRICTED  
FRAME Economic

FM ATHENS 230845Z MAR 82

TO IMMEDIATE FCO DESKBY 231000Z  
TELEGRAM NUMBER 108 OF 23 MARCH 1982

RPTD IMMEDIATE INFO UKREP BRUSSELS  
PRIORITY OTHER COMMUNITY POSTS

AND SAVING TO ANKARA WASHINGTON NICOSIA UKEDL NATO LISBON MADRID

GREEK PAPER ON RELATIONS WITH THE EUROPEAN COMMUNITY.

1. REPRESENTATIVES OF EVERY EC MEMBER STATES WERE GIVEN COPIES OF THE GREEK PAPER LATE ON 22 MARCH. THE FULL TEXT HAS BEEN RELEASED TO THE PRESS AND IS PUBLISHED IN THE ATHENS MORNING NEWSPAPERS ON 23 MARCH. I UNDERSTAND THAT THE COUNCIL SECRETARIAT SHOULD HAVE TRANSLATIONS IN ALL COMMUNITY LANGUAGES READY FOR DISTRIBUTION LATER TODAY IN BRUSSELS.

2. THE PAPER, WHICH IS SHORT (15 PAPERS OF TYPESCRIPT IN GREEK), FIRST SUMMARISES IN FAMILIAR TERMS THE STRUCTURAL PROBLEMS OF THE GREEK ECONOMY AND THE DIFFICULT ECONOMIC CIRCUMSTANCES FACING THE PRESENT GOVERNMENT AS A RESULT OF DEVELOPMENTS SINCE 1978. IT SETS OUT THE GOVERNMENT'S SHORT-TERM OBJECTIVES FOR 1982 AND DEFINES THE MAIN ORIENTATIONS OF THE 1983-87 FIVE YEAR DEVELOPMENT PLAN: THE DEVELOPMENT OF INDUSTRY AND - EQUALLY IMPORTANT - THE RETENTION OF THE POPULATION IN RURAL AREAS, WITHIN THE FRAMEWORK OF ADMINISTRATIVE AND ECONOMIC DECENTRALISATION.

3. THE PAPER ARGUES THAT, DESPITE THE DECLARED INTENTION OF THE COMMUNITY TO BRING ABOUT GREATER CONVERGENCE BETWEEN MEMBER STATES AND TO COMBAT INEQUALITIES BETWEEN REGIONS OF THE COMMUNITY, THE TRANSFER OF RESOURCES THROUGH THE COMMUNITY BUDGET TO THE LESS DEVELOPED COUNTRIES, INCLUDING GREECE, HAS BEEN INSUFFICIENT. IT ARGUES THAT SUCH TRANSFERS SHOULD COUNTER-BALANCE THE NEGATIVE EFFECTS OF ACCESSION - WHICH HAVE BEEN INCREASED BY WHAT IS DESCRIBED AS THE UNEQUAL TREATMENT BY THE COMMUNITY OF ITS MEDITERRANEAN REGIONS AND PARTICULARLY OF GREECE. SOLUTIONS ENVISAGED UNDER THE 30 MAY MANDATE DO NOT MEET THE GREEK CASE.

4. THE GREEK GOVERNMENT BELIEVES THAT THE PARTICULARITIES OF THE GREEK ECONOMY CAN BE MET BY NEW ARRANGEMENTS DIFFERENT FROM THOSE THAT GOVERN RELATIONS BETWEEN GREECE AND THE EUROPEAN COMMUNITY AT PRESENT. IT PROPOSES:

(A) INCREASED COMMUNITY ASSISTANCE FOR DEVELOPMENT PLANS IN CERTAIN SECTORS AND REGIONS SEMI-COLON

(B) RECOGNITION BY THE COMMUNITY OF THE NECESSITY FOR GREECE TO BE EXEMPT FOR A CERTAIN PERIOD FROM THE COMMUNITY RULES OF COMPETITION (DEVELOPMENT ASSISTANCE, PROTECTION OF NEWLY ESTABLISHED INDUSTRIES, EXPORT AIDS FOR SMALL AND MEDIUM INDUSTRIES, EXEMPTION FROM PRODUCTION LIMITATIONS). THE GREEK GOVERNMENT BELIEVES THAT THESE ARRANGEMENTS CAN BE BASED ON THE IMPLEMENTATION OF PROTOCOL 7 OF THE TREATY OF ACCESSION AND ARTICLES 92-93 OF THE TREATY OF ROME.

5. AMONG THE FINANCIAL MEASURES WHICH THE GREEK GOVERNMENT CONSIDER NECESSARY TO MEET ITS SPECIAL PROBLEMS ARE:

(A) A REVISION OF THE CRITERIA FOR THE UTILISATION OF FUNDS SO THAT THEY MEET THE SPECIAL SOCIAL, ECONOMIC AND ADMINISTRATIVE NEEDS OF GREECE SEMI-COLON

**CONFIDENTIAL**



(B) AN INCREASE IN AVAILABLE RESOURCES AND IN THE COORDINATION OF ACTION BY DIFFERENT COMMUNITY FUNDS SEMI-COLON

**CONFIDENTIAL**

(C) AN EFFECTIVE INCREASE IN THE ELEMENT OF FINANCE FOR PROJECTS. THE COST OF SOCIAL INFRASTRUCTURE PROGRAMMES SHOULD ALSO BE COVERED SEMI-COLON

(D) THE CREATION OF A MEDITERRANEAN DEVELOPMENT FUND WITH SPECIAL RESOURCES SEMI-COLON

(E) AN INCREASE IN THE POSSIBILITIES OF GREECE ACQUIRING FUNDS FROM THE ORTOLI FACILITY. THE GREEK GOVERNMENT ATTACHE IMPORTANCE TO COMMUNITY FINANCE FOR SPECIAL LONG-TERM PROJECTS FOR THE LEAST DEVELOPED REGIONS OF GREECE. IT ENVISAGES THESE PROJECTS AS BENEFITTING FROM COORDINATED INTERVENTION FROM DIFFERENT COMMUNITY SOURCES TO PROVIDE UP TO 80 PERCENT OF THE FINANCE.

6. REFERENCE IS MADE TO THE PROBLEMS OF THE GEOGRAPHICAL REMOTENESS OF GREECE AND HIGH TRANSPORT COSTS FROM THE ISLANDS.

7. THE PAPER ASKS FOR THE INCLUSION OF ATHENS AND SALONIKA IN SCHEMES FOR COMMUNITY FINANCING. MENTION IS MADE OF THE ENVIRONMENTAL PROBLEMS OF THE CAPITAL.

8. AGRICULTURE. REFERENCE IS MADE TO THE IMMEDIATE AND VITAL PROBLEM OF SUPPORTING THE REVENUES OF SMALL FARMERS. THE PAPER PROPOSES SPECIAL ARRANGEMENTS INCLUDING DIRECT AND INDIRECT INCOME AIDS, FINANCED LARGELY BY THE COMMUNITY.

9. ON PROCEDURE, THE PAPER SUGGESTS THAT THE COUNCIL OF MINISTERS SHOULD REQUEST THE COMMISSION TO STUDY THE PROBLEMS RAISED IN THE GREEK MEMORANDUM AND PROPOSE SPECIAL ARRANGEMENTS FOR THEIR SOLUTION. MEANWHILE THE GREEK GOVERNMENT EXPECT THAT GREECE WILL BE INCLUDED IN MEASURES IN FAVOUR OF OTHER MEDITERRANEAN REGIONS AND THAT THE VITAL QUESTION OF PRICE SUPPORT OF AGRICULTURAL PRODUCTS WILL BE RESOLVED.

COMMENT.

10. THE PAPER STATES THAT RECOGNITION BY THE COMMUNITY OF THE NEED TO DEAL WITH GREECE'S SPECIAL PROBLEMS IS THE "MINIMUM" REQUIRED FOR GREEK PARTICIPATION ON A BASIS <sup>COMPATIBLE WITH NATIONAL INTERESTS, BUT THERE IS FURTHER</sup> EVIDENCE IN THIS PAPER OF THE PROGRESSIVE SOFTENING OF PASOK'S ATTITUDE TOWARDS THE COMMUNITY WHICH BEGAN WELL BEFORE THE ELECTIONS OF LAST OCTOBER. ALTHOUGH THE COMMUNITY WILL NO DOUBT FIND DIFFICULTY IN ACCOMMODATING THE GREEKS IN SOME OF THEIR DEMANDS - I HAVE IN MIND PARTICULARLY THE REQUEST FOR THE EXEMPTION FROM THE COMMUNITY'S RULES ON COMPETITION IN PARAGRAPH 4(B) ABOVE - PAPANDEOU HAS ALLOWED HIMSELF TO BE GUIDED BY THOSE WHO ARE ANXIOUS TO SEE GREECE REMAIN WITHIN THE COMMUNITY. IN GENERAL THE GREEKS HAVE GONE FOR SOLUTIONS WHICH SEEM NOT REPEAT NOT TO REQUIRE AMENDMENTS TO THE TREATY.

11. I NOTE THE CAREFUL AVOIDANCE OF A DEADLINE FOR A SOLUTION OF THE GREEK PROBLEM. VARFIS TOLD ME ON 19 MARCH THAT THIS IS DELEIBERATE. THIS OMISSION TENDS TO CONFIRM THE VIEW THAT PAPANDEOU NOW RECOGNISES THE IMPORTANT CONTRIBUTION WHICH COMMUNITY FUNDS WILL MAKE TO THE GREEK ECONOMY THIS YEAR AND IN THE YEARS TO COME, AND KNOWS THAT THE COUNTRY IS NOT IN A POSITION TO FORGO THESE BENEFITS. HE APPEARS TO BE READY TO TAKE A LONG VIEW OF THE DEVELOPMENT OF GREEK-COMMUNITY RELATIONS AND WILL PROBABLY BE PREPARED TO BE REALISTIC IN HIS EXPECTATIONS OF WHAT GREECE WILL GET OUT OF THIS DEMAND FOR A SPECIAL ARRANGEMENT. IT IS NOTEWORTHY THAT THE TERM "SPECIAL STATUS" WHICH WAS FORMERLY EMPLOYED TO DESCRIBE GREEK OBJECTIVES IS NOT USED IN THE PAPER.

FCO PLEASE PASS SAVING ADDRESSEES.

[COPIES SENT TO NO 10 DOWNING ST]

SUTHERLAND  
FRAME ECONOMIC

REPEATED AS REQUESTED

ECD  
PS  
PS/LPS

4

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S  
GOVERNMENT

EHG (B) (82) 7  
26 March 1982

COPY NO 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

POLAND AND EAST/WEST RELATIONS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To review the situation and maintain a united Community response.

POINTS TO MAKE

2. Situation calm but possibility of renewed opposition in the Spring. Genuine dialogue with Church and Solidarity is essential if Poland is to regain lasting political and economy stability.
3. Continuing economic decline disturbing. Believe Western measures (particularly withholding of credits) are having an effect on Polish economy. Little prospect of economic regeneration without substantial outside assistance.
4. Vital that Polish crisis should not damage relations between European Partners and between Community and US. Need to take US wishes seriously. But they should act only after consultation and understanding of their partners' interests.
5. Important therefore to maintain active and united Community response based on significant steps Community and individual member states have already decided upon, and need to safeguard existing contracts in non-undermining context.

**CONFIDENTIAL**

/6.



**CONFIDENTIAL**

6. Believe Council should recall (in joint declaration) condemnation of Polish situation made by Foreign Ministers of Ten on 4 January and renew their appeal for an early return to the path of Renewal and reform in Poland.

7. If raised.

Important Western Governments take a firm stand in response to Polish Government's apparent wish to force detainees to choose between imprisonment or exile. Should make our views clear - individually and in concert - that we will only accept genuine applications for resettlement. Support proposed text of a Presidency Statement. Hope this can be agreed urgently.

BACKGROUND

References

- (a) Declaration of Foreign Ministers of the Ten of 4 January.
- (b) UK measures in respect of Poland and the Soviet Union.
- (c) Draft Statement on Poland agreed by the Political Committee, 26 March 1982.

8. Poland remains calm. Numbers of those in detention are falling although 3,500 still believed to be interned. Attempts at reconciliation with Solidarity have failed; latter are apparently regrouping underground and there are rumours of renewed protests in the Spring. No end to martial law in sight.

9. Jaruzelski's visit to Moscow at beginning of March confirmed Soviet support. Poles now say Russians will supply raw materials and manufactures to help complete several Polish industrial projects.

10. Industrial production in January 13.6% down on January 1981. Exports in January down by 18.5% (29.4% drop to West). Poles now claim to have paid off arrears of interest to Banks; signature of 1981 Commercial Rescheduling agreement expected at beginning of April. Western Creditor Governments meeting (without Poles) on 18 March to discuss Polish request for resumption of talks on 1982 Rescheduling and provision of new credit.

**CONFIDENTIAL**



**CONFIDENTIAL**

11. Foreign Affairs Council on 23 February agreed a further tranche of 8 million ecu (£4.5 million) humanitarian aid to Poland for the period March to May to be channelled through NGOs. If this goes smoothly Commission likely to propose further tranches from 27 Mecu still available.

12. Decision now taken to reduce Community imports of certain manufactured and luxury products from Soviet Union. Commission estimate that this will mean reduction of some 145 Mecu in Soviet exports to the Community - almost 1% of total exports but about 5% of exports of manufactured and luxury goods. Community have now proposed upgrading of Soviet credit rating in OECD consensus. This was welcomed by US and some others but has met with objections from OECD neutrals. Discussions continue.

13. Buckley Mission visited UK on 17 March, following visits to Bonn and Paris on 14 and 15 March. Basic US objective to start a dialogue about constraining medium and long-term credits to Soviet Union. Buckley also urged restraint on grounds of financial prudence, in extending further credits to the countries of Eastern Europe. There will need to be discussion in the Community of non-undermining once the European countries most involved (UK, FRG, France, and Italy) reach agreement with the Americans. The fact that these consultations à quatre and à cinq are taking place have not been divulged to our other partners in the Community.

14. Polish Government announced on 3 March that Poles in detention would be given permission to emigrate from Poland from 15 March. UK, US, Swedish and French Governments have publicly condemned this action and said they will only accept genuine Polish applications for resettlement. Discussions underway in NATO and Ten on possibility of joint demarches or statements in protest. Political Committee on 26 March agreed to suggest to Ministers text of possible Presidency Statement (Annex C) for use with Press following European Council Meeting. Consideration now being given in NATO to similar statements.

**CONFIDENTIAL**



**CONFIDENTIAL**

Request from Austrian Government for help in resettling 30,000 Poles in Austria still under consideration by Home Office. Poles who were in UK when martial law was declared (1,500 - 3,000) have been granted extension of stay in Britain.

FOREIGN AND COMMONWEALTH OFFICE

18 MARCH 1982

**CONFIDENTIAL**



INFORMAL MEETING OF THE FOREIGN MINISTERS OF THE TEN

Brussels, 4 January 1982

FINAL COMMUNIQUE

1. The Ten utterly disapprove of the development of the situation in Poland.
2. They have noted the declarations of the Polish leadership of its intention to maintain national independence and to reestablish in the near future liberty and the process of reform as well as resuming the dialogue with the various elements of the Polish nation. Unhappily the Ten must note today that, contrary to these declarations what has taken place has not been dialogue but repression bringing in its train violations of the most elementary human and citizen's rights, contrary to the Helsinki Final Act, the United Nations Charter, and the Universal Declaration of Human Rights.
3. The Ten therefore appeal urgently to the Polish authorities to end as soon as possible the state of martial law, to release those arrested, and to restore a genuine dialogue with the Church and Solidarity.
4. The significance of these grave events extends beyond Poland itself. The inability of the system in Eastern Europe to accept the modifications necessary to meet the legitimate aspirations of the people is such as to endanger public confidence in the possibility of cooperative links with the East, and thus seriously to affect international relations. In this context the Ten note with concern and disapproval the serious external pressure and the campaign directed by the U.S.S.R. and other Eastern European countries against the efforts for renewal in Poland.
5. This already grave situation would be further aggravated if it led to an open intervention by the Warsaw Pact. For this reason the Ten wish to issue a solemn warning against any such intervention.



**CONFIDENTIAL**

6. The Ten are totally in sympathy with the Polish people and are willing to continue the direct humanitarian aid to them.
7. The Ten have taken note of the economic measures taken by the United States Government with regard to the U.S.S.R. The Ten will undertake in this context close and positive consultations with the United States Government and with the Governments of other Western States in order to define what decisions will best serve their common objectives and to avoid any step which could undermine their respective actions.
8. Developments in Poland constitute a grave violation of the principles of the Helsinki Final Act. The Ten therefore consider that the Madrid Conference should discuss them as soon as possible at Ministerial level. The Ten will make approaches to the neutral and non-aligned States to propose an early resumption of the Madrid meeting.
9. The Ten will work in the United Nations and its specialised Agencies for a denunciation of violations of human rights and acts of violence.
10. Other measures will be considered as the situation in Poland develops, in particular measures concerning credit and economic assistance to Poland, and measures concerning the Community's commercial policy with regard to the U.S.S.R. In addition the Ten will examine the question of further food aid to Poland.
11. The Ten have called on the Polish authorities both nationally and through the Presidency to lift the abnormal and unacceptable restrictions which have been placed on the work of Embassies, representatives of the media, air services and other communications in Poland.
12. The Ten will study what can be done to alleviate the situation of Poles outside Poland who do not wish to return to their country under present circumstances.

**CONFIDENTIAL**



Subsequently the European Court of Human Rights granted three extensions, totalling just over two months, for the submission of the Government's memorial to enable it to complete its researches and drafting. The present Administration have not asked for any other extensions of time or for any adjournment or postponements of hearings.

Mr. Grylls asked the Lord Privy Seal whether any extensions of time or adjournments have been requested by Her Majesty's Government in relation to the claims that have been brought against the Government by, amongst others, Vosper Limited under the European Convention on Human Rights arising out of the Aircraft and Shipbuilding Industries Act 1977; how many requests have been made; and if he will specify the reasons for those requests being made.

Mr. Humphrey Atkins: The Government have made two requests to extend the time limit for submitting their observations on the admissibility and merits of the six original applications raising issues connected with the Aircraft and Shipbuilding Industries Act 1977. The first time limit expired at the end of October 1981 and the second at the end of January 1982. These six applications, and three more similar ones recently notified to the Government, raise exceedingly complicated and difficult issues which have to be co-ordinated in each of the cases.

#### Poland

Sir Anthony Kershaw asked the Lord Privy Seal if he will make a statement on the outcome of the allied consultations on Poland in the North Atlantic Council on 3 February.

Mr. Humphrey Atkins: In her reply to the hon. Member for Huntingdonshire (Mr. Major) on 4 February, my right hon. Friend the Prime Minister explained the position reached in discussion in the North Atlantic Council following the declaration issued by NATO Foreign Ministers on 11 January. The Prime Minister stated that at the meeting of the North Atlantic Council on 3 February, it was agreed to pursue and as necessary strengthen actions along the lines set out in the 11 January declaration. She undertook to give the House details as soon as possible of the measures being taken by Her Majesty's Government. These measures are as follows.

With respect to Poland, Her Majesty's Government:

- (i) have imposed travel restrictions on Polish diplomats and certain other official Polish representatives in London and Glasgow;
- (ii) will ensure that their relations with the military régime in Poland reflect the abnormal nature of the present situation;
- (iii) have increased BBC broadcasts in the Polish language to Poland;
- (iv) will give financial or other assistance to help co-ordinate the efforts of those voluntary and Church agencies in Britain which are providing humanitarian aid to Poland;
- (v) have agreed with other Western official creditors that the question of rescheduling of Poland's 1982 official debt should, for the time being, be held in suspense;
- (vi) have placed in abeyance existing officially guaranteed credits to Poland subject to safe guarding the interests of British firms having legal binding contractual obligations;
- (vii) will not for the present make available any new credits for Poland;
- (viii) have agreed with our Community partners that there should be no further sales of European Community food at special prices to Poland. Funds that would have been made available for this purpose will now be diverted to the provision of humanitarian aid through the voluntary

agencies and Church agencies. As a result of this there is up to 35 mecu (approximately 219 tons) available for this purpose of which the Commission is putting forward a proposal for the early allocation of 8 mecu (approximately £4.5 million).

