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# EHG(V)(80) series

## EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

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EHG(V)(80)2

COPY NO 1

5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This is the second European Council of the Italian Presidency. The third of the year will be held on 1/2 December under Luxembourg Presidency.

2. There will be satisfaction among Heads of Government that the budget problem has been settled without further recourse to the European Council. It will leave them free to devote this meeting of the Council to its original purpose of providing an opportunity for informal and wide ranging discussion rather than of settling contentious issues that could not be dealt with by the Council of Ministers. This will be all the more important on this occasion when the Middle East will form an important focus of attention. Otherwise the main business will be to prepare for the Economic Summit in Venice on 22/23 June.

3. The timetable for the meeting is at Annex A.

AGENDA AND DOCUMENTATION

4. As usual there is no formal agenda. The Presidency have proposed the following subjects for discussion. Relevant documents are shown under each item.

(1) Economic and Social Situation in the Community

Commission Paper

(2) Energy

Commission Paper

(3) North/South

Commission Paper

}  
} in preparation  
} for the Economic  
} Summit

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- (4) Relations with Industrialised Countries } in preparation  
Commission Paper } for the Economic Summit
- (5) Three Wise Men's Report  
Presidency Report
- (6) International Monetary Problems
- (7) Employment  
Commission Paper

There will also be discussion of international questions, especially the Middle East. And the Presidency have confirmed that the European Council will probably also choose the next President of the Commission. Each Head of Government is free to raise other subjects. The order of discussion will be for the Council itself to settle.

**UK OBJECTIVES**

- 5. (a) to give the smaller countries an opportunity to contribute to the Economic Summit, while keeping our hands free of Community commitments;
- (b) to secure agreement that the Economic Summit should also serve as a demonstration of the political solidarity of the West and Japan in the face of the Soviet expansionism;
- (c) to discourage the Commission proposal on North/South;
- (d) to agree a statement on the Middle East and to invite the Presidency to take agreed follow up action in consultation with others in the Nine.
- (e) to get agreement on the implementation of as many of the Wise Men's proposals as are acceptable to us;
- (f) to avoid a lengthy discussion of employment.

**OBJECTIVES OF OTHER GOVERNMENTS**

- 6. All our partners wish to devote the bulk of discussion to preparations for the Economic Summit. The Commission have

/produced

produced three papers. Trade is unlikely to feature prominently. Energy has been largely prepared by the IEA Ministerial meeting on 22/23 May. This means that our partners' attention may focus on North/South matters in which they tend to be more optimistic and to take a more active interest than ourselves. They will wish to

- (a) express concern at the financial problems facing LDCs;
- (b) perhaps, endorse the idea of a North/South summit;
- (c) give political impetus to the Global Negotiations to be held at New York early next year;

We shall have to ensure that we make no new or implied financial commitments. This will not be easy but it should be possible to find some form of words.

7. On the Middle East our objectives will be shared by most others though doubts remain about the French who may press for language which would be provocative in the United States.

8. All Member States, especially the smaller ones, will want to get agreement on as much of the Wise Men's Report as possible.

9. It is not clear what useful purpose will be served at this stage in a discussion of international monetary problems and employment. On the latter the Presidency want a take-note discussion of coordination of national employment and training services and work sharing.

#### TACTICS

10. Now that the budget problem has been settled, we shall want to be seen to be playing a constructive part in influencing foreign policy and Community business on a level with France and Germany, but also listening to the views of smaller Member States (who were aggrieved at not being adequately consulted over the budget settlement, and are of course excluded from Economic Summits). In this way we shall be able to get away

/from

from the 8 - 1 situation which developed during the budget negotiations, and this will help to pave the way for progress on important Community business in which UK interests will be involved in the coming months : implementation of the budget settlement, fish and restructuring of the budget.

11. The discussion of the Economic Summit is intended mainly to enable the smaller countries to have their say. Provided that the course of discussion is satisfactory, the running can be left to the Presidency and the Commission. There is, however, a Commission proposal on North/South matters (Brief No 12) which we should discourage without, if possible, taking the lead.

/SUMMARY

SUMMARY OF BRIEFS

POLITICAL CO-OPERATION (Brief No 15)

12. The European Council will consider a report by Foreign Ministers on the Middle East, making the case for a move by the Nine. It will probably recommend a new statement by the Council and put forward for consideration a draft which clarifies the Nine's position on some of the key issues. The draft is likely to incorporate the idea of subsequent soundings by the Nine (through the Presidency or an emissary) of all the concerned parties and a cautious restart of the Euro-Arab dialogue. The aim of the soundings would be to explore what further steps towards a comprehensive settlement might be taken, bearing in mind the need to retain US and Israeli goodwill as far as possible. Expectations of an initiative by the Nine are widespread. Tension in the area is high, particularly following recent violent incidents on the West Bank. Other probable topics for discussion will be East/West relations where our objective will be to stimulate a serious discussion and re-establish a stronger Western consensus following Giscard's meeting with Breznev; and Iran where a number of possible avenues currently being explored could lead to a resolution of the hostage problem. Meanwhile no further European action on Iran seems likely to be helpful.

ECONOMIC SITUATION IN THE COMMUNITY (Brief No 4)

13. There was a full discussion on this at Luxembourg. The ground will not probably need to be covered again in any detail. But the wide measure of agreement already reached that tackling inflation is the first priority was useful and could be reaffirmed if necessary.

14. There is unlikely to be any substantive exchange on the EMS or the establishment of the European Monetary Fund (Brief No 5). The latter was discussed at Luxembourg and referred back to the Monetary Committee.

/EMPLOYMENT

EMPLOYMENT (Brief No 6)

15. We want employment dealt with in a low key. None of the proposals on work sharing is likely to be helpful to the UK. (They will probably include proposals on the controlled use of temporary work, on part-time workers, on overtime working and flexible retirement).

16. A satisfactory outcome from our point of view would be for the European Council to take note of the outcome of the Social Affairs Council and work currently in hand. We should resist attempts to give the Commission high-sounding instructions, which raise expectations and impose burdens on industry.

VENICE ECONOMIC SUMMIT

ECONOMIC ASPECTS (Brief No 7)

17. The Presidency intend discussion to be based on the Commission's papers on energy, North/South matters and relations with industrialised countries. These are covered in brief nos 8, 9 and 10 respectively.

18. The Council meeting is an opportunity for non-Summit members to have their say so that the Italian Presidency can take due note.

19. Preparatory work for the Economic Summit is well advanced. The primacy of the fight against inflation is likely to be the main theme. Energy will also be important; we hope the stress will be on medium term issues. Neither trade nor international monetary reform are likely to be prominent (see also para 27 below).

Energy (Brief No 8)

20. The Commission Report outlines progress made on energy matters since the last European Council. We expect discussion of energy issues in preparation for the Venice Economic Summit to be brief. The Venice Economic Summit should concentrate on long term issues. The Commission Report should reassure non-Summit member states that Summit discussions on energy will take their interests into account.

/North



North/South (Brief No 9)

21. Other Heads of Government are likely to show interest in this subject. The Commission have proposed an initiative in the financial field and a North/South Summit. We should discourage both but preferably without taking the lead. Our main partners are likely to be cautious about the North/South Summit which, in any case, the Mexicans and Austrians have in hand. We should argue that the International Financial Institutions (IFIs) have measures in hand; the best course for the Community is to support them.

22. We should, nevertheless, make clear our concern about the serious problems facing LDCs and the need for practical solutions. We must also take account of the need to preserve the Community's political interests, eg by avoiding giving an unduly negative impression.

23. Others may raise the possibility of a Dialogue with oil producers. We should acknowledge their crucial role but advocate caution. Global Negotiations are too cumbersome. Discussions with OPEC as an organisation could strengthen the hard-liners. Any smaller members (eg Gulf producers) would be nervous of their OPEC flank. It would be best to express readiness to talk while feeling our way forward.

Relations with Industrialised Countries (Brief No 10)

24. The Council will have before it a report by the Commission on EC relations with the United States and Japan. We should endorse the conclusion that the EC should continue to cooperate with the other major industrialised countries in seeking to maintain an open world trading system.

VENICE ECONOMIC SUMMIT : POLITICAL ASPECTS (Brief No 11)

25. In view of the strains among the allies caused by divergent reactions to the Soviet invasion of Afghanistan, there is a need to use the Venice Economic Summit to reassert the underlying cohesion of the West and Japan.

26. The French were reluctant earlier to see this "economic"

/summit

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summit used for political purposes, and still more reluctant to associate themselves with American-led opposition to the Soviet Union. In public they are modifying their stance on the first point (and more so in private). They have now agreed to discuss political matters at Venice but may wish to limit reference to this in the communique to language so general as to weaken the public impact and miss the objective of demonstrating solidarity.

INTERNATIONAL MONETARY PROBLEMS (Brief No 12)

27. It is not yet clear how the Presidency plan to handle discussion of this item. Although they have not specifically included it in the list of items for discussion in preparation for the Economic Summit, they probably intend it as an opportunity for non-Summit members to express their views before the Summit. There are no special UK points to make. If there is discussion the UK interest is to seek agreement that existing institutions must be built upon. Some discussion of re-cycling is possible depending on the outcome of the ECO/FIN Council on 9 June.

THREE WISE MEN (Brief No 13)

28. The meeting will have before it a document from Foreign Ministers seeking the European Council's endorsement of those of the Wise Men's proposals on which agreement has been reached and its decision on those that are still disagreed. Of the latter the most important is the size of the Commission. Our position is that the status quo should be maintained until the accession of Spain and Portugal.

PRESIDENT OF THE NEW COMMISSION (Brief No 14)

29. At Luxembourg the European Council agreed to the proposal of the Three Wise Men that the President of the Commission should be appointed six months in advance of taking office. Since Mr Jenkins' term ends on 31 December, a decision on his successor should therefore be taken at or shortly after Venice. No consensus has yet formed. Early runners were Gundelach (who is now however reported to have withdrawn) and Thorn (not yet an  
/official

official candidate but known to want the job). The Irish have talked of running O'Kennedy. We do not regard any of these as 'papabile'. Much more interesting from our point of view is the possibility of an Italian candidate. The Italians are keeping their cards close to their chest, but a Pandolfi candidature is increasingly talked about, with speculation that Colombo is an alternative possibility. We would want to support either. The French are reported to be in no hurry to come to a decision; and, if only unsatisfactory names are put forward at Venice, nor are we.

BUDGET AND RELATED ISSUES (Brief No 3)

30. There should now be no need for a substantive discussion of this subject. The Council of Ministers and the Commission should be encouraged to solve any points of detail and to prepare the legal instruments to put the decisions into effect expeditiously. Work will be proceeding on the implementation of the settlement. It is too early to know how matters will stand by the time of the European Council. The question is also likely to be linked with the wish for an early adoption of the 1980 budget, with the 1981 budget procedures following close behind. A supplementary brief will be provided if necessary.

COMMON JUDICIAL AREA (Brief No 16)

31. If, as we expect, the Dutch decide that they will not sign the draft Convention on Extradition which has been agreed by officials of the Nine, this will effectively kill the French proposal for a Common Judicial Area. Giscard may try to relaunch the proposal.

FOREIGN AND COMMONWEALTH OFFICE

5 JUNE 1980

## TIMETABLE OF EVENTS

THURSDAY 12 JUNE

1500	Cini Foundation	First Session of European Council
to		
1900		
2000		Dinner for Foreign Ministers, hosted by Italian Foreign Minister
2100		Dinner for Heads of State/Government hosted by Italian Prime Minister
	Cipriani Hotel	UK delegation debriefing meeting

FRIDAY 13 JUNE

0830	Cipriani Hotel	UK Delegation briefing meeting
0955	Cini Foundation	Family photograph
1000		
to	Cini Foundation	Second Session of European Council
1200		
1200	Cini Foundation	Press conference by the President of the European Council and the President of the Commission
1330	Cini Foundation	Informal buffet lunch

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ANNEX A (Revise)

TIMETABLE OF EVENTS

THURSDAY 12 JUNE

1300	Cini Foundation	Lunch for delegation members
1500	Cini Foundation	First Session of European Council
to	(Biblioteca	
1900	Longhena)	
1900	Cini Foundation	Buffet dinner for delegation members
2100	Palais Pisani	Dinner for Heads of State/Government hosted by Italian Prime Minister
	Palais Pisani	Dinner for Foreign Ministers hosted by Italian Foreign Minister
	Palais Pisani	Informal talks
	Cipriani Hotel	UK delegation debriefing meeting

FRIDAY 13 JUNE

0830	Cipriani Hotel	UK delegation briefing meeting
0955	Cini Foundation	Family photograph
1000	Biblioteca Longhena	Second Session of European Council
	Cini Foundation	Press conference by the President of the European Council and the President of the Commission
1330	Cini Foundation	Informal buffet lunch

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COPY NO. 1

5 June 1980

EUROPEAN COUNCIL VENICE

12/13 JUNE 1980

UK BUDGET CONTRIBUTION AND RELATED SUBJECTS

Brief by the Foreign and Commonwealth Office, HM Treasury and MAFF

OBJECTIVE

1. To ensure that any discussion is limited to confirming the agreement reached in Brussels on 29-30 May.

POINTS TO MAKE (for use as necessary)

2. Glad it has been possible to reach agreement. No winners, no losers.

3. Now possible for Community to focus on other major issues, external and internal.

4. On budget, in general interest to expedite agreement on required legal instruments in appropriate Councils.

5. In the medium term must put to good use the review we have agreed to have of the development of Community policies and examination of operation of Community budget, including need to keep within 1% ceiling and to prevent recurrence of an unacceptable situation for any Member State. Review needs to be well prepared.

6. [If 1980 budget raised] Can agree to European Council urging Council of Ministers to make rapid progress. We want budget adopted by end July. Under some chapters 12/12ths could be exhausted by end August.

7. [If Regional Development Fund raised] 1200 mEUA is right figure for 1980. Proposed by Commission. UK budget agreement is based on Commission estimate of UK net contribution that assumes RDF of this size. This higher figure will help to secure Parliament's agreement to the budget as it is the figure they wanted.

/BACKGROUND

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BACKGROUND

- References: A: UKREP telno 2654: reporting Foreign Affairs Council conclusions of 30 May
- B: Note on CAP prices package
- C: Note on sheepmeat settlement
- D: Council Declaration on Common Fisheries Policy

Budget

8. Essential elements of Foreign Affairs Council conclusions (from text at Ref. A) were:

(a) 1980 contribution would be limited to 609 mEUA provided Commission estimate of our net contribution of 1784 mEUA not exceeded. If actual figure exceeds Commission estimate, risk sharing agreement will split remainder 25% to UK, 75% to others;

(b) In 1981 provided UK figure does not exceed Commission estimate of 2140 mEUA, limit on our contribution of 730 mEUA. If it does exceed, risk sharing formula as follows:

- (i) first 20 mEUA borne by UK;
- (ii) next 100 mEUA split 50:50;
- (iii) thereafter 25:75 as in 1980.

(c) For 1982 solution to UK problem provided by Community pledge to resolve problem of structural changes (involving examination of development of Community policies and with aim of preventing occurrence of unacceptable situations);

(d) If not, Commission will make proposals along lines of 80-81 solution and Council will act accordingly;

(e) payments up to and including 1982 will be made through adapted Financial Mechanism and Article 235 Regulation (neither of which has been discussed in detail in Council up to now);

(f) credits paid in the first instance as under present Financial Mechanism Regulation i.e. 75% on 1 January of following year and remainder as soon as state of accounts enables final adjustments to be made. However, special clause included to enable Council to make advances on request by the UK.

French tried to insist that 1981 price fixing should not be challenged (normal timetable would involve discussion shortly before date of French Presidential election May 1981. Giscard is concerned about effect on farming vote if price fixing is held up again). But French acquiesced in the end to a formula committing Member States

/merely

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merely to "do their best" to ensure decisions are taken expeditiously.

9. Reiteration of earlier Finance Ministers conclusion on need to adopt prudent farm price policy and control CAP spending (para.8 of conclusions).

10. Reference also to 1% ceiling. Useful because this is an important lever in our hand for ensuring that the 1981 review leads to radical change.

11. We shall press in Council for rapid agreement to texts of new regulations. (Commission likely to be considering draft texts at 11 June meeting). Vital that these be ready at early stage in order to enable Commission to start spending money in UK. No problem over actual payments. These could run over in 1981 if necessary but still be made within UK 1980/81 financial year.

12. 1980 Budget: Italians are trying to get 1980 budget adopted as soon as possible (preferably before their Presidency ends). Have proposed budget Council on 16 June. Parliament to hold emergency session on 26/27 June. They could adopt it then, but only if they were willing to leave it unamended. They may well amend, in which case second Budget Council would be needed in early July followed by Parliament's second reading at its 7-11 July sitting.

13. Major UK aims will be:

(a) To ensure a substantial sum entered for advance payments to UK budget solution (given method of payment, will only be possible to get a part in 1980 budget);

(b) To secure highest level of RDF possible (Commission budget proposals have reverted to their earlier figure of 1.2 billion EUA (they have also based their estimates of our 1980 net contribution on this assumption); 1979 second Budget Council agreed to 1015 mEUA. Italians will probably urge us to press for higher sum to be established by Council on 16 June. Together we could block Council agreement to lower figure, but not get our own figure entered unless others support).

14. Most unlikely that European Council will discuss details. However, if Italians propose higher RDF on grounds that they should e.g. be compensated for their contribution to UK budget solution, we should support. As we get 27% of RDF expenditure we benefit too.

/CAP Prices ...

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CAP Prices Package

15. The main provisions of the 1980/81 CAP prices settlement and the most important implications for the UK interests are set out in Note at Ref B. Nearly all the appropriate regulations implementing the settlement were agreed on 5 June and the new prices were to take effect either immediately for commodities, like milk and beef, for which the current year had already ended or at the beginning of the respective commodity marketing years for other products i.e. sugar (1 July), cereals (1 August), and wine (mid-December). The commitment to production refunds for cereals used in whisky remains to be implemented before the end of 1980 through negotiation in the Agriculture Council. The next Council in mid-June will consider certain agricultural aid proposals for Northern Ireland. The Council is also committed to continue discussion of savings in the beef sector.

Sheepmeat

16. The scheme should protect the interests of New Zealand and other third country suppliers. A summary is at Ref C. The basic Regulation and prices for 1980/81 are agreed, but the regime will not enter into force until the implementation of the voluntary restraint agreements being negotiated by the Commission with third country suppliers, notably New Zealand. New Zealand accounts for over 80% of the Community's annual third country imports of about 230,000 tonnes. The New Zealanders have a number of reservations about the proposed regime, as Mr Muldoon told the Prime Minister on 1 June, but they decided on 3 June to enter into negotiations with the Commission. Since the provisions in the agreement in respect of New Zealand give her an effective veto over the introduction of the regime, the New Zealanders have the opportunity to negotiate not only on the volume of imports and tariff reductions but also on the operation of export refunds and other matters of interest to them.

17. The Australians have delivered an aide memoire recently expressing concern about the regime's effect on their own trade, although this trade is of very much less economic importance to them than New Zealand's. It is open to them to negotiate a voluntary restraint agreement which will safeguard their rather smaller interests.

/Fish

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Fish

18. The Foreign Affairs Council on 30 May agreed to include a declaration on fisheries as part of the proposed budget 'package' (text at Ref D).

19. The main points are:

(a) a deadline of 1 January 1981 for settlement of the revised CFP;

(b) a list of most of the main elements which need to be decided in a revised CFP (conservation, quotas, control measures, structural aids, third country arrangements), with criteria which should be applied in determining the solution on each element;

(c) a separate section on access arrangements which also mentions criteria to be taken into account in making a decision on this aspect. We regard this as defining access to be an additional element in the fisheries package on which a decision must be reached before 1 January 1981;

(d) an instruction to the Fisheries Council to proceed with negotiations on 16 June, especially on certain aspects.

20. The text leaves fisheries to be negotiated on its merits. Despite pressure from the Germans and others, it does not include unacceptable language on (or explicit reference to) "equal access".

21. There is no reason to raise fisheries at Venice. If others do so it is important to stress that all CFP issues (i.e. including access) should be considered together. We should resist changes to the Brussels text.

Foreign and Commonwealth Office

5 June 1980

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16 June 1980

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EUROPEAN COUNCIL, VENICE  
12/13 JUNE 1980

COMMUNITY BUDGET REVIEW AND RESTRUCTURING

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. We have no particular interest in raising this subject ourselves. The Commission already have a satisfactory mandate to make proposals by the end of June 1981 and we do not want discussion of that mandate reopened.

POINTS TO MAKE [IF THE SUBJECT IS RAISED]

2. The agreement of 30 May offers us a real opportunity to prevent the recurrence of unacceptable situations for any Member State. The 1% ceiling is also going to provide a valuable discipline.

3. The review the Community will be conducting will require careful preparation. But it will also need to be pressed forward with great determination. It is in everyone's interest that decisions be taken by the end of 1981.

4. We shall approach this constructively. We have no wish to challenge the principles of the Community.

5. We are looking for a better control over CAP expenditure and a better balance between it and expenditure on other Community policies.

6. [If the French or Germans raise their ideas about limiting net benefits] This is one of the ideas which will need careful examination.

7. [If Schmidt or others raise CAP reform] Entirely agree with need for changes. Commitment to reform could be incorporated in Presidency Conclusions.

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/BACKGROUND

BACKGROUND

8. The Commission mandate is as follows (para 7 of 30 May Foreign Affairs Council Conclusions - full text attached as Reference A to Brief No 3): 'For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate to be fulfilled by the end of June 1981. The examination should concern the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, nor the basic principles of the Common Agricultural Policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980-81 solution and the Council will act accordingly.'

9. The UK interest is to avoid substantive discussion at this stage. The 30 May Budget agreement pledged the Community to resolve the UK Budget problem by means of structural changes. The Commission mandate is to put forward proposals by the end of June 1981. Left to itself, the Commission is more likely to come up with proposals that suit us than it would if the 30 May agreement was glossed in some way at French instigation.

10. We are concerned not to start discussions on contentious matters relating to the 1981 review (eg. Giscard and Schmidt's ideas on a limit on net benefits from the Community Budget) before we have got agreement on Community legislation to implement the 30 May budget settlement. It is important not to provoke the smaller Member States at a time when we shall need their support in getting the legislation through in a form acceptable to us.

11. The question may however be raised in any discussion on enlargement that takes place as a result of President Giscard's speech on 5 June (Brief No 17). Giscard may, for example, use

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the occasion of the European Council to put forward ideas for reviewing the rules of Community financing.

12. We understand from the Embassy in Bonn that Schmidt intends to press for Council endorsement of a commitment to reform of the CAP by the end of 1981. He seems to envisage this exercise being contemporaneous with the budget review (with which, of course, it is closely linked). The French President, Prime Minister and Foreign Minister also suggested last week in connexion with the National Assembly debate on the Brussels agreement that they were ready to contemplate improvements in the management methods of CAP. The Prime Minister will wish to support any move of this kind, but not take the lead. Tactically, it would also be wise to avoid any formal linkage between the budget review and this exercise.

Satisfactory reform of the CAP can be achieved without amendment to the basic principles contained in Article 39 of the Treaty. It will not, however, be appropriate for this Council to discuss specific methods of reform and, in endorsing any commitment to reform, we need to avoid any undertakings on financial solidarity, unity of the market or Community preference which the French will probably wish to have inserted in the text and which could be used subsequently to preclude certain types of reform eg. part national financing of CAP expenditure. If the French insist on a reference to the Treaty, it should be argued that a simple reference to Article 39 is all that is necessary.

FOREIGN AND COMMONWEALTH OFFICE

10 JUNE 1980

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FRAME GENERAL

FM UKREP BRUSSELS 300958Z MAY 80

TO FLASH FCO

TELEGRAM NUMBER 2654 OF 30 MAY

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

FOREIGN AFFAIRS COUNCIL, 29-30 MAY.

CONVERGENCE/BUDGETARY QUESTIONS.

MIPT: FOLLOWING IS TEXT OF CONCLUSIONS.

1. THE NET UNITED KINGDOM CONTRIBUTION FOR 1980 WILL BE CALCULATED ON THE BASIS OF THE PRESENT COMMISSION ESTIMATE (1,784 MEUA). 1,175 MEUA WILL BE DEDUCTED FROM THIS FIGURE. THIS LEAVES A UNITED KINGDOM CONTRIBUTION OF 609 MEUA FOR 1980.
2. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 WILL BE CALCULATED ON THE BASIS OF THE COMMISSION ESTIMATE OF 2,140 MEUA. THE UNITED KINGDOM'S 1980 NET CONTRIBUTION WILL BE INCREASED BY A PERCENTAGE EQUAL TO THE DIFFERENCE BETWEEN 1,784 AND 2,140 MEUA, NAMELY 19.9 PER CENT OR 121 MEUA. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 THEREFORE BECOMES 730 MEUA.
3. THE UNITED KINGDOM CONTRIBUTION, BASED ON THE ABOVE CALCULATIONS, IS REDUCED FOR 1980 AND 1981 BY 2,585 MEUA (1,175 PLUS 1,410).
4. IF THE UNITED KINGDOM'S ACTUAL CONTRIBUTIONS FOR 1980 AND 1981 ARE HIGHER THAN 1,784 AND 2,140 MEUA RESPECTIVELY THE DIFFERENCE WILL BE SPLIT - FOR THE FIRST YEAR 25 PER CENT WILL BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHER 8 MEMBER STATES. FOR THE SECOND YEAR - INCREASE FROM 730 TO 750 TO BE BORNE IN FULL BY THE UNITED KINGDOM; FROM 750 TO 850, 50 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 50 PER CENT BY THE OTHER 8 MEMBER STATES; ABOVE 850, 25 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHERS.
5. PAYMENTS OVER THE PERIOD 1980-82 SHOULD BE MADE BY MEANS OF THE ADAPTED FINANCIAL MECHANISM AND THE SUPPLEMENTARY MEASURES PROPOSED BY THE COMMISSION. THE FINANCIAL MECHANISM WILL CONTINUE TO FUNCTION AUTOMATICALLY UNTIL THE END OF 1982.
6. THE CREDITS ARE INSCRIBED IN THE BUDGET OF THE FOLLOWING YEAR, FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM. AT THE REQUEST OF THE UNITED KINGDOM THE COUNCIL CAN DECIDE EACH YEAR ON A PROPOSAL BY THE COMMISSION TO MAKE ADVANCES TO PERMIT THE ACCELERATED IMPLEMENTATION OF THE SUPPLEMENTARY MEASURES.

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7. FOR 1982, THE COMMUNITY IS PLEDGED TO RESOLVE THE PROBLEM BY MEANS OF STRUCTURAL CHANGES (COMMISSION MANDATE TO BE FULFILLED BY THE END OF JUNE 1981. THE EXAMINATION SHOULD CONCERN THE DEVELOPMENT OF COMMUNITY POLICIES, WITHOUT CALLING INTO QUESTION THE COMMON FINANCIAL RESPONSIBILITY FOR THESE POLICIES, WHICH ARE FINANCED FROM THE COMMUNITY'S OWN RESOURCES, NOR THE BASIC PRINCIPLES OF THE COMMON AGRICULTURAL POLICY. TAKING ACCOUNT OF THE SITUATIONS AND INTERESTS OF ALL MEMBER STATES, THIS EXAMINATION WILL AIM TO PREVENT THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THEM). IF THIS IS NOT ACHIEVED, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 SOLUTION AND THE COUNCIL WILL ACT ACCORDINGLY.

8. THE COUNCIL REAFFIRMS THE CONCLUSIONS ADOPTED BY IT (IN ITS COMPOSITION OF MINISTERS OF ECONOMIC AFFAIRS AND FINANCE) ON 11 FEBRUARY 1980 ((CF ANNEX TO DOC. 5081/80 PV/CONS 5 ECO/FIN 9)), WHICH INCLUDED REFERENCE TO THE 1 PER CENT VAT OWN RESOURCES CEILING.

