

EC Hoge Brussels
June 82
Briefing

S
807

PREM 19/752

CONFIDENTIAL

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

EHG(B2)(82)1 Revise 2
24 June 1982

COPY NO. 1

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

INDEX OF BRIEFS

Brief by Foreign and Commonwealth Office

1. Index
2. Steering Brief
3. Economic and Social Situation
4. Genscher-Colombo Proposals/Luxembourg Compromise
5. UK Budget Contribution
6. EC/Argentina
7. EC External Trade Issues (except US)
- 7A. EC Trade Issues with US
- 7B. OECD Export Credit Consensus
8. Greece and the EC
9. Political Co-operation
10. Fish
11. Enlargement
12. Energy
13. Steel
14. ERDF
15. Insurance
16. EMS
17. Common Electoral System
18. North/South Dialogue
19. Community Action to Combat Unemployment
20. Impact of Technology

Foreign and Commonwealth Office
24 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)2

17 June 1982

COPY NO

1

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This European Council has no clear theme. The members of the European Council have met each other frequently in recent weeks and it is difficult to predict the shape of discussions. The Council may in any case be overshadowed by events in the Middle East. This brief should be read in the light of these uncertainties.
2. This meeting follows dramatic events in the Community in May: the overriding of the Luxembourg Compromise at the 18 May Agriculture Council, and agreement in the Foreign Affairs Council on a budget settlement for 1982. Other Member States now expect a pause for reflection on the budget problem, on which negotiation will resume in the autumn. Heads of Government will not wish to embark on substantive discussion of this subject. But there will be examination of the status of the Luxembourg Compromise, depending on the progress made by the Foreign Ministers on 20 June. Subject to developments in the interim, this is likely to be reflective rather than a decision-taking European Council.

CONFIDENTIAL

CONFIDENTIAL

Political questions including the Middle East and Argentina/Latin America can be expected to figure prominently.

3. There have been no changes in the composition of the European Council since the meeting on 29/30 March. The position of the German Government looks increasingly shaky after the setbacks for the Coalition in the recent Land elections; the future of Signor Spadolini's Government remains uncertain and there could well be a reshuffle in the next few months; and the Dutch Government (which is in power on an interim basis) has no majority in parliament, and faces elections in September.

AGENDA AND DOCUMENTATION

4. The Belgian Presidency have disclosed no plans for the Council. The following are likely to be the main subjects:

- i) Economic and social situation. The Commission will produce the usual paper. Apart from the usual macro-economic discussion on the Community's internal situation, there is likely to be special emphasis on investment on which the Commission have produced a separate paper. There will also probably be discussion of other international economic questions, following Versailles, including North-South matters (on which the Commission will produce a further short paper) and EC/US relations (the steel crisis).
- ii) Luxembourg Compromise/Genschler-Colombo. There may be at least an interim report from Foreign Ministers, depending on progress at their discussion on 20 June.

CONFIDENTIAL

CONFIDENTIAL

- iii) Political cooperation. The main items are likely to be the Middle East and Argentina/Latin America.

UK OBJECTIVES

5. i) Depending on development, to bolster our partners' recognition, which we hope to secure at the Foreign Affairs Council on 21 June, of the need to continue the embargo on the export of arms to Argentina until Argentine intentions are clearer; and of the need to reimpose the Community trade ban if Argentina reopens hostilities.
- ii) To ensure a satisfactory Community position on the Middle East, in the light of events.
- iii) To take the opportunity of any report by Foreign Ministers on progress on the Genscher/Colombo proposals to reemphasise the importance we attach to clear decision taking procedures under which, when a Member State says that an important national interest is involved, decisions are deferred and not taken by majority voting; and the Member State concerned is the sole judge of its national interests.
- iv) To ensure that there is no change in the European Council's endorsement of anti-inflation policy and to resist any argument for premature expansion.
- v) To make clear that the UK favours early agreement on a Common Fisheries Policy and to get as much support for this as possible.

CONFIDENTIAL

CONFIDENTIAL

OBJECTIVES OF OTHER GOVERNMENTS

6. Heads of other Governments will no doubt want to concentrate on world affairs. The Belgian Presidency will no doubt be looking for a harmonious meeting to end up their Presidency, after the problems of in recent months. Like other Benelux countries they will not want to see any reinforcement of the Luxembourg Compromise. The French and the Germans should be willing to clarify their views on the Luxembourg Compromise. The Danes have made it clear that they see the discussion of the economic and social situation as one of the series in 1982 leading to the European Council which they will chair in December. Mr Jorgensen is likely to try to focus discussion on unemployment and to advocate expansionist policies. Mr Papandreou may want to refer to the importance of finding solutions to the questions relating to Greek membership set out in the memorandum he presented in March.

SUMMARY OF BRIEFS

A. MAIN BRIEFS

ECONOMIC AND SOCIAL SITUATION (brief no 3)

7. The Commission has provided its usual paper on the economic and social situation, as well as a short paper on promoting productive investment - one of the subjects on which the March European Council laid emphasis. Our aim, as at Verailles, will be to ensure that any communiqué lays due stress on the need to bring down inflation and promote sustainable recovery by strict control of public deficits and of monetary aggregates. Efforts by the Danes to secure the Council's approval for expansionist policies could be left to the Germans to answer in the first instance. The Prime Minister could refer to the need for rapid structural adjustment of the economies of the Member States, which is liable to be frustrated by excessive public sector spending and such practices as wage indexation.

CONFIDENTIAL

8. In discussion of the need to promote investment, she will wish to express British support for the creation of the right economic climate to encourage profitable and internationally competitive investment, with the emphasis on private investment because public investment, if it involves higher public sector deficits, would be counter productive in the longer term.

GENSCHER-COLOMBO/LUXEMBOURG COMPROMISE (brief no 4)

9. The Genschler-Colombo proposals are likely to be the subject of an interim report by Foreign Ministers and we will wish to use that occasion to raise majority voting. Our aim is to make it clear that we regard it as essential that a Member State should be the sole judge of its important national interests and should be able to get voting deferred when it considers these to be at stake.

POLITICAL COOPERATION AND FALKLANDS (briefs 6 and 9)

10. Political cooperation discussions are likely to concentrate mainly on the Falkland Islands (brief no 6), and the Middle East (brief no 9 which includes all items other than Falklands). On the Falklands, we will need to inform our partners of latest developments and our plans for the future. Our partners are likely to discuss the need for bridge-building between the Community and South America and to see the future of the Falklands in that context. The Foreign Affairs Council on 21 June is likely to lift the EC ban on Argentine imports. Our objective is to secure as a counterpart from our partners that they will continue their arms embargo for a period even after Argentina agreement to a total cessation of hostilities; and that they will reimpose the Community support ban should the Argentines reopen hostilities. Depending on the outcome of the Foreign Affairs Council, we shall want to thank or bolster our partners on these points at the European Council. On the Middle East, the Council will need to consider how the Ten can pursue their objective of "a Lebanon free from the cycle of violence" as part of a global, just and lasting

peace in the region, with the Iran-Iraq war a complicating factor. Any discussion on Poland is unlikely to go beyond a general exchange of views on current developments and the western approach. A further statement on Afghanistan may be made to demonstrate the Ten's continuing concern.

B. CONTINGENCY BRIEFS

UK BUDGET PROBLEM (brief no 5)

11. There is no need for us to raise this on this occasion. Our partners are relieved that the agreement on 1982 has led to a pause in the negotiation and are most unlikely to raise it also. If the subject does come up, the Prime Minister could stress our desire to avoid a continuing series of confrontations on this divisive issue. It is possible that the tough French line on the financing of our refunds will come up. If so, it is in our interest to keep out of the discussion.

EC EXTERNAL TRADE ISSUES (brief no 7)

12. We do not expect there to be any detailed discussion of EC External Trade Issues. However, the Prime Minister may like to emphasise the importance of a united and firmer Community approach to Japan and, if still appropriate, to urge the case for continuing to work together for an agreed settlement with the US on steel. Depending on the progress of discussions in Washington this weekend, the Council may need to discuss the Export Credit consensus.

GREECE AND THE EC (brief no 8)

13. Mr Papandreou will probably want to make a statement about the Greek "renegotiation" paper on which the Commission have now produced a report but it should be possible to avoid a substantive discussion at the Council itself.

FISH (brief no 10)

14. The Fisheries Council is likely to be meeting in parallel with the European Council. Our aim is to make it clear to our partners that we are in favour of an early solution on the Common Fisheries Policy and to get as much support for this as possible.

ENLARGEMENT (brief no 11)

15. 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 they should continue to proceed separately but in parallel with accession if possible by 1 January 1984.

16. Ministerial meetings will be held with both Spain and Portugal in the margins of the June 20/21 Foreign Affairs Council and will consider substantive packages covering Customs Union, External Relations, Taxation and ECSC, although the key questions of tariff, transitional period and textiles in both cases are unlikely to be resolved until a later stage in the negotiations. Some Member States may want to bring pressure to bear on the French to soften their position, in view of the very tough line they are taking.

ENERGY (brief no 12)

17. Energy is not expected to feature prominently at the Council. If necessary the Prime Minister may wish to explain the recently announced North Sea oil price increases (downward pressure on prices having now eased) and the decision which will be welcome to our partners, not to impose oil production cutbacks before the end of 1984.

STEEL (brief no 13)

18. The Prime Minister could take the opportunity to emphasise the need, despite social difficulties, for capacity reductions to accompany the phasing out of state aids; and also to emphasise the importance of continuing to work together for an agreed settlement of the US subsidy and anti-dumping complaints. She could welcome the agreement reached at the 8 June Industry Council to continue mandatory production quotas.

ERDF (brief no 14)

19. In any discussion of the new regulation, the Prime Minister will want to emphasise the importance of greater concentration of the Fund's resources on the less prosperous Member States of the Community, as the Commission have proposed; and of the need for the Fund to deal with problems of urban/industrial decay, as well as rural problems.

INSURANCE (brief no 15)

20. There has been little progress on the insurance services directive since the end of the UK Presidency, with our partners continuing to insist on maintaining controls on insurance policy terms for major business risks. The Prime Minister may want to take the opportunity of any discussion of completion of the internal market to remind our partners of our commitment to achieving real liberalisation to which the Treaty entitles us.

EMS (brief no 16)

21. Finance Ministers were asked to study the possibility of developing the EMS, but have agreed that in present circumstances there is no prospect of agreement on significant changes. If this is discussed, other Member States can be left to make the running. There might be some mention of the meeting of Finance Ministers on 12 June 1982, when the French franc and lira were devalued, and

the deutschmark and Dutch guilder revalued. The operation was smoothly carried out. The episode reinforces the view that better convergence of economic performance is the key to greater exchange rate stability within the Community.

COMMON ELECTORAL SYSTEM (brief no 17)

22. It is not in our interest to initiate discussion on this subject, which we wish to see played long, so that it will become apparent that there is no chance of implementing a new system by the 1984 European Parliament elections. The Prime Minister will not wish to reveal our position, which is entirely isolated, unless this becomes essential.

NORTH/SOUTH DIALOGUE (brief no 18)

23. Heads of Government may wish to exchange views on preparations for global negotiations. The Community have already agreed amendments to the so-called "Bedjaoui Text" for launching global negotiations, as have the Versailles summit participants. The focus of attention is now on the UN in New York. Substantive discussion at the Council is unlikely. But it will no doubt be thought appropriate to include a suitable reference to the importance of global negotiations in the Presidency conclusion.

COMMUNITY ACTION TO COMBAT UNEMPLOYMENT (brief no 19)

24. The Council is likely to be asked to endorse a Resolution on Community Action to combat unemployment agreed at the Labour and Social Affairs Council on 27 May.

IMPACT OF TECHNOLOGY (brief no 20)

25. President Mitterrand may raise the question of his technology initiative agreed at the Versailles Summit. The Prime Minister will want to indicate her support.

Foreign and Commonwealth Office
17 June 1982

CONFIDENTIAL

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

EHG(B2)(82)3
16 June 1982

COPY NO. **1**

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION
Brief by HM Treasury

OBJECTIVE

1. To secure endorsement of the continued need for prudent macroeconomic policies in the Community.

POINTS TO MAKE

2. Community's average inflation rate declining only slowly. Latest available figure (March) 5 points above US rate and 9 points above Japan. Lasting recovery can only follow reduction in inflation, as OECD Finance Ministers, IMF's Interim Committee and Versailles Summit all agreed.

3. Level of output and eventually employment, exchange rate stability and level of interest rates would all benefit by European convergence on prudent monetary policies and smaller budget deficits. Yet Commission's forecast shows divergence of inflation and earnings rates increasing this year. Trends on current balances also diverging.

4. Need for each country to put its own house in order. Noticeable that those with high inflation and large or rising budget deficits are having problems with balance of payments on current account and depreciating value of their currency.

CONFIDENTIAL

5. Structural adjustment moving slowly; indexation of wages and salaries proving particularly difficult to unwind. This is certainly a factor making Europe's reduction of inflation slower than her competitors.

6. Need for more convergence of economic and monetary policies was a major theme at Versailles. Summit partners agreed to accept responsibility for greater stability of world monetary system; and in particular that the five SDR currency countries should strengthen co-operation with IMF. Need to maintain pressure on US to live up to joint commitment at Versailles to "achieve greater control of budgetary policies".

7. Useful that Versailles summit reaffirmed opposition to protectionism and emphasized importance of avoiding competitive currency devaluations. Some evidence that Japanese are beginning to stimulate domestic demand rather than relying solely on export growth for stimulus, and to feel that pressure on them to change macroeconomic mix may prove hard to resist. We should be encouraged by this to renew our pressure for less restrictive fiscal stance, firmer monetary policy.

8. In meantime, best defence against adverse external developments is to accelerate our own adjustment.

9. Investment. Welcome Commission paper, which correctly stresses need to create right overall economic climate to encourage investment. Emphasis must be on continued success in reducing inflation, improving economic and monetary convergence and securing reductions in real and nominal interest rates - for all of which restraint in public sector deficits is essential.

10. [If proposals to expand New Community Instrument is raised] Prepared to study such a proposal without commitment.

11. (Social Affairs Council resolution on unemployment). Pressing need to bring unemployment down, as European Council agreed in March. But, as social affairs resolution recognised, public investment to this end must not jeopardise control of public sector deficits which is of paramount long term importance. Only lasting way to lower unemployment is to get inflation down and keep it down.

12. [Comment on Commission's paper on Economic and Social Situation will follow when Review is received.]

BACKGROUND

References/Annexes

- A Notable Features from Commission's May 1982 Forecast by Country.
- B Commission report on economic and social situation (not yet received).
- C Commission paper on investment (not yet received).

13. The Commission's paper on the economic and social situation [not yet received] will be a background note for discussion as the Council thinks fit. It is not binding on member states: the Community's official position is as noted in the "Guidelines for economic policy in the Community", which were approved by the December Finance Council and published in the Annual Economic Report for 1981-82.

14. The Community's divergence of economic policies is perhaps most clearly illustrated by current inflation rates within the Community and the Commission's forecast for the whole of 1982:

CONFIDENTIAL

Country	March inflation rate (%)	Latest inflation rate where different (%)	Commission forecast of average inflation rate in 1982 (%)
Belgium	7.1	-	10.2
Denmark	10.6	-	10.1
France	14.1	13.9	13.3
Germany	5.2	5.0	4.7
Greece	20.6	-	24.0
Ireland	18.9 (1)	-	18.5
Italy	16.5	15.6	15.0
Luxembourg	8.4	-	12.0
Netherlands	7.2	-	5.8
UK	10.4	9.4	9.5
EC 10	11.7	-	10.2
USA	6.8	6.6	6.4
Japan	2.8	-	4.3

Note (1) Commission estimate

15. The only countries where significant reductions in inflation seem to be continuing are the Netherlands, Germany, the UK and Italy (down from 20% last June); the forecast decline in French inflation looks suspect given that earnings are currently increasing at an annual rate of around 18%. The Community's average inflation rate is not falling anywhere near as fast as the American rate has fallen in recent months.

16. Annex A gives an annotated summary of current and forecast developments in each member state. The main points to emerge are

CONFIDENTIAL

CONFIDENTIAL

- growth prospects look slightly worse in 1982 than at the March Council, partly because of worsening prospects for the USA (though the Commission has a very bad track record in forecasting the US) and reduced growth in Japan;
- the Community's average unemployment rate will probably not stabilize later this year, as Commissioner Ortoli said at the last Council, but could well continue rising until late 1983;
- broad monetary growth (M2/M3) does not on average, look very restrictive (though this is not the object of targetting in many member states);
- the Commission's forecast of French and Italian General Government Borrowing Requirements (GGBRS) is too optimistic (both will rise quite strongly this year);
- earnings increases within the Community look as divergent as ever, ranging from Greece's 27% to Germany's 4.7%; the prevalence of indexation in many countries with high rates of inflation will mean Europe's fall in inflation cannot be as fast as Japan's or America's (though in the prime offender - Italy - the employers' federation unilaterally abolished the 'Scala Mobile' in May);
- a group of three countries is emerging who have low or declining inflation, a current account surplus and declining GGBRS: the Netherlands, the UK and Germany.

17. The Commission report on investment is being produced as a response to the remit given by the March European Council which invited the Commission to make proposals. It will be based on an earlier longer paper which was presented to Finance Ministers on 14 June. This was largely analytical and contained mercifully few proposals. The only substantive point was that the Commission undertook to present a proposal

CONFIDENTIAL

CONFIDENTIAL

for a further expansion of the NIC by 3 billion ecus (the figure mentioned in the provisional conclusions of the November European Council); but the Commission have given no sign of when they will make a concrete proposal to this end.

18. The Social Affairs Council on 27 May also passed a resolution on unemployment which refers to public investment, but with suitable hedges on the need to restrain public sector deficits. The Danes, among others, are particularly keen on securing agreement that public investment should play a more prominent role in combating unemployment, but the Germans and Dutch are firmly on our side in maintaining that extra investment involving extra net public expenditure could be counter-productive in terms of jobs.

HM Treasury
10 June 1982

[Annexes B and C will be circulated on receipt from the Commission]

CONFIDENTIAL

NOTABLE FEATURES FROM COMMISSION'S MAY 1982 FORECAST BY COUNTRY

- Belgium
- Unemployment rising to 12 $\frac{1}{2}$ % this year
 - GGBR falling not much, if at all, and not enough to reverse last year's rise
 - current account deficit falling at last
 - fall in savings ratio
- Denmark
- strong growth in second half of 1982
 - $\frac{1}{4}$ million unemployed but not rising in 1983
 - GGBR still worsening this year and next
 - current account deficit worsening
- France
- despite forecast growth unemployment keeps rising
 - rise in GGBR understated in '82 - nearer $3\frac{1}{2}$ % of GDP (and PSBR is much bigger)
 - inflation does not decline much in 83 and may be too low in 82
 - current account deficit worsens this year
- Germany
- strong growth from now on
 - declining GGBR
 - declining inflation
 - current account returns to surplus
 - monetary growth towards top of target range with declining interest rates
- Greece
- inflation still 24% in 82 and 22% in 83
 - sluggish economy
- Ireland
- despite strong growth in industrial output and exports unemployment rises to 12 $\frac{1}{4}$ % next year
 - inflation falls only slightly this year
 - GGBR not falling dramatically despite tough budget
 - current account deficit not falling despite export growth
- Italy
- no output pickup in the summer
 - declining GGBR is unrealistic; Italian government now estimates GGBR in 82 around 14% of GDP
 - fall in inflation rate continues into 1983
 - welcome fall in current account deficit
- Netherlands
- unemployment up sharply
 - GGBR down steadily
 - current account surplus doubles this year

UK

- GDP growth 1.3% in 82, 1.9% in 83
- unemployment stabilizes at present level
- GGBR less than 2% of GDP this year
- inflation averages $9\frac{1}{2}\%$ in 82, $8\frac{1}{2}\%$ in 83
- **current** account surplus greatly reduced this year and next

US

- From having been more optimistic than OECD or IMF, Commission is now more pessimistic about this year's growth
- some relaxation of monetary targets implied in Fiscal 83.

CONFIDENTIAL

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

EHG(B2)(82)3 Addendum
23 JUNE 1982

COPY NO. **1**

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION
Brief by HM Treasury

1. The Commission papers on the economic and social situation and on investment are attached.

HM Treasury
23 June 1982

CONFIDENTIAL

COMMISSION PAPER ON THE ECONOMIC AND SOCIAL SITUATION

- I. In line with the conclusions reached on 29 and 30 March, the Commission has sent to the European Council an initial report on investment which discusses key matters relating to economic growth.
- II. This document sums up the economic and social situation in the Community in 1982 and the developments expected in 1983.

The analysis has to be seen in the light of the main economic policy targets, which in the Commission's view do not need to be amended. The Commission has already made known its views and put forward proposals concerning the four priority areas for action by the Community, namely creation of a more stable economic environment, both within the Community and internationally, modernization of structures, achievement of closer economic convergence and improvement of the employment situation. Only a brief summary is therefore given here, but the Commission may elaborate on them during the discussions of the European Council.

1. A more stable economic and monetary environment is a prerequisite for a return to a healthier growth path and to an improved employment situation. The Community needs to take action on two main fronts:
 - within the Community, it needs to make the economies more competitive and, in order to boost employment, to pursue its attack on inflation; to do so, it needs to strengthen the essential framework provided by the EMS for ensuring the stability and protection of Community achievements to date: the Commission produced proposals on this matter in March;
 - internationally, it needs to play a full part in the new pattern of international monetary cooperation outlined at Versailles and to contribute to its development.
2. The modernization of economic structures within the Community is essential if the Community is not to be outdistanced by its main competitors. This objective can be attained only if, in tandem with the final consolidation of the single market, determined efforts are made to boost investment.

3. In heavily interdependent economies that are joined together in a zone of monetary stability, and at a time when Community achievements to date are being placed in jeopardy, a greater measure of convergence is needed. Convergence means that the objectives set by Member States should be mutually consistent and that the results achieved with regard to prices, the reorganization of public finances, the stabilization of costs, the external equilibrium and growth should be fully compatible, in the interests of greater stability and more robust growth, which in the final analysis means more favourable prospects for employment. Not enough has yet been done. The most recent currency realignment within the EMS demonstrated the resolve on the part of all Member States and the need for the Community to secure closer convergence. The measures decided within the Community framework on 12 June 1982 are confirmation of the useful role played by the EMS not only as a monetary mechanism but also as a forum for discussing and adumbrating economic policy guidelines designed to bring the Community economies more closely into line. Without such convergence, the general uncertainty of the economic climate and the resulting reluctance to invest cannot be dispelled (and parity adjustments would occur too frequently).

This matter is currently under discussion in the Council. The Commission requests the European Council to confirm that it expects the deliberations which the Council will devote to this key topic - and in particular, in July, to the budgetary guidelines for 1983 - to produce national budgetary guidelines compatible with the jointly agreed objectives.

4. Lastly, where employment policy is concerned, the Commission would draw attention to its previous communications and to the conclusions reached at previous European Council meetings, notably with regard to youth unemployment. On 27 May, the Council (Social Affairs) adopted a detailed Resolution on a Community action programme to combat unemployment. The text of the draft resolution is attached hereto. The Commission would like to see measures taken to follow up this Resolution and to prepare the ground for the joint Council meeting to be held before the end of 1982.

III. In the light of the first set of figures available since the beginning of the year, the Commission has slightly adjusted its overall forecasts for 1982, which it had sketched out in preparation for the European Council in March, and looks for a gradual recovery in economic activity for 1983. However, it has not as yet been possible to assess in sufficient detail the possible implications of the most recent realignment within the EMS.

1. Real GDP is expected to grow by 1.5% in 1982, a figure slightly below that envisaged by the Commission in its Communication to the previous European Council. This adjustment, though, does not affect the likelihood that economic activity will gradually pick up during the third quarter of 1982 and, judging by initial estimates, show a growth rate of around 2.6% for 1983. Whereas growth in 1982 will probably stem from some increase in public consumption and especially from restocking, the key growth factors in 1983 are likely to be a fairly sharp recovery in private consumption and a faster rate of investment.
2. This prospect, which is still by no means definite, is not of a sort to bring about a reversal in the trend towards higher unemployment: expressed as a percentage of the labour force, the unemployment rate is expected to climb to 9.2% in 1982 and 9.4% in 1983, compared with 6% in 1980. Even so, it will be seen that, after rising by over 50% in two years, unemployment is now expected to climb at a slower rate in 1983 than in 1982. As regards national levels, even though the gathering pace of the rise in unemployment since 1980 has been seen on a very broad front, some slowdown will probably be discernible during 1983 in most Member States.
3. The results of efforts in recent years to tackle inflation are materializing only very gradually: it will have taken over three years to bring the annual rate of inflation in the Community down to single figures.

- 4 -

This target may be achieved in 1983, when the annual rate of price increases could fall back to 9.5% from 10.2% in 1982, 10.9% in 1981 and 11.1% in 1980. This recent and foreseeable trend of prices in the Community shows two striking features. First, inflation is proving difficult to eradicate at a time when the Community economy is very probably at the bottom of the cycle. This situation contrasts sharply with that obtaining in the period 1975-78. Second, the patterns in Member States differ appreciably. Germany and the Netherlands could make further substantial headway against inflation in 1982-83, and an improvement on this front is also under way in the United Kingdom. But by contrast, further steps are needed to rein back the continuing high levels of inflation in the rest of the Community in order to bring about the measure of convergence needed to secure the monetary cohesion of the Community.

4. In 1983, the Community could reduce its current account deficit to some US \$ 2 200 million, from US \$ 9 900 million in 1982. An important point is that, over the two years in question, the United States' current account balance is expected to move in exactly the opposite direction (a surplus of over US \$ 8 000 million shrinking to some US \$ 3 000 million). Japan, on the other hand, is likely to record a further substantial increase in its current account surplus, which could be in excess of US \$ 20 000 million in 1983.

While the expected trend suggests that the Community economy as a whole will have more or less completely absorbed the external consequences of the second oil shock, developments in individual Member States are likely to differ sharply: for example, Germany, the United Kingdom and the Netherlands are expected to run quite substantial surpluses in 1982 and 1983.

5. While there is the possibility of a gradual upturn in economic activity during the third quarter of 1982 and in 1983 and the prospect of a change in the unemployment trend, the factors of uncertainty in such a scenario should not be overlooked. These factors are essentially the price of oil, interest rates and the investment behaviour of firms.

The experience of recent months suggests a moderate trend in the price of oil for 1982-83. However, the contribution that this would make to an upturn in economic activity by alleviating one of the main pressures on the balance of payments would be significant only if it were combined with a reasonable trend in the dollar rate, which in turn depends on a gradual easing of interest rates.

The prospect of a moderate deficit on the United States' budget for the 1983 fiscal year has been strengthened by the recent progress of discussions between the White House and Congress: agreement on this point might do much to trigger the kind of interest rate trend likely to consolidate an incipient economic recovery. But it will have to be ensured that interest rates will also be directly influenced by further tangible progress, over a sufficiently long period, in bringing down inflation, particularly in the United States. Because of their impact on investment, interest rates have in any case a crucial bearing on whether the Community will in fact see an upswing in 1982-83.

It is nevertheless possible that even an easing of oil prices and a limited fall in interest rates will not be sufficient to automatically trigger a rapid upturn in investment activity. In a period of falling inflation, firms may prefer initially to improve their debt position rather than to undertake major investments immediately. However that may be, firms' attitude to investment - which, it must be emphasized, will be a particularly critical element in consolidating any upturn in 1983 - will depend greatly on economic and monetary events at international level.

- 4 -

6. Given this scenario and the uncertainty surrounding it, the economic policy guidelines which the Commission set out in March 1982 can broadly be maintained. These guidelines can be summarized as follows:
- the progress made in reducing inflation is still precarious and particular vigilance is required in this field; this will have to be reflected in both monetary policy and the management of public finances, which still allow virtually no room for manoeuvre in most Member States. In countries which have a clear problem of controlling public expenditure, the first priority must continue to be a gradual but lasting reduction in deficits;
 - vigilance on the inflation front should not, however, rule out the possibility, once progress has been made in this field and the balance of payments situation has eased somewhat, that a policy aimed at steadily reducing interest rates might be recommended;
 - any signs of the balance on current account moving off-course must be countered by the rapid implementation of measures aimed primarily at permanently restoring competitiveness;
 - at Community level - and in addition to the joint moves to boost investment dealt with elsewhere - the EMS must be used as a means of achieving internal and external monetary cohesion and as a common framework for discipline and the coordination of economic policies.

CONFIDENTIAL

Table 1 - Main Economic Aggregates, 1980-83

	1980	1981	1982 (1)	1983 (1)	1980	1981	1982 (1)	1983 (1)
	GDP volume, % change				Private consumption, % change			
B	2,5	-1,1	0,5	1,3	6,5	7,6	10,2	8,6
DK	-0,2	-0,2	2,9	3,8	11,5	10,7	10,1	9,0
D	2,0	0,0	1,0	3,5	5,3	5,9	6,7	3,7
GR	1,6	-0,7	0,8	2,3	25,7	26,4	24,0	21,5
F	1,3	0,2	2,2	2,5	13,2	12,5	13,3	13,0
IRL	1,9	1,8	[2,2]	[2,7]	18,3	20,5	[18,5]	[13,0]
I	3,9	-0,2	1,8	2,8	20,4	19,0	15,0	13,5
L	0,7	-2,4	0,6	2,2	7,7	8,1	12,0	9,0
NL	0,6	-1,4	0,5	1,3	6,6	6,7	5,8	5,5
UK	-1,4	-1,2	1,3	1,9	15,5	10,7	9,5	8,4
EC	1,4	-0,5	1,5	2,6	11,1	10,9	10,2	9,5
USA	-0,2	2,0	-1,7	2,2	10,2	8,3	6,4	5,8
JAP	4,4	2,9	2,3	4,2	7,1	4,5	6,3	3,7
	Unemployment rate, % of civilian labour force				Current account of balance of payments, % GDP			
B	9,4	11,5	13,4	14,1	-5,2	-8,0	-4,8	-3,8
DK	6,2	8,5	8,9	8,7	-3,8	-3,1	-3,5	-3,6
D	3,4	4,8	6,7	6,7	-1,8	-1,0	0,6	0,9
GR	2,8	3,1	3,6	3,8	-2,4	-2,2	-2,1	-2,1
F	6,4	7,6	[8,7]	[8,9]	-1,3	-1,5	[-2,0]	[-1,2]
IRL	8,3	8,7	10,8	12,6	-8,4	-12,8	-10,2	-9,0
I	8,0	8,8	9,6	10,0	-2,5	-2,3	-1,6	-1,1
L	0,7	1,0	1,3	1,4	22,7	20,3	18,4	16,3
NL	4,8	7,5	9,9	10,7	-1,4	2,5	4,4	5,0
UK	6,9	10,6	11,7	11,8	-0,0	2,9	1,0	0,5
EC	6,0	7,9	9,2	9,4	-1,4	-0,6	-0,5	-0,2
USA	3,8	7,6	9,3	9,8	0,1	0,2	0,3	0,1
JAP	2,1	2,2	2,2	2,1	-0,1	0,4	1,0	2,0
	General government net lending (+) or borrowing (-), % GDP (2)				Money supply M2/M3, % change end of year (2)(3)			
B	-9,4	-13,1	-12,4	-11,0	(M2) 2,7	6,5	7,6	8,5
DK	-5,9	-7,2	-8,8	-10,0	(M2) 10,9	10,4	12,6	13,0
D	-3,5	-4,5	-3,9	-3,4	(M3) 6,2	5,0	5,5	6,5
GR	-5,4	-10,1	-9,2	-8,7	(M3) 24,7	34,3	29,1	20,0
F	0,5	-1,9	[-2,9]	[-3,3]	(M2) 9,7	11,4	[13,8]	[14,0]
IRL	-12,8	-15,1(3)	-14,4	-13,6	(M3) 16,9	18,4	15,6	15,4
I	-7,8	-11,9	-11,1	-10,8	(M3) 17,3	16,1	15,0	15,0
L	-1,8	-1,8	-1,9	-2,2	:	:	:	:
NL	-3,4	-4,6	-4,2	-3,8	(M2) 3,6	5,2	5,4	6,1
UK	-3,5	-2,4	-1,9	-1,5	(M3) 18,6	13,6	10,0	9,0
EC	-3,5	-5,1	-5,0	-4,8	11,4	10,5	10,7	10,9
USA	-1,2	-0,9	-3,3	:	10,1	9,5	:	:
JAP	-4,2	-4,0	-3,2	:	7,2	8,7	:	:

1) These forecasts were initially prepared in May 1982 and account must be taken of the fact that it was not possible, particularly in the case of France, to evaluate all the consequences of the monetary re-adjustment of 12 June 1982.