- With respect to the Soviet Union Her Majesty's Government:
- (i) have imposed additional restrictions on the travel of Soviet officials based in the United Kingdom;
  - (ii) will reduce the level of activity under four Anglo-Soviet technical cooperation agreements, in the fields of medicine and public health, environmental protection, agricultural research and atomic energy;
  - (iii) have introduced a licensing system which covers Soviet factory ships trans-shipping fish caught in United Kingdom waters;
  - (iv) have given notice that they intend to re-negotiate the terms of the Anglo-Soviet Treaty on Merchant Navigation;
  - (v) are exploring with Community partners the possibility of reclassifying the Soviet Union within the OECD export credit consensus (on which we expect early agreement in the Community) and of trade policy measures regarding Soviet exports to the Community.

#### Visa Application (USSR)

Mr. Marks asked the Lord Privy Seal what was the total number of entry visa requests received from Union of Soviet Socialist Republics citizens during 1981; how many were for academic purposes; how many were refused; and what were the main reasons for refusals.

Mr. Richard Luce [pursuant to his reply, 28 January 1982, c. 407]: A total of 8,583 visa requests were made by Union of Soviet Socialist Republics citizens in 1981. Of these 1,265 were made by persons coming to this country for academic purposes and to attend conferences. The total number of visa requests refused was 124 and over 90 per cent. of the refusals were because the applications were not supported by sponsors in this country.

## ENERGY

### British National Oil Corporation

Mr. Rowlands asked the Secretary of State for Energy whether he will list the advisers and consultants appointed by the Government and the British National Oil Corporation to prepare the privatisation of the corporation's oil equity interests; what has been paid in fees to date; what proportion has been paid by Her Majesty's Government; and what future commitments have been made in respect of, for example, success fees and underwriting.

Mr. Gray: My Department is being advised on the privatisation of the British National Oil Corporation's equity oil interests by S. G. Warburg & Co., Ltd. and by Freshfields. I understand from BNOC that its principal advisers on the Government's proposals for privatisation as on other matters are N. M. Rothschild & Sons Ltd. and Herbert Smith & Co., Ltd. My Department has paid no fees to date in connection with the privatisation of BNOC's equity oil interests and no commitment has been given in respect of success fees or underwriting fees. Fees paid by BNOC are a matter for the corporation.

## EDUCATION AND SCIENCE

### School Buildings (Lead-free Paint)

Mr. Skinner asked the Secretary of State for Education and Science if he will now undertake a nation-wide survey



DRAFT STATEMENT ON POLAND AGREED BY THE POLITICAL COMMITTEE:  
26 MARCH 1982

1. The Heads of State and Government are obliged to note that there has been no relaxation in the implementation of martial law in Poland, but on the contrary an increase in its severity. This has implications for East-West relations and continues to affect the relations of the Ten on the one hand with Poland and on the other with the Soviet Union, which carries an undeniable responsibility in the situation.

2. The Ten recall their earlier Declarations on the grave and negative repercussions of the current situation in Poland on peace and cooperation in Europe, and on East-West relations as a whole. They renew their appeal that the Polish authorities should, with the minimum delay, lift martial law, release the people arrested and restore a genuine dialogue with the Church and with Solidarity.

3. The Ten have in addition become aware with concern of the recent statements by the Polish authorities concerning the possibility of emigration for people detained in that country. They reject any attempt to put pressure on those concerned and affirm that they would interpret such a policy as a new provocation in the Polish situation and a grave violation of the principles of the Helsinki Act. Any request for a visa to any of the Ten which comes from Polish citizens enjoying freedom of movement and of decision will be examined by each Government concerned on its own merits within the framework of its current processes and procedures.



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S  
GOVERNMENT

EHG(B)(82)7A  
25 March 1982

COPY NO

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

EAST-WEST: EAST EUROPEAN INDEBTEDNESS

Brief by the Foreign and Commonwealth Office

OBJECTIVES

1. To exchange views on the problem of Western exposure  
in Eastern Europe.

POINTS TO MAKE

2. Problem of East European indebtedness needs to be  
handled with caution. We wish to avoid a general collapse  
of confidence. We should seek to ensure that our debt  
exposure in Eastern Europe is at a level which they can  
service. In the longer term our economic relationship with  
Eastern Europe may have to be reviewed.

3. Eastern European countries should be treated on their  
merits. We should be prepared to differentiate in favour  
of those countries whose economies are basically sound and in  
particular where their political policies are directed at  
achieving some degree of independence from Moscow.

4. Western creditors have agreed to suspend negotiations  
on rescheduling official debt in 1982 in view of failure of  
Polish government to meet the three Western criteria. In the  
case of Romania we have insisted that they seek multi-  
lateral rescheduling.

/5. Hungary



**CONFIDENTIAL**

5. Hungary is different. Hungarian economy basically sound, a model for other East European countries. Important to consider possibility of helping, in concert with others. Attitude of US crucial. Need to persuade Americans to differentiate publicly in favour of Hungary on question of credit for Eastern Europe. Should Presidency speak to Americans? Important for confidence that Hungary's application to IMF should be agreed quickly.

6. Have partners heard any reports of these difficulties affecting the GDR or Czechoslovakia?

BACKGROUND

Reference

(a) Eastern Europe: Convertible Currency Debt 1980

7. This subject is included at the suggestion of Herr Genscher. He drew attention to Hungary's financial difficulties as representing an acute political problem. The Germans will see Hungary's predicament as symptomatic of wider difficulties in their policy of creating links with Soviet Union and Eastern Europe. Our reasons for wishing to help Hungary are both political and economic. Politically, we wish to encourage the sort of reforms that have been carried out in Hungary. From an economic point of view we regard Hungary's policies as sound. Equally, if Hungary were forced to apply with Poland and Romania for rescheduling of official debts it could precipitate a general financial crisis in Eastern Europe.

8. Hungary. Representatives of the Hungarian National Bank have approached Western Central Banks, seeking support of some \$500 million over the next six to nine months to counter a short-term liquidity problem, caused by withdrawals of deposits by OPEC countries and by the Soviet Union. Some \$100 million of this would be needed in both March and April.

9. Hungary's economic policies have previously inspired special confidence in the West. We have in the past encouraged the Hungarians' development of a 'socialist market economy',

**CONFIDENTIAL**

/hoping



**CONFIDENTIAL**

hoping that it would serve as a model to other Eastern European countries. Hungary's application for membership of the IMF represents an attempt to escape from reliance on the CMEA system, and would be a significant political gain for the West.

10. If Hungary's application is rejected as a result of current difficulties, the Russians will exploit this to prove their claim that the IMF is a capitalist institution dominated by the US.

11. Hungary might be helped by a syndicated loan by the Bank for International Settlements (BIS) backed by central banks with a government guarantee. This would, however, involve difficult decisions for many governments including ourselves. The key to easing the Hungarians' difficulties is the attitude of the United States. An improvement in banking confidence will require a public indication by the United States that they have no wish to see credit for Hungary stopped, whatever their views on credit for the USSR and Eastern Europe in general.

12. The US position on the question of Hungary's IMF application is still unclear. Clear US support would be of particular value.

13. Poland owes some \$28.5 billion to Western creditors. Poland's hard currency requirement in 1982 is estimated at some \$10.3 billion. In 1981, Poland's government-guaranteed debt was rescheduled. The Poles are on the point of reaching a similar agreement with the commercial banks. Following the imposition of martial law, the group of sixteen Western Creditor Governments have suspended negotiations for rescheduling official debt in 1982. This position was confirmed on 18 March. The creditors are however aware that this means the Poles are in effect obtaining 100% de facto debt relief.

/14. Romania's



**CONFIDENTIAL**

14. Romania's total hard currency indebtedness at the end of 1981 was some \$9.8 billion. Nearly \$6.6 billion of this is owed to the banks. Romania was prevented from drawing on her IMF stand-by facility in November 1981 when she was found to be in arrears on her payments to her creditors. The Romanians have now approached the French chairman of the Paris Club (the group of Western creditor countries, which meets under French chairmanship), about holding a Paris Club meeting as soon as possible. The Chairman told them that they must first put their affairs in order with the IMF.

15. The Romanians have been negotiating with an ad hoc group of Western banks and have now reached agreement in principle upon terms for rescheduling 80% of their commercial bank debt in 1982. The agreement has yet to be approved by all the banks.

16. Yugoslavia's total hard currency indebtedness is some \$18.6 billion. An IMF programme is in place. But there are doubts about whether the Yugoslavs' targets can be met.

17. All debtor countries rely on creditors' willingness to roll over short-term credit facilities. Withdrawal of deposits by OPEC, USSR, and Western banks may be embarrassing other CMEA countries besides Hungary, but we have no information on this. Most at risk are probably the GDR and Czechoslovakia.

18. The recurrent failure of Soviet agriculture has forced the Soviet Union to spend large quantities of hard currency on agricultural imports. They have been forced to sell large quantities of gold to finance their import bill. Their income from oil revenues will decline throughout the 1980s: and although there seems little danger of the USSR defaulting on its debts, the Russians may have difficulties by the mid-1980s in raising sufficient funds to finance the likely trade deficit.

FOREIGN AND COMMONWEALTH OFFICE

25 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

Eastern Europe: Convertible Currency Debt 1980

	Estimated gross convertible currency debt at 31st Dec. Total (of which short term)		Convertible currency Gross Debt/export ratio (1)	Convertible currency Debt Service (1)(2)	
	£bn	£bn	%	merchandise trade %	total export earnings %
Bulgaria	3.8	n.a.	126	32	31
Czechoslovakia	4.8	n.a.	107	23	21
GDR	12.7	n.a.	219	55	37
Hungary	8.3	n.a.	169	35	31
Poland	23.1	1.8	312	100	80
Romania	9.5	2.1	146	28	19
Yugoslavia	16.8	1.4	300	45	18
(Total)	(79.0)				



**CONFIDENTIAL**

*PM brief*

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)7B

COPY NO.

25 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 March 1982

EAST/WEST : BUCKLEY MISSION

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE

1. In our interest to try to meet American concern over supply of Western credit to Soviet Union. Otherwise high risk of Americans going it alone on further round of measures and of further strains in relations between Europe and the United States.
2. Message from American Government shows they expect concrete recommendations from the European Council and that the meeting will ensure that partners join with the Americans in studying their proposals. Believe therefore that we must take Buckley proposals seriously. The European Council should make a clear statement to this effect.
3. We think first step should be to analyse thoroughly state of Soviet economy and importance to it of official credits and guarantees. Then consider desirability and feasibility of common action.
4. We must avoid doing anything which could do more damage to the West than to the Soviet Union.
5. We must also think hard about burden-sharing. Important that Japan and Canada should be associated with any steps taken.

/6.

**CONFIDENTIAL**



**CONFIDENTIAL**

6. [If Raised] Mission did not discuss in detail problem of existing contracts, but implied that resolution was linked to progress on credits. Believe link should be broken. Need decision on existing contracts very soon.
7. [If Raised] Mission did not raise question of non-undermining.
8. Community should continue to press OECD Export Credit Consensus to upgrade Soviet Union to 'relatively rich' category.

BACKGROUND

Reference:

- A : Draft Statement on East-West Economic Relations discussed by Political Committee on 26 March 1982
- B : FCO telegram No.512 to Washington

9. Buckley Mission visited FRG, France, UK, Italy and Brussels (NATO, Presidency and Commission) in mid-March. Americans also talking to Japan and Canada. Chose these countries as they provide over 90% of officially-supported and guaranteed credit for the Soviet Union. In the US view talks went well in Rome, reasonably well in London and Paris, less well in Bonn.
10. Objective of mission to start a dialogue about medium and long-term officially-supported and guaranteed credit to the Soviet Union. Mission also urged, on grounds of prudence, restraint in extending further credit to countries of East Europe.
11. Mission did not discuss question of 'non-undermining', but indicated that resolution of problem of existing contracts affected by US measures of 29 December might depend on response to Buckley proposals.

**CONFIDENTIAL**



**CONFIDENTIAL**

12. A message from Secretary Haig received on 26 March stressed the importance the United States attached to a positive outcome from the European Council meeting. Similar messages have, no doubt, gone to the French, Germans, Italians and Presidency. The Political Committee discussed the text at Annex A on 26 March. The Germans and others (eg. Danes) wished to water the text down and in particular omit the specific reference to export credit. We regard the text - including bracketed passages - as the minimum acceptable. It is particularly important that the final paragraph should be retained.

13. Community proposal in Export Credit Consensus on 10 March to up-grade Soviet Union supported by most other members including US and Japan, but blocked by neutrals (Sweden, Switzerland, Austria and Finland). However latter group indicated that they would support up-grading as part of general reclassification package, to be discussed in May.

Foreign and Commonwealth Office

25 March 1982

**CONFIDENTIAL**



DRAFT STATEMENT PREPARED BY POLITICAL COMMITTEE : 26 MARCH 1982

(Square brackets are by FRG, Danes and others. All delegations have a general reserve on the text.)

[Against the sombre background of events in Poland and elsewhere] the Heads of State and Government reviewed the state of economic relations between their own countries and those of Eastern Europe, particularly in the light of the significant and specific role played by Community trade in regard to these countries.

They recognised the role which economic and commercial contacts had played in the stabilisation and development of East-West relations as a whole. They noted the existence of certain problems resulting from world economic trends, but in part also from the special nature of the state-trading economies and the basis on which East-West economic and commercial relations had come to be conducted. They saw an inevitable interaction between economic and political factors.

The Heads of State and Government agreed that these questions should be the subject of urgent and careful study by the European Community and by their own and other Governments, both nationally and in the international organisations concerned, and in close consultation with US and other major trading partners.

[It is in this context that the Heads of State and Government placed the particular question of government subsidised and government-guaranteed export credit to which the Government of the United States had recently drawn attention.]



**CONFIDENTIAL**

GR 1000

CONFIDENTIAL

DESKBY 180700Z ROME

FM FCO 171902Z MAR 82

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 512 OF 17 MARCH 1982

AND TO IMMEDIATE ROME, PARIS, BONN, UKDEL NATO, UKREP BRUSSELS,  
INFO PRIORITY MOSCOW

INFO ROUTINE TOKYO, UKDEL OECD

INFO SAVING OTHER EC POSTS, WARSAW, OTTAWA

## BUCKLEY MISSION

1. Buckley and his inter-agency team visited London on 17 March. He called on Lord Trefgarne and me and had a full session of talks and lunch with Bridges and representatives of Whitehall Departments.
2. Buckley covered much the same ground as he had in Bonn and Paris. The President recognised that some of the measures announced on 29 December had caused concern within the Alliance. Further action on these measures would be held in suspense pending the outcome of his mission. The mission's purpose was to discuss the desirability of providing officially supported and guaranteed export credits to the Soviet Union. It was now time to add the role of Western official credit to the agenda of Western strategic concerns. The mission was not seeking an economic war with the Soviet Union or the cessation of trade. Nor was the American proposition a specific response to events in Poland. Secondly, and related to the first US concern over official credit support, there was the phenomenon of the fragile financial position in Eastern Europe. The West was becoming the captive of its debtors and a reverse leverage had begun to emerge. The US believed that Western countries must reduce the burden of debt overhanging Western financial institutions. The nervousness of Western private banks about lending to the USSR should be a signal to governments. Buckley's mission therefore had to establish whether a consensus existed among the key Alliance participants to address this problem. If the political will was there, it should be possible to find a mechanism for change. It was acknowledged that the Japanese had to be brought in. The seven summit countries accounted for around 90% of total official credit to the Soviet Union.
3. Specifically, Buckley and his team proposed a pause, perhaps for 60 days, during which Western governments would refrain from any new official credits of government guarantees (but existing commitments would be honoured). Secondly, there should be further information sharing based on a US questionnaire to provide the data on which proper decisions could be made.
4. Leland (US Treasury) accepted the need for equitable burden sharing. He stressed the need to take action both on official credits and on government guarantees. The latter effectively provided a direct subsidy since without a guarantee private banks would lend to the Soviet Union only at significantly higher rates. Contrary to Buckley's concentration on the USSR, he also spoke of the link between the Soviet and Eastern European problems. Decisions were needed very shortly on Eastern Europe. **CONFIDENTIAL** Differentiated approach towards Eastern Europe would only be possible if a more restrictive policy



**CONFIDENTIAL**

towards the Soviet Union were adopted. Furthermore, it was important to secure a net-flow of resources from East to West. Other members of the US team stressed the part which easy Western credits to the Soviet Union had played in facilitating the growth of Soviet military capabilities and Soviet adventurism in the Third World.

5. Bridges said that we needed first to analyse the facts before considering long-term policy. This would also involve decisions on which institutions were most appropriate for taking the work forward. The UK was not in principle in favour of subsidising export credits. The difficulty was achieving a policy which would not disadvantage the UK. If the measures proposed by the Americans were adopted, our exports, but not those of countries with low commercial interest rates, would be damaged. Nevertheless, we regarded this as an important question and shared the Americans concern to find methods to secure Soviet restraint.

6. Bridges said that the UK would consider the American request for a pause, but would find it very difficult to agree to this unless all others concerned also agreed. He agreed to the information sharing exercise.

7. Buckley said that, after reporting European reactions, it was intended to move to 2-3 weeks of bilateral talks followed by a working-level conference of experts in Washington in which the 7 Summit countries might participate. Depending on the conclusions, the results might be submitted to the NATO or Versailles summits. Bridges said that it would be important to avoid overburdening the summit machinery, but agreed that expert analysis of this kind would be useful. However, NATO would also be an appropriate forum for analysis of the Soviet economic position and of the long-term policy options. The OECD should not be over-looked as an important forum for objective economic analysis of a non-political kind, embracing European states prominent in East/West trade. We pointed out the need to think through the effect of convening such a conference on confidence in the financial community.

8. There were also brief exchanges on energy security and Soviet exports to the EC, both on standard lines.

9. Addressees may pass on the above freely to host governments. Rome should inform Bucci as soon as possible.

CARRINGTON

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)8 Revise

COPY NO

1

23 March 1982

EUROPEAN COUNCIL

BRUSSELS 29/30 MARCH 1982

TRADE RELATIONS WITH THE US AND JAPAN

Brief by Foreign and Commonwealth Office and Department of Trade

OBJECTIVE

1. To support development of concerted Community approaches which are both firm and reasonable.

GENERAL

2. EC must impress firmly on US Administration and Japanese Government need for them to pull their weight in reducing strain on open economic system.

RELATIONS WITH THE US

(a) Steel

3. Right that Community should continue to keep up its robust attack on anti-dumping and countervailing cases filed by US industry. UK would favour negotiated settlement when the time is right. But accept that it would be bad tactics for Community to show its hand too soon.

(b) Agriculture (If discussion develops)

4. Do not dissent from Commission defence of Community policies as consistent with GATT rules. Hope however internal developments will lead to improvement in relations with US and other major exporters of agricultural produce.

(c) Draft reciprocity legislation (If raised)

5. Administration clearly regard existence of draft bills as a useful stick with which to threaten the Japanese. But at same time seem well aware of potential conflict with principles of open, multilateral trading system. Our



**CONFIDENTIAL**

concern should be to ensure they do not let domestic pressure get out of control.

(d) Economic policy/interest rates

[See Brief No 3 - Economic and Social Situation]

(e) Transatlantic Relations

[See Brief No 9 - Political Cooperation]

RELATIONS WITH JAPAN

6. Welcome conclusions of March Foreign Affairs ECOFIN Councils.

Essential to have firm approach on trade. Little prospect of pressure proving effective unless EC maintains a united front. Should be possible to move towards a common EC position on imports from Japan without making things worse for individual member states. Provided this is accepted those member states with national controls [France, Italy] should be able to put them on a Community basis. UK would do so, so long as others [Germany] accept principle of Community-wide restraint measures in key sectors. This would be part of stronger Community position which we all surely believe to be necessary, if we are to get Japan to take really effective action.

7. Action by Japan to increase imports of manufactures needed both on trade front and through adjustment of economic policies aimed at easing the current account surplus and at appreciation of Yen. These are the points we must make a concerted effort to get across to Japanese in bilateral meetings and in multi-lateral fora leading through OECD Ministerial (May) to Versailles Summit (June), and beyond (eg IMF Board of Governors (October) and GATT Ministerial (November)).

8. Must keep Americans alongside to make our pressure more effective and reduce the risk of being shut out from any benefits they negotiate.