9. IT IS IMPORTANT FOR THE FUTURE WELL BEING OF THE COMMUNITY THAT DAY TO DAY DECISIONS AND POLICY MAKING SHOULD FUNCTION EFFECTIVELY AND THIS PARTICULARLY DURING THE PERIOD WHEN THE REVIEW FORESEEN IN PARAGRAPH-7 IS UNDER WAY. WITH THIS OBJECTIVE IN MIND ALL MEMBER STATES UNDERTAKE TO DO THEIR BEST TO ENSURE THAT COMMUNITY DECISIONS ARE TAKEN EXPEDITIOUSLY AND IN PARTICULAR THAT DECISIONS ON AGRICULTURAL PRICE FIXING ARE TAKEN IN TIME FOR THE NEXT MARKETING SEASON.

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BUTLER. [ADVANCED AS REQUESTED]

FRAME GENERAL  
ECD(I)

## CAP PRICES PACKAGE

The main features of the CAP prices package are as follows:-

- (a) The average price increase overall is about 5 per cent.
- (b) On milk, the target price would increase by 4 per cent. The basic co-responsibility levy on farmers' deliveries to dairies would however also increase from 0.5 to 2.0 per cent of the price, with a lower rate of 1.5 per cent on the first 60,000 kilograms delivered by producers in less favoured areas. Thus the net increase would be 2½ per cent for most producers (and less in Germany because of monetary change). An additional supplementary levy would be applied in 1981/82 if deliveries of milk in 1980 exceed the 1979 level by more than 1.5 per cent. The details of the supplementary levy would, however, have to be agreed.
- (c) The other main proposal affecting milk producers is the limitation on the payment of grants on dairy farm investments. This is now framed in a manner which avoids discrimination against UK producers. National aids to dairy farmers' investment would no longer be payable. Aid under Community schemes would be limited to provision for a herd of 60 cows or an increase in the size of the producers' herd of not more than 15 per cent.
- (d) The UK butter subsidy of 13p per lb, financed wholly from Community funds, would be continued.
- (e) On beef, the guide price would increase by 4 per cent but the effect on producers' returns and consumers' prices in the present year would be less than this. The proposals would enable us to continue our beef premium scheme. There would be a new subsidy of 20 ECU per cow (£12), funded 100 per cent by Community funds and payable on cows in specialised beef herds.
- (f) On cereals, the target price increase is 6.25 per cent, with the intervention prices increased by 4.5 per cent. The production refunds on cereals used in starch manufacture would be reduced.
- (g) On sugar, the minimum beet price would increase by 4.0 per cent. There would be no changes in the quota arrangements for 1980/81. This is, however, less significant now that world sugar prices have risen to around the level of the Community price, so that currently there is no significant disposal cost falling on Community funds.



1) The proposals provide for a 10 per cent saving to be made on the costs of processed fruit and vegetables. On wine some changes have been agreed that should help to contain the costs falling on Community funds.

(i) On whisky, the Council has accepted a commitment to adopt the necessary regulation by the end of this year for the payment to the UK of the returns on Community cereals used in exported scotch whisky. This commitment covers retrospective payment of some £40 million net due to the beginning of 1980. At current cereal prices, the annual payments due would be some £16 million per annum.

2. The main implications for UK interests are as follows:-

(a) UK Producers The proposals would increase UK producers' returns by about £100m (after allowing for feed price increases) in a full year. Most of the benefit would go to the cereals and beef sectors, with UK milk producers probably suffering a small net reduction in returns because of the co-responsibility levy. The overall increase would not prevent a further fall in the industry's real net income.

(b) UK Consumers The proposals would produce an increase of about 0.7 per cent in the Food Price Index, and about 0.2 per cent in the R.P.I., when all effects had worked through. The UK butter subsidy offsets much of the effect of the price increases, being worth some £108 million to consumers.

(c) Community Expenditure The proposals are estimated to increase Community expenditure by some 240 million EUAs in 1980 and by about 1000 million EUA in a full year. These figures make no allowance for production and consumption responses to higher prices in future years. About one-fifth of the additional expenditure would be in the UK. The settlement <sup>(including the increase in expenditure)</sup> would give the UK a net benefit of £37m in 1980/81 and a net cost of £40m <sup>(excluding the butter subsidy)</sup> in a full year <sup>on the basis of no change in our budget contribution. But the overall effect is subsidised in the budget settlement account.</sup>

SHEEPMEAT(1) The proposals

1. The main features of the sheepmeat proposals are as follows:-

(a) Variable premium In the UK there will be no intervention buying. Instead there will be a variable premium (ie deficiency payment), paid to UK producers from Community funds and making good the difference between the average UK market price and a "guide level", set at the level of the intervention price operated in other member countries and on the same seasonal pattern. This premium will be recovered on lamb exported. As a result, the return to the producer or trader from sales on the British market will be higher than the return from selling to France at or even somewhat above the French intervention price. There should accordingly be no sales of British lamb into French intervention.

(b) Intervention in other countries In other countries, intervention will be available from August to December at 85% of the basic price, ie well below the recent level of French market prices. Sales into intervention should be relatively light, because when the French market is weak there should be little or no importation from the UK to depress it further.

(c) Reference prices In all countries reference prices will be set which will act as a guarantee of average producer returns. Where the average market price is lower than the reference price an annual compensatory premium will be paid to make good the difference between the two (or between the intervention and reference prices if this is smaller). These reference prices are to be aligned in four equal annual steps. After four years UK producers will thus benefit from the same guarantee as those in all other member countries. The UK producer's return will be sustained by the UK variable premium (bringing his return up to the level of the French intervention price) and a further compensatory premium to bring it up to the common reference price.

(d) New Zealand The whole regime will come into effect only if and when New Zealand agrees <sup>to limit</sup> ~~(on the volume of)~~ her imports into the Community in exchange for a reduction in the existing tariff of 20 per cent ad valorem. This gives New Zealand the opportunity to ensure that the total arrangements are acceptable to her and do not damage her trading interests.

2) Export refunds Provision is made for export refunds, but these are subject to New Zealand being satisfied on the regime in general, and to a Council Declaration that refunds must be operated in conformity with international obligations and so as not to prejudice agreements with third country suppliers. This leaves New Zealand free to negotiate, as part of her voluntary agreement with the Community, in relation to how refunds should operate, as well as having the power to block the scheme as a whole. (Mr Gundelach has told Mr Talboys that these arrangements give New Zealand a veto over export refunds distinct from its veto over the regime as a whole.)

(ii) Implications for the UK

2. The main implications of these proposals for the UK are:-

(a) The guaranteed return to UK producers would be increased by 17 per cent in 1980/81, and almost certainly rise substantially thereafter as reference prices were harmonised. Total payments from Community funds to British producers could rise towards £100 million per annum at the end of the four-year transition. French illegal barriers to imports from the UK would be removed.

(b) UK consumers would benefit because the use of deficiency payments, and their recovery on exports, would tend to keep British lamb in Britain when Continental prices were low, thus keeping UK market prices down; while the higher guaranteed price would ensure a production increase and ample supply. The arrangements to be negotiated by New Zealand would ensure a continued supply of New Zealand lamb.

(c) The UK economy would benefit from the financing from Community instead of national funds of an increasing producer guarantee on our production, which approaches one half of total Community production.

(d) The provisions for New Zealand give her an effective veto over the introduction of the scheme and an opportunity to negotiate not only on the volume of her imports and a tariff reduction but also on the operation of export refunds and on other matters of interest to her.

Brussels, 30 May 1980

COUNCIL DECLARATION ON THE COMMON FISHERIES POLICY

1. The Council agrees that the completion of the common fisheries policy is a concomitant part in the solution of the problems with which the Community is confronted at present. To this end the Council undertakes to adopt, in parallel with the application of the decisions which will be taken in other areas, the decisions necessary to ensure that a common overall fisheries policy is put into effect at the latest on 1 January 1981.
  
2. In compliance with the Treaties and in conformity with the Council Resolution of 3 November 1976 (the "Hague agreement") this policy should be based on the following guidelines :
  - (a) rational and non-discriminatory Community measures for the management of resources and conservation and reconstitution of stocks so as to ensure their exploitation on a lasting basis in appropriate social and economic conditions ;
  - (b) fair distribution of catches having regard, most particularly to traditional fishing activities, to the special needs of regions where the local populations are particularly dependant upon fishing and the industries allied thereto <sup>(1)</sup>, and to the loss of catch potential in third country waters ;
  - (c) effective controls on the conditions applying to fisheries ;
  - (d) adoption of structural measures which include a financial contribution by the Community ;

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<sup>(1)</sup> Cf. paras 3 and 4 of Annex VII of the Council Resolution of 3 November 1976.

(e) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements on fishing possibilities, in which the Community - subject to the maintenance of stability on the Community market - could also offer trade concessions.

3. Furthermore, Article 103 of the Act of Accession shall be applied in conformity with the objectives and provisions of the Treaty establishing the European Economic Community, with the Act of Accession, inter alia articles 100-102 and with the Council Resolution of 3 November 1976, in particular Annex VII.

4. The Council agrees to take up again the examination of the proposed regulations under (a) (technical measures of conservation) and (c) (control) at its session on 16 June 1980, and also on this occasion to begin examination of other proposals, including a proposal on quotas for 1980 which the Commission undertakes to present in good time.

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EHG(V)(80)4

COPY NO. 1

3 JUNE 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

Brief by HM Treasury

OBJECTIVE

1. To emphasise that UK policies are part of agreed Community formula.

POINTS TO MAKE

2. (i) Activity in most economies beginning to slow down after recent unexpected resilience. Growth prospects this year are poor and little if any recovery is likely in 1981.  
  
(ii) Upsurge in inflation may be reaching its peak, with wage settlements modest in many major countries.  
  
(iii) Widespread acceptance that tight fiscal and monetary policies unavoidable. US interest rates have come off the boil but this might take a little longer elsewhere.  
  
(iv) Better distribution of current account deficits than after 1973-74 oil shock. Helpful that countries which can finance deficits are doing so rather than trying to push them on to others less well off.

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(v) But LDC's will have to reduce deficits to levels that can be financed. Increased recourse by them to the IMF seems necessary and desirable.

BACKGROUND (All information useable)

References

A: Com(80)300. The economic and social situation in the Community.

3. Recent price increases have underlined the disarray in the oil markets. Although stocks are high and demand and supply are broadly in balance, the price structure remains unstable and many major countries are in a weak supply position. The deflationary impact of oil price rises since 1978 is around 2 per cent of the OECD area's GDP, much the same as in 1973-74.

4. But although growth is likely to weaken substantially, the reversal should be less severe than in 1974-75. GNP growth in the OECD is expected to fall from almost  $3\frac{1}{2}$  per cent in 1979 to around  $\frac{3}{4}$  per cent in 1980. The US recession could be quite deep, increasing the possibility that OECD growth will recover little, if at all, in 1981. Within the EC, growth held up surprisingly well last year - notably in Italy and Germany - and this year could average around  $1\frac{1}{4}$ - $1\frac{1}{2}$  per cent. This implies growth in Italy and the Netherlands over  $2\frac{1}{2}$  per cent lower in 1980 than in 1979 and in France and Germany between  $1\frac{1}{2}$  and 2 per cent lower. In Denmark, like the UK, output is expected to fall this year.

5. The average inflation rate in the major countries reached over  $12\frac{1}{2}$  per cent in March, but the upsurge that started in

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mid-1978 might now have run its course. In general, only a small part of the upsurge has been home-grown. Wages have increased much less sharply in most countries than after the 1973-74 oil shock. Within the EC, experience in containing the increase in oil prices has varied widely. The average inflation rate is above that of the OECD as a whole and the gap between the best performers (Germany, Luxembourg) and the worst (Italy, UK) has grown. A number of EC countries have some form of indexation which makes the problem of containment especially severe. Italy is particularly vulnerable. A pay freeze is in force in the Netherlands.

6. Monetary policy has been the main weapon in the fight against inflation to which all countries have given priority. With money supply targets being maintained or tightened, interest rates reached record levels in most countries earlier this year as inflationary expectations worsened. Rates have fallen back dramatically in the US on the arrival of the recession and with clear evidence that money supply was growing well below target. An immediate or precipitate fall in European rates is unlikely. The European economies are slowing down later in the cycle than the US and money supply targets are not being as comfortably met.

7. Fiscal policy in many countries is becoming generally more restrictive as they seek to restrain or (in the US) eliminate budget deficits. Some of the smaller EC members, who have acute problems over the size or financing of their borrowing requirements, have suggested that policies are generally too tight. But advocacy of relaxation has won little support in the major countries. The Commission's view in its paper is that "there is ...no alternative to maintaining broadly restrictive budgetary and monetary policies".

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8. The UK's commitments to lower government borrowing and the reduction of public spending are essential to squeeze out inflation and improve economic performance. The commitments have been widely endorsed internationally. To quote the Commission's paper, "A reduction of the budget deficit in proportion to GDP must indeed be a key medium-term objective for the Community as a whole..."

9. The OECD area is now expected to have a current account deficit of around \$100 billion in 1980, of which about one-half could fall on Community countries. Deficits within the industrial countries should be better distributed than in the mid-1970's. Germany and Japan might share a deficit of around \$40 billion and the US deficit could be quite small. It seems to be accepted that countries able to finance their deficits should do so rather than attempt to shuffle them off on to others. Recent moves by Germany and Japan to arrange capital inflows are welcome. However, some smaller EC countries, notably Denmark and Ireland, have especially severe current account problems and may have to tighten policy further.

10. The position of the LDC's is likely to deteriorate significantly. Even if they cut import growth sharply their combined deficit could rise to around \$55 billion in 1980. No single initiative can solve their problems though, and they will need to reduce their deficits to what can be financed.

11. Concern has been expressed about the ability of the international banking system to recycle OPEC surpluses as smoothly as in the mid-1970's. Market conditions could be less favourable to borrowers, but it remains to be proved that the

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banking system will encounter serious difficulties. It is clear, though, that the IMF will have to play a larger role and its credit arrangements are currently being reviewed. The LDC's should be encouraged to approach the Fund and agree adjustment programmes at an early stage.

HM TREASURY  
3 JUNE 1980

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EHG(V)(80)4

REF A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 300 final

Brussels, 29 May 1980

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication from the Commission to the European Council)

1. Results for 1979 and recent trends. Following a fairly buoyant expansion throughout 1979 the economic activity of the Community showed a more hesitant development in the first half of 1980. Industrial production stagnated between the fourth quarter of 1979 and the first quarter of 1980 and the rate of unemployment rose by three decimal points from January to April, after quasi-stability since the middle of 1978. The rate of increase of consumer prices has been very high in recent months in response to the direct and indirect effect of the oil price adjustments and rise of indirect taxes in some Member States. The inflation momentum is now of the same order of magnitude as in 1974/75. The upward movement of hourly earnings has on the other hand been more modest and the profit situation and cash flows of the enterprises have deteriorated less than after the previous oil price increase.

2. As a result mainly, but not only, of the deterioration of the terms of trade following the oil price increase, the trade balance of the Community has deteriorated considerably since 1978. The deficit on the current account of the balance of payments reached approximately 7 mrd. ECU (10 mrd. dollars) in the first quarter of 1980 against a small surplus in the first quarter of 1979. The current deficit was to some extent financed through a reduction of official reserves, related to interventions in favour of European currencies against the dollar in the period up to the beginning of April. As a consequence of the fall in exchange reserves and a restrictive stance of monetary policy in some Member States the growth in money supply (measured over 12 months) has slowed down from more than 12 % in early 1979 to around 11 % in recent months.

3. Due not least to a forceful monetary policy in the framework of the European Monetary System, exchange rate movements have shown a high degree of convergence over the past year. But underlying rates of inflation and real economic performances have not yet shown signs of yielding to the policy constraints and are showing divergent movements which may become sources of balance of payments disequilibria and exchange rate tensions in later phases.

4. Outlook for 1980 and 1981. Based on the main assumption of no major changes in the stance of budgetary and monetary policies, of a stabilization of the savings ratio of households after a fall in the second half of 1979 and early 1980 and of a sustained growth of export markets (imports to non-EC markets, weighted with their share in Community exports are forecast to increase by 5% in 1980, and expand well also in 1981) real gross domestic product of the Community is expected to rise by 1.5% in 1980 (or slightly more than the 1.2% forecast in February). This would be consistent with a slight decline in the second and third quarters of 1980 followed by a gradual pick-up in the following year. By the end of 1981 the rate of expansion could (at annual rate) be around 2.5%. Inventory adjustments are expected to exert a negative influence on activity, notably in the second half of 1980, and other domestic components may show only little buoyancy. Net exports of the Community may, on the other hand, increase strongly in volume terms and should therefore help to sustain activity somewhat in face of weak domestic demand in most of 1980. However, domestic consumption is forecast to strengthen again in 1981, on the assumption that inflation moderates.

5. With economic activity in the first quarter of 1980 more buoyant than expected, unemployment is now forecast to reach 6% on average for the year (against 6.4% in the February forecast); but a strong increase is likely in 1981. The rise in consumer prices in recent months has been faster than foreseen and may on average for 1980 reach 12.3%. The month-to-month increase would be detelerating as from mid-1980 and should - if the rise in wage costs is checked - get back into single figures in the course of 1981. The deficit on the current account of the balance of payments may, for 1980 on average, reach 24 000 million ECU (33 000 million dollars) but should decline somewhat in 1981.

6. The outlook as presented here may be said to constitute the most probable outcome on the assumptions stated above. The growth of activity and employment could however prove to be slower or even negative if households, enterprises or the government sector - in order to avoid a deterioration of their financial position - increase expenditure less than foreseen. There is also a risk that more divergent movements of prices and wages, and in policy reactions by governments to the strains of the economic situation, could lead to graver instability in both the real economy and monetary relations; and thence also to a lower overall level of activity:

7. Policy issues for the period ahead. Against this background, there is, in the view of the Commission no alternative to maintaining broadly restrictive budgetary and monetary policies. Only through a marked and sustained deceleration of inflation will it be possible to strengthen confidence of households and enterprises and increase the propensity to invest. Without relaxing the overall policy stance, governments should contribute to this process through measures to facilitate necessary changes following the energy price rise, to economise energy and stimulate investment in general and assist the adaptation of the labour force to the changing pattern of supply and demand. Efforts to limit the growth of other public expenditure categories must be pursued. A reduction of the budget deficit in proportion to GDP must indeed be a key medium-term objective for the Community as a whole - and the restoration of better financial balance should remain an immediate pre-occupation in Member States where budget and/or balance of payments deficits are creating particular problems: Belgium, Denmark, Ireland and Italy.

8. While pursuing policies geared to medium-term objectives, governments should, however, over the next 12-18 months, be careful to avoid creating conditions conducive to a cumulative collapse of demand due to excessive expenditure cuts aimed at keeping budget deficits on predetermined levels. As a consequence of a slow growth of tax receipts some increase in budget deficits is likely in the period up to mid-1981 and, on average in the Community, governments should accept this in some moderate degree.

9. With appropriate recycling of OPEC surpluses, including active efforts, on the part of governments to step up long-term borrowing from the OPEC countries directly or via the international capital market, the present orientation of monetary policy could be maintained and domestic monetary financing kept under control. While it would not be practicable to seek to negotiate among oil-importing countries a scheme for distribution of the current account deficits it is highly desirable to arrive at a certain consensus on the approach to the financial problems involved so as to avoid disruptively competitive or divergent policy responses.

11. Given that on one hand total employment is likely to decline in 1981 and that the labour force may see a further increase, the Community will over the coming year be faced with increasing employment problems, notably for young people entering into the labour force; also the employment opportunities for the steadily rising part of the female population which is aiming at an active participation in economic and social life will be severely limited. Moreover, in a context of slow overall growth the difficulties encountered by some low-growth branches of the Community's industry may be seriously aggravated. In this context Member States should prepare themselves to step up efforts to improve employment opportunities in particular for young people.

Table : The Community economy 1978-80

	1978	1979	1980	1978	1979	1980
	GDP volume, % change			private consumption deflator, % change		
DK	1,0	3,5	- 0,8	9,4	9,6	11,5
D	3,2	4,4	2,5	2,5	4,1	5,5
F	3,8	3,2	2,2	8,1	10,5	13,2
IRL	6,0	3,2	0,9	7,9	13,2	19,5
I	2,6	5,0	3,5	12,7	14,9	19,6
NL	2,4	2,2	0,7	4,2	4,7	6,5
B	2,4	2,5	1,4	4,4	4,5	7,0
L	4,3	2,7	1,9	3,5	4,5	6,7
UK	3,1	0,6	- 2,6	8,6	12,0	20,3
EC	3,1	3,3	1,5	7,1	9,0	12,3
	unemployment rate, % civilian working population			balance of payments current account, mrd ECU		
DK	6,6	5,3	5,7	- 1,2	- 2,2	- 2,1
D	3,9	3,4	3,3	7,4	- 3,5	- 10,5
F	5,3	5,9	6,3	1,5	1,1	- 3,4
IRL	8,8	7,9	8,2	- 0,2	- 1,1	- 1,2
I	7,1	7,6	8,2	4,9	3,8	- 1,4
NL	4,1	4,3	4,5	- 0,7	- 1,5	- 0,6
B	8,4	8,6	9,0	- 1,1	- 2,6	- 4,0
L	0,8	0,7	0,8	0,3	0,6	0,6
UK	5,7	5,4	6,5	0,6	- 3,8	- 1,0
EC	5,5	5,6	6,0	11,7	- 9,1	- 23,7
	public finance : general government deficit, % of GDP			money supply, % change		
DK	- 0,9	- 1,0	- 1,5	(M2) 6,7	9,9	6,0
D	- 2,8	- 2,9	- 2,8	(M3) 11,0	6,0	6,0
F	- 2,3	- 0,8	- 1,5	(M2) 12,2	14,3	12,5
IRL	- 10,5	- 12,5	- 11,4	(M3) 28,7	19,0	12,6
I	- 10,6	- 9,4	- 10,2	(M2) 22,8	20,4	19,2
NL	- 2,2	- 3,3	- 2,8	(M2) 4,2	6,9	8,4
B	- 6,0	- 6,8	- 7,9	(M2M) 9,5	6,0	7,0
L	3,3	1,3	0,4	:	:	:
UK	- 4,2	- 2,9	- 2,4	M3 13,3	11,7	9,6 (1)
EC	- 4,0	- 3,5	- 3,8	12,7	11,0	10,1

(1) Financial year, mid-April to mid-April.

Source : Commission services, based on information available up to 27th May 1980.



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EHG (V)(80)5

COPY NO 1

3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

EMS/EMF (CONTINGENCY BRIEF)

Brief by HM Treasury

OBJECTIVE

1. To avoid a commitment on sterling's participation in the EMS exchange rate arrangements, but to be ready (if necessary) to explain our position in a positive way.
2. To avoid a substantive debate on the EMF while the options are imprecise.

POINTS TO MAKE

3. If she comes under pressure on sterling's participation in the EMS exchange rate arrangements, the Prime Minister should draw on the draft statement at Annex A.
4. The Community bodies have not had time to further their work on the EMF since the last European Council. Better to wait for this before discussing the question further.

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BACKGROUND

5. Neither subject is scheduled for discussion.
  
6. The Prime Minister will be aware of the difficulties for monetary policy that could be posed by early participation in the EMS exchange rate mechanism. The draft statement at Annex A is designed to present these in as favourable a light as possible.
  
7. The Luxembourg European Council had before it three reports on progress towards the establishment of the European Monetary Fund. Heads of Government took note of these, and invited the relevant Community bodies to press ahead with work in order to move on to the institutional stage of the EMS which would include the creation of the European Monetary Fund. There has been no time for further work since the Luxembourg European Council.
  
8. No mention was made in the European Council conclusions of the target date for the establishment of the EMF, which is March 1981. It is now almost certainly too late to keep to this. This suits the French and Germans, who find the date uncomfortably close to their domestic elections, but may displease some of the smaller member states. It is not an important matter for us. Any discussion of a new target date would be better deferred until the scope of the problems involved in setting up the EMF has been more fully assessed.

## STATEMENT ON EMS

The United Kingdom Government fully supports closer monetary co-operation in the Community in the interests of the fight against inflation; and fully supports also the European Monetary System both as a major step forward for monetary co-operation in the Community and as a Community instrument for resisting inflation.

The United Kingdom is participating fully in the discussions on the setting up of the European Monetary Fund and intends to bring sterling into the exchange rate mechanism of the EMS when conditions permit. The Government wish to do this in circumstances and at a time which are best for the Community and for the System, as well as right for our own economy.

We are giving first priority to gaining control of our own monetary conditions, achieving our monetary targets and bringing our rate of inflation nearer to that in most other Community countries. In those conditions we would have more room to reconcile monetary and exchange rate objectives, and the stability of our exchange rate would be reinforced to the advantage of the System. We shall also have to continue to have regard to the differential impact which oil developments can have on sterling and on other Community currencies. All these complex issues are relevant to a decision on joining the exchange rate mechanism and we are very willing to discuss them in the appropriate Community fora.

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The March Budget represents an important stage in reasserting control of the United Kingdom money supply, public borrowing and inflation - objectives which the Government believes have the support of their Community partners. The Government look forward to the time when the success of these efforts will enable the United Kingdom to join the exchange rate mechanism of the EMS.

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EHG(V)(80)6

COPY NO.

1

4 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

**EMPLOYMENT AND SOCIAL POLICY**

Brief by Department of Employment

**OBJECTIVE**

1. To be seen to be associated with Community concern at rising unemployment. But to focus attention on practical steps such as work on employment and training services now being discussed in the Social Affairs Council.

**POINTS TO MAKE**

Employment

2. a) The Commission is right to emphasise the importance of reducing inflation and increasing Community and national competitiveness to improve employment prospects. But only so much can be done by governments. The rest must be done by industry itself. Initiatives at Community level might usefully concentrate on aid for declining industrial areas and for traditional industries (Shipbuilding, steel, textiles) which are major local employers.  
  
b) We must see that employment and training services meet the needs of our workforces which have to adapt to new technologies. But we must not

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raise expectations about Community initiatives in areas in which they cannot be expected to operate satisfactorily - work sharing, for instance, is substantially a matter to be settled by negotiations between managements and employees with an eye to what can be afforded in each individual firm or industry.

Social Measures for Steel (if raised)

c) The UK is broadly in favour of the Commission's proposals. But further discussions seem necessary to clarify the proposals and how they could best be used.

Council of Social Affairs Ministers, 9 June

d) [The Council has agreed a Resolution on Guidelines for a Labour Market Policy. This should usefully support the strengthening, where necessary of the training and employment services.] An approach of this kind is perhaps more relevant to present needs than measures to reduce or share working time which would have results which threaten the competitiveness of Community industry in world markets.

e) But the Community does itself no service if antagonism is allowed to grow between the Council and the ETUC. We need to continue efforts to seek common ground with unions and managements and encourage the Commission in its contacts to underpin the dialogue between them.

BACKGROUND

Reference: A: Commission Paper COM(80)304 final: 'The Unemployment Problem'

3. The Commission's paper on the Unemployment Problem points to the interrelationship of economic, energy and industrial policies in determining levels of employment. The paper stresses the need to develop the links with /managements

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managements and unions and expresses fears about the deterioration in the social climate that could arise from present economic and social difficulties. The paper makes no new specific recommendation but indicates the importance attached to new technology as a factor in employment and the Commission's wish to continue its work on the adaptation of working time (Work Sharing).

4. On points of detail in the Commission's paper the UK does not endorse the suggestion (page 3) that our overseas aid falls short of earlier commitments and believes that our ability to provide more aid depends on the strength of our economy. Nor do we go along entirely with the implications, e.g. in the paragraphs on energy (page 2) and industrial policy (page 3) that greater intervention by national governments and the Community will lead to improved employment prospects.

Social Affairs Council

5. [The Social Affairs Council met on 9 June] and agreed a Resolution on "Guidelines for a Labour Market Policy" - effectively a series of suggestions for improving national employment and training services where necessary and improving Community cooperation in this general area. The subject matter was not seriously controversial in itself. The unions, however, made clear when this same subject was considered at a meeting of the Standing Employment Committee on 29 May (unions, managements, employment ministers and the Commission) that they regard this kind of topic a secondary subject and a poor substitute for further Community action to bring down unemployment levels, in particular as they advocate, by measures aimed at sharing available work and reducing working time.
6. For its part, the Commission complains, e.g. at the Standing Employment

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Committee, of inconsistency between the remits it receives from the European Council and subsequent action in the Council of Ministers. The conclusions at the last two meetings of the European Council have included the following passages:-

November 1979 [our underlining]

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

April 1980

" ..... efforts within the Community to reduce structural unemployment should be stepped up and better coordinated taking into account the proposals which the European Council had at its previous meeting asked the Commission to submit."