2) Financial years for the UK.

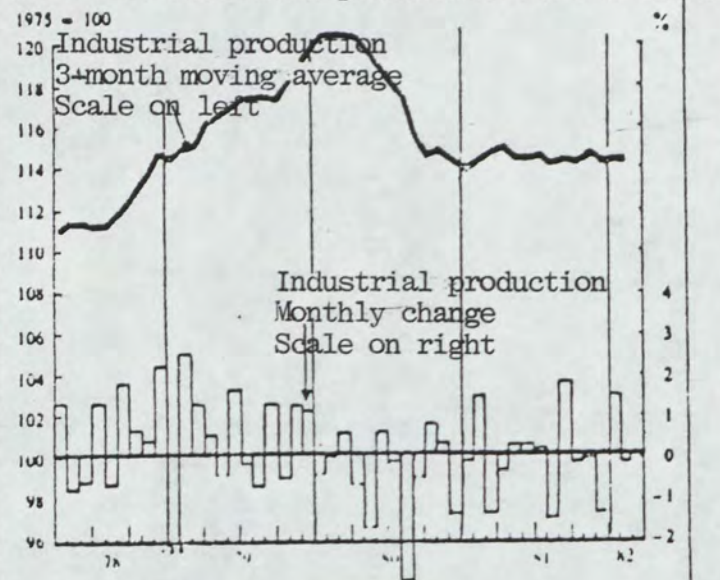
3) End-year on end-year.

4) Excluding private sector participation in investments amounting to 112 mill. IRL.

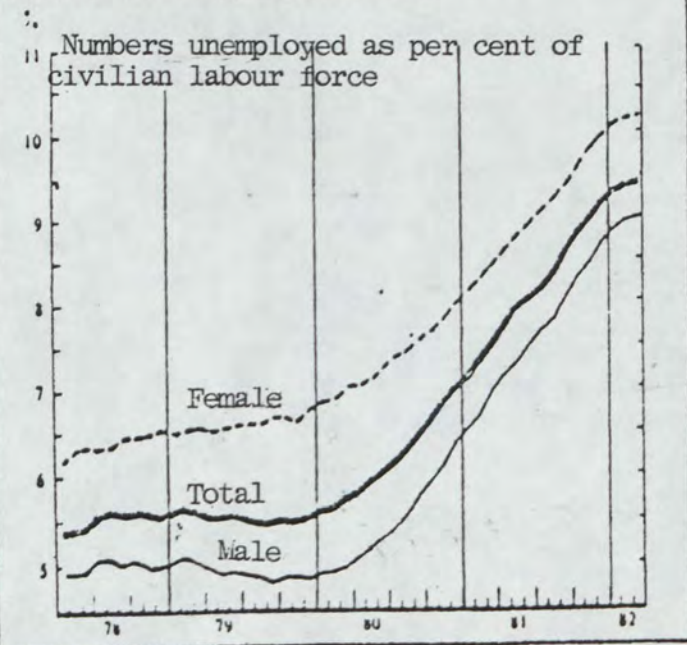
Source: Commission services, Economic forecasts 1982-1983, May-June 1982.

Graphs 1 to 5: Principal
Economic indicators
for the European Community

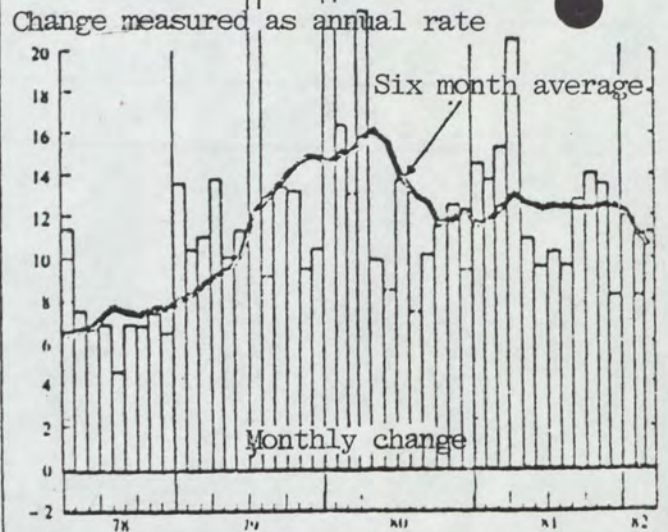
GRAPH 1: Industrial production and GDP EC 10



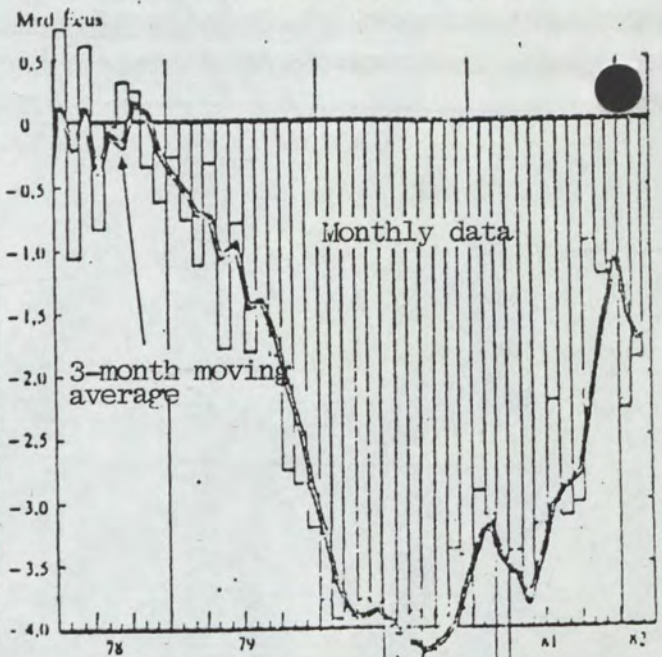
GRAPH 2: Unemployment EC 9



GRAPH 3: Consumer prices EC 10

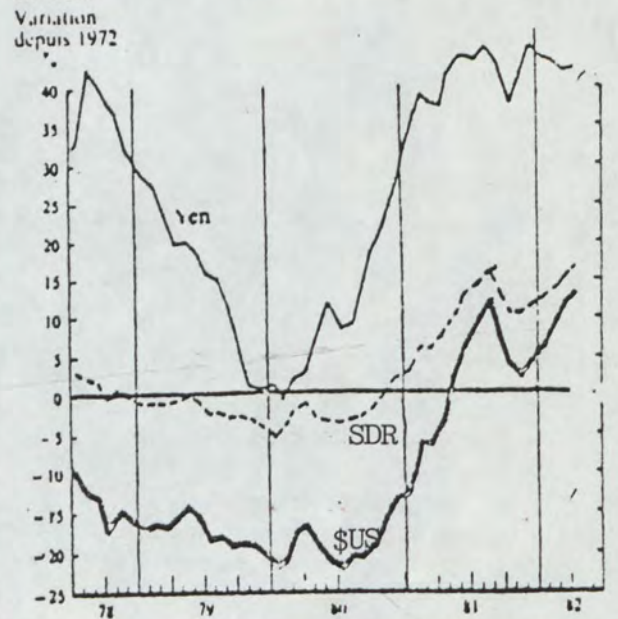


GRAPH 4: Trade Balance EC 9



From March 1981 the series is calculated on the basis of an estimate for the UK

GRAPH 5: Value of \$US, yen, and SDR in Ecus



PROVISIONAL VERSIONCOUNCIL RESOLUTION ON COMMUNITY ACTION TO
COMBAT UNEMPLOYMENT

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the conclusions of the various meetings of the European Council, and in particular of the meeting on 29 and 30 March 1982, concerning employment,

Having regard to the conclusions of the Council meeting of 11 June 1981 composed of the Ministers for Economic Affairs and Finance and Ministers for Labour and Social Affairs,

Having regard to the Commission's contribution concerning a "Community action programme to combat unemployment",

Considering the conclusions drawn by the Presidency following the meeting of the Standing Committee on Employment on 27 April 1982 devoted to examination of the problems of unemployment in the Community on the basis of the aforementioned Commission document, the importance of which was emphasized,

Convinced of the need to take concerted action, both at Community level and nationally, to combat unemployment and to restore economic growth in a situation of monetary stability, while continuing the fight against inflation and ensuring the competitiveness of Community undertakings, and in the hope that such an approach may also contribute to the achievement of improved convergence of the Member State's economic policies

Convinced of the need to continue or to undertake within this framework specific action at Community level on employment

Recalling its Resolution of 27 May 1982 on the promotion of equal opportunity for women

Convinced that it is essential for both sides of industry, within the framework of their autonomy and of their responsibilities, to contribute to the achievement of the objective of the fight against unemployment and that efforts should be continued to improve the dialogue between and with both sides of industry at Community level.

7307 e/82 (Presse 69)(ANNEX II) ood/SMS/jb

.../...

HEREBY ADOPTS THIS RESOLUTION:

The Council reiterates its grave concern at the persistently high level of unemployment, particularly among young people, which is creating an intolerable situation.

It considers that private and public productive investment should be promoted so as to strengthen the competitive capacity of undertakings, encourage economic growth and raise employment.

Measures by Member States with regard to private and public investment, to be carried out in accordance with the situation prevailing in each country, should take account of the repercussions on employment, particularly in the private sector and ensure that such measures do not lead to an unacceptable increase in budget deficits.

The Council notes certain priority areas for investment suggested by the Commission in its aforementioned contribution.

Without prejudice to the importance the Community attaches to the measures taken to help the least-favoured regions, particular attention should also be given to those regions most affected by unemployment, by effective and consistent use of the appropriate Community instruments.

The Council considers that it is important that labour market policies be oriented in such a way as to ensure the availability of an adequate and appropriately qualified labour force.

The Council considers that, in addition to the problems of investment rationalization, the industrial restructuring programmes must simultaneously give particular attention to the employment problems. National and Community authorities and both sides of industry should encourage geographical and occupational mobility. The latter could include the redeployment of workers affected by the restructuring measures, so that such workers are able to take up jobs made available in sectors which are creating employment.

It considers that the possibilities should be examined for promoting the development potential of small and medium-sized undertakings, which are a source of innovation and hence a factor for creating employment, by providing them, in particular, with appropriate assistance in areas such as training, know-how, information and access to credit, with a view to making them more competitive on the market.

It stresses its interest in the job-creation process, which is also apparent in local initiatives and co-operatives and requests the Commission to submit the results of its research and its thoughts on the matter to it so that it can assess the contribution of such initiatives to creating employment.

The Council stresses the priority which the Community must give to vocational training for young people. It has noted that the Commission intends to submit proposals to it shortly for measures aiming to ensure that all young people coming onto the labour market, and particularly school leavers, receive vocational training and initial work experience, if necessary under special programmes or contracts of employment.

Such measures should be compatible with the measures to integrate young people into the labour market and with other special measures, particularly those to help the long-term unemployed, and should fit into the general framework of the strategy to be implemented to combat unemployment as a whole.

Given the potential value of experiments into and measures on the adaption and sharing of working time with a view to more flexible use of production resources and improving the employment situation, the Council also considers that, following the initial proposals made by the Commission for implementing the Council Resolution of 18 December 1979 on the adaption of working time, the dialogue with and between both sides of industry regarding the number of working hours must now be continued within the framework outlined in the Resolution. It notes that the Commission is to submit a memorandum on the matter to it before the end of 1982.

The Council notes that the Commission intends to promote better functioning and transparency of the labour market and to discourage obstacles to its effective operation with the participation of public authorities, employers and labour, in order to ensure that the proposed job-creation measures are successful and to facilitate implementation of the necessary training measures, in particular by developing forward-looking management of the labour market, local labour market intelligence and by improving employment services.

It requests the Commission to submit to the Council, taking account of this Resolution, appropriate proposals or communications as part of a co-ordinated Community approach to combatting unemployment, which could be submitted in the second half of this year to a special Council meeting, as suggested by the European Council at its last meeting, and which could be the subject of prior consultation with both sides of industry in the Standing Committee on Employment, taking into account the latter's areas of competence.

7307 e/82 (Presse 82)(ANNEX II) ood/SMS/das

Commission Paper on Investment for European Council

In line with the conclusions reached by the European Council on 29 and 30 March 1982 and at the ensuing meetings of the Council, the Commission sent the Council an initial report on investment.

The report is primarily an analysis of the situation; the present Communication draws from that analysis the immediate conclusions on which future work will be based.

1. All the analyses point to a decline in investment in the Community and a relative fall in the Community's share of exports of plant and equipment and of high-technology goods. The priority accorded to investment by economic policymakers is thus consistent with two objectives:

- economies with a high standard of living which are heavily dependent on foreign trade and whose principal asset is their innovative skills must be competitive at home and abroad;
- economies must be able to adapt to new demand conditions and to ever-changing markets, i.e. they must be in a position to supply the goods and services best suited to market needs.

If these two objectives are not met, i.e. if the Community economies fail to harness their investment potential, there will be no adequate and sustained response to the problem of unemployment. This link between investment, competitiveness and employment needs to be jointly recognized by the public authorities and by all those involved in business activity.

2. To a very large degree, a lasting recovery in investment will depend on the overall economic situation. Two conditions must be achieved as a matter of priority:

- a more settled international environment, i.e. more stable exchange and interest rates, more reliable prospects for open international trade and a smooth recycling of capital;

- a more stable framework within the Community, i.e. successful policies to combat inflation and to shrink excessive deficits.

Implementation of the Community's proposals both in the monetary sphere and for closer convergence of the economies would make for tangible progress in this direction.

3. Whereas public-sector investment should be stepped up as a means of reinforcing economic structures and boosting employment, it has been declining steadily in recent years, whether expressed as a proportion of GNP or of national budgets. Yet investment can be raised only within the - in many cases tight - limits imposed on Member States by the need for strict budgetary management.

It is against this background, which will entail difficult budget trade-offs, that we have to view the need for Member States to make more room in their budgets for public spending to promote investment and training and hold down production costs, i.e. to bring about sustained growth in the economy and in employment. The Commission will take account of this need for a policy rethink in the proposals for Member States' 1983 budgets, that it will send to the Council in July.

In order to ensure that this new approach has the necessary continuity and scope, the Commission recommends that Member States plan medium-term budget programmes that will guarantee, within a controlled budgetary pattern, an increasing share for investments geared to fostering economic growth.

4. Low investment is also attributable to a number of handicaps: poor profitability, financing constraints, inadequate labour skills, and legislation constricting the economic use of capital. Prime responsibility for the decisions needed to remove these obstacles lies with the Member States, which have the legislative power, the financial resources and the armoury of the national budget.

However, the Community must be involved in the formulation and implementation of such policies in three main ways:

- in exploiting more systematically the advantages stemming from a single market large enough to underpin the expansion of industrial activities that are competitive internationally;
- in the joint assessment of the effectiveness of Member States' policies to promote investment and, by comparing experiences, in the process of devising the most effective rules and financial mechanisms for boosting investment;
- in establishing ground rules for initiatives launched at national level, with the two-fold aim of meeting the Commission's Treaty obligations in the areas of aid and competition and of ensuring that national policies are mutually consistent and have the utmost economic impact.

The Commission will put up further proposals on these various points in addition to the ones it has already presented.

5. There are two particular areas in which the Community must contribute directly to the joint investment effort:

- it must assume an increasingly active role in the common energy strategy, a key feature of which is a major programme of investment in energy production and energy efficiency;
- it must also be involved in policies for modernizing the economy by assisting the process of adapting production structures to the changing pattern of demand, notably with help to technical and technological renewal.

The Commission has already put forward proposals in this connection and would like to see the work currently in hand producing concrete results in the very near future.

6. Lastly, the Commission considers that a significant and sustained expansion of the Community's credit instruments for financing investments would make a major contribution to the general investment effort.

In line with the conclusions reached by the European Council in November 1981, the Commission will in July propose an increase in the resources of the MCI, with the intention that measures to modernize industrial structures should have a priority claim on the new resources.

+
+ +

At this juncture, the Commission is proposing a general framework for an active investment policy designed to improve economic structures and ameliorate the employment situation. This framework will be fleshed out in the second half of the year by further communications and proposals.

The Commission requests the European Council:

- to assert unequivocally the need for investment as a means of returning to a healthier growth path and improving the employment situation;
- to take up as jointly agreed guidelines the broad thrust of the analysis and measures at both national and Community level, proposed by the Commission;
- to reaffirm that, since a prerequisite for higher investment is the restoration of a more stable economic environment in Europe and throughout the world, the Community ought to take an active part in international cooperation initiatives directed towards this end and, in particular, in the implementation of the conclusions reached at the Versailles summit meeting;
- to decide that, where each of them is concerned, Member States will take account of the priority to be accorded to investment growth in formulating their economic policies and in deciding on the structure and future shape of their budgets;

- to acknowledge that it is in the common interest to expedite the establishment of a single market; to introduce a Community code of ground rules for national initiatives which will guarantee that they are mutually consistent and obtain the utmost impact; and to ensure that joint action is vigorously pursued in two areas of special importance, viz. the energy strategy and the adjustment to a new demand structure, inter alia by expanding the Community's lending facilities.

In conclusion, the Commission requests that the European Council instruct the competent institutions to pursue their work with all due dispatch and that it report back to the Commission.

CONFIDENTIAL

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

EHG(B2) (82)3

Addendum 2

COPY NO.

1

25 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

1. The two Commission papers on the Economic and Social Situation in the Community and on Investment have now been received. This Addendum draws out the main points.

Economic and Social Situation

2. The Commission's paper is generally helpful and is broadly in line with the analysis and policies agreed at the OECD Finance Ministers' meeting, the IMF Interim Committee and the Versailles summit. Reducing inflation is seen as the Community's first priority, and the need to restore competitiveness and reduce fiscal deficits feature prominently.

3. The Commission thinks that the main economic policy targets of Member states do not need to be amended. It sees these as four priority areas:

- i) "a more stable economic and monetary environment is a prerequisite for a return to a healthier growth path"; this requires a renewed attack on inflation and more international monetary cooperation as outlined at Versailles
- ii) "the modernisation of economic structures" requiring more investment (viz second paper)
- iii) greater convergence of economic policies to achieve lower inflation, the reorganisation of public finances, cost stabilisation, external equilibrium and growth
- iv) implementation of the Social Affairs Council's Resolution of 27 May which is annexed to the main Commission paper and calls for the promotion of more private and public productive investment; but the resolution also notes that public investment should not jeopardise control of budget deficits.

CONFIDENTIAL

CONFIDENTIAL

4. The Commission's economic forecast is slightly more pessimistic than in March, though it still predicts economic activity picking up in the third quarter, giving an average GDP growth for the Community of around $1\frac{1}{2}$ per cent in 1982. A warning is sounded (paragraph 3 on page 3) of the length of time the Community is taking to reduce inflation, though the UK, Germany and Netherlands are noted to be making progress. Usefully the Commission warns (paragraph 3 on page 4) that the rest of the Community needs to take further steps "to rein back the continuing high levels of inflation". The Community's external current account should in aggregate be close to balance next year (see Table 1 of Main Economic Aggregates), though Belgium, Denmark and (especially) Ireland will still be in serious deficit, and France and Italy will still have small problems.

5. Some typing errors have crept into Table 1: the square brackets indicating need for revisions should always surround the French figures, rather than the Irish (as in the top two tables), and the top right hand table should be labelled 'Implied price index of private consumption, % change' ie the rate of consumer price inflation.

6. The Commission's conclusions are summarised on Page 6 in the form of four policy guidelines.

(i) Monetary and budgetary policy will have to continue to reflect the need for progress in reducing inflation. Countries with budgetary problems must give priority to reducing deficits. The UK of course can point to domestic progress on this part and support similar efforts by others.

(ii) Once progress has been made in reducing inflation and easing the external payments situation, policy should aim to reduce interest rates. This may be a veiled reference to an easing of monetary growth targets, but our view would be that the fall in inflation should itself help to reduce interest rates.

(iii) Deterioration of the balance of payments should be met by measures to improve competitiveness permanently. We should interpret this as better performance on costs and non-cost aspects of competitiveness.

(iv) The EMS should be used as a framework for discipline and the co-ordination of economic policies. The French decision to stay in the EMS at least for the present has probably given this argument a

CONFIDENTIAL

further lease of life. The UK of course has its own reasons for not joining the EMS exchange rate mechanism but its policies are designed to counter inflation and so should be consistent with those of other EMS members doing likewise.

Investment

7. The Commission's short paper on investment has a faintly dirigiste tone in places but is basically correct in stressing that the prerequisite for higher investment is a more stable economic environment. It accepts (paragraph 3 page 2) that, while public sector investment has declined as a proportion of GNP or of national budgets, it can only be raised subject to the limits imposed by strict budgetary management. No mention is made, however, of the need for investment to be productive investment, and only a passing reference (paragraph 4 page 2) is made to the need to restore profitability.

8. The Commission makes several requests to the Council on pages 4 and 5. We can agree on the broad stress on investment and the need for a stable economic environment to encourage it; we can agree too on the need to establish a single market (presumably for capital). The UK's record in abolishing exchange controls is good. The vague proposal to establish "a Community code of ground rules for national initiatives" (presumably to check on investment or regional grants) is not welcome as it might lead to vast bureaucratic exercises. We can acknowledge the importance of continued vigorous efforts to some energy. We are less enthusiastic about expanding the Community's lending facilities, but we can wait until the Commission makes a specific proposal in due course.

H M TREASURY

25 June 1982

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

EHG(B2)(82)4 Revise 1
23 June 1982

COPY-NO. 1

EUROPEAN COUNCIL, BRUSSELS,
28/29 JUNE 1982

GENSCHER-COLOMBO PROPOSALS/LUXEMBOURG COMPROMISE

OBJECTIVES

1. The Presidency will not be making a report on the Genschler/Colombo proposals and the subject will not come up formally. If a suitable informal opportunity arises the Prime Minister could re-emphasise the importance we attach to the maintenance of the Luxembourg Compromise.

POINTS TO MAKE

Luxembourg Compromise

2. Remain very concerned about events of 18 May. Very sensitive issue in UK Parliament. Ability of Member State to have majority decision deferred where it considers its important national interests are at stake one of the basic elements in the case presented to Parliament in 1971 for membership. Member State must be sole judge of its important interests.

3. Note support by four other Member States on 20 June for continuation of practice since 1966 of deferring majority vote where a Member State considers its important interests are at stake. Hope this means that practice followed by Community since 1966 will continue to operate. Will have to see how this works out in practice.

BACKGROUND

References:-

- A: Latest text of the Genscher/Colombo proposals
- B: Commentary by officials on the Text
- C: Text of Luxembourg Compromise
- D: Luxembourg Tels nos 210 and 217 reporting Foreign Ministers' discussion on 20 June.

Luxembourg Compromise

4. At the Foreign Ministers' meeting on 20 June, the Foreign and Commonwealth Secretary made clear the Government's view that where a Member State considers that very important interests are at stake, discussion must be continued until unanimous agreement is reached. This position was supported unreservedly by Denmark and Greece and with qualifications by France and Ireland. The others, with varying degrees of emphasis supported the legal interpretation of the Treaty but did not seek to reopen the Luxembourg Compromise.

5. The Luxembourg Compromise of 1966 was an agreement to differ with only the French maintaining the view that majority decisions must be deferred, where a Member State considers its important national interests to be at stake. There is no prospect that the five Member States who refused to accept this interpretation of the Luxembourg Compromise in 1966 will do so now, though they may well be prepared to acquiesce in the continuation of the practice since 1966. While there is no prospect of agreement by Heads of Government on this issue it would be helpful to get a clear statement of positions, in particular from President Mitterrand.

Genscher/Colombo Proposals

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. The European Council invited Foreign Ministers, in consultation with the Commission, to examine and clarify the proposals and report back to a future meeting of the European Council.

6. At their meeting on 24 May, the Foreign Ministers asked the ad hoc group to try to produce an agreed text which they would consider at their meeting on 20 June. In the event, Foreign Ministers had only a brief discussion on 20 June, and resolved few of the outstanding points. They agreed however that the ad hoc group would continue its work under the Danish Presidency. Adoption of a final text is likely to be delayed for some time since the Danes have shown little enthusiasm for the proposals. The Presidency do not propose to report on progress to the European Council.

7. The proposals do not amount to a great deal in substance. It has been accepted that no Treaty amendment or changes in the formal powers of the institutions will be involved. The proposals will, therefore, merely provide for improvements in the operation of the Community institutions within the framework of the Treaties; improved coordination between Treaty and non-Treaty activities; and the possibility of extending cooperation among the Ten into new areas.

Foreign and Commonwealth Office
23 June 1982

P R E A M B L E

The Heads of State or Government of the Member States of the European Communities, meeting within the European Council:

- resolved to continue the work begun on the basis of the Treaties of Paris and Rome and to create a united Europe, which is more than ever necessary in order to meet the dangers of the world situation and which is able to assume the responsibilities incumbent on it by virtue of its political role, its economic potential and its manifold links with other peoples;
- considering that the European ideal, the achievements in the fields of economic integration and political co-operation, and the need for new developments reflect the wishes of the democratic peoples of Europe, for whom the European Parliament, elected by universal suffrage, is an indispensable means of expression;
- determined to work together to promote democracy on the basis of the fundamental rights recognized in the constitutions and laws of the Member States and in the European Convention for the Protection of Human Rights, notably freedom, equality, social justice (and the right to work) (2);

(1) Title still to be decided. The text of the preamble and of paragraphs 2.3.1., 2.3.2., 4.1. and 4.3. will have to be amended in the light of the decision taken.

(2) Reservations by two delegations.

CONFIDENTIAL

- convinced that, in order to resolve the serious economic problems facing the Member States, the Community must strengthen its cohesion, regain its dynamism and intensify its action in areas hitherto insufficiently explored;
- resolved to accord a high priority to the Community's social policy and in particular to the problem of employment, (thus creating a genuine European social area; ⁽¹⁾

(thus developing the social dimension of the European Community;) ⁽¹⁾
- convinced that, by speaking with a single voice in foreign policy, including political aspects of security, Europe can contribute to the preservation of peace;
- recalling their decisions taken in Paris on 21 October 1972 and 10 October 1974, the Document on the European Identity of 14 December 1973 and the statement made by the European Council in The Hague on 30 November 1976 concerning the progressive construction of European Union;
- determined to achieve a comprehensive and coherent common political approach and reaffirming their will to transform the whole complex of relations between their States into a European Union,

HAVE ADOPTED THIS ACT:

⁽¹⁾ Alternative texts.

.../...

1. OBJECTIVES

- 1.1. The Heads of State or Government, on the basis of an awareness of a common destiny and the wish to affirm the European identity, confirm their commitment to establishing an ever closer union among the peoples and Member States of the European Community.

- 1.2. The Heads of State or Government reaffirm the Declaration on Democracy adopted by the European Council on 8 April 1978 which stated that respect for and maintenance of representative democracy and human rights in each Member State are essential elements of membership of the European Communities.

- 1.3. In order to achieve ever increasing solidarity and joint action, the construction of Europe must be more clearly oriented towards its general political objectives, more efficient decision-making procedures, greater coherence and close co-ordination between the different branches of activity, and the search for common policies in all areas of common interest, both within the Community and in relation to non-member countries.

.../...

CONFIDENTIAL

1.4. Desiring to consolidate the progress already made towards European Union in both the economic and political fields, the Heads of State or Government reaffirm the following objectives:

1.4.1. to strengthen and continue the development of the Communities, which are the nucleus of European Union, by reinforcing existing policies and elaborating new policies within the framework of the Treaties of Paris and Rome;

1.4.2. to strengthen and develop European political co-operation through the elaboration and adoption of joint positions and joint action on the basis of intensified consultations in the field of foreign policy, including the co-ordination of the positions of Member States on the political aspects and certain economic aspects of security. [This co-operation in the field of foreign policy must lead to the search for a common foreign policy] ⁽¹⁾;

⁽¹⁾ Addition requested by two delegations.

1.4.3. to promote, to the extent that these activities cannot be carried out within the framework of the Treaties:

- closer co-operation on cultural matters, in order to affirm the awareness of a common cultural heritage as a part of the European identity;
- approximation of certain areas of the legislation of the Member States in order to facilitate contacts between their nationals;
- a common analysis and concerted action to deal with international problems of law and order, serious acts of violence, organized international crime and, in general, international lawlessness.

2. INSTITUTIONS

The Heads of State or Government emphasize the importance of greater coherence and close co-ordination between the existing structures of the European Communities and European political co-operation at all levels so that comprehensive and consistent action can be taken to achieve European Union.

Matters within the scope of the European Communities are governed by provisions and procedures laid down in or pursuant to the Treaties of Paris and Rome and in agreements supplementing them. In matters of political co-operation, procedures apply which were agreed on in the Luxembourg (1970), Copenhagen (1973) and London (1981) reports, and other procedures to be agreed on, if necessary.

2.1. THE EUROPEAN COUNCIL

2.1.1. The European Council brings together the Heads of State or Government and the Ministers for Foreign Affairs of the Member States, as well as the President and a Member of the Commission.

2.1.2. In the general perspective of European Union, the European Council:

- provides a general political impetus to the construction of Europe;
- defines general orientations to further the construction of Europe and issues general political guidelines for the European Communities and European political co-operation;

.../...

- deliberates upon matters concerning European Union in its different aspects with due regard to consistency among them;
- initiates co-operation in new areas of activity;
- solemnly expresses the common position in questions of external relations.

2.1.3 Whenever the European Council acts in matters within the scope of the European Communities, it does so in its capacity as the Council within the meaning of the Treaties.

2.1.4 The European Council will present a report to the European Parliament after each of its meetings. This report will be presented at least once during each Presidency by the President of the European Council.

The European Council will also submit a written annual report to the European Parliament on progress towards European Union.

In the debates to which these reports give rise the European Council will normally be represented by its President or one of its members.

.../...

2.2 THE COUNCIL (AND THE MINISTERIAL MEETINGS) ⁽¹⁾

2.2.1 The consistency and continuity of the work needed for the further construction of European Union as well as the preparation of meetings of the European Council are the responsibility of the

either ⁽¹⁾ { (Council composed of Ministers for Foreign Affairs)

or ⁽¹⁾ { (Council (General Affairs) in areas within the scope of the European Communities, and of meetings of the Ministers for Foreign Affairs in other areas) ⁽¹⁾.