9. Japanese may try to deflect EC pressure from them on to US interest rates and draft reciprocity legislation. Must make point firmly that these issues, worrying though they are, do not absolve Japanese Government of responsibility to take action on trade.



10. (If there is discussion of inward investment/industrial cooperation)  
Inward investment and industrial cooperation clearly have a role to play in improving EC/Japan economic relationship. Prepared to consider any proposals Commission may put forward but would obviously need careful scrutiny by officials. Meanwhile UK encourages only inward investment projects which are of significant benefit, producing goods with high Community content. Reasonable for same criteria to apply throughout EC.

BACKGROUND

References : A - Conclusions on Japan of 22 March Foreign Affairs Council

B - Conclusions on Japan of 15 March ECOFIN Council

ECONOMIC AND SOCIAL SITUATION

11. In different ways, US and Japanese Government policies are putting strains on the open trading system, and creating serious problems for economies of EC member states. Both countries need to adjust their policies if these strains are not to prove intolerable - with the need more urgent and wider-ranging in the case of Japan.

RELATIONS WITH THE US

12. The most immediate cause for concern in Europe is the prospect of a large budget deficit, the effect this is having on UK interest rates, and the implications for EC countries who face a choice between similar high interest rates and currency depreciation. These problems are compounded by a dispute about steel; increasing US frustration with the operation of the CAP; the threat of legislation providing for retaliation against countries which fail to trade with the US 'on a reciprocal basis'; and political tensions within the Alliance over Poland, the Middle East etc.

(a) Steel

13. US industry anti-dumping and anti-subsidy cases cover the bulk of EC steel exports to the US. Commission have been taking robust line, emphasising need for US to respect international obligations. GATT requires proof of material injury (difficult to substantiate in the case of ECSC products since EC share of



**CONFIDENTIAL**

declining US market fell to 4.7 per cent in 1981 compared with 6.7 per cent in 1979 - last normal year). In addition US industry is alleging that all finance from Government/Community sources constitutes subsidisation. EC position is that GATT permits action only against export subsidies. Investigation procedure likely to drag on to late summer if allowed to run its full course. Uncertainty damaging to importers but could well affect US producers too. By filing their cases they prompted withdrawal of trigger price mechanism (tpm) which had previously helped maintain orderly market by effectively setting a floor price. Likely therefore to be pressure on both sides to reach negotiated settlement involving voluntary restraint of exports by EC. But we agree with Commission that for EC to make first move before the time is right would place us in a weak negotiating position.

(b) Agriculture

14. US Administration displaying increasing frustration with operation of CAP, particularly disposal of high cost surpluses on world markets with the aid of export restitutions. Commission response is that US fail to appreciate GATT provisions which permit subsidisation of exports of primary products provided that world market price is not undercut and that the exporting country does not obtain a 'more than equitable share' of the world market. We believe the EC cannot afford to be indifferent to the views of other major agricultural exporters like US. The attempt to contain/reduce agricultural surpluses and agriculture's share of the budget in the Mandate context should go some way to alleviating international pressure.

(c) Draft reciprocity legislation

15. A number of bills have recently been introduced by individual senators which if enacted would give Administration discretion to erect new barriers to imports from countries which fail to trade with US 'on a reciprocal basis'. Little likelihood of making early progress through Congress but symptomatic of



**CONFIDENTIAL**

growing protectionist pressures. Primarily directed against Japanese but Canada and EC (in agricultural sector) also possible targets.

RELATIONS WITH JAPAN

16. Japanese announced in January package of import promotion measures which includes implementation this year of Tokyo Round tariff cuts originally scheduled for 1984; the removal of at least 67 non-tariff barriers; and an ombudsman to deal with complaints by importers. Though some of these measures are potentially helpful the tariff cuts are marginal and the overall impact is unlikely significantly to reduce Japan's trade surpluses with other major industrialised countries. US have made it clear that they do not regard these measures by themselves as adequate. EC has taken similar view. Japanese imports of manufactures as a proportion of GDP remains exceptionally low (3 per cent compared with 6-10 per cent for other major economies). The UK believes Japan is threatening stability of world economy from opposite direction to US. We are concerned to consolidate the gains that have been made world-wide in reducing inflation and would not wish to urge expansionary measures on the Japanese (though they may be thinking on these lines themselves in response to the economic downturn in the last quarter of 1981). But in our view Japan should ease the current account surplus by relaxing fiscal policy so as to expand domestic demand; and should tighten monetary policy so as to encourage appreciation of the Yen. This message was relayed to Mr Esaki, Japanese Prime Minister's Representative when he visited London on his European tour (12-21 March)

17. At UK suggestion ECOFIN Council on 15 March discussed Japanese macro-economic policy and concluded that Community policy should cover macro-economic issues as well as trade. Monetary Committee was given remit to pursue with a view to reaching an agreed Community position.



**CONFIDENTIAL**

18. Foreign Affairs Council on 22 March decided:

- (i) to submit complaint about Japan's closed market to GATT dispute settlement procedure (Article 23 of the General Agreement);
- (ii) to keep up pressure on Japan on export restraint, macro-economic policy and generally in multilateral fora (OECD Ministerial, Versailles Summit);
- (iii) to commission study of possibilities of formulating common EC policy on imports from Japan and review implications of Japanese export strategy.

19. France and Italy were lukewarm about the GATT initiative which they felt could stimulate a Japanese counter-attack on their range of national quotas on imports from Japan which pre-date signature of EEC Treaty but <sup>they</sup> were persuaded to go along with the Commission proposal. It is a more responsible course than the reciprocity legislation being discussed in the US.

20. While the Community is now in a position to develop a coherent and potentially effective strategy, there remain difficulties ahead. Germans and Danes will continue to be reluctant to agree to anything on the import side which looks protectionist. But an effective Community policy would mean all member states including those without restraint arrangements at present, accepting that imports of sensitive products (including, if necessary, new products) into the EC market as a whole should be subject to restriction. Equally those member states with national measures (notably France, Italy, UK) will insist that any Community arrangement should give them protection which is at least as effective as what they already have.

21. If there is discussion of Commission proposals on industrial cooperation we would not want to sound too negative but should give no commitment. In fact we see little role for the Commission in this area; the initiative must rest with individual firms.

Foreign and Commonwealth Office

Department of Trade

23 March 1982

**CONFIDENTIAL**



REF A

GRS 750

UNCLASSIFIED

FRAME EXTERNAL

DESKBY 230900Z

FM UKREP BRUSSELS 221823Z MAR 82

TO IMMEDIATE FCO

TELNO 1169 OF 22 MARCH

INFO IMMEDIATE TOKYO ROUTINE ROME PARIS BONN WASHINGTON UKMIS  
GENEVA

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG  
ATHENS STRASBOURG OTTAWA UKDEL OECD.

COUNCIL OF MINISTERS (FOREIGN AFFAIRS): 22 MARCH

EC/JAPAN

MIPT

1. FOLLOWING IS THE (PROVISIONAL) TEXT OF THE COUNCIL CONCLUSIONS:

BEGINS

1. THE COUNCIL EXAMINED THE QUESTION OF RELATIONS WITH JAPAN, WHICH REMAINED A MATTER OF SERIOUS BILATERAL CONCERN AND WHICH RAISED NUMEROUS MULTILATERAL ISSUES AFFECTING THE FUNCTIONING OF THE INTERNATIONAL TRADING SYSTEM. IN THIS CONNECTION THE COUNCIL CONSIDERED THAT THE MEASURES RECENTLY ANNOUNCED BY THE JAPANESE GOVERNMENT, AIMED AT FURTHER OPENING THE JAPANESE MARKET, REFLECTED AN ENCOURAGING POLITICAL AWARENESS BUT THAT THEIR PRACTICAL EFFECT ON THE EVOLUTION OF TRADE WOULD BE VERY LIMITED AND COULD NOT THEREFORE CONSTITUTE THE RESPONSE EXPECTED BY THE COMMUNITY. AS PART OF A COMPREHENSIVE COMMON STRATEGY THE COUNCIL AGREED THAT THE FOLLOWING COURSE OF ACTION SHOULD BE PURSUED.

2. EFFORTS SHOULD BE CONTINUED IN BILATERAL CONTACTS AND MULTILATERAL FORA TO PERSUADE JAPAN TO MODIFY ITS TRADING AND ECONOMIC POLICIES AND TO ACHIEVE A MORE BALANCED INTEGRATION OF THE JAPANESE ECONOMY WITH THAT OF ITS MAIN INDUSTRIALIZED PARTNERS. THE AIM HERE WILL BE TO ADDRESS THE CAUSE OF ECONOMIC FRICTION AT ITS ROOT, IE JAPANESE LOW IMPORT PROPENSITY. WHILE THE REMOVAL OF SPECIFIC BARRIERS TO IMPORTS AT THE FRONTIER REMAINS WELCOME, WHAT IS NEEDED, BEYOND THAT, IS DETERMINED AND SWIFT ACTION BY THE JAPANESE GOVERNMENT POSITIVELY TO PROMOTE IMPORTS, EG THROUGH GUIDANCE TO PUBLIC AND PRIVATE SECTORS.

3. JAPAN IS AGAIN CALLED UPON TO PROVIDE TANGIBLE ASSURANCES THAT, FROM 1982 ONWARDS, IT WILL PURSUE A POLICY OF EFFECTIVE MODERATION TOWARDS THE COMMUNITY AS A WHOLE AS REGARDS JAPANESE EXPORTS IN SECTORS WHERE AN INCREASE IN JAPANESE EXPORTS TO THE COMMUNITY WOULD CAUSE SIGNIFICANT PROBLEMS NOTABLY PASSENGER CARS, COLOUR TELEVISION SETS AND TUBES, CERTAIN MACHINE TOOLS INCLUDING NUMERICALLY CONTROLLED LATHES AND MACHINING CENTRES, IN ORDER TO IMPROVE THE SITUATION.



4. THE COUNCIL REITERATED THE CONCLUSIONS OF THE ECO/FIN COUNCIL ON 15 MARCH 1982, ACCORDING TO WHICH THE COMMON POSITION OF THE COMMUNITY SHOULD COVER BESIDES TRADE ASPECTS, ASPECTS OF MACRO-ECONOMIC POLICIES AND THE DEVELOPMENT OF THE YEN. IT NOTED THAT IT HAD BEEN AGREED TO EXAMINE THESE ASPECTS IN DEPTH AT A FORTHCOMING SESSION WITH A VIEW TO FORTHCOMING INTERNATIONAL CONFERENCES. JAPAN'S POLICY IN THESE AREAS HAD TO TAKE ACCOUNT OF JAPAN'S INTERNATIONAL RESPONSIBILITIES. THIS IS AN ESSENTIAL COMPLEMENT TO ACTION IN THE FIELD OF TRADE.

5. THE COUNCIL RECALLED THE NEED FOR EUROPEAN INDUSTRIES TO STRENGTHEN THEIR INTERNATIONAL COMPETITIVENESS THROUGH ADEQUATE INVESTMENT AND MODERNIZATION EFFORTS. THE COUNCIL RECOGNIZED THE NEED TO COMPLETE A COMMUNITY POLICY WITHIN WHICH EUROPEAN FIRMS WILL BE BETTER ABLE TO DEVELOP POSITIVE STRATEGIES TO MEET JAPANESE COMPETITION. THE COUNCIL INSTRUCTED THE PERMANENT REPRESENTATIVES COMMITTEE TO ESTABLISH A HIGH-LEVEL WORKING PARTY TO CONSIDER THE ISSUES INVOLVED, BOTH FROM THE POINT OF VIEW OF TRADE POLICY AND INDUSTRIAL STRUCTURAL ADJUSTMENT POLICY. THIS WORKING PARTY SHOULD ALSO REVIEW THE GENERAL JAPANESE EXPORT STRATEGY AND ITS IMPLICATIONS FOR EUROPEAN INDUSTRY. IT SHOULD REPORT TO THE PERMANENT REPRESENTATIVES COMMITTEE WITHIN THE NEAR FUTURE MAKING APPROPRIATE RECOMMENDATIONS.

6. THE COUNCIL ALSO AGREED THAT THE POSSIBILITIES OF SCIENTIFIC AND TECHNOLOGICAL CO-OPERATION BETWEEN THE COMMUNITY AND JAPAN SHOULD BE EXPLORED. THE APPROPRIATE COMMUNITY BODIES SHOULD EXAMINE THE SPECIFIC SECTORS WHICH MIGHT BE ENVISAGED, WITH A VIEW TO ACHIEVING BALANCED CO-OPERATION.

7. SINCE THE BENEFITS EXPECTED BY THE COMMUNITY AS A RESULT OF SUCCESSIVE GATT NEGOTIATIONS WITH JAPAN HAVE NOT BEEN REALIZED, AND SINCE THE RESULTS OF BILATERAL DISCUSSIONS HAVE BEEN UNSATISFACTORY, THE COUNCIL AGREED THAT THE PROCEDURES OF ARTICLE XXIII OF GATT BE INITIATED WITH JAPAN.

THE DETAILED ASPECTS OF THE REPRESENTATIONS TO BE MADE WILL BE FINALIZED IN CONSULTATION WITH THE ARTICLE 113 COMMITTEE AND THE PERMANENT REPRESENTATIVES COMMITTEE. THE OBJECTIVE WILL BE TO SECURE PROMPT ACTION BY JAPAN ON THE LINES OF THAT DESCRIBED IN PARAGRAPH 2.

8. THE COMMISSION WAS REQUESTED TO REPORT TO THE COUNCIL AS APPROPRIATE AND TO SUBMIT A COMPREHENSIVE REPORT FOR CONSIDERATION, AT THE EARLIEST OPPORTUNE MEETING OF THE COUNCIL.

ENDS



FCO ADVANCE TO:

FCO - PS, PS/LPS, PS/PUS, CROWE, KINCHEN (ECD(E), PIRNIE (ECD(I)

CAB - HANCOCK, GOODENOUGH

DDI - GILL, FARROW, GENT (ICA)

DDT - PS/SOS, PS/MR REES, FRANKLIN, GRAY, CAINES, SUNDERLAND  
DUNNING, FOSTER (OT2) MEADWAY (ITP) GARROD (INF)

TSY - SLATER, MS SINCLAIR

FCO PASS SAVING TO:

COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG ATHENS STRASBOURG OTTAWA

UKDEL OECD

BUTLER

REPEATED AS REQUESTED      ADVANCED AS REQUESTED

FRAME EXTERNAL

ECD (E)

FED



CONCLUSIONS OF ECOFIN COUNCIL, 15 MARCH 1982

EEC-JAPAN RELATIONS

Economic and financial problems

The Council considered that the joint Community position toward Japan should, apart from the commercial aspects, include aspects of macro-economic policy and the evolution of the yen.

To this end the Council conducted an initial exchange of views on a working document submitted by the Commission and setting forth certain guidelines.

Winding up this exchange of views, the Council agreed to discuss these matters further at a forthcoming meeting.



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)9 Revise

COPY NO.

27 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Briefs on Political Cooperation subjects are attached as follows:

- A. Afghanistan
- B. Transatlantic relations: machinery for consultation
- C. Middle East
- D. Central America
- E. Turkey
- F. Cyprus
- G. CSCE
- H. Vietnamese Refugees

**CONFIDENTIAL**



EHG(B)(82)9

AFGHANISTAN

POINTS TO MAKE

1. Afghanistan not forgotten, despite overriding interest in Poland. But there is a continuing information task. Afghanistan Day helped, and Pakistan again took the lead at UN Commission on Human Rights.
2. Must maintain international concern, particularly among Islamic and Third World countries. The refugees (now 2.6 million in Pakistan alone) may become increasingly a subject of concern.
3. West must also keep up political pressure in bilateral contacts with the Soviet Union, and should link Afghanistan with Poland in public statements. Ten should reaffirm that proposals of 30 June 1981 offer a reasonable and workable way forward, if Russians sincerely desire a political solution.
4. UN Secretary-General's appointment of Cordovez as representative on Afghanistan should also focus attention on situation. We should emphasise in public statements that UN mediation must be in accordance with the principles of the UNGA resolutions.

ESSENTIAL FACTS

Afghanistan Day

1. Prime Minister sent a message to the Afghanistan Support Committee, and received a delegation from the Committee, including four Afghans. HMG brought over four Afghans for publicity.

Refugees

2. British aid since January 1980 totals some £8.7 million including a recent donation of £750,000 of food aid. Scheme

]announced



**CONFIDENTIAL**

announced on 16 March provides 20 scholarships per year for Afghans to continue tertiary education in UK.

3. Since the UNGA resolution in November 1981 we have been discussing with the Pakistanis the idea that Pakistan should ask the UN Secretary-General and UN High Commissioner for Refugees to call a conference on refugees. This would be primarily humanitarian, but would have a political spin-off in attracting international attention. Although Pakistan showed some interest in the autumn, it now seems unlikely that they will wish to take an initiative of this sort at present.

Ten's Proposals

4. The Russians maintain that the Karmal regime must be involved in any conference from the outset, and that Soviet withdrawal cannot be the subject of negotiation. In the face of this intransigence, there would be no advantage in suggesting any modification to the proposals.

UN Secretary-General's Personal Representative

5. Diego Cordovez was appointed on 22 February. Not for Use: He appears to wish to distance his mediation from the UNGA resolutions, and to try to set up a meeting between the Karmal regime and Pakistan. This would give some legitimacy to the regime, but would not bring Soviet withdrawal any closer.

Situation in Afghanistan

6. Soviet troop levels have increased by some 5,000 to a total of 90-95,000 in December/January. The Russians appear to have adopted more aggressive tactics causing significant resistance casualties. The resistance nevertheless continue a high level of activity in nearly every province, and continue to mount successful attacks on Soviet convoys.

**CONFIDENTIAL**



EHG(B)(82)9

TRANSATLANTIC RELATIONS : MACHINERY FOR CONSULTATION

## POINTS TO MAKE

1. Share others' concern about transatlantic relations, but they are not as bad as they are sometimes painted.
2. Priority is to make existing machinery work. The ten Political Directors are examining this in the Ten. In the Alliance, June Summit must be a success.
3. [If Necessary] Of proposals currently put forward, most attracted by Genscher's idea of informal meetings of NATO Ministers. However, there are constraints on ministerial time, and perhaps one meeting a year might be more practical than two. The possibility of a second meeting might be kept in reserve for difficult periods.

## BACKGROUND

Reference: A : Presidency Draft Statement for Final Communiqué

4. There have been a number of difficulties in transatlantic relations in recent months, in foreign policy (Poland, USSR, Middle East, Central America), economic questions (interest rates, steel, agricultural prices), and in the field of security (INF, US concern at peace movements in Europe). These difficulties, however, arise more often from a difference of interests (eg over the gas pipeline) or points of view than because the machinery for consultation is inadequate.
5. It is also important to retain perspective: transatlantic relations have gone through even more difficult periods in the past (eg. 1973). There have also been many useful recent bilateral contacts - Genscher and Mitterrand have recently visited



**CONFIDENTIAL**

Washington, and President Reagan's speech on the zero option in November 1981, which was well received in Europe, is a recent example of transatlantic communication working well.

6. We would nevertheless not oppose measures to improve transatlantic communication, provided these did not add unduly to the burden on ministers' time or create new machinery. There have been two recent proposals for improvements in the machinery of consultation:

- a. Sr Colombo, in a speech at Georgetown University on 18 February, proposed a Euro-American Friendship Act, which would be a reaffirmation of the political will of Europe and the US to act together for peace, security and liberty; would cover the political aspects of East-West relations, action to help the Third World and coordination of economic policies; and would provide for periodic meetings between Foreign Ministers of the Ten and the US Secretary of State to coordinate their views, especially in times of crisis.
- b. Herr Genscher, during a visit to Washington at the beginning of March, proposed that NATO Foreign Ministers should meet twice a year informally, without advisers, to discuss current issues.

7. The Americans have expressed interest in the ideas, but have not commented on them in detail. Of the two, Genscher's idea of informal meetings of NATO Foreign Ministers is better, since it does not involve new machinery. We are not, however, convinced that further meetings are indispensable.

**CONFIDENTIAL**



**CONFIDENTIAL**

Statement on Relations with the United States

8. The draft Presidency conclusions will contain a short paragraph (first draft annexed) welcoming President Reagan's message of greetings to the Community on its 25th Anniversary and saying that the Ten are resolved to develop their links with the United States and to reinforce transatlantic consultations.