This kind of wording raises expectations. But the Council subsequently gets reproached by the Commission for going no further than agreeing limited generalisations of a non-binding character. Yet if managements and unions have no common ground, the Council cannot mark it out. And neither can the Commission bring effective proposals if they only have support of one side of industry.

7. The conclusions of the Council should, therefore, give some impetus to further development of the consultative relationship rather than call for further specific measures. The European Council might for instance:-

a) note a useful outcome to the Social Affairs Council on 9 June;

/b)



- b) note the Commission's efforts (perhaps even commend them) for developing useful consultation with and between managements and unions;
- c) urge the Commission to continue with this task of consultation as part of the background preparation for the Commission work on employment policies including the effects of new technology, and the envisaged communications on working time which the Commission is now preparing;

Social Measures for the Steel Industry

8. The special temporary measures proposed by the Commission to help alleviate the social effects of the restructuring of the steel industry comprise 1) early retirement provisions, 2) assistance on a strictly limited and tapering basis for reorganisation of the work cycle. The proposals have been discussed in varying community fora but agreement has not yet been reached between member states. Meanwhile, officials at the Commission have held talks with representatives from BSC and with officials from the Department of Industry.

Unemployment

9. Average 5.7%. Highest is Belgium 8.5%; lowest is Germany at 3.2%. UK is 5.8% (source. Eurostat 4 - 1980 of 19 May '80).

DEPARTMENT OF EMPLOYMENT

4 June 1980

EHG(V)(80)6

REF A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 304 final  
Brussels, 29 May 1980

THE UNEMPLOYMENT PROBLEM  
(Communication of the Commission to the European Council)

COM(80) 304 final

THE UNEMPLOYMENT PROBLEM

The Communique of the European Council of last November stated that a more coordinated approach to employment problems need to be defined, and asked the Commission to submit proposals on specific measures to promote more incisive Community action to deal with the unemployment problem.

In April, the European Council agreed that the reduction of inflation was an important means of combatting unemployment but that efforts within the Community to reduce structural unemployment should be stepped up and better coordinated.

The growth of unemployment

After the rapid increase in unemployment in the period from 1973 to 1977, the situation stabilised somewhat in 1978. Employment rose by almost a million although, with the increase in the supply of labour, this did not permit a fall in the unemployment rate from the level of 5.5% (some 6 million unemployed).

The prospects now are for a worsening of unemployment in 1980 to 6%, with the possibility of further large increases in 1981. This would be in part due to a slow-down in the supply of jobs as a result of low economic growth, and in part due to demographic factors, especially the large number of young people who will continue to come onto the labour market in the early 1980s - some 4m a year, 1m a year more than in the early 1970s.

Policy actions

The Commission welcomes the support of the Council for the development of actions to tackle unemployment.

However, there is a risk that makeshift solutions will be put forward which weaken the fight against inflation, yield to protectionist pressures, and lead to free-for-all national economic policies. These could further worsen the employment prospects in the Community by weakening competitiveness, and by fragmenting the labour market between different categories and groups, leading to greater inequality.

The Community must tackle these problems in a coordinated way by implementing measures to strengthen existing policies, by devising new policies where necessary, and by restoring closer links between economic and social policies.

#### Economic policy

The view of the Commission, on the general stance of budgetary and monetary policies is set out in the document on the Economic and Social situation in the Community.

#### Energy policy

Guidelines for a coherent energy policy at European level up to 1990 were adopted by Council, aimed at more energy saving and further reducing of oil import dependence by the exploitation of existing sources of energy and the promotion of new sources. This policy should take account of the employment aspect and in particular, additional jobs should be created by wider adoption of energy saving measures. A communication from the Commission on a new initiative to encourage energy investments was discussed at the last European Council, and the Commission has been requested to put forward detailed proposals.

External demand

It was agreed with the other industrialised countries and the OPEC members, that development aid falls far short of earlier commitments. An increase in financial aid, linked with an important effort in recycling of financial surpluses would furthermore help in supporting external demand by mobilizing the large potential demand in the developing countries.

Industrial policy

Support is being sought at Community level to help European industries to adapt to changes in the internal division of labour and to changes in internal demand. Such actions need to be strengthened in order to ensure adjustment to new trading patterns and to save the maximum number of viable jobs. The Commission has put forward specific measures of additional support and adjustment for workers in the steel industry.

Labour market policy

Guidelines to improve the operation of the labour market at national and Community level have been presented to the Council and discussed by the Standing Committee on Employment. These guidelines provide support for placement and training activities and orient labour market policy towards future needs.

New technology

The Commission has discussed this year, with the Standing Employment Committee the impact of the new micro-electronic technology on employment, including questions of vocational guidance and training and changes in job content and quality of working life. Work is continuing, in co-operation with the two sides of industry and the Governments, to exploit the different experiences in the Member States and to develop appropriate policy responses.

Working time

As a supporting action to assist employment, the Council adopted general guidelines on the re-organization of working time in December last. The Commission has now organized meetings with the two sides of industry and the Governments in order to follow up specific issues.

Follow-up action by the Commission in co-operation with the Social Partners

The Commission intends to develop these policy actions within its responsibilities and invites the European Council to support its initiatives. Links with the two sides of industry also need to be strengthened. Given the present economic and social difficulties and the growing fears about employment, there is a risk of a deterioration in the social climate which could itself make the achievement of economic and social objectives more difficult. This reinforces the need for consensus about the overall strategy needed to put the Community back on the road to stability and fuller employment.

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EGH(V)(80)7

COPY NO 1

3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PREPARATION FOR ECONOMIC SUMMIT: (22/23 JUNE)

ECONOMIC ASPECTS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. Let non-Summit members have their say.

POINTS TO MAKE

2. Nil.

BACKGROUND

3. The Commission have prepared three papers to form the basis of a discussion of the Venice Economic Summit (see brief nos 8, 9 and 10).
4. Non-Summit member states will be represented by the Italian Presidency and by the President of the Commission, who attends for discussion of matters relating to Community competence. They have been kept informed of preparations by regular briefings of COREPER by a member of Mr Jenkins' office.
5. Preparatory work well advanced. No unforeseen difficulties so far. Draft communiqué largely agreed.
6. Economic Summit likely to stress over-riding priority of fight against inflation. This accords well with Community policy and is likely message from OECD Ministerial meeting in Paris, 3-4 June.

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7. Energy also likely to be important (see brief no 8). North/South matters likely to be more prominent (brief no 9). Trade unlikely to feature much except for a commitment to maintain open markets (brief no 10).

8. International monetary matters unlikely to be prominent. Giscard initiative has not materialised. IMF discussions on a Substitution Account have faded. However, some discussion of recycling possible. Continued importance of private markets broadly agreed; role of international institutions likely to increase (brief no 12).

Foreign and Commonwealth Office

3 June 1980

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5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

ENERGY

Brief by the Department of Energy

OBJECTIVE

- (i) to prepare for the Venice Economic Summit by promoting a discussion focussing on long-term energy problems ;
- (ii) to let the non-Summit Member States have their say on preparations for Venice Economic Summit.

POINTS TO MAKE

1. Venice Economic Summit

Energy problems intimately linked with wider economic problems of 1980s. Doubling of oil prices last year a severe shock to world economic growth. OECD have calculated that by 1981 loss to Western economies will be \$300 - 400 billion or \$1,500 - \$2,000 per family. Vital to avoid a situation where energy supplies become a permanent constraint on economic growth.

2. World oil production probably close to its peak. Production increasing in North Sea and Mexico, but falling elsewhere (eg US). Unlikely that OPEC production will rise much above its present level in 1980s.

Key long-term objective must be restructuring of energy economy, particularly to reduce dependence on oil. Venice Economic Summit should focus on policy measures needed to achieve this. Must recognise that some hard political decisions may be necessary. Setting targets not enough. Firm commitments to action needed at national and international level. Welcome work done in EEC and IEA to define long-term objectives as positive

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input to Economic Summit.

4. Main weight of restructuring energy economy must lie with national programmes, complemented by collaboration within Community and on wider international basis. Community has valuable role in ensuring convergence of national programmes to meet agreed objectives. We shall also co-operate fully in current studies of possible scope for further action at Community level.

5. UK playing its part in massive Community-wide effort by Member States to reduce Community's oil dependence, eg through new impetus to UK nuclear developments, and by support for UK coal production which helps reduce dependence of Community as a whole on imported oil. In North Sea oil, <sup>£18 billion (at 1980 prices)</sup> ~~£15 billion~~ has so far been invested. In the first quarter of 1980, other Community countries took two thirds of our total oil exports - one third of total UKCS production.

6. Important to give consumers clear and consistent price signals. Domestic energy prices must reflect world prices. Economic Summit should also give impetus to vigorous programmes to exploit coal and nuclear power, and help gain public acceptance for these.

7. Difficult short term problems of oil prices too. OPEC countries have shown in past few months that they are able to push prices up even in slack market. Must recognise that there are limits to what governments can do, and that tinkering with established market mechanisms unlikely to help. But governments must keep situation under review, and be prepared to consider further measures if situation worsens. Must press ahead with examination of new approaches to stock policies. Must permit price mechanism to play full role in process of adjustment.

Commission Paper

8. Useful summary of recent discussions at Luxembourg and 13 May Energy Council. Welcome progress made in establishing

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strategy for 1990. Look forward to further discussion in Energy Council once present studies completed.

(If necessary) Further consideration should now await outcome of various studies commissioned by 13 May Energy Council for its September meeting.

9. 13 May Energy Council

Helped to pave the way for satisfactory outcome of IEA discussion of oil market situation and 1990 energy objectives. Should also be useful groundwork for Venice Economic Summit. Council should continue monitoring development at Community level against wider international background.

10. Community Energy Initiative (If necessary)

Preparation of precise Commission proposals on any one of the components of this complex subject will take time. Ready to participate constructively in discussion of need for Community assistance, on the basis of examination of national planned investment programmes.

BACKGROUND

1. Oil Market Outlook

The oil market in 1980 - 81 is likely to be in balance, in the sense that there will be no general pressure on oil supplies. Demand for oil has fallen because of slowdown in world economic activity, itself largely a consequence of last year's doubling of prices. Consumers can 'walk away' from high prices by individual producers (eg Iran) and have done so, but not from OPEC as a whole; OPEC countries have raised prices by \$2 per barrel twice this year, despite slack market, following Saudi attempts to bring their prices into line.

2. Projections for 1980s bound to be uncertain. On some assumptions - favourable but not impossible - oil market in 1985 could balance at real price not much above present price.

3.

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But downside risks are large. In particular, supplies remain vulnerable to political accidents; and Gulf producers may cut production, because they do not need the revenue immediately, and may conclude that oil in the ground is more valuable than money in the bank. Outlook for late 1980s even more uncertain but could be even less favourable than for early part of decade.

### 3. Venice Economic Summit

Preparations for Venice Economic Summit have produced broad agreement on energy issues. Summit should focus on long-term policy measures to reduce consumption of oil in individual sectors (electricity generation, industry, domestic, transport etc), and promote production and use of alternatives to oil, particularly coal and nuclear power. We and Germans have argued successfully against setting of new targets, but Americans will want some quantified guidelines. We can accept reiteration of guidelines agreed at 13 May Energy Council and 21/22 May IEA Ministerial (see paragraph 4 below).

### 4. International Energy Targets: IEA Ministerial

Following Luxembourg European Council conclusions the 13 May Energy Council adopted the following Community energy objectives for 1990: to reduce to 0-7 the ratio of growth in gross primary energy consumption to growth in GDP; to reduce oil's share of total primary energy consumption to approximately 40%; to cover 70 -75% of primary energy requirements for electricity generation from coal and nuclear sources; to encourage the use of renewable energies; to pursue appropriate energy pricing policies. The 21/22 May IEA Ministerial agreed the following objectives for the IEA as a whole in 1990: 40% oil share objective; reduction of energy coefficient to about 0.6. In a compromise on US demands the IEA Ministerial also agreed: for 1980 - 81, to meet at short notice, if tight market conditions threatened to decide on the need for demand restraint measures and on the use of individual oil import ceilings; for 1985, that IEA countries as a group should substantially undershoot the existing 1985 group oil import objective of 26.2 mbpd. (IEA Secretariat estimate by 4 mbpd). IEA Ministers also considered

the use of stocks above the 90 day emergency reserve requirement and of normal working stocks to respond to oil market conditions. They endorsed the report of the International Energy Technology Group.

5. 13 May Energy Council

Discussed matters referred to it by Luxembourg European Council, especially oil market situation and 1990 energy strategy. Agreed Resolutions on 1990 Energy Objectives and New Lines of Action in Energy Saving. Asked Commission to report in September on Community Energy Initiative, and possible additional measures to cope with oil supply difficulties including discouraging high prices; improved consultation on stocks and pricing; scope for sub-crisis formal oil-sharing; possibilities of increasing oil and gas production. (In further discussion of scope for increasing UKCS oil production in supply difficulties, other Member States have so far appeared to accept that practical scope is extremely limited).

Commission Paper on Energy

6. The Commission paper, dated 23 May, merely recalls the conclusions reached on energy at the Luxembourg European Council, and the outcome of the 13 May Energy Council. It welcomes the progress made, and asserts that the agreements reached should be helpful in respect of the Venice Economic Summit. No contentious issues are raised, and there is no need to comment specifically on the paper, which is unlikely itself to be the subject of substantive discussion.

Community Energy Initiative

7. Commission has made proposals for a Community energy initiative based on: price and tax harmonisation; enhanced energy investment with Community support; funded by Community energy taxes, probably including oil import levy and production tax. Initial reactions of our partners suggest this may be generally regarded as ambitious. The Energy Council welcomed the Commission's intention to start at the beginning - with a study of need for further Community action - before considering

/how

how funds might be raised.

Possible French Initiative on Spot Markets

8. It is possible that the French will repeat proposals, made earlier in the Energy Council, for additional measures to monitor high price transactions in the oil market - with the objective of exercising some control over spot markets. We are very sceptical about the practical value of their proposals for an accelerated price reporting system and a 'hotline' between administrations. We are, however, happy for existing reporting systems to continue.

Department of Energy

5 June 1980

COMMUNITY PROGRESS IN THE ENERGY FIELD

Report to the European Council in Venice

1. At its meeting in Luxembourg on 27 and 28 April, the European Council considered ideas put forward by the Commission for a new Community initiative as part of a Community strategy for energy (COM(80)130 of 20 March). The Commission drew particular attention to the need to undertake progressive harmonization of energy prices and taxes; to promote an investment programme to support the efforts of Member States to encourage energy saving, the substitution of oil by energy from other sources, the reduction of dependence on foreign suppliers, and the development of other renewable sources; and to examine various possibilities for financing such a programme. In its conclusions the European Council invited the Council of Ministers to consider as a matter of urgency the steps proposed by the Commission to stimulate the development of a coherent energy policy within the Community.
2. Against the background of continuing uncertainties on the world oil market, the Council of Energy Ministers was also invited to consider what further action was now required to meet the possibility of short-term oil supply difficulties.
3. At its meeting on 13 May, the Council of Energy Ministers considered some of these questions. Progress was made. The main conclusions were as follows.
4. First, after a preliminary discussion of the Commission's new proposals, the Council agreed that further work was needed as a matter of urgency on energy investment in the Community. The Council will revert to this issue at its next meeting. It will then have before it the result of an examination by the Commission of energy programmes in each of the Member States. This examination, which aims to identify the areas where extra investment is required and to explore the scope for Community support, is already under way through bilateral consultations between individual Member States and the Commission.

5. Secondly the Council approved a Resolution on Community Energy Objectives for 1990 and Convergence of the Policies of the Member States. This called for an annual report by the Commission on energy programmes up to 1990 in each of the Member States to determine how far they are in line with the Community's energy policy objectives. In preparing its report, the Commission will take into account the following guidelines for 1990 for the Community as a whole :

- reducing to 0.7 or less the ratio between the rate of growth in energy consumption and the rate of economic growth  
(the present objective for 1985 is 0.8);
- reducing oil consumption in the Community to about 40 % of total energy consumption  
(the present level is about 55 %);
- raising the share of coal and nuclear in electricity generation to 70-75 %  
(this compares with about 50 % at present and will mean considerably speeding up coal firing conversion and new capacity and the ordering and commissioning of nuclear plants);
- encouraging an increase in renewable energy sources;
- the pursuit of energy pricing policies geared to attaining Community energy objectives (see paragraph 6 below).

The Commission will aim to produce its first report to the Council by early 1981.

6. Thirdly the Council approved a Resolution on New Lines of Action by the Community in the Field of Energy Saving. This called for the further development of energy savings programmes in Member States covering all the main sectors of energy use. It was agreed that, if comparable effects are to be achieved throughout the Community, these programmes should be based on a number of guidelines proposed by the Commission including, notably, three key principles of energy pricing :



- (i) consumer prices should reflect representative conditions on the world market, taking account of longer-term trends;
- (ii) one of the factors determining consumer prices should be the cost of replacing and developing energy resources;
- (iii) energy prices on the market should be characterised by the greatest possible degree of transparency.

The Commission has been invited to monitor and report on progress.

- 7. Finally the Council called for an urgent examination of a number of areas where action could help to stabilise oil markets and could improve the Community's emergency planning arrangements. This examination will be conducted by the Commission in consultation with Member States. The Commission has been asked to report results to the Council by September.
- 8. The Commission welcomes the progress so far made by the Council of Energy Ministers. The agreements reached should be helpful to the representatives of the Community in Venice on 22 and 23 June. The experience of the Tokyo Summit of 1979 shows the value of prior Community decisions in discussion at the Summit among our major industrial partners.

28 May 1980

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EHG (V)(80)8a

COPY NO 1

9 JUNE 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

NORTH SEA OIL POLICY

Brief by the Department of Energy

OBJECTIVE

If question is raised, to persuade our partners of the constructive contribution to Community objectives made by our North Sea policies.

POINTS TO MAKE

(a) North Sea Policies [for use as necessary]

1. North Sea Oil Exports

About half our production is exported and over half these exports go to the rest of the Community - in 1979 it received 22 million tonnes. In the first quarter of 1980 other Community countries took some 66% of our total exports - one third of our total production. Our exports to the Community should continue to increase as our production continues to rise over the next few years. [Annex B shows North Sea disposals].

2. North Sea Oil Prices

Prices for North Sea oil follow but do not lead world market for similar high quality, low sulphur crudes. We have made clear to the companies operating in the North Sea our expectation that this will continue. All but about 1% of sales are at term prices with no additional premia. [Annex A can also be drawn on as necessary].

3. Supply of Off-shore Equipment

Other Member States' companies have enjoyed a high level of involvement. For example, of 35 major oil and gas platform

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structures so far ordered for the UKCS, 19 were built by other Member States' companies, or by EC/UK or EC/Norway joint ventures. Of the remainder, most involved a substantial input from other Member States' companies, in the provision of technology, topside, fabrication, steel etc. Other Member States' companies particularly Dutch, French and Italian, have also been much involved in off-shore installation work. This involvement has brought them valuable business and helped enhance their role in world markets.

4. Increased UKCS Production [Defensive - if raised]

We have indicated previously that scope for increasing production from the North Sea in the short-term would at best be very limited. Production is already at the highest level compatible with good oilfield management. Our policy has been to bring fields into production as fast as possible. By the end of 1979, 14 fields were in production. It took the UK only 4 years to reach production of over one and a half mbpd, much quicker than any other country (Libya: 6 years; others longer). With platforms costing £500 m or more no-one has developed fields to leave them non-productive. However, we agreed at Luxembourg that Energy Ministers should examine the possibility of increasing production as one component of a study of several possible aspects of dealing with short-term supply problems. This study has just begun.

[If necessary] We must now await the Commission's report to September Energy Council on short-term supply problems. Can take the subject no further in meantime.

5. Depletion [Defensive]

We are considering depletion policy against the long term background of managing a limited resource. Will explain fully to partners before any announcement is made.

6. North Sea Oil 'Wealth'

North Sea oil contributed only 2.5% of UK GNP in 1979 and will contribute only 6% even at peak production.

7. We are not yet net exporters. Even at peak production we will only be marginal net exporters. Rising world oil prices

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damage an open, essentially trading and manufacturing economy such as the UK (with about 30% of GDP in exports).

Background

1. UKCS Oil Production 1980 Forecast

Our production in 1980 is expected to be in the range 80-85 m tonnes (towards the lower end) compared with consumption of about 90 m tonnes. This suggests that we shall probably need rather less imports in 1980 than our 12 M tonnes 1980 net oil import target. But we may need it if anything went seriously wrong with North Sea production this year (although we have no reason to expect this), and production fell below 80 m tonnes. If asked to quote figures we should stress the uncertainty surrounding them.

2. North Sea Exports and Prices

Production will probably rise until about 1984-86 even if the Government adopts a conservationist depletion policy (see paragraph 7 below). The pattern of approximately 50% UKCS oil consumed in the UK and the rest exported is likely to continue. Annex B illustrates crude disposals to Community Member States in 1979 and first quarter of 1980.

3. It now seems generally accepted that our prices follow the world market for similar high quality crude (in practice that produced by Algeria, Nigeria and Libya). BNOC's latest price rise of \$2 was announced on 28 May, and followed a general \$2 per barrel increase by practically all OPEC producers including the Africans.

4. Seventh Round of Off-shore licensing

The arrangements for the Round were announced on 1 May. The Round is to be of about 90 blocks, larger than the 70 blocks originally proposed. There will be full opportunity for participation by Community companies.

5. Increasing UKCS Production in a Sub-crisis

The question of increasing UKCS supplies to the Community during a crisis/sub-crisis was raised briefly at Luxembourg. The

Prime Minister made no commitment. But the Presidency's conclusions record that:

"The European Council considers that the Community should clearly co-ordinate its response to the immediate problems of oil supplies, and invites the Council and Energy Ministers to consider what further action is required taking into account the undertakings given by the Member States in the framework of the agreement on supplies in the event of a crisis, and with special reference to the possibility of increasing production of hydrocarbons."

6. The 13 May Energy Council confirmed that the scope for increasing indigenous hydrocarbon production (Dutch and Danish gas - at German insistence - as well as UKCS resources) should be one element in further examination of possibilities for dealing with short-term oil supply difficulties. The Energy Council agreed to return to this question in September on the basis of these studies, which the Commission have now begun at official level. The German Cabinet is reported to have said recently that it expected the UK to take account of the interests of her European partners in setting oil and natural gas policy, in particular at times of oil supply difficulty. There is in fact little if any scope for increasing UKCS production in an emergency, or helping in other ways (eg, diverting BNO oil to the Community). Having agreed already in the Energy Council to the scope for increased UKCS production being examined we can appear helpful whilst, without committing ourselves, explaining if the subject is raised that the practical scope is extremely limited.

7. Depletion

Ministers agreed on action to defer net exportable surpluses of oil during the 1980's and discussions are under way with the oil companies PSBR implications are also being examined. Arrangements would be made to explain the policy to our partners before any announcement.

8. The following are attached:

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Annex A: UKCS Prices

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Annex B: North Sea Oil Disposals

Department of Energy  
9 June 1980

**CONFIDENTIAL**

UKCS Price Setting

1. UKCS crude is comparable to African crudes (Appendix 1). The participation agreements entitle producers to the market price for crude oil which they must sell to BNOB. If the price cannot be agreed there is provision for recourse to expert determination.
2. Although some 70% of UKCS oil production passes through BNOB's books only one sixth of the oil BNOB is currently selling is its own equity oil. Participation oil makes up the bulk of the remainder purchased at the market price prior to selling. BNOB is not therefore a free market price setter.
3. HMG has no statutory powers to determine UKCS prices. Reserve powers exist in the Energy Act 1976, but may be exercised only in an emergency or to implement formal obligations to the EEC or IEA. This power would, in any case, not extend to crude oil traded offshore.

Crude Oil Market Development and Government Intervention in UKCS prices

4. Between 1974 and mid 1978 world oil prices were relatively stable. Term prices were set by a Saudi marker with differentials for other crudes reflecting quality differences and location only. Spot prices were close to term prices.
5. The Iranian crisis changed the market from demand constrained to supply constrained. During 1979 spot prices rose well above term prices and the term market became fragmented with a widening of the differential for sweet light crudes including North Sea oil. The downward trend of price in real terms from 1975 to the end of 1978 was reversed and real prices are now about 50% above the 1974 level.
6. This anarchy in the market led to considerable pressure for Government to intervene on UKCS prices particularly from the middle of 1979; both BNOB and companies were urged to be moderate with price increases.
7. In November 1979 ~~CONFIDENTIAL~~ BNOB's increase was premature, albeit by only a few days, and attracted much international criticism.

Further increases in 1980 have been better timed; the decisions being unannounced for longer giving the impression that the UK was last to come into line (although the effective date of increases was similar to that for other producers.) In addition the price has not exceeded the official prices of any of the comparable African crudes. During January settlement of UKCS crude prices below the market level was achieved only through pressure being applied to a number of companies. The most recent increase of £2 across all grades, effective 20 May brings the price of Forties to £36.25 per barrel. Many OPEC countries in fact charge premia in addition to the official price. Against this background UK prices look very moderate (see Appendix 2).

UK Interest in oil prices

8. Much play has been made by our partners of the value of North Sea oil to us. But we are not yet self sufficient and increases in world oil prices are a net cost to the economy. Some 30% of GDP comes from international trade; thus GDP will be affected by any recession caused by high oil prices and the loss will not be offset by higher oil revenues (which in total only account for a few per cent of GDP).

Community benefits from UKCS

9. There is no restriction on exports and about one third of UK production is exported to the EEC. Only 1% of output is sold at spot prices; all the rest is sold at term prices and there are no premia or surcharges equivalent to those levied by some OPEC countries.

OP(H) Division  
D/Energy



CRUDE OIL QUALITY COMPARISONS

1. Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.
  
2. There are two major aspects:
  - (i) Yield differentials  
The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasoline, naphtha and gas oil. From light North Sea and North African crudes these products may total 60-70% of the product yield, whereas Gulf crudes yield 50% or less of these products.
  
  - (ii) Sulphur content  
The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4% in some other Gulf crudes.
  
3. Under normal market conditions, North Sea crudes could be expected to command a quality premium of about £3 per barrel over Arabian Light.

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ANNEX A

Appendix 2

COUNTRY/CRUDE	<u>£ per barrel</u>			
	OFFICIAL PRICE	REPORTED PREMIA OR SIGNATURE BONUS	APPROX PERCENTAGE OF OUTPUT SOLD WITH PREMIA	TOP TERM SELLING PRICE
Iraq Kirkuk	30.18	7.50	10	37.68
Libyan Es Sider	<u>36.50</u>	3.00	less than 5	<u>39.50</u>
Iran Light	35.37	2.50		37.87
Nigerian Bonny Light	<u>36.69</u>	3.00	less than 5	39.69
Algerian Saharan Blend	<u>35.21</u>	3.00		38.21
Qatar Dukhan	31.42	6.00	25	37.42
Indonesian Minas	31.50	5.40	15	36.90
Kuwait	29.50	5.50	25	35.00

These prices compare with a fixed term price with no extras of £36.25 barrel for UK Forties.

Saudi Arabian crude at £28/barrel is generally recognised to be under-priced.

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ANNEX B

EUROPEAN COUNCIL

North Sea Oil Disposals

	1979 Amount	%	1980 (1st quarter) Amount (Provisional figures) m tonnes	
<u>Disposals</u>				
UK	38.2		9.9	
EXPORT	38.9	50.5%	9.8	49.7%
EC	22.4	29.1%	6.5	33.0%
NON-EC	<u>16.5</u>	<u>21.4%</u>	<u>3.3</u>	<u>16.7%</u>
<u>Total</u>	77.1		19.7	

Exports

BELGIUM	0.2	0.5%	-	-
DENMARK	2.9	7.5%	0.6	6.1%
FRANCE	2.7	6.9%	0.7	7.1%
IRELAND	-	-	-	-
ITALY	-	-	-	-
NETHERLANDS	7.0	18.0%	1.5	15.3%
W GERMANY	9.6	24.7%	3.7	37.8%
(Total EC)	(22.4)	(57.6%)	(6.5)	(66.3%)
OTHER	<u>16.5</u>	<u>42.4%</u>	<u>3.3</u>	<u>33.7%</u>
Total	38.9		9.8	

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EHG(V)(80) 9

COPY NO 1

3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To discourage a premature Commission proposal (paragraph 9 below) for an initiative in the financial field and a North/South Summit.
2. To make clear, nevertheless, our concern at the economic problems facing LDCs and their political implications.