⁽¹⁾ The solution here will depend on the solution adopted for paragraph 2.2.2.

.../...

2.2.2.

either (1)

With a view to bringing the institutional apparatus of the Community and that of political co-operation closer together, the Council acts in matters for which it is competent under the Treaties in accordance with the procedures laid down by the latter, and deals also, in accordance with the appropriate procedures, with all other areas of European Union, particularly with matters coming within the scope of political co-operation. In the case of the latter, agreements reached do not constitute acts within the meaning of the Treaties.

or (2)

With a view to bringing the institutional apparatus of the Community and that of political co-operation closer together, the Council deals with matters for which it is competent under the Treaties in accordance with the procedures laid down by the latter, and its members will deal also, in accordance with the appropriate procedures, with all other areas of European Union, particularly matters coming within the scope of political co-operation.

or (3)

With a view to bringing the institutional frameworks of the Communities and of political co-operation closer together, the Ministers for Foreign Affairs meet either as the Council or in political co-operation, whenever possible in the same place and consecutively in one or the other capacity, with due regard to the co-ordination and consistency of the matters dealt with.

-
- (1) Text supported by the majority of delegations.
(2) Text suggested by one delegation.
(3) Text suggested by one delegation.

2.2.3.

Vital importance is attached to the application of the decision-making procedures laid down in the Treaties of Paris and Rome in order to improve the European Communities' capacity to act.

Within the Council every possible means of facilitating the decision-making process will be used, including, in cases where unanimity is required, the possibility of abstaining from voting.

- either (1) [The Presidency will put decisions to the vote wherever the Treaties so provide, it being accepted that voting will be postponed if one or more Member States so request in order to defend a vital national interest.
- or (2) [The Presidency will put decisions to the vote wherever the Treaties so provide, it being accepted that voting will be postponed if one or more Member States so request in order to defend a vital national interest which is directly related to the subject under discussion, and which they confirm in writing.
- or (3) [The Presidency will put decisions to the vote wherever the Treaties so provide, it being accepted that voting may be postponed exceptionally if one or more Member States so request in order to defend a vital national interest, giving reasons in writing. In such cases, the question is placed on the agenda for the next Council meeting, which then decides.
- or (4) [The Presidency will put decisions to the vote wherever the Treaties so provide.

-
- (1) Text preferred by two delegations.
(2) Text preferred by two delegations.
(3) Text preferred by three delegations.
(4) Text preferred by two delegations.

.../...

2.2.4 To attain the objective of a Europe speaking with a single voice and acting in common in the field of foreign policy, the Member States will make a constant effort to increase the effectiveness of political co-operation and will seek, in particular, to facilitate the decision-making process, in order to reach common positions more rapidly.

They recently adopted new arrangements recorded in the London report of 13 October 1981. In the light of experience they will continue in this direction, in particular by:

- strengthening the Presidency's powers of initiative, of coordination and of representation in relations with non-member countries;
- appropriately strengthening operational support for successive Presidencies, corresponding to the increasing tasks which they have to perform.

.../...

2.3. THE PARLIAMENT:

In the development of European Union the European Parliament will play its own essential role;

- either (1) [it must therefore be able to take part in that development and exercise appropriate review functions
- or (2) [it must therefore have the corresponding participatory powers and review functions
- or (3) [it must therefore be able to take part in that development and exercise the review functions which have been conferred on it by the Treaties or may subsequently be conferred on it

2.3.1. The European Parliament shall deliberate on matters relating to the European Communities, in accordance with the provisions and procedures laid down in the Treaties establishing the European Communities. In addition, it may [deliberate on] (5) [debate] (6) questions relating to political co-operation and other matters relating to European Union as defined in this Act.

(1) Text supported by or acceptable to the majority of the delegations.
 (2) Text supported by two delegations.
 (3) Text supported by two delegations.
 (4) It was suggested that the end of this sentence should be drafted as follows: "or which it [may now] [may subsequently] be recognized as having".
 (5) Text supported by most delegations.
 (6) Text supported by one delegation.

2.3.2. The European Parliament may submit oral or written questions to the Council [and to ministerial meetings] (1) and to the Commission in keeping with their respective powers as defined by the Treaties establishing the European Communities, by the texts on European political co-operation and by this (Act) (2).

Without prejudice to the provisions of the Treaties concerning consultation of the European Parliament, the European Parliament may place resolutions [giving an Opinion or a recommendation] (2) before [the European Council] (3), the Council, [ministerial meetings] (1) and the Commission in keeping with their respective powers on matters of major importance and general concern arising out of the Treaties establishing the European Communities, the texts on European political co-operation and this (Act) (2).

either (2)

- If the Parliament asks for a reply from the Council (from ministerial meetings) (1) and from the Commission, in keeping with their respective powers, to resolutions giving an Opinion or a recommendation, the latter shall comply with this request. (4)

or (5)

- If the Parliament seeks the Council's comments on the Opinions which it gives pursuant to the Treaties, the Council shall comply with this request.

(1) The solution adopted depends on the decision taken on 2.2.2.

(2) Text supported by several delegations.

(3) Reservations by several delegations.

(4) One delegation suggested that after the first paragraph the text should read as follows: "Without prejudice to the provisions of the Treaties concerning consultation of the European Parliament, the European Parliament may place resolutions giving an Opinion or a recommendation before the Council and the Commission. The Council and the Commission will respond in keeping with their respective powers if the European Parliament asks them to do so."

(5) Text supported by several delegations.

.../...

CONFIDENTIAL

2.3.3. The Presidency shall keep the European Parliament regularly informed through the Political Affairs Committee of the subjects of foreign policy examined in the context of European political co-operation.

Once a year the Presidency shall report to the European Parliament in plenary sitting on progress in the field of political co-operation.

2.3.4. [Before the appointment of the President of the Commission the President of the Representatives of the Governments of the Member States, shall seek the Opinion of the enlarged Bureau of the European Parliament.] (1)

(After the appointment of the members of the Commission by the Governments of the Member States a [n] [(investiture) (2) (confidence) (3)] (4) debate shall be held on the Commission's programme (5).) (6)

(1) Reservation by one delegation.

(2) Text supported by three delegations.

(3) Text supported by one delegation and the Commission.

(4) Text supported by the majority of the delegations.

(5) Alternative suggestion from the Presidency:

"After it has been formed, the Commission shall submit its draft programme to the European Parliament and shall adopt it after hearing the latter's Opinion".

(6) This subparagraph comes at least in part within the terms of reference of the Parliament. Some delegations consequently suggested that it be deleted. Other delegations were prepared to go along with the suggestion if the words "confidence" or "investiture" did not appear in the final text.

.../...

2.3.5. ["The Council will enter into talks with the European Parliament and the Commission with the aim of improving the conciliation procedure provided for in the Joint Declaration of 4 March 1975 within the framework of a new agreement and of extending it on that basis"] (1)

2.3.6. [Before the accession of a State to the European Communities, the Parliament shall be (consulted) (2) (heard) (3)] (4).

Before the conclusion of an associated agreement, the European Parliament shall be consulted.

[Similarly, before the conclusion by the European Communities of other significant and long-term international agreements concerning which consultation of the European Parliament is not already provided for, the European Parliament shall be consulted, taking into account the requirements of urgency.] (5)(6)

[The existing procedures for providing the European Parliament with confidential and unofficial information on progress in negotiations shall be extended, taking into account the requirements of urgency, to all significant international agreements concluded by the Communities.] (7)(8)

2.3.7. In the development of fundamental and human rights, special significance attaches to the Resolutions of the European Parliament.

(1) Text supported by several delegations and the Commission

(2) Text supported by several delegations

(3) Text supported by several delegations.

(4) Reservation by one delegation.

(5) Reservations by several delegations.

(6) One delegation suggested that the first three subparagraphs of this paragraph should read as follows:

"The European Parliament shall be consulted before:

- the accession of a State to the European Communities;

- the conclusion of an association agreement;

- the conclusion of other significant and long-term international agreements, taking into account the requirements of urgency and confidentiality."

(7) Reservations by three delegations.

(8) The Commission was understood to be planning a move in this direction.

1.4. THE COMMISSION

The Heads of State or Government underline the particular importance of the Commission as guardian of the Treaties of Paris and Rome and as a driving force in the process of European integration. They confirm the value of making more frequent use of the possibility of delegating powers to the Commission within the framework of the Treaties. In addition to the tasks and powers laid down in those Treaties, the Commission is fully associated with European political co-operation and, where appropriate, with other activities within the framework of European Union.

1.5. THE COURT OF JUSTICE

The Court of Justice of the European Communities has an essential role to play in progress towards European Union, by securing compliance with and development of Community law. Taking account of the respective constitutional provisions in their States, the Heads of State or Government agree to consider, on a case-by-case basis, the inclusion in international conventions between Member States (provided for in the Treaty of Rome) ⁽¹⁾ of a clause conferring on the Court of Justice appropriate powers of interpretation.

⁽¹⁾ Addition requested by one delegation.

.../...

3. SCOPE

3.1. European Communities

The Heads of State or Government emphasize, in the light of the guidelines which the European Council adopted on (.....) in order to give a renewed impetus to the development of Community policies on a broad front, the importance of the following policies:

- 3.1.1 An overall economic strategy in the Community to combat unemployment and inflation and to promote convergence. Priority should be given to encouraging productive investment and raising competitiveness as a basis for creating durable jobs, bringing about sustained economic growth and reducing unemployment. In this context, effective action in the social field to alleviate unemployment should be taken at both the Community and the national levels;
- 3.1.2 Stronger economic disciplines and a more effective co-ordination of the national economic policies required for the achievement of the Community's overall objectives, in order to ensure that the main economic and sectoral objectives of the Member States are consistent with the maintenance and strengthening of the Community and with the object of consolidating the European Monetary System.

.../...

CONFIDENTIAL

- 3.1.3 Strengthening of the European Monetary System, which is helping to consolidate an area of monetary stability in Europe and to create a more stable international economic environment, as a key element in progress towards Economic and Monetary Union and the creation of a European Monetary Fund.
- 3.1.4 Definition of Community instruments and mechanisms which will permit action geared to the situation and specific needs of the least prosperous Member States in an effort to tackle their structural problems and thereby to ensure the harmonious development of the Community.
- 3.1.5 Strengthening of the common commercial policy and development of the external economic policy on the basis of common positions, given the importance of the Community's external relations. The Community will, in this way give effect to its special responsibility as the principal world trader and to its commitment to the open trading system.

In this context, national and Community development co-operative policies must be improved and co-ordinated so that they more fully reflect the needs of the developing countries and the interdependence between them and Europe, and Europe must play a stronger role as a catalyst in relations between the industrialized and developing countries.

.../...

CONFIDENTIAL

3.1.6. Completion of the internal market in accordance with the Treaties, in particular the removal of the remaining obstacles to the free movement of goods, capital and services, as well as the further development of a common transport policy.

3.1.7. Continued development of the common agricultural policy in harmony with other policies, respecting its objectives as defined in the Treaty and the principles of unity of the market, Community preference and financial solidarity, and taking into account the need to ensure a fair standard of living for the agricultural community and the need to achieve a better market equilibrium in some sectors,

either ⁽¹⁾

[(the importance of Mediterranean agricultural products for the development of these regions)

or ⁽²⁾

[(the particular importance of agriculture to certain regions)

(and the need to ensure that the rate of growth of agricultural expenditure will rise less rapidly than the Community's own resources) ⁽³⁾.

3.1.8. The development of an industrial strategy at Community level in order to strengthen industry, make it competitive and create productive jobs in Europe.

⁽¹⁾ Addition requested by two delegations.

⁽²⁾ Alternative addition proposed by one delegation.

⁽³⁾ Addition requested by one delegation.

.../...

Such a strategy must not consist solely of solving the difficulties of declining industries but also of encouraging industrial innovation.

As a complement to adequate notional efforts, there must be greater Community solidarity, particularly in the areas of energy and research. ⁽¹⁾

- 3.1.9. Development of the regional and social policies of the Communities, which implies in particular the transfer of resources to less prosperous regions, so that all Community policies and instruments can play their full role in promoting convergence and balanced development.
- 3.1.10. (Provision of the necessary own resources and financial instruments to enable the Community to develop policies in accordance with its objectives, together with means to ensure the use of these resources in the best and most rational manner.) ⁽²⁾

⁽¹⁾ Alternative suggestion by the Commission:

"Efforts made by industry and Governments in the areas of energy and research will be complemented by co-ordination and appropriate actions at Community level".

⁽²⁾ Reservations by two delegations.

.../...

3.2. FOREIGN POLICY

In order to cope with the ever-increasing problems of international politics, the necessary reinforcement of European political co-operation must be ensured, in particular by the following measures:

- intensified consultations with a view to permitting timely joint action on all major foreign policy questions of interest to the Ten as a whole;

- prior consultation with the other Member States in advance of the final adoption of positions on these questions. The Heads of State or Government underline their commitment to each Member State taking full account of the positions of its partners and giving due weight to the adoption and implementation of common European positions when working out national positions and taking national action;

- development and extension of the practice by which the views of the Ten are defined and consolidated in the form of common positions which then constitute a central point of reference for Member States' policies;

.../...

- progressive development and definition of common principles and objectives as well as the identification of common interests in order to strengthen the possibilities of joint action in the field of foreign policy;
- increased contacts with non-member countries in order to give the Ten greater weight as a partner in the foreign policy field;
- closer co-operation in diplomatic and administrative matters between the missions of the Ten in non-member countries;
- seeking a common stance at major international conferences attended by one or more of the Ten covering questions dealt with in political co-operation;
- increasing recognition of the contribution which the European Parliament makes to the development of a co-ordinated foreign policy of the Ten.

.../...

3.3. CULTURAL CO-OPERATION

With a view to complementing Community action and stressing that, as members of the Council of Europe, they maintain their firm support for and involvement in its cultural activities, the Heads of State or Government agree to promote, encourage or facilitate the following, taking account of respective constitutional provisions:

- development of the activities of the European Foundation and the European University Institute in Florence;
- closer co-operation between establishments of higher education, including exchanges of teachers and students;
- intensified exchanges of experience, particularly among young people, and development of the teaching of the languages of the Member States of the Community;
- improving the level of knowledge about other Member States of the Community and of information on Europe's history and culture, so as to promote a European awareness;
- examination of the advisability of undertaking joint action to protect, highlight and safeguard the cultural heritage;
- (examination of the possibility of promoting joint activities in the dissemination of culture, in particular as regards audio-visual methods) ⁽¹⁾;

⁽¹⁾ Reservation by one delegation.

.../...

- (more extensive contacts between writers of the Member States and wider dissemination of their works both inside and outside the Community) ⁽¹⁾;
- (closer co-ordination of cultural activities in non-member countries, within the framework of political co-operation.) ⁽²⁾

⁽¹⁾ Reservation by one delegation.

⁽²⁾ Reservation by one delegation.

.../...

EHG(B2)(82) 4 revise 1

ANNEX B

GENSCHER/COLC^{VR} PROPOSALS ON EUROPEAN UNIONCommentary on the revised textTitle

The Germans and Italians gave their original proposals the title "Act". We have asked for a different title since the word "Act" in the UK is used to denote legislation. The Presidency at one stage suggested "Document", which we could accept. The Germans regard it as too weak, however. Other alternatives which have been suggested are declaration, solemn declaration, resolution, charter, manifesto and action programme.

Preamble

The preamble reaffirms the commitment to create a united Europe through the progressive construction of European Union on the basis of the Treaties of Paris and Rome and the Political Cooperation arrangements. The text is generally acceptable apart from the reference to "the right to work" on which the UK has placed a reserve. We would also prefer to avoid the vague phrase "European Social area" in the 5th sub-paragraph.

Recommendation: We are, in practice, already committed to "the right to work" under the "European Social Charter" of 1961, which complements the European Convention on Human Rights. In order to avoid a specific reference to "the right to work" however, we proposed that the preamble simply endorse, without listing them, the fundamental rights "laid down in the European Convention on Human Rights and the European Social Charter". Luxembourg and Belgium did not accept this on the grounds that they had not ratified the Charter. We should maintain our proposal for the present, however, but should be prepared to accept "the right to work" if we are isolated in resisting it. We could also accept "European Social Area" if isolated.

Part 1 : Objectives

This section reaffirms the commitment to create "an ever closer union" of the peoples of Europe by strengthening and developing the European Communities and the Political Cooperation arrangements. There is also a reference, proposed by the UK, to the Declaration on Democracy adopted by the European Council on 8 April 1978.

Recommendation: The text as a whole is acceptable to the UK.

Part 2 : Institutions

Introduction

This section emphasises the importance of the closest possible coordination between the existing structures of the Communities and Political Cooperation, while making clear that each will continue to be prepared according to the existing procedures.

Recommendation: Accept.

2.1 The European Council

This section defines the composition and functions of the European Council, and provides for the President of the European Council to make a statement to the European Parliament once during each Presidency.

Recommendation: Accept. No change in the existing arrangements is envisaged.

2.2 The Council (and Ministerial meetings)

This section is intended to promote greater coherence at Ministerial level between Community business and Political Cooperation. We support this aim. All member states except Denmark, can accept the first or second alternatives of paragraph 2.2.2 which provide that "the Council" shall henceforth consider

both Community business and Political Cooperation matters but that each will continue to be prepared according to existing arrangements and that agreements reached under Political Cooperation will not constitute acts in the sense of the Treaties. The Danes can only accept the third alternative which records the present position.

Recommendation: Either of the first or second alternatives would be acceptable to the UK.

2.2.3 Decision-taking in the Council

There are four different texts on majority voting for Ministers to choose from. The first two provide that the Presidency will have recourse to voting, where the Treaties provide for it but that a vote will be deferred at the request of one or more member states on the grounds that important national interests are involved. The second text specifies that the interests involved should be "directly related to the subject under discussion" and that reasons should be given "in writing". The third text provides that a vote would only be deferred "exceptionally" and that the question would be placed on the agenda of the next meeting of the Council, which would decide. The fourth text states simply that the Presidency will have recourse to voting where the Treaties provide for it.

Recommendation: In the light of the setting aside of our veto at the Agriculture Council on 18 May, our objective is to secure an agreed basis for decision-taking in the Council and, in particular, that a member state should be able to have a decision deferred where important national interests are involved. We should therefore press for the first text. We could not accept any of the other texts though we could give further consideration to the inclusion of a reference to the need to put reasons in writing, as in the second text if this commanded a ^{wide}~~weak~~ degree of

support. If, as is probable, it is not possible to secure unanimous agreement on any of the alternatives our objective should be to secure the agreement of as many member states as possible that a decision will be deferred where important national interests are involved.

2.2.4 Political Cooperation

This section reaffirms the importance of strengthening the Political Cooperation machinery, on the basis of the London Report of 13 October 1981, in order to attain the objective of a common foreign policy. It also provides for the Presidency to have appropriate "operational support" for the tasks it has to perform.

Recommendation: Accept.

2.3 The European Parliament

This section of the text has been prepared by the Committee of Permanent Representatives. A clear difference of view has emerged between the "maximalists" (Germany, Italy, and Benelux) who want to do as much as possible for the Parliament, and the "minimalists" (the UK, France, Denmark and Greece) who want to preserve the existing position with only marginal concessions to the Parliament. These differences are reflected in the numerous square brackets which appear in the text. A recommended line to take on each paragraph follows.

Introduction

Recommendation: We should continue to press for the first of the three alternative texts, which is acceptable to most other delegations. The other two texts suggest the need for enlargement of the Parliament's powers.

2.3.1. This paragraph reaffirms the Parliament's right to debate all matters relating to "European Union".

Recommendation: Accept, provided the final text states that the Parliament "may deliberate on" not "shall debate" Political Cooperation matters.

2.3.2. This paragraph deals with the response of the other institutions to Parliamentary questions, Resolutions and Opinions.

Recommendation: Accept, subject to the final text providing that the Council is only required to respond to Parliamentary opinions required under the Treaties and not to Resolutions which the Parliament may adopt in other fields. We should therefore press for the second alternative of the last sub-paragraph. We should also press for deletion of the reference to the European Council in the second sub-paragraph.

2.3.3. This deals with the Parliament's involvement in Political Cooperation matters.

Recommendation: Accept.

2.3.4. This deals with the Parliament's role in appointing the President of the Commission and in approving the Commission's programme.

Recommendation: We can accept a text providing that Member States should "seek the opinion" of, but not "consult", the Parliament's enlarged Bureau, about the appointment of the President of the Commission. We cannot accept an "investiture" or "confidence" debate on the Commission's programme.

2.3.5. This section deals with the Conciliation procedure, which will be the subject of separate discussions between the Council, the Parliament and the Commission.

Recommendation: We should like to see improvements in the operation of the procedure before considering extension of its application. The revised text sufficiently safeguards our position and is acceptable.

2.3.6. This deals with the Parliament's role in the conclusion of Treaties and other international agreements by the Community.

Recommendation: Our main concern is to ensure that the European Parliament does not acquire the right which our own Parliament does not have to be consulted about the progress of negotiations for all the Community's international agreements. We can therefore accept that the European Parliament shall "be heard", but not "consulted" before the conclusion of Treaties of Accession. We can accept that the Parliament should be "consulted" over association agreements since this is already provided under Article 238 of the EEC Treaty. We should also be prepared to accept extension of the existing procedures for informing (but not consulting) the Parliament about the progress of trade negotiation to cover all the Community's important international agreements. The practical implications of doing so would be small.

2.3.7. This provides for particular importance to be attached to European Parliament's resolutions in the field of human rights.

Recommendation: Accept.

2.4 The Commission

The text reaffirms the role of the Commission as guardian of the Treaties and "driving force" of the integration process, and confirms the value of delegating powers to the Commission "within the framework of the Treaties".

Recommendation: Accept. The text merely reaffirms the existing position.

2.5 The Court of Justice

The text reaffirms the important role of the Court of Justice and opens the possibility of the Court being given powers of interpretation in international conventions concluded between Member States.

Recommendation: The text is acceptable.

Part 3 : Scope

3.1 The European Communities

This section sets out the priorities for work within the framework of the Communities in language closely based on the agreed 30 May Mandate guidelines. It is therefore generally acceptable to the UK.

Recommendation: Accept, subject to ensuring that the section on the CAP (3.1.7) does not include a specific reference to Mediterranean agriculture, and that the section on Community resources (3.1.10), on which we and the Germans have placed reserves, is either deleted altogether or redrafted to make clear that the provision of "the necessary own resources" will not be automatic.

3.2 Foreign Policy

This section reaffirms the necessity of strengthening Political Cooperation through intensified consultation and coordination on foreign policy questions.

Recommendation: Accept. The text contains no commitments which have not already been accepted.

3.3 Cultural Cooperation

The text provides for the promotion of cultural cooperation on a Community basis, while respecting the work already being undertaken in this area by the Council of Europe. A number of specific areas for closer cooperation are listed.

Recommendation: Accept. The text merely provides for Ministers to "promote, encourage or facilitate" cooperation in the areas mentioned.

3.4 Approximation of laws

The text provides for the promotion of approximation of laws both within and outside the Treaty framework.

Recommendation: Accept, subject to deletion of the final sub-paragraph, which refers to cooperation in matters of "criminal and procedural law".

Part 4 : Final Provisions

This section provides for a review of progress towards European unification after five years. Some Member States want a commitment that this review will result in a "Treaty on European Union". Other Member States, including the UK, are unable to accept a commitment to a Treaty.

Recommendation: Accept, subject to there being no commitment to a future Treaty.

3.4. APPROXIMATION OF LAWS

- 3.4.1. Approximation of laws in areas within the competence of the European Communities will be pursued and intensified through effective use of the measures provided for in the Treaties.
- 3.4.2. With a view to complementing the approximation of laws within the European Communities, and having full regard, in particular, to the work of the Council of Europe, the Member States will endeavour to approximate their laws in other areas by having recourse to the appropriate instruments, including international conventions. A special effort will be made to implement or supplement without delay international conventions already negotiated between Member States in the Community framework, and notably those provided for by the Treaties.
- 3.4.3. Among the activities which can be conducive to the attainment of European Union, the following deserve special attention:
- the introduction of legal instruments which can strengthen co-operation among the judicial authorities of the Member States, notably in civil and commercial matters, and which can thereby make the administration of justice more efficient and less cumbersome;
 - a further approximation in the field of the protection of industrial and commercial property, consumer protection and, whenever necessary, in the field of the law relating to companies;
 - (co-operation in the area of the repression of infringements of Community law) ⁽¹⁾;
 - (co-operation in matters of criminal and procedural law.) ⁽²⁾

⁽¹⁾ Reservation by one delegation.

⁽²⁾ Addition requested by one delegation.

.../...

4. FINAL PROVISIONS

4.1. The Heads of State or Government stress the link between membership of the European Communities and participation in the activities described in this act.

4.2. European Union is being achieved by deepening and broadening the scope of European activities so that they coherently cover, albeit on a variety of legal bases, a growing proportion of Member States' mutual relations and of their external relations.

4.3. The Heads of State or Government will subject this act to a general review in order to take stock of the progress achieved towards European unification

- (1) or (2) { and to incorporate it in a Treaty on European Union.
or (3) { and to formalize it in an appropriate manner.

The Opinion of the European Parliament will be sought on this subject.

(1) General reservation by one delegation.
(2) Text supported by several delegations.
(3) Text supported by several delegations.

ENG (32) (82) 4 June 1

b) *Majority voting*

"I. Where, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more partners are at stake, the Members of the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council while respecting their mutual interests and those of the Community, in accordance with Article 2 of the Treaty.

"II. With regard to the foregoing paragraph, the French delegation considers that where very important interests are at stake the discussion must be continued until unanimous agreement is reached.

"III. The six delegations note that there is a divergence of views on what should be done in the event of failure to reach complete agreement.

"IV. The six delegations nevertheless consider that this divergence does not prevent the Community's work being resumed in accordance with the normal procedure".

CONFIDENTIAL

REF 1500

RESTRICTED

ANNEX D

EHG (B2) (82) 4 revise 1

RESTRICTED

FRAME GENERAL

DESKBY 210830Z

FROM LUXEMBOURG 202150Z JUN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 210 OF 20 JUNE 1982

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL 20 JUNE

MAJORITY VOTING AND THE LUXEMBOURG COMPROMISE

SUMMARY

1. IN A FIRST DISCUSSION FIVE MEMBER STATES (UK, DENMARK, GREECE: FRANCE AND IRELAND WITH QUALIFICATIONS) TOOK THE LINE THAT IF AN IMPORTANT NATIONAL INTEREST WAS AT STAKE VOTING SHOULD BE DEFERRED. THE OTHERS WITH VARYING EMPHASIS SUPPORTED THE LEGAL INTERPRETATION OF THE TREATY BUT DID NOT SEEK TO REOPEN THE LUXEMBOURG COMPROMISE. TINDEMANS REFUSED TO DRAW CONCLUSIONS. A LATER DISCUSSION AMONG MINISTERS ALONE CONFIRMED THE DIFFERENCES OF VIEW AND LED TINDEMANS TO CONCLUDE THAT EXISTING ARRANGEMENTS HAD BEEN NEITHER APPROVED NOR REJECTED. AN INTERIM REPORT ON THE GENSCHER-COLOMBO PROPOSALS WILL BE MADE TO THE EUROPEAN COUNCIL.

DETAIL

2. YOU OPENED THE DISCUSSION BY SAYING THAT YOU HAD EXPRESSED YOUR VIEW OF THE SITUATION ON 24 MAY: THE DECISION ON 18 MAY TO TAKE A VOTE WHEN THE BRITISH DELEGATION HAD MADE CLEAR THAT IMPORTANT NATIONAL INTERESTS WERE INVOLVED HAD CREATED DOUBT AND CONFUSION ABOUT THE COMMUNITY'S DECISION TAKING PROCEDURES.

3. THE KEY QUESTION TO BE ANSWERED WAS WHETHER THE PRACTICE OF CONTINUING DISCUSSION UNTIL UNANIMOUS AGREEMENT WAS REACHED WHERE A MEMBER STATE CONSIDERED ITS IMPORTANT INTERESTS TO BE AT STAKE REMAINED THE BASIS ON WHICH COMMUNITY BUSINESS WAS TRANSACTED. YOU ASKED FOR A CLEAR STATEMENT OF EACH MEMBER STATE'S POSITION ON THIS QUESTION.

4. YOU SAID THAT YOUR GOVERNMENT'S POSITION WAS QUITE CLEAR. THE UK HAD ALWAYS ACCEPTED THE USE OF MAJORITY VOTING IN ACCORDANCE WITH THE TREATIES, SUBJECT TO THE QUALIFICATION THAT, WHERE VERY IMPORTANT INTERESTS WERE AT STAKE, THE DISCUSSION MUST BE CONTINUED

RESTRICTED

/UNTIL

CONFIDENTIAL

CONFIDENTIAL

UNTIL UNANIMOUS AGREEMENT WAS REACHED. WHEN THE UK JOINED THE COMMUNITY WE HAD CLEARLY UNDERSTOOD THAT THE ESTABLISHED PRACTICE IN THE COMMUNITY SINCE 1966, WAS THAT WHERE A MEMBER STATE CONSIDERED ITS IMPORTANT NATIONAL INTERESTS WERE INVOLVED, NO VOTE WAS OR WOULD BE TAKEN AND THE DISCUSSION WAS CONTINUED UNTIL UNANIMOUS AGREEMENT WAS REACHED: AND THAT EACH MEMBER STATE WAS THE JUDGE OF WHAT CONSTITUTED ITS IMPORTANT NATIONAL INTERESTS. AT THE TIME OF ACCESSION THE WHITE PAPER PUBLISHED BY THE GOVERNMENT OF THE DAY TO EXPLAIN THE TERMS OF ENTRY TO THE BRITISH PEOPLE SET OUT THIS PRACTICE - THIS IMPORTANT SAFEGUARD OF A MEMBER STATE'S IMPORTANT INTERESTS. THE LUXEMBOURG COMPROMISE WAS THUS FOR US A FUNDAMENTAL PART OF THE BASIS ON WHICH WE JOINED THE COMMUNITY. IT CONTAINED AN INHERENT SAFEGUARD WHICH MANY MEMBER STATES HAD USED. YOU WANTED TO KNOW WHETHER THE PRACTICE FOLLOWED SINCE 1966 REMAINED THE BASIS ON WHICH COMMUNITY BUSINESS WAS CONDUCTED. YOU HOPED TO RE-ESTABLISH THAT THE POSITION REMAINED AS IT HAD BEEN BEFORE 18 MAY.

5. OLESEN (DENMARK) ENDORSED YOUR VIEWS. IN THE FOLKETING HE HAD BEEN ASKED AFTER THE EVENTS OF 18 MAY WHETHER THE COMPROMISE STILL EXISTED. HE HAD ANSWERED THAT IT DID, FULLY. IT MUST BE RIGHT FOR EACH MEMBER STATE TO ASSESS WHAT WAS FOR IT A VITAL NATIONAL INTEREST, THOUGH IT TOOK A RESPONSIBILITY IN DOING SO.