**CONFIDENTIAL**



**CONFIDENTIAL**

DRAFT STATEMENT CIRCULATED BY PRESIDENCY : 27 MARCH 1982

TRANSATLANTIC RELATIONS

1. On the day following the celebration of the 25th anniversary of the Treaty of Rome, the European Council examined the state of transatlantic relations.
2. It welcomed the statement by the President of the United States which indicated in particular on the occasion of this anniversary that Washington considered 'a strong and united Europe not as a rival but as a partner' and that 'the United States looks today towards Europe to cooperate in a spirit of full association in accordance with political and economic importance'.
3. In this context it stressed the wish of the Ten to reinforce their ties with the United States to develop further transatlantic consultations.

**CONFIDENTIAL**



EHG(B)(82)9

MIDDLE EAST

## POINTS TO MAKE

Arab/Israel

1. Europe must remain active on basis of Venice principles. We should urge Arabs including the PLO to work towards a positive strategy for peace if Americans are to be brought to more balanced policy. Also important to dispel Israeli distrust of European role (Lord Carrington's visit to Israel). President Mitterrand's views on future role for Europe?
2. Not the right time for further European Council Declaration except on the specific points of the West Bank and the Sinai MFO. Venice Declaration carefully worked out and balanced: mistake to try and rewrite it. This would invite comparison, causing confusion and trouble. A European Council statement might be useful later in the year but careful preparation necessary.

Unrest on the West Bank

3. Grave concern. Particularly worried by disproportionate violence used by Israelis against demonstrators. Agree need firm statement. [If Raised] Lord Carrington's visit still on. Important at this time to keep open communications with Israel, and make clear our views.

Iran/Iraq

4. West must sustain position of neutrality. No role for Ten to play at mediation. Could only alienate Iran further and confuse existing efforts at mediation.

Libya

5. Important that Ten should examine implications for Ten of US

/measures



**CONFIDENTIAL**

measures. Americans have asked us not to undermine their  
action and have focussed on 'dual use' items. Despite useful  
exclusions we could face problems in future.

**CONFIDENTIAL**



**CONFIDENTIAL**

Background

References:

- A : Draft Statement on the Middle East prepared by Political Directors, 26 March 1982
- B : UK Statement on the West Bank (25 March 1982)

Arab-Israel

1. Further progress in peace efforts must await completion of the Sinai withdrawal. The Ten continue to have an interest in helping to create the conditions for a transition to a wider negotiation after that. Although prospects do not look bright at present, the Ten need to remain active, particularly in promoting the mutual acceptance of rights by the Israelis and the Palestinians (which means in practice the PLO) that lies at the heart of Venice.
2. President Mitterrand in his address to the Knesset repeated his reservations about the Venice Declaration, but carefully marked out an individual role for France on Middle East questions. On the substance of the Palestinian issue he stuck close to the Venice principles, except:-
  - (i) he took a step forward from Venice by making a qualified reference to a Palestinian 'state'; and,
  - (ii) a step back by describing the PLO as 'speaking on behalf of the fighters' and calling for it to accept Israel's rights, without calling for its association with negotiations.

The French were pressed at the Political Directors' meeting on 15-16 March to say what their view of the Ten's role now was.

./They

**CONFIDENTIAL**



**CONFIDENTIAL**

They suggested that it should be limited to encouraging the parties especially the Palestinians and including the PLO, to talk to each other. President Mitterrand implicitly excluded a plan for a comprehensive settlement to be proposed by the Europeans.

3. Further European Council Declaration on the Middle East

Political Directors met on 26 March and agreed on a provisional basis a draft statement on the Middle East. The sections on the Sinai MFO and the West Bank are satisfactory but the other paragraphs, in particular paragraph 2, are unnecessary and are likely to do more harm than good. The second paragraph repeats phrases from the Venice Declaration which will not please the Israelis; nor will it please the Arabs since (unlike Venice) it fails to mention the PLO. The question of further European statements on the Middle East was discussed at a meeting held by the Secretary of State on 26 March. It was agreed that it would be better to avoid general statements which rewrite Venice for the time being and to work for a properly prepared statement, possibly at the June European Council. This could leave the main principles of the Venice Declaration untouched, but would develop the ideas in the last paragraph of the Venice Declaration which referred to the possibility of a European initiative.

West Bank

4. A total of seven Arabs and one Israeli soldier have been killed to date (27 March) in disturbances triggered off by the banning by the Israeli military authorities of the Mayor and Municipal Council of the town of El-Bireh. On 25 March the Israelis dismissed the Mayors of the West Bank towns of Nablus

/and

**CONFIDENTIAL**



**CONFIDENTIAL**

and Ramallah. All three Mayors were democratically elected in April 1976. A general strike in the five main West Bank towns has been extended indefinitely. There have been reports that at least one Palestinian was killed by Israeli settlers.

5. The FCO spokesman issued a statement on 25 March; (text attached). The Ten Foreign Ministers discussed the situation on 23 March, and M. Tindemans spoke to the press to express the Ministers' growing concern.

Libya

6. US Government announced on 10 March a ban on imports of Libyan crude oil into the United States and restrictions on exports of American products and technology to Libya. All US exports except some agricultural and medical goods will require a licence. Policy will be to deny licences for oil and gas technology and machinery (unless readily available from non-US sources) and 'dual use' items such as computers. Measures come at a bad time for Qadhafi who has financial problems with falling oil revenues.

7. We were given advance warning and told of exclusions which should help to avoid problems of extra territorial application of US law of the kind we have experienced over Aviation Traders Ltd. Americans have asked us not to undercut their policies.

8. Ten share our view that policy of cautious dialogue with Libya more likely to influence Qadhafi than US policy of isolation. All have trading links. Italy and France and Germany import Libyan oil. We have encouraged partners to discuss implications of US policies. Middle East Working Group producing a paper on Libya (some resistance from the French on need to keep in touch with Americans).

**CONFIDENTIAL**



**CONFIDENTIAL**

9. We believe Americans have considered Sixth Fleet exercise off Libya of the kind which led to the clash in the Gulf of Sirte in August 1981. Qadhafi has warned that US incursion would be strongly resisted. We also reject Libyan claim that all Gulf is territorial waters, but provocative manoeuvres unlikely to achieve much.

10. Qadhafi clearly attaches great importance to OAU Summit (28 July - 8 August). Row in Addis Ababa over SADR seating must cast doubts on viability of Summit.

Iran/Iraq

11. The War Iran mounted a major offensive on 22 March in the area west of Shush. The final result of what may be the biggest battle since hostilities began in September 1980 is still not known. Despite exaggerated claims by both belligerents, Iraq may have come out worst. It is too early to predict what overall effect the battle may have on the outcome of the War.

12. Mediation This latest offensive may only further stiffen Iranian resolve to continue the conflict. On their last rounds of visits to the area, the UN Secretary-General's Special Representative, Mr Olaf Palme, and the Islamic Conference Good Office Committee, led by Sekou Toure, found neither side in mood to compromise on conditions for ceasefire and negotiated settlement. However, in public the Iraqis appear prepared to fudge the issues. This may reflect their readiness to negotiate under conditions short of capitulation. During M. Cheysson's visit to Baghdad on 21 February, the Iraqis asked him why the Europeans were not making greater efforts to end the War.

/We

**CONFIDENTIAL**



**CONFIDENTIAL**

We do not know what M. Cheysson said in reply. French proposals at Working Group level that the Ten should issue a declaration appear to have been dropped.

**CONFIDENTIAL**



DRAFT STATEMENT ON MIDDLE EAST PREPARED BY POLITICAL COMMITTEE,  
26 MARCH 1982

(UK Translation)

MIDDLE EAST

1. The European Council examined the development of the situation in the Middle East.
2. It reaffirmed its wish to contribute to the establishment of a just and lasting peace in the region, based on the right to existence and 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, in particular its right to self-determination.
3. In this context it noted [with satisfaction] the participation of four Member countries of the European Community in the multi-national force and observers in the Sinai, with a view to the completion on 25 April of the withdrawal from Sinai by Israel.
4. Seriously concerned by the grave events which are taking place in the occupied territories of the West Bank and Gaza, which add to the measures taken by Israel with regard to the Golan Heights, the European Council urges that an end be brought to the dangerous chain of violence and repression. It condemns the dismissal by the Israeli authorities of the democratically elected Mayors as well as the impairment of the rights and liberties of the inhabitants of those territories. In effect such unilateral measures can only damage the prospects for peace.
5. Concerned at the deterioration of the situation in the region including the Lebanon, the European Council calls on

Greek  
reserve

/all



**CONFIDENTIAL**

all the interested parties to renounce violence and to work on the basis of the principles recognised by the international community for a solution which guarantees security for all the states in the region and justice for all the peoples.

**CONFIDENTIAL**



WEST BANK

Statement by FCO Spokesman on 25 March:

'We view developments on the West Bank with grave concern. We deplore the dismissal by the Israeli military authorities of the democratically elected Mayors of Nablus and Ramallah, as well as the earlier dismissal of the Mayor of El-Bireh. We appeal again for an end to the violence, which can only harm the prospects of a settlement.'



CENTRAL AMERICA

## POINTS TO MAKE

1. Central America is of prime importance to the Americans, much less so to Europe. We must minimise transatlantic splits.
2. President Reagan's Caribbean Basin Initiative is a welcome attempt to deal with the economic problems of the area. US and European efforts should be complementary.

El Salvador

3. Urgent need for a political solution. Elections on 28 March are a step in the right direction but will not solve the problem.
4. UK decision to send election observers essentially neutral. We need to know more about the situation. Report will be made public.
5. After the elections further steps towards a political solution will be needed. Must await final outcome. But would hope with broader base of support Duarte might take firmer grip on military extremists, encourage moderates on left to abandon support for guerrilla alliance. Aim must be end to bloodshed, encourage political consolidation.

Mexican Initiative

6. We would not rule out Mexican proposal for negotiations. It is imaginative. Deserves to be taken seriously. Those approached (US, Cuba and Nicaragua) have not rejected it.
7. We should encourage their participation but we should not overlook potential difficulties.

EC initiative (if raised)

8. This is not the moment to consider an EC initiative. This could complicate the issue and prejudice the success of the Mexican initiative. Besides EC influence limited. Best way ahead is to feed our views into the US who will remain the major actor.



**CONFIDENTIAL**

9. Foreign Ministers should be instructed to discuss the issue  
depth at a later date.

Nicaragua

10. Deplore continuing leftward trend and military build-up. Target strength of army (50,000) and integrated volunteer militia (200,000) out of all proportion to threat to Nicaragua. Declaration of state of emergency seems to be attempt to attract international attention and sympathy. May help Sandinistas to strengthen their hold.

EC aid to Central America (Defensive)

11. We should assure Central American democracies (Belize, Costa Rica, Honduras) of our support. But it would be counter-productive to arouse expectations of increased EC assistance when we are not intending to make more money available.

**CONFIDENTIAL**



**CONFIDENTIAL**

BACKGROUND

References:

- A : Draft European Council Statement
- B : European Aid to Central America

Caribbean Basin Initiative

1. President Reagan's plan for the economic development of the region encourages trade and private investment and offers improved access to the US market for Central American and Caribbean exports. This approach is being coordinated with Venezuela, Mexico and Canada. The plan has been generally welcomed in the area (but not by Cuba, Nicaragua and Grenada who will be excluded).

El Salvador

2. Military situation is unclear. The guerrillas have made impressive gains and are again increasing pressure. But we doubt whether they could sustain a more widespread offensive, especially against a better-trained and equipped Salvadorean army. US military assistance will be \$81 million this year.

Salvadorean Elections

3. Professor Derek Bowett and Sir John Galsworthy are in El Salvador to observe the elections on 28 March. Only three parties are expected to achieve any measure of support:-

- (i) Christian Democrats - PDC (moderate centre, the party of President Duarte);
- (ii) National Conciliation Party - PCN (right); and,
- (iii) National Republican Alliance - ARENA (extreme right).

/The

**CONFIDENTIAL**



**CONFIDENTIAL**

The PDC favours continued economic and social reform, firmer control of the armed forces and (although not admitted publicly), post-electoral talks with elements of the left-wing opposition FDR (mostly in exile). ARENA wants a ruthless anti-guerrilla campaign (preceded by an amnesty) and an end to the Duarte reforms. PCN accepts the reforms so far implemented but wants no more.

4. The size of the electorate is unknown but is estimated at one and a quarter million: likely participation is 30 - 50%. Less than 400,000 will be seen as a victory for the FDR. The 70 seat Constituent Assembly will appoint a new President and Cabinet.

Mexican Initiative

5. Mexican President López Portillo has consistently supported a solution through negotiations before elections. A commitment to this was contained in the Franco/Mexican Declaration on El Salvador last August. The latest Mexican proposals are based on reaching agreement between the Salvadorean Government and the Opposition on the terms for setting up a Constituent Assembly to establish conditions for elections. They also include:-

- (a) a dialogue between Cuba and the US;
- (b) a statement by the US ruling out the use of force against Nicaragua;
- (c) reduction or disbandment of groups of Nicaraguan exiles undergoing military training (in Honduras and the US) in exchange for a reduction of the Nicaraguan military build-up.



**CONFIDENTIAL**

6. Mexican Foreign Minister Castaneda met Secretary Haig on 6 and 14 March. There was some discussion of the Mexican proposals and the Americans are now taking a more favourable view of them in public. But the US still insists that its concerns must be met on Nicaraguan involvement in support of the guerrillas. The Mexican approach is set in the context of a conciliatory attitude towards US/Cuba and US/Nicaragua relations but the Americans say that neither Cuba nor Nicaragua is ready to respond to a conciliatory approach. Mexico is angling for EC support, but if her proposals are to succeed they must first receive US backing.

7. The US say they stand by the proposals put to the Nicaraguans by Assistant Secretary of State, Enders, in Managua in August 1981 that:-

(a) The United States should curb the activities in the United States of Nicaraguan exiles opposing the Sandinista Government, and renew economic assistance, providing,

(b) Nicaragua would agree not to import heavy offensive weapons, reduce the number of foreign military and security advisers on its territory and agree to stop supporting the guerrillas in El Salvador.

8. While Secretary Haig has acknowledged Mexico's initiative, he has emphasised that the US must deal bilaterally with the Cubans and Nicaraguans.

9. Sr Castaneda went to Havana and Managua returning on 22 March. He said later the Nicaraguans were well disposed to negotiations. A communiqué issued in Havana stated President Castro regarded the Mexican initiative as 'on the right road'.



10. There is speculation that a meeting may take place between the US and Nicaragua (possibly in Mexico) soon after the elections in El Salvador (28 March) though the US Government have yet to confirm this. The Mexicans believe the US may also be making direct contact with the Cubans. By maintaining a dialogue with the Mexicans, the US Government have shown that they wish to keep the option of a negotiated settlement in El Salvador. They have also implicitly accepted the Mexican premise that a regional approach, which includes Cuba and Nicaragua, may be the right path.

Nicaragua

11. Nicaraguan leaders have expressed commitment to Marxism-Leninism. The nine-man Sandinista Directorate effectively runs the country. They are turning Nicaragua into a one-party State. Opposition is barely tolerated; the opposition newspaper is regularly banned for days at a time; leaders of the main private sector organisation were arrested in October but have recently been released. A state of emergency has been declared on the grounds that the country is under threat from ex-Somoza supporters training in Honduras and the US. It gives the Directorate wide powers.

12. The threat of US invasion has already been used by Nicaragua to justify deliveries of Soviet tanks; the training of Nicaraguan pilots in Eastern Europe on MiG fighter aircraft and moves to increase the armed forces and militia. We believe that they exaggerate this threat. The US have denied reports of a US\$19 million CIA fund to destabilise Nicaragua. The US portrays Nicaragua as a haven for spreading subversion in Central America, but the evidence produced publicly has not been convincing.



**CONFIDENTIAL**

13. At Nicaraguan request the UN Security Council met on 25 March. The Nicaraguan Representative accused the US of intervening in Nicaraguan affairs. The US Representative rejected Nicaraguan charges and accused Nicaragua itself of totalitarianism and interference in the affairs of its neighbours. The Council will resume discussion on 29 March. No resolution has yet been tabled.

14. The French have decided to sell \$11 million worth of 'defensive' weapons to Nicaragua. They have justified this on the grounds of attempting to reduce Nicaragua's dependence on the Soviet Union for arms supplies.

EC/Central America

15. In September 1981 the French launched a proposal that the EC should take some 'initiative' intensifying relations with Central America. Discussion has proceeded disjointedly. A Commission paper has been prepared advising modest proposals on technical aspects and a general recommendation to increase financial contributions. We could not support a substantial increase and would not want to build up false hopes.

16. The Political Directors met in Brussels on 26 March. France and Germany proposed separate, but similar texts of a resolution to be adopted by the European Council on Central America. A confused discussion followed in which the texts were amalgamated to form the version annexed. The first three paragraphs were generally accepted but agreement could not be reached on the last four (contained in square brackets).

17. In as much as the statement does not commit the EC to any political initiative in Central America we can accept it. It may serve the purpose of enabling countries such as France,



**CONFIDENTIAL**

the Netherlands, Ireland and Denmark to let off steam. But we must emphatically maintain the position we adopted at the Political Directors meeting that we cannot agree to an increase in EC aid or for its distribution on a non-discriminatory basis. We and others think it more practical to proceed on a country-by-country approach.

**CONFIDENTIAL**



DRAFT EUROPEAN COUNCIL STATEMENT

CENTRAL AMERICA

1. The European Council examined the situation in Central America. The continuing increase in tension in that region is a cause of serious concern. It welcomes with interest all initiatives designed to put an end to the violence and to lead through dialogue and respect for democratic rules and human rights, to the restoration of peace in the region, while safeguarding national sovereignty and the wishes of peoples there.
2. Noting that the tension and conflicts which are endemic in the region, are often rooted in the serious economic problems and social inequalities which the world situation makes worse, to the detriment of the poorest, the European Council considers that the international community cannot remain indifferent to these wrongs.
3. It welcomes the efforts currently deployed in that direction and in particular the initiative of countries of the Nassau group ie the United States, Canada, Mexico, Venezuela and Colombia.
4. The Community and its member states also have in the past given substantial assistance to the region.
5. The European Council agrees however that the aid given by member states of the EC for the development in Central America and the Caribbean should be co-ordinated and [increased/continued].
6. At the same time, the European Council is in favour of [increasing/maintaining] Community Aid to the region.
7. The European Council instructs the Foreign Ministers to define the modalities according to which this aid should be distributed.



**CONFIDENTIAL**

EUROPEAN AID TO CENTRAL AMERICA

I. COMMUNITY AID, CALENDAR YEAR 1981

In ecu

	Food Aid	Project Aid*	Emergency Aid	Emergency Food Aid
HONDURAS	4.1m	2.8 million (8m in 1980)	1.05 million for El Salvadorean refugees in both countries	0
EL SALVADOR	2.1m	0		0.4 million
GUATEMALA	0	0	0	0
PANAMA	0	0	0	0
COSTA RICA	0	0	0	0
NICARAGUA	8.1m	7.85 million (3m in 1980)	0	0
TOTALS	14.3m	9.8m (11m in 1980)	1.05m	0.4m
GRAND TOTAL	26.40 mecu	(UK share is 20%)		

ecu = £0.56

\* Project Aid varies substantially from year to year, because each year one country is selected for special emphasis (Nicaragua in 1981, Honduras in 1980).

II. UK AID (financial year 1981-82)

Honduras	£212,000
El Salvador	£ 23,000
Guatemala	£ 12,000 (+ £716,000 for Mexico)
Panama	£ 67,000
Costa Rica	£380,000
Nicaragua	£ 25,000
Regional Projects	£234,000
TOTAL	£953,000 (£1,669,000 including Mexico)

III. OTHER MEMBER STATES

(figures only available for 1980, not broken down between recipients).

France	US \$2.1 million
FRG	US \$36.1 million
Netherlands	US \$25.9 million

**CONFIDENTIAL**



**CONFIDENTIAL**TURKEY

## OBJECTIVE

1. Try to persuade Ten to take realistic view of situation in Turkey and be guided by Tindemans' report in handling Turkish affairs in Ten, Community and Council of Europe.
2. To support a balanced statement which contains some encouragement to Turks eg that Ten will do everything in their power to encourage and support efforts of Turkish authorities to return country to democracy, and eliminate abuses of human rights in accordance with General Evren's stated objectives (Presidency proposing a text).