POINTS TO MAKE

3. LDCs will soon need urgent help. Use of International Financial Institutions (IFIs) probably the best way forward. Community should continue to take a positive line in IFIs.
4. Practical approach essential but must also take account of need to preserve Community's political interests in the Third World eg by avoiding unduly negative positions in the forthcoming Global Negotiations.
5. Oil producers hold key to world economic prospects. Any attempt at a dialogue requires great caution. Global Negotiations much too cumbersome but could set the scene. An attempt to negotiate with OPEC as such could strengthen the hard liners. Any smaller number, (eg Gulf producers) would be nervous of their OPEC flank. Best posture for Community is to express readiness to talk while feeling our way forward.
6. North/South Summit would need careful preparation and timing. Mexicans and Austrians already engaged. Community initiative untimely.
7. No scope for an increase in British overseas aid until economic difficulties improve.

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REF A : Commission Paper - COM(80) 302 final

8. Other Heads of Government will show interest in this subject. Some have domestic constituencies (Netherlands, Denmark). Others are concerned about oil supplies and hope (rather vaguely) that North/South discussions will help (Germany, Italy, Belgium). The French like to cultivate their image in the Third World. The Commission regard themselves as progressive and exploit their right of initiative.

#### COMMISSION PROPOSAL

9. Commission paper is one of three intended as a basis for discussion of the 7 nation economic summit. They have taken the opportunity to propose a twin initiative in the North/South context:-

(a) To promote the adoption of immediate financial measures, preferably with the involvement of oil producers, designed to:

- (i) increase Official Development Assistance (ODA);
- (ii) strengthen the role of International Financial Institutions (IFIs) in the recycling process;
- (iii) preserve the recycling role of private banks by various measures.

(b) To call for one or several limited North/South Summits to:

- (i) set in hand urgent action in the financial field;
- (ii) maintain political impetus for the Global Negotiations next year.

10. There have been press indications that the Germans will seek discussion of the financial problems facing LDCs. Others will share their concern, as do we. However, we consider that remedies must be based on the IFIs where work is already in hand. / (See Annex) There will be less enthusiasm for a North/South Summit (see paragraph 11 below). It would be better to let others take the lead in opposing these ideas

/lest

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lest we be subsequently singled out as responsible for their demise.

NORTH/SOUTH SUMMIT

11. Idea of limited North/South Summit has gathered some momentum. President Portillo and Chancellor Kreisky in the lead. They may well invite selected Heads of Government to Mexico City early next year. (Not for use. Selection of participants from Community bound to be difficult. We should certainly not wish Community to be represented by a single voice. Others may wish the European Council to endorse the idea of a North/South Summit. We should not stand out against this - subsequent economic summit likely to describe it as a 'useful suggestion'.)

BRANDT REPORT

12. Luxembourg European Council taking note of Brandt Commission's Report. We should advocate selective approach, building on some proposals while expressing reservations about others. (Not for use. We would not wish to endorse Report as a whole nor see it negotiated as a package. But we should avoid an unduly negative tone. OD are expected to discuss a Report by officials on 10 June. Parliamentary debate has been promised before economic summit.)

GLOBAL NEGOTIATIONS

13. Global Negotiations are due to start at the UN in January 81 and last about 8 months. They will cover major issues in the fields of energy, raw materials, trade, development, money and finance. They will be formally launched by Special Session of General Assembly in August. Preparations under way in New York in Committee of Whole (COW); they are still at an early stage.

ECONOMIC SUMMIT

14. Discussion of North/South usually brief but there may be more interest this year. The Americans are promoting initiatives on food production and increased lending by the IBRD for the development of energy resources for LDCs. (Not for use. Draft communique welcomes the Brandt Report and says that its recommendations will be carefully considered.)

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EHG(V)(80)9 ANNEX

PROGRESS IN THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

(See also Brief No 12: International Monetary Problems)

1. Pressure likely from South and others following recommendations in Brandt Report for reform of international monetary system including IFIs. But facilities and programmes of IFIs under constant review. Community initiative would merely duplicate effort and confuse process. Both IMF and IBRD already studying Brandt Report recommendations in detail.

2. Recent improvements in IMF facilities include:

- (a) expansion and liberalisation of Compensatory Financing Facility.
- (b) extension of Extended Fund Facility repayment period from eight to ten years.
- (c) amendment of conditionality guidelines to take account of internal social and political factors.

Current discussions in IMF focussing on increasing borrowing by member countries and expanding Fund's resources by borrowing from Surplus countries and on the market.

3. Recent developments in the IBRD include:

- (a) agreement by members to double the capital of the IBRD from \$40 billion to \$80 billion.
- (b) agreement by members to the 6th Replenishment of IDA amounting to \$12 billion.
- (c) introduction of the structural adjustment loans programme whereby the Bank will make loans against promises to undertake structural adjustment by the borrowers.
- (d) study by the Bank's staff of the recommendations of the Brandt Commission, eg that the Bank capital/lending ratio should be raised from 1:1 to 1:2.

4. The future of 3(a) and (b) is, however, uncertain since as the US Congress has not yet authorised the necessary payments.

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EHG(V)(80)9

REF A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 302 final

Brussels, 29th May 1980

REACTIVATION OF THE NORTH-SOUTH DIALOGUE

(Communication from the Commission to the European Council)

COM(80) 302 final

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Reactivation of the  
North-South Dialogue

Worsening international tensions and the further deterioration of the world economy following the second "oil crisis" make it even more important, indeed essential, that fresh efforts should be made towards consultation and cooperation between North and South.

The Community will have a central part to play in any reactivation of the dialogue; its own position in the network of international interdependence makes its interest clear, and its special economic and political relationship with a number of developing countries determines its responsibilities.

What is to be gained by further dialogue

The collective aims which the Community should set for a reactivated dialogue are of three kinds:

- i. Countering the threat of deep and widespread recession facing the economies of both North and South: there are clear risks to the international economic system and world peace itself in current developments; these risks could become aggravated with the strangulation of the poorest developing countries and cessation of the growth process in middle-income developing countries.
- ii. Easing world hunger: insecurity of food supplies at world level is beyond doubt the least tolerable of all forms of uncertainty, and it is an absolute moral imperative for the international community to reduce this insecurity.
- iii. Organizing the transition to a less oil-dependent world economy: the foreseeable imbalance between the oil supplies and potential demand over the next few years places a serious question mark over the chances of continuing the growth and development process. The second "oil crisis" and the continuing tremors it has set up show that disorderly escalation of oil prices and uncertainties of supply will remain a problem until some way is found of establishing comprehensive cooperation between energy producers and consumers.

These then are the collective interests which the reactivated dialogue must deal with. No single country or group of countries has the means to attain even one of these objectives. The Community has made progress in establishing contractual relations with groups of developing countries (Lomé Convention, agreements with southern Mediterranean developing countries) and regional groupings (ASEAN, Andean Pact). Dialogue at regional level is now an essential part of the Community's policy for the North-South Dialogue.

But a broader international effort is still needed; clearly, there must be a firm commitment from the industrialized countries as a whole, and at the same time a parallel effort must be made by the developing countries, particularly the oil producers, who now have the financial capacity which such an undertaking requires, and by the state-trading countries.

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It is now acknowledged that a renaissance of North-South cooperation is necessary; but a great deal is at stake and the problems involved are immense. The greatest attention must therefore be given to any developments promoting such cooperation: the Brandt report, which bears the stamp of approval of eminent representatives of both North and South and calls for thought and action on the part of both industrialized and developing countries; the attempt to launch global negotiations on international cooperation under UN auspices.

#### The Brandt Report

The Brandt Commission puts forward a highly ambitious list of objectives for the ensuing decade and beyond, but has nevertheless selected a number of priority tasks enshrined in an emergency five-year (1980-85) programme covering energy, food, transfer of resources and a start on reforms of the international economic system.

The European Community must therefore help promote the emergency programme, which is well calculated to deal with the most urgent problems of the current situation and the tasks immediately before us. The Brandt Report is also a vital instrument for mobilizing public opinion.

#### The UN global negotiations

The developing countries took the initiative at Havana - a move welcomed by the Community - of proposing that global negotiations be held under UN auspices, with energy included on the agenda.

As regards energy, the Community must endeavour to get a cooperation process set up, plus a statement of principles and rules aimed at achieving a dynamic energy supply and demand balance at world and regional levels, and greater security and predictability. The talks will cover all forms of energy.

The Community will also have to endeavour to involve the oil-producing countries in a joint effort with the industrialized countries to help oil-importing developing countries realize their energy potential and reduce their dependence on imported oil. This obviously means that the Community must hold itself open to discussion of the problems directly concerning the oil-exporting countries.

the future global negotiations could therefore have a clear import, although there is a twofold danger - inherent in international forums - of fragmentation of the work without any concern as to selectivity or cohesion or of the negotiations following their own course, at expert level, without a regular political impetus being given in order to overcome possible deadlocks, sketch out solutions or refocus priorities.

Furthermore, important as they may be, the initiatives mentioned here are hardly likely to bear fruit in the short term: the Brandt reports' emergency programme looks to the period 1980-85, and the global negotiations could provide tangible results in 1982 at the earliest. However, the scale of the second oil crisis makes certain actions on the part of the international community far more urgent, namely steps to improve the process of recycling funds and financing development.

#### Political orientation for the Community for the relaunching of the North-South Dialogue

In this situation, the Community must act in two complementary directions at its highest political level: it must promote the adoption of immediate measures in the financial field and express clearly the political importance it attaches to the North-South Dialogue.

1. If it is not to lose all credibility, relaunched North-South cooperation must immediately tackle the most practical and urgent problems of the developing countries that are threatened with strangulation as a result of the new increase in oil prices. Collective action, which must involve the oil-producing countries, should move towards extending the possibilities for action of the existing international institutions (IMB, World Bank and regional development banks) and improve their effectiveness in the direction traced out by certain proposals in the Brandt Report.

This would involve in particular:

- (i) substantially increasing official development assistance to the poorest countries in the form of aid that can be rapidly disbursed through bilateral or multilateral channels. In this respect, the replenishment of IDA resources is a matter of urgent necessity;
- (ii) strengthening the position of the international financial institutions (World Bank, IMF, regional development banks) and of other official machinery in the recycling process. This means in particular making it easier to have recourse to the various IMF facilities at the appropriate moment and implementing rapidly the new formula of World Bank structural adjustment loans. To enable the Bank to meet its increased responsibilities, it is essential that the doubling of its capital should be undertaken as rapidly as possible. It will also be necessary to examine in this context the establishment of interest-rate subsidization machinery within the framework of the above institutions;
- (iii) ensuring, in a situation of increased risks, the continuation of the recycling carried out by private banks by means of intensified cooperation between those banks and the multilateral institutions coordinated action to ensure improved market stability. The introduction at international level of credit guarantee and investment protection machinery will also have to be considered.

2. For many reasons, which have already been mentioned, the Community must demonstrate the political importance it attaches to the relaunching of the North-South Dialogue and must translate into practical terms the direct participation of its political leaders in the process of discussions between industrialized and developing countries. It is to the Community that the latter are looking for an initiative; it is the Community that is already the best-placed interlocutor of the developing countries within the United Nations, and lastly it is the Community that has been able to indicate the path of change in its relations with the developing countries at regional level.

In addition then to merely solemnly reaffirming the importance it attaches to North-South questions, it therefore seems essential for the European Council to propose without delay that a real political dimension be given to the North-South Dialogue. This orientation could take the form of convening one or more summits (the composition of which could vary according to the occasion) of leaders from the North and the South, the objectives of which would be twofold:

- (i) to establish and set in train an initial series of international operations to resolve the most urgent problems of the developing countries, notably in the financial field;
- (ii) to provide and maintain a constant political impetus for the global negotiations which will take place within the United Nations framework as from 1981, notably by providing for the possibility at all times of recourse to political initiatives in the event of the negotiations becoming blocked.

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COPY NO **1**

4 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

TRADE: RELATIONS WITH THE INDUSTRIALISED COUNTRIES

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Brief by Department of Trade

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OBJECTIVE

1. Generally to endorse Commission analysis while sounding a note of caution on relations with Japan.

POINTS TO MAKE

2. Generally agree with Commission analysis.

3. Confirm UK's commitment to the open trading system and its determination not to resort to large scale protectionism.

4. But other countries must also play their part. Problems over US exports of chemicals and textiles, where US domestic energy policy can be cited as unfair, are a major irritant to EC/US relations.

5. Need cautious approach to negotiation with Japan to ensure that the Community does not make concessions to the Japanese except in return for concessions of at least equal value.

BACKGROUND

Reference A: Commission paper COM(80)303 final: Relations with the Industrialised Countries.

6. Trade issues are not expected to figure very largely at the Venice Economic Summit and the Commission paper is largely, but not wholly, a description we can endorse of current issues and

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/problems

problems in developed world trade, particularly trade relations between the EC and the US and Japan. It has a rather narrow perspective because it does not cover developed countries' markets in, and dependence on, the third world.

7. Our policy is to avoid protectionist measures except where the injury to UK industry makes action necessary and fully compatible with our international commitments. This is also the line taken by the Commission and the Community generally, though some Member States (notably the Germans), defending free-trade principles, take a more hard-line attitude against any restrictions at all. In some cases anti-dumping action may be an alternative and this is more readily accepted internationally.

#### UNITED STATES

8. The potential advantages for US producers arising out of US domestic energy policy have been and will continue to be a major bilateral issue between the Community and the US. The Commission has already taken anti-dumping action on acrylic fibres and introduced quotas on imports of two types of synthetic yarn into the UK. Other anti-dumping cases against textile products and some chemicals are in the pipeline. The Germans have made clear, through their resistance to the anti-dumping case and one of the UK quotas, that they are prepared to see action only in the most exceptional cases, and that they will take a very rigorous interpretation of the Community's international trading obligations.

9. Despite the limited coverage of the synthetic yarn quotas and their relatively generous levels, the US has maintained a firm line in seeking some recompense. (The GATT provisions give them an automatic right to retaliate in order to restore a balance of concessions, regardless of whether or not the action is justified under the provisions). So far they have refrained from

/retaliation

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retaliation and sought compensation from the EC; this would mean that the EC would reduce some tariffs, instead of the US raising some. Their original demands were excessive and it is not yet clear whether an accommodation will be found. If there is no agreement by 20 June, there is a strong expectation that the US will retaliate against products of special interest to the UK - notably in the wool textiles area. This would almost certainly lead in turn to an argument in GATT about whether the retaliation was excessive.

10. After a long and eventually unsuccessful negotiation with the US Administration for tax and environmental concessions United States Steel (much the weakest of the big US steel firms) launched seven anti-dumping cases against Community steel exporters, including BSC, in March. As a result the Administration immediately suspended the 'Trigger Price Mechanism' whereby American steel producers were guaranteed rapid anti-dumping action if minimum reference prices were not honoured. The United States domestic procedures for deciding whether anti-dumping duties should be imposed are now in train. The independent International Trade Commission found a prima facie case that US industry was being materially injured in early May and a full investigation is now under way. Community exporters are becoming increasingly concerned at the probability of anti-dumping duties being imposed. BSC stand to lose less than other Community producers from the effective closure of the US market which would follow, but the repercussive effects on other markets - notably the UK itself - would be extremely serious for them.

11. There is therefore a strong case for asking the Commission to try to negotiate a settlement, which could involve re-instatement of the Trigger Price Mechanism at higher price levels and some

/measure

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measure of control on quantities. The sooner negotiations begin the better. Any orders that BSC take after July will be at risk from duties likely to be imposed in October; there are formidable difficulties involved in getting the Community producers to agree what would be appropriate quotas for each of them; and the longer the parties delay the more likely it is that the US Presidential election will influence the Administration in its response to pressures for tough protective action. Commissioner Davignon has had some contacts with the Administration but it may need a direct approach from Mr Jenkins to the President to get serious discussions under way. This would best be urged on Mr Jenkins privately, unless other Community leaders have been briefed to raise the matter.

#### JAPAN

12. The last section of paragraph 9, about the Community's residual quantitative restrictions on imports from Japan is likely to be contentious. France and Italy have the biggest ranges of these; we have none but we use voluntary restraint arrangements (see para 14 below), which the Japanese are happier about. Some QRs are restraints of real economic importance (e.g. on cars) while others are of very much less economic importance.

13. (Not for use). The main attack on the Commission's willingness to negotiate the removal of residual QRs can be expected to come from France and Italy. It is doubtful whether it will be possible in the short term to obtain sufficient concessions of real value from the Japanese to justify the removal of many restrictions, and whether the Germans would anyway agree to quotas on their imports from Japan so as to complete a pan-Community import policy. But it would be useful to get French and Italian QRs dismantled in the interests of a more even distribution of Japanese imports

/within



within the Community, and because we can hope to benefit from the substantial concessions the Japanese would have to make in return. So we support the Commission view that consideration should be given within the Community to whether some QRs could be eliminated, bearing in mind that we will need major concessions from the Japanese in exchange.

14. From our point of view it is voluntary restraint arrangements with Japan that are important. These arrangements are mostly informal ones between industries though some have intergovernmental backing. Our objective in any Community policy towards Japan is to avoid any threat to these arrangements unless this was part of a Community-wide policy within which our particular arrangements could be subsumed without conceding anything. If the Commission do wish to bring forward detailed proposals they will have to be scrutinised carefully in the Foreign Affairs Council.

Department of Trade

4 June 1980

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ENG(V)(80)10

REF A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 303 final

Brussels, 29th May 1980

RELATIONS WITH THE INDUSTRIALISED COUNTRIES

(Communication from the Commission to the European Council)

COM(80) 303 final

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RELATIONS WITH INDUSTRIALISED COUNTRIES

Introduction

1. This note discusses the problems to be faced after last year's successful conclusions of the GATT Tokyo Round negotiations, the prospects for trade relations between the major industrialised countries, and ten principal current issues in the Community's relations with the United States and Japan.

Progress since the Tokyo Summit

2. The Tokyo Summit was able to note the effective conclusion of these negotiations in April of last year. Thus the reference to trade policy in the Communiqué was that "the agreements reached in the Tokyo Round are an important achievement. We are committed to their early and faithful implementation. We renew our determination to fight protectionism. We want to strengthen the GATT, both to monitor the agreements reached in the MTNs and as an instrument for future policy in maintaining the open world trading system. We will welcome the full participation of as many countries as possible in these agreements and in the system as a whole."

3. The Tokyo Round agreements were formally signed in Geneva in December. The tariff concessions began to be implemented in stages on 1 January 1980 among the major participants. A wide range of MTN non-tariff barrier codes (those on subsidies and countervailing, technical barriers to trade, civil aircraft, antidumping, licensing, and meat and dairy arrangements came into effect at the beginning of this year). It is planned that the code on customs valuation will enter into force on 1 July this year and that on government procurement at the beginning of 1981.

4. These agreements have played a major part in preventing, so far, any significant outburst of protectionism. They have consolidated the multilateral trading system embodied in GATT as the basic relationship, notably between the entrepreneurial economies of Western Europe, North America and Japan. But the economic outlook and the prospects for the maintenance of a world open trading system are not encouraging.

Outlook for trade relations between industrialised countries

5. The outlook for 1980 in particular is not encouraging. The volume of world trade grew by nearly 7% in 1979, following a 6% increase in 1978, more or less in parallel with the growth of production in OECD countries from over 4% in 1978 to about 5% in 1979. GDP growth in the Community is now expected to be approximately 1 1/2% in 1980. The two immediate problems relate to inflation and the general level of economic activity over the remainder of this year. For the industrial countries as a whole the rate of increase in consumer prices has been accelerating for the past eighteen months with very little prospect of any relief. The return of two-digit inflation rates in several large industrial countries and the reversal of the downward trend of price increases in others represented, as the GATT Secretariat pointed out in February of this year, a major policy setback.

6. The economic outlook for Japan is much better than for either Europe or the US, where inflation and rising unemployment are much greater problems. Japan has gone from a very big surplus in 1978 to deficit (current account) in 1979. The American deficit has been reduced. The Community is also in current account deficit; but it additionally had in 1979 large bilateral trade deficits with both the US (\$ b.) and Japan (\$7b.). Japan per contra has large bilateral surpluses with both the U.S. and the EC.

EC and US bilateral trade with Japan

7. While no-one would argue that bilateral trading balances should be the central preoccupation of either US-Japan or EC-Japan relations, they loom very large in post-MTN thinking, being politically "visible". That is why both the Commission and the US Administration, separately, press Japan strongly to secure a real opening of the Japanese market to trade and investment. In 1979 the US bilateral trade deficit was halved while that of the Community grew. In the first 4 months of 1980 the trade gap of the EC with Japan was larger than that of the US - and this was on a much smaller volume of two-way trade. The outlook for us is gloomy since the EC has lost a lot of its competitive edge (mainly because of currency movements) and the prospect is now zero growth for total Japanese imports of manufactures, and the U.S. market shrouded in uncertainty.

Current problems

8. Against this background, protectionist pressures have strengthened generally over the last year. Low growth, higher inflation, large budgetary deficits, interest rates often at a crippling level, and general uncertainty, have made far-ranging structural adjustment in particular extremely difficult. This is not to say that a breakdown of the open world trading system is imminent or inevitable. Indeed, it is remarkable testimony to the strength in particular of the GATT mechanisms and the impact of close consultation over the last decade among the major industrialized countries that the line against "beggar-my-neighbour" policies has by and large been held. But the situation remains a dangerous one.

9. The current range of trade issues that the Community faces with the U.S. and with Japan can be exemplified as follows.  
With the U.S. :

Steel

EC steel exports to the U.S. could, in theory, be virtually brought to a halt by the present antidumping action against Community producers. The Commission has warned the U.S. Administration about the consequences of such an unacceptable development. The Administration itself is under various legal and other constraints in seeking an acceptable way out, and it is still too early to say how best to solve this problem which affects \$ 1 1/2 billion of Community exports.

'Material Injury'.

One of the Community's achievements in the Tokyo Round was the insertion of a "material injury" criterion into U.S. countervailing-duty law. The first determinations of "material injury" under the new law will be made in June and will cover a number of sensitive Community items such as canned hams (E.C. exports : \$ 200 million). The Commission has made it clear to the Administration that a failure to give real meaning to the "material injury" test would undermine the credibility of U.S. implementation of the new GATT rules.

Energy and feedstock "dual pricing"; and U.S. exports of chemical fibres  
Although a start has been made in phasing out dual pricing in the U.S., the Community has had to take safeguards and antidumping action against certain American exports because of the distortions of competition already experienced, and the damage caused to Community producers.

With Japan:

Japanese imports of manufactures

To achieve a healthier relationship with the E.C., Japan must step up its imports of manufactures and processed agricultural products. There remain a number of technical and administrative difficulties in exporting to Japan, as well as protectionist quotas or tariffs for certain agricultural items and for footwear.

Residual quantitative restrictions in the Community

Japan wishes these to be terminated. Certainly it is timely to consider what start could be made, for political, trade policy and indeed industrial strategy reasons, to bring the formal basis of the bilateral relationship more up to date.

Cars

10. A current trade issue which links Europe, North America and Japan is the pressure in the U.S. to introduce import restrictions on cars, primarily against Japan but possibly also against the Community. The U.S. Administration has taken a firm stand against protectionist measures. To encourage this, Japan recently made a number of moves to facilitate imports to Japan of certain automotive parts and components. This move could benefit some Community exporters to Japan.

Conclusion

11. The maintenance of the open world trading system of the post-war years depends of course on the political will of the Governments of the major trading nations. The political will to fight protectionism and pursue liberal trade policies was successfully manifested in the conclusions of the Tokyo Round - the biggest and the most complex international trade negotiation ever held - and held at a time of severe economic recession. Moreover, it is axiomatic that the economic system of the free world is supported by the US/EC/Japan tripod. Each maintains close and varied contacts bilaterally with the other two (though the EC/Japan side of the triangle is the weakest one). There is on all sides a willingness to try to make the Tokyo Round accomplishments work and to preserve the present trading system against the forces of protectionism. But "crisis-management" - including dealing effectively with the kind of problems that are no more than exemplified in paragraph 9 above - will require a lot of determination, and hard work, in an American election year which is also a year of recession for the U.S. and Europe.

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5 June 1980

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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PREPARATION FOR ECONOMIC SUMMIT: POLITICAL ASPECTS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To gain support for display of political solidarity at Seven-power economic summit at Venice, and to reassure the smaller partners that major decisions affecting them will not be taken over their heads.

POINTS TO MAKE

2. Relations between Western Europe and the US strained this year. Agreement on condemning Soviet invasion of Afghanistan but important differences on how to react to it.

3. Economic Summit of Seven later this month should not be turned into political summit, but should take opportunity to reassert basic unity of West in face of Soviet aggression.

4. Would like to know views of those who will not be at Economic Summit.

5. Responsibility for preparation of Economic Summit (political as well as economic aspects) lies with Italy.

BACKGROUND

6. In these terms, this should not be a controversial line since main potential objectors, the French, have now not only overcome their earlier reservations about discussing political

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issues at the seven-power summit, but are prepared to be seen to do so. However, President Giscard's conversion to this line is probably recent and may not yet be deep. He may not be ready to display in the European Council the same readiness as his officials have shown in private. It would be best therefore at this stage to tread softly.

7. Those who will not be at Venice may regard the prospect of political discussions there with the usual mixed feelings. It would be best not to suggest that the discussions are likely to be extensive or to produce major new initiatives. (In any case neither is likely). Best tactic is to give them a chance to air their views, and take note without commitment, leaving the subsequent responsibility as far as possible with the Italians.

Foreign and Commonwealth Office

5 June 1980

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EHG(V)(80)12  
3 June 1980

COPY NO.

1

EUROPEAN COUNCIL, VENICE  
12/13 JUNE 1980  
INTERNATIONAL MONETARY PROBLEMS  
Brief by HM Treasury

OBJECTIVE

No special UK points. If there is discussion to seek agreement that existing institutions must be built upon.

POINTS TO MAKE

1. Fears about ability of commercial banks to play central role in recycling over the next 2 years are exaggerated, although the situation may tighten thereafter. But efforts to improve prudential supervision must continue.
2. But international financial institutions, mainly IMF, must play an increasing part. IMF should increase its lending but should continue to apply appropriate economic policy conditions to borrowers in order to ensure adjustment.
3. No scope for increasing IBRD (World Bank) lending above present plans but some additional emphasis on IBRD programme lending through the new structural adjustment facility may be possible.
4. No need for new financial institutions (eg medium-term lending organisation suggested by Brandt). Better to rely on tried and trusted existing institutions, adapted as necessary.

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5. Little if any scope for significant Community initiative on recycling. Community institutions (eg EIB) might help recycling to Community members but could only play very limited role in wider recycling.

6. One way for Community countries to help recycling and meet OPEC wishes is to allow their own currencies to be held more widely in national reserves.

BACKGROUND (all material except paragraph 7 may be freely used).

References: (i) There may be a report from the Eco/Fin Council on 9 June;  
(ii) The Commission paper on the North/South dialogue refers to this subject. See brief 9.

7. It is not clear how the Presidency intend to handle this item, but their intention is probably to allow those not attending the Summit to express their views.

8. The OPEC surplus is likely to reach \$135 billion in 1980. OECD deficit estimated at \$101 billion; LDC deficit \$55 billion (1981 estimates are \$108 billion, \$84 billion, \$54 billion respectively).

9. Recycling was discussed at a low-key meeting of the IMF Interim Committee in Hamburg on 26 April. (Next IMF Ministerial meeting is in Washington, end-September). Ministers agreed that the IMF does not have an immediate liquidity problem but needs to consider how to meet the likely increase in demand for balance of payments help.