6. VAN AGT (NETHERLANDS) STRESSED THAT IN 1966 NO CHANGE HAD BEEN MADE TO THE TREATIES: IT HAD MERELY BEEN NOTED THAT THERE WERE DIFFERENT INTERPRETATIONS OF THEM. IT HAD BEEN AN AGREEMENT TO DISAGREE. AS FAR AS THE NETHERLANDS WERE CONCERNED THE TREATIES WERE THE BASIS OF THE COMMUNITY'S WORK. BUT THEY HAD TO BE USED IN A REASONABLE WAY. DISCUSSION SHOULD CONTINUE IN AN EFFORT TO REACH FULL AGREEMENT AS LONG AS THE ISSUE IN QUESTION ALLOWED. BUT IT WAS NOT RIGHT TO POSTPONE DECISION SO THAT PARALYSIS RESULTED. ON SOME ISSUES THE POINT COULD BE REACHED QUITE SOON WHEN THE TREATIES MUST BE APPLIED.

7. THORN SPOKE FOR THE TRADITIONAL VIEW THAT THE COMMUNITY SHOULD OPERATE ON THE TREATIES AND NOTHING BUT THE TREATIES. HE ADDED THAT THIS ISSUE HAD NEVER BEEN RAISED IN ALL THE NEGOTIATIONS FOR UK ACCESSION, WHATEVER BILATERAL DISCUSSIONS MIGHT HAVE TAKEN PLACE.

8. GENSCHER (FRG) SAID THAT VAN AGT HAD DESCRIBED THE SITUATION CORRECTLY. HE TOOK IT THAT NOONE WANTED TO CHANGE THE SITUATION WHICH HAD EXISTED 3, 6 OR 9 MONTHS AGO. VARFIS (GREECE) AGREED WITH YOU AND OLESEN. COLOMBO (ITALY) AGREED WITH VAN AGT. HE HAD PARTICIPATED IN THE FORMULATION OF THE LUXEMBOURG COMPROMISE, AND ACCEPTED HIS SHARE OF RESPONSIBILITY FOR IT. IT HAD SOLVED THE PROBLEM OF

CONFIDENTIAL

THE EMPTY CHAIR BUT HAD NOT BEEN INTENDED TO CHANGE THE TREATIES OR INTRODUCE A RIGHT OF VETO. FRANCE HAD INSISTED THAT DISCUSSION MUST CONTINUE BUT HAD NOT DEMANDED A VETO. FURTHERMORE IT WAS IMPORTANT THAT THE SEARCH FOR UNANIMITY SHOULD BE CONFINED TO THE ITEM UNDER DISCUSSION WITHOUT REFERENCE TO OTHER UNRELATED SUBJECTS.

9. CHEYSSON (FRANCE) SAID THAT THE FRENCH POSITION WAS UNCHANGED. WE WERE ALL BOUND BY THE TREATIES: BUT IT HAD BEEN NOTED IN 1966 THAT THERE WERE OCCASIONS WHERE A VOTE SHOULD BE DEFERRED. AS INDICATED IN THE FRENCH PROPOSAL FOR INSERTION IN THE GENSCHER-COLOMBO TEXT, THE IMPORTANT INTEREST AT STAKE SHOULD RELATE DIRECTLY TO THE ITEM UNDER DISCUSSION. THE WORK OF THE COMMUNITY MUST NOT BE PARALYSED, NOR SHOULD THE EXECUTION OF AN AGREED COMMUNITY POLICY BE PREVENTED. ON 18 MAY, HAD THE VOTE BEEN DEFERRED, THE COMMUNITY WOULD HAVE FOUND ITSELF WITH NATIONAL AGRICULTURAL POLICIES OUTSIDE THE SCOPE OF THE TREATIES.

10. COLLINS (IRELAND) SAID THAT THE COMPROMISE SHOULD BE MAINTAINED BUT RESORTED TO ONLY IN EXCEPTIONAL CIRCUMSTANCES. FLESCH (LUXEMBOURG) SHARED VIEWS EXPRESSED BY VAN AGT AND COLOMBO. THE LUXEMBOURG "CONCLUSION" WAS PART OF COMMUNITY HISTORY. THERE WAS NO NEED TO DISCUSS IT. A FORM OF WORDS WOULD BE DISCUSSED IN THE CONTEXT OF THE GENSCHER COLOMBO PROPOSALS, FOR IMPROVING THE COMMUNITY'S DECISION MAKING MECHANISM. DE KEERSMAEKER (BELGIUM) ADOPTED A LEGAL VIEW. THE TREATY RULES HAD TO APPLY. THE LUXEMBOURG COMPROMISE HAD MERELY RECORDED DIFFERING INTERPRETATIONS OF THE TREATIES. HE ALSO NOTED THAT MAJORITY VOTING COULD ONLY TAKE PLACE ON A COMMISSION PROPOSAL, AND IT WAS FAIR TO ASSUME THAT IN MAKING ITS PROPOSAL THE COMMISSION HAD TAKEN ACCOUNT OF THE INTERESTS OF ALL MEMBER STATES.

11. TINDEMANS NOTED THAT AS IN 1966 THERE WAS DISAGREEMENT AND SUGGESTED FURTHER DISCUSSION IN THE CONTEXT OF THE GENSCHER COLOMBO PROPOSALS. YOU ACCEPTED THAT THERE WAS DISAGREEMENT, BUT IT WAS ALSO TRUE THAT FIVE MEMBER STATES HAD SUPPORTED THE VIEW SET OUT IN THE LUXEMBOURG COMPROMISE THAT "WHERE VERY IMPORTANT INTERESTS ARE AT STAKE, THE DISCUSSION MUST BE CONTINUED UNTIL UNANIMOUS AGREEMENT IS REACHED". (YOU ACKNOWLEDGED THAT CHEYSSON AND COLLINS HAD EACH ADDED QUALIFICATIONS.) YOU THOUGHT IT IMPORTANT THAT TINDEMANS SHOULD RECORD THIS IN HIS SUMMING UP: THE POSITION WAS DIFFERENT FROM THAT IN JANUARY IN 1966. THE CRITICALLY IMPORTANT THING FOR THE UK WAS THAT BUSINESS WOULD CONTINUE TO BE CONDUCTED ON THE SAME BASIS AS DURING THE 16 YEARS AFTER 1966. TINDEMANS CONTINUED

CONFIDENTIAL

TO RESIST, AND GENSCHER INSISTED THAT THERE SHOULD BE NO DECISION ON THE MATTER. YOU NOTED THAT GENSCHER HAD ALSO SAID THAT IN HIS VIEW NOTHING HAD CHANGED. TINDEMANS THEN TURNED TO DISCUSSION OF THE GENSCHER COLOMBO PROPOSALS.

12. WHEN DISCUSSION OF THE GENSCHER/COLOMBO TEXT REACHED THE PASSAGE ON MAJORITY VOTING A MINISTERS ONLY SESSION WAS ARRANGED. EXISTING DIVISIONS OF OPINION WERE CONFIRMED. IT BECAME CLEAR AFTER SOME DISCUSSION THAT NO AGREEMENT WOULD BE POSSIBLE. CHEYSSON SAID SO AND VAN AGT SEEMED TO START FROM THAT ASSUMPTION. GENSCHER STATED THAT HE COULD ACCEPT NO MAJOR DEPARTURE FROM HIS DRAFT. OLESON AND VARFIS SUPPORTED ME IN EXPRESSING RESERVATIONS ABOUT THE IDEA THAT THE NATIONAL INTERESTS INVOKED SHOULD BE DIRECTLY RELATED TO THE ITEM UNDER DISCUSSION, ASKING WHO WOULD BE THE JUDGE.

13. THE QUESTION WAS POSED WHETHER THE DOCUMENT AS A WHOLE MIGHT BE AGREED WITHOUT ANY PASSAGE ON VOTING. MINISTERS WOULD RETURN TO THE QUESTION.

14. GENSCHER THOUGHT THAT THERE SHOULD BE AN INTERIM REPORT TO THE EUROPEAN COUNCIL. THIS WAS AGREED.

15. GENSCHER ALSO SAID THAT WHEN THE ISSUE WAS DEBATED BY THE EUROPEAN PARLIAMENT AT ITS JULY SESSION - HE WOULD ATTEND. COLOMBO THOUGHT THE IDEA USEFUL. OLESON AND CHEYSSON OPPOSED. YOU TOO HAD RESERVATIONS. IT WAS HARD TO SEE HOW IT WOULD BE ORGANISED: MOST MEMBER STATES WOULD WANT THEIR VIEWS REPRESENTED. YOU THOUGHT IT WOULD BE BETTER TO REFLECT AFTER THE EUROPEAN COUNCIL BEFORE PURSUING THE THOUGHT.

16. IN A FINAL DISCUSSION OF WHAT ARRANGEMENTS WOULD APPLY IN THE COMMUNITY IF THE SECTION ON VOTING IN THE GENSCHER/COLOMBO TEXT WAS OMITTED, GENSCHER NOTED AGAIN THAT THERE HAD BEEN NO DECISION AND NO CONCLUSION IN THE EARLIER DISCUSSION ON THE LUXEMBOURG COMPROMISE. TINDEMANS SUMMED UP THAT THE EXISTING ARRANGEMENTS HAD BEEN NEITHER APPROVED NOR REJECTED.

FCO ADVANCE TO:-

FCO - PS, PS/MR HURD, PS/PUS BRIDGES, SPRECKLEY
CAB - HANCOCK, STAPLETON, LAMBERT

UKREP DISTRIBUTE TO:-

MARSDEN, CLARKE, DENZA HDS OF SECTION - FULL

THOMAS

[ADVANCED AS REQUESTED]

FRAME GENERAL
ECD(I)

COPIES TO:-
ADVANCE ADDRESSEES

~~4~~
RESTRICTED

CONFIDENTIAL

CONFIDENTIAL

GRS 290

RESTRICTED

RESTRICTED [FRAME GENERAL]

DESKBY 211130Z

FM LUXEMBOURG 211100Z JUN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 217 OF 21 JUNE

INFO PRIORITY UKREP BRUSSELS BRUSSELS COPENHAGEN THE HAGUE ROME

DUBLIN PARIS BONN ATHENS

INFO SAVING STRASBOURG

FM UKREP BRUSSELS

LUXEMBOURG TELNO 210: FOREIGN AFFAIRS COUNCIL, 20 JUNE

MAJORITY VOTING AND GENSCHER/COLOMBO PROPOSALS

1. WE HAVE NOW HAD FROM THE PRESIDENCY THE FOLLOWING ACCOUNT OF THE CONCLUSIONS OF THE RESUMED DISCUSSION OF GENSCHER/COLOMBO OVER DINNER ON 20 JUNE, AS REPORTED BY TINDEMANS TO HIS STAFF:

A) THE AD HCC (DE SCHOUTHEETE) GROUP WILL CONTINUE ITS WORK UNDER DANISH PRESIDENCY;

B) ITALY AND GERMANY HAVE THE RIGHT TO RAISE THE GENSCHER/COLOMBO PROPOSALS AT ANY MINISTERIAL MEETING;

C) THE BELGIAN PRESIDENCY DO NOT INTEND TO MAKE THE INTERIM REPORT TO THE EUROPEAN COUNCIL REFERRED TO IN TUR;

D) THE DANISH PRESIDENCY WILL REPORT TO THE EUROPEAN PARLIAMENT ON 7 JULY.

2. TINDEMANS ALSO TOLD HIS STAFF THAT ITALY AND GERMANY WANT WORK ON THE GENSCHER/COLOMBO PROPOSALS TO CONTINUE UNTIL THE EUROPEAN COUNCIL IN MARCH 1983 (UNDER THE GERMAN PRESIDENCY) AND THAT THE DANISH PRESIDENCY'S REPORT TO PARLIAMENT WILL BE INCLUDED IN THEIR GENERAL PRESENTATION ON THE DANISH PRESIDENCY.

FCO ADVANCE TO:-

FCO - PS, PS/MR HURD, PS/PUS, BRIDGES, SPRECKLEY

CAB - HANCOCK, STAPLETON, LAMBERT

UKREP BRUSSELS DISTRIBUTION:-

MARSDEN/DENZA/CLARKE - FULL

FCO PASS SAVING STRASBOURG

THOMAS

[ADVANCED & REPEATED AS REQUESTED]

FRAME GENERAL
ECD(I)

COPIES TO:-
ADVANCE ADDRESSEES

RESTRICTED

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)5

COPY NO. 1

16 June 1982

EUROPEAN COUNCIL, BRUSSELS

28,29 JUNE 1982

UK BUDGET CONTRIBUTION

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (If raised)

1. Not for us to discuss now. Foreign Ministers agreed to take decisions by end November on solution for 1983 and beyond. For them to take this matter forward.
2. Autumn negotiation likely to be difficult. We shall approach positively.
3. Experience of last 3 years shows that continuing series of negotiations on this issue bad for Community. Must look ahead, try to find lasting and equitable solution, which enables us to avoid repeated discussions.

CONFIDENTIAL

4. [If argued that problem caused by UK failure to adjust]. Massive trade re-orientation; 43% of trade now with Community instead of about 30% before accession. We apply common customs tariffs and levies scrupulously.

5. [If argued that UK wrong to link CAP prices and Budget problem]. Do not think it profitable here to go over that ground, but do not accept what you say. Link between CAP expenditure and UK problem a real one. Indeed, 30 May Mandate approach was to find longer term solution to UK problem through limiting CAP share of Budget and expanding other policies. But 1982 CAP price package, instead of reducing scale of UK problem, a move in the opposite direction.

BACKGROUND

6. This subject is unlikely to be raised directly in the Council. The other Governments are fed up with it. We have a commitment to decisions by the end of November and no need to try to force the pace in June. Ministers have yet to decide on the UK approach to the autumn negotiation.

CONFIDENTIAL

7. There may be a considerable dispute going on about the financing of our refunds by other Member States. We have heard that on the evening of 24/25 May Cheysson had the impression that the Germans would contribute 50% of our refunds rather than 50% of what their normal share of our refunds would be. If the Commission's proposals for financing were accepted, the French would contribute 43.5% as against the Germans' 17.2%.

FOREIGN AND COMMONWEALTH OFFICE

15 JUNE 1982

- 3 -

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)6 (Revise 1)

COPY NO. 1

23 June 1982.

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

EC/ARGENTINA

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To express appreciation for partners' support, stress the importance of the maintenance of their arms embargoes and reassure our partners that we share their objective of re-establishing good relations with Latin America.

POINTS TO MAKE

2. Our immediate objective is to secure Argentine agreement that all hostilities in the South Atlantic have now ended, and beyond that to ensure stable future for the Islands.

3. Greatly appreciate support partners have given us over economic measures including decision of Ten Foreign Ministers on 20 June (to react immediately if there were further acts of force in the South Atlantic) making it clear that normal EC/Argentine commercial relations depend on peace in South

../Atlantic

CONFIDENTIAL

Atlantic. Constructive relations hardly possible if major EC and major Latin American country engaged in hostilities with each other,

4. Share to the full objective of our partners in building up constructively our relations with Latin America, taking account of wider Western interests there and Soviet/Argentine relations which are of concern to us all.

5. Partners' agreement to maintain arms embargoes particularly valuable. Should be maintained until peaceful Argentine intentions clear and demonstrated.

BACKGROUND

6. After the Argentine surrender we asked our EC partners (and other countries which had taken economic measures against Argentina) to maintain sanctions until we had confirmation from Argentina of their agreement that all hostilities had ceased. On 20 June the Ten Foreign Ministers decided that, in the expectation that there would be no further acts of force in the South Atlantic, the economic measures against Argentina would be lifted (effective from 22 June). It was agreed that if this expectation were not fulfilled, a new situation would be created to which the Ten would have to react immediately. They also decided that arms embargoes imposed nationally by EC Member States will be maintained for the time being. The other countries with import bans have not yet decided what they will do.

CONFIDENTIAL

7. The lifting of the EC import ban does not affect our own economic measures against Argentina which pre-date the EC measures and were imposed separately under Article 224 of the Treaty of Rome (allowing national action in the event of war or serious international tension constituting a threat of war).

Foreign and Commonwealth Office

23 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)7 Revise

COPY NO. 1

23 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

EC EXTERNAL TRADE ISSUES

(EXCEPT US)

Brief by Foreign and Commonwealth Office and
Department of Trade

OBJECTIVES (If discussion develops)

1. To encourage development of a firmer Community policy towards Japan.

POINTS TO MAKE

Japan

2. Community united in concern about Japan as shown by decision of March Foreign Affairs Council to take the issue to GATT. Understand Commission officials have made an effective initial presentation of EC case.

3. But needs to be reinforced by firmer, concerted EC approach at political level.

4. Do not underestimate difficulty of getting US to continue to exert effective pressure in a manner which is also helpful to EC, but renewed effort to persuade them is required.

5. Point to make is that it is not just a case of individual Japanese policies causing problems but of Japan's whole economic structure posing a unique threat to open trade and payments system.

6. Important that in representations to Japanese themselves w
emphasise need :

(a) for them not to make their partners' problems worse by inappropriate mix of domestic policies as well as -

(b) for an increase in actual purchases of EC goods, not just statements of good intent.

GATT Ministerial (if raised)

7. Hope build-up of excessive expectations can be avoided. But at a time when open trading system is under such severe strain important GATT Ministerial should be seen as a success. Community needs to make a constructive contribution. Essential for Trade Ministers to have an opportunity for substantive discussion at July Foreign Affairs Council.

BACKGROUND

Reference A - Conclusions on Japan of March European Council and March Foreign Affairs Council.

Japan

8. In GATT Commission officials made initial presentation of EC case against Japan under dispute settlement procedure (Article 23 of the General Agreement) at a meeting in Geneva on 18/19 May. This appeared to make some impression on the Japanese at the time but in the next round of talks (expected to take place on 11-12 July) they are likely to argue that the new trade package announced on 28 May, together with the earlier measures adopted in January, represents an adequate response. Latest moves include further reductions in tariffs (though marginal in some cases), improvement of customs clearance procedures and a statement by Prime Minister Suzuki calling in effect for imports to be given a fair chance to compete. EC assessment is that this gesture has to be welcomed as a further step in the right direction but it is still far from adequate to deal with problems of the scale of those caused by the size and structure of Japan's surpluses. In particular it does not meet EC request for more fundamental changes in Japan's economic and trading policies so as to bring

CONFIDENTIAL

about for example an effective increase in imports through public and private sector purchases of foreign manufactured goods; nor does it provide for adjustments to macro-economic policy which March ECOFIN and Foreign Affairs Councils agreed were needed as a complement to action on trade. Proceedings in GATT which provides framework for open trading system, is appropriate place to urge these points on Japanese. Should help generate additional pressure, but unlikely in itself to prove sufficient. UK Ministers have agreed that what is really needed is a powerful consensus of other major developed countries. Although UK should not get itself into an exposed position by taking the lead in advocating such a consensus, we should nonetheless encourage its development. But US, which has greatest economic and political leverage on Japan, likely to remain reticent since the Japanese import package was largely geared to US demands. Parts of US Administration reluctant to appear to 'gang up' with Europeans against Japan. Americans also concerned about possibility of creating a precedent for policy adjustments being brought about as a result of a concerted international campaign. Within EC last consideration weighs to some extent with FRG as well.

9. But Japan's economic structure exceptional. Ratio of manufactured imports to GDP is exceptionally low at 3% compared with 5% for US and 6% for EC as a whole. It is exceptionally dependent for growth on growth of exports and those exports are relatively highly concentrated. Foreigners find it difficult to invest directly in Japan or secure access to very high Japanese savings. The role of the yen in international trade and finance fails to reflect Japan's economic strength. Recent economic management, which has stressed fiscal stringency and kept interest rates relatively low, has helped to produce a weak yen and added to the difficulties caused by structural factors.

10. The Japanese seem to have given up, at least temporarily, using the lack of a common EC import regime as a pretext for doing nothing, though they have made a low-key reference in the GATT proceedings to individual Member States' remaining import

restrictions. Within EC the question is next likely to come up at the July Foreign Affairs Council, which is expected to have before it a report from the high level official group examining link between trade restraints and industrial restructuring.

GATT Ministerial

11. Meeting (scheduled for 23/26 November) first in GATT at Ministerial level for nine years. Intended primarily as political demonstration of continued commitment to open trading system at time of severe recession. Preparatory work however making slow progress. Partly for this reason Commission have not been able to finalise a paper in time for June Foreign Affairs Council which was intended to provide Ministers with their first opportunity for a detailed discussion of EC position. As a result intention now is to have only an oral introduction by Haferkamp this month. French originally protested that delay would make it harder to work out EC position and could leave Community with no alternative but to take a defensive line. We have some sympathy with the point about timing but on substance of issues such as agriculture and safeguards (the rules for emergency action to limit disruptive surges of imports) it is the French themselves who are amongst those in the Community with the most restrictive attitudes and are consequently most likely to make it difficult for the EC to agree on what can be represented as a positive approach.

12. We regard it as essential that there should be a full discussion by Ministers at the July Council. There has been an indication that the incoming Danish Presidency may yet need to be convinced of this.

Foreign and Commonwealth Office/
Department of Trade
23 June 1982

CONFIDENTIAL

Reference A

EXTRACT FROM CONCLUSIONS OF EUROPEAN COUNCIL

29-30 MARCH 1982

The Community urged Japan to open its market and integrate it more fully into international trade. Japan should follow an economic, commercial and exchange policy which was more compatible with the balance of responsibilities to be borne by the whole of the industrialised world, thereby contributing to economic recovery.

CONFIDENTIAL

CONFIDENTIAL

FOREIGN AFFAIRS COUNCIL, BRUSSELS 22-23 MARCH 1982
COUNCIL CONCLUSIONS ON EEC/JAPAN RELATIONS

1. The Council examined the question of relations with Japan, which remained a matter of serious bilateral concern and which raised numerous multi-lateral 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 multi-lateral 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 industrialised 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 has 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 modernisation efforts. The Council recognised 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, from the point

/of

CONFIDENTIAL

of view of structural adjustment in industry linked to trade 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 cooperation 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 cooperation.

7. Since the benefits expected by the Community as a result of successive GATT negotiations with Japan have not been realised, and since the results of bilateral discussions have been unsatisfactory, the Council agreed that the procedures of Article XXIII of GATT will be initiated with Japan.

The detailed aspects of the representations to be made will be finalised 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.

CONFIDENTIAL

12. Publicly we should speak cautiously. Important to discourage media from inflating this issue into a fundamental US/European row.

BACKGROUND

References A - Statement by Foreign Affairs Council on 22 June
B - Commission communication to the European Council
(to be circulated when available)
C - Statement by President Reagan on Gas Pipeline

13. A meeting is taking place in Brussels on 23 June between the Commission and US Trade Representative Brock, the Member of the US Cabinet who normally takes the lead on international trade issues, though primary responsibility for imports into the US (including steel) rests with Commerce Secretary Baldrige.

Steel Measures

14. US procedure for investigation of allegations of unfair subsidisation and dumping against EC steel exports still has several months to run. At the beginning of June Commission made considerable effort to secure a negotiated settlement based on quantitative restraint, but this broke down because US insisted on market share no higher than 5.5% (minimum EC was prepared to concede was about 6.5%) and inclusion of pipe and tube (products on which Community reluctant to give undertakings to limit exports since even on US interpretation of GATT rules, case for restraint is weak; UK however made clear to Commission we would not regard this as sticking point provided figures were reasonable).

15. Meanwhile US Department of Commerce announced decision on 11 June to impose provisional anti-subsidy ('countervailing') duties which range between around 1% or less for Dutch, Luxembourg and German companies (also British private sector) to 40% for BSC. Others (French, Belgian and Italian companies) face duties of 20-30%. Despite initial indications that effect might be to split EC, Community has in fact held together so far. Even countries

CONFIDENTIAL

subject to low provisional duties (which ought therefore to be able to maintain direct exports to US) are concerned about indirect effects on their markets of major diversion of trade away from US. Other countries including UK face virtual exclusion from US market in products to which duties apply. For BSC this represents sales of 200,000 tonnes plus in 1981 worth over £50 million (total UK steel exports to US last year were 574,000 tonnes, the bulk accounted for by BSC).

16. We support decisions by June Foreign Affairs Council to consider retaliation against US DISC export subsidies and to challenge US in OECD and (more importantly) in GATT. EC regards US action as unjustified under relevant GATT agreement. In Community's view countervailing duties should not be levied indiscriminately on whole range of finance from official sources. We also believe criterion of material injury must be judged in respect of each supplier individually not on cumulative effect of total imports as is US practice. We cannot therefore afford to allow the Americans' action to go unchallenged for fear of creating a precedent. However GATT action offers no prospect of an effective remedy in the short term which BSC badly need.

17. There is general recognition in EC that if trade is to resume it is vital to secure a settlement with the US (though Germans have presentational difficulty with use of terms "negotiated settlement" and "arrangement" and prefer euphemisms like "constructive discussions" used in Foreign Affairs Council Statement). The US Administration too say they would still like to resolve the problem through negotiation and we are inclined to believe them though they will probably need to exert more pressure on their industry than they have so far. On the Community side an EC-wide arrangement remains the best option (even leaving aside the legalities it is more likely to be attractive to the Americans). But unless the EC approach produces an acceptable solution soon Member States may have to consider taking the initiative in seeking bilateral arrangements. We should be careful therefore not to agree to anything at the European Council which

appears to rule out this possibility, though it would be counter-productive to make too much of it.

EC/US Agriculture

18. Problems over agriculture also contributing to current tension in EC/US Trade relations. Producers in US (as in e.g. Australia, New Zealand) resent EC disposal of high cost surpluses with the aid of export subsidies. US Administration have mounted series of cases against EC in GATT but so far at least have made poor showing in attempt to demonstrate that Community has failed to respect GATT rules. (GATT permits payment of export subsidies for primary products provided exporting country does not obtain a 'more than equitable share' of world market or undercut prevailing world market price). Weak US case on sugar recently withdrawn. We hope this may indicate increased awareness in Washington of desirability of 'truce' with EC in agricultural sector. Commission say they too support idea of 'truce' and indeed claim credit for launching it. But there have been recent instances where they have themselves proposed action provocative to US (e.g. that the US should be forced into negotiations to limit EC imports of maize gluten feed) So far however they have been restrained by opposition from UK, FRG and other 'liberals' and have agreed to put the proposal on maize gluten feed on ice. French may suggest reviving it now as a form of retaliation for US action on steel. We should be cautious about this.

Textiles

19. Davignon has said textiles will be covered in Commission communication to the European Council. In 1980-81 there was considerable pressure from imports of certain synthetic fibres, carpets and bedlinen from the US (particularly on UK for which imports of two types of yarn were subject to safeguard quotas during most of 1980). But pressure has diminished with appreciation of dollar and we are not aware of any particular current problems. However EC analysis of US producers' costs suggested part of their competitive edge could be attributed to their access to oil and gas feedstocks at less than the prevailing

world price as a result of US price controls. In early 1981 one of the first acts of the Reagan Administration was to accelerate the removal of price controls on oil (due anyway in mid-1981). But after considering similar action on gas they eventually announced that gas price controls would remain until 1985/87. It may be that the Commission communication will propose mounting a renewed attack. If so we should need to examine the implications carefully. Consideration has already been given to possible scope for countervailing action on goods which benefit from price controlled components/feedstocks. But in the past the conclusion has always been that it would not be in the wider interest of the UK/EC to create a precedent for such a loose definition of what constitutes an export subsidy.

Oil and Gas Equipment for USSR

20. Prime Minister sought release from American licensing and relicensing requirements for General Electric rotors for John Brown's contracts for Siberian pipeline in messages of 29 January and 5 April to President Reagan (our partners do not know about these messages). She raised question personally with him at Versailles and in London on 9 June. John Brown are due to begin turbine deliveries on 2 July.

21. President Reagan announced on 18 June that existing sanctions against Soviet Union would be extended to cover equipment produced by US subsidiaries and licensees. Aim is to prevent a French licensee of General Electric (Alsthom) from supplying rotors to replace blocked American ones. John Brown is not directly affected by the extension, but its contract remains blocked. Although we have not yet seen the text of the US regulations, the extended measures are likely to affect other valuable contracts won by British companies for the pipeline if only through the delays caused to the project. US action is both retrospective and extraterritorial.

22. John Brown told the Department of Trade on 21 June that they are not prepared to proceed with deliveries without assurances

CONFIDENTIAL

that they will not be blacklisted by the American Administration. British officials are studying the possibility of invoking the Protection of Trading Interests Act of 1980 against the new US measures on the grounds that they are against UK trading interest, (though John Brown do not wish the Act to be invoked for themm at this stage). Discussion with other European countries affected will take place in the margins of the Council. Since other European countries have a bigger stake, we should avoid getting into the lead.

Foreign and Commonwealth Office/
Department of Trade

23 June 1982

-7-

CONFIDENTIAL

CONFIDENTIAL

Reference

CONFIDENTIAL

GRS 1000
CONFIDENTIAL

FRAME ECONOMIC

FRAME EXTERNAL

FRAME INDUSTRIAL

DESKBY 221800Z

FM LUXEMBOURG 221601Z JUN 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 232 OF 22 JUNE

AND TO IMMEDIATE WASHINGTON UKMIS NEW YORK (FOR PS/PRIME MINISTER)

INFO IMMEDIATE UKREP BRUSSELS ROUTINE BRUSSELS COPENHAGEN THE

HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG ATHENS UKMIS GENEVA

FM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL: 22 JUNE

EC/US STEEL

1. FOLLOWING IS TEXT OF STATEMENT AGREED IN FOREIGN
AFFAIRS COUNCIL THIS AFTERNOON:

THE COUNCIL HAS TAKEN NOTE WITH GRAVE CONCERN OF THE
ANNOUNCEMENT ON JUNE 11 BY THE UNITED STATES DEPARTMENT OF COMMERCE
OF PRELIMINARY DETERMINATIONS IN THEIR COUNTERVAILING INVEST-
IGATIONS AGAINST COMMUNITY STEEL EXPORTS TO THE UNITED STATES.
THIS DECISION WILL DISRUPT TRADITIONAL TRADE FLOWS, VIRTUALLY
ELIMINATE STEEL EXPORTS OF SUBSTANTIAL VALUE FROM CERTAIN MEMBER
STATES AND HAVE SERIOUS INDIRECT EFFECTS FOR OTHER MEMBER STATES.
IT SHOULD BE VIEWED AGAINST THE GENERAL BACKGROUND OF ESCALATING
TRADE DISPUTES BETWEEN THE UNITED STATES AND THE COMMUNITY, NOT
JUST IN RELATION TO STEEL, BUT ALSO TO AGRICULTURE, EXPORT
CREDITS AND TEXTILES.

THE COMMUNITY HAS OVER THESE LAST FEW YEARS ADOPTED A NUMBER
OF DIFFICULT, PAINFUL AND FAR-REACHING MEASURES IN ORDER TO
RESTRUCTURE ITS STEEL INDUSTRY. IT HAS ALREADY REDUCED AND WILL
CONTINUE TO REDUCE PRODUCTION CAPACITY VERY CONSIDERABLY, ALL
AIDS GRANTED BY NATIONAL GOVERNMENTS TO THEIR STEEL INDUSTRY
MUST BE SUBMITTED TO THE COMMISSION AND AUTHORIZED: ONLY AIDS
WHICH CONTRIBUTE TO RESTRUCTURING AND REDUCTION OF CAPACITY CAN
BE AUTHORIZED: NO AIDS WILL BE AUTHORIZED AFTER 1985. THE RECENT
DECISION BY THE DEPARTMENT OF COMMERCE WILL UNDERMINE THE
COMMUNITY'S EFFORTS TOWARDS RESTRUCTURING IN SO FAR AS THEY
WILL SERIOUSLY AGGRAVATE ALL PROBLEMS LEADING TO A LOWERING
OF PRICES ON THE INTERNAL COMMUNITY MARKET, GROWING UNEMPLOYMENT,
AND CONSEQUENT PRESSURES FOR INCREASED AID.