## POINTS TO MAKE

3. Mr Tindemans' visit to Turkey on behalf of Ten a valuable exercise to reiterate our concerns and seek reassurances.
4. Welcome thoroughness both of his talks and of his report. Community's policies towards Turkey should now be based on its findings.
5. Certain recent developments in Turkey unfortunate, but even more convinced now by Mr Tindemans' report that Generals moving overall in right direction. Unrealistic to rush them. Important Turks establish viable democracy which will ensure future stability.
6. Pillorying Turks counter-productive. Of course concerned about human rights. But eg taking Turkey to European Human Rights Commission will probably force her to leave Council of Europe. She needs to be guided back into democratic fold, not isolated from it.

## BACKGROUND

Reference A: Summary of Tindeman' report on his visit to Ankara.

1. Faced with rising political violence and prolonged parliamentary deadlock, Generals took power in bloodless coup in September 1980. Pledged to eradicate political violence and restore democracy.

/Killings



**CONFIDENTIAL**

Killings since reduced from over 20 to less than 1 a day.

Consultative Assembly appointed October 1981 to draft new constitution with new parties and electoral laws. Referendum on constitution scheduled by end November 1982 and Parliamentary elections in Autumn 1983 or Spring 1984.

2. But adverse recent measures include: abolition of political parties last Autumn; imprisonment of former Prime Minister Ecevit (for two months) for defying ban on political statements; mass trials, particularly of leaders of DISK (Confederation of Revolutionary Trades Unions); and, most recently, arrest of some 40 members of Peace Association and reported investigation of 132 former Republican People's Party deputies, including Ecevit.

3. Also torture and mistreatment of prisoners among the some 30,000 arrested since coup in connection with terrorism. Turkish authorities point out that, unlike previous governments in Turkey, they have investigated allegations, punishing culprits; but recently admitted that 15 people had died in custody after torture. Following strongly worded resolution in Council of Europe Parliamentary Assembly in January, Danes, Dutch, other Scandinavians and French considering taking Turkey to European Commission on Human Rights.

4. Concern amongst Ten has resulted in delays in EC aid. Danes, Dutch, Greeks, Irish and French all critical, but FRG also under strong domestic pressure. Compromise decision at Ministerial PoCo meeting on 23 February that Mr Tindemans should visit Ankara to express Ten's concern over alleged human rights violations and lack of progress towards democracy. Mr Tindemans in Ankara 18-19 March: favourably impressed by firm will of Turkish authorities to return country to democracy as soon as possible and with positive moves being made in this direction. Gave oral report to Foreign Ministers on 23 March. But clear from this meeting and Political Committee of 26 March some of our partners not prepared to accept

**CONFIDENTIAL**

/M. Tindemans'



**CONFIDENTIAL**

Mr Tindemans' findings in light of their own prejudices.

Mr Tindemans has circulated written report (Summary translation at Appendix A).

5. Presidency have noted that since Mr Tindemans' visit President of Constitutional Committee (of Consultative Assembly) has announced rapid progress having been made on draft constitution and that it should be possible to hold referendum this year. Presidency interpret this as an important gesture towards European opinion following Mr Tindemans' visit.

**CONFIDENTIAL**



**CONFIDENTIAL**

PRESIDENCY REPORT ON MR TINDEMANS' VISIT TO TURKEY ON BEHALF OF THE TEN (18 - 19 MARCH 1982)

SUMMARY

CONTACTS WITH THE TURKISH GOVERNMENT

Return to Democracy

1. The Turkish Government confirmed 'without any reserve and forcefully, the will of the Turkish authorities to return as soon as possible to a pluralist democratic system.'

Intervention of Generals

2. The Turkish authorities said that the Generals had reluctantly intervened to save the country from anarchy at a time when democracy had ceased to exist. The population was being terrorised by political violence, claiming an average of 22 lives a day, and Parliament was powerless, having been unable to pass any legislation for 18 months.

Proposed Constitution

3. According to the Turkish authorities the proposed constitution would allow a return to a perfectly normal Western-style parliamentary democracy, with the Head of State having only certain essential powers.

Timetable for Return to Democracy

4. A referendum would take place in April 1983 at the latest and possibly in October/November 1982. Elections by direct universal suffrage would take place in April 1984 at the latest, but probably in October/November 1983. General Evren was urging speed but constitutional advisers were insisting on the later dates.

/Trade Union Rights

**CONFIDENTIAL**



**CONFIDENTIAL**

Trade Union Rights

5. Regarding the trials of Turkish trade union leaders, the Turkish authorities said that the accused had been charged with offences under the law as it stood before the military takeover in September 1980. Trade union activity was continuing although there were restrictions (eg. no right to strike or collective bargaining), some of which had been imposed before the Generals came to power. New legislation, giving unions the same rights as in Western Europe, would soon be introduced.

Judiciary

6. The Turkish authorities said that there had been no changes since the coup to existing laws or judicial institutions. It was usual in Turkey for trials to be long and for the public prosecutor to demand stiff penalties.

Torture

7. The Turkish authorities did not seek to deny that torture had occurred. 'They declared forcefully that the Turkish Government abhorred and condemned torture.' For the first time a Turkish Government was making great efforts to seek out and punish those responsible.

Relaxation of Martial Law

8. The Turkish authorities said that the gradual lifting of martial law was already under way and would be speeded up. Measures so far included establishment of Consultative Assembly; reduction of maximum period of detention without charge from 90 to 45 days; permission for former politicians (excluding leaders) to comment on new constitution; right of appeal for sentences in excess of 6 months instead of 3 years.

/Likely

**CONFIDENTIAL**



**CONFIDENTIAL**

Likely Turkish Reaction if taken to the Human Rights Commission of the Council of Europe.

9. Mr Tindemans was told 'Turkey would be very upset' and that this move would be counter-productive particularly as regards Turkish public opinion.

NON-GOVERNMENTAL CONTACTS

10. Members of the Turkish Bar Association said that military intervention had been indispensable and were convinced that the military regime wanted to return to democracy.

11. Representatives of the trade unions while regretting the proceedings against the DISK Union leaders argued that the military intervention had been necessary. They confirmed that trade union activities were continuing.

12. The Chairman of the Ankara Bar Association was more critical of the military regime and said the human rights situation was extremely bad.

13. Former Prime Ministers Ecevit and Demirel both told the Belgian Ambassador that they believed the Generals would restore democracy.

CONCLUSION

14. 'One is left with the impression that it is the firm will of the Turkish Authorities to return to democracy as soon as possible.'

15. Mr Tindemans urged the Turkish Government to set more specific dates as soon as possible for the return to democracy and to improve the situation in the human rights field.

**CONFIDENTIAL**



CYPRUS

## OBJECTIVE

1. To discourage Papandreou from pressing for international action, by the 10 or otherwise, which would undermine the current intercommunal talks.

## POINTS TO MAKE

2. Share desire for progress but believe a solution will only be achieved by direct dialogue between Greek and Turkish Cypriots.

Still scope in present intercommunal talks.

3. Aware of responsibilities. We and other members of Ten should support UN efforts, not indulge in separate initiatives which might undermine them. Hope you will encourage Greek Cypriots to continue to negotiate seriously in the talks.

4. [DEFENSIVE] Of course we hope Turkish troops will withdraw. But not practical politics in advance of real progress in intercommunal talks.

## BACKGROUND

1. UN tabled compromise ideas in intercommunal talks last November. Turks welcomed this (present Government in Ankara more flexible than predecessors or likely successors, but under no real pressure from Greek Cypriots in talks). Greek Cypriots equivocal. Temperature raised by Papandreou, who visited Cyprus in February, and is now trying to push West into twisting Turkish arms. Canvassing idea that Willi Brandt might use 'good offices' (UN Secretary General already charged with this function): has endorsed Russian propaganda idea of international conference. Has also written to EC Heads of Government urging Ten to press Turkey to withdraw troops (draft reply being submitted separately). With Greeks members, Turks would reject action by Ten as biased. [NOT FOR DISCLOSURE: **CONFIDENTIAL** There has been discreet coordination or support for UN with /French



**CONFIDENTIAL**

French, Germans and Italians,' (who, alone of EC - apart from Greeks - have missions in Nicosia). Our views are close.]

2. Kyprianou now threatening internationalisation within weeks if no breakthrough in talks. This would probably cause collapse of talks; but Greek Cypriots anxious to avoid blame for breakdown and may be restrained from going to the brink.

3. Papandreou's letter did not mention particular action by us as guarantor power. He has told us that this is not in his mind at present. He could nonetheless mention it.

Our line is that we are already active, as the major contributor to UN Peacekeeping Force, and diplomatically in support of UN.

**CONFIDENTIAL**



EHG(B)(82)9 ADDENDUM

26 March 1982

COPY NO

71

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Addendum to Annex F : CYPRUS

BACKGROUND ANNEX A : Text of Prime Minister's letter.

1. Prime Minister's reply to Papandreou's letter now sent to Athens, though Papandreou unlikely to have received it yet. Reply takes line identical to that in 'Points to Make' but, since Greeks may publish it, Turkish military withdrawal point is treated cautiously (eg. noting Papandreou's offer to withdraw (insignificant) Greek contingent and agreeing that, on question of foreign troops, just settlement must be on basis of relevant UN resolutions).

2. Among our partners, we have consulted French, Germans and Italians, who are taking similar line. They are being given copy of Prime Minister's letter and we hope to see theirs in due course.

Foreign and Commonwealth Office

26 March 1982



**CONFIDENTIAL**

29895 - 2

GRS 375

CONFIDENTIAL

FM FCO 251830Z MAR 82

TO IMMEDIATE ATHENS

TELEGRAM NUMBER 77 OF 25 MARCH

AND TO PRIORITY NICOSIA, ANKARA, PARIS, ROME, BONN, UKMIS  
NEW YORK, WASHINGTON

INFO SAVING TO COPENHAGEN, BRUSSELS, UKREP BRUSSELS, DUBLIN,  
THE HAGUE.

MIPT: FOLLOWING IS TEXT OF PRIME MINISTER'S LETTER

THANK YOU FOR YOUR LETTER OF 4 MARCH ABOUT CYPRUS.

I ENTIRELY AGREE ON THE URGENT NEED FOR A JUST AND LASTING SOLUTION TO THE CYPRUS PROBLEM AND SHARE YOUR CONCERN ABOUT THE RISKS INHERENT IN THE PRESENT SITUATION. WE HAVE CONSISTENTLY TRIED TO DO WHAT WE CAN TO HELP, BOTH THROUGH OUR CONTRIBUTION TO THE UNITED NATIONS PEACEKEEPING FORCE AND THROUGH DIPLOMATIC EFFORTS. WE PLAYED OUR PART IN ENCOURAGING THE RESUMPTION OF INTERCOMMUNAL TALKS UNDER UNITED NATIONS AUSPICES IN NICOSIA AND HAVE CONTINUED TO GIVE FULL SUPPORT TO THE UNITED NATIONS' EFFORTS.

IN MY VIEW THE INTERCOMMUNAL TALKS HAVE IN RECENT MONTHS SHOWN BETTER PROSPECTS THAN BEFORE. I UNDERSTAND THAT A NUMBER OF IMPORTANT AREAS REMAIN FOR DISCUSSION WITHIN THE TERMS OF THE EVALUATION MADE BY THE UN SECRETARY GENERAL. IT SEEMS TO ME THAT PREDICTIONS OF DEADLOCK COULD IN THE END PROVE SELF-FULFILLING. I BELIEVE THAT ALL CONCERNED SHOULD DO THEIR UTMOST TO HELP MAINTAIN MOMENTUM IN THE TALKS. I HOPE THAT YOU WILL FEEL ABLE TO USE YOUR INFLUENCE TO THIS END.

I HAVE TAKEN CAREFUL NOTE OF YOUR OFFER TO WITHDRAW THE GREEK MILITARY CONTINGENT. SO FAR AS THE QUESTION OF FOREIGN TROOPS IN THE REPUBLIC IS CONCERNED, THE BRITISH GOVERNMENT HAVE ALWAYS TAKEN THE VIEW THAT A JUST SETTLEMENT MUST BE ON THE BASIS OF THE RELEVANT UNITED NATIONS RESOLUTIONS. BUT IT

1

**CONFIDENTIAL**



29895 - 2

IS IMPORTANT TO BE REALISTIC ABOUT WHAT CAN BE ACHIEVED IN THIS RESPECT IN ADVANCE OF MORE GENERAL PROGRESS TOWARDS AN INTERCOMMUNAL SETTLEMENT.

IT SEEMS TO ME IMPERATIVE TO AVOID ACTION WHICH MIGHT CUT ACROSS OR UNDERMINE THE INTERCOMMUNAL TALKS AND THE INITIATIVE WHICH HAS BEEN TAKEN BY THE UNITED NATIONS SECRETARY GENERAL. A SETTLEMENT WILL ONLY BE ACHIEVED BY AGREEMENT BETWEEN CYPRIOTS. IN MY VIEW THE COUNTRIES OF THE TEN MUST CONCENTRATE ON SUSTAINING THE INTERCOMMUNAL DIALOGUE, WHICH CONSTITUTES THE ONLY EFFECTIVE AVENUE TOWARDS A SOLUTION. I CAN ASSURE YOU THAT THE BRITISH GOVERNMENT WILL PLAY THEIR FULL PART IN THIS.

CARRINGTON

STANDARD  
SED  
UND  
ECD  
CLAIMS D  
CABINET OFFICE

ADDITIONAL DISTN  
CYPRUS

COPIES SENT TO  
No. 11 DOWNING STREET



CSCE

OBJECTIVE

1. Secure agreement to Presidency draft on press guidelines concerning Ten's attitude to adjournment.

POINTS TO MAKE

Success in Recent Session

2. Believe have been successful at Madrid both in focussing latest session on Poland and in moving meeting towards long adjournment, which is best way of preserving CSCE process and maintaining neutral and non-aligned (NNA) document as basis of negotiation.

Press Guidelines

3. Important to explain publicly Ten's position on adjournment. Support Presidency draft incorporating views expressed in Political Committee.

[If necessary]

4. Press guidelines should not link prospects for resumption too closely to events in Poland.

BACKGROUND

Course of Recent Session

1. Devoted almost entirely to Soviet and Polish violations of the Final Act. Many neutral as well as Western delegations took a robust line. East attempted unsuccessfully to resume negotiations. West held together remarkably well and forced meeting to accept that business could not be conducted as usual. West also succeeded in moving meeting towards adjournment.



**CONFIDENTIAL**

Some partners, FRG, Denmark and Greece, showed some readiness to negotiate on substance during recent session and FRG accepted need for adjournment somewhat reluctantly. But these differences were contained within Western camp.

Press Guidelines

3. Discussion at the Political Committee (26 March)

... resulted in the Presidency draft attached. We fully support it.

4. In our own unattributable briefing of the press we have stressed our continuing commitment to the Final Act; indicated that much would depend upon events, not least but not exclusively in Poland; and emphasised we were setting no preconditions concerning work in November but that clearly our attitude would need to be decided in the light of the situation prevailing at that time.

**CONFIDENTIAL**



**CONFIDENTIAL**

DRAFT STATEMENT AGREED BY POLITICAL COMMITTEE 26 MARCH

1. The Ten regret that violations of the principles of the Helsinki Final Act, of which the repression in Poland constitutes the most serious aspect, prevented a positive outcome in Madrid and put at risk the CSCE process as a whole.
2. In this context, the Ten note that the adjournment of the Madrid meeting, which as come about at the initiative of the neutral and non-aligned countries, was necessary to preserve the CSCE process.
3. The Ten remain deeply attached to the progress which can be made in the field of the CSCE.
4. The Ten expressed the hope that at the reopening of the Madrid meeting in November the circumstances prevailing will be more propitious for a positive outcome of that meeting by the adoption of a substantial and balanced concluding document.

**CONFIDENTIAL**



ANNEX H: VIETNAMESE REFUGEES

POINT TO MAKE

1. British resources already fully committed to Hong Kong, to rescues by British shipping, and to family reunions.

BACKGROUND

Ref: European Parliament Resolution on Cap Anamur

CAP ANAMUR

2. The 'Cap Anamur' is a hospital/rescue ship operated since late 1979 by FRG charities and supported by (but not dependent on) Commission funds. Until October 1981 all the over 9,000 refugees rescued were settled in West Germany, but at that point the authorities in the Lander, who are responsible for immigration, refused to accept more. Since then the Federal Government has sought the agreement of the other EC member states to share the load.

[NOT FOR USE] Herr Genscher did not raise the question bilaterally at the Anglo-German Summit.

EC SETTLEMENT OF BOAT PEOPLE

3. Since 1975 the UK has received some 15,000 boat people, including 10,000 from Hong Kong in the quota announced in July 1979 and now exhausted. Comparable figures for other EC countries are:

France	11,000	(out of a total of nearly 80,000 S E Asian refugees)
FRG	15,500	
Netherlands	5,000	
Belgium	1,300	
Denmark	2,100	
Italy	2,100	
Ireland	230	
Luxembourg	90	
Greece	120	



FUTURE PROGRAMMES

4. Among EC members, only France has a significant continuing S E Asian refugee programme (1,000 a month) but this does not include many boat people. In addition, Netherlands and UK in particular continue to accept significant numbers of refugees rescued by their merchant ships (nearly 3,000 by UK since 1975). The UK has accepted over 2,000 family reunion applications from relatives still in Vietnam of refugees now living in the United Kingdom.

HONG KONG

5. There are currently 10,000 boat people in Hong Kong, and resettlement offers, primarily from USA and Australia are drying up rapidly. There will almost certainly be a sharp rise in the number of refugees in Hong Kong during the summer.

[NOT FOR USE] This may lead to renewed pressure on HMG for a further quota late this year.



**CONFIDENTIAL**

The European Parliament,

- noting that the European Community has hitherto provided financial support for the rescue ship 'Cap Anamur',
- aware that the main problem is finding a home for the refugees in the countries of the European Community:
  1. Calls on the participants in EPC not only to discuss this problem but to come to a decision at its meeting of 22 March 1982;
  2. Hopes that this decision will be translated into action by the governments of the peoples of Europe and the EEC Commission, so that this special private humanitarian institution can continue to carry out its work helping to save refugees in the China Sea.

PE 77.396 /rev.

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)10

COPY NO.

**1**

22 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

COMMON FISHERIES POLICY (CFP)

Brief by Ministry of Agriculture, Fisheries and Food

POINTS TO MAKE

1. [If raised by others] We are seeking an early satisfactory settlement comprising all outstanding issues.

BACKGROUND

2. The next Fisheries Council is tentatively planned for 20 April. No new proposals on the main outstanding CFP issues (quotas and access) are expected from the Commission until after the European Council meeting; it is therefore unlikely that others will raise the CFP.

3. The government's position remains that we are seeking an early satisfactory settlement comprising all outstanding issues including access and catch quotas. Ministers have already stated in Parliament that a failure to agree a CFP by the end of this year would not be allowed to result in 'fishing up to the beaches'.

4. If, unexpectedly, other delegations raise the CFP we could agree to subscribe to a general statement of determination to reach agreement, but any more detailed specific proposals would need to be considered in the appropriate framework.

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B) (82)11

COPY NO. **1**

17 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

ENLARGEMENT

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (If appropriate)

1. Some movement though not yet substantial progress in both sets of negotiations. Welcome adoption of Portuguese (and if appropriate Spanish) mini-package.
2. (If raised) Too early to think of any question of delinking. Both negotiations should proceed separately but in parallel with aim of accession by 1 January 1984.

BACKGROUND

3. Belgian Presidency decided to adopt a modus operandi of grouping together a number of minor chapters as 'mini-packages' both for Spain and Portugal to promote at least an impression of progress. Mini-package for Portugal was agreed at EC/Portuguese Ministerial meeting on 22 February (except inclusion of the Escudo in the ECU on which no agreement was possible). Mini-package for Spaniards being taken at EC/Spanish Ministerial meeting in margins of 22/23 March Foreign Affairs Council. Really difficult chapters still to come however: customs union, agriculture, and fish (especially in case of Spain). Last two

/and

**CONFIDENTIAL**



**CONFIDENTIAL**

and question of contributions to budget cannot be settled until Community sorts out own affairs. On customs union recent Spanish agreement to implement VAT in full by accession welcome, but not a concession for which EC needs to pay a negotiating price in terms of a ten-year period for industrial tariff transition as Spain has suggested.