10. The IMF Executive Board are starting a review of policies. We favour giving individual members access to more IMF funds as a proportion of their quota (ie allowing greater multiples of quota to be drawn). The Fund's main resources should be increased by 50 per cent when the 7th Quota Review is ratified.

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UK intend to ratify (via Order subject to Affirmative Resolution) shortly. Main problem is US ratification - making slow progress through Congress. UK view is that IMF should borrow from members (particularly OPEC) if it runs short (market borrowing might also be considered but could raise problems). But LDC pressure for the sale of the remaining IMF gold and for the weakening of IMF conditionality should be resisted.

11. The World Bank is introducing a new facility called structural adjustment lending (SAL) to give medium term balance of payment support to countries prepared to undertake suitable programmes of action. (Most IBRD lending is on projects - funds are disbursed relatively slowly. Up to now IBRD programme lending has usually followed crises - wars, hurricanes etc, but SAL is intended to make a more constructive contribution to recycling.) UK view is that SAL must not be allowed to undermine IMF discipline (eg with weaker conditionality) and must not be additional to agreed World Bank commitment levels.

12. [May need amendment after 9 June Eco/Fin Council. *Now behind* The EC Monetary Committee (especially Germany and the UK) found very little scope for direct Community action on recycling to developing countries (as opposed to concerted action in the IMF and ECU-denominated borrowing for use inside the Community). But the French appeared to see political advantage in some kind of direct Community action, though they seem unclear about what form this should take.

HM TREASURY

3 June 1980

cc/ Mr Whitmore  
Mr Alexander

CONFIDENTIAL



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

PRIME MINISTER

EUROPEAN COUNCIL: INTERNATIONAL MONETARY PROBLEMS

Paragraph 12 of your brief on International Monetary Problems (EHG(V)(80)12) warned that a further note might be necessary in the light of the Eco/Fin Council on 9 June.

2. At that meeting, which I attended, we discussed recycling on the basis of a paper by the Monetary Committee. At the end of the discussion, the Chairman summed up the Council's conclusions as follows:-

1. The international financial institutions were the essential framework within which the Community debate was taking place.

2. More direct involvement of OPEC countries in recycling was desirable.

3. The Monetary Committee should do further, more detailed, work on the possible contribution that the Community and its institutions might make to the recycling process, and should report back to the Eco/Fin Council.

We also agreed that the remits given to the Monetary Committee should not be presented to the Press as if they constituted an agreed Community programme, in order not to arouse expectations that might later be disappointed.

/ I suggest

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3. I suggest therefore that, if this matter is raised at the European Council, you need only note that the Eco/Fin Council has it in hand, and has asked the Monetary Committee to make a further, more detailed report.

4. I am copying this minute to the Foreign and Commonwealth Secretary, the Governor of the Bank of England and Sir Robert Armstrong.

G.H.

(G.H.)

11th June 1980

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EHG(V)(80)13  
5 June 1980

COPY NO

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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

THREE WISE MEN'S REPORT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. Conclude discussion to allow implementation of Report's recommendations before Greek accession at the beginning of 1981.

POINTS TO MAKE

General Attitude

2. Welcome thorough useful report. Full of sound ideas. Important to conclude discussion so that can act on as many proposals as possible. Hope it will bring new impetus to working of Community institutions.

Attendance of the President of the European Council at meetings of the European Parliament

3. Can accept; Presidency should decide each case.

Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council

4. Could agree on a case by case basis, but would prefer all Member States to agree in each case.

Attendance of other persons at meetings of the European Council

5. Decision for Heads of Government collectively, not Presidency alone. Can agree to presence of President of COREPER; do not believe all delegations should have national note-takers but can accept majority view if consensus emerges in favour.

/Number

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Number of Commissioners

6. Maintain status quo until accession of Spain and Portugal.

Involvement of the European Parliament in the process of appointing the President or members of the Commission

7. Keep to present position under Treaties. Members of Commission appointed by common accord of member Governments. No role provided for Parliament.

Secretary General of the Council

8. Support modest strengthening of Council Secretariat, through its Secretary General, to give greater support to Presidency.

Points on which there is broad consensus

9. Can accept consensus already reached by Foreign Ministers and prepared to endorse it.

BACKGROUND

10. References:

- A Wise Men's own summary of Report  
[Report itself too long to duplicate but copies will be made available to those who need to have it]
- B Presidency Paper - Draft report of Ministerial examination of Report  
[Final report not yet received]
- C 1977 Agreement on European Council Procedures

11. The Dublin European Council asked Foreign Ministers to examine the report with a view to preparing the discussion in the European Council. The meeting in Luxembourg in April agreed that the President of the Commission should be chosen six months before his term of office began but the remaining proposals in the Wise Men's Report were held over for discussion at Venice.

12. Foreign Ministers have now completed their discussion of the Report and the Presidency Paper identifies those questions on which a consensus has still to be reached and those on which there is broad agreement. The main points outstanding for decision are listed in the Points to Make.

13. The European Council will also be invited to endorse those points on which Foreign Ministers have reached broad consensus. The most important of these are as follows:

A. European Council

(i) While it is for the European Council to give political impetus and guidance to the Community, there should not be a specific plan of priorities adopted by the European Council;

(ii) Meetings of the European Council must continue to be flexible and pragmatic;

(iii) Meetings of the European Council should be prepared by the Council of Ministers and COREPER where Community topics are concerned.

B. Council of Ministers

(i) It is for the Foreign Affairs Council to ensure co-ordination, consistency and continuity of Community work;

Voting

(ii) There is no need for new principles to be laid down regarding the voting rules (i.e. Luxembourg Compromise preserved);

Delegation of powers to the Commission

(iii) Powers should be delegated more frequently to the Commission, but only on a case-by-case basis; the Council is to decide each time.

FOREIGN AND COMMONWEALTH OFFICE

5 JUNE 1980



We have prepared this summary solely for the convenience of readers of our report. It is not a part of the report.

Barent BIESHEUVEL  
Edmund DELL  
Robert MARJOLIN

The European Council has asked us to make proposals on adjustments to the machinery and procedures of the Community institutions. We are well aware that the most fundamental causes of weakness in the functioning of the Community do not arise from mechanisms and procedures. The latter play, in fact, only a secondary role. The more serious obstacles are the economic difficulties and divergences of interests and views among the Member States.

The Community is likely to find itself facing real and fundamental problems in the coming years. Moreover, the number of Member States is to be increased during the same period. We must at least ensure that the institutions, rather than aggravating the difficulties by their inefficiency and the dispersion of effort, provide all the conditions for tackling them with the maximum chance of success.

We have tried not so much to fix new detailed rules for the functioning of a Community of Twelve as to propose practical adjustments which can be made here and now to the activities of Community institutions. If these recommendations are adopted, we believe they will result in the new members entering a Community that is more dynamic, more efficient and better prepared to receive them.

.../...

Due credit must be given to the Community's achievements. The greater part of the Treaties has already been implemented. Co-operation among Member States has been extended well beyond the letter of the Treaties. But the Community faces difficulties in building new common policies, often without precise Treaty guidelines. Moreover, the multiplication of the Community's tasks and their growing diversity have considerably increased the "lourdeur" of the Community's institutional apparatus. The latter has become both more complex and less efficient.

Our proposal is to improve the functioning of the apparatus by means of the definition of priorities and the clear identification of responsibilities. In our report we have deliberately set aside any kind of ideological approach. The intention is not to modify the institutional balance. Instead we suggest practical ways of improving the functioning of each institution.

The creation of the European Council was in itself a pragmatic response to the Community's institutional difficulties. It has become an effective source of political guidance in the Community.

The task is to find the right balance between freedom and discipline in the European Council's proceedings. The operational solutions already developed to this end should be reaffirmed and reinforced: limited agendas, limited attendance, coherent preparation and follow-up, early circulation of documents, Presidency responsibility for drafting clear and accurate conclusions. We have examined the idea of a longer-term Presidency for the European Council and it seems to us that it would present real difficulties in the present state of the Community.

There is considerable scope for improvement in the European Council's relations with the Treaty institutions. Our specific suggestions for preserving the role of the Council of Ministers, strengthening the Commission in its collaboration with Heads of Government, and establishing direct relations between the European

Council and Parliament, are designed to integrate the European Council so far as possible within the normal framework of inter-institutional relations. To make full use of its potential for political guidance, we propose that the European Council should adopt before 1981, in collaboration with the Commission, a master plan of priorities indicating the main tasks and directions for progress for the Community as a whole. This master plan must be precise and practical, a declaration of intent rather than a pious hope.

The European Council is responsible for reviewing the whole range of Member States' common action, whether it has a strictly Community character or not - as is the case notably for Political Co-operation. It has, therefore, a certain choice among the procedures to be used particularly for new actions. Priority must be given to the application of Article 235. But if it appears impracticable to apply this procedure, action in common by other methods which allow the Community to make progress should not be ruled out a priori.

The Council of Ministers in its various formations, and the associated machinery, are producing results which do not match up to the amount of effort deployed. The burden of work is becoming impossible to handle and the efforts of the various subordinate bodies and of the specialized formations of the Council are insufficiently co-ordinated. To tackle these problems, the clearer definition and more efficient execution of the responsibilities of the Presidency seem to us essential. Each Presidency should establish its work programme, respecting the priorities defined by the European Council, and should report on the execution of the programme at the end of its term. The authority of the Presidency in enforcing procedures, and in establishing the agenda, should be clearly recognized. The Presidency should be free to lighten its own load by entrusting particular dossiers to other members of the European Council, the Council of Ministers or subordinate organs. Other options, such as a change in the rotation of the Presidency and the "troika" formula, are rejected.

The Council itself must be free to concentrate on the genuinely political issues. This means making wider use of delegation to the Commission; and giving more room for manoeuvre to the Committee of Permanent Representatives and the lower-level bodies. We do not recommend altering the status of Permanent Representatives. Procedures for taking decisions must be as economical as possible. The "Luxembourg Compromise" has become a fact of life in the Community. Each State must be the judge of where its very important interests lie. But if all States feel sure they will not be overruled on matters involving such interests for them, they should all accept voting as the normal practice in all cases where the Treaty does not impose unanimity and no very important interests are involved.

The working groups below COREPER should not, as too often happens, be left to their own devices. The Presidency, helped by the Council Secretariat and in liaison with the Commission, has special responsibility for co-ordinating their work within the framework of agreed priorities and for avoiding unnecessary delays.

Horizontal co-ordination is also essential to counteract the fragmentation and dispersion of Community activities. While it cannot retrieve the dominant position it held in the early years, the Council of Foreign Ministers should continue to play a central role. Certain specialized Councils might hold less frequent meetings.

National administrations can make a further, very significant contribution to the proper functioning of the Communities. Co-ordination of Community affairs is carried out by very different methods from one capital to another. We do not seek to impose a single stock model on practices which have been shaped by tradition and on structures which are often highly diverse. But it is vital that the capacity should exist in all Member States to produce, in good time, instructions which are both considered and coherent. The Permanent Representative can play

.../...

helpful role in this respect.

Finally, the Council does not operate in isolation. The Commission makes a contribution which is vital for its good functioning, and the Presidency should look after the quality of its relations with the Parliament.

The role and authority of the Commission have declined in recent years. The exercise of its right of initiative and its role as guardian of the Treaties, together with its management and implementing tasks, need to be made more effective and adapted to current circumstances. The number of Commissioners in the enlarged Community should be limited to twelve - one per Member State. The number of Directorates-General should be reduced and brought in line with that of Commissioners. The college of Commissioners should be more homogeneous and should act more as a collective body. Co-ordination between departments should be strengthened and the central services - budget, personnel, administration - grouped under the authority of the President. The President of the Commission's authority must be reinforced within the institution of which he is the head. He should be chosen by the European Council six months before the renewal of the Commission. He should be consulted by Governments on the selection of Members of the Commission, and should have the last word on the allocation of portfolios.

It is essential that the Commission should maintain an active role in the Community. It represents the interests of Europe as a whole and not a compromise between different points of view. It should set up at the start of its term of office a general programme which can be revised at least once a year, in harmony with priorities defined by the European Council. It should organize the application of its resources on the basis of this programme, taking account of the capacity of the Council machine. The production and handling of "harmonization" proposals need careful planning. The Commission should consult States, where necessary, at a high political level and should avoid repeated low-level consultations on the policy aspects of its drafts.

It should participate actively in the work of the Council, modifying its proposals and suggesting compromises.

The Council, for its part, must delegate more of the implementation of new policies to the Commission. Ways must be found, for example by the development of stock formulae and political understandings between the institutions, to eliminate the obstacles which have blocked certain delegations in the past.

This report makes no claim to pronounce on the process of evolution which the European Parliament may go through following its election by direct universal suffrage. But we can suggest certain adjustments which are necessary in relations between the Parliament and the other institutions. In this context, closer contacts must be developed between the Parliament and the Commission. The latter must present its programme to the Parliament for debate. It must work out with the Parliament a six-monthly programme for consultative work. Above all, the Commission must make a more serious response to the Parliament's Resolutions. The Council, too, should take these Resolutions more seriously. It is up to the Presidency to draw them to Member States' attention and to develop personal contacts with the Parliament. The institutions should try to agree on practical improvements to tackle the difficulties arising in the implementation of the "conciliation" procedure. Finally, the President of the European Council should appear once every six months before the Parliament, so as to achieve a direct dialogue at the highest level between the two organs. In the interests of the Community, balanced relations need to be maintained between the three points of the Commission-Council-Parliament triangle.

The Court of Justice has presented suggestions itself for resolving its problems. Solutions should be found by discussion between the institutions. The same applies to the Court of Auditors. The Economic and Social Committee faces more serious difficulties. In these times of crisis, the Community needs an efficient mechanism for consultation with the social partners. We make some

suggestions for reaffirming the Economic and Social Committee's role in socio-economic consultations in the Community, and also for increasing the effectiveness of the Tripartite Conference, the Standing Committee on Employment and the Joint Committee system.

In this whole study, we have taken account of the prospective enlargement of the Community to twelve members. Our technical proposals designed to improve the transparency, coherence and efficiency of the Community institutions are based on experience of a Community of nine members, but they can do much to ease the functioning of a Community of Twelve.

However, enlargement will not add only to the "lourdeur" of the institutions. It will also extend the range of differing circumstances and interests among Member States. Any system of a "two-speed" Europe which created differences of status between Member States must in our view be rejected. Differentiated solutions for the application to Member States of policies decided in common may however prove useful in some cases, as they have in the present-day Community. Certain safeguards should be applied whenever they are used.

The Community of Twelve will have nine official languages. Any attempt to limit systematically and by compulsion the use of any national language would be unjust as well as politically impractical. But the costs and complications will be on a scale to make it essential that pragmatic arrangements are found allowing the number of interpreters to be reduced according to the nature of each meeting.

We have also reflected on the problems likely to face Europe in the next few years. This period will be a difficult one for Europe. Everything points to a relatively low rate of economic growth, accompanied and aggravated by monetary disturbances and difficulties in the energy market. The unemployment problem will lead to social and political tensions. The prospects for the Community's future, and for progress towards European Union, will depend on how it copes with this continuing crisis. The

Community's Member States must maintain their solidarity both in the active sense - i.e. mutual aid - and in the passive sense of abstaining wherever possible from action likely to cause problems for other members. Much resolve and political intelligence will be needed to counter the pressures for protectionism which are bound to arise both in the enlarged Community's internal trade and in its dealings with the outside world.

The priorities which the Community sets itself in dealing with these challenges must be flexible enough to allow adjustment to changing circumstances. They must be based on a realistic appreciation of the scope for Community action. The first and greatest task is the maintenance and consolidation of the acquis, with any adjustments that modern conditions may demand. In dealing with the outside world the Community and its Member States must act in the most united way possible both on the economic and on the political front. The solidarity between States must be given practical expression, whether it be in joint action to face up to the energy crisis, in mutual aid for other emergencies, or in the development of efforts for greater monetary stability such as are reflected in the European Monetary System. Priorities of this kind should help the Community not only to survive the immediate dangers, but also to lay the practical foundations for progress in the longer term.



REPLACEMENT FOR REF. B

GENERAL SECRETARIAT  
OF THE COUNCIL

Brussels, 6 June 1980  
(09.06)

Re cc : Mr Williams, Cabinet Africa  
Mr. Manning  
Mr. Spackley  
Mr. Goodenough

REVISED VERSION

+ back to me.

Jp.  
10/6

REPORT

from the Ministers for Foreign Affairs  
to the  
European Council

Subject: Report from the Three Wise Men

At its meeting on 27 and 28 April 1980 the European Council requested the Ministers for Foreign Affairs to complete their examination of the report from the Committee of Three Wise Men in time for the next meeting of the European Council.

The report from the Ministers for Foreign Affairs to the European Council is attached hereto.

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Report from the Ministers for Foreign Affairs  
to the  
European Council

Subject: Report from the Three Wise Men

In accordance with the instructions which they received from the European Council, the Ministers for Foreign Affairs examined the various suggestions contained in the report from the Three Wise Men.

The discussions held by the Ministers for Foreign Affairs highlighted the various factors which had already led the European Council to speak of the excellence of the report. The profundity of the analysis of the institutional situation and the perspicacity of the solutions proposed make this report an extremely valuable document. The Ministers wish to point out that, for these reasons, the results of their deliberations and the concrete proposals arising therefrom at this stage do not entirely cover all the suggestions in the report of the Three Wise Men, nor do they exhaust the matter. Leaving aside such decisions as may be taken in the near future, the report provides and will continue to provide a rich and useful source of ideas and suggestions to which the Institutions and the Member States may make reference in support of their reflections on the Community's institutional system.

The discussions of the Ministers for Foreign Affairs revealed that there were points on which there was as yet no general agreement and which required further examination. These points are set out in Section I below.

On the other hand, a convergence of views, which should be confirmed by the European Council, emerged on numerous other points. These are set out in Section II below.

The Ministers for Foreign Affairs also noted in the Report from the Three Wise Men several suggestions which need not be submitted to the European Council.

## I. POINTS STILL REQUIRING EXAMINATION

### A. The European Council

#### (a) Attendance of the President of the European Council at meetings of the European Parliament

The Report of the Three Wise Men suggests bridging the gap created by the absence of relations between the European Council and the European Parliament, and to this end proposes that the President of the European Council should attend the Parliament in person once in each Presidency to report on the outcome of the European Council.

In the light of the discussions, it is proposed that each Presidency decide case by case, after informing the other Member States, whether the President of the European Council should attend sittings of the European Parliament to make a statement on the outcome of the meetings of the European Council.

Several representatives were able to agree in principle to this suggestion. Some wondered, however, if it should not supplement more general measures for the improvement of relations between the European Parliament and the Council.

.../...

The French representative said that, in addition to the constitutional difficulties which, under a French Presidency, would prevent the President of the European Council from appearing before the European Parliament, he had objections of principle to this proposal. He referred to the precedent that would be set by the first appearance of a President of the European Council before the European Parliament.

- (b) Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council <sup>(1)</sup>

According to the Report from the Three Wise Men such delegation of responsibility would lighten the burden of the President of the European Council and enable him to call on the expertise of any of his colleagues particularly qualified to deal with any individual dossier.

Several representatives had reservations concerning this suggestion, their main objection being that its implementation could prove injurious to the unity of action of the Presidency. If, however, such temporary delegation of responsibilities were to take place, the relevant decisions should be taken pragmatically by the European Council in each individual instance.

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<sup>(1)</sup> The Report from the Three Wise Men contains an identical suggestion with regard to the Council of the European Communities.

(c) Attendance of other persons at meetings of the European Council

The need to ensure more efficacious implementation of the conclusions of the European Council was recognized.

Several representatives felt that, in order to achieve this, it would be useful if members of the European Council were accompanied by one person per delegation responsible for taking note of the outcome.

Other representatives spoke of the role of the General Secretariat of the Council should play in drawing up the conclusions of the European Council.

B. The Commission

(a) Composition of the Commission

The exchange of views on whether the number of members of the Commission should be reduced revealed at this stage three possibilities:

- (1) A reduction in the number of Commissioners to one per Member State, as suggested in the Report from the Three Wise Men. Both they and the representatives who were in favour of such a reduction advanced as their prime reason the desire for efficiency and the difficulty of achieving a balanced allocation of tasks among too large a number of Commissioners.

.../...

The representatives who said they could agree to a reduction in the number of members of the Commission thought that, if the number of the Commissioners was reduced, this should not involve any loss of powers for each of them individually nor any compensation in the distribution of portfolios among the members of the Commission overall.

- (2) Maintenance of the principle on which the number of members of the Commission is currently determined.

In the view of those representatives supporting this option maintaining this principle would make it possible:

- to preserve the present balance in the composition of the Commission and the political significance thereof;
- to avoid the Commission becoming like an inter-governmental body;
- to ensure a more balanced representation of the major European political groupings within the Commission.

Although they shared the wish expressed by others to see greater efficacy on the part of the Commission these representatives said that the objective sought by the Three Wise Men - optimum operation of the Commission - could possibly be achieved otherwise than by reducing the number of Commissioners to one per Member State, for example by means of an effort by the Commission to redefine the portfolios it assigned to each of its members.

- (3) The third possibility would involve maintaining provisionally the principle of allocation currently in force on the understanding that a reduction would be made at the time of the enlargement following that connected with Greek accession.

It was pointed out in support of such a transitional solution

- that it would be difficult between now and the end of 1980 to achieve any reduction in the number of Commissioners;
- that other means designed to complement a reduction in the number of Commissioners in order to achieve the desired level of efficiency could be studied in the meantime.

In opposition to this solution, it was pointed out that any reduction in the number of Commissioners at the time of the enlargement following that connected with the accession of Greece might fall in 1983, i.e. during the next Commission's term. This would entail not inconsiderable difficulties for the functioning of the new Commission.

(b) Involvement of the European Parliament in the process of appointing the President of the Commission

Since, according to the Treaties, the Commission should be the privileged interlocutor of the European Parliament, to which it is moreover responsible, certain representatives said that they could agree to informal contacts between the Presidency of the Council and the Presidency of the European Parliament or the political groups of that Institution before completion of the flexible and informal procedure which precedes the appointment of the President of the Commission in order to obtain their reactions to the persons likely to accede to the office of President of the Commission. It was pointed out that this could increase the authority of the President of the Commission.

Other representatives pointed out that the President of the Commission was appointed by common agreement of the Governments of the Member States and that there were no more reasons on this point than on others for changing the allocation of powers laid down by the Treaties. The point was also made that the European Parliament had available to it the powers laid down in the Treaties vis-à-vis the Commission.

C. General Secretariat of the Council

It emerged from the exchanges of views held on this subject that it seemed possible for agreement to be reached that the person required to discharge the duties of Secretary-General should have at his disposal the means enabling him to provide substantive assistance to the Presidency of the Council, which should rely more generally on the Secretary-General and the departments under him.

Most representatives thought that, to enable the Secretary-General to exercise fully his greater role, he should be relieved of purely administrative duties.

Several representatives considered that the Secretary-General should have a fixed term of office, which might possibly be renewable (e.g. five years).

The Ministers for Foreign Affairs intend to continue studying the role and functions of the future Secretary-General - and the organization of the General Secretariat with a view to meeting the increased responsibilities - in the light, inter alia, of any suggestions which the latter might make.

II. POINTS ON WHICH THERE IS BROAD CONSENSUS TO BE CONFIRMED BY THE EUROPEAN COUNCIL

A. The European Council

- The role of the European Council is to give general policy guidelines such as to facilitate solutions to the problems facing the Community.



- Consequently, the preparation of a specific plan of priorities for Community action should not be a task for the European Council. The preparation of any such master plan should rather be a task for the Council.<sup>(1)</sup>
- Meetings of the European Council must continue to be flexible and pragmatic, as at present.
- Preparation of meetings of the European Council and implementation of its conclusions are matters for the Council and the Permanent Representatives Committee, where Community topics are concerned.

## B. The Council

### 1. (a) Role of the Council

The European Council could confirm the role which, in approving the "Marlia procedure", the Heads of Government in December 1974 in Paris and the European Council in December 1975 in Rome conferred upon the Council of the European Communities (Ministers for Foreign Affairs), viz. that it provide the impulse and co-ordination to ensure consistency in Community activities and continuity of work.

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<sup>(1)</sup> Some delegations suggested that the Commission and the European Parliament should be involved in the preparation of such a plan, due regard being had for their respective powers.

(b) Consistency of Community action

Such consistency of Community action could be more readily achieved if, in each Member State, there were better co-ordination among the departments involved in the various dossiers handled by the Council in its different formations. The suggestion was made that in those countries where this did not already exist, an appropriate body should be set up to carry out such co-ordination. In this connection, the Permanent Representative should take part in the process culminating in definition of the position to be adopted by the State he represents.

(c) Voting

There is no need for new principles to be laid down regarding the voting rules.

(d) Delegation of powers to the Commission

It is desirable that powers should be delegated more frequently to the Commission, with the latter being asked to submit stock formulae (as the "Wise Men" suggested) for the principal eventualities, on the understanding that it remains for the Council to decide, on a case-by-case basis, when the appropriate conditions are fulfilled for recourse to such delegation of powers.

(e) Organization of Council proceedings

Council agendas should contain only a limited number of items raising important problems.

Informal meetings of the members of the Council should be held only if strictly necessary.

2. The Permanent Representatives Committee

- As provided by the Treaty establishing a single Council and a single Commission of the European Communities, the Permanent Representatives Committee "shall be responsible for preparing the work of the Council" for each of its meetings, regardless of the Council's composition. The Committee should to this end be able to co-ordinate better the activities of the various Working Parties or specialist Committees.
  
- If it is to perform effectively this work of preparing all Council meetings and be able to relieve the Council of a certain number of dossiers, the Permanent Representatives Committee must have wider powers of decision and to this end the Permanent Representatives must be given broad and flexible instructions to enable them, at their level, to resolve the greatest possible number of problems. To this end, instructions such as would enable a common position to be found should be given by each Member State as early as possible in the examination of a dossier, so that meaningful negotiations culminating in agreement may begin within the Permanent Representatives Committee.

To this end:

- (a) The Permanent Representatives Committee should aim to submit to Ministers the main points of policy and, in the light of guidelines laid down by the Council, then to prepare agreed texts for the Council's approval;
  - (b) the Council should on suitable occasions instruct the Permanent Representatives Committee to solve an outstanding problem within a time-limit and Ministers should then give Permanent Representatives appropriate instructions;
  - (c) the Presidency should announce in advance its plans for reaching agreement in the Permanent Representatives Committee so that Permanent Representatives can obtain instructions in time.
- The Permanent Representatives Committee, which has the power to set up working parties, should exert stronger control over the activities of these bodies and may itself discuss at any time the dossiers which are before the working parties.
  - The Permanent Representatives Committee is invited to examine the points on which its working methods might be improved, taking as its basis the various suggestions made during the examination of the Report from the Three Wise Men.

### 3. The Presidency

The prime role of the Presidency, assisted at all levels by the General Secretariat, involves in particular organization of work, preparation of Council agendas, monitoring of the progress made in discussions within working parties and co-ordination of the work done within the different bodies, with a view to ensuring the consistency of Council decisions.

C. The Commission

- The importance of the Commission's role and the need to maintain both the balance established among the Institutions by the Treaties and the allocation of powers to each Institution were recognized by all the representatives.
- The President of the Commission should be appointed a sufficiently long time in advance of taking up his duties and before the process of appointing the other members of the Commission begins.

D. Relations between the European Parliament and the Council

(a) Relations with the European Parliament

- General agreement was reached on maintaining the allocation of powers among the Institutions as laid down by the Treaties.
- In this connection, the development of relations between the European Parliament and the Council should be continued, particularly as regards the response to European Parliament Resolutions and keeping Parliament better informed.