/THE COUNCIL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

THE COUNCIL HAS NOTED WITH PARTICULAR CONCERN THAT THE DEPARTMENT OF COMMERCE PRELIMINARY DETERMINATIONS CONSTITUTE A MAJOR INNOVATION IN WORLD TRADING RULES IN THAT THEY REFLECT A SERIES OF EXTREME AND UNILATERAL FINDINGS ON SUBSIDIES WITH FAR-REACHING IMPLICATIONS FOR MANY COUNTRIES AND INDUSTRIES CURRENTLY EXPORTING TO THE UNITED STATES. IN THE COUNCIL'S VIEW THESE DEPARTMENT OF COMMERCE DECISIONS DID NOT TAKE ADEQUATE ACCOUNT OF THE REASONED CASE SUBMITTED BY THE COMMISSION AND WILL RESULT IN SIGNIFICANT TRADE DISRUPTION AND PREEMPT FUTURE GATT POLICY UNDER THE SUBSIDIES CODE IF THEY BECOME US POLICY FOR ALL COUNTER-VAILING DUTY INVESTIGATIONS. FOR THAT REASON THE COMMUNITY IS CALLING FOR AN IMMEDIATE MEETING OF THE GATT SUBSIDIES COMMITTEE. AT THAT MEETING IT IS THE COMMUNITY'S INTENTION TO CONTEST CERTAIN OF THE DEPARTMENT OF COMMERCE DECISIONS (E.G. AS TO WHAT PROGRAMMES CONSTITUTE SUBSIDIES AND THE METHOD USED FOR CALCULATING THE LEVEL OF SUBSIDIES). THE SUBSIDIES CODE PROCEDURES PROVIDE FOR THE POSSIBILITY OF THE COMMUNITY BEING AUTHORIZED TO TAKE COUNTER MEASURES IF ITS CONTENTION MEETS WITH GENERAL ACCEPTANCE.

THE COMMUNITY INTENDS TO TAKE THE OCCASION OF THE FORTHCOMING MEETING OF THE OECD STEEL COMMITTEE TO CHALLENGE THE COMPATIBILITY OF THE US ACTION WITH THE AIMS AND COMMITMENTS OF THE OECD CONSENSUS ON STEEL.

THE UNITED STATES ACTION ON ALLEGED SUBSIDIES TO COMMUNITY STEEL EXPORTS TO THE UNITED STATES HAS LED THE COUNCIL TO CONSIDER THE UNITED STATES SYSTEM OF DISC (WHEREBY EXPORT SUBSIDIARIES OF A WIDE RANGE OF UNITED STATES FIRMS ARE IN EFFECT DEFERRING FOR AN INDEFINITE PERIOD OF TIME PAYMENT OF PART OF US CORPORATE INCOME TAX). THE GATT HAS FOUND THAT THIS PRACTICE, WHICH COSTS THE US TREASURY APPROACHING ONE BILLION DOLLARS A YEAR, MUST BE REGARDED AS AN EXPORT SUBSIDY. THE COMMISSION WILL THEREFORE PUT FORWARD PROPOSALS FOR CONSIDERATION AT THE NEXT MEETING OF THE COUNCIL AS TO THE ACTION WHICH THE COMMUNITY MIGHT TAKE UNDER THE GATT RULES.

/THE ATTENTION

2
CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

THE ATTENTION OF THE COUNCIL HAS ALSO BEEN DRAWN TO THE RECENT DECISION OF THE UNITED STATES ADMINISTRATION TO EXTEND SANCTIONS ON THE EXPORT OF OIL AND GAS EQUIPMENT TO THE SOVIET UNION THROUGH THE ADOPTION OF NEW REGULATIONS TO INCLUDE EQUIPMENT PRODUCED BY SUBSIDIARIES OF US COMPANIES ABROAD AS WELL AS EQUIPMENT PRODUCED ABROAD UNDER LICENCES ISSUED BY US COMPANIES. THIS ACTION TAKEN WITHOUT ANY CONSULTATION WITH THE COMMUNITY IMPLIES AN EXTRATERRITORIAL EXTENSION OF US JURISDICTION WHICH IN THE CIRCUMSTANCES IS CONTRARY TO THE PRINCIPLES OF INTERNATIONAL LAW, UNACCEPTABLE TO THE COMMUNITY AND UNLIKELY TO BE RECOGNIZED IN COURTS IN THE EEC.

THESE UNITED STATES ACTIONS NOT ONLY HAVE GRAVE CONSEQUENCES FOR INTERNATIONAL TRADE BUT IN THE CASE OF STEEL CLEARLY REPRESENT AN ATTEMPT TO OVERTURN IN THE INTERESTS OF ONE CONTRACTING PARTY THE GENERAL BALANCE OF ADVANTAGE REACHED IN THE TOKYO ROUND IN THE RULES DEALING WITH SUBSIDIES AND COUNTERVAILING DUTIES. THE COUNCIL DEEPLY REGRETS THE UNILATERAL NATURE OF THE US RESPONSE TO THESE PROBLEMS, AND CONSIDERS THAT, IN VIEW OF THE IMPLICATIONS FOR WHAT WAS DECIDED AT THE VERSAILLES SUMMIT IN THE FIELD OF INTERNATIONAL TRADE, AND IN PARTICULAR THE IMPORTANCE ATTACHED TO THE MINISTERIAL MEETING OF THE GATT PLANNED FOR NOVEMBER OF THIS YEAR, ACTION IS NEEDED AT THE HIGHEST LEVELS TO FIND SOLUTIONS THROUGH CONSTRUCTIVE DISCUSSIONS.

FCO ADVANCE TO:-

FCO - PS, PS/MR HURD, PS/PUS, BRIDGES, CROWE, KINCHEN
CAB - HANCOCK
DOI - BINNING, MOGG (MM), WRIGHT (ICA)
DOT - FRANKLIN, R WILLIAMS (ITP), JOHNSON (OT2)

UKREP DISTRIBUTION:-

LOUGHEAD/HEALEY/KILROY - EXT/IND

THOMAS

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
FRAME EXTERNAL
FRAME INDUSTRIAL

COPIES TO
ADVANCE ADDRESSEES

ECD (E)
NAD

3
CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

Reference C

GR 120
UNCLASSIFIED
DESKBY 190900Z
FM WASHINGTON 182259Z JUN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 2194 OF 18 JUNE
INFO PRIORITY MOSCOW, PARIS AND BONN

MY TELNO 2193: SIBERIAN PIPELINE

STATEMENT BY THE PRESIDENT: FOLLOWING IS TEXT.
BEGINS:-

I HAVE REVIEWED THE SANCTIONS AND THE EXPORT OF OIL AND GAS EQUIPMENT TO THE SOVIET UNION IMPOSED ON DECEMBER 30 1981 AND HAVE DECIDED TO EXTEND THESE SANCTIONS THROUGH ADOPTION OF NEW REGULATIONS TO INCLUDE EQUIPMENT PRODUCED BY SUBSIDIARIES OF US COMPANIES ABROAD AS WELL AS EQUIPMENT PRODUCED ABROAD UNDER LICENSES ISSUED BY US COMPANIES.

THE OBJECTIVE OF THE UNITED STATES IN IMPOSING THE SANCTIONS HAS BEEN AND CONTINUES TO BE TO ADVANCE RECONCILIATION IN POLAND. SINCE DECEMBER 30 1981 LITTLE HAS CHANGED CONCERNING THE SITUATION IN POLAND: THERE HAS BEEN NO MOVEMENT THAT WOULD ENABLE US TO UNDERTAKE POSITIVE RECIPROCAL MEASURES.

THE DECISION TAKEN TODAY WILL, WE BELIEVE, ADVANCE OUR OBJECTIVES OF RECONCILIATION IN POLAND. ENDS.

RESIDENT CLERK PLEASE INFORM BRIDGES AND GOWLLAND (TRED)

FCO PLEASE PASS ADVANCE COPIES TO CORLEY (DOT) AND HAVELOCK (DOI)

HENDERSON

LIMITED
TRED
EESD
WED
NAD
PLANNING STAFF
PUSD
LORD BRIDGES
MREEVANS
MRGOODISON

COPIES TO
MR CORLEY DOT
MR HAVELOCK DOI

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)7A Addendum

Copy No. 1

European Council Brussels
28/29 June 1982

EC Trade Issues with US

ADDITIONAL BACKGROUND

French Memorandum on External Trade Policy

1. In discussion of US action on steel at the Foreign Affairs Council on 22 June M Chandernagor referred to his proposals for improving the Common Commercial Policy as the means for dealing with problems like the one under discussion. He received support from Italy. The French may revert to this theme at the European Council.

2. The French have proposed:

(a) a regular assessment of the results of European surveillance of imports;

(b) new procedures to enable EC to restrict imports in the same way as the US (by implication in ways not compatible with the GATT).

The proposals have not yet been considered within the Community in any detail. We have some sympathy with the French ideas on surveillance. But given extensive efforts to secure public commitments to the open trading system both at Versailles and the GATT Ministerial Meeting, it is hardly an auspicious moment for the EC to embark on moves which would be interpreted as overtly protectionist. Other Member States, notably the FRG, have similar or greater reservations. So we need not take the lead in responding cautiously.

Commission Talks with US Trade Representative Brock: 24 June

3. Commission have reported Brock was impressed by strength of EC feeling but held out little hope of change on pipeline. While appearing more forthcoming on steel, he emphasised he had not been actively involved during the last couple of months.

CONFIDENTIAL

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

EHG(B2)(82)7b

COPY NO. **1**

24 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

OECD EXPORT CREDIT CONSENSUS

Brief by HM Treasury

OBJECTIVE

1. To pave the way for early agreement by the Community to the latest proposals for extending the international Export Credit Consensus which have been put forward by the Chairman of the OECD Participants Group.

POINTS TO MAKE

2. The latest proposals represent a useful concession towards the Community view on most aspects of the Consensus. Overwhelmingly, this was the assessment of most Member States (8 out of 10) at the Finance Council on 23 June.

3. We understand the Americans are disappointed by the new proposals, but are likely to accept them with reluctance.

4. It is true that Japan has again got off too lightly. But that is not sufficient reason for risking collapse of the Consensus. Nobody would gain from an international free for all in export credit terms, but Europe would lose more than the Americans because exports are more important to us.

BACKGROUND

5. 22 OECD countries participate in the Consensus arrangements which regulate international competition in export credit terms (eg by prescribing minimum interest rates and maximum duration of credits). The dominant voices in the arrangement are the Community (which, since export credit is a matter of Community

competence, is represented by the Commission for this purpose), the US and Japan. The Consensus arrangements are periodically reviewed among all Participants. The last review (in November 1981) settled the terms of the arrangement to 15 May 1982. Agreement has not yet been reached on a long-term extension thereafter, though Participants have agreed to "stop the clock" while negotiations continued. The latest deadline to which all Participants have agreed is 25 June.

6. Essentially, the debate is between those (principally the Americans, supported by the Australians, a good many Europeans and also the Japanese) who see the Consensus as a vehicle for outlawing all subsidies and leaving export credit terms to be dictated by market forces; and the French, with some support from the UK, who argue that high interest rate countries should be allowed to subsidise their export credit interest rates down to the level of their lower interest rate competitors. The French see the Consensus as a means of limiting the length of credit which the Americans can offer (European capital markets cannot match the Americans in credit length) and put most of the blame for the current disagreement on the high level of US interest rates.

7. The current attempt to negotiate a new arrangement started between OECD Participants in March. The matter was discussed between Finance Ministers at Versailles, but inconclusively. Community Finance Ministers have discussed it three times in the past two months. The latest development has been the tabling of revised compromise proposals by the Chairman of the OECD Participants Group (Mr Wallen, a Swede). Participants were given until 25 June to signify agreement. It is understood that the Japanese and US can accept the proposals, in the latter case with extreme reluctance.

8. At the Finance Council on 23 June all Member States apart from Greece and France said they could accept the new proposals. The Greek problem is special, and believed to be soluble. The

CONFIDENTIAL

French did not seriously argue that the terms now on offer were unacceptable or likely to be improved by further negotiation. They simply wanted to postpone the Community's final decision to allow the subject to be raised at the European Council. They see the Consensus negotiations as an integral part of the Community's trade and financial relations with the US. They appear to be alone in the Community in thinking that the continued absence of agreement gives Europe some leverage over the Americans in relation to such issues as steel and the Siberian pipeline.

9. France is the only Member State with any desire to discuss this subject at the European Council. The best that can be hoped for is that having registered his protest President Mitterand will fall in with the majority Community view (of which the Germans have been especially enthusiastic advocates) in favour of accepting the latest Consensus package.

HM Treasury
24 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)8

COPY NO. 1

16 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

GREECE AND THE EC

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To avoid substantive discussion.

POINTS TO MAKE

2. Commission studying Greek memorandum as agreed following March European Council. Their report very much a starting point; points raised in it will need careful study in appropriate Community form.
3. Need for Greek Government and Commission to keep in close touch as ideas on both sides develop.

BACKGROUND

4. Greek Government presented to Presidency on 19 March a paper outlining their requirements for changes in terms of Greek membership to take account of what PASOK describe as Greece's 'special status' as a relatively less developed country. Commission has been charged with studying document and reporting.
5. Greek paper is somewhat vague, but at least appears to indicate determination to negotiate from firm position of EC membership. Some aspects of their demands will cause difficulties, especially on agriculture and derogations from competition rules; but other member states will have at least as great, if not greater interest, than the UK in resisting them.

CONFIDENTIAL

CONFIDENTIAL

6. Commission likely to have produced by time of European Council its 'opinion' on Greek paper. Commission approach not to treat this as a single 'renegotiation' but rather to remit issues raised for detailed discussion in various Community fora. European Council certainly not the place for such discussion, though Mr Papandreou will no doubt wish to refer to the matter in general terms, as he did at 29/30 March European Council.

FOREIGN AND COMMONWEALTH OFFICE
16 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)8 ADDENDUM
23 JUNE 1982

COPY NO. 1

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

GREECE AND THE EC
Note by Foreign and Commonwealth Office

Attached is a copy of the Commission's Communication to the Council on the Greek memorandum (COM(82)348 FINAL), which is mentioned in the Brief and which was issued on 17 June. A summary is given in UKRep Brussels telegram no. 2505 of 18 June, also attached.

Foreign and Commonwealth Office
23 June 1982

CONFIDENTIAL

CONFIDENTIAL

GRS 750
RESTRICTED

FRAME ECONOMIC
DESKBY 180930Z

FM UKREP BRUSSELS 180755Z JUN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 2505 OF 18 JUNE 1982

INFO PRIORITY ATHENS

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG STRASBOURG

GREECE

1. AT THE GREEK GOVERNMENT'S REQUEST THE COMMISSION WILL PRESENT TO THE COUNCIL ON 21/22 JUNE THEIR COMMUNICATION TO THE COUNCIL ON THE GREEK MEMORANDUM OF 19 MARCH. THE COMMISSION HAVE CIRCULATED THE TEXT (COM (82)348 FINAL) LATE IN THE DAY; THE FRENCH VERSION WAS AVAILABLE TO US ONLY ON THE MORNING OF 17 JUNE (BY THE ENGLISH VERSION WILL BE AVAILABLE TO THE DELEGATION IN LUXEMBOURG. *SAG TO HOSGER ECB (C)*

2. THE PRESIDENCY MADE CLEAR AT COREPER THAT, SINCE THERE HAD BEEN NO OPPORTUNITY FOR PREPARATION BY COREPER, THERE COULD BE NO DISCUSSION AT THE COUNCIL. WE ARE LIKELY THEREFORE ONLY TO HEAR THE COMMISSION AND VARFIS, AND COREPER WILL THEN BE ASKED TO STUDY THE COMMISSION'S TEXT. THE COMMISSION SUGGEST THAT THE COUNCIL ASK THEM TO REPORT BY THE END OF THE YEAR ON ACTION TAKEN. THEY ALSO SAY THAT GREECE WILL RAISE THE SUBJECT AT THE EUROPEAN COUNCIL. BUT ENDORSEMENT IS UNLIKELY BEFORE THE JULY COUNCIL.

3. THE COMMISSION'S PAPER FOLLOWS THE *LINES OF RECENT* ~~LIVE-KPXTUHHKQUN~~ REPORTING FROM HERE AND ATHENS. IT

A) REFUSES TO ENDORSE THE GREEK ANALYSIS OF THE CAUSE OF GREECE'S ECONOMIC DIFFICULTIES AND POINTS OUT THAT GREECE, LIKE OTHER MEMBER COUNTRIES, HAS TO BEAR THE PRIMARY RESPONSIBILITY FOR COPING WITH ITS PROBLEMS.

B) DEFINES ITS APPROACH IN RELATION TO PROTOCOL VII OF THE ACT OF ACCESSION, IE ACTION WITHIN THE FRAMEWORK OF EXISTING INSTRUMENTS RATHER THAN BY DEROGATIONS, AND STRESSES ITS WILLINGNESS TO HELP WITHIN THAT FRAMEWORK.

C) ADOPTS A CASE-BY-CASE APPROACH AND EMPHASISES THE PRESENT OVERALL CONSTRAINTS ON COMMUNITY ACTION.

D) NOTES THAT TWO OF GREECE'S DEMANDS HAVE BEEN MET:

I) SUPPORT PRICES FOR GREEK FARMERS, THROUGH THE PRICE FIXING

II) EXTENSION TO GREECE OF FAVOURABLE CONDITIONS APPLIED TO OTHER MEDITERRANEAN REGIONS.

E) INDICATES THAT SOME OF GREECE'S DEMANDS CAN BE COVERED BY THE GENERAL MEDITERRANEAN PROGRAMMES TO BE PROPOSED BY THE END OF THE YEAR.

F) HINTS AT SOME LIMITED SCOPE FOR QUOTE BUDGETARY ACTION UNQUOTE.

/G.

CONFIDENTIAL

CONFIDENTIAL

RESTRICTED

6) STRESSES THE NEED FOR GREECE'S FIVE-YEAR PLAN TO TAKE ACCOUNT OF COMMUNITY AIMS AND POLICIES AND RECOMMENDS THAT GREECE BE ASKED TO KEEP IN CLOSE TOUCH WITH THE COMMISSION IN THE FORMULATION OF ITS ECONOMIC POLICY.

4. THIS RELATIVELY TOUGH TONE IS MAINTAINED IN THE ANNEX, WHICH COMMENTS ON EACH GREEK DEMAND, THOUGH THE COMMISSION DO POINT OUT THAT IN CONSIDERING AIDS UNDER ARTICLE 92-94 THE COMMISSION MAY TAKE QUOTE GREEK PARTICULARITIES UNQUOTE INTO ACCOUNT; THAT THEY HAVE ALWAYS BEEN FAVOURABLY DISPOSED TOWARDS INVESTMENT AIDS FOR SMALL AND MEDIUM-SIZED UNDERTAKINGS; THAT THE RULES ON PRODUCTION LIMITS (STEEL, TEXTILES, SHIPBUILDING) ARE FLEXIBLE ENOUGH TO ALLOW FOR CASES OF EXCEPTIONAL DIFFICULTY. ON THE FINANCIAL SIDE THE LINE IS GENERALLY TO POINT OUT THE OPPORTUNITIES UNDER EXISTING INSTRUMENTS WHILE STRESSING THE PRESENT DIFFICULTY IN INCREASING AVAILABLE RESOURCES. THE COMMISSION PLAYS A STRAIGHT BAT ON THE ELIGIBILITY OF ATHENS FOR FINANCING, BUT CURIOUSLY OMITTS REFERENCE TO THESSALONIKI.

5. THE INDIVIDUAL COMMISSION COMMENTS IN THE ANNEX WILL NO DOUBT NEED TO BE EXAMINED IN DETAIL IN WHITEHALL. WE WILL NEED TO CLEAR UP (A) THE VAGUENESS OF PARA 29 OF THE PAPER (ON BUDGETARY ACTION), THOUGH IN THE LIGHT OF THE ANNEX, THIS MAY NOT HAVE MUCH SIGNIFICANCE; AND (B) THE LACK OF SPECIFIC REFERENCE TO THESSALONIKI. BUT AT FIRST READING THE COMMISSION PAPER SEEMS IN GENERAL ON THE RIGHT LINES. AT THE COUNCIL WE NEED DO NO MORE THAN UNDERTAKE TO STUDY IT, INDICATING IF NECESSARY THAT AT FIRST SIGHT WE THINK IT POINTS IN THE RIGHT DIRECTION.

FCO ADVANCE TO:-

FCO - HANNAY, SPRECKLEY, HOGGER (ECD(I))

CAB - LAMBERT

FCO PASS SAYING COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG STRASBOURG

BUTLER

[ADVANCED/REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD (I)

COPIES TO
MR LAMBERT CABINET OFFICE

2
RESTRICTED

CONFIDENTIAL

CONFIDENTIAL

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 348 final

Brussels, 17th June 1982

COMMISSION COMMUNICATION TO THE COUNCIL
ON THE GREEK GOVERNMENT MEMORANDUM OF 19 MARCH 1982

COM(82) 348 final

CONFIDENTIAL

CONFIDENTIAL

1. On 19 March 1982 the Greek Government sent the President of the Council a Memorandum explaining the Greek Government's position concerning Greece's relations with the European Communities. The President of the Commission also received a copy.
2. The European Council of 29/30 March 1982 took note of a declaration by the Greek Prime Minister on the subject. It agreed that the Commission should study the Memorandum and report to the Council on it.
3. At the Council session on 22/23 March 1982 note was taken of a declaration by the Greek Minister Mr Varfis on the Memorandum which had just been presented. The Council asked the Commission to analyse it and submit its conclusions to the Council in due course.
4. The Greek Government is intending to raise the question at the European Council on 28/29 June.
5. The present communication represents initial action on the mandate given to the Commission by the Council.
6. The Commission has examined the Memorandum carefully and has come to the conclusions which follow.
7. The Commission is in general agreement with the description of the economic situation given in the Memorandum and endorses the view that determined action is called for to deal with it.
8. The specific nature of Community Mediterranean questions is recognized by the Community, notably in connection with work on the 30 May Mandate and in the framework of on-going preparations for enlargement.

CONFIDENTIAL

CONFIDENTIAL

9. The Commission considers that it would not be very profitable and certainly contrary to the priority requirement, determined action, to enter into discussion on the Memorandum's judgements on the content of the Act of Accession and the effects of membership on the Greek economy. It should however be noted that:
- there are underdeveloped aspects of the Greek economy for which the Community cannot be held responsible;
 - all the member countries have, to different degrees, to cope with the difficulties of the economic crisis;
 - the Community cannot be solely responsible for the development of a member country. Its role is to back up national efforts.
10. The Commission felt that it would be more constructive to take the Greek Government's demands and to see, with the utmost open-mindedness, what concrete answers could be found for the matters raised . .
11. It should be noted that in the Memorandum the Greek Government said it was awaiting immediate action in two fields. It has since received satisfaction here:
- the decisions of 18 May 1982 on common prices and related measures have provided the answer to the question of support prices for Greek farmers through the effects a certain number of the decisions will have (quite substantial rise in prices in ECU, devaluation of the representative rate for the drachma, accelerated alignment of the prices of certain agricultural products on the common prices, increases above the Community average for certain Mediterranean products, etc.);
 - the more favourable conditions and rates of refund applied in respect of certain Mediterranean regions are to be extended by the end of 1982, to similar areas in Greece. The Commission has promised to put forward proposals for this by 31 July 1982.
12. The Commission has undertaken an initial consideration of the Greek demands (Annex) and for each of them has tried to find an answer compatible with existing constraints.
13. For each of the demands it is stated:
- whether the demands are already covered by existing Community provisions. The question is examined whether Greece is able to derive full benefit

CONFIDENTIAL

CONFIDENTIAL

from them, bearing in mind that 1981 was an initial, launching year. Where appropriate, measures, whether Greek or Community, to improve the situation are indicated. This point concerns the administration of Community provisions, but does not rule out adjustments where necessary;

- whether proposals already made with adjustment where needed cover Greek demands,
- whether the measures in question are already contained in proposals envisaged by the Commission. This point concerns in particular the future Mediterranean programmes which the Commission is to put before the Council before the end of 1982.

14. However great the political resolve may be to contribute to solving the real problems of one of the Community's Member States, present constraints cannot be disregarded. However, their existence does not exclude either imagination in the search for a solution, or determination in its application, on the contrary.

Constraints: legal and policy framework

15. The Community can contribute to the development of Greece's economy and the solution of Greece's specific problems, not by derogating from the Treaties but through the implementation of its policies. The Commission notes that most of the Greek demands come within the scope of the Community's normal decision-making processes. Protocol VII to the Act of Accession lays down the principle that the Institutions are to do all they can within the framework of the existing instrument to provide for Greece's special situation.
16. The Community is in no way lacking in means to allow for the specific nature of a given situation.
17. The principle that Community law is one does not entail its being uniform everywhere. This means that essentially different situations must be treated in accordance with their individual characteristics. Naturally, no measure can be introduced that would be contrary to the fundamental rules of the Treaty, particularly the four freedoms and rights that lie at the heart of it. Similarly, there can be no reduction of a level of liberalization or integration once attained.

CONFIDENTIAL

18. In considering what arrangements could be made, account must be taken of the Community's policy constraints, including budgetary constraints. In any case the mere discussion of action that did not allow for such constraints would be courting failure, and would, moreover, be a source of complications and difficulties.
19. Some of the Greek demands, even where they have specifically Greek connotations, come within the scope of the Community's general concern regarding its Mediterranean regions. In connection with this, the Commission's intention to propose Community programmes to the Council before the end of 1982 to speed up development in the Mediterranean regions of the Community deserves very special attention. Both for the substance of the matter and the procedure to be followed, this is the framework in which solutions should be sought for this part of the Greek demands, while bearing in mind the Community's enlargement prospects.
20. The Community's budget interventions should be regarded as backing-up policies and not as an end in themselves. The Commission's general approach will therefore be to prepare budgetary action where, and only where, such action will assist a Community policy. That having been said, Greece's situation is such that it will probably warrant receiving special attention.
21. The Greek Memorandum poses the general problem of the economic integration of a Member State into the Community. The Greek Government mentions the adjustments expected in Community policies - while reserving for itself full freedom of action in respect of the 5-year plan to be brought out at the end of the year. But the country's integration in the Community - a prime objective as both sides recognize - would not be possible if in the choice of its priorities the Greek Government did not take Community aims and policies into account. Experience has shown that the extent to which the Community can help a country is dependent on the compatibility of the policies pursued by the recipient country with Community action, even on its ability to derive maximum benefit from such action.

22. The Commission is pleased **CONFIDENTIAL** Greek Government is drawing up a 5-year plan for economic development and the restructuring of the Greek economy. The five year plan enables Community actions to be incorporated in national development efforts. It follows that contacts between the Greek Government and the Commission during preparation of the plan are of fundamental importance to ensure that Community action and Greece's economic policy are in harmony.

23. In the same spirit the Commission is of the opinion that, provided each makes the necessary effort, a valid answer can be given to the questions posed by the Greek Government.

Action requested of the Council

24. The Commission asks the Council

- to recognize, as the Greek Government requests, the need to tackle the particular problems facing Greece and to take them into account in the framework established by the Commission;
- to note that the Commission will take the decisions that fall within its field of competence;
- to agree to act with all due speed on the proposals already presented by the Commission and to which attention is drawn in the present communication as well as on those that the Commission is to present within specified time limits.

25. The Council expects Greece to stay in close contact with the Commission in preparing its economic policy, particularly its 5-year development plan

26. The Council asks the Commission to report by the end of the year on the action taken on its communication and on this Council decision.

GREEK DEMANDS
ANALYSIS AND ACTION TO BE TAKEN

RULES ON COMPETITION (§ 9)

Greek demand

Remarks

1. Principle of a derogation from rules on competition (§ 9(2)(b))... to take into account the objectives of economic expansion and the raising of the standard of living of the population

Although the principle of a derogation (formulated in such general terms as these) is excluded by the Treaties, the rules on competition (EEC Art. 92-94, elaborated for regional aids in the 1978 coordination principles) allow the Commission to take Greek particularities into account when considering aid projects, in accordance with Protocol No 7 to the Act of Accession.
2. "Granting of development incentives" (§ 9(2)(b))

In applying derogations provided for in the EEC Treaty from the general principle prohibiting aids, particularly those specified in Art. 92(3)(a) and (c) of the EEC Treaty, the Commission takes into consideration the features peculiar to the situation of Greece and its industry when it assesses aid projects submitted to it.
3. "Provisional and regulated protection of newly created industries" (§ 9(2)(b))

Expressed in such general terms the demand is not compatible with the Treaty. But when it comes to consider aid projects or existing aid arrangements the Commission can take Greece's economic situation into account, as stated in Protocol No 7 of the Act of Accession, provided the general principles of aid containment are complied with.
4. "Granting of export aid for small and medium-sized undertakings" (§ 9(2)(b))

Export aids are incompatible with the common market. On the other hand the Commission has always been favourably disposed towards investment aids for small and medium-sized undertakings and their development.
5. "Exemption from production limits" (§ 9(2)(b))

Although this demand, as it stands, is incompatible with Community law (ECSC: steel quota arrangements and Decision 2320; EEC: aid containment for textiles and 5th shipbuilding Directive), the rules are sufficiently flexible to allow for the exceptional difficulties of certain undertakings or regions in the economy of a Member State.

CONFIDENTIAL

Greek demand

Remarks

6. "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" (§ 10, 1st indent)

- (a) Community action already takes the particular features of the situation in Greece into account in part. This is the case for:
 - NCI II (adopted in March 1982, one of the fields eligible being the development of small and medium-sized undertakings);
 - the present ERDF non-quota section, for which the Commission is to put forward implementing proposals.
- (b) Other proposals already presented by the Commission are to the same effect:
 - review of ERDF (COM (81) 589 final) (e.g. by financing action to assist small and medium-sized undertakings and craft trades);
 - EAGGF: speeding up agricultural development in certain regions in Greece (COM (82) 72 final); citrus farming (COM (82) 125 final).
- (c) Present Commission thinking on the Mediterranean programmes* it is to propose before the end of the year follows the same lines.
- (d) Greece participates to only a minor extent in the ESF, training in Greece not being eligible largely because it comes under the normal school system. The Commission is willing to examine with Greece how it intends its training systems to develop. Depending what priorities are decided on by joint agreement, the Commission would then see - if Greece requested this - whether any special transitional measures should be taken (possible when the ESF is reviewed) to help it speed up the scheduled transformation of its vocation training system.

7. "The resources available must be increased" (§ 10, 2nd indent)

This demand probably ties in with the Commission's general concern to see a general increase in Fund resources. Inasmuch as what is in question here is insufficient Greek participation in the Funds, it should be noted that:

- (a) the increase could come about now through the application of the non-quota section of the ERDF to Greece and progress in the application of the EAGGF, Guidance Section;
- (b) the Commission proposal in connection with the review of the ERDF provides for the quota section's efforts to be concentrated on least-favoured regions.

*All references to future integrated Mediterranean programmes in this communication are to the document "Mediterranean Programmes: Lines of Action" (COM (81) 637 final).