4. French are seeking to press ahead as fast as possible with Portuguese negotiations and have shown signs of wanting to delink them from Spanish negotiations because of extra difficulties over Spanish accession (especially in agricultural field). French may see these as meaning Spanish exclusion from the Community for a long time yet.

Foreign and Commonwealth Office

17 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)12 Revise 2

COPY NO

**1**

25 MARCH 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH

ENERGY

Joint Brief by FCO/Department of Energy

OBJECTIVES

1. To exchange views on recent developments in the oil market.
2. To draw attention to the recent reductions in North Sea oil prices, and the beneficial effects of lower oil prices on output and inflation in the Community.
3. To refer in low key to progress in EC discussions of energy matters.

POINTS TO MAKE

World Oil market

4. A combination of weak demand, the desire of producers to increase output to secure much-needed revenues, and the desire of oil companies to run down stocks is putting downward pressure on prices. It remains to be seen how significant will be the effect of OPEC's recent decision to reduce production, but some further weakening of prices seems likely in the short term, albeit more probably in the form of discounts than revision in official prices.
5. Lower oil prices should help to move world economy out of recession, reducing unemployment and inflationary expectations.

North Sea oil prices

6. Although a producer as well as a consumer, we see an overall net advantage in lower world oil prices. However North Sea oil

/price



price is determined by market forces. Hence recent reductions. Lower North Sea oil prices are obviously welcome to industry in Community: more than half of total UKCS oil exports go to our Community partners.

Community energy matters

7. The 16 March Energy Council had preliminary discussions about the role of coal, nuclear energy, and investment in rational energy use, and reached general conclusions on security of natural gas supplies. UK looks forward to taking these issues further at the next Energy Council and will continue to play a constructive part in development of realistic Community policies on energy.

8. Important that momentum is maintained in ensuring that Member States' policies on energy pricing are consistent with pricing principles already agreed by Community.

9. (If raised) To be effective, any measures to deal with oil supply shortfall must involve all major Western consumers. Further consideration of such measures (including size and use of obligatory stocks) has to proceed in step with wider international discussion in framework of IEA.

Energy pricing [defensive]

10. Measures announced in recent Budget are consistent with principles of economic energy pricing. Adjustments in price structures are intended to ensure more efficient use of energy, particularly by industry. No question of UK industry being given unfair advantage. Indeed, large UK consumers of electricity still pay more than most Community counterparts.



BACKGROUND

Reference A: Conclusions of 16 March Energy Council

World Oil Market

11. World oil demand in 1982 is likely to remain about one million barrels per day (MBD) below 1981 levels. Department of Energy believes the market is likely to continue weak for a few months at least.
12. Oil stocks, despite being drawn down at some 4 mbd, are still higher than companies would like, and companies are therefore not committing themselves to new contracts, in the expectation that future prices will be lower.
13. Lower demand due to a combination of world recession and structural change in energy consumption (conservation, more efficient energy use). The likely depth and duration of the US recession now an increasingly important factor.
14. OPEC producers have been slow to come to terms with the situation. The marker price for Arabian light crude has remained at \$34 per barrel since last autumn. Iran, needing foreign exchange, has broken ranks and reduced its asking price by \$4. Other OPEC oil is being traded below official prices. At their meeting on 19 March OPEC countries decided to limit non-Saudi production to 10.5 mbd. At the same time Saudi Arabia announced a cut in its production from 7.5 to 7.0 mbd. This is not likely to be sufficient to firm up the market, but Saudi Arabia's threat to make further reductions, if implemented, could do so. OPEC now accounts for well under half total free world oil production.
15. Continuing decline in oil prices would affect the financial position of OPEC countries. Some (eg Gulf States) may have to draw on reserves and cut back development plans and aid programmes. Others (Nigeria and Venezuela) may increase their borrowing.

/16. Soviet



**CONFIDENTIAL**

16. Soviet Union may be obliged to export more oil to the West to make up for loss of hard currency earnings resulting from a lower oil (and gold) price. Effect on oil price may be to some extent offset by Eastern European countries being forced to supplement USSR oil with supplies from elsewhere. The net effect of this likely to be some reduction of total Soviet bloc non-oil imports from the West.

17. Benefit to LDC countries will vary. Their balance of payments and credit worthiness likely to improve. But the impact of earlier oil price rises will be long lasting for many of them, even if prices continue to fall now. Unlikely therefore to be a dramatic change in their situation.

North Sea Prices

18. Spot market prices continue to move downwards. On 8 March BNOB reduced prices by \$4 per barrel bringing the price for Forties crude down to \$31 per barrel.

Energy Council

A 19. Conclusions of 16 March Energy Council are attached.

UK Energy Policy and the Community (for use if raised)

20. For July - December 1981, the UK exported to other EC countries about 595,000 barrels per day of crude oil. This represented 52% of our total oil exports, and 32.5% of total UKCS production. Furthermore, non-UK EC companies hold interests in 21 of 43 production licenses covering areas of the UKCS where petroleum is being produced or where fields are under development.

UK Energy Prices: Budget announcements

21. Changes in UK energy prices were announced in the Budget on 9 March:

- (a) Electricity supply industry will enable industrial consumers ready to enter 3-year commitment on load management (ie to reduce demand on request) to pay reduced charges.

/The

**CONFIDENTIAL**



**CONFIDENTIAL**

The commitment enables savings to be made by reduction in the plant required to cover peaks;

- (b) Gas Until the end of 1982 BGC will hold the price of gas at 1 April 1982 levels for industrial and commercial users. This freeze applies to supplies after the first 25,000 therms taken in the contract year. This is not a subsidy - industrial gas sales will still be at a profit to BGC - nor is it an extension of last year's freeze - industrial contract prices rose by 3% on 1 March.
- (c) Foundry coke HMG has asked NCB to review measures taken last year to avoid further increases in the list price of foundry coke until winter of 1982. NEDC Task Force Report of November 1981 identified gap between price of NCB foundry coke and foundry coke from France which we believe to be due in part to high subsidies in these countries; and NCB suspect Belgians of dumping foundry coke in order to establish themselves in the UK market.

DEPARTMENT OF ENERGY/  
FOREIGN AND COMMONWEALTH OFFICE

25 MARCH 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

MASTER COPY  
COUNCIL OF THE EUROPEAN COMMUNITIES  
GENERAL SECRETARIAT

PRESS RELEASE

5594/82 (Presse 29)

759th meeting of the Council.

- Energy -

Brussels, 16 March 1982

President: Mr Etienne KNOOPS,  
State Secretary for Energy  
of the Kingdom of Belgium

Presse 29 - G

6.

**CONFIDENTIAL**



The Governments of the Member States and the Commission of the European Communities were represented as follows:

Belgium:

Mr Etienne KNOOPS  
State Secretary for Energy

Germany:

Mr Dieter von WURZEN  
State Secretary,  
Federal Ministry of Economic  
Affairs

France:

Mr Edmond HERVE  
Minister delegate to the  
Ministry of Industry with  
responsibility for Energy

Italy:

Mr Enrico NOVELLINI  
State Secretary,  
Ministry of Industry

Netherlands:

Mr J.C. TERLOUW  
Deputy Prime Minister,  
Minister for Economic Affairs

Denmark:

Mr Poul NIELSEN  
Minister for Energy

Greece:

Mr A. PEPONIS  
Minister for Industry and Energy

Ireland:

Mr Andrew O'ROURKE  
Ambassador  
Permanent Representative

Luxembourg:

Mr Josy BARTHEL  
Minister for Energy

United Kingdom:

Mr John MOORE  
Parliamentary  
Under-Secretary of State  
for Energy

Commission:

Viscount Etienne DAVIGNON  
Vice-President



SITUATION OF ENERGY SUPPLIES

The Council examined the current picture on the energy market. It found that, according to the Commission's figures, the 1980 falls in energy consumption (- 4.2%) and in the demand for petroleum product (- 8%) had continued in 1981 (- 3.9% and - 8.3% respectively) (\*). It also noted the fall in the world market price for petroleum, and the level of stocks.

The Council agreed that the situation should not lead to any relaxation of the efforts to use energy more efficiently and to diversify supplies.

Although the fall in consumption was partly due to changes in the consumption structure and to more efficient use of energy, it was also partly due to a decline in economic activity and an economic up-turn could trigger an increase in the demand for energy.

The Council therefore remained convinced of the need not only for further progress towards attaining the objectives which the Community has set itself, which were to restructure demand in order to achieve more efficient use of energy, and to develop energy sources other than oil, and again to keep a constant watch on the results obtained by the Member States in these fields.

---

(\*) provisional figures



ENCOURAGEMENT OF INVESTMENT IN THE RATIONAL USE OF ENERGY

The Council held an initial exchange of views on the Commission communication concerning investment in the rational use of energy.

The Council examined with interest the Commission document containing a useful analysis of the policies adopted and measures taken by the Member States in their efforts to attain the Community's objective, and of the difficulties and obstacles encountered in their attempts to use energy more rationally.

The Council agreed to encourage moves towards the attainment of the Community's objectives.

The Council accordingly instructed the Permanent Representatives Committee to examine in detail the draft Council recommendation to the Member States which was appended to the Commission communication, giving due weight to the views expressed within the Council, in order that decisions could be taken at the next meeting of the Council.

The Council noted that the Commission was soon to submit specific proposals on the action which public authorities could take to encourage further progress on certain selected types of investment in the energy field, which the Commission considered to be especially urgent.

9.



THE NUCLEAR ASPECTS

The Council examined with great interest the Commission's communication concerning the nuclear aspects of the energy strategy; this document offers a comprehensive approach which could serve as a basis for a more detailed analysis of the problems arising in this field.

The Council decided to make a more thorough examination of these issues at its next meeting and instructed the Permanent Representative Committee to prepare the ground.

ROLE FOR SOLID FUEL IN THE COMMUNITY'S ENERGY STRATEGY

The Council examined a Commission communication on the role solid fuel could play in a Community energy strategy.

The Council recognized the outstanding importance of solid fuel in the diversification of primary energy sources.

The Council asked the Commission to consider the matter further in order that at its next meeting, the Council could continue its discussion of the matter.

It instructed the Permanent Representatives Committee to examine the Commission's proposals in the light of the day's discussions.



NATURAL GAS

The Council noted the growing contribution which natural gas was likely to make towards reducing the Community's dependence on oil and more broadly towards the diversification of supplies.

The Council also noted that the Commission was to carry out studies which would serve as a basis for appropriate proposals on the measures to be taken to strengthen the security of the Community's supplies of natural gas.

ENERGY PRICING

1. The Council is aware of the need for Member States to develop gradually a common approach on price formation in accordance with the Council's conclusions of 3 December 1981.
2. The Council considers that government policies must aim to reduce gradually the artificial obstacles which prevent reliable information from reaching the market.
3. The Council would encourage the Commission's efforts to improve price transparency, wherever necessary, and asks the Commission to report back on the results of these efforts.
4. The Council asks the Commission to examine pricing policies, sector by sector, for the purpose of ensuring that they conform to the principles adopted by the Council and, if appropriate, to submit to it proposals based on the results of that examination.

11.



LIMITED SHORTAGE OF OIL

The Council noted that the other industrialized countries had adopted measures similar to those contemplated by the Community and had undertaken to implement, if circumstances so required, the procedure and measures to cope with a limited oil shortage, as agreed by the Council on 27 October 1981.

It also noted, in this connection, the Commission's intention to submit in due course, and as agreed on 27 October 1981, a report on the level and use of stocks.

The Council invited the Member States to endeavour to maintain, in 1982, stocks of each category of petroleum product specified in Council Directive 68/414/EEC at a level equal to at least 90 days of the average daily internal consumption recorded in 1980.



INFORMATION ON THE ENERGY CONSUMPTION OF HOUSEHOLD APPLIANCES

The Council looked at the last remaining reservations on the three draft Directives applying the Directive on the indication by labelling of the energy consumption of domestic appliances to:

- electric washing machines;
- electric dishwashers with cold water supply only;
- electric refrigerators, frozen food cabinets, freezers and their combinations.

The Council agreed that talks would be held with the delegations involved in order that an overall agreement could be reached and the Directives adopted swiftly.



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)13

COPY NO.

1

17 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

---

EUROPEAN FOUNDATION

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Pleased that it has been possible to sign the agreement during the Council following the French initiative to revive discussion late last year. Grateful to M Tindemans for his original recommendation.
2. Hope that the Foundation will adopt a practical approach to its essential task of promoting a greater awareness of Europe among the peoples of the Community.

**CONFIDENTIAL**



**CONFIDENTIAL**

BACKGROUND

References/Annexes

A Text of intergovernmental agreement [to follow when available]

3. Foreign Affairs Ministers will be invited to sign the Final Act establishing the Foundation at the "academic session" on the morning of 29 March as part of the celebrations for the 25th anniversary of the signature of the Treaty of Rome. The text of the intergovernmental agreement and the arrangement setting up the preparatory committee will be signed by Foreign Affairs Ministers in a separate private session.

4. Agreement to set up the European Foundation was reached in principle at the European Council of December 1977 following the recommendation of M Tindemans in his report on European union in 1976 but the problems have only now been resolved. Its general aims are to seek practical ways, without duplicating or overlapping with other organisations, to improve mutual understanding among the peoples of the Community: to promote a better understanding of the European cultural

**CONFIDENTIAL**



**CONFIDENTIAL**

heritage; to further a greater understanding of European integration and to ensure that this understanding spreads both inside and outside the Community. Its activities will include encouraging knowledge and use of Community languages, exchanges of professional and other people in the Community, and support for projects demonstrating in a popular way co-operation between the countries of the Community.

5. The European Council in April 1978 agreed that "the Foundation will be set up by means of agreements concluded by Representatives of the Governments of the Member States meeting within the Council" and that its seat should be Paris. Negotiations foundered late in 1978 on the two key problems of Community participation and financing. Work was discontinued until November 1981 when the discussions were reopened on a French initiative. The problems have now been overcome. On finance the Community will provide 4m ecu over the first three years.

Foreign and Commonwealth Office

17 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)14  
17 March 1982

COPY NO 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

25th ANNIVERSARY OF TREATIES OF ROME

Brief by Foreign and Commonwealth Office

1. This brief outlines the special arrangements which have been made by the Belgian Presidency to commemorate the 25th anniversary of the Treaties of Rome (the EEC and the Euratom Treaties) which were signed on 25 March 1957.
2. An academic session will be held at the Palais des Académies in the presence of the King of the Belgians from approximately 10.30 am. There will be speeches by the Presidents of the European Council (M. Martens), the Council of Ministers (M. Tindemans), the Commission (M. Thorn), the Parliament (M. Dankert) and the Court of Justice (M. Mertens de Wilmars).
3. There will be approximately 200 guests, and the following have been invited:

Heads of State or Government and Foreign Ministers  
attending the European Council;

Permanent Representatives;

Secretaries General of Council, Commission and Parliament;

President, Vice Presidents and Members of the enlarged  
bureau of the European Parliament;

President, Vice Presidents and Members of the Commission;

/President

**CONFIDENTIAL**



**CONFIDENTIAL**

President, Judges, Advocates General and Registrar of the Court of Justice;

Presidents of the Court of Auditors, European Investment Bank, Economic and Social Committee, ECSC Consultative Committee;

Signatories of the Treaties of Paris and Rome;

Ten personalities from each Member State. (See list for UK at Annex A)

4. At approximately 13.00 the King gives a lunch at the Palais Royal for all the participants of the academic session.

5. During the academic session there will also be a formal ceremony for the signing by Foreign Ministers of the agreement on the European Foundation (Brief No 13).

Foreign and Commonwealth Office  
17 March 1982

**CONFIDENTIAL**



The following have accepted invitations:

Rt Hon Lord George Brown  
Hon Sir Con O'Neill GCMG  
Sir Michael Palliser GCMG  
Rt Hon Geoffrey Rippon QC MP  
Rt Hon Lord Soames GCMG GCVO CH CBE

The following have not yet accepted :

Rt Hon James Callaghan MP  
Rt Hon Dr David Owen MP  
Rt Hon Edmund Dell



**RESTRICTED**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)15  
16 March 1982

COPY NO 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

—  
1982 COMMUNITY BUDGET

—  
Brief by H M Treasury

Points to make (if raised)

1. Regret that there is, again, a dispute over adoption of the Budget. As Presidency we worked hard to avoid this.
  
2. Member states should now work for an agreed solution to the dispute with the European Parliament. UK will approach these discussions positively.

Background

3. The 1982 Community Budget, as adopted by the European Parliament on 21 December:-
  - (a) exceeded by 224 million ecus the margin for payments available to it within the maximum rate for non-obligatory expenditure, over which the Parliament has the final say;
  
  - (b) similarly exceeded by 179 million ecus for commitments the margin available;
  
  - (c) defied the Council by classifying 31 million ecus of food aid as 'non-obligatory' expenditure. The Council considers food aid to be obligatory expenditure.

**RESTRICTED**



# RESTRICTED

4. Most member states, including the UK, consider that the European Parliament's action in these respects was illegal.
5. The Council has agreed to try and reach agreement with the European Parliament on a solution to the dispute. The Council's line in these discussions is at present being prepared by COREPER: a preliminary meeting with the President of the European Parliament was held on 5 March.
6. The Council also agreed that, as a precaution, the matter should be referred to the European Court. A ruling by the Court would decide the legality of the European Parliament's action if it is not possible to reach an agreed solution beforehand. In the meantime member states are paying in full to the 1982 budget as adopted. In the UK, since we do not regard the disputed amounts as a Community obligation, it cannot be paid direct from the Consolidated Fund as are our other payments to the Community budget. It has therefore been necessary to seek separate authority from Parliament for the payment.

H M Treasury  
16 March 1982

# RESTRICTED

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)16

COPY NO. 1

17 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

---

EUROPEAN UNION: GERMAN/ITALIAN DRAFT ACT  
Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To reaffirm willingness to examine proposals constructively but to avoid discussion of the detailed proposals, which is best left to the ad hoc group.

POINTS TO MAKE

2. Welcome the initiative. Important not to allow Community to stagnate.
3. Willing to examine proposals constructively, as we have shown in discussions so far.
4. Hope exercise can be brought to a successful conclusion.

BACKGROUND

References

- A The German/Italian draft Act on European Union and draft Statement on economic integration.
- B Commentary on the draft Act prepared by UK officials.



5. The Genscher/Colombo proposals for an Act on European Union were submitted to the European Council meeting in London on 26/27 November 1981. In its conclusions, the European Council invited the Foreign Ministers, in cooperation with the Commission, to examine and clarify the proposals and to report back to a future meeting of the European Council.

6. The Belgian Presidency has set up an ad hoc group of officials to examine the proposals. The UK representative is Mr Bullard. Discussions in the group have revealed that a number of Member States had difficulties with some of the proposals, while others needed clarification. In February the group prepared an interim report requesting guidelines for its future work. Foreign Ministers agreed on 23 February that the political will to continue the exercise existed; they instructed the ad hoc group to produce a revised draft Act for consideration by Foreign Ministers probably at their meeting on 24 May. Lord Carrington supported the view that action was needed to strengthen Community unity, especially in the face of the dangers of the world situation. The group resumed its work on 16 March, and will meet again on 2 and 21/22 April.

7. Although the proposals do not amount to a great deal in substance, it is important that we continue to appear constructive on this exercise since we rely on Genscher and Colombo to be helpful to us in the Mandate negotiations. Tindemans has also suggested (in conversation with our Ambassador in Brussels on 9 March) that progress on the Genscher/Colombo proposals is among the factors which could contribute to a favourable atmosphere for finding a compromise on the Mandate.

/8.



8. In discussion in the ad hoc group, and at the Foreign Ministers meeting, we have expressed willingness to examine the Genscher/Colombo proposals constructively, while resisting those likely to cause us difficulty and seeking clarification where necessary. We have secured acceptance of our basic requirements that there should be no provisions requiring Treaty amendment or Parliamentary ratification and no changes in the existing powers of the institutions. We have put forward some positive suggestions of our own; that the link between Community membership and parliamentary democracy be emphasised; that the Economic and Social Committee should concentrate its work more closely on the tasks entrusted to it by the Treaties, and that the European Council should meet only twice a year (though we have so far received no support for this last). We have also floated the idea that the final document might be called something other than an Act, which has legal overtones in the UK.