(b) Conciliation procedure

- Implementation of this procedure appeared to give rise to two major problems:

- . that of finding ways to improve the procedure's efficiency, by first seeking solutions acceptable to all sides;
  - . that of setting a time limit on the conciliation procedure so that it does not protract the Community's decision-making procedure.
- The need for improved preparation of the meetings of the Conciliation Committee was underlined. To this end, the Presidency-in-Office might be given the task, in conjunction with the Commission, of making informal contact with the European Parliament before the formal meeting of the Conciliation Committee.
- With respect to the termination of the conciliation procedure, the Presidency intends to ascertain from the European Parliament whether it can agree on the detailed rules for implementing the conciliation procedure proposed by the "Wise Men" with respect to the termination of the procedure, viz.:
- "(a) when the Council's common position on a conciliable measure has been sent to the Parliament, the latter should indicate within a set period (e.g. six weeks) whether it wants to hold a conciliation meeting;
  - (b) the time limit for completion of the procedure runs from the date of the first meeting;
  - (c) the procedure should stop after either three months or three meetings between the institutions, whichever is the shorter;

- (d) If, when the deadline is reached, either institution wants to go on, the Presidencies of the Council and the Parliament should try to reach agreement on a suitable extension. If the institutions cannot agree on an extension, the procedure is terminated."
-

## ORGANISATION OF EUROPEAN COUNCIL MEETINGS

1. Prior to the European Council meeting in Rome at the end of March, the Presidency circulated a paper (COREU NO. CPE/MUL/ETR 1160 of 23 March 1977) which sought to establish points of agreement which had emerged from the correspondence between Heads of Government about the ways in which the organisation of European Council meetings might be improved. In the light of the discussion at that meeting, which was followed up by Foreign Ministers on 5 April, the following points are understood to represent a generally acceptable framework for the organisation of future meetings:

(A) TYPES OF DISCUSSION

There is general agreement that the European Council should have both:

- (i) Informal exchanges of view of a wide-ranging nature held in the greatest privacy and not designed to lead to formal decisions or public statements.
- (ii) Discussions which are designed to produce decisions, settle guidelines for future action or lead to the issue of public statements expressing the agreed view of the European Council.

It is also recognised that the European Council will sometimes need to fulfil a third function, namely to settle issues outstanding from discussions at a lower level. In dealing with matters of Community competence the European Council will conform to the appropriate procedures laid down in the Community Treaties and other agreements.

(B) ADVANCE PREPARATION OF THE AGENDA

For informal exchanges of view, it is generally agreed that little preparation is necessary, although some limited prior clarification of the questions is not to be excluded if it would facilitate discussion. Heads of Government should inform each other or the Presidency, a few days beforehand, of the subjects which they will wish to discuss. There is



general agreement that there should be adequate preparation of those discussions which are aimed at reaching decisions or issuing statements. Foreign Ministers should have responsibility for such preparation, which could take place in the Council or the Political Cooperation machinery as appropriate, and will wish to meet at an appropriate time, and if necessary to hold a special meeting before the European Council, for this purpose.

(C) THE ISSUING OF STATEMENTS

It is generally agreed that the European Council will wish to make public its decisions on some subjects or sometimes to issue a statement registering a concerted Community opinion on a topic of international concern. Such statements should not, other than in exceptional circumstances, be issued without advance preparation. A list of the subjects on which it is proposed statements should be issued should be drawn up 2-3 weeks in advance.

(D) THE RECORDING OF CONCLUSIONS

There should be no record of the informal exchanges of view between Heads of Government. For the discussions aimed at reaching decisions or issuing statements there should be a written record of conclusions, which should be issued on the authority of the Presidency.

(E) ATTENDANCE OF OFFICIALS

There is general agreement that the exchanges of views should be as intimate as possible and that attendance should be restricted as at present.

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EHG(V)(80)14

4 June 1980

COPY NO 1

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PRESIDENT OF ~~THE~~ NEW COMMISSION

Brief by Foreign and Commonwealth Office

1. A list of possible and declared candidates, together with personality notes, is attached, together with background on previous presidents and their rotation.
2. The only candidature officially declared so far has been that of Gundelach, the present Danish Commissioner, but he is now reported in the press to have withdrawn (and to want to stay on in his present job as Agriculture Commissioner). Thorn, Luxembourg Foreign Minister, is however known to want the job, though not yet an official candidate. O'Kennedy, ex Irish Foreign Minister, has told Lord Carrington in confidence that he is interested and he may be put forward as an official Irish candidate either as President or Commissioner. None of these candidates are likely to make good Presidents nor to be satisfactory from the British point of view.
3. There are increasingly strong rumours that the Italians will make a bid for the job and that their candidate will be Pandolfi, presently Minister of Finance. Pandolfi would be a good choice from our point of view (the Chancellor of the Exchequer is in favour). There has been some speculation that the Italian candidate might in the end turn out to be Colombo, presently Foreign Minister, rather than Pandolfi. This seems to us less likely, but not impossible. It will be for the Italians to decide which is a candidate. We would also want to support a Colombo candidature.

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4. If either of these two Italian names emerge they are likely to be strong candidates. If they do not, it will be in our interest to work for a postponement of the decision on the grounds that more time and a wider choice is needed in order to avoid the risk of having to oppose, for example, an emerging consensus in favour of Thorn. The French, who have told us that they are in no hurry over reaching a decision (though they acknowledge that Pandolfi would be a candidate 'meriting attention') could be helpful in securing a postponement in such circumstances, particularly since Giscard is known to have reservations about Thorn. A private word with the French might therefore be desirable if events develop in such a way that postponement of a decision would be the best we could hope for. The possibility of a further two year term for Jenkins could be another delaying tactic although that will be more attractive for the Germans than for the French.

5. It will be important for us to prevent any Member State establishing at this stage a pre-emptive right to any specific Portfolio or Portfolios in the new Commission (eg. by the French to the Development Portfolio, which they have held uninterruptedly since the founding of the Community and which we will probably want to try to wrest from them). Attempts to establish such pre-emptive rights could be made as part of the bargaining about the Commission Presidency. We should ensure that it is impossible after Venice for any Member State to claim that 'understandings' had been reached there about the distribution of Commission Portfolios.

BACKGROUND

Candidates for President of Commission

Declared, with Government backing (but now reported to have withdrawn)  
GUNDELACH (Denmark) - Agriculture Commissioner

Undeclared, but running hard  
THORN (Luxembourg) - Foreign Minister

Mentioned more than once  
JENKINS (UK) - President of Commission  
COLOMBO (Italy) - Foreign Minister  
BARRE (France) - Prime Minister  
PANDOLFI (Italy) - Minister of Finance

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/Mentioned

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Mentioned

TINDEMANS (Belgium) - Former Prime Minister and Foreign Minister  
An Irish candidate, probably O'Kennedy - ex Irish Foreign Minister

Mentioned but not runners at this stage

Van de STEE (Netherlands) - Minister of Finance

ZIJLSTRA ( ' ' ) - Former Minister, President Netherlands  
Bank since 1967

BIESHEUVEL ( ' ' ) - Former Prime Minister, one of Three Wise  
Men

FITZGERALD (Ireland) - Former Foreign Minister, leader of Opposition

Previous Presidents

HALLSTEIN (Germany) - Jan 1958-June 1967

REY (Belgium) - July 1967-June 1970

MALFATTI (Italy) - July 1970-March 1972

MANSHOLD (Netherlands) - March 1972-December 1972

ORTOLI (France) - Jan 1973-December 1976

JENKINS (UK) - Jan 1977-[December 1980]

Rotation of Presidency

1. When the Communities were established, there was no general principle of rotation. Under French pressure during discussion in 1966-7 of implementation of the 1965 Merger Treaty, which established a single Council and Commission, it was agreed that the Presidency should rotate every four years (from 1967): the Treaty specifies only that the President (and Vice-Presidents) shall be appointed for a term of 2 years which may be renewed.

2. For this purpose, the Benelux are considered as one country, while Denmark and Ireland have also been considered as one country since enlargement. The smaller states are arguing that it is their turn to provide the President, either from the Benelux - and the Netherlands do not consider that Mansholt's short Presidency rules them out - or Ireland/Denmark.

FOREIGN AND COMMONWEALTH OFFICE

4 June 1980

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ANNEX

GUNDELACH, FINN OLAV (DANISH)

Vice-President of the Commission responsible for Agriculture and Fisheries since January 1977, and Member since 1973.

Born 1925. Read economics at the University of Aarhus. Vice-President of the Danish National Union of Students, 1947-49. Ministry of Foreign Affairs, 1951-55. Danish Permanent Representative to the United Nations in Geneva, 1955-59. Director of GATT, responsible for commercial policy, 1959-61. Sub Director-General of GATT, 1961. Deputy Director-General of GATT (Kennedy Round), 1962-67. Head of the Danish Mission to the European Communities, 1967-72.

Gundelach is one of the more able of the 13 Commissioners. He is adept at mastering complicated dossiers and is a persuasive advocate. He is sometimes criticised for having the attitude of a civil servant rather than a politician and some claim that he does not possess the "political feel" of his predecessor as Agricultural Commissioner (Mr Kardinois). He is unpredictable, sometimes devious and seems unable or unwilling to delegate.

Speaks very good English, which is his working language; competent French and German.  
Married; 2 children.

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THORN GASTON, GCVO (1976), GCMG (1972) (LUXEMBOURG)

Deputy Prime Minister, Minister for Foreign Affairs, External Trade, the National Economy, the Middle Classes and Justice (Democrat).

Born 1928. Deported briefly as a schoolboy to Germany during the Nazi occupation. Educated Luxembourg, Montpellier (where his father was employed as a railway engineer), Lausanne and Paris. Doctor of Law. Practised at the Luxembourg Bar, and was active in Luxembourg and international student activities. 1959 elected Deputy and Member of the European Assembly; subsequently Secretary-General of its Liberal Group; 1961-4 Luxembourg Municipal Council; 1961 to the present, President of the Democratic Party. 1969-74 Minister of Foreign Affairs. 1974 Prime Minister of the country's first Socialist-Liberal coalition. President since 1970 of the Liberal International and President of the Fédération of Liberal Parties of the EEC. President of the General Assembly of the United Nations 1975/76. He took over responsibility for Economic Affairs and the Middle Classes in September 1977, having dropped his Ministerial responsibility for Sport and having appointed a Deputy Minister of Foreign Affairs, M Hamilius (qv), to assist him.

After the 1979 elections, it soon became clear that he would not be able to reform a coalition himself, and there was some doubt whether, in view of his personal resentment at the way in which the Christian Social Party had waged their campaign, he would be prepared to serve again under M Werner (qv). He stood for election as Liberal candidate for the Presidency of the European Parliament, but having failed to achieve this returned to Government with six portfolios.

Intelligent, quick-witted and hard-working, he is an able politician with a considerable flair for public relations. His personal appeal was largely responsible for the Democrats success in the 1974 election when his personal vote was the largest in the whole country; he again achieved a considerable personal vote in the 1979 national and European elections.

He found the task of combining the job of Prime Minister with three other portfolios, as well as many international functions, very tiring. But in spite of lapses through tiredness, impatience or frustration, he performed pretty well in international meetings. He may hope to leave Government in a year or two (eg for the Commission).

Good English and German. Perfect French. Lively and attractive (an outstandingly funny mimic) in what private life he allows himself. But he finds it increasingly difficult to stop and unwind and he pushes himself very hard. After high blood pressure during a visit to Washington in 1975, he became rather worried about his health, but this does not diminish his nervous energy. In private he sometimes seems unduly waspish and critical, but this may be simply the result of his continually driving his mind into activity.

His wife Liliane (whom he met when he was President, and she Secretary, of the Luxembourg Students Union and married in 1957), is an intelligent and capable free-lance journalist, who contributes frequent articles on current social and cultural issues to the local press, and who holds particularly strong views on women's rights. She shares her husband's intense interest in politics, but is a good deal more relaxed. She too speaks good English. An avid traveller, and they have a holiday home in Spain.

They have one son born in 1963.

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JENKINS, RT HON ROY (BRITISH) {

President of the European Commission since January 1977.

Born 1920. Educated Balliol College, Oxford (First Class Honours in Philosophy, Politics and Economics, 1941). Served in Royal Artillery (Captain), 1942-6. Labour MP for Central Southwark, 1948-50 and for Stechford Division of Birmingham, 1950-76. Parliamentary Private Secretary to the Secretary of State for Commonwealth Relations, 1949-50; Minister of Aviation, 1964-5; Home Secretary, 1965-7; Chancellor of the Exchequer, 1967-70; Deputy Leader, Labour Party, 1970-2; Home Secretary, 1974-6.

Chairman of the Fabian Society 1957-8. Served on the Executive Committees of the Federal Union, Britain in Europe Movement, Common Market Campaign, and President of the United Kingdom Council of the European Movement and of the Labour Committee for Europe. Charlemagne Prize 1972; Schuman Prize, 1972.

Married; two sons, one daughter.

28 COLOMBO, Onorevole Emilio (Italy)

President of the European Parliament (Christian Democrat).

Born in 1920 in Potenza (Basilicata), which he has represented in Parliament as a Christian Democrat since 1946. Doctor of Law. Like Andreotti (qv), another protege of De Gasperi, he became a junior Minister at 28; Minister of Agriculture 1955-58, and for Foreign Trade 1958-59. As Minister for Industry in the following three years he was responsible for organising the nationalisation of the electricity industry (a watershed in Italian politics). He was concurrently in charge of relations with the EEC and led the Italian delegation in the first British entry negotiations. Minister of the Treasury without a break from 1963-70 and, together with Carli (qv) overcame more than one economic crisis, and successfully defended the lira.

Prime Minister of a centre-left government from August 1970 to February 1972. His task was made difficult by intense squabbling within the Christian Democrat party, aggravated by his own efforts to put through needed reforms, and by the Socialist overtures to the Communists. Colombo's position became untenable when the Christian Democrats and the Socialists, though parties in the same coalition government, supported different candidates in the presidential election at the end of 1971. Resigned February 1972.

Colombo returned to the Treasury in Andreotti's single party Christian Democrat government, February-June 1972, but occupied the comparatively unimportant post of Minister without Portfolio for relations with the UN during Andreotti's second government. Colombo returned to a senior post, that of Minister of Finance, when Rumor formed his government in July 1973. He once more took over the Treasury in March 1974, remaining there until the General Election in June 1976. Mr Roy Jenkins tried to interest him in joining the Commission, but he declined. Elected President of the European Parliament in March 1977.

Colombo is a devout Catholic. Unmarried, he is said to be a lay Franciscan who has taken a vow of celibacy. A handsome, highly intelligent and hard working man with quiet sense of humour. He is a good speaker. Beneath his gentle exterior, he is a capable politician, especially in his limited area of the Mezzogiorno. At the same time, his lack of a real power base was probably his own undoing as Prime Minister. He gives the impression (eg at a lunch given by the Ambassador for Mr Edward Heath in April 1978) that he does not consider himself by any means finished on the Italian political scene. He runs a small faction in the Christian Democrat party which is nominally allied with Andreotti's, but, in general, he takes a neutral stand in internal party squabbles. He appears to suffer from catarrh of a rather pronounced kind which makes him restless and twitchy.

Colombo has been a good friend of Britain, which he has often visited, once in June 1971 as Prime Minister. Speaks good French but scarcely any English. He likes music and collects old silver.



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12. BARRE, RAYMOND (FRANCE)

Prime Minister.

Born 1924 in Réunion. Professor at Caen, then Paris. Director of Economic Research at the National Institute of Political Sciences since 1958. First entered government in the cabinet of M Jeanneney (Minister of Industry 1959-62). 1967-72, French Vice-President of the Brussels Commission, with responsibility for economic and financial affairs. Appointed member of the General Council of the Bank of France in 1973. His first Ministerial post in Giscard's Government was as Minister of Foreign Trade from January 1976 until August of the same year when he replaced Chirac as Prime Minister.

As an economist, Barre has been more concerned with teaching than thinking. His main work on political economy (published in 1956) has become the basic text-book for French universities. He is an economic liberal, but a monetary disciplinarian. Although opposed to protectionism and in favour of market forces, he admits the need for some government intervention.

His entry into politics is less sudden than it seems. He was used by successive French governments in the 1960s as a "wise man", before his first Ministerial appointment in 1976. But it is true that he has never been elected to anything, and he sometimes shows distaste for the wheeling and dealing side of politics. His first government (from August 1976 to March 1977) was marked mainly by the introduction of the "Barre Plan" for economic recovery. His no-nonsense approach seemed to go down well in the country, and his stock rose. However he inevitably became caught up in feuding between the Gaullists and other members of the Government Majority, and the Paris Mairie fiasco, the setbacks in the municipal elections, and the delay of economic recovery have punctured his reputation to some extent. Nevertheless, in his second government the man Giscard has described as the "best economist in France" is sticking to his guns, both economically and in the running battle with Chirac over the organisation of the Government Majority. He did well in a major televised debate against Mitterrand, showing superior economic grasp and an unexpected pugnacity.

Barre has a firm, somewhat professorial, manner, and his political style is closer to that of Pompidou than Giscard. Despite his participation in the difficult UK accession negotiations, Barre feels no rancour towards us. He admires our efforts to put our economic house in order, though he observes them critically. He is at least as firm in his defence of French interests as other French politicians.

He is married to a pleasant wife of Hungarian descent; they have two boys. He speaks good English.

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90 PANDOLFI, Onorevole Filippo Maria (ITALY)

Minister of the Treasury (Christian Democrat).

Born 1927 in Bergamo. Degree in philosophy. Began career in business and first elected to Parliament in May 1968. Specialised in Treasury and financial matters. Under-Secretary at the Ministry of Finance (the tax-gathering Ministry) during Moro's 4th and 5th Governments (November 1974 to July 1976), and Minister of Finance in the 3rd Andreotti Government (July 1976 to March 1978). Promoted to succeed Stamatii (qv) in the more international job of Minister of the Treasury on the formation of Andreotti's 4th Government in March 1978.

Has a reputation as a technician, and of someone who works hard as a Minister rather than spending his time politicking. A protege of Visentini (qv) who, though a Republican, asked to have Pandolfi as his junior Minister when Visentini became Minister of Finance in 1974. He claims that the two of them worked a twelve-hour day for months, putting some order into Italian indirect taxation system. A man determined to achieve tangible administrative results, a rarity among Italian politicians.

Reads English newspapers assiduously, speaks some English.

Married: at least one daughter, likes to visit England on holiday.

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155 TINDEMANS, LEO (Belgium)

Prime Minister. CVP Deputy for Antwerp since 1961.

Born at Zwijndrecht in 1922. Studied at Ghent and Louvain and attended Dr Kissinger's "International Seminar" at Harvard in 1962. Became a Journalist briefly, then a civil servant in the Ministry of Agriculture before entering politics to become one of the more active CVP Deputies. Has always shown an interest in international affairs, particularly in Europe. National Secretary of the PSC/CVP, 1958-66.

Already well-known as a moderate Fleming, he was appointed Minister of Community Affairs by Eyskens in 1968. In this job he was very much in the public eye as the main architect of the constitutional reform achieved by the Government of 1970.

Appointed Minister for Agriculture and the Middle Classes by Eyskens in 1972. Made no secret of the fact that he hoped to succeed Harmel as Foreign Minister in 1973, but in the fighting for portfolios lost to Van Elstande. Instead became one of the two Vice-Premiers, with specific responsibility for the Budget. During the election campaign of February 1974, the CVP drew heavily on his credit, building him up as the one man who could lead the country. When subsequently he came to form his Government, this reputation proved mildly embarrassing. Nevertheless, his standing as an honest, conscientious and moderate Minister survived the long struggle to create a coalition, and he ended 1974 with a greatly improved standing in the country. His first year in office was generally successful. At home he managed to launch a moderate programme of regionalisation, thus (at least temporarily) clearing an impasse which had obstructed the three previous governments. He was less successful in the increasingly difficult economic atmosphere on 1975 and 1976.

By dismissing, in March 1977, his two RW Ministers, and shortly afterwards dissolving Parliament without allowing the customary vote of no confidence, Tindemans laid himself open to accusations that he had acted unconstitutionally. But he emerged from the subsequent elections with even greater credit and his success as "formateur" in concluding a community pact, and in forming a government which includes such diverse elements as the Socialists, the VU and PDF, was an immense and historic achievement.

Tindemans played a vital role during the following 14 months which proved necessary to reach agreement on legislation to implement the Community Pact. But he found the task of keeping such a disparate coalition together an exhausting one, and his health inevitably suffered. He had a near-collapse in March 1978, and although he recovered quickly, he has since displayed less of his customary lightness of touch. When in June 1978 the parties of the coalition failed to reach agreement on measures to tackle Belgium's large and growing deficit, Tindemans promptly offered the Government's resignation to the King, without informing either his Ministers or his party. Although he was persuaded by the King to remain as Prime Minister, and succeeded in patching up an agreement, his unusual if not unconstitutional behaviour has made him less trusted by his Cabinet and by his party. There is much speculation that Tindemans will be tempted to bow out of Belgian politics in time to stand for the 1979 elections to the European Parliament. (He has been President of the European People's Party since its inception in July 1976.) He has denied this, and his strong sense of duty will probably keep him at his post as long as he feels the country needs him. Certainly there is no-one of his stature to replace him.

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111 STEE, ALPHONS P J M M van der (CDA) (NETHERLANDS)

Minister of Agriculture and Fisheries since 1973 and Minister for the Netherlands Antilles.

Born 1928. Studied law at Catholic University, Nijmegen. A tax consultant 1956-71.

Chairman, Arnhem Branch, Catholic People's Party (KVP) 1959-65. National Chairman of the KVP 1968-71.

Elected to the First (upper) Chamber in 1971. State Secretary for Finance in the Biesheuvel and den Uyl Cabinets 1971-73.

In November 1973 he became Minister of Agriculture in place of Mr Brouwer, who had resigned through ill-health. Because of his relative lack of agricultural experience, he was not the first choice of the farming community. But he has learned his job quickly and has played a prominent part in Community discussions, often crossing swords with British Ministers of Agriculture, though retaining good personal relations with them.

The only Minister of the den Uyl Government to retain his portfolio in the van Agt Cabinet, he was (rather surprisingly) given responsibility for the Netherlands Antilles in addition.

He has a sociable manner and is a competent negotiator.

Married with three sons and a daughter.

Speaks good English.

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141 ZIJLSTRA, DR JELLE (CDA) (NUTREKADBI)

President, Netherlands Bank since 1967.

Born 1918. Studied economics at Rotterdam University. Professor of Economics, Free University of Amsterdam, 1948-52 and 1963-66. AKP Minister for Economic Affairs 1952-59 and Minister of Finance 1959-63.

Declined Ministerial Office after the 1963 elections, but became Prime Minister of a caretaker government from November 1966 to February 1967, during which time he took firm measures to control the Dutch economy. Prepared the ground for the formation of a government after the General Elections but refused to head it himself and, despite considerable pressure, withdrew finally from politics in May 1967.

Widely respected, and the man most often spoken of as the ideal Christian Democrat Prime Minister. But he remains adamant in his refusal to return to the political era.

He has an outgoing character, always ready to speak freely about his views and problems. A small rather birdlike man with a ready laugh, he enjoys social life and is quick to make friends. He is nevertheless one of the most influential men on the economic/financial scene.

Married with five children.

Speaks perfect English.

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19 BIESHEUVEL, MR BAREND W (ARI) (NETHERLANDS)

Former Prime Minister. Chairman of the Realm Working Group on the future of the Netherlands Antilles, and one of the "Three Wise Men", commissioned to report on the implications of EEC enlargement.

Born Haarlemmerliede 1920. The sixth child of a rich farmer, whose family profited from the development of Amsterdam airport. Studied law at Free University, Amsterdam. Secretary for Foreign Relations, Federation of Agriculture, 1947-52. General Secretary, Netherlands Farmers and Gardeners Union 1952-59, President 1959-63. President, International Federation of Agricultural Producers in 1961. Member, Second Chamber, 1957-63.

Minister of Agriculture and Fisheries and Deputy Prime Minister in the Marijnen Cabinet 1963-65 and also under Dr Zijlstra and Dr Cals. Tried unsuccessfully to form a government after the 1967 general elections. Appointed Prime Minister of the five-party coalition formed after the 1971 elections but was not a success and resigned within two years. He then accepted various business appointments, including an advisory post with Unilever, and in May 1975 the chairmanship of a Government committee on an artificial island in the North Sea. But he has not severed his political connexions. He has refused the position of Queen's Commissioner in Zeeland and the Burgomastership of The Hague. His bitter experiences as Prime Minister seem to have made him decide against a return to active political life.

A big man, with a certain quiet force but without much originality. Though himself a calculating politician, he seemed to lack the luck which is the essence of political success.

His hobbies are chess, football, theology and history.

Married to a homely but friendly wife and has three children. His English is good and he has a pleasant warmth and humour.

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31 FITZGERALD, DR GARRET MICHAEL DESMOND (REPUBLIC OF IRELAND)

Leader of Fine Gael.

Born 1926. Educated UCD (PhD) and King's Inns, Dublin (barrister, 1947). Journalist since 1953; lecturer in Economics, UCD since 1959; Director, Economist Intelligence Unit of Ireland Ltd 1961-7; Deputy (Fine Gael) for Dublin South East since 1969; Vice President, Fine Gael 1969-77; party spokesman on education 1969-73; Vice President and past Chairman, Irish Council of European Movement; Minister for Foreign Affairs in Coalition Government 1973-77; Leader of Fine Gael since 1977.

Dr FitzGerald is the son of the late Desmond FitzGerald, a former Minister for External Affairs. His mother was a Presbyterian from Northern Ireland. He was one of the policy-planners for the Fine Gael "New Look" of the early 1960s. In 1972 he published a book on the theme that Ireland can achieve reconciliation only if there are radical changes in the South as well as the North. He has taken pains to maintain and cultivate contacts with all shades of opinion in the North. He is one of the best informed, most intelligent and articulate members of the Dail. Speaks well (and quickly, and at great length). He is easy and approachable but is impatient, impetuous, and at times naive. He is sometimes too ready to take the part of Northern Catholics both against the Loyalist majority and against the British authorities. But he is relatively free of the normal anti-British hang-ups.

Dr FitzGerald was elected leader of Fine Gael following Mr Cosgrave's (qv) resignation in July 1977. His front-bench appointments indicated that his leadership will make Fine Gael slightly less conservative than in the past. Dr FitzGerald is a convinced European and made an excellent impression as Minister for Foreign Affairs. He is a popular and much admired figure in Irish politics.

He is married (his wife's name is Joan) with two sons and one daughter.

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EHG(V)(80)14 : ADDENDUM

COPY NO. 1

11 JUNE 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PRESIDENT OF THE NEW COMMISSION:

POSITION JUST BEFORE THE COUNCIL

Brief by the Foreign and Commonwealth Office

1. No consensus has formed. It therefore seems possible that a new President may not be chosen at Venice.. Further preparation could be needed.

2. Reports from our posts show the following positions in Community capitals:

FRG

2. No candidate. Believe Presidency should go to one of smaller States. Would like job taken by a prestigious political figure with good European credentials and proven ability to operate a machine as complicated as the Commission. Very preliminary thinking tends to favour Thorn over Gundelach, but Schmidt has been too busy (eg. with party conference) to give the matter much thought and we have no indication of his own views.

FRANCE

3. No decision taken. We do not know what candidate Giscard favours. Thinking at present still seems to be focussed on the idea of a candidate from a smaller country.

ITALY

4. Names of Colombo (Foreign Affairs) and Pandolfi (Finance)

/both

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both mentioned. Repeated insistence from Rome that Colombo will not be a candidate but indications that Pandolfi would if he could be assured of selection. On 9 June Pandolfi told the Chancellor of the Exchequer that he would be a candidate if there were a consensus in his favour but he did not want his name to be thrust forward prematurely. He also said that <sup>he</sup> believed that the French and German Governments were now considering a candidate from one of the smaller Member States 'in order to develop a different, less bureaucratic style of management in the Commission'.

LUXEMBOURG

5. Thorn is still a firm though formally undeclared candidate. On 8 June Prime Minister Werner said on Luxembourg television that he judged the moment had come when his country should put forward its candidate for the Presidency. He had a particular candidate to propose, but did not say who.

DENMARK

6. The Danish Prime Minister will probably recommend Gundelach at Venice as a good candidate but how he puts this may depend on FRG/French/UK views. He is more likely to press Gundelach's case against Thorn than Pandolfi.