As for the EAGGF, the adoption of the proposals to speed up agricultural development in certain regions of Greece and citrus farming will increase Greece's participation;

- (c) the decisions on 1982/83 farm prices include a commitment to extend before the end of 1982 the more favourable conditions and rates for the refund of sums made available by the EAGGF for structural measures currently applied in respect of certain Mediterranean regions to similar areas in Greece. The Commission has undertaken to present proposals by 31 July 1982, on which the Council is to act by the end of the year.

Mediterranean programmes: for the record.

8. "The activities of the Funds must be co-ordinated (§ 10, 2nd indent)

The Community's financial instruments are to be coordinated more organically in the Mediterranean programmes.

9. "Participation in the financing of projects must be considerably increased (§ 10, 3rd indent, 1st phrase)

The question is bound up with that of increased resources. It should also be viewed in conjunction with the Commission's concern to obtain an effect of quantitative and qualitative additionality.

- (a) Greater participation already exists in certain cases: Social Fund; EAGGF: fishing, aquaculture; ERDF, non-quota and quota sections.
- (b) It has been provided for in the following proposals:
- EAGGF: speeding up agricultural development,
 - ERDF review.
- (c) In the decisions on 1982/83 farm prices provision is made for extending to comparable regions of Greece the more favourable intervention conditions and rates already granted by the EAGGF for structural measures in certain Mediterranean regions (see No 7). The Mediterranean programmes are also expected to provide for high levels of Community participation.

10. "Expenditure on social infrastructure must be covered" (§ 10, 3rd indent, 2nd phrase)
- (a) Intervention to assist social infrastructure projects is legally possible (ERDF, EIB, NCI and ECSC in certain cases) The Commission will consider any application that comes within the rules in force.
- (b) Provision could be made in the Mediterranean programmes for taking over financial responsibility for social infrastructure projects.
11. "A new Fund must be created for the development of the Mediterranean regions with its own resources" (§ 10, 4th indent)
- This question is being considered by the Commission in connection with work on the integrated Mediterranean programmes. There could be a choice between two alternatives: either to set up a new Fund or to improve the resources, adaptation and coordination of the present instruments. The creation of an ad hoc Fund was requested also in the parliamentary resolution of 16 February 1982 (Pöttering report).
12. "There must be greater scope for financial resources to be procured through the NCI" (§ 10, 5th indent)
- Under NCI I no formal application was made by Greece for a loan. The Commission, together with the EIB - as the "agent" - is examining the reasons for this with the Greek authorities.
13. "The financing of special long-term programmes for the least-favoured regions of Greece (islands, frontier and mountain regions)" (§ 11(1))
- Some of the decisions that have been taken or proposed are to this effect: the possibilities afforded by the Directive on mountain and hill farming: less-favoured areas (75/268/EEC) (already being implemented), the implementing proposals the Commission is about to make concerning the non-quota section of the ERDF, the proposal for speeding up agricultural development in Greece (COM (82) 72 final), which the Commission has just made so that Greece can be aligned on other Mediterranean regions. But it is particularly what is being planned for the Mediterranean programmes that corresponds quite well to what Greece is asking for.
14. Particular attention to be accorded to Greece's special geographical position (no land frontiers with the Community, islands): transport infrastructure problems (§ 11(2))
- The Commission recognises that there is a special problem here, which it is willing to examine with the Greek authorities.
- (a) At present the only possibilities for Community assistance are through the ERDF (particularly for transport infrastructure).

- (b) The proposal for a regulation concerning financial support for projects of Community interest in the field of transport infrastructure - put forward in 1976 (COM (76) 636 final and amended in 1977 (COM (77) 458) and in 1980 (COM (80) 58 final) covers some of Greece's specific transport problems. It provides in particular that the criteria for selecting projects of Community interest should take regional effects into account. This proposal has come up against reservations on the part of some of the Member States.
- (c) Such action in the field of infrastructure, whose effects will take some considerable time to be felt, must be integrated at Community level, with suitable measures for the operation of the transport market as regards both access to the market (e.g. apportionment of Community licences, extension of the measures in the First Directive with regard to the frontier-zone traffic, improvement of roll-on/roll-off transport chains, increased number of transit licences for crossing certain third countries, etc.) and transport rates and conditions (e.g. ECSC through tariffs, application for a specified period of Art. 80 of EEC Treaty, etc.).

15. Athens and Thessaloniki to be eligible for Community financing in order to establish the infrastructure needed to improve the quality of life, decentralize industrial activity to the provinces, etc. (§ 12)

Under present Community legislation the Community's financial instruments apply in law to Greece as a whole, except for the quota section of the ERDF, for which Athens is not eligible, being an area excluded from national aid for regional purposes. Athens would be, however eligible for grants from the non-quota section of the ERDF.

This situation is in keeping with the specific aims of the various financial instruments and particularly the ERDF, whose purpose is to contribute to the decentralisation of economic activities and the creation of productive jobs.

The Commission is willing, naturally, to examine with the Greek Government how the Community's financial instruments can best be used in coordination for the Athens area, the diverse purposes of the various financial instruments being respected, provided Community intervention does not contribute to increasing congestion in the capital, whose growth is described in the memorandum as "monstrous". In connection with this, special attention could be given to reducing pollution in Athens itself.

CONFIDENTIAL

AGRICULTURE AND FISHERIES (§ 13)

- | <u>Greek demand</u> | <u>Remarks</u> |
|--|--|
| 16. Finance and technical aid for carrying out major land improvement projects (§ 13(2)) | <p>(a) The EIB grants loans in this field. Greece has not however asked for financing for major land improvement projects.</p> <p>(b) The measures proposed to the Council for speeding up agricultural development in certain regions of Greece (COM (82) 72 final) provide for financing for rural infrastructure and land and forestry improvement which could be used for this type of work.</p> <p>(c) Provision could be made in the Mediterranean programmes for measures along these lines.</p> |
| 17. Finance and technical aid for developing certain sectors, such as fishing, by means of the efficient exploitation of Greek lagoons (§ 13(2)) | <p>(a) Community fishery legislation, already in existence goes some way towards meeting the needs of the Greek fishery industry:</p> <ul style="list-style-type: none">- 1978 structural measures (Regulation (EEC) 1852/78); Greece qualifies for the increase rate (Regulation (EEC) 2992/81);- 1981 organization of the market (Regulation (EEC) 3796/81). <p>The fishery agreements with certain African countries also benefit Greece.</p> <p>(b) The Commission has made proposals for structural measures that should affect Greece: development of shipping and aquaculture, coordination of research (COM (80) 420 final)</p> <p>(c) In connection with the Mediterranean programmes the Commission will be considering what further proposals could be made to develop fishing and aquaculture in the Mediterranean.</p> |
| 18. Finance and technical aid for setting up and organizing agri-industrial complexes (§ 13(2)) | <p>For the record: the Commission has decided to have a study carried out on the situation of Greek fisheries.</p> <p>(a) Projects to develop the agri-foodstuffs industry are eligible for support from the EAGGF and the ERDF. Greater use could be made by Greece of the existing instruments (including the lending instruments).</p> <p>(b) The proposals to be made in connection with the Mediterranean programmes will also cover this field.</p> |

19. Finance and technical aid for developing cooperatives (§ 13(2))

The Community encourages the formation of producer groups and associations thereof - forms which, provided certain conditions are satisfied and the rules on competition respected, can also include cooperatives. The EAGGF, Guidance Section, covers producer groups (Regulation (EEC) 1360/78); also fruit and vegetables (Regulation (EEC) 1035/77), cotton (Regulation (EEC) 389/82), hops (Regulation (EEC) 1696/71), silk worms (Regulation (EEC) 707/76) and fisheries (Regulation (EEC) 3696/81).

20. Income support for small farmers
Closing the gap between increased common prices and the inflation rate (§ 13(3))

According to CAP principles farm incomes are guaranteed or assisted by the farm prices and related measures and by certain structural measures.

- (a) The decisions on 1982/83 farm prices will enable the gap very largely to be closed.
- (b) In connection with the decisions on 1982/83 farm prices the Council asked the Commission to give its figures for farm incomes in Greece as quickly as possible and, in the light of those figures, to present specific proposals to the Council for resolving with all due speed any problems they had found. In the communication to the Council on lines of action for the Mediterranean programmes (COM (81) 637 final), the Commission envisages the granting of "direct income support" pending an improvement in the employment situation through the development of other activities and greater rationalization in agriculture.

CONFIDENTIAL

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

EHG(B2)(82)9 Revise 1

COPY NO. **1**

23 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

The following briefs on Political Cooperation are attached:

- ANNEX A Middle East (except Iran/Iraq)
- ANNEX B Iran/Iraq
- ANNEX C East/West Relations: Poland
- ANNEX D East/West Relations: Afghanistan

CONFIDENTIAL

CONFIDENTIAL

ANNEX A: MIDDLE EAST

OBJECTIVE

1. Consider European role in Lebanese crisis: issue statement reaffirming European commitment to work for peace both in Lebanon and the region.

Points to Make

2. Priority must remain Israeli withdrawal in accordance with SCR 509. Peacekeeping force will be needed to achieve this. Opportunity for Ten to make practical contribution. Recognise difficulties with UN peacekeeping operation. But non-UN force could cause difficulties with Arab world and would play into Russian hands. Agree public signal of Ten's willingness to help and support for strong Lebanese Government.

3. Measures against Israel. Need to give substance to our commitment to further action in the absence of Israeli withdrawal. Favour suspension by Ten of defence supplies. Views of others?

4. Destruction of mainstream PLO in Beirut risks making solution of Palestinian problem more not less difficult. Extremism and terrorism could grow. Lasting peace in Lebanon must involve overall settlement embracing Palestinian rights.

CONFIDENTIAL

CONFIDENTIAL

Background

References

- A: Statement by Ten Foreign Ministers, 9 June.
- B: Security Council Resolution 508.
- C: Security Council Resolution 509.
- D: Draft communique on Middle East for European Council.

1. Discussions are continuing in the political cooperation machinery to prepare a draft communique for the European Council: the latest version is at reference D. There is general agreement that the statement should indicate a willingness to contribute in practical ways to a solution of the Lebanese crisis including Israeli withdrawal. To bring this about a peacekeeping force of some kind will clearly be necessary. Thinking in the Ten is moving in favour of trying in the first place for a UN force. Although no partners have yet taken decisions, a number have said that they would find it much easier to participate in a UN force. The Irish, who already contribute to UNIFIL, are debarred by their constitution from participating in a non-UN operation. This latter option would, however, remain if the Soviet Union vetoed a UN force. If it is the general view in the Ten that a UN force should be the first choice, there would be value in partners making this clear to the Americans and others, with the aim of influencing their thinking and preventing a situation in which the Ten are faced with a pressing invitation to participate in a less acceptable, non-UN force.

2. Measures. Discussions will also be continuing over the next few days among the Ten on the question of suspending defence sales to Israel. The impression from sounding taken so far is that the Ten would agree to a suspension if the UK took the lead in pressing for one. The Prime Minister will

/be

CONFIDENTIAL

CONFIDENTIAL

be consulted again on this before the European Council. The scope for further economic measures under Israel's Cooperation Agreement with the Community seems limited. The signature of the Second Financial Protocol has already been postponed sine die.

3. There is general agreement among the Ten that the European Council should issue a statement dealing with the Lebanon, the continuing need for progress on the Palestinian problem and with Iran/Iraq. A reaffirmation of the Ten's Middle East policy along Venice lines will help to correct an impression of confusion in Europe's policy created by conflicting statements by Messrs Tindemans and Cheysson in the region.

CONFIDENTIAL

A

CONFIDENTIAL

STATEMENT BY THE TEN ON THE SITUATION IN LEBANON: 9 JUNE

1. The member states of the European Community vigorously condemn the new Israeli invasion of Lebanon.
2. Like the bombardments which preceded it and which caused intolerably high loss of human life, this action cannot be justified. It constitutes a flagrant violation of international law and of the most basic humanitarian principles. Furthermore it compromises the efforts to achieve a peaceful settlement of the problems of the Middle East and creates the imminent danger of a generalised conflict.
3. The Ten reaffirm the importance they attach to the independence, sovereignty, territorial integrity and notional unity of Lebanon, which are indispensable for peace in the region.
4. The Ten strongly support the appeals made by the Secretary General of the United Nations. They urgently call on all the parties concerned to act in accordance with Security Council Resolutions 508 and 509, and in particular on Israel to withdraw all its forces immediately and unconditionally from the Lebanon and to place the United Nations Interim Forces in Lebanon (UNIFIL) in a position to accomplish its mission without hindrance.
5. Should Israel continue to refuse compliance with the above Resolutions the Ten will examine the possibilities for future action.
6. The objective of the Ten is to work for a Lebanon free from the cycle of violence which they have repeatedly condemned in the past. This cannot be dissociated from the establishment of a global, just and lasting peace in the region. They are ready to assist in bringing the parties concerned to accept measures intended to lower the level of tension, re-establish confidence and facilitate a negotiated solution.
7. The Ten will urgently examine within the institutions of the Community the use of the means at the disposal of the Community to give aid to the victims of these events.

CONFIDENTIAL

GFS 300
UNCLASSIFIED

CONFIDENTIAL

FM UKMIS NEW YORK 052345Z JUNE 82
TO IMMEDIATE FCO (DESKBY 060800Z)
TELEGRAM NUMBER 942 OF 5 JUNE
INFO IMMEDIATE BEIRUT TEL AVIV AMMAN DAMASCUS
PRIORITY JEDDA CAIRO PARIS AND WASHINGTON.

MIPT: ISRAEL/LEBANON: SECURITY COUNCIL.

FOLLOWING IS TEXT OF SCR 508.

BEGINS

THE SECURITY COUNCIL,
RECALLING SECURITY COUNCIL RESOLUTIONS 425 (1978), 426 (1978) AND
THE ENSUING RESOLUTIONS, AND MORE PARTICULARLY, SECURITY COUNCIL
RESOLUTION 501 (1982).

TAKING NOTE OF THE LETTERS OF THE PERMANENT REPRESENTATIVE OF
LEBANON DATED 4 JUNE 1982 (S/15161 AND S/15162),
DEEPLY CONCERNED AT THE DETERIORATION OF THE PRESENT SITUATION IN
LEBANON AND IN THE LEBANESE-ISRAELI BORDER AREA, AND ITS
CONSEQUENCES FOR PEACE AND SECURITY IN THE REGION,
GRAVELY CONCERNED AT THE VIOLATION OF THE TERRITORIAL INTEGRITY,
INDEPENDENCE, AND SOVEREIGNTY OF LEBANON,
REAFFIRMING AND SUPPORTING THE STATEMENT MADE BY THE PRESIDENT AND
THE MEMBERS OF THE SECURITY COUNCIL OF 4 JUNE 1982 (S/15163), AS
WELL AS THE URGENT APPEAL ISSUED BY THE SECRETARY-GENERAL ON 4 JUNE
1982,

TAKING NOTE OF THE REPORT OF THE SECRETARY-GENERAL,

1. CALLS UPON ALL THE PARTIES TO THE CONFLICT TO CEASE IMMEDIATELY
AND SIMULTANEOUSLY ALL MILITARY ACTIVITIES WITHIN LEBANON AND ACROSS
THE LEBANESE-ISRAELI BORDER AND NO LATER THAN 0600 HOURS LOCAL TIME
ON SUNDAY, 6 JUNE 1982;
2. REQUESTS ALL MEMBER STATES WHICH ARE IN A POSITION TO DO SO TO
BRING THEIR INFLUENCE TO BEAR UPON THOSE CONCERNED SO THAT THE CESS-
ATION OF HOSTILITIES DECLARED BY SECURITY COUNCIL RESOLUTION 490
(1981) CAN BE RESPECTED;
3. REQUESTS THE SECRETARY-GENERAL TO UNDER TAKE ALL POSSIBLE EFFORTS
TO ENSURE THE IMPLEMENTATION OF AND COMPLIANCE WITH THIS
RESOLUTION AND TO REPORT TO THE SECURITY COUNCIL AS EARLY AS
POSSIBLE AND NOT LATER THAN FORTY-EIGHT HOURS AFTER THE ADOPTION OF
THIS RESOLUTION.

ENDS
PARSONS

STANDARD

NEHAD
MED
NAD
UND
EESD
EOD
WED
RID

MAED
ES & SD
ERD
ESID
CONS D
CONS EM UNIT
CABINET OFFICE

ADDITIONAL DISTRIBUTION
ARAB/ISRAEL DISPUTE

CONFIDENTIAL

GRS 215

UNCLASSIFIED
DESKBY 070800Z (FCO)
FM UKMIS NEW YORK 070301Z JUNE 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 951 OF 6 JUNE
INFO IMMEDIATE BEIRUT TEL AVIV DAMASCUS AMMAN WASHINGTON,
MODUK,
PRIORITY CAIRO BAGHDAD PARIS AND JEDDA.

MIPT: ISRAEL/LEBANON.

FOLLOWING IS TEXT OF DRAFT RESOLUTION 509.

BEGINS

THE SECURITY COUNCIL,
RECALLING ITS RESOLUTIONS 425 (1978) OF 19 MARCH 1978 AND 508 (1982)
OF 5 JUNE 1982,

GRAVELY CONCERNED AT THE SITUATION AS DESCRIBED BY THE SECRETARY-
GENERAL IN HIS REPORT TO THE COUNCIL,
REAFFIRMING THE NEED FOR STRICT RESPECT FOR THE TERRITORIAL INTEGRITY
SOVEREIGNTY AND POLITICAL INDEPENDENCE OF LEBANON WITHIN ITS INTER-
NATIONALLY RECOGNIZED BOUNDARIES,

1. DEMANDS THAT ISRAEL WITHDRAW ALL ITS MILITARY FORCES FORTHWITH
AND UNCONDITIONALLY TO THE INTERNATIONALLY RECOGNIZED BOUNDARIES OF
LEBANON;
2. DEMANDS THAT ALL PARTIES OBSERVE STRICTLY THE TERMS OF PARAGRAPH
1 OF RESOLUTION 508 (1982) WHICH CALLED ON THEM TO CEASE IMMEDIATELY
AND SIMULTANEOUSLY ALL MILITARY ACTIVITIES WITHIN LEBANON AND
ACROSS THE LEBANESE-ISRAELI BORDER.
3. CALLS ON ALL PARTIES TO COMMUNICATE TO THE SECRETARY-GENERAL
THEIR ACCEPTANCE OF THE PRESENT RESOLUTION WITHIN 24 HOURS;
4. DECIDES TO REMAIN SEIZED OF THE QUESTION.

ENDS

PARSONS

STANDARD

NENAD
MED
NAD
UND
EESD
EOD
WED
RID

MAED
ES & SD
ERD
ESID
CONS D
CONS EM UNIT
CABINET OFFICE

ADDITIONAL DISTRIBUTION
ARAB/ISRAEL DISPUTE

DRAFT EUROPEAN COUNCIL COMMUNIQUE: MIDDLE EAST

As agreed by Middle East Working Group 22 June (unofficial translation).

1. The Ten member states of the European Community reiterate the vigorous condemnation they expressed in Bonn on 9 June of the Israeli invasion of Lebanon [aimed at the elimination of the Palestinian resistance] which has caused intolerable suffering among the population and threatens at any moment to provoke a wider conflict with unforeseeable consequences.
2. The Ten remain deeply committed to the maintenance of the sovereignty and territorial integrity of Lebanon, and once more appeal urgently to Israel to comply with Security Council resolutions 508 and 509. They call for the reestablishment of the authority of the Lebanese Government over all its national territory and, in order to achieve that objective, the withdrawal from Lebanon of all foreign troops except where the international community decides otherwise following a request from the legitimate Lebanese Government.
3. The Ten support the current efforts to form a Government representing all elements of the Lebanese Community in view of the crucial need for national reconciliation. They are continuing their assistance to those in distress and are ready to contribute at a later stage to the reconstruction of the country. [In this context they call on all parties to comply with Security Council resolution 512 and to cooperate with United Nations and UNIFIL personnel in their humanitarian efforts]. All international efforts must now be directed to creating conditions which guarantee the security and stability of Lebanon and of the region. The Ten stand ready to cooperate in this enterprise [and in particular to participate collectively, according to their respective abilities, in a peacekeeping force].

CONFIDENTIAL

4. All efforts to reestablish lasting peace and security in Lebanon require an equal effort to restore the legitimate rights of the Palestinian people some of whom have found refuge on Lebanese soil. The Ten therefore demand that this people should be permitted, in the framework of a comprehensive peace settlement, to exercise their right to self-determination [and that they should have the right to provide themselves with state structures of their choice] or [and that no options should be closed in the exercise of this right].

5. The Ten remain certain that a just and lasting peace in the Middle East must of necessity be based on all of the principles contained in the Venice Declaration. They are convinced that negotiations are better able to bring about lasting security than armed conflict, and call forthwith on all parties concerned [including the PLO] or [including the Palestinian people and consequently the PLO] to substitute the logic of dialogue for that of armed force and thenceforward to assert their rights purely by political means. Europe would not fail to support them if they took this step.

6. To facilitate this essential process of dialogue, the Ten invite all parties to the conflict to take immediate steps aimed at reducing tension. They commit themselves to support and encourage by all means at their disposal any negotiations launched according to the principles for which they adhere.

7. The Ten furthermore express their grave concern at the continuation of the Iran/Iraq war, which also poses a serious threat to the security and stability of the region. They renew the appeal they made on 24 May for an end to hostilities and for a negotiated settlement. They call for a redoubling of peace efforts and pledge themselves to play their part in these efforts.

CONFIDENTIAL

CONFIDENTIAL

ANNEX B - IRAN/IRAQ

OBJECTIVE

1. To discourage any ill-judged initiative by the Ten.

POINTS TO MAKE

2. Western objectives should be to work to reduce Iranian threat to Gulf States and Saudi Arabia, and prevent further drift by Iran towards Soviet Union.

3. No major role for the West.

4. Lead should be taken by Islamic States and in particular Arab neighbours of Iran and Iraq.

5. Partners should be ready to play constructive role in support of any action at UN or elsewhere which has realistic chance of contributing towards a negotiated settlement.

6. Iraqi withdrawal helps, but dialogue needed to deal with other outstanding points of difference.

7. US recognise no scope for US-inspired initiative.

8. Would not wish to go beyond draft statement prepared by Working Group.

BACKGROUND

References

- A Statement by Foreign Ministers of the Ten on Iran/Iraq war
- B Iranian reply to EC démarche
- C Draft statement prepared by Middle East Working Group on
22 June

]State

CONFIDENTIAL

CONFIDENTIAL

State of the War

9. Iran has now re-taken most of the territory occupied by Iraq but has not yet crossed the frontier.
10. On 10 June, Baghdad Radio announced willingness to accept binding arbitration by Islamic Conference Organisation. Building on this unilateral declaration, President Saddam Hussein announced on 20 June that all remaining Iraqi troops would be withdrawn from Iranian territory within ten days. He made no reference to a ceasefire proposal. On 21 June Ayatollah Khomeini said that Saddam Hussein's offer alone would not lead to a ceasefire and that four other conditions would have to be satisfied: return of exiled Iraqi dissidents; payment of reparations; punishment of the aggressor; and the right to send Iranian troops through Iraqi territory to the Lebanon. Iran has also said that peace would be impossible until removal of Saddam Hussein.
11. US has told Iraq that it does not see sufficient support for early discussion of Iran/Iraq war in Security Council. Earlier Jordanian attempts to raise question in informal Security Council meeting on 31 May misfired.
12. Iran/Iraq discussed in detail by Non-Aligned Movement 31 May to 4 June. The meeting was to prepare for the Non-Aligned Movement Summit in Baghdad in September. NAM's decision to go ahead has angered the Iranians. NAM's credentials as mediators have been damaged.
13. Iraq interpreted EC Ministers' statement on mediation as support for her position. Iran commented in reply to EC démarche that Western countries only became concerned when Iraq was under threat. Gulf States working towards move to propitiate Iran (eg reparations) and action to persuade Iraq to

]modify

CONFIDENTIAL

CONFIDENTIAL

modify its position on unconditional withdrawal and perhaps even to encourage departure of Saddam Hussein.

14. Officials of the Ten meeting on 22 June prepared a statement on the Middle East to be issued by the European Council. It reiterated the Ten's concern about the continuation of the Iran/Iraq war. Given the Iranians' lukewarm reaction to 24 May Declaration, repeated calls by the Ten for peace serve little purpose and may be provocative rather than palliative.

Soviet Union

15. Soviet Union in a dilemma and would wish to avoid making choice between Iran and Iraq. Soviet/Iran relations are not warm. Soviet Union would be opposed to Iranian invasion of Iraq but has also pointed out in private that her friendship treaty with Iraq did not commit the Soviet Union to provide military assistance. The Soviet Union's ally in the Middle East ie Syria has also come out strongly against any Iranian invasion of Iraq.

16. Iraq has asked Japan to sponsor an action in the UN Security Council. Japan has replied by asking whether Iraq would consider a unilateral withdrawal to 1975 boundaries to create the conditions for serious negotiations. Japan's Foreign Minister is due to meet the Iranian Foreign Minister in New York on 8 July at Iranian request.

17. Fresh efforts at mediation by the Islamic Conference Good Offices Committee have not been well received in Tehran. For form's sake they will continue to try but probably accept that their chances of succeeding are slim.

CONFIDENTIAL

18. Algerians acted as honest brokers in negotiating the Algiers Agreement of 1975 between Iran and Iraq. Some evidence that they may be trying to mediate on the basis of this Agreement (which was unilaterally abrogated by Iraq in August 1980).

CONFIDENTIAL

GRPS 458

UNCLASSIFIED

DESKBY 241900Z

FM UKREP BRUSSELS 241712Z MAY 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 2073 OF 24 MAY 1982

INFO IMMEDIATE BAGHDAD TEHRAN PRIORITY BRUSSELS COPENHAGEN

THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG ATHENS UKMIS NEW YORK

WASHINGTON UKDEL NATO

INFO SAVING STRASBOURG

M I P T: DECLARATION OF THE TEN ON THE CONFLICT BETWEEN IRAQ AND IRAN

1) THE TEN EXPRESS THEIR CONCERN AT THE CONTINUATION OF CONFLICT BETWEEN IRAQ AND IRAN WHICH HAS NOW LASTED TWO YEARS AND CLAIMED VERY NUMEROUS VICTIMS, LED TO CONSIDERABLE MATERIAL DESTRUCTION, CREATED GRAVE SUFFERING FOR THE CIVILIAN POPULATIONS, AND HAS DIVERTED SIGNIFICANT RESOURCES WHICH THE TWO COUNTRIES HAD WISHED TO DEVOTE TO ECONOMIC AND SOCIAL PROGRESS.

2) WHILE REAFFIRMING THEIR COMMITMENT TO THE PRINCIPLES OF RESPECT FOR THE INDEPENDENCE AND THE SOVERIGNTY OF STATES AND OF NON INTERFERENCE IN THEIR INTERNAL AFFAIRS, THE TEN EXPRESS THE GRAVE CONCERN WHICH THE CONTINUATION OF THE FIGHTING CAUSES THEM. THEY DEPLORE THIS THE MORE BECAUSE THEY HAVE LONG STANDING AND CLOSE LINKS WITH EACH OF THE TWO BELLIGERENTS AS WELL AS WITH THE OTHER COUNTRIES IN THE REGION. THEY RECALL THAT SINCE 23 SEPTEMBER 1980 THEY HAVE TAKEN A POSITION IN SUPPORT OF AN END TO THE FIGHTING AND OF A NEGOTIATED SETTLEMENT.

3) THE TEN PAY TRIBUTE TO THE PERSISTENT EFFORTS MADE BY THE REPRESENTATIVES OF THE SECRETARY GENERAL OF THE UNITED NATIONS, OF THE NONALIGNED MOVEMENT, AND OF THE ISLAMIC CONFERENCE.

/4.

CONFIDENTIAL

4) THE TEN, FOR THEIR OWN PART, EARNESTLY DESIRE A PEACEFUL SOLUTION IN ACCORDANCE WITH THE PRINCIPLES RECOGNISED BY THE INTERNATIONAL COMMUNITY, SUCH AS THOSE DEFINED BY THE UNITED NATIONS SECURITY COUNCIL IN ITS RESOLUTION NO 479 OF THE 28 OF SEPTEMBER 1980. THEY FIRMLY BELIEVE THAT A JUST AND LASTING POLITICAL SETTLEMENT ASSURING THE SECURITY OF THE TWO STATES IN RESPECT FOR THEIR SOVEREIGNTY, THEIR TERRITORIAL INTEGRITY AND THEIR POLITICAL AND CULTURAL IDENTITY, IS MORE THAN EVER URGENT AND NECESSARY, IN ORDER TO PERMIT THE ECONOMIC AND SOCIAL DEVELOPMENT TO WHICH THE PEOPLES OF THE REGION ASPIRE.

5) THE TEN ARE WILLING TO PARTICIPATE IN EVERY EFFORT DIRECTED TOWARDS PEACE, TO THE EXTENT THAT EACH OF THE TWO PARTIES REQUEST THEM TO DO SO, AS WELL AS TO CONSIDER, WHEN HOSTILITIES HAVE CEASED, THE POSSIBILITY OF COOPERATING IN THE RECONSTRUCTION OF THE TWO COUNTRIES.

FCO ADVANCE TO:-

FCO - MOBERLY, MIERS, PS/PUS

FCO PASS SAVING STRASBOURG

BUTLER

(REPEATED AS REQUESTED)

(ADVANCED AS REQUESTED)

STANDARD

MED
NENAD
NAD
UND
EESD
ECD
WED
MAED

ES & SD
TRED
RID
ERD
ESID
CONS DEPT
CONS EM UNIT
CABINET OFFICE

ADDITIONAL DISTRIBUTION

IRAG/IRAN

2

CONFIDENTIAL

FM BRU COREU

TO ALL COREU - PRIORITY

CONFIDENTIAL

CPE MUL ETR 2245

030682 1610 H

DIFFUSION RESTREINTE

DISTRIBUTION LIMITEE

OBJET : DECLARATION DES DIX SUR LE CONFLIT IRANO-IRAKIEN.

REF. CPE/MUL ETR 2089

LA PRESIDENCE INFORME SES PARTENAIRES QUE SON AMBASSADEUR A TEHERAN A EFFECTUE LE 1ER JUIN UNE DEMARCHE RELATIVE A LA DECLARATION DES DIX SUR LE CONFLIT IRANO-IRAKIEN. A CETTE OCCASION, LE VICE-MINISTRE IRANIEN DES AFFAIRES ETRANGERES A TENU LES PROPOS SUIVANTS :

- A) IL A NOTE QUE LES DIX S'INTERESSENT TOUT D'UN COUP AU CONFLIT EN QUESTION PARCE QUE L'IRAK SE TROUVE MAINTENANT DANS UNE MAUVAISE POSITION.
- B) LES CONDITIONS IRANIENNES POUR LE RETABLISSEMENT DE LA PAIX DOIVENT ETRE ACCEPTEES.
- C) LES DIX DOIVENT CONDAMNER L'AGRESSION IRAKIENNE S'ILS VEULENT ETRE PRIS EN CONSIDERATION POUR UNE MEDIATION.
- D) LA CHUTE DE SADDAM HUSSEIN EST ABSOLUMENT INDISPENSABLE "PARCE QU'IL EST ANORMAL ET PARCE QU'IL CONSTITUE UNE MENACE POUR LA STABILITE DE LA REGION".
- E) LES DIX ONT INTERET A INCITER L'IRAK A LA MODERATION "CAR UN TANKER COULE AU MAUVAIS ENDROIT POURRAIT BLOQUER LE PASSAGE DE PETROLE".
- F) L'IRAN EST CAPABLE DE LIBERER L'ENSEMBLE DE SES TERRITOIRES OCCUPES.
- G) L'IRAN REMERCIE LES DIX POUR LEUR PROPOSITION D'AIDE A LA RECONSTRUCTION. LA RAFFINERIE DE PETROLE D'ABADAN ET QUELQUES USINES FIGURENT PARMIS LES PRIORITES IRANIENNES EN LA MATIERE.