Foreign and Commonwealth Office  
17 March 1982



Translation

Stand: 20. Oktober 1981

Draft statement on questions of economic integration

1. The achievement of the European Union requires further progress as regards the economic integration of Europe. Therefore the Heads of State and Government reaffirm in the European Act the primary goal of strengthening and developing the European Communities in accordance with the Treaties of Paris and Rome.
2. The solution of the problems currently being dealt with in the European Communities is essential if the solidarity of the Community is to be strengthened.
3. This implies, in the interest of all member States and the standard of living of their citizens, a functioning internal market, an adjustment of the common agricultural policy and an improvement in the budgetary structure. The Common Market must not only be maintained but brought to completion.
4. The European Monetary System, which has led to the creation of a major zone of monetary stability, is a positive element. Beyond the monetary stability guaranteed by the EMS, the member States should strive to achieve an increasing convergence of their economies. In the perspective of Economic and Monetary Union which, as a part of the European Union, is to consolidate the economic and financial solidarity of the Community, they should aim at a closer coordination of their economic policies, not least in view of the further development of the EMS.

The member States should examine how, within the framework of the means available, Community policies suitable for achieving the goal of integration might be developed.

5. The accession of Spain and Portugal to the European Community should become reality in the interest of consolidating democracy in Europe, expanding the European economic area and strengthening Europe's position in the world.
  
6. A European Community completed and strengthened in this way will be in a position to utilize the potential of the European economic area, increase its competitiveness, improve possibilities for investments and thus reduce the level of unemployment.



Stand: 4. November 1981

Draft.

EUROPEAN ACT

The Heads of State and Government of the ten member States of the European Communities, meeting within the European Council,

- resolved to continue the work begun with the Treaties of Paris and Rome and to create a united Europe capable of assuming its responsibilities in the world and of rendering the international contribution commensurate with its traditions and its mission,
- considering what has been achieved in the construction of Europe in the spheres of economic integration and political co-operation, as well as the political objectives of the Community, which enjoy the broad support of the democratic forces in Europe,
- convinced that the unification of Europe in freedom and respect for its diversity will enable it to make progress and develop its culture and thus contribute to the maintenance of equilibrium in the world and to the preservation of peace,
- proceeding from the foundation of respect for basic rights as expressed in the laws of the Community and its member States as well as in the European Convention for the Protection of Human Rights and Fundamental Freedoms,
- determined to work together for democracy, the human and basic rights and notably for the dignity, freedom and equality of man, as well as for social justice,



- aware of the international responsibility devolving upon Europe by virtue of its level of civilization, its economic strength, and its manifold links with the States and nations of other continents,
- convinced that the security of Europe must also be guaranteed by joint action in the field of security policy which at the same time helps to maintain the common security of the partners in the Atlantic Alliance,
- in accord with the decisions taken by the Heads of State and Government of the member States of the European Communities in Paris on 21 October 1972 and the Document on the European Identity published by the Foreign Ministers on 14 December 1973,
- mindful of the statement made by the European Council in The Hague on 29/30 November 1976 concerning the progressive construction of European Union, and in particular the goal, set by the Heads of State and Government, of establishing a comprehensive and coherent common political approach,

reaffirm their political will to develop the whole complex of the relations of their States and create a EUROPEAN UNION. To this end they have formulated the following principles of a EUROPEAN ACT as a further contribution to the establishment of the EUROPEAN UNION:

Part One: Principles

1. Our peoples expect the process of European unification to continue and to bring increasing solidarity and joint action. To this end the construction of a united Europe needs a firmer orientation to its political objective, more effective decision-making structures, as well as a comprehensive political and legal framework capable of development. The EUROPEAN UNION to be created step by step will be an ever closer union of the European people and States based on genuine, effective solidarity and common interests, and on the equality of the rights and obligations of its members.



2. Desiring to consolidate the political and economic progress already achieved towards the EUROPEAN UNION, the Heads of State and Government endorse the following aims:

- to strengthen and further develop the European Communities as the foundation of European unification, in accordance with the Treaties of Paris and Rome,
- to enable member States, through a common foreign policy, to assume joint positions and take joint action in world affairs so that Europe will be increasingly able to assume the international role devolving upon it by virtue of its economic and political importance,
- the co-ordination of security policy and the adoption of common European positions in this sphere in order to safeguard Europe's independence, protect its vital interests and strengthen its security,
- close cultural co-operation among the member States, in order to promote an awareness of common cultural origins as a facet of the European identity, while at the same time drawing on the existing variety of individual traditions and intensifying the mutual exchange of experiences, particularly among young people,
- the harmonization and standardization of further areas of the legislation of the member States in order to strengthen the common European legal consciousness and create a legal union,
- the strengthening and expansion of joint activities by the member States to cope, through co-ordinated action, with the international problems of the public order, major acts of violence, terrorism and transnational criminality in general.

3. The European Communities, which continue to be based on the Treaties of Paris and Rome, European Political Co-operation, the rules and procedures of which are governed by the Reports of Luxembourg (1970), Copenhagen (1973), and London (1981), and the European Parliament shall co-operate in the pursuit of the above aims.
  
4. The following shall serve in particular to further the development of European Political Co-operation:
  - intensified regular and timely consultations among the Ten with a view to united action on all international questions of common interest,
  
  - the adoption of final positions only after consultation with the other member States,
  
  - acceptance of statements by the Ten as a binding common basis,
  
  - strengthened worldwide contacts with third countries of particular interest to the Ten,
  
  - increased consideration of resolutions of the European Parliament in reaching decisions by the Ten.

Part Two: Institutions

The following measures shall serve to amalgamate the existing structures of the European Communities (EC), European Political Co-operation (EPC) and the European Parliament and to strengthen the political orientation of the work of European unification:

1. The structures for decision-making in the European Communities and European Political Co-operation shall be merged under the responsibility of the European Council. The European Council is



the organ of political guidance of the European Community and of European Political Co-operation. It is composed of the Heads of State and Government and the Foreign Ministers of the member States.

2. The European Council shall deliberate upon all matters concerning the European Community and European Political Co-operation. Its meetings shall be prepared on the special responsibility of the Foreign Ministers. The European Council may take decisions and lay down guidelines.

Matters concerning the European Communities shall continue to be governed by the provisions and procedures laid down in the Treaties of Paris and Rome and the supplementary agreements thereto.

3. The Heads of State and Government reaffirm that central importance attaches to the European Parliament in the development of the European Union, an importance which must be reflected in its participatory rights and control functions. They therefore envisage the following improvements for the Community within the scope of the Treaties of Paris and Rome:

- (1) The European Parliament shall debate all matters relating to the European Community and European Political Co-operation.

- (2) The European Council shall report at half-yearly intervals to the Parliament. It shall further submit an annual report to the Parliament on the progress towards the EUROPEAN UNION. In the debate on these reports the European Council shall be represented by its President (by one of its members).

- (3) The European Parliament may submit oral or written questions concerning all aspects of European Union to the Councils of Ministers and the Commission. It may make



recommendations to the European Council, the Councils of Ministers, and the Commission. The resolutions of the European Parliament shall be forwarded to the Council of Foreign Ministers for discussion by it. If the Parliament asks for the Council's comments in this respect, the Council shall comply with the request. The President of the Council shall keep the European Parliament informed through the latter's Political Committee of the subjects of international policy dealt with in the scope of European Political Co-operation.

- (4) Before the appointment of the President of the Commission, the President of the Council shall consult the President of the European Parliament. After the appointment of the members of the Commission by the Governments of the member States, an investiture debate should be held in which the Parliament shall discuss the programme of the Commission.
- (5) The Parliament is associated with legal acts of the Community, which are of general importance and have significant financial implications, on the basis of the joint declaration of 4 March 1975 of the European Parliament, the Council and the Commission on the conciliation procedure. The conciliation procedure shall be applied mutatis mutandis in a way suited to practical requirements in normative decisions by the Councils of Ministers pursuant to the Treaties of Paris and Rome if in its comments the Parliament requests the initiation of the conciliation procedure because of the particular significance of such decisions.
- (6) Before the accession or association of further States and before the conclusion of international treaties by the European Communities the European Parliament shall be heard;



its appropriate committees shall be informed on a continuous basis. In formulating the expanded hearing procedure, due regard shall be given to the requirements of confidentiality and urgency.

- (7) In the further development of basic and human rights, special legitimacy attaches to the deliberations and decisions of the European Parliament.
  - (8) Continuous reciprocal contacts and consultations between the European Parliament and the national Parliaments should be developed further, with the latter defining the relevant procedures, with a view to enhancing public awareness of European unification and making the debates on aspects of European Union more fruitful.
4. (1) The Council of Foreign Ministers shall be responsible for European Political Co-operation.

This shall not affect the powers of the Council of the European Communities pursuant to the Treaties of Paris and Rome.

The co-ordination in matters of security should promote common action with a view to safeguarding the independence of Europe, protecting its vital interests and strengthening its security. For these discussions the Council may convene in a different composition if there is a need to deal with matters of common interest in more detail.

- (2) In addition, a Council of Ministers responsible for cultural co-operation and a Council of Ministers of Justice shall be established.
- (3) The European Council may decide on the establishment of further Councils of Ministers to co-ordinate the policy of the member States in areas not covered by the Treaties of Paris and Rome.



- (4) The Council of Foreign Ministers may appoint committees to deal with specific questions; they shall report to the Council. Both the Council and the committees may avail themselves of the services of experts.
- (5) The role of the Presidency in European Political Co-operation will be strengthened by both expanding its powers as regards initiatives and co-ordination and enhancing its operative capabilities.
5. The Council of Ministers responsible for cultural co-operation shall hold regular exchanges of views on close co-operation in the cultural sphere in order to harmonize their positions on cultural matters as far as possible. For these deliberations the member States may be represented by their respective competent Ministers in accordance with constitutional provisions.
6. The Council of Ministers of Justice shall hold regular exchanges of views on aspects of co-operation in matters of legal policy in order to promote the EUROPEAN UNION in this sphere too.
7. The European Council and the Councils of Ministers shall, where matters pertaining to the European Communities are concerned, be assisted by the Secretariat of the Council and, in the fields of foreign policy, security policy and cultural co-operation, by an expandable Secretariat of European Political Co-operation.
8. (1) In view of the need to improve the decision-making processes and hence the European Communities' capacity for action, decisive importance attaches to the voting proce-



dures provided in the Treaties of Paris and Rome. The member States will utilize every opportunity to facilitate decision-making.

- (2) To this end greater use should be made of the possibility of abstaining from voting so as not to obstruct decisions. A member State which considers it necessary to prevent a decision by invoking its "vital interests" in exceptional circumstances will be required to state in writing its specific reasons for doing so.
  - (3) The Council will take note of the stated reasons and defer its decision until its next meeting. If on that occasion the member State concerned once more invokes its "vital interests" by the same procedure a decision will again not be taken.
  - (4) Within the scope of European Political Co-operation as well, the member States shall utilize every opportunity to facilitate decision-making, in order to arrive more quickly at a common position.
9. The Heads of State and Government stress the particular importance attaching to the COMMISSION as guardian of the Treaties of Paris and Rome and as a driving force in the process of European integration. In addition to its tasks and powers under the Treaties of Paris and Rome, the Commission advises and supports the European Council, whose meetings it attends, with proposals and comments. It is to be associated closely with European Political Co-operation.
10. The COURT OF JUSTICE of the European Communities has an important role to play in the process leading to the EUROPEAN UNION. In ensuring the observance and further development of Community law, it acts in accordance with the Treaties of Paris and Rome. It should be granted appropriate powers of interpretation and possibly of arbitration under international treaties concluded between member States.

Part Three: Perspectives

1. All other European States which share the values and aims embodied in this Act and become members of the European Communities may accede to the "European Act" to participate in the realization of the EUROPEAN UNION.

On acceding to the European Communities they undertake to accede to this "European Act".

2. The Heads of State and Government shall subject this "European Act" to a general review five years after its signing with a view to incorporating the progress achieved in European unification in a Treaty on the EUROPEAN UNION. To this end a draft shall be submitted to the European Council by the Foreign Ministers before the end of such period and presented to the European Parliament for comment.

3. IN WITNESS WHEREOF, the undersigned High Representatives of the member States, conscious of the great political importance which they attach to this Common Declaration, and resolved to act in accordance with their will as expressed above, have appended their signatures to this EUROPEAN ACT.

DONE at \_\_\_\_\_ this \_\_\_\_\_

ON BEHALF OF

The Kingdom of Belgium:

.....

Prime Minister



The Kingdom of Denmark:

.....

Prime Minister

The Federal Republic of Germany:

.....

Federal Chancellor

The Hellenic Republic:

.....

Prime Minister

The French Republic:

.....

President of the Republic

The Irish Republic:

.....

Prime Minister

The Italian Republic:

.....

President of the Council of Ministers

The Grand Duchy of Luxembourg:

.....  
Prime Minister

The Kingdom of the Netherlands:

.....  
Prime Minister

The United Kingdom of Great Britain  
and Northern Ireland:

.....  
Prime Minister



EHG(B)(B2)16

Ref

(B)

EUROPEAN UNION: DRAFT GERMAN/ITALIAN ACT

ESSENTIAL FACTS/COMMENTARY

PREAMBLE

Sub-paragraphs 1-3

General scene-setting. No problem

Sub-paragraphs 4-5

Democracy and basic human rights. No problem with text, but we would like to explore possibility of spelling out in main text presumption of democracy as a condition of EC membership.

Sub-paragraph 6

Europe's international role. No problem

Sub-paragraph 7

Joint action in field of security policy. It is not clear whether it is intended to go further than the London Report. Support joint political action in this field where possible - it was agreed in the London Report that the political aspects of security questions could be discussed.

Sub-paragraphs 8-9 and concluding paragraph

European Union. These paragraphs reaffirm the commitment to European Union in language based on the Paris Summit Communiqué 19/20 October 1972 and the "European Identity" document of 14 December 1973. Much of the language has already been used in past declarations and would be difficult to challenge.



PART I: PRINCIPLES

1. Objective of European Unification. Hallowed language. No problem.

2. Introduction and first sub-paragraph  
Reaffirmation of objectives of Paris and Rome Treaties. No problem.

Second Sub-paragraph

Common foreign policy, leading to enhanced European role. Slight element of cart-before-horse in drafting. We can accept "common foreign policy" as aim - albeit distant. A possible redrafting might be ". . . to enable member states to assume joint positions and take joint action in world affairs, and so to work towards a common foreign policy so that Europe will be . . ."

Third Sub-paragraph

Coordination of security policy. Again not clear what "security policy" actually means in this context. Political Cooperation should not discuss defence. Needs clarifying.

Fourth Sub-paragraph

Closer cultural cooperation. No problem with this text.

Fifth Sub-paragraph

Harmonisation of legislation and creation of "legal union". Not clear what "legal union" means. Do not like the term. This may be a reference to a common judicial area to which the Dutch were the main objectors and we have important reservations. On the Community side, little real advantage to be gained by harmonising laws, except where there are real economic reasons for doing so, and the proposal would probably cause us particular difficulty, given the wide differences between our legal systems and those of most other member states. Article 100 of the Treaty already provides for harmonisation of laws in main areas where action might be needed: there is no need to add any gloss to this Article.



at this stage.

Sixth Sub-paragraph

Coordination of action on public order, terrorism, and "transnational criminality". Assume this includes strengthening existing TREVI arrangements and working in the framework of the European Convention on the Suppression of Terrorism, which we support. But not clear what else is envisaged - eg, on public order and "transnational criminality". We should seek clarification.

3. Endorsement of the Treaties of Paris and Rome and the agreements establishing Political Cooperation. We can accept, but are puzzled by the separate reference to the European Parliament, which appears to imply that it is more than just one of the institutions of the Community. Are they to be parties to the Act? Does this imply an expanded role for the Parliament in Political Cooperation? Redrafting needed.

4. Further development of Political Cooperation. Rather too compressed - need to add some qualification, eg "on all questions of concern to the Ten as a whole" after "adoption of final positions" in 2nd Sub-para (in line with London Report). What does "binding common basis" mean in practice (3rd Sub-para)? It is difficult to see how positions reached in Political Cooperation could be made "binding".

PART II: INSTITUTIONS

Introduction and 1

"Amalgamation" of the structures of the Communities and Political Cooperation. We accept, as do the other member states, that the Foreign Ministers should be able to do Political Cooperation business whenever they meet in the Council. We see no reason to go further however and speak of merger or amalgamation, or to suggest that the Council of Foreign Ministers should become responsible for Political Cooperation. This would reopen the debate about Community competence and would also raise the



**CONFIDENTIAL**

question of how the meetings were to be prepared.

## 2. Role of the European Council

This is largely a reaffirmation of the existing position. The European Council already deliberates on both Community and Political Cooperation matters and it was firmly laid down when the European Council was established that if it took formal decisions on Community matters it would do so in accordance with Community procedures. In practice no such decisions have so far been taken. We can accept this text.

## 3. Parliament

### Introduction

Importance of the Parliament in development of European Union. Major objections though "central" is too strong. We should note that no formal increase in the Parliament's powers is proposed. This is important.

3(1) European Parliament to debate all Community and Political Cooperation matters. This should be slightly redrafted by deleting "shall" and inserting "may". Otherwise acceptable.

3(2) European Council reporting to the Parliament. It has already been agreed in the context of the Three Wise Men's Report that the President of the European Council (not "one of its members") should report to the Parliament once during each Presidency. So we could accept the first sentence and the third with the necessary amendments. On the second sentence, no objection to submitting a report to the Parliament on progress towards European Union provided that this amounts merely to submitting to the Parliament the reports which the Foreign Ministers and the Commission already prepare for the European Council each year and which are subsequently published. We see no need for any additional report.

3(3) Parliamentary Questions, Council response to Parliament's Resolutions, informing Parliament about Political Cooperation.

**CONFIDENTIAL**



**CONFIDENTIAL**

This paragraph not very clear. Most of the text amounts merely to a codification of existing practice. We should clarify whether references to Parliamentary Resolutions etc only refer to subject of European Union or go wider. Do not like proposed requirement to comment on Parliament's Resolutions.

3(4) Consultation of Parliament about appointment of President of Commission. We could consider informal arrangements for consulting the President of the Parliament before the final and decisive discussion among the Member Governments, but any formal arrangement would require Treaty amendment and would be unacceptable.

3(5) Improvements in the conciliation procedure. Some improvements were recommended by the Three Wise Men and discussions are currently envisaged in the next few weeks as a result of the meeting between the Foreign Ministers and the Parliament on 17 November. The outcome of these discussions should be assessed before any further changes are considered. We would not be keen on a widening of the scope of conciliation - which will delay Community business - if this is what is intended.

3(6) Parliament to debate Treaties of Accession and other international treaties before conclusion. We see no objection to the European Parliament being allowed to debate new accessions before the conclusion of Treaties of Accession (provided this does not give it the right to unreasonably delay conclusion), but on international Treaties generally we would not want to agree to anything going beyond the existing Luns and Westerterp procedures. To do so would establish for the European Parliament a practice which our Parliament does not enjoy.

3(7) Further development of basic and human rights. We welcome the commitment to the development of basic and human rights but do not understand the reference to "special legitimacy" of the European Parliament. The legitimacy of the Parliament's debates and decisions derives from the Treaties.

**CONFIDENTIAL**



3(8) Relations between the European and the national Parliaments. This is not a matter for Governments to lay down in an Act but for the Parliaments themselves.

**CONFIDENTIAL**

#### 4. The Councils

4(1) Council of Foreign Ministers to be responsible for Political Cooperation; coordination of security matters. Not at all clear. Since Political Cooperation is outside institutional framework of Treaty of Rome, it is difficult to see how the Council could be made formally responsible for it. Making the Council responsible for Political Cooperation might well re-open debates about Community competence. On security discussions, it is not clear what is meant by "in a different composition", which Ministers would be involved, or what issues would be discussed.