IRELAND

7. No change. O'Kennedy, Finance Minister and ex-Foreign Minister, remains a possible candidate. The Irish press has speculated that the Irish Government may put forward John Hume, SDLP leader. This seems improbable.

BELGIUM

8. No declared candidate, but rumours that Tindemans (former Prime Minister) or Davignon (Commissioner for Industrial Affairs) might be put forward. French officials have said that Davignon would undoubtedly make a very active and effective President - 'while these might not be sufficient reasons in themselves to eliminate any candidate it was unlikely that anyone else would propose Davignon if his own Government did not do so'.

NETHERLANDS

9. No candidate.

FOREIGN AND COMMONWEALTH OFFICE

11 June 1980

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3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

POLITICAL COOPERATION

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Brief by Foreign and Commonwealth Office

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The following Briefing material is  
attached:

Annex A	Middle East
B	Iran
C	Afghanistan

Foreign & Commonwealth Office

3 June 1980

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EHG(V)(80)15

## MIDDLE EAST

(THIS BRIEF MAY BE SUBJECT TO REVISION IN THE LIGHT  
OF MINISTERIAL DISCUSSIONS)

## OBJECTIVE

1. To agree a Council statement and follow-up action.

## POINTS TO MAKE

2. Agree a move by the Nine is needed to avoid dangerous vacuum. Cannot repudiate autonomy talks but no prospect of progress from them. No  
U.S.A.  
opinion
3. Line proposed in report (A) broadly acceptable, as is draft statement (B) subject to following comments (see paragraph 9 below).
4. Options for Nine following soundings must remain open, including Security Council action, but soundings process itself a useful time-buyer.
5. Contacts must include the PLO but working, low-key meetings needed, not publicity jamboree; West Bankers should also be separately consulted.
6. Key is mutual acceptance of rights. Must concentrate on problem of how self-determination can be put into practice and reconciled with Israel's security needs.
7. Nine cannot aspire to play the dominant role in peace efforts. US goodwill must be retained as far as possible which means careful and co-ordinated presentation. Great care also needed to avoid alienating Israelis, with whom a settlement must ultimately be negotiated.

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BACKGROUND

References

A1.: Draft Foreign Ministers' report (not yet available).

A2.: Draft European Council statement.

A3.: Minute from the Foreign and Commonwealth Secretary covering the paper agreed at Chequers on 30 May (not yet available).

8. Paragraphs 11 and 12 below may be freely used. Paragraphs 9 and 10 are not for general disclosure in the Council.

9. General agreement has been reached at official level on the terms of the Foreign Ministers' report and statement.

Our partners' views coincide in general with our own. But the French remain inclined to push the Nine into as independent and far-reaching a role as possible, while the Germans ✓ and Dutch are reluctant to move beyond declaratory diplomacy. ✓

A few specific problems (some of which may be removed by the Foreign Ministers during the Council) remain on the statement.

10. No decisions have yet been taken on who should carry out the soundings proposed in the draft statement. At the request of the Political Directors we have suggested four possibilities:

(i) the Presidency alone, with the delegation headed by the Foreign Minister. Support could be provided by a small expert team drawn from the Nine as a whole;

(ii) the troika (ie in the next 6 months Luxembourg as Presidency, ie M. Thorn, and Italy and the Netherlands as the previous and future Presidencies);

(iii) a commission composed of, say, three members including at least one of the permanent members of the Security Council.

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(iv) a special emissary, again with a small team provided from the Nine as a whole. A figure of political stature and experience (eg Mr <sup>No.</sup> Brandt) would be required. Any of these alternatives would mean that none of the three major members of the Nine would be involved except perhaps through provision of an expert. This problem will need to be resolved in detail by officials and foreign ministers but a decision in principle from the Council is needed.

11. The details of the mandate of the mission and whom it should consult will also need to be worked out following the issue of the Council statement. Our assumption is that a mission should visit Israel, Egypt, the US, the important Arab states (ie at least Jordan, Syria, Lebanon, Saudi Arabia, Tunisia (on the Security Council) and perhaps Iraq and Kuwait, and also meet representatives of the PLO and West Bank opinion (presumably some of the mayors). The mission should concentrate on eliciting firm answers to questions on the lines of those referred to in the Foreign Ministers' report.

12. The Ambassadors of the Nine in Washington have recommended that particular thought should be given to presentation to the Americans of the Nine's move. This applies to Israel and the Arabs also. The Presidency may propose a common line to take.

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MIDDLE EAST

OBJECTIVE

1. To agree a Council statement and follow-up action.

POINTS TO MAKE

2. Agree a move by the Nine is needed to avoid dangerous vacuum. Cannot repudiate autonomy talks but no prospect of progress from them.
  3. Line proposed in report (A) broadly acceptable, as is draft statement (B). *mm*
  4. Options for Nine following soundings must remain open, including Security Council action, but soundings process itself a useful time-buyer.
  5. Key is mutual acceptance of rights. Must concentrate on problem of how self-determination can be put into practice and reconciled with Israel's security needs.
  6. Nine cannot aspire to play the dominant role in peace efforts. US and Israeli goodwill must be retained as far as possible which means careful and co-ordinated presentation.
-

BACKGROUND

References

A: Draft Foreign Ministers' report.

B: Draft European Council statement and explanatory note.

C: Minute to OD from the Foreign and Commonwealth Secretary.

8. Paragraphs 10-12 below may be freely used. Paragraph 9 is not for general disclosure in the Council.

9. The Prime Minister is familiar with the general background. Copies of previous statements and essential documents have been provided separately. General agreement has been reached at official level on the terms of the Foreign Ministers' report and statement. Our partners' views coincide in general with our own. But the French remain inclined to push the Nine into as independent and far-reaching a role as possible, while the Germans and possibly Dutch seemed reluctant to move beyond declaratory diplomacy. A few specific problems (some of which may be removed by the Foreign Ministers) remain on the statement.

10. No decisions have yet been taken on who should carry out the soundings proposed in the draft statement. This will need to be resolved in detail by officials and Foreign Ministers after the Council but a decision in principle from the Council is needed. The best solution from our point of view would be a mission headed by the Luxembourg Foreign Minister, Mr Thom, who could continue to exercise this function after the end of the Luxembourg Presidency if necessary. The details of the mandate of the mission and whom it should consult will also need to be worked out following the issue of the Council

/statement,

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statement, but the general lines of the proposals set out in the Foreign Ministers' report are acceptable to us.

11. The Ambassadors of the Nine in Washington have recommended that particular thought should be given to presentation to the Americans of the Nine's move. This applies also to Israel and the Arabs, particularly Egypt.

12. The Lebanese have pressed for full attention to be devoted to Lebanon in any statement or other moves on the Middle East. This will be considered by Political Directors and Foreign Ministers during the Council.



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UNOFFICIAL TRANSLATION

DRAFT REPORT OF FOREIGN MINISTERS ON THE MIDDLE EAST

1. In accordance with the decision taken at the meeting of the European Council on 27 and 28 April last in Luxembourg, I have the honour to submit the report of the Foreign Ministers on the role which Europe can play at the present moment with a view to contributing to the conclusion of a comprehensive, just and lasting settlement in the Middle East, which alone can bring real peace in the area.
2. Since the Camp David meeting the position of the Nine has been set out in their statements of the 19 September 1978 on the results achieved at that meeting, of the 26 March 1979 on the Washington agreements, of the 18 June 1979 on the actions or statements which might constitute an obstacle to the search for an overall settlement, as well as in the speech by the then President, the Irish Foreign Minister, at the General Assembly of the United Nations on 25 September 1979.
3. A situation characterised by uncertainty over future developments in the Middle East persists after 25 May, and international public opinion is increasingly expecting a European initiative aimed in the first place at avoiding a deterioration of the situation. The Ministers consider that it is not appropriate for the Nine to resist such an expectation, given that the build up of other crises has shown that it has become urgent to make a start towards a solution and taking into account the wider context of international relations.
4. The Foreign Ministers stress that active European participation in the search for such a comprehensive solution has been made necessary in particular by the many traditional political and economic links which bind our countries to this region. It is also a fundamental interest of all peoples that rapid progress towards a solution of the Israel/Arab conflict should contribute to stability; this is particularly

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necessary in a region adjoining one in which at the present moment there are other serious crises.

5. In the light of these considerations the Foreign Ministers have examined the various initiatives which might be taken by the Nine with a view both to making clear their position and to concerting appropriate common actions.

6. In recent weeks the Foreign Ministers have taken advantage of all their contacts to collect, directly through qualified representatives of the interested parties, information on the present state of the problems in the Middle East. I myself have exchanged views with the United States Secretary of State, the Israeli Foreign Minister, the Secretary-General of the Arab League and the Egyptian Minister of State for Foreign Affairs.

7. As regards making clear the position of the Nine on the Middle East problems, the Foreign Ministers consider that it is necessary above all to restate the elements which were set out in the name of the Nine in the speech by the then presidency, the Irish Foreign Minister, at the General Assembly of the United Nations on 25 September 1979. In this context it seems necessary that the Nine should make clear that it is through a process of self-determination that the right of the Palestinians to a homeland must be translated into fact and the Palestinian people must accordingly be a party to the negotiation as the Nine envisage it; this implies the participation of the PLO. On the question of Jerusalem, the Nine recognise the particularly important role which it possesses for all the parties concerned. In the speech of the then Presidency at the United Nations on 25 September 1979, the Nine stressed inter alia that they did not accept any unilateral move which aims to change the status of Jerusalem and that any agreement on the city's status should guarantee the right of free access for all to the Holy Places. The Nine have also stressed the need for Israel to put an end to the territorial occupation which it has maintained since the 1967 conflict. They are deeply convinced that the Israeli settlements represent a serious obstacle to the peace process

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in the Middle East. The Nine consider that these settlements are illegal.

8. In considering the action which the Nine could take, the Foreign Ministers believe that it is important to work for acceptance by all the parties involved of the two fundamental principles accepted by the international community: the right to exist and to security of all the states in the area, including Israel, and justice for all peoples, which involves recognition of the legitimate rights of the Palestinian people. To this end, various options have been worked out, notably eventual initiatives in the UN context, as well as contacts with the parties involved to establish the precise modalities of action by the Nine.

9. In practice, the Nine will probably soon find themselves confronted with the need to take up a position on the Middle East at the United Nations. In particular, it will be difficult in the short term to prevent the Arabs from calling a special session of the General Assembly, at which resolutions which the Nine cannot support will probably be tabled. The Foreign Ministers take note of the possibility of sponsoring for tactical reasons at such a General Assembly a resolution in conformity with the position of the Nine, but they point to the difficulty of achieving agreement on this resolution in this forum, given that it has already approved in the past positions not acceptable to the Nine.

10. The Foreign Ministers have considered the possibility of a new Security Council resolution complementing Resolution 242, with a view to providing a new basis for peace efforts. Such a resolution must be founded on the two essential elements, namely the re-affirmation of the principles of Resolution 242 and the affirmation of the right of the Palestinians to self-determination in the framework of a negotiated peace settlement. This could avoid more extreme moves. The chief aims would be to ensure approval of a text of this nature by the PLO and to guarantee the absence of a veto by the United States. The

/Foreign

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Foreign Ministers, however, consider that the achievement of the second objective is a remote possibility in present circumstances, and conclude that the Nine should not seek to table a resolution of this kind so long as these circumstances persist. This option should therefore be held in reserve in case new circumstances make it desirable in the future.

11. On the contacts to be undertaken by the Nine on the basis of the European Council decision to sound out the parties concerned on what action could be taken, the Foreign Ministers have considered aspects of both their modalities and their content.

12. The soundings should be carried out through a visible process of consultation of those concerned. A touring mission should make contact with at least Israel, Egypt, the US, Syria, Jordan, Lebanon, Saudi Arabia, Tunisia, the Arab League, the PLO and representatives of the West Bankers and Gazans. As far as composition is concerned, a mission consisting of representatives of all members of the Nine would be unwieldy and unworkable. A small team headed by a figure of stature could more easily obtain the necessary access to senior political figures and carry political weight. Four possibilities suggest themselves:

(i) The Presidency alone. A mission might be headed by the Presidency represented at Foreign Minister level, with a small team of experts from the Nine. This has the advantage of simplicity.

(ii) The Troika. There would be advantage in associating the previous and future presidencies with action.

(iii) A specially appointed commission drawn from say three members of the Nine. There might be advantage in involving one or both of the Permanent Security Council members.

/(iv) A special

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(iv) A special emissary drawn from outside the governments of the Nine but acting on behalf of the Nine. He would need to be a senior political figure with appropriate experience if possible. He could be provided with a small team of experts from the Nine.

13. The outlines of the mandate of the touring mission, as far as the content of the soundings which it should carry out are concerned, would relate to three basic issues:

(i) Implementation of the principle of self-determination for the Palestinian people and reconciliation of this principle with the interests of the other parties, notably Israel.

(ii) Meeting of Israel's fears for her long-term security to permit a lasting settlement.

(iii) Start of multilateral negotiations with the participation of all the parties directly concerned.

Questions on the different aspects of each of these three basic problems are contained in an Annex.

14. In the view of most of the Ministers, the Euro-Arab Dialogue could also offer the possibility of useful contacts towards the aims set out above. An effort could be made to develop not only the various areas where co-operation takes place, but also the political dimension, going as far as the holding of a meeting at the political level. In the view of others, prospects of this sort should be held in reserve for the progress of the Dialogue as such, but it would not be appropriate to allude to it in conjunction with contacts aimed at a comprehensive settlement, which must be carried out with all the parties concerned, since Egypt is not represented on the Arab side of the Dialogue.

/Annex

Annex

List of questions on the various aspects of each of the three basic problems on which a touring mission of the Nine should concentrate in contacts with the parties directly concerned.

(i) Implementation of Palestinian self-determination and its reconciliation with the interests of the other parties, notably Israel.

How are Palestinian views to be determined for the purposes of self-determination and which Palestinians are to be allowed to participate in this process? At what stage in a peace process would authoritative Palestinian views be sought? How are its results to be reconciled with the need to negotiate a peace settlement with Israel? Whatever political form a Palestinian land takes, what relationship is envisaged with Jordan and Israel, economically and politically? If a Palestinian homeland were established on the West Bank and Gaza, how many Palestinians could realistically return and live there, what arrangements would be needed to safeguard the interests of the existing inhabitants and what sort of international aid would be needed to make it viable?

(ii) Meeting of Israel's fears for her long-term security to permit a lasting settlement.

If a Palestinian homeland were established on the West Bank and Gaza, would the Palestinians be prepared to drop all claims to the territory held by Israel between 1948 and 1967 (subject to minor border rectifications)? If Palestinian aspirations can be met to the satisfaction of the Palestinians, would the Arab States be prepared to sign peace treaties with Israel and maintain normal relations with her? What guarantees of a peace settlement would be needed? What degree of demilitarisation of the West Bank and Gaza, coupled with safeguards for both sides, could be negotiated? How could irredentists on both sides be controlled?

/(iii) Start

(iii) Start of multilateral negotiations with the participation of all parties directly concerned.

At what stage would multilateral talks be possible/most useful? How can the problem of Palestinian representation be solved if both sides continue to refuse to accept the other's representatives? What preconditions, if any, would be set by both sides for a negotiation? Who else should be involved besides the parties most directly concerned?

UNOFFICIAL TRANSLATION

EUROPEAN COUNCIL: DRAFT STATEMENT OF THE NINE ON THE MIDDLE EAST

1. The Heads of State and Government and the Foreign Ministers have exchanged views in depth on the situation in the Middle East [including the current state of negotiations resulting from the agreements signed between Egypt and Israel in March 1979]. They agreed that the growing tensions [which affect this region constitute a growing danger] [which affect this region constitute a serious danger to peace] [affect seriously the security of this region] [and] make a comprehensive solution of the Arab/Israel conflict more than ever necessary and urgent.
2. The Nine countries of the European Community consider that the traditional links and common interests which bind Europe to the Middle East require them to play a special role and call upon them today to work towards peace in a more concrete manner.
3. [In their action] [in acting thus], the Nine countries of the Community base themselves on Resolutions 242 and 338 of the Security Council and the positions which they have expressed on numerous occasions, notably in their declarations of 29 June 1977, 19 September 1978, 26 March and 18 June 1979, as well as in the speech made on their behalf on 25 September last by the Irish Foreign Minister at the 34th UN General Assembly.
4. On the basis thus set out, the time has come to work for the recognition and implementation of the two principles universally accepted by the international community: the right to exist and to security of all the states in the region including Israel, and justice for all the peoples which implies recognition of the legitimate rights of the Palestinian people.
5. All the countries of the region have the right to live in peace within secure recognised and guaranteed boundaries. The guarantees of the peace settlement should be provided by the United Nations by decision of the Security Council and, as appropriate, according to other mutually agreed procedures.

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The Nine once more declare themselves ready to participate in a system of international guarantees in the context of a comprehensive settlement.

6. The Palestinian problem, which is not simply a refugee problem, must at last find a just solution. The Palestinian people, who are conscious of their own existence as such, must be put in a position to exercise their right to self-determination [through an appropriate process] within the framework of the comprehensive peace settlement. The exercise of this right involves the establishment of a homeland for the Palestinian people [organised by itself and, if it so desires, a Palestinian state on the territories which Israel should evacuate in Palestine].

7. The implementation of these aims requires the adherence and concurrence of all the parties involved in the peace settlement which the Nine are striving to promote on the basis of the principles set out in the declarations mentioned above. These principles are valid for all the parties concerned, including the Palestinian people, which [involves the participation] [necessitates the participation] [involves the association] of the PLO in the negotiation.

8. The Nine recognise the particularly important role which the question of Jerusalem possesses for all the parties concerned. In the speech of the then Presidency at the then United Nations on 25 September 1979, the Nine stressed inter alia that they did not accept any unilateral move which claimed to change the status of Jerusalem and that any agreement on the status of the city should guarantee the right of free access for all to the Holy Places.

9. The Nine recall the need for Israel to end the territorial occupation which it has maintained since the conflict of 1967. They are deeply convinced that the Israel settlements represent a serious obstacle to the peace process in the Middle East. The Nine consider that these settlements [as well as demographic and property modifications in the occupied Arab territories] are contrary to international law.

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10. Concerned to put an end to violence, the Nine consider that only the renunciation of force and the threat of force by all the parties can create a climate of confidence in the region, and constitutes a fundamental element for a comprehensive settlement on the Middle East conflict. [In this context, the Nine reaffirm their total solidarity with the friendly country of Lebanon whose stability remains dangerously threatened by confrontations in the area, and renew their urgent appeal to all the countries and parties concerned to put an end to all acts liable to infringe Lebanon's integrity and the authority of its government. The Nine will support any action and any initiative capable of ensuring the return of peace and stability in the Lebanon which constitutes an essential factor for stability in the area.]

11. The Nine have decided [to undertake the necessary soundings with] [to make the necessary contacts with] [all] the parties involved. In the light of the results of this consultation the Nine will decide the precise modalities of their future action [the precise methods and timetable for an initiative on their part]. [As they embark on these consultations, the Nine recall that the international community, and in particular the UN Security Council, must be called upon, in circumstances to be decided, to assume their responsibilities at the various stages of the negotiation and of the implementation of the peace settlement, particularly in regard to concrete guarantees.]

[12. The Nine also stressed the importance which they attach to the Euro/Arab Dialogue on all fronts and the need to develop its political dimension. They have accordingly agreed that a meeting at the political level between the two parts would be opportune. They intend thus to contribute to the development of co-operation and mutual understanding between Europe and the Arab world.]

Explanatory Note

Square brackets indicate disputed passages.

Paragraph 1: we have proposed the bracketed reference to Camp David in the first sentence. However it might be better to refer obliquely to the achievement of Camp David in paragraph 9 (see below). A reference in the second sentence to "a serious danger to peace" is close to UN charter language used to justify sanctions.

Paragraph 6: the French believe (obscurely) that reference to an "appropriate process" may be taken by some as endorsement of Camp David. The bracketed passage at the end of the paragraph is included at French insistence. We can expect considerable support in opposing it.

Paragraph 7: the Nine are agreed that reference to the PLO should avoid any suggestion that the Nine accord them exclusive or official status. The language proposed makes more explicit the reference to the PLO in the Irish Foreign Minister's UN speech last September.

Paragraph 9: we would prefer the first sentence to incorporate the achievement of Camp David in Sinai by referring to the need for Israel to complete the process of withdrawal from occupied territories. We are proposing this at Political Director level. The bracketed passage in the final sentence is a French suggestion. We have no objection to it in

/substance

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substance but it adds little.

(The Germans have proposed that paragraphs 8-10 should precede paragraph 7 since they incorporate aims of the Nine, referred to in the first sentence of paragraph 7. The French have resisted this on the grounds that the two basic principles mentioned in paragraph 4 should not be mixed with their concrete application to the problem.)

Paragraph 10: the bracketed section on Lebanon is a Belgian proposal. The Political Directors will be discussing how to deal with Lebanon during the Council.

Paragraph 11: the bracketed sections in the first sentence reflect confusion about whether the Nine should set up a special mission or use Embassies to intensify existing political contacts. The passage in brackets in the second sentence reflects the French view that the Nine should commit themselves firmly to future action. The last sentence is a French proposal to ensure that the action by the Nine is put in its proper context. The Germans have objected on grounds which are not clear.

Paragraph 12: the Italians have asked that this passage be put in brackets. They are concerned that the Dialogue should not be seen as a major forum for discussion of the Arab-Israel dispute since Egypt is currently absent from the Arab side (the Arab League).

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PM/80/43

THE PRIME MINISTER

MEMO  
PS  
PS/PS  
PS/MA-HUND  
PS/PS  
Sir J. Mancini  
Mr. Sullord  
J.C. Moberly

Arab/Israel

1. As we approach the European Council meeting in Venice on 12/13 June, I am increasingly concerned about the situation in the Middle East.
2. Recent events on the West Bank illustrate the dangerous frustrations which are building up. It is clear that any real progress in the Israeli/Egyptian/US autonomy talks can now be ruled out, at least until after the American election and perhaps for as long as Mr Begin is Prime Minister - judging from some of his recent language. In the absence of any political progress, President Sadat may become more isolated internationally. The bomb attacks on the Mayors of Nablus and Ramallah have produced the inevitable reaction in the Security Council. The Arabs and their supporters will have an opportunity to create more trouble at the Special Session of the General Assembly likely to be called in July and again at the regular Session starting in September. Tension may rise to a point where fundamental Western interests are at risk. There is an urgent need to assure Arab moderates that although the Americans are likely to be in baulk for many months, the path of negotiation is still the best.
3. Part of the difficulty is the vacuum created by American diplomatic impotence during the election period, that is, until early 1981. We are taking special pains to keep in touch with American thinking. President Carter and Mr Muskie have both made it clear that they will be very unhappy about any recourse by their friends to the Security Council and, indeed, would be obliged to use the veto. We had, in any case, been reaching the conclusion that this was not the path to follow.

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4. But this does not mean that Europe can and should do nothing. On the contrary, I believe some diplomatic activity by the Nine in the coming months is essential if the dangers described above are to be averted. We know that many senior American officials would privately accept this view. They are, or should be, as concerned as we are at the link between the deteriorating Arab/Israel situation and the other problems of the region, and at the opportunity offered to the Russians to recover lost ground by championing a 'just cause' during the period of the vacuum.

5. There is now agreement among the Nine at official level that the European Council on 12/13 June should issue a statement, the substance of which would stress commitment to Israel's security and elaborate on the need to take into account Palestinian political rights. I attach a copy of the latest draft which is broadly satisfactory. There are two points which might be construed as a move forward by the Nine, though both have been effectively covered in previous statements by the Nine as well as following closely positions we have adopted ourselves. These are the endorsement of Palestinian self-determination, always within the framework of a negotiated settlement, and acknowledgement that the PLO, among others, must be involved in negotiations. This is of course quite different from recognising them as a Government. We have for some time been taking the line that because of the support which the PLO enjoy on the West Bank they cannot be excluded indefinitely from negotiations.

6. The major proposal in the draft statement is that the Nine should begin to take soundings of the parties concerned. Those consulted should include the United States, Egypt and Israel, as well as the other Arab states most closely concerned, and also the PLO and Palestinian opinion on the West Bank and in Gaza. The soundings would be aimed at answering the following three questions:

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/(i)

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- (i) How can Israeli fears about long-term security be met to permit a lasting settlement?
- (ii) How is the principle of Palestinian self-determination to be put into practice and reconciled with the interests of the other parties, notably Israel; and in the light of these questions
- (iii) How could eventual multilateral negotiations be got under way?

In our view the soundings could take place over many months and continue in any case until the Americans are back in play after the Presidential election. One possibility is that they could be carried out by the Luxembourg Presidency: (M Thorn would be well capable of this). Another is a specially appointed Mission. There is no question, at any rate for the foreseeable future, of a British Minister playing a direct part.

7. I am copying this minute to members of OD Committee and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office  
6 June 1980

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## IRAN

OBJECTIVE: TO AVOID DISCUSSION ON THE SANCTIONS ADOPTED BY MEMBER STATES

## POINTS TO MAKE

## DIFFERENCES BETWEEN MEMBER STATES' MEASURES

1. All member states have put their measures into force: the differences are less important than to avoid an appearance of lack of confidence in what is being done.

## FURTHER CONSULTATIONS

2. We should keep under review the way sanctions work out. It is only if a serious distortion of trade becomes apparent that any further consultations need be considered.

## PURPOSE OF SANCTIONS

3. We are not trying to bring the Iranian economy to its knees, but to demonstrate to Iran that it cannot expect to enjoy normal relations while continuing to hold the hostages.

## REACTION IN IRAN

4. The Iranians have made light of sanctions. However, there are indications that they are more concerned about the impact than they wish to admit.

## (DEFENSIVE) COVERAGE OF SANCTIONS

5. Discrepancy in our cut off date for exempted contracts will make little practical difference: the reason was parliamentary aversion to retrospection. We would be ready to implement other aspects of the Security Council Resolution (eg new service contracts in support of industrial projects) if our partners would make parallel orders.



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BACKGROUND

1. All other member states put their sanctions into effect on 22 May. However, although they all claim to be following the Naples agreement concerning the implementation of the Security Council Draft Resolution, there are considerable differences between their measures.
2. At the meeting of the Iran Working Group in Brussels on 30 May, the Commission, supported by some states, wished to prepare an analysis of the different measures. France and the UK saw no virtue in this.
3. Our introduction of sanctions has not affected our Embassy's relations with the Iranian Government. However, we know that Iran has been looking for alternative sources of supply in Korea and in Eastern Europe for goods which will be affected by the sanctions, and has made some arrangements for goods which have to come from Europe to be sent to an intermediate destination before being shipped on. These measures will at least cause additional inconvenience, and increase prices in Iran.

Power Struggle

4. The power struggle in Iran bedevils efforts by outsiders to contribute effectively to the release of the hostages. Some leading politicians, eg Bani Sadr and Qotbzadeh want to release the hostages but others, the 'students' and Beheshti group remain intransigent. Khomeini, too, seems obdurate, or at least fears the consequences of being seen to change his mind. Parliament (convened on 28 May) is to tackle hostage problem, but unlikely to do so before late July. Even then, Bani Sadr and 'moderates' may be overruled by hardliners, including Beheshti faction, who wish to exploit hostage issue in context of Iranian domestic politics.

Steps Forward

5. Best tactic for time being is to keep hostage issue off front pages as far as possible, while moderates try to work out scenario for favourable decision by Majles. This could include some international  
/'recognition'

'recognition' of Iranian grievances, and/or reactivation of UN Commission of Enquiry (Daoudi, Waldheim's Syrian representative) still in Tehran.

6. Apparent US plans to ventilate ICJ decision in Security Council could cut across this process, stimulate enhanced press scrutiny of efforts to find a solution, and make it harder for Iranians to agree to a solution.