L'AMBASSADEUR DE LA PRESIDENCE A EU L'IMPRESSION QUE LES IRANIENS SONT VRAIMENT OBSEDES PAR LA DESTABILISATION DU REGIME DE SADDAM HUSSEIN ET QUE LA CHUTE DU PRESIDENT IRAKIEN EST POUR EUX UNE CONDITION "SINE QUA NON" POUR UN ARRET DES HOSTILITES.

COREU BRU

FIN DE TEXTE

LIMITED
MED
NENAD
ECD (E)

MR BULLARD
SIR J LEAHY
MR MOBERLY
MR HANNAY

THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL

DRAFT EUROPEAN COUNCIL COMMUNIQUE: MIDDLE EAST

As agreed by Middle East Working Group 22 June (unofficial translation).

1. The Ten member states of the European Community reiterate the vigorous condemnation they expressed in Bonn on 9 June of the Israeli invasion of Lebanon [aimed at the elimination of the Palestinian resistance] which has caused intolerable suffering among the population and threatens at any moment to provoke a wider conflict with unforeseeable consequences.
2. The Ten remain deeply committed to the maintenance of the sovereignty and territorial integrity of Lebanon, and once more appeal urgently to Israel to comply with Security Council resolutions 508 and 509. They call for the reestablishment of the authority of the Lebanese Government over all its national territory and, in order to achieve that objective, the withdrawal from Lebanon of all foreign troops except where the international community decides otherwise following a request from the legitimate Lebanese Government.
3. The Ten support the current efforts to form a Government representing all elements of the Lebanese Community in view of the crucial need for national reconciliation. They are continuing their assistance to those in distress and are ready to contribute at a later stage to the reconstruction of the country. [In this context they call on all parties to comply with Security Council resolution 512 and to cooperate with United Nations and UNIFIL personnel in their humanitarian efforts]. All international efforts must now be directed to creating conditions which guarantee the security and stability of Lebanon and of the region. The Ten stand ready to cooperate in this enterprise [and in particular to participate collectively, according to their respective abilities, in a peacekeeping force].

4. All efforts to reestablish lasting peace and security in Lebanon require an equal effort to restore the legitimate rights of the Palestinian people some of whom have found refuge on Lebanese soil. The Ten therefore demand that this people should be permitted, in the framework of a comprehensive peace settlement, to exercise their right to self-determination [and that they should have the right to provide themselves with state structures of their choice] or [and that no options should be closed in the exercise of this right].
5. The Ten remain certain that a just and lasting peace in the Middle East must of necessity be based on all of the principles contained in the Venice Declaration. They are convinced that negotiations are better able to bring about lasting security than armed conflict, and call forthwith on all parties concerned [including the PLO] or [including the Palestinian people and consequently the PLO] to substitute the logic of dialogue for that of armed force and thenceforward to assert their rights purely by political means. Europe would not fail to support them if they took this step.
6. To facilitate this essential process of dialogue, the Ten invite all parties to the conflict to take immediate steps aimed at reducing tension. They commit themselves to support and encourage by all means at their disposal any negotiations launched according to the principles for which they adhere.
7. The Ten furthermore express their grave concern at the continuation of the Iran/Iraq war, which also poses a serious threat to the security and stability of the region. They renew the appeal they made on 24 May for an end to hostilities and for a negotiated settlement. They call for a redoubling of peace efforts and pledge themselves to play their part in these efforts.

CONFIDENTIAL

ANNEX C EAST/WEST RELATIONS: POLAND

OBJECTIVE

1. To review the situation and reaffirm validity of present policies which are shared with Community partners.

POINTS TO MAKE

2. Recent demonstrations reveal underlying discontent with regime's policies. Jaruzelski's dilemma remains: any meaningful relaxation will permit resurgence of popular opposition but continuation of martial law offers no lasting solution to Poland's problems.
3. Unless regime is more responsive to popular pressure dissatisfaction will grow; economic recovery likely to be postponed further. A visit by Pope in August could give fresh impetus to Church's plans for national reconciliation but prospects for compromise between Government and Solidarity seem slight.
4. Western measures having an effect. Important to maintain firm and united Western line. Recent relaxations of martial law insufficient to warrant any change of policy at present.

CONFIDENTIAL

5. (If appropriate) Glad further formal Commission proposal for humanitarian aid to Poland about to be submitted. Believe Western relief has helped to ease food and medical shortages. Right EC funds should continue to be channelled through NGO's.

6. (If raised) No question of new credits for Poland at present. Clearly difficult in absence of progress on West's three criteria for West to move ahead on rescheduling talks. But in West's interests to settle Poland's debt repayments in an orderly fashion. Not in our interests to continue indefinitely to give the Poles present 100% debt relief. Important to consider implications carefully with US when creditors meet on 9 July.

7. (If raised). Aware of US thought that West might offer Poland massive economic assistance in return for political concessions. Any such proposal would require careful study: Polish hard currency needs in 1982 alone in order of \$10 billion (without rescheduling). More prudent at this stage therefore to keep to line that satisfaction by Poland of West's three criteria would enable us to restore normal economic relations.

BACKGROUND

References

A. Statement of Heads of State and Government of the Ten of 31 March.

B. Extract from Luxembourg NATO Foreign Ministers' Communique of 18 May.

C. Washington tel no 2194 of 18 June.

8. Situation in Poland is now calmer following mass protest demonstrations in May, 6 month anniversary of martial law on 13 June provoked few public protest actions. Government

CONFIDENTIAL

announced on 12 June release of 275 internees and relaxations of curfew in Warsaw and other cities. Some 2,000 people however are believed to remain in detention and a further 3,000 have been arrested and charged with offences under martial law.

9. Government claim they are pursuing policy of consultation and reconciliation and there are rumours of possible further relaxations, possibly to coincide with national day celebrations on 22 July. But there has been no movement by the Government to resume a genuine dialogue with the Church and Solidarity or to relax the basic political restrictions of martial law. Latest reports suggest the Pope may now visit Poland in August on a pastoral basis. But Government have not yet endorsed invitation from the Polish bishop. Both Governments and Church apparently hope this visit may provide a new political initiative.

10. European Council Statement of 12 March and Luxembourg Communiqué of 18 May firmly reiterated Western demands for lifting of martial law, release of those detained and resumption of dialogue with Church and Solidarity. Discussions in Political Committee on 14 June confirmed general adherence in Ten to this line despite some minor differences of interpretation of policy.

11. Statement by President Reagan on 18 June (reference C) emphasised that there had been no movement in Poland to enable US to undertake 'positive reciprocal measures' towards Poland or lift present measures. Firm US stand against resumption of rescheduling talks in present circumstances therefore likely to continue.

CONFIDENTIAL

II. EAST-WEST RELATIONS

- (a) The Heads of State and of Government noted that the situation in Poland continued to place a strain on East-West relations, and thus to affect the relations of the Ten with Poland and the USSR, which bore a clear responsibility in this situation.

The Ten recalled their earlier statements on the grave consequences of the present situation in Poland for security and cooperation in Europe, and for East-West relations as a whole. They renewed their call to the Polish authorities with the minimum delay to end the state of martial law, release those arrested and resume a genuine dialogue with the Church and Solidarity.

The Ten also noted with concern the recent statements of the Polish authorities on the possibility of the departure of detainees from the country. The Ten rejected any attempt to place pressure on those concerned. They would interpret such a policy as a further deterioration of the situation in Poland, and a grave breach of fundamental human rights.

(The Greek delegation has reserved its position on the section of the first sentence which indicates that the Polish situation affects the relations of the Ten with the USSR)

EXTRACT FROM NATO FOREIGN MINISTER'S COMMUNIQUÉ,

LUXEMBOURG 18 MAY 1982

Poland

1. The continued oppression of the Polish people violates the United Nations Charter and the Helsinki Final Act. The Allies recall their declaration of 11 January 1982 and again urge the Polish authorities to end the state of martial law, release all those detained and restore genuine dialogue with the Church and Solidarity. Hopes of progress in this direction were disappointed when recent limited relaxation of certain measures taken under martial law was followed so quickly by new repressive measures. The Polish authorities should refrain from forcing Polish citizens into exile.

CONFIDENTIAL

GR 120
UNCLASSIFIED
DESKBY 190900Z
FM WASHINGTON 182259Z JUN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 2194 OF 18 JUNE
INFO PRIORITY MOSCOW, PARIS AND BONN

MY TELNO 2193: SIBERIAN PIPELINE

STATEMENT BY THE PRESIDENT: FOLLOWING IS TEXT.
BEGINS:-

I HAVE REVIEWED THE SANCTIONS AND THE EXPORT OF OIL AND GAS EQUIPMENT TO THE SOVIET UNION IMPOSED ON DECEMBER 30 1981 AND HAVE DECIDED TO EXTEND THESE SANCTIONS THROUGH ADOPTION OF NEW REGULATIONS TO INCLUDE EQUIPMENT PRODUCED BY SUBSIDIARIES OF US COMPANIES ABROAD AS WELL AS EQUIPMENT PRODUCED ABROAD UNDER LICENSES ISSUED BY US COMPANIES.

THE OBJECTIVE OF THE UNITED STATES IN IMPOSING THE SANCTIONS HAS BEEN AND CONTINUES TO BE TO ADVANCE RECONCILIATION IN POLAND. SINCE DECEMBER 30 1981 LITTLE HAS CHANGED CONCERNING THE SITUATION IN POLAND: THERE HAS BEEN NO MOVEMENT THAT WOULD ENABLE US TO UNDERTAKE POSITIVE RECIPROCAL MEASURES.

THE DECISION TAKEN TODAY WILL, WE BELIEVE, ADVANCE OUR OBJECTIVES OF RECONCILIATION IN POLAND. ENDS.

RESIDENT CLERK PLEASE INFORM BRIDGES AND GOWLLAND (TRED)

FCO PLEASE PASS ADVANCE COPIES TO CORLEY (DOT) AND HAVELOCK (DOI)

HENDERSON
LIMITED
TRED
EESD
WED
NAD
PLANNING STAFF
PUSD
LORD BRIDGES
MREVANS
MR GOODISON

COPIES TO
MR CORLEY DOT
MR HAVELOCK DOI

CONFIDENTIAL

CONFIDENTIAL

ANNEX D - AFGHANISTAN

OBJECTIVE

1. To remind the Ten of the continuing importance of Soviet occupation.

POINTS TO MAKE

2. Must try to prevent issue from dropping from sight. Must continually remind Russians and world opinion that Afghanistan remains a central issue in East/West relations.

3. No sign that Cordovez's "indirect talks" at Geneva are making progress.

BACKGROUND

4. Since the UNGA vote on 18 November 1981 (116-23-12), Afghanistan has attracted little international attention in the past six months (apart from Afghanistan Day on 21 March). Western Governments generally continue to mention Afghanistan in public statements, but it has become increasingly overlaid as other problems supervene.

5. Ten's initiative remains on table, and there is no scope for a new Western initiative at present. The Islamic Conference is inactive.

6. International activity centres on the "indirect talks" which started in Geneva on 16 June under the auspices of Diego Cordovez, the UN Secretary-General's representative on Afghanistan. Pakistan has been cooperative over procedures, but continues to take a firm stand over the key principles of Soviet withdrawal and self-determination for the Afghan people. First reports suggest that discussions (with Cordovez acting as
[an intermediary

CONFIDENTIAL

CONFIDENTIAL

an intermediary) have not progressed beyond a statement of position by the Pakistani and Afghan foreign ministers. It had been expected that Iran might take part in the indirect dialogue, but so far they have not done so.

7. The growing number of refugees (now 2.7m in Pakistan alone) is creating a serious humanitarian and financial problem. A conference could serve humanitarian and political purposes. Pakistan did not want to propose one this year, but may next year ask the UNHCR to convene one.

FOREIGN AND COMMONWEALTH OFFICE

23 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)10

COPY NO

1

17 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

COMMON FISHERIES POLICY

Brief by Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. Emphasise UK seeks early settlement, obtain as much support as possible that Council of Fisheries Ministers, also meeting on 28/29 June, be encouraged to reach agreement.

POINTS TO MAKE

2. Pleased that on 15 June partners generally showed a will to reach agreement on revised Common Fisheries Policy. Hope Fisheries Ministers will reach full agreement in their meeting today. Essential for UK to have satisfactory share of fish stocks of interest to her industry and adequate protection for coastal fishermen. In interests of all Community industry to have stability which agreed CFP would bring.

BACKGROUND

3. The Council of Fisheries Ministers met in Luxembourg on 14 and 15 June. The first meeting since October 1981. The next meeting has been agreed for 28/29 June.

4. New proposals from the Commission concerning access to waters, quotas and total allowable catches (TACs) were issued late on 14 June. There was therefore no detailed discussion of these aspects during the meeting but an expert working group has been

1.

CONFIDENTIAL

CONFIDENTIAL

convened to study the proposals in detail and to report to the Council before the next meeting.

5. These proposals, particularly quotas, contain elements which are unacceptable to the United Kingdom but, subject to further study, could form the basis for useful discussion. A consultation meeting with the UK industry has been arranged for Friday, 18 June.

6. Some progress was made on other subjects:-

(a) a draft regulation on control and supervision, which provides enforcement rules which member states will apply in their own waters and for a Commission Inspectorate to monitor national Inspectorates, was agreed to come into effect at the latest by 1.1.83;

(b) interim arrangements were made to cover payments to fishermen in respect of marketing operations for the rest of this year;

(c) all but one of the provisions in a revised conservation regulation were agreed.

7. If difficulties develop at the next stage of discussions they are most likely to arise from the attitude of the Danes whose Minister was the only one to adopt a negative approach on 15 June.

Ministry of Agriculture, Fisheries and Food

17 June 1982

CONFIDENTIAL

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

EHG(B2(82)11 Revise 1
24 June 1982

COPY NO.

1

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVES

1. To repeat our general political support for the accession of Spain and Portugal to the Community.
2. To ensure that any blame for delays in the negotiations with Spain or Portugal are seen to lie with the French. (There are signs that they will try to point the blame on the UK for the internal disarray of the Community)

POINTS TO MAKE

3. We regard the further enlargement of the European Community with the accession of Spain and Portugal as very important for the further strengthening of democracy in Europe, and for the mutual benefits that could flow from widening the application of the Common Market.
4. The Community has always accepted that the political benefits which will accrue from enlargement are overriding, although we must obviously ensure that the economic costs involved are kept within reasonable bounds.

Evolution of the Community (if appropriate)

5. The fact that in preparing for further enlargement the Community has to examine its financial capacity and the operation

of existing policies such as agriculture demonstrates how enlargement stimulates the evolution of the Community. Arrangements which were appropriate twenty five years ago may in any case need to evolve to meet changing needs.

Financing Enlargement

6. It would be unfortunate if Spain and Portugal joined the Community with expectations of large transfers of resources which the richer Member States proved to be unwilling to finance. It is therefore right that there should be a discussion of the most equitable basis on which resources should be shared in a Community of twelve. An appropriate first step might be a report from the Commission for consideration by the Foreign Affairs Council in the Autumn.

Agriculture

7. It is obvious that the negotiations must be carefully and thoroughly prepared, but this must not be used as an excuse for delay. It is right to move matters forward, and there is no reason why the difficult questions of agriculture should not now be taken up.

8. The United Kingdom has consistently worked for advance in this area. At the European Council in London during our Presidency we sought to make progress on the Mediterranean acquis as part of the guidelines implementing the 30 May mandate. More recently we proposed in the Agriculture Council that the necessary changes to the Mediterranean acquis should be agreed as part of the agricultural price fixing. Unfortunately the Council was able to go only part of the way. Progress still has to be made on fruit and vegetables, and on olive oil, on which the United Kingdom has made constructive suggestions to the Council.

Separate accession for Portugal or Spain

9. Breaking the link between the two sets of the negotiations is not a point we need consider now. Both negotiations are under way, and that is clearly the best way to proceed. There will be

CONFIDENTIAL

considerable economic and political problems in separating these negotiations, and I see no reason to address the issue now.

Decision-making

10. Fully agree that a Community of Twelve will present difficult problems on institutional front. Should not take it for granted that present arrangements could not work and any changes must be fully thought out before they are offered to Spain and Portugal.

BACKGROUND

11. Mr Chandernagor made a vehement intervention at the Foreign Affairs Council on 22 June in which he in effect argued that the Community was addressing the accession negotiations and implications of enlargement in a superficial even irresponsible way. He said that President Mitterrand wanted a discussion at the European Council on 28 June and this was agreed. The Embassy in Paris have reported that Mitterrand will wish to ensure that the Council has a profound discussion of the real problems involved in enlargement, especially with regard to Spain. In a speech in Madrid on 22 June, Mitterrand repeatedly emphasized French support for Spanish membership, but also said that in effect that Spanish entry now would coincide with and accentuate a state of anarchy within the Community on Mediterranean agricultural products. France had no wish for Spanish membership to begin in an atmosphere of disaster or to lead to "a sort of additional internal Community economic warfare". In the French view, the door would not be closed, but it might remain only half open for a long time. The Spaniards are - rightly - interpreting this as less than a veto, but nonetheless the imposition of a major technical brake on progress; they are determined to press on; and will seek support against allowing the Portuguese negotiations to get ahead, let alone Portuguese accession before Spanish.

12. The French have for some time clearly been having serious difficulties with some aspects of Spanish accession, in particular with agriculture. It is not clear whether the French will take as

harsh a line with the Portuguese negotiations as with the Spanish. They have been much more positive about the Portuguese and President Mitterrand last December in Lisbon has even hinted publicly that Portuguese accession need not wait on Spanish. However the French caused unexpected difficulties at the Council over Portugal, and Chandernagor's general comments appeared to be critical of both sets of negotiations. It is not therefore clear whether the French will raise the question of a different timetable for the two sets of negotiations. Our best line at this stage is to emphasize the importance we attach to progress in both negotiations and to underline the difficulties that any unlinking would entail.

13. Timetable: the present timetable envisages Portuguese and Spanish accession on 1 January 1984 (having already slipped from 1 January 1983), with negotiations completed by end 1982 and national ratifications in 1983. Most Member States privately have for some time regarded this timetable as unrealistic.

Brief by Foreign and Commonwealth Office

23 June 1982

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

EHG(B2)(82)12

COPY NO 1

16 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

ENERGY

Brief by Department of Energy

OBJECTIVES

1. To encourage continued progress towards Community energy policy objectives, with emphasis on key role of market forces.
2. To explain recent increase in North Sea oil prices, and depletion policy announcement.

POINTS TO MAKE

Community Energy Matters

3. UK will continue to play a constructive role in developing realistic Community energy policies.
4. Important that momentum is maintained in ensuring that Member States' policies on energy pricing are consistent with economic pricing principles already agreed by the Community.

World Oil Market

5. Defensive measures taken by OPEC and completion of destocking by some companies has led to stabilisation of the oil market.

6. Hence some non-OPEC oil, including North Sea oil, whose price had previously dropped well below the OPEC level, has increased in price. But it remains below the average for OPEC and will not lead to general increases in world oil prices.

Depletion Policy

7. UK decision not to impose oil production cutbacks, at least until the end of 1984, will sustain UK contribution to Community's security of supply.

Oil consumer-producer dialogue

8. UK believes that relations with oil producers are best handled bilaterally and informally; but suggest that Community members should keep in touch on the outcome of their contacts.

BACKGROUND

Community Energy Matters

9. There has been no Energy Council since the last European Council. The next Energy Council on 13 July may adopt Recommendations on investment in the rational use of energy and on coal use, and Conclusions on coal policy.

10. UK would be reluctant to see the European Council give impetus to pressures for interventionist Community policies eg. on aid for investment in energy saving or alternative energies as advocated by Italy, Greece and Belgium at the last European Council. However, open UK opposition on grounds of principle should be avoided, since urgent consideration is being given to the possibility of initiative on energy in the Community (eg. on oil import levy) which might have a bearing on the solution to the UK's budget problem.

World Oil Market

11. In March companies had high stocks and, against a background of a continuing fall in demand, pressed OPEC countries hard for price reductions. OPEC did not respond, and companies walked away from contracts. By the beginning of April OPEC output was forced down to 16 million barrels per day, well below the OPEC ceiling of 17.5 mbd. Despite pressure on companies to destock (to meet lower demand and to cut financing costs) some companies have recently been seeking more oil. Spot prices have risen. BNOC resonded to market circumstances and proposed a new price of \$33.50 per barrel, an increase of \$2½; this is still cheaper than OPEC oil.

12. In future months demand for OPEC oil is expected to grow, perhaps by several million barrels per day, not because of an upturn in demand but because destocking is likely to come to an end. That will allow OPEC to raise its ceiling. We can expect Saudi Arabia to control its own output to ensure OPEC prices remain stable.

13. Real prices have decreased over the last 18 months. But the effect has been lost for many countries because of exchange movements. In the US real crude oil prices have declined by over 20% but in Europe there has been little change. Thus lower oil prices cannot now be seen as a major stimulus to economic recovery in Europe.

Last European Council

14. At the March European Council the Prime Minister said that lower oil prices provided an opportunity for expansion, although it brought problems too.

Depletion Policy

15. Community partners will welcome the UK decision not to impose oil production cutbacks. The decision will also be welcomed by foreign companies with interests in UKCS oil fields, eg. France's Total and Germany's Deminex.

CONFIDENTIAL

16. The Decision will help retain confidence of operating companies, thereby ensuring continued exploration and development, and achievement of UK's policy of prolonging high levels of production to the end of the century.

17. UKCS production for the first time exceeded 2 million barrels a day in April. One-third is currently exported to other Community countries.

Versailles Summit, June 1982

18. The Versailles Summit reached the following conclusions on energy:

"The progress we have already made does not diminish the need for continuing efforts to economise on energy, particularly through the price mechanism, and to promote alternative sources including nuclear energy and coal, in a long-term perspective. These efforts will enable us further to reduce our vulnerability to interruptions in the supply of energy and instability of prices. Co-operation to develop new energy technologies and to strengthen our capacity to deal with disruptions can contribute to our common energy security. We shall also work to strengthen our co-operation with both oil exporting and oil-importing developing countries".

19. M Martens, for the Belgian Presidency of the Community, argued at Versailles for energy saving and the promotion of alternative energy sources.

Department of Energy
16 June 1982

CONFIDENTIAL

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT
EHG(B2)(82)13 COPY NO 1
16 June 1982

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

STEEL

Brief by Department of Industry

OBJECTIVE

[If steel is discussed] To discourage any pleading of social and political difficulties as preventing steel capacity reduction and phasing out of state aids.

POINTS TO MAKE

2. Welcome agreement at 8 June Industry Council on extension of mandatory production quotas.
3. Anti-crisis measures have enabled Community steel prices to recover from the uneconomic levels that threatened the industry with bankruptcy last year. But market restrictions are bad in principle and offer no permanent solution to over-capacity. Social and political problems - which the UK has had to face as a result of our own steel cutbacks - must not prevent capacity reduction linked to the phasing out of state aids.

BACKGROUND

1. Although strict enforcement of production restrictions and the ECSC rules on price transparency have improved the position of the Community steel industry since last year, orders are at a low level and the market is fragile and vulnerable to imports.
2. The Industry Council on 8 June agreed that mandatory production quotas should be extended, with the inclusion of wire rod, for another twelve months. Italian pressures for additional quota are to be considered further although some concessions have already been agreed.

CONFIDENTIAL

3. The state aids decision of 7 August 1981 provides for all state aid contrary to the ECSC Treaty to be phased out by end 1985 and in the meantime subjected to Commission approval tied firmly to restructuring involving capacity reduction. The Commission is facing considerable political difficulties but has so far adopted a fairly firm line (with German and UK support). Problems with the Italians (who have failed to notify the Commission of their aid plans) and the French (who have not only infringed Community law but have failed to offer significant capacity cuts to justify the level of aid proposed). Serious political sensitivities in Belgium and Luxembourg (whose economies are dependent on steel).

4. Massive closures and cuts in capacity by BSC have reduced employment by over 60,000 in the last two years, with another 15,000 expected in the coming 2 years.

5. US countervailing and anti-dumping actions are adding to the problems of the Community steel industry. They are covered by the brief on EC external trade issues (Brief No 7).

Department of Industry
16 June 1982

CONFIDENTIAL

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

EHG(B2)(82)14

COPY NO

1

17 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

EUROPEAN REGIONAL DEVELOPMENT FUND

Brief by Foreign and Commonwealth Office

OBJECTIVES (if discussed)

1. To emphasise our interest in achieving progress in discussion of the new Regulation and (if appropriate) our willingness to consider proposals for a transitional solution to break the deadlock.
2. To ensure that whatever solution is agreed does not prejudice the position of Assisted Areas in Yorkshire and Humberside and the South West and East Midlands.

POINTS TO MAKE

3. Very desirable to develop Community policies in fields other than agriculture. ERDF has important rôle to play in this process.
4. Essential to find a way of taking discussions forward which took account of views of all Member States while safeguarding principle of concentration of resources on areas of greatest need.
5. (If idea of transitional solution is raised) Agree that a transitional approach could be helpful. Details and basis of such an approach must be discussed further.

CONFIDENTIAL

6. Could not accept any solution which envisaged the exclusion of some UK Assisted Areas. Unfair to exclude these very large deprived areas just because they fall within even larger and relatively better off regions.

BACKGROUND

7. ERDF a major source of Community funds for UK: receipts in 1982 expected to be £230 million. Our quota share is 23.8%. The Fund is due to be revised this year. Commission has proposed a quota section limited to the four least prosperous Member States (Italy, Greece, Ireland and UK, plus the DOM and Greenland), and an enlarged non quota section (20% instead of 5%) to cater for the Member States excluded from the quota section. It also seeks to tighten the rules in various ways so as to extend its influence on the formulation of regional policy.

8. Under the Commission's present proposal assisted areas in Yorkshire and Humberside, the South West and the East Midlands would be excluded from the quota section. This has aroused much controversy in the UK. UK "level 2" regions are much bigger than their counterparts elsewhere in the Community so that relatively large pockets of deprivation are not reflected in the statistics which the Community use to determine eligibility.

9. After discussion in the Foreign Affairs Council in May it became clear that the Commission's ideas for the quota section was not acceptable to certain Member States who stood to lose their quota, especially France (all Member States at present have quotas). In an attempt to overcome this opposition, and to unblock discussions, the Commission is now thinking of an interim or transitional solution (3 years) whereby there would be a gradual decrease in the quotas of the more prosperous Member States matched by corresponding increases in the shares of the less prosperous. There would be a corresponding progressive expansion in the size of the non quota section.

CONFIDENTIAL

10. We supported the Commission's net fund proposal and have now informally expressed readiness to consider the Commission's transitional solution idea. But we have told them that we would prefer a transitional arrangement not linked to the 'synthetic index' (the Germans have suggested one). The 'synthetic index' (which attempts to illustrate the relative prosperity or poverty of regions in the Community on the basis of GDP per caput and long-term unemployment) has been criticised because it is based on out of date and unreliable data. It has moreover given rise to our problem of excluded Assisted Areas (see paragraph 2 above). We have made it clear that we could not accept a transitional solution which did not safeguard the interests of the Yorkshire and Humberside, the South West and the East Midlands.

FOREIGN AND COMMONWEALTH OFFICE
16 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)15

COPY NO

1

15 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

INSURANCE

Brief by Department of Trade

OBJECTIVE

1. To remind our partners of and to justify our insistence on liberalisation.

POINTS TO MAKE

2. Remain committed to abolishing barriers to free trade in insurance within Community. A Treaty right, and essential part of development of the internal market.

3. Government control of policy conditions and premium rates for business insurance is a major and unjustified barrier.

4. As long as some Member States continue to insist on maintaining such controls, they will prevent adoption of a genuinely liberalising directive. Not prepared, nor should Community be, to accept sham liberalisation.

BACKGROUND

References: None

5. The non-life insurance services directive, which is designed to facilitate cross-frontier insurance of large industrial, commercial and professional (ICP) risks, was

CONFIDENTIAL

CONFIDENTIAL

first proposed by the Commission in 1975, but is still a long way from being agreed. Our insurance industry would gain considerably from a real liberalisation of services and we therefore tried hard to secure agreement on the directive under our Presidency. We did not succeed, largely through the refusal of others to abandon notification and government control of policy conditions and premium rates. This we consider totally unnecessary in respect of ICP business, where policyholders have easy access to expert advice and neither need nor desire government "protection". It was the original central intention of the draft directive that these controls should be abolished for ICP risks, and this remains a fundamental prerequisite of agreement for the UK insurance industry, which thrives on flexibility. Our insurers are adamant that a directive which perpetuated government restrictions would be worse than no directive at all, and could have serious consequences in retaliation from the rest of the world (where our interests, especially in the United States, far outweigh those in the EC).

6. At the Finance Council on 14 June, it again proved impossible to get other Member States to agree to any significant relaxation of their wish to monitor conditions and rates, though there was some progress on another important issue, that of accommodating the French desire to be able to apply VAT to insurance contracts. We therefore remain in a small minority, with the Commission and the Dutch, in insisting on proper implementation of the Treaty. This could lead to accusations that we are being inflexible; if so, the Prime Minister may wish to counter that, on the contrary, we are among the few who are concerned to implement the free Community market in services provided for by the Treaty.

Department of Trade
15 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

EHG(B2)(82)16
16 June 1982

COPY NO. 1

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

EUROPEAN MONETARY SYSTEM
Brief by H M Treasury

OBJECTIVE

1. To avoid ambitious declarations about early progress in 'developing' the European monetary system (EMS), since the reality is that nothing of significance is practical for the foreseeable future (Germans likely to take the lead in this sense).

POINTS TO MAKE

2. Convergence of economic performance is key to currency stability and well-being of EMS. Recent pressures resulting in 12 June realignment demonstrated this; the realignment conference rightly placed emphasis on economic measures accompanying the central rate changes agreed.

3. Best to acknowledge that the search for technical improvement to EMS mechanisms of a kind which would have real significance for the working of the system, has failed for the time being. Can be pleased about the EMS's achievements in the face of recent pressures and need not at present attempt new developments.

CONFIDENTIAL

4. (Sterling and the EMS). Position is kept under review. Certain features of sterling - international position as widely traded currency, oil effects etc - set it apart from other EMS members. With our difficult economic history important for the UK to give first priority to achieving lasting success in control of inflation.

BACKGROUND

5. The March European Council asked Finance Ministers to report on the scope for non-institutional developments in the EMS. Finance Ministers have completed their considerations, although there will be no written report to the European Council, and the topic may not be discussed. If it is, we can leave others to make the running.

6. It has been acknowledged by all Finance Ministers that there is currently no hope of reaching agreement on changes to the EMS of any significance. At their informal meeting on 17 May, Finance Ministers heard from the chairmen of the Monetary Committee and the Committee of Central Bank Governors, which had both discussed an ambitious draft resolution proposed by the Commission, that there was no scope for anything of this kind. The Germans in particular had difficulties with many of the Commission's specific proposals, eg for changes to the ecu acceptance limits and the rules for intra-marginal intervention. There was also a general feeling even among those keenest to see progress that the current exchange market position was not conducive to ambitious further development of the EMS. All Finance Ministers accepted that they had to endorse these conclusions.