4(2) Setting up Culture and Justice Councils. There is formally only one Council, although different Ministers attend for differing purposes: hence Agriculture Council, Social Affairs Council etc. There can therefore be no question of setting up another. If it is intended that the Council should meet as a Council of Ministers of Justice, like other specialist Councils, it is not clear what it could do that the General Affairs Council cannot do. In our view there are already more than enough formations of the Council. Need to define precise purposes of new bodies and there would need to be some clear advantage deriving from their establishment, not just harmonisation for harmonisation's sake. What would Cultural Ministers discuss? Just Culture? Or Education too? What does "culture" actually mean (Surely not appropriate to include sport, recreation, environment or information)? No British Minister of Culture (split between Arts, Education, and Environment) - or of Justice (split between Home Office, Lord Chancellor, Law Officers and Scottish Departments). So some difficulty for us. How would expanded cultural activities fit in with those of the EC Education Committee and the Council of Europe? Important to avoid overlaps. But could consider setting up a PoCo Working Group to consider cultural activities of the Ten (as a group or



**CONFIDENTIAL**

individually) in third countries.

4(3) Establishment of further Councils in areas not covered by Treaties. Not clear what is envisaged.

4(4) Council appointment of Committees to deal with specific questions. No problem. (They already do, eg Mandate Group.)

4(5) Strengthening the Presidency in Political Cooperation. Support principle. But "Act" as presently drafted does nothing to bring this about.

5. Culture

Regular meetings of Culture Ministers to harmonise positions on cultural matters. Favour cooperation. But does this mean concertation in presenting Europe to the outside world, or purely internal "harmonisation"? Not sure how far it would be possible to harmonise cultural policies within EC. But closer coordination of policies and activities concerned with cultural relations between the Ten (as a group or individually) and the rest of the world would be welcome. Are "regular" (ie frequent) meetings really necessary? Would have thought it sufficient to hold meetings periodically, with the aim of improving cooperation on cultural matters and stimulating cultural development across European boundaries. In between such meetings it might be possible for cultural questions to be considered in a new PoCo Working Group.

6. Justice

Regular meetings of Justice Ministers to promote European Union in legal sphere. Again, have doubts, given major differences between UK legal system and those of many EC countries. Question also raises issues of Community competence. Also, are "regular" meetings really needed? Currently, Ministers concerned with justice meet infrequently and there seems little practical need for them to meet often in present circumstances. If aim of this proposal is to revive common judicial area, danger of undermining

**CONFIDENTIAL**



**CONFIDENTIAL**

7. Secretariat

European Council and Council of Ministers to be assisted by Secretariat of Political Cooperation. The text draws a distinction between foreign policy and security policy. Once again, need to be clear that we are not talking about defence. Do not much care for "expandable Secretariat", which was not agreed in London Report; better say something like "a staff consisting of officials from member countries". We might try to open up the possibility that the Council Secretariat might take this on.

8. Decision Making

Greater use of majority voting; invocation of "vital interests" to be justified in writing; no decision if "vital interests" invoked. These paragraphs as drafted would greatly strengthen the Luxembourg Compromise by providing a more formal basis for the Anglo-French interpretation than has hitherto existed. The Benelux countries may well, however, be reluctant to subscribe so openly to this interpretation. We are willing to make further progress towards the use of majority voting where important national interests are not at stake. We could give general support to these proposals subject to the omission of the words "in writing" in 8(2). It will however be necessary to clarify the procedure to be followed after the second Council meeting at which "vital interests" have been invoked to prevent a decision.

9. Commission

No objection. This is merely the reaffirmation of the present position.

10. Court of Justice

Further development of Community law; powers of interpretation and arbitration. No objection to the first sentence. In the second sentence we would need to clarify what was meant by the "further development of Community law". It should not be left entirely to the Court to develop Community law. The third

**CONFIDENTIAL**



**CONFIDENTIAL**

sentence is probably intended to ensure that the Court becomes the ultimate court of appeal on disputes arising from new Treaties agreed by the "Council of Justice Ministers". This idea was pressed by the Dutch in negotiations on the extradition treaty during the 'Common Judicial Area' initiative. Its reintroduction may be an attempt to get them back on board. Any proposal involving an increase in the powers of the Court would need to be examined very carefully, and its functions should not be allowed to impede the efficient course of justice.

PART III: PERSPECTIVES

1. Accession of other European states to the Act. The unorthodox drafting of this section tends to obscure the status of the document as a whole. Under Article 3(1) of existing (and presumably future) Acts of Accession the acceding states accede to all agreements previously adopted by the original members. Separate accession to the European Act (assuming it constitutes an agreement) would therefore be unnecessary. (If it were not regarded as an agreement it would anyway be inappropriate to talk of accession.)
2. Review after five years with view to Treaty on European Union. There is no reason to expect that the UK Government could accept a Treaty in five years' time. The second sentence should therefore be omitted.
3. Signature of the Act. No problem in principle.

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)17  
17 March 1982

COPY NO 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 MARCH 1982

GREENLAND

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. If this subject is raised, to make clear that we shall look very closely at any new arrangement which may be proposed.

POINTS TO MAKE

2. Very difficult to comment on what is initially a question for the Danish Government, until we know what is proposed.

3. We shall need to examine very carefully how any proposed new status for Greenland fits in with our own needs.

4. (If discussion develops) Our own fishermen will certainly expect a suitable return for any privileged access to the UK market for Greenland's fishery products.

BACKGROUND

4. A consultative referendum was held in Greenland on 23 February, which resulted in a 52% vote against continued membership of the EC. The turnout was 75%. The precise votes were: for withdrawal 12,615; against 11,180; majority of 1,435.

/5.

**CONFIDENTIAL**



**CONFIDENTIAL**

5. At a session beginning on 16 March, the Greenlandic Parliament is expected to debate a motion authorising a formal approach to the Danish Government and Parliament. This seems likely to seek to amend the EEC Treaty by excluding Greenland, and also to propose some future form of association with the Community, possibly similar to that available to other dependent territories of member states. Greenland's constitutional position as a part of the kingdom of Denmark will not be affected.

6. We understand the Danes hope to be ready to present a formal application in Brussels only in May, and they are therefore unlikely to raise the subject at this European Council. They would like to complete negotiations on the new status by the end of 1982 (during their Presidency), leaving 1983 free for completion of national ratification formalities. The new arrangement could then enter into force on 1 January 1984.

7. We are particularly concerned that the exclusion of Community fishermen from Greenland's waters will lead to greater pressure on ours, and shall be pressing for an adequate quid pro quo for any privileged access to our market. The Germans are also likely to be tough on fisheries.

Foreign and Commonwealth Office  
17 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)18  
17 March 1982

COPY NO 1

EUROPEAN COUNCIL, BRUSSELS  
29/30 March 1982

---

INFORMATION TECHNOLOGY AND THE COMMUNITY  
Brief by the Department of Industry

**OBJECTIVE**

To illustrate constructive approach towards future development of Community by demonstrating positive attitude on Community role in Information Technology.

**POINTS TO MAKE** (a suitable passage is in the Prime Minister's speech).

1. Information Technology (IT) of fundamental importance to future growth of European economy.
2. Information Technology Year shows how the UK recognises importance of IT.
3. Some action is only appropriate at company and national level, but the Community can complement these efforts.
4. Rapid progress on deciding Community action is needed if the action is to be effective.
5. UK secured agreement on Microelectronics Regulation: agreement on telecommunications proposals is now essential.
6. UK looks forward to constructive proposals from Joint European Planning Exercise (JEPE) on IT.

**CONFIDENTIAL**



**CONFIDENTIAL**

BACKGROUND (may be used freely except paragraph 13)

(A) Current Community initiatives in IT

7. Four elements of Commissioner Davignon's telematics initiative have already been agreed: the Four Year Data Processing Programme, Euronet/Diane, IDST (Third Plan of Action in the field of Information and Documentation) and the Microelectronics Regulation. The centre of control and management for Euronet - a specialised data transmitting network linking eight European cities - is in London and the British firm Logica has been closely involved in the project. The Commission has complimented the efficiency of Logica and the British Telecommunications Services. The Microelectronics Regulation was agreed under the UK Presidency and provides 40m ECU to support the development of applications in selected areas of microelectronic technology.

8. A further four initiatives are currently under discussion: the telecommunications proposals, a European Machine Translation System (Eurotra), an Inter Institutional Information Network (INSIS) and a Community Information System for Import/Export and Agricultural Data (CADDIA).

9. The telecommunications proposals are aimed at harmonising standards, encouraging a freer market in telematic terminals and opening up PTT calls for tenders. Agreement was reached on all aspects during the UK Presidency save the question of whether calls for tenders should be opened to "manufacturers" or "suppliers" in the Community. France and Germany are still unable to agree on this issue. We attach considerable importance to these measures, which are a small but vital step towards a free European market in telecommunication products, in line with our own domestic liberalisation programme.

**CONFIDENTIAL**



**CONFIDENTIAL**

10. Eurotra would be a small (9m ECU, five year) programme to assist machine translation.

11. INSIS is aimed at linking Community institutions and national administrations, with the introduction of electronic mail, video conferencing and data retrieval. It should be of value in encouraging developments in long term standards within the Community. Slow progress so far is to a large extent due to the complexity of the project, but the UK will continue to encourage faster progress.

12. CADDIA is a fore-runner of INSIS, with more limited aims in the field of customs information. A draft decision is likely to be presented to COREPER shortly.

(B) Further initiatives (not to be used)

13. The JEPE exercise, the main impetus for which comes from Commissioner Davignon, is being carried out jointly by the Commission and a "Round Table" of twelve leading European IT companies, of which three (ICL, GEC, Plessey) are British. The aim is to define common long term objectives for European R&D to bring Europe abreast of the USA and Japan within ten years. The exercise is intended to develop into a plan of action in which specific collaborative projects will be carried out in selected areas of research by European IT companies and research establishments. This initiative has so far been pursued exclusively with the IT industry: it has not yet been presented to Ministers. Any proposals from the Commission will have to cover the issues of funding, organisation and the choice of research subjects. The Department of Industry is in contact with the three UK companies involved. The UK's main concern is that any proposals for action at Community level should be dovetailed with work on a national or company level to work in the best interests of UK and European industry. There may, in

**CONFIDENTIAL**



**CONFIDENTIAL**

particular, be some overlap between the JEPE proposals and those which will emerge from the Department of Industry's "Fifth General Computer" study which is examining the potential for a UK national programme, in the light of the new Japanese initiative on long lead time research.

Department of Industry

17 March 1982

**CONFIDENTIAL**



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)19

COPY NO

**1**

18 March 1982

EUROPEAN COUNCIL

BRUSSELS, 29/30 MARCH 1982

PREPARATIONS FOR THE VERSAILLES SUMMIT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To show willingness to take views of smaller member states into account. To keep out of arguments about who should represent the Community at Summit.

POINTS TO MAKE (If raised)

General

2. Versailles Summit comes at important stage in Western economic recovery. Hope it will be forward looking on question of how Western economies will manage their recovery without stimulating inflation and increased oil prices.

3. Welcome views of member states not participating in Summit.

North/South Issues

4. (If appropriate) Accept continuing importance of North/South matters: agree appropriate reference necessary in communiqué.

/5.



**CONFIDENTIAL**

5. A mistake to isolate President Reagan. Essential to find ways of persuading the Americans to play a constructive role.

Community Participation

6. Content to leave it to French as hosts to work out with Commission and Presidency how Community should be represented.

7. (If pressed) Seems sensible that Community should be represented by single representative at restricted sessions.

BACKGROUND

8. European Council provides main chance for smaller member states to ensure their views are taken into account by Community participants at Versailles Summit.

9. Main issues likely to be discussed at Versailles are already covered by other briefs: they are

World Economy (Brief No 3 on Economic and Social Situation)

Trade, including Japanese problem (Brief No 8 on Trade

Relations with US and Japan)

Energy (Brief No 12 on Energy)

East-West Economic Relations (Brief No 7 on Poland)

North/South Issues (see below)

North/South Issues

10. Last Sherpa meeting agreed that discussion of North/South matters would not feature largely at Versailles, but that an appropriate communiqué reference would be necessary. President Mitterrand, with Italian (and Canadian and Japanese) support, will press for communiqué language which at least

/reaffirms



**CONFIDENTIAL**

reaffirms the position taken at Ottawa and Cancun, and if possible goes further. With Community partners, we have reaffirmed our commitment to Global Negotiations, without offering substantive concessions to the deeply divided G77. Our objective is to prevent divisions between the Community and the Americans.

Community Participation

11. Following 1977 European Council decision that President of Commission as well as Presidency should take part as appropriate in 1977 London Summit, Foreign Affairs Council decided in November 1977 that 'at any further Western economic group meetings, the Presidency and the President of the Commission would be invited to take part in those sessions at which items which are in the competence of the Community are discussed'. Since then, President of Commission has regularly attended even restricted sessions of summits. No problem has hitherto arisen over Presidency since it has always been held by one of regular summit participants.

12. This year, with Belgium holding Presidency, French want to invite only one representative of Community to dinners of Heads of State and Government (and any other restricted sessions). This was agreed at December Personal Representatives' meeting; also agreed that it was up to Community to decide who that single representative should be. Matter was however discussed again at February Personal Representatives' meeting. There was considerable support for French position,

/but



**CONFIDENTIAL**

but Belgian and Commission Personal Representatives reserved their position. Either Belgium or Commission may therefore argue at European Council in favour of two Community representatives in line with 1977 decision. Lahnstein (FRG) told Sir R Armstrong on 10 March that although Schmidt would no doubt prefer only the President of the Commission 'above all he would want to leave it to the French and the Belgians to sort out as far as possible'. The UK should do the same, so as to avoid incurring unnecessary odium whether from smaller member states or the Commission or both. We should also avoid involvement in compromise solutions, eg that UK as immediately preceding Presidency should speak at Summit on Community behalf.

13. In private conversation at February Personal Representatives' meeting, French and Italian as well German Personal Representatives made clear they would like Thorn rather than Martens to be single Community representative. Attempts to support Martens' claims against those of Thorn therefore likely to run into particular opposition, especially as Thorn has attended previous summits and it is he rather than Presidency who speaks on subjects within Community competence. Belgian attendance could well also create undesirable precedent - both for Community and member states - if at future summit Presidency is held by more difficult small member state (eg Greece).

Foreign and Commonwealth Office

18 March 1982



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82) 20 REVISE

COPY NO. 1

23 March 1982

EUROPEAN COUNCIL BRUSSELS

29/30 MARCH 1982

CHANNEL FIXED LINK

Brief by the Foreign and Commonwealth Office

Objective

1. (If President Mitterrand raises the subject). To show continued British interest in the Channel fixed link without commitment on substance or the timing of the next step.

Points to Make

Present Position

2. I hope a mutually acceptable basis can be found for a suitable Channel link, assuming the two governments agree this to be in their common interest.

When we met in London last September we commissioned joint British/French studies on the Link.

I look forward to receiving the joint report on these studies soon.

/Finance/Private Sector

**CONFIDENTIAL**



Finance/Private Sector

We shall eventually want to elicit the views of the private sector because, as I emphasised last September, on our side any project would have to be financed by the market.

I understand that the position is the same on your side.

Guarantees

3. The question of Government guarantees presents some difficulty for us. I am glad to learn that proposals for dealing with this question are being actively considered.

EC Involvement

4. This could be looked at after the two Governments have arrived at their decision on the project.

Next Step

5. We agree that decisions should be arrived at as soon as possible. But the joint report will have to be examined thoroughly by Ministers first.

Future Timetable (If pressed)

6. A project such as this would naturally require Parliamentary discussion and approval. The legislative programme in the UK is heavily charged; but provided agreement is reached between the two Governments and with private interests involved in the early summer, legislation would be possible before the current Parliament ends in 1984.

/Background



BACKGROUND

7. After the Franco-British summit in September 1981, the Prime Minister, in her press conference with the French President, said that we were very keen that studies on this subject should go ahead; on our side we would wish the scheme to be financed privately; and we would be very happy if we could come to an agreement that would be acceptable to both sides on a suitable Channel link.
8. Since then, officials have been conducting joint studies to assess the feasibility of the project. These studies are almost complete but target date for production of the joint report has slipped to end March/early April. This is to allow the Anglo/French study group to consider a French paper on guarantees, and a British proposal that a guarantee problem might be avoided if a unitary body were responsible for promoting and operating the link.
9. The two Governments will then have to consider the joint report separately. The French are aware that we have difficulties over guarantees, both political and completion.

/10. President



10. President Mitterrand may urge upon the Prime Minister an early decision on the project. We agree early decision is required: time is short if we are to get legislation through this Parliament. However, there must be a thorough review of the joint report. The subject is too important for a hasty decision.

11. M. Mitterrand attaches great importance to this project as a symbol of good relations with the UK at a time when there are so many things on which we disagree, notably in the Community. At a time when other UK potential collaborative projects (Airbus, Rolls-Royce-SNECMA) are stalled, we shall have to proceed very carefully if we are to avoid wrong-footing ourselves tactically and running the risk of undermining our other interests with the French. We do not want to give the French the impression that we are losing interest in the project; but neither do we want to give any commitments on our final attitude or on the timescale for reaching it.

12. Question of EC involvement must await decision by the two Governments concerned. This is recognised by the Commission.

Foreign and Commonwealth Office

23 March 1982



**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B)(82)21

COPY NO. 1

23 March 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH 1982

---

COMMUNITY INVESTMENT POLICY

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Agree creation of climate to promote investment is essential part of strategy to regenerate European industry, restore competitiveness and create productive jobs.
2. National Fiscal and economic policy plays key role in investment promotion: budgetary discipline releases resources for investment; control of inflation and creation of stable economy encourages investors.
3. Understand Commission's proposals for European industry strategy (including means of promoting productive investment) to be discussed in Industry Council on 4 May.
4. National action to promote investment should of course take account of agreed Community strategy. But coordination of national and Community action on investment is for the long term.

Defensive

5. (If UK investment policy is raised) Liberal approach to inward investment an essential component of our commitment to free



market economic policy.

6. Suitable inward investment from Japan and other countries can help to improve industrial performance and economic activity, particularly when high level of local sourcing is achieved.

7. (If raised) Do not believe restrictions against Japanese investment would be appropriate. Opposed to discriminatory practices contrary to open trading systems.

#### ESSENTIAL FACTS

8. Commission's "Community strategy to develop Europe's industry" includes proposals to revive productive investment. We can support some in principle: (e.g. need for innovation to develop high technology, and development of internal market). But we have reservations about other proposals (e.g. creation of a European public procurement agency, or development of a European research and development strategy). And we are strongly opposed to some of the Commission's proposals (e.g. extension of Community competence to both inward and outward investments, attempts by Commission to influence national criteria for inward investment, built-in bias against any non-EC companies in inward investment).

#### Belgian "European Investment Space" Proposal

9. Belgians have floated idea of a "European investment space" consisting inter alia of harmonisation of conditions for assistance to investment (including inward investment) and an end to the purely national orientation of public investment and public incentives for private investment. The proposal causes stable exchange rates and similarity of real exchange rates throughout the Community. While accepting that financing of public investment should come primarily from national resources, it envisages a growing role for Community funds. Should the Belgians resurrect the idea, a non-committal response would be appropriate. In his letter to the Prime Minister, Mr Martens as President



**CONFIDENTIAL**

refers to need to create a suitable climate for investment and the need for national and Community action on this to go hand in hand and be coordinated in order to be complementary. He refers to Commission's proposals on this and may raise the question either in Council or informally.

UK Inward Investment Policy

10. We welcome inward investment from all sources provided there is net overall benefit to UK economy. This "open door" policy has been attacked by other Member States (especially France in the context of the Sony plant and Italy) on grounds that Japanese factories will essentially be assembly operations designed to avoid trade barriers. But Japanese-owned manufacturing companies in UK have a successful record and have generally achieved a large percentage of local sourcing.

11. UK accounts for 50% of all Japanese manufacturing investment in EC. We are anxious to preserve our freedom to attract investment which brings suitable benefits to UK. We have no wish to encourage EC policy on inward investment which would hamper this freedom.

12. Despite having benefited from Japanese investment, France will not permit this on any scale without Japanese concessions on investment in Japan. The French have managed to restrict imports of Japanese to 3% of the market. They will be watching future Japanese investment in the UK closely (e.g. the proposed Nissan plant) and will probably continue to criticise us on this score to counter the concern we and other Member States have expressed about French measures to "reconquer the internal market".

Foreign and Commonwealth Office

23 March 1982