7. The Belgians, the French and the Commission (Ortoli) still hanker a little after some further developments to the EMS. They may seek to persuade their European Council colleagues to call for further work by Finance Ministers and officials. No purpose would be served by such a request, as the options have been thoroughly ventilated in the last six months. Given the strains which have recently been placed on the system, it is extremely unlikely that the Germans will agree to any significant technical changes in the immediate future.

8. As to sterling's membership of the EMS, there have been few recent suggestions that we should join quickly. Indeed there have been signs that some members are relieved at our absence given the recent buffetings within the system. We have continued to state that we keep the position under review, and to point to the exceptional characteristics of sterling which make it difficult to join in present circumstances.

9. The EMS exchange rate mechanism has faced recurring strains since shortly after the previous realignment in February. Following several days of heavy market intervention by the French authorities the 12 June realignment conference agreed devaluations of the French franc by 5.75 per cent and the Italian Lira by 2.75 per cent, while the Deutschemark and Dutch Guilder were revalued by 4.25 per cent. Since 12 June the EMS currencies have traded quietly.

CONFIDENTIAL

10. The French franc has now been devalued by over 18 per cent against the Deutschemark since last summer. The French have taken policy measures designed to reduce expenditure, tighten economic policy and lower inflation. These measures should ensure at least a temporary period of calm for the franc. Whether they will achieve their objective or be accepted by the market as sufficient remains to be seen. Current sentiment in the foreign exchange markets is that until inflation rates (particularly in France) are perceived to be converging more EMS realignments will be inevitable.

H M Treasury
15 June 1982

CONFIDENTIAL

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

EHG(B2)(82)17

COPY NO. **1**

21 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

EUROPEAN PARLIAMENT: UNIFORM ELECTORAL SYSTEM

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To avoid discussion. If the subject is raised, however, Prime Minister may wish to say that the domestic political sensitivity of this question makes a system based on proportional representation difficult for us .

POINTS TO MAKE [If raised]

2. Unlikely that we or other Member States could implement legislation necessary for a new system in time for 1984 European Parliament elections.
3. Difficult question for UK in domestic political terms, since we do not use proportional representation for elections to Westminster Parliament.

BACKGROUND

4. Article 138(3) of the EEC Treaty provides that:

"The assembly shall draw up proposals for election by direct universal suffrage in accordance with a uniform procedure in all Member States."

The Council shall, acting unanimously, lay down the appropriate provisions which it shall recommend to Member States for adoption in accordance with their respective

constitutional requirements".

5. Under Article 7 of the Act on direct election of the European Parliament of 20 September 1976, the European Parliament was asked to draw up a proposal for a uniform electoral system for elections to the European Parliament. (For the first elections in 1979 it was left to each Member State to adopt whatever system it chose). The European Parliament on 10 March adopted a resolution requesting Member States to implement a uniform proportional representation system for the next round of elections to the European Parliament in 1984. The system proposed would be based on constituencies of between three and fifteen members, with seats being allocated from regional party lists through proportional representation. The proposals also provide for the extension of the franchise to citizens of a Community Member State who are resident in another Member State.

6. It is for the Council to decide what action to take on the Parliament's proposals. It is not obliged to accept the system recommended by the Parliament, nor is there any time limit by which the Council is required to take action. Any agreement reached by the Council would then have to be approved by the national Parliaments. At its meeting on 26 April, the Foreign Affairs Council decided to set up an expert working group to examine the proposals and report back to the Council in due course. This group met for the first time on 9 June and will meet again on 23/24 June. At the first meeting, the Belgian Presidency suggested that Council consideration must be completed by the end of 1982 to allow time for implementation by 1984. Netherlands, Luxembourg, Italy and Germany thought this possible, but the others, including the UK, argued that this was too ambitious.

7. The proposals are likely to cause us great difficulty in domestic political terms and it would, in any case, given the pressures on Parliamentary time, be difficult for us to pass

CONFIDENTIAL

and implement the necessary UK legislation in time for the 1984 European Parliament elections. The Home Secretary, as the Minister responsible for electoral law, is taking the lead on this question. He has circulated a paper analysing the proposals and suggesting how we should handle them. This was discussed in H Committee on 14 June. The Committee decided that we could not accept the principle of proportional representation for European Parliament elections.

8. This decision will give rise to some difficulty with our partners. Since most other member states already use proportional representation for their national elections they are likely to find the proposals more acceptable than we are. In these circumstances it is likely that we shall in due course have to oppose proposals which most others will support. In practice, however, a number of Member States have made clear that it would be difficult for them to reach agreement on a common system by the end of 1982. This includes the Danes, who take over the Presidency on 1 July and are not likely to set an intensive timetable for these discussions. It is likely, therefore, that it will become apparent that there is no prospect of a uniform system being in force for the 1984 elections and we shall probably not have to reveal, at an early stage, that we cannot accept a system based on proportional representation. It would therefore be preferable for the Prime Minister not to reveal our position at the European Council as this would lead to us taking the blame. At the Experts Working Group meeting on 23/24 June our representatives will continue to take the line that they have no instructions.

Foreign and Commonwealth Office
21 June 1982

CONFIDENTIAL

CONFIDENTIAL

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

IG(B2)(82)18(Revised 1)

COPY NO

1

25 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To endorse progress made at Versailles while avoiding detailed discussion.

POINTS TO MAKE

Global Negotiations

2. (If necessary) Welcome improved prospects for launching Global Negotiations. Partners should recognise flexibility shown by US. Hope G77 will respond positively to proposals agreed at Summit.

Energy

3. (If pressed) Specific proposals for new World Bank activity in energy sector must be carefully assessed in context of the Bank's overall financing needs.

BACKGROUND

4. The Americans have made a significant concession in accepting the Bedjaoui text as a basis for further consultations on GNs. Amendments were agreed at

CONFIDENTIAL

CONFIDENTIAL

Versailles which satisfactorily protect the Specialised Agencies. These will now be put to the G77 by the Canadians. The Community has endorsed this initiative. Further action now awaits the G77 response in New York.

5. Summit participants agreed to encourage 'programmes or arrangements' to increase developing country energy production. Mr Clausen has floated the idea of an Energy Trust Fund in the Bank, responding to pressure for action from President Mitterrand. This idea is contentious and might divert funds which would otherwise go to IDA. Premature discussion should be resisted. Mr Clausen proposes to invite the Chancellor, the Ministers of the other Versailles Summit countries and the Ministers of Saudi Arabia and Kuwait, to a private lunch on Monday, September 6, for a discussion of the issues facing IDA and the World Bank, and to review what might be done to increase investment resources available for energy projects.

Foreign and Commonwealth Office

25 June 1982

CONFIDENTIAL

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

EHG(B2)(82)19

21 JUNE 1982

COPY NO.

1

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

COMMUNITY ACTION TO COMBAT UNEMPLOYMENT

Brief by Department of Employment

OBJECTIVE

1. To express agreement with the Resolution but to avoid any further initiatives at this stage.

POINTS TO MAKE

2. Agree unemployment is a major Community problem. Effective action to reduce it has to be linked with struggle to bring down inflation and improve competitiveness. Glad that Resolution follows line laid down in conclusions of last European Council.

3. Particularly welcome call for priority for young people's training and recognition of importance for economic growth of small and medium-sized enterprises.

4. Resolution usefully summarises current Community objectives but will fail in its aim unless it is followed up in ways consistent with promotion of monetary stability and greater competitiveness.

CONFIDENTIAL

BACKGROUND

Reference

A Council Resolution on Community Action to Combat Unemployment (provisional version).

5. The Belgian Presidency is expected to present this Resolution to the Council for endorsement. The Resolution, which was agreed at the Council of Ministers (Labour and Social Affairs) on 27 May, asks the Commission to submit proposals for discussion at the (tripartite) Standing Committee on Employment and a special Council Meeting in the second half of 1982.

6. The Resolution makes recommendations or notes work in hand by the Commission designed to increase employment covering:

- (a) promotion of both private and public investment, paying regard to the current situation in each member state and the need to avoid unacceptable budget deficits, and giving priority to the less-favoured regions.
- (b) better functioning of the labour market.
- (c) industrial restructuring programmes.
- (d) encouragement of small and medium-sized undertakings.
- (e) priority for vocational training for young people.
- (f) the dialogue with the Social Partners on the reduction of working time.

CONFIDENTIAL

7. The Presidency conclusions of the last European Council noted that although the situation in each member state might call for varying policies and solutions all Community countries had the same interests in combating unemployment and restoring economic growth while preserving monetary stability and ensuring the competitiveness of their economies. The conclusions also stated that member states should strive to ensure over the next five years that all young people entering the labour market should receive vocational training or initial working experience, and asked the Council to report back to the European Council before the end of the year on both national and Community decisions and measures adopted to this end. For this purpose, a special meeting of the Council would study the specific measures to be taken to promote employment. These actions will take place under the Danish Presidency, who are expected to give them high priority.

8. The UK has attempted to keep the terms of the Resolution consistent with the European Council conclusions, particularly in linking action against unemployment with action against inflation. DE Ministers have secured a number of amendments emphasising this and also the fact that action has to be related to the particular situation in each country. The Resolution is therefore generally acceptable in its present form, although the references to investment and to work sharing have a somewhat interventionist flavour. The UK also has considerable doubts about what a special Council might be able to achieve. On the other hand, the call for priority to be given to young people's training is consistent with current UK policy and will be helpful in the negotiations on the forthcoming review of the Social Fund. The reference to the importance of small and medium-sized enterprises is also welcome.

Department of Employment
18 June 1982

CONFIDENTIAL

PROVISIONAL VERSIONCOUNCIL RESOLUTION ON COMMUNITY ACTION TO
COMBAT UNEMPLOYMENT

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the conclusions of the various meetings of the European Council, and in particular of the meeting on 29 and 30 March 1982, concerning employment,

Having regard to the conclusions of the Council meeting of 11 June 1981 composed of the Ministers for Economic Affairs and Finance and Ministers for Labour and Social Affairs,

Having regard to the Commission's contribution concerning a "Community action programme to combat unemployment",

Considering the conclusions drawn by the Presidency following the meeting of the Standing Committee on Employment on 27 April 1982 devoted to examination of the problems of unemployment in the Community on the basis of the aforementioned Commission document, the importance of which was emphasized,

Convinced of the need to take concerted action, both at Community level and nationally, to combat unemployment and to restore economic growth in a situation of monetary stability, while continuing the fight against inflation and **ensuring** the competitiveness of Community undertakings, and in the hope that such an approach may also contribute to the achievement of improved convergence of the Member State's economic policies

CONFIDENTIAL

Convinced of the need to continue or to undertake within this framework specific action at Community level on employment

Recalling its Resolution of 27 May 1982 on the promotion of equal opportunity for women

Convinced that it is essential for both sides of industry, within the framework of their autonomy and of their responsibilities, to contribute to the achievement of the objective of the fight against unemployment and that efforts should be continued to improve the dialogue between and with both sides of industry at Community level.

CONFIDENTIAL

HEREBY ADOPTS THIS RESOLUTION:

The Council reiterates its grave concern at the persistently high level of unemployment, particularly among young people, which is creating an intolerable situation.

It considers that private and public productive investment should be promoted so as to strengthen the competitive capacity of undertakings, encourage economic growth and raise employment.

Measures by Member States with regard to private and public investment, to be carried out in accordance with the situation prevailing in each country, should take account of the repercussions on employment, particularly in the private sector and ensure that such measures do not lead to an unacceptable increase in budget deficits.

The Council notes certain priority areas for investment suggested by the Commission in its aforementioned contribution.

Without prejudice to the importance the Community attaches to the measures taken to help the least-favoured regions, particular attention should also be given to those regions most affected by unemployment, by effective and consistent use of the appropriate Community instruments.

The Council considers that it is important that labour market policies be oriented in such a way as to ensure the availability of an adequate and appropriately qualified labour force.

The Council considers that, in addition to the problems of investment rationalization, the industrial restructuring programmes must simultaneously give particular attention to the employment problems. National and Community authorities and both sides of industry should encourage geographical and occupational mobility. The latter could include the redeployment of workers affected by the restructuring measures, so that such workers are able to take up jobs made available in sectors which are creating employment.

It considers that the possibilities should be examined for promoting the development potential of small and medium-sized undertakings, which are a source of innovation and hence a factor for creating employment, by providing them, in particular, with appropriate assistance in areas such as training, know-how, information and access to credit, with a view to making them more competitive on the market.

It stresses its interest in the job-creation process, which is also apparent in local initiatives and co-operatives and requests the Commission to submit the results of its research and its thoughts on the matter to it so that it can assess the contribution of such initiatives to creating employment.

CONFIDENTIAL

The Council stresses the priority which the Community must give to vocational training for young people. It has noted that the Commission intends to submit proposals to it shortly for measures aiming to ensure that all young people coming onto the labour market, and particularly school leavers, receive vocational training and initial work experience, if necessary under special programmes or contracts of employment.

Such measures should be compatible with the measures to integrate young people into the labour market and with other special measures, particularly those to help the long-term unemployed, and should fit into the general framework of the strategy to be implemented to combat unemployment as a whole.

Given the potential value of experiments into and measures on the adaptation and sharing of working time with a view to more flexible use of production resources and improving the employment situation, the Council also considers that, following the initial proposals made by the Commission for implementing the Council Resolution of 18 December 1979 on the adaptation of working time, the dialogue with and between both sides of industry regarding the number of working hours must now be continued within the framework outlined in the Resolution. It notes that the Commission is to submit a memorandum on the matter to it before the end of 1982.

The Council notes that the Commission intends to promote better functioning and transparency of the labour market and to discourage obstacles to its effective operation with the participation of public authorities, employers and labour, in order to ensure that the proposed job-creation measures are successful and to facilitate implementation of the necessary training measures, in particular by developing forward-looking management of the labour market, local labour market intelligence and by improving employment services.

It requests the Commission to submit to the Council, taking account of this Resolution, appropriate proposals or communications as part of a co-ordinated Community approach to combatting unemployment, which could be submitted in the second half of this year to a special Council meeting, as suggested by the European Council at its last meeting, and which could be the subject of prior consultation with both sides of industry in the Standing Committee on Employment, taking into account the latter's areas of competence.

7307 e/82 (Presse 82)(ANNEX II) ood/SMS/das

CONFIDENTIAL

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

EHG(B2)(82)20

COPY NO

1

18 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

IMPACT OF TECHNOLOGY

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To avoid substantive discussion in advance of the report of the Working Group set up at Versailles.

POINTS TO MAKE (If raised)

2. Glad that President Mitterrand raised this important subject at Versailles.
3. Look forward to receiving report of the Working Group at end of this year.

BACKGROUND

Reference

A: Text of Versailles Declaration

4. Impact of technology on growth and employment was suggested by President Mitterrand as a subject for medium term reflection at the Summit. Mitterrand produced a paper, in the light of which participants agreed to set up a Working Group of representatives of Governments and the Community. The Working Group will submit a Report by the end of the year for discussion at the 1983 Summit in the US.

5. (Not to be used). Some of the ideas in President Mitterrand's paper aroused some controversy at the Summit. We have serious doubts about some proposals (eg. for a Communications Charter,

/a

CONFIDENTIAL

CONFIDENTIAL

a UN financing system for science and technology for developing countries). We would therefore prefer these ideas to be carried forward in the context of the Working Group.

Foreign and Commonwealth Office

18 June 1982

CONFIDENTIAL



Verbatim Service

VERBATIM SERVICE Q98/82

MONDAY

JUNE 7TH 1982

VERSAILLES ECONOMIC SUMMIT.

FOLLOWING IS TEXT OF SUMMIT DECLARATION:

DECLARATION OF THE SEVEN HEADS OF STATE AND GOVERNMENT AND REPRESENTATIVES OF THE EUROPEAN COMMUNITIES. IN THE COURSE OF OUR MEETING AT VERSAILLES WE HAVE DEEPEENED OUR MUTUAL UNDERSTANDING OF THE GRAVITY OF THE WORLD ECONOMIC SITUATION, AND WE HAVE AGREED ON A NUMBER OF OBJECTIVES FOR URGENT ACTION WITH A VIEW TO IMPROVING IT.

WE AFFIRM THAT THE IMPROVEMENT OF THE PRESENT SITUATION, BY A FURTHER REDUCTION OF INFLATION AND BY A RETURN TO STEADY GROWTH AND HIGHER LEVELS OF EMPLOYMENT, WILL STRENGTHEN OUR JOINT CAPACITY TO SAFEGUARD OUR SECURITY TO MAINTAIN CONFIDENCE IN THE DEMOCRATIC VALUES THAT WE SHARE, AND TO PRESERVE THE CULTURAL HERITAGE OF OUR PEOPLES IN ALL THEIR DIVERSITY. FULL EMPLOYMENT PRICE STABILITY AND BALANCED GROWTH ARE AMBITIOUS OBJECTIVES. THEY ARE ATTAINABLE IN THE COMING YEARS ONLY IF WE PURSUE POLICIES WHICH ENCOURAGE PRODUCTIVE INVESTMENT AND TECHNOLOGICAL PROGRESS. IF, IN ADDITION TO OUR OWN INDIVIDUAL EFFORTS, WE ARE WILLING TO JOIN FORCES, IF EACH COUNTRY IS SENSITIVE TO THE EFFECTS OF ITS POLICIES ON OTHERS AND IF WE COLLABORATE IN PROMOTING WORLD DEVELOPMENT.

IN THE SPIRIT WE HAVE DECIDED TO IMPLEMENT THE FOLLOWING LINES OF ACTION:

GROWTH AND EMPLOYMENT MUST BE INCREASED. THIS WILL BE ATTAINED ON A DURABLE BASIS ONLY IF WE ARE SUCCESSFUL IN OUR CONTINUING FIGHT AGAINST INFLATION. THAT WILL ALSO HELP TO BRING DOWN INTEREST RATES, WHICH ARE NOW UNACCEPTABLY HIGH, AND TO BRING ABOUT MORE STABLE EXCHANGE RATES. IN ORDER TO ACHIEVE THIS ESSENTIAL REDUCTION OF REAL MONETARY POLICIES AND ACHIEVE GREATER CONTROL OF BUDGETARY DEFICITS IT IS ESSENTIAL TO INTENSIFY OUR ECONOMIC AND MONETARY COOPERATION. IN THIS REGARD WE WILL WORK TOWARDS A CONSTRUCTIVE AND ORDERLY EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM BY A CLOSER COOPERATION AMONG THE AUTHORITIES REPRESENTING THE CURRENCIES OF NORTH AMERICA, JAPAN AND OF THE EUROPEAN COMMUNITY IN PURSUING MEDIUM-TERM ECONOMIC AND MONETARY OBJECTIVES. IN THIS RESPECT WE HAVE COMMITTED OURSELVES TO THE UNDERTAKINGS CONTAINED IN THE ATTACHED STATEMENT.

THE GROWTH OF WORLD TRADE IN ALL ITS FACETS IS BOTH A NECESSARY ELEMENT FOR THE GROWTH OF EACH COUNTRY AND A CONSEQUENCE OF THAT GROWTH. WE REAFFIRM OUR COMMITMENT TO STRENGTHENING THE OPEN MULTILATERAL TRADING SYSTEM AS EMBODIED IN THE GATT AND TO MAINTAINING ITS EFFECTIVE OPERATION. IN ORDER TO PROMOTE STABILITY AND EMPLOYMENT THROUGH TRADE AND GROWTH, WE WILL RESIST PROTECTIONIST PRESSURES AND TRADE-DISTORTING PRACTICES. WE ARE RESOLVED TO COMPLETE THE WORK OF THE TOKYO ROUND, AND TO IMPROVE THE CAPACITY OF THE GATT TO SOLVE CURRENT AND FUTURE TRADE PROBLEMS. WE WILL

CONFIDENTIAL

PAGE TWO. VSQ90/82 Q77/Q0782

COOPERATE WITH THE DEVELOPING COUNTRIES TO STRENGTHEN AND IMPROVE THE MULTILATERAL SYSTEM AND TO EXPAND TRADING OPPORTUNITIES IN PARTICULAR WITH THE NEWLY INDUSTRIALIZED COUNTRIES. WE SHALL PARTICIPATE FULLY IN THE FORTHCOMING GATT MINISTERIAL CONFERENCE IN ORDER TO TAKE CONCRETE STEPS TOWARDS THESE ENDS. WE SHALL WORK FOR EARLY AGREEMENT ON THE RENEWAL OF THE OECD EXPORT CREDIT CONSENSUS.

WE AGREE TO PURSUE A PRUDENT AND DIVERSIFIED ECONOMIC APPROACH TO THE USSR AND EASTERN EUROPE, CONSISTENT WITH OUR POLITICAL AND SECURITY INTERESTS. THIS INCLUDES ACTIONS IN THREE KEY AREAS. FIRST FOLLOWING INTERNATIONAL DISCUSSIONS IN JANUARY OUR REPRESENTATIVES WILL WORK TOGETHER TO IMPROVE THE INTERNATIONAL SYSTEM FOR CONTROLLING EXPORTS OF STRATEGIC GOODS TO THESE COUNTRIES AND NATIONAL ARRANGEMENTS FOR THE ENFORCEMENT OF SECURITY CONTROLS. SECOND WE WILL EXCHANGE INFORMATION IN THE OECD ON ALL ASPECTS OF OUR ECONOMIC, COMMERCIAL AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE. THIRD, TAKING INTO ACCOUNT EXISTING ECONOMIC AND FINANCIAL CONSIDERATIONS WE HAVE AGREED TO HANDLE CAUTIOUSLY FINANCIAL RELATIONS WITH THE USSR AND OTHER EASTERN EUROPEAN COUNTRIES, IN SUCH A WAY AS TO ENSURE THAT THEY ARE CONDUCTED ON A SOUND ECONOMIC BASIS, INCLUDING ALSO THE NEED FOR COMMERCIAL PRUDENCE IN GRANTING EXPORT CREDITS. THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WILL BE SUBJECT TO PERIODIC EX-POST REVIEW.

THE PROGRESS WE HAVE ALREADY MADE DOES NOT DIMINISH THE NEED FOR CONTINUING EFFORTS TO ECONOMISE ON ENERGY, PARTICULARLY THROUGH THE PRICE MECHANISM, AND TO PROMOTE ALTERNATIVE SOURCES INCLUDING NUCLEAR ENERGY AND COAL. IN A LONG-TERM PERSPECTIVE, THESE EFFORTS WILL ENABLE US FURTHER TO REDUCE OUR VULNERABILITY TO INTERRUPTIONS IN THE SUPPLY OF ENERGY AND INSTABILITY OF PRICES. COOPERATION TO DEVELOP NEW ENERGY TECHNOLOGIES AND TO STRENGTHEN OUR CAPACITY TO DEAL WITH DISRUPTIONS CAN CONTRIBUTE TO OUR COMMON ENERGY SECURITY. WE SHALL ALSO WORK TO STRENGTHEN OUR COOPERATION WITH BOTH OIL-EXPORTING AND OIL-IMPORTING DEVELOPING COUNTRIES.

THE GROWTH OF THE DEVELOPING COUNTRIES AND THE DEEPENING OF A CONSTRUCTIVE RELATIONSHIP WITH THEM ARE VITAL FOR THE POLITICAL AND ECONOMIC WELL-BEING OF THE WHOLE WORLD. IT IS THEREFORE IMPORTANT THAT A HIGH LEVEL OF FINANCIAL FLOWS AND OFFICIAL ASSISTANCE SHOULD BE MAINTAINED AND THAT THEIR AMOUNT AND THEIR EFFECTIVENESS SHOULD BE INCREASED AS FAR AS POSSIBLE WITH RESPONSIBILITIES SHARED BROADLY AMONG ALL COUNTRIES CAPABLE OF MAKING A CONTRIBUTION. THE LAUNCHING OF GLOBAL NEGOTIATIONS IS A MAJOR POLITICAL OBJECTIVE APPROVED BY ALL PARTICIPANTS IN THE SUMMIT. THE LATEST DRAFT RESOLUTION CIRCULATED BY THE GROUP OF THE 77 (SEVENTYSEVEN) IS HELPFUL AND THE DISCUSSION AT VERSAILLES SHOWED GENERAL ACCEPTANCE OF THE VIEW THAT IT WOULD SERVE AS A BASIS FOR CONSULTATIONS WITH THE COUNTRIES CONCERNED. WE BELIEVE THAT THERE IS NOW A GOOD PROSPECT FOR THE EARLY LAUNCHING AND SUCCESS OF THE GLOBAL NEGOTIATIONS, PROVIDED THAT THE INDEPENDENCE OF THE SPECIALISED AGENCIES IS GUARANTEED. AT THE SAME TIME WE ARE PREPARED TO CONTINUE AND DEVELOP PRACTICAL COOPERATION WITH THE DEVELOPING COUNTRIES THROUGH INNOVATIONS WITHIN THE WORLD BANK.

CONFIDENTIAL

PAGE THREE. VSQ96/82 07/06/82

THROUGH PROGRESS IN COUNTERING INSTABILITY OF COMMODITY EXPORT EARNINGS, THROUGH THE ENCOURAGEMENT OF PRIVATE CAPITAL FLOWS, INCLUDING INTERNATIONAL ARRANGEMENTS TO IMPROVE THE CONDITIONS FOR PRIVATE INVESTMENT, AND THROUGH A FURTHER CONCENTRATION OF OFFICIAL ASSISTANCE ON THE POORER COUNTRIES. THIS IS WHY WE SEE A NEED FOR SPECIAL TEMPORARY ARRANGEMENTS TO OVERCOME FUNDING PROBLEMS FOR IDA VI, AND FOR AN EARLY START TO CONSIDERATION OF IDA VII. WE WILL GIVE SPECIAL ENCOURAGEMENT TO PROGRAMMES OR ARRANGEMENTS DESIGNED TO INCREASE FOOD AND ENERGY PRODUCTION IN DEVELOPING COUNTRIES WHICH HAVE TO IMPORT THESE ESSENTIALS, AND TO PROGRAMMES TO ADDRESS THE IMPLICATIONS OF POPULATION GROWTH.

IN THE FIELD OF BALANCE OF PAYMENTS SUPPORT, WE LOOK FORWARD TO PROGRESS AT THE SEPTEMBER IMF ANNUAL MEETING TOWARDS SETTLING THE INCREASE IN THE SIZE OF THE FUND APPROPRIATE TO THE COMING EIGHTH QUOTA REVIEW.

REVITALIZATION AND GROWTH OF THE WORLD ECONOMY WILL DEPEND NOT ONLY ON OUR OWN EFFORT BUT ALSO TO A LARGE EXTENT UPON COOPERATION AMONG OUR COUNTRIES AND WITH OTHER COUNTRIES IN THE EXPLOITATION OF SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT. WE HAVE TO EXPLOIT THE INTENSE OPPORTUNITIES PRESENTED BY THE NEW TECHNOLOGIES, PARTICULARLY FOR CREATING NEW EMPLOYMENT. WE NEED TO REMOVE BARRIERS TO, AND TO PROMOTE, THE DEVELOPMENT OF AND TRADE IN NEW TECHNOLOGIES BOTH IN THE PUBLIC SECTOR AND IN THE PRIVATE SECTOR. OUR COUNTRIES WILL NEED TO TRAIN MEN AND WOMEN IN THE NEW TECHNOLOGIES AND TO CREATE THE ECONOMIC, SOCIAL AND CULTURAL CONDITIONS WHICH ALLOW THESE TECHNOLOGIES TO DEVELOP AND FLOURISH. WE HAVE CONSIDERED THE REPORT PRESENTED TO US ON THESE ISSUES BY THE PRESIDENT OF THE FRENCH REPUBLIC. IN THIS CONTEXT WE HAVE DECIDED TO SET UP PROMPTLY A WORKING GROUP OF REPRESENTATIVES OF OUR GOVERNMENTS AND OF THE EUROPEAN COMMUNITY TO DEVELOP IN CLOSE CONSULTATION WITH THE APPROPRIATE INTERNATIONAL INSTITUTIONS, ESPECIALLY THE OECD, PROPOSALS TO GIVE HELP TO ATTAIN THESE OBJECTIVES. THIS GROUPS WILL BE ASKED TO SUBMIT ITS REPORT TO US BY 31 (THIRTYONE) DECEMBER 1982 (NINETEENEIGHTYTWO). THE CONCLUSION OF THE REPORT AND THE RESULTING ACTION WILL BE CONSIDERED AT THE NEXT ECONOMIC SUMMIT TO BE HELD IN 1983 (NINETEENEIGHTYTHREE) IN THE UNITED STATES OF AMERICA.

STATEMENT OF INTERNATIONAL MONETARY UNDERTAKINGS.

1. WE ACCEPT A JOINT RESPONSIBILITY TO WORK FOR GREATER STABILITY OF THE WORLD MONETARY SYSTEM. WE RECOGNISE THAT THIS RESTS PRIMARILY ON CONVERGENCE OF POLICIES DESIGNED TO ACHIEVE LOWER INFLATION, HIGHER EMPLOYMENT AND RENEWED ECONOMIC GROWTH, AND THUS TO MAINTAIN THE INTERNAL AND EXTERNAL VALUES OF OUR CURRENCIES. WE ARE DETERMINED TO DISCHARGE THIS OBLIGATION IN CLOSE COLLABORATION WITH ALL INTERESTED COUNTRIES AND MONETARY INSTITUTIONS.

2. WE ATTACH MAJOR IMPORTANCE TO THE ROLE OF THE IMF AS A MONETARY AUTHORITY AND WE WILL GIVE IT OUR FULL SUPPORT IN ITS

PAGE FOUR. VSQ98/82 Q7/Q8/82

EFFORTS TO FOSTER STABILITY.

3. WE ARE READY TO STRENGTHEN OUR COOPERATION WITH THE IMF IN ITS WORK OF SURVEILLANCE; AND TO DEVELOP THIS ON A MULTILATERAL BASIS TAKING INTO ACCOUNT PARTICULARLY THE CURRENCIES CONSTITUTING THE SDR.

4. WE RULE OUT THE USE OF OUR EXCHANGE RATES TO GAIN UNFAIR COMPETITIVE ADVANTAGES.

5. WE ARE READY IF NECESSARY TO USE INTERVENTION IN EXCHANGE MARKETS TO COUNTER DISORDERLY CONDITIONS AS PROVIDED FOR UNDER ARTICLE IV OF THE IMF ARTICLES OF AGREEMENT.

6. THOSE OF US WHO ARE MEMBERS OF THE EMS CONSIDER THAT THESE UNDERTAKINGS ARE COMPLEMENTARY TO THE OBLIGATIONS OF STABILITY WHICH THEY HAVE ALREADY UNDERTAKEN IN THAT FRAMEWORK.

7. WE ARE ALL CONVINCED THAT GREATER MONETARY STABILITY WILL ASSIST FREER FLOWS OF GOODS, SERVICES AND CAPITAL. WE ARE DETERMINED TO SEE THAT GREATER MONETARY STABILITY AND FREER FLOWS OF TRADE AND CAPITAL REINFORCE ONE ANOTHER IN THE INTEREST OF ECONOMIC GROWTH AND EMPLOYMENT.

ENDS VERBATIM SCE Q98/82 L.P.S.