REFERENCES

1. UN Security Council Draft Resolution, 16 January.
2. Declaration by EC Foreign Ministers on Iran, Naples, 18 May.



UNITED NATIONS  
SECURITY  
COUNCIL



Distr.  
GENERAL

S/13735  
10 January 1980

ORIGINAL: ENGLISH

United States of America: draft resolution

The Security Council,

Recalling its resolutions 457 (1979) of 4 December 1979, and 461 (1979) of 31 December 1979,

Recalling also the appeal made by the President of the Security Council on 9 November 1979 (S/13616) which was reiterated on 27 November 1979 (S/13652),

Having taken note of the letters dated 13 November 1979 and 1 December 1979 concerning the grievances and views of Iran (S/13626 and S/13671, respectively),

Having taken into account the Order of the International Court of Justice of 15 December 1979 calling on the Government of the Islamic Republic of Iran to ensure the immediate release, without any exception, of all persons of United States nationality, who are being held as hostages in Iran (S/13697) and also calling on the Government of the United States of America and the Government of the Islamic Republic of Iran to ensure that no action is taken by them which will aggravate the tension between the two countries,

Further recalling the letter dated 25 November 1979 from the Secretary-General (S/13646) stating that, in his opinion, the present crisis between the Islamic Republic of Iran and the United States of America poses a serious threat to international peace and security,

Bearing in mind the adoption by the General Assembly by consensus on 17 December 1979 of the Convention Against the Taking of Hostages,

Mindful of the obligation of States to settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered and, to that end, to respect the decision of the Security Council,

Conscious of the responsibility of States to refrain in their international relations from the threat of use of force against the territorial integrity or political independence of any State, or in any other manner inconsistent with the purposes of the United Nations,

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Affirming that the safe release and departure from Iran of all those being held hostage is an essential first step in resolving peacefully the issues between Iran and the United States and the other States members of the international community,

Reiterating that once the hostages have been safely released, the Government of Iran and the United States of America should take steps to resolve peacefully the remaining issues between them to their mutual satisfaction in accordance with the purposes and principles of the United Nations,

Further taking into account the report of the Secretary-General of 6 January 1980 (S/13730) made pursuant to resolutions 457 (1979) of 4 December 1979 and 461 (1979) of 31 December 1979,

Bearing in mind that the continued detention of the hostages constitutes a continuing threat to international peace and security,

Acting in accordance with Articles 39 and 41 of the Charter of the United Nations,

1. Urgently calls, once again, on the Government of the Islamic Republic of Iran to release immediately all persons of United States nationality being held as hostages in Iran, to provide them protection and to allow them to leave the country;

2. Decides that, until such time as the hostages are released and have safely departed from Iran, all States Members of the United Nations:

(a) shall prevent the sale or supply, by their nationals or from their territories, whether or not originating in their territories, to or destined for Iranian governmental entities in Iran, or any other person or body in Iran, or to or destined for any other person or body for the purposes of any enterprise carried on in Iran, of all items, commodities, or products, except food, medicine, and supplies intended strictly for medical purposes;

(b) shall prevent the shipment by vessel, aircraft, railway, or other land transport of their registration or owned by or under charter to their nationals, or the carriage whether or not in bond by land transport facilities across their territories of any of the items, commodities, and products covered by subparagraph (a) which are consigned to or destined for Iranian governmental entities or any person or body in Iran, or to any enterprise carried on in Iran;

(c) shall not make available to the Iranian authorities or to any person in Iran or to any enterprise controlled by any Iranian governmental entity any new credits or loans; shall not, with respect to such persons or enterprises, make available any new deposit facilities or allow substantial increases in existing non-dollar deposits or allow more favourable terms of payment than customarily used in international commercial transactions; and shall act in a businesslike manner in exercising any rights when payments due on existing credits or loans are

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not made on time and shall require any persons or entities within their jurisdiction to do likewise;

(d) shall prevent the shipment from their territories on vessels or aircraft registered in Iran of products and commodities covered by subparagraph (a) above;

(e) shall reduce to a minimum the personnel of Iranian diplomatic missions accredited to them;

(f) shall prevent their nationals, or firms located in their territories, from engaging in new service contracts in support of industrial projects in Iran, other than those concerned with medical care;

(g) shall prevent their nationals or any person or body in their territories from engaging in any activity which evades or has the purpose of evading any of the decisions set out in this resolution;

3. Decides that all States Members of the United Nations shall give effect forthwith to the decisions set out in operative paragraph 2 of this resolution notwithstanding any contract entered into or licence granted before the date of this resolution;

4. Calls upon all States Members of the United Nations to carry out these decisions of the Security Council in accordance with Article 25 of the Charter;

5. Urges, having regard to the principles stated in Article 2 of the Charter, States not members of the United Nations to act in accordance with the provisions of the present resolution;

6. Calls upon all other United Nations bodies and the specialized agencies of the United Nations and their members to conform their relations with Iran to the terms of this resolution;

7. Calls upon all States Members of the United Nations, and in particular those with primary responsibility under the Charter for the maintenance of international peace and security, to assist effectively in the implementation of the measures called for by the present resolution;

8. Calls upon all States Members of the United Nations or of the specialized agencies to report to the Secretary-General by 1 February 1980 on measures taken to implement the present resolution;

9. Requests the Secretary-General to report to the Council on the progress of the implementation of the present resolution, the first report to be submitted not later than 1 March 1980.

DECLARATION BY THE FOREIGN MINISTERS OF THE NINE CONCERNING  
IRAN : NAPLES, 18 MAY 1980

1. At their meeting in Naples on 17 and 18 May 1980, the Foreign Ministers of the Nine Member States of the European Community reconsidered, in accordance with their declaration of 22 April, the situation resulting from the detention of the American hostages in Iran, which constitutes a flagrant violation of international law.
2. The Ministers examined the information emanating from Iran. While noting that there were a number of developments which could be important for the release of the hostages, in particular the completion of the second round of Parliamentary elections and the forthcoming convening of the Majlis, they were obliged to recognise that no decisive progress leading to the release of the hostages had been made since 22 April last.
3. Consequently, they decided immediately to apply the measures provided for in the Security Council draft resolution of 10 January 1980, according to jointly agreed conditions and procedures. They agreed, in particular, that all contracts concluded after 4 November 1979 will be affected by these measures. They will continue to consult closely pursuant to Art 224 of the Treaty of Rome.
4. The sole purpose of these measures is to hasten the release of the hostages. At the same time, the Ministers reaffirmed their intention to respect the independence of Iran and the right of the Iranian people to determine their own future.

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5. The Ministers expressed great satisfaction at the decision of the UN Secretary-General to entrust to Mr Adib Daoudi, member of the UN Commission of Inquiry, the task of entering into contact with the Iranian Government in order to enable the Commission to resume its work and to secure the resolution of the crisis. They fully support the Secretary-General and will remain in constant touch with him in order to establish whether the progress of the UN mission is such as to enable them rapidly to suspend the measures taken in respect of Iran.

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EAST-WEST RELATIONS

OBJECTIVE

1. To stimulate a wide-ranging discussion

POINTS TO MAKE

2. The Russians are anxious to divert attention from Afghanistan. The Warsaw Pact call on 15 May for a World Peace Summit "to remove hotbeds of tension" was a ploy in this sense. The Russians will also seek to promote and gain advantage from any signs of division between Western allies.
3. Close consultation and cooperation between European partners are vital. We should make it clear that we have a common appreciation of, and approach to, problems caused by the invasion of Afghanistan. We must convince the Russians that East/West relations will suffer continued damage whilst they remain in Afghanistan and that there will be no return to 'business as usual' until they withdraw.

AFGHANISTAN

4. Meetings between Lord Carrington and Gromyko, and President Giscard and Brezhnev have brought little concrete evidence of Soviet willingness to negotiate seriously. But the Russians are feeling the pressure of world opinion and are trying to appear flexible. We should continue to probe their position, whilst maintaining pressure for an acceptable political solution.

CSCE

5. The Russians are anxious for Madrid to take place, and to use it to promote an impression of 'business as usual'. They want agreement to a conference on Disarmament and Military détente. We must take a strong line at Madrid to show that détente cannot be broken down into packages to suit Soviet



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purposes and that negotiation of new proposals is meaningless if existing obligations continue to be disregarded.

OLYMPICS

6. Defensive : The decision of the British Olympic Association (BOA) to accept invitation to participate in Moscow Games was taken against strong Government advice. It is not binding on Governing Bodies of Olympic Sports or on individual sportsmen. BOA agreed to re-examine if circumstances change. We shall continue quietly but firmly to advise and urge non-participation.

BACKGROUND

AFGHANISTAN

7. The Soviet position on Afghanistan has not altered but recent proposals by the Kabul regime and high level contacts - Secretary of State/Gromyko on 17 May in Vienna and Giscard/Brezhnev on 19 May in Warsaw - suggest that the Russians have felt a need at least to appear willing to be reasonable. But they still attach unacceptable pre-conditions to any political settlement. In particular they wish to secure recognition of the Babrak Karmal regime, particularly by Pakistan and Iran.

8. There is, nevertheless, a certain ambiguity, perhaps intentional, in Soviet statements about withdrawal. Brezhnev hinted to Giscard that a Soviet withdrawal could start after bilateral negotiations had been completed between Afghanistan and Pakistan/Iran but before guarantees of non-intervention given by other countries. Brezhnev also said in a speech on 27 May that the timescale for beginning the withdrawal could be decided in the context of the proposed settlement and taking into account the appropriate national guarantees of the ending and non-resumption of all forms of outside intervention. We now intend to probe the Russians further to see if this indicates a possible willingness to move toward our insistence that

/guarantees

guarantees of non-intervention must go hand in hand with a Soviet withdrawal.

9. The attitude of non-aligned States has held up quite well. Neither Pakistan nor Iran reacted favourably to the Soviet-inspired Afghan proposals of 14 May for a political settlement. The Islamic Conference on 17 - 22 May repeated its condemnation of the Soviet invasion and set up a 3-man commission comprising the Foreign Ministers of Iran and Pakistan and the Secretary-General of the Islamic Conference to seek a solution by "appropriate consultations". This may get into difficulties if they are obliged to meet only representatives of the Babrak regime, but they are aware of the dangers.

#### GISCARD-BREZHNEV MEETING

10. Without any prior consultation with his allies President Giscard met Brezhnev on 19 May in Warsaw. He achieved little, though he claimed in response to press criticism in France and abroad, that Brezhnev had been left in no doubt about Western solidarity over Afghanistan. The Soviet press, however, claimed that the meeting had revealed "a growing tendency in Europe towards the continuation of contacts, the preservation and strengthening of détente and mutually advantageous cooperation ....."

#### CSCE

11. The next CSCE review meeting will begin in Madrid on 11 November and will be preceded by a preparatory meeting also in Madrid, beginning on 9 September. We want a balanced outcome covering all areas of the CSCE Final Act, and will emphasize the review of implementation. The Russians will attempt to concentrate on the military aspects of security including the idea of a disarmament conference. Lord Carrington made it clear to Gromyko on 17 May that the atmosphere at Madrid would be

"less warm", if there had been no solution to the problem of Afghanistan.

OLYMPICS

12. All EC National Olympic Committees (NOCs) except the Germans have decided to go to Moscow against the advice of their governments. Germans are feeling isolated. Herr Genscher has asked us to make efforts at a higher level to persuade sports bodies to change their minds. Lord Carrington commended him to the Prime Minister's four letters to BOA and said that further meetings with sports bodies were under consideration.

13. Hockey, yachting, equestrian and shooting bodies in UK are boycotting.

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5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

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COMMON JUDICIAL AREA

Brief by Foreign and Commonwealth Office  
and Home Office

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OBJECTIVE

To make clear that the UK is prepared to sign the draft Convention on Cooperation in Criminal Matters (which is primarily concerned with extradition among the Nine), but to give the Dutch support on the general issue of the future of the Common Judicial Area.

POINTS TO MAKE

1. UK will be disappointed if the Convention does not come into force. *But see para 4*
2. Difficulties in reconciling common law and continental legal systems likely to make future work on the Common Judicial Area increasingly unprofitable, especially in the field of civil law.

BACKGROUND

1. President Giscard launched the idea of a Common Judicial Area among the Nine at the European Council in December 1977. The rationale of this proposal was that criminals should not be allowed to profit from the free movement between European countries provided for by the Treaty of Rome. The French later proposed that the Common Judicial Area should include civil law.

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2. Following President Giscard's proposals, a group of officials has met within the framework of Political Cooperation and negotiated a draft Convention among the Nine on Cooperation in Criminal Matters. The Convention is based on the principle that States shall either extradite or consider prosecution of suspected criminals. Initially the draft Convention seemed likely to raise problems for the UK, since it would have required us to take much wider extra-territorial jurisdiction than exists at present with consequent practical difficulties, because of the need to call witnesses in UK courts. It would also have required us to abandon some of the traditional features of our extradition system, eg the establishment of a prima facie case against the fugitive. However, the rest of the Nine have proved accommodating, and the draft Convention as agreed by officials is now acceptable to the UK. As it stands, the treaty is potentially useful, but by no means essential to us.

3. The Dutch, however, who gave no hint of this in the course of the negotiations, are now expected to announce that they will not sign the Convention. Their principal objections to this Convention and to the whole concept of a Common Judicial Area are that it is unnecessary and will reduce the credibility of the Council of Europe (where similar Conventions already exist) and at the same time undermine Community institutions, as it does not give the European Court a role. (The UK is opposed to any such extension of the European Court's jurisdiction). The Convention can only come into force when all Nine have ratified it, so that refusal by one of the Nine to sign it would effectively kill it, and with it probably future work on the Common Judicial Area, since this Convention has been seen by the French, in particular, as the first step towards the creation of the Common Judicial Area.

4. The UK recognises that there is a certain logic in the idea of a Common Judicial Area, but doubts whether it would be useful to embark on any further work on it at this stage. Given the difference between the common law and the continental legal systems,

/in practice

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in practice such work is likely to be increasingly difficult and its results meagre.

5. If, as a result of the Dutch decision, further progress in cooperation on criminal matters is impossible, the French may press instead for discussions on the civil field. However there would be little point in trying to create a Common Judicial Area in matters of civil law, since this would duplicate the work of other bodies, e.g. the Council of Europe and The Hague Conference on Private International Law. So far French proposals in this field have also failed to take account of the existence of separate jurisdictions in England, Scotland and Northern Ireland, and are wholly impractical for the UK.

Foreign and Commonwealth Office  
and Home Office

5 June 1980.

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9 June 1980

EUROPEAN COUNCIL, VENICE  
12/13 JUNE 1980

### COMMON JUDICIAL AREA

Brief by Foreign and Commonwealth Office and Home Office

#### OBJECTIVE

To make clear that the UK is prepared to sign the draft Convention on Cooperation in Criminal Matters (which is primarily concerned with extradition among the Nine), but to give the Dutch support on the general issue of the future of the Common Judicial Area.

#### POINTS TO MAKE

1. UK will be disappointed if the Convention does not come into force.
2. Difficulties in reconciling common law and continental legal systems likely to make future work on the Common Judicial Area increasingly unprofitable, especially in the field of civil law.

#### BACKGROUND

1. President Giscard launched the idea of a Common Judicial Area among the Nine at the European Council in December 1977. The rationale of this proposal was that criminals should not be allowed to profit from the free movement between European countries provided for by the Treaty of Rome. The French later proposed that the Common Judicial Area should include civil law.
2. Following President Giscard's proposals, a group of officials has met within the framework of Political Cooperation and

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3. The Dutch, however, who gave no hint of this in the course of the negotiations, have now announced that they will not sign the Convention. Their principal objections to this Convention (and to the whole concept of a Common Judicial Area) are that it is unnecessary and will reduce the credibility of the Council of Europe (where similar Conventions already exist) and at the same time undermine Community institutions, as it does not give the European Court a role. (The UK is opposed to any such extension of the European Court's jurisdiction.) The Convention can only come into force when all Nine have ratified it, so that refusal by one of the Nine to sign it will effectively kill it, and with it probably future work on the Common Judicial Area, since this Convention has been seen by the French, in particular, as the first step towards the creation of the Common Judicial Area.

4. The UK recognises that there is a certain logic in the idea of a Common Judicial Area, but doubts whether it would be useful to embark on any further work on it at this stage. Given the difference between the common law and the continental legal systems, in practice such work is likely to be increasingly difficult and its results meagre.

5. Since, as a result of the Dutch decision, further progress in cooperation on criminal matters is impossible, the French may press instead for discussions on the civil field. However, there would be little point in trying to create a Common Judicial Area

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REFERENCE

Dutch Coreu telegram announcing their decision not to sign the Convention.

[NOTE:

Revisions have been underlined.]

Foreign and Commonwealth Office and Home Office  
9 June 1980

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ENG(V)(80)16 Revise

Ref.

RESTRICTED

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TO ALL COREU  
R O U T I N E  
CPE MUL ETR 2150 (CPE BIL ETR 235 HAYE)  
07.06.1980 08.00 HEURES

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TO ROME COREU - IMMEDIAT  
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CPE/BIL ETR 235  
06-06-1980 17.16 HEURES

DIFFUSION RESTREINTE  
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OBJET: ESPACE JUDICIAIRE

THE NETHERLANDS INFORM THEIR PARTNERS THAT THE QUESTION OF SIGNATURE OF THE DRAFT CONVENTION AMONG THE MEMBER STATES OF THE EUROPEAN COMMUNITIES ON COOPERATION IN CRIMINAL MATTERS, SCHEDULED FOR THE ABOVE-MENTIONED MEETING, HAS BEEN SUBMITTED TO ITS GOVERNMENT AND THAT THE COUNCIL OF MINISTERS IN ITS

SESSION OF 6 JUNE, 1980, HAS DECIDED THAT THE SAID DRAFT CONVENTION WILL NOT BE SIGNED FOR THE KINGDOM OF THE NETHERLANDS TAKING INTO ACCOUNT ITS CONTENT AND STRUCTURE. THIS DECISION IS BASED ON CONSIDERATIONS OF BOTH A POLITICAL AND A LEGAL NATURE WHICH ARE RELATED TO THE PRACTICAL UTILITY OF THE CONVENTION, ITS LEGAL CHARACTER, ITS POTENTIAL EFFECTS, ON THE FUNCTIONING OF CERTAIN INTERNATIONAL ORGANISATIONS, IN PARTICULAR WITH A VIEW TO INTERNATIONAL AGREEMENTS CONCLUDED OR ENVISAGED IN THE FRAMEWORK THEREOF, AND THE CHANCES THAT THE CONVENTION WILL FAIL TO RECEIVE PARLIAMENTARY APPROVAL.

THIS DECISION IS HOWEVER NOT TO BE UNDERSTOOD AS A CHANGE IN EXISTING DUTCH POLICIES AND PRACTICES IN REGARD TO OTHER MEMBER STATES IN MATTERS OF EXTRADITION.

FIN DE TEXTE./.

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9 JUNE 1980

COPY NO 1

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

**ENLARGEMENT**

Brief by Foreign and Commonwealth Office

**OBJECTIVE**

1. To make plain if necessary that the UK continues firmly to support the accession of Spain and Portugal and does not accept that the Community's internal situation provides justification for delaying this.

**POINTS TO MAKE**

2. UK has supported and continues firmly to support accession of Greece, Portugal and Spain.

3. Accession of Greece now assured, that of Portugal and Spain should be pursued no less vigorously.

4. Community of course has internal problems but these must be kept in perspective. Recent events have demonstrated Community's ability to confront and surmount its problems. Am confident that it will continue to be able to do so. Do not believe that Community's internal problems require delay in negotiations for accession of Portugal and Spain.

**BACKGROUND**

5. On 5 June President Giscard told a meeting of the Chambers of Agriculture in Paris that because of problems over the integration of 'certain new member states' into the Community it was 'right that the Community should give priority to finishing off the first enlargement before being able to undertake a second'. These remarks have been widely interpreted both inside and outside France as marking a change in the French attitude to enlargement. Hitherto while not hiding privately their doubts and the likely difficulties, the French, particularly at the high political level, have paid lip service to the desirability of Portuguese and Spanish accession (it has been

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made clear that President Giscard's remarks do not apply to Greece, which of course signed its treaty with the Community over a year ago). The Spaniards reacted sharply.

6. The pretext given by President Giscard for delaying the accession of Portugal and (in particular) Spain is not plausible. The real French motive lies in the fears of French farmers that they will suffer seriously from increased competition in, especially, Mediterranean products once Spain and Portugal join. The Gaullists and the Communists are already firmly opposed to their entry and President Giscard appears to have decided, no doubt for electoral reasons, that he also must take notice of the views of his farming constituents.

7. On 9 June Chancellor Schmidt, speaking to a Social Democrat Party Congress, made a brief reference to enlargement in the course of a wide ranging speech. He said that unless things changed in the Community (by implication CAP and budgetary arrangements) it would not be possible to finance an enlarged Community. Contrary to the impression given in The Times report, however, he did not (according to a member of our embassy who was present) endorse President Giscard's suggestion that enlargement would thus have to be delayed.

8. It is likely to be in the UK interest firmly to maintain our public support for Portuguese and Spanish entry. This rests essentially on the political case for helping to consolidate democracy in Portugal and Spain by welcoming them into the Community; also our bilateral relations with them require a favourable British attitude.

9. In the case of Spain these reasons are now reinforced by the consideration that consistent UK support for the Spanish application will be of increased importance to the Spaniards in view of the new French attitude and this could help us to hold the Spaniards to their commitments over Gibraltar.

10. At the same time it would not necessarily be against UK interests if the French attitude indeed led to some delay in the timetable for Spanish accession (on which our formal position is one of support for signature of a treaty in 1981 and entry on 1 January 1983). We attach great importance to the review of the Community Budget on which the Commission are committed to make proposals by June 1981 and would not want this to be complicated or delayed by the accession negotiations. Similar considerations

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could apply when the Community reaches the 1% VAT ceiling  
some time in 1981/82.

FOREIGN & COMMONWEALTH OFFICE

9 JUNE 1980

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10 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

UN LAW OF THE SEA CONFERENCE (UNLOSC)

Brief by Foreign and Commonwealth

Office

OBJECTIVE

1. Defensive: against the possibility that Chancellor Schmidt will raise the subject, as a prelude to raising it at the Economic Summit.

POINTS TO MAKE

2. It is not yet finally clear whether a Convention will be in our interests overall; but a generally acceptable Convention would have strategic value to the West. And there can be no safe seabed mining without an international regime.

3. Deep seabed mining. Aim is assured access plus the conditions favourable to investment in a new industry. Text still needs improvement but we believe agreement is now within reach.

4. The Council. A blocking vote for the main producers/consumers essential.

5. Community accession. Conference generally not hostile. USSR opposed on principle. Community should therefore agree on a draft provision which our main potential allies, eg the US, could buy.

6. UK Continental Shelf. If Law of the Sea Conference is raised by Schmidt: express the hope that the  
FRG delegation will in future be more helpful than hitherto to the UK on the Shelf which is among our principal interests at the Conference.

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BACKGROUND

7. The Conference, which began its work in 1973 will resume in Geneva from 28 July to 29 August with the intention of completing negotiations and adopting a draft Convention if not this year, early in 1981. The Conference has developed its own methods of work which include two important innovations: consensus rather than voting has been the basis for decisions; and the use of a multitude of separate groups for negotiation. Both innovations have worked to our advantage and have enabled us and others in a minority position to obtain essential points we would never have gained by vote.

8. Community coordination for UNLOSC forms part of the Political Coordination machinery. Meetings at Heads of Delegation and expert level take place regularly during sessions and inter-sessional periods. Certain questions, in particular, Community adherence to an eventual LOS Treaty will have to be submitted to the Council in time. But there is no UK advantage in discussing UNLOSC at Council level at present. The Germans may, however, inform their colleagues that they intend to raise the subject at the Economic Summit.

(Not to be revealed.) Our main coordinating effort across negotiations as a whole takes place in the Group of Five (G5 - UK, US, USSR, France, Japan), and, on seabed mining, in the Coordinating Group (UK, US, FRG, France, Japan).

THE SCOPE OF NEGOTIATIONS AND PRESENT POSITION

9. The negotiations fall under the following headings:

- (a) Traditional Law of the Sea issues (freedom of navigation, territorial sea limits, archipelagic regimes, maritime delimitation, etc)
- (b) the 200 mile exclusive economic zone (EEZ);
- (c) Continental margin;
- (d) Deep seabed mining;
- (e) Protection and preservation of the marine environment

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(marine pollution);

(f) Marine scientific research (MSR);

(g) Legal issues (preamble and final clauses).

Of the above the texts of (a), (b), (e) and (f) are generally acceptable to the UK. Overall they provide us with guaranteed freedom of navigation worldwide, important for our defence interests; confirm the management and exploitation of our fish stocks within 200 miles; provide for more effective control of marine pollution and an acceptable degree of freedom of scientific research without prejudicing our navigation or offshore interests. The Continental Shelf texts contain a definition of the outer edge of the Continental margin which will confirm UK control of all exploitable offshore hydrocarbon reserves, including in the North West. The Deep Seabed Mining text, although not yet acceptable in all respects in general represents a balance between the need of the industrialised countries for secure access to strategically important deep seabed hard minerals (copper, nickel, manganese, cobalt) on terms conducive to investment by industry; and the G77's more restrictive aims. Details of the proposed regime are at Annex A. Nevertheless important questions remain to be resolved in both the Continental Shelf and Deep Seabed mining negotiations. In particular:

(a) Continental Shelf:

(i) The role of the proposed International Boundary Commission in determining the furthest limit of Continental Shelf rights.

(ii) Revenue Sharing: the amount of levy paid to developing countries from Continental Shelf exploitation beyond 200 miles.

(b) Deep Seabed Mining:

(i) Decision-making in the Council of the Authority,

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in particular the question of a blocking vote.

(ii) Production limitation: initiated by the land-based producers, led by Canada. At present, while providing a floor of 3% would limit deep sea production to 100% of growth in projects world demand.

10. A number of the provisions of a Convention could be expected to impose financial obligations on HMG and other governments in the event of signature and ratification. Details of the estimated cost to HMG are annexed (Annex B). No final decision on whether the UK should accede to the Convention will be called for until the negotiations have been completed. Ministers are however expected to take stock of the negotiations and UK objectives before the next session.

**COMMUNITY PARTICIPATION**

11. The Community has competence in respect of some of the subjects under negotiation eg the management of fisheries (the 200 mile EEZ). It has accordingly been agreed in the Council that the Member States should try to obtain a clause which would permit the EC to adhere to a Convention. Such a clause is opposed by the USSR. The US are anxious to prevent Member States not intending to accede from picking up some benefits of a Convention through Community accession while avoiding unwelcome obligations. We believe a formula can be found which will satisfy the US. The remainder of the Conference is not against EC accession though the Arabs have linked it with their proposal to allow liberation movements to participate.

**FRG AND UK CONTINENTAL SHELF**

12. The UK objective of confirming the exercise of our rights over the Continental Shelf beyond <sup>the</sup> 200 miles EEZ has been consistently opposed by the FRG, and to a lesser extent by Denmark and the Netherlands. Despite repeated representations, drawing attention to the importance of the question for the UK and the desirability of EC

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/acquiescence

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acquiescence, if not support, in difficult and delicate negotiations in which we and other Broad margin states are in a small minority, German opposition continues, though that of Denmark and the Netherlands has ceased. Various explanations have been aired: dissatisfaction with UK performance in the EC; pressure from the German fishing lobby; sour grapes (FRG has no Continental Shelf, and a short coast-line and stands to derive little direct benefit from a Convention) and the wish to apply an EC regime to the Continental Shelf. Herr Schmidt himself is said to have taken a direct interest in the question. It is not one on which we can afford to make concessions to German opinion.

Annexes

- A: Deep Seabed Mining Regime
- B: Financial Obligations

Maritime, Aviation and Environment Department  
Foreign and Commonwealth Office  
10 June 1980

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## DEEP SEA MINING REGIME

The main feature of the international regime, as it is likely to emerge, are:

- (i) An international organisation, the International Seabed Authority ('the Authority'), will draw up a detailed mining code regulating all aspects of deep sea mining. (This will in practice probably be done before the Convention comes into force by a Preparatory Commission.)
- (ii) The Authority will then award mining contracts to qualified applicants, who may be states or companies or an international Enterprise to be established as the mining arm of the Authority. The Authority's discretion in awarding contracts will be narrowly defined. Under these contracts deep sea miners will have to pay large contributions to the Authority which will be used mainly for development aid.
- (iii) In order to protect land-based producers the Convention will lay down a 'production ceiling' limiting the volume of production from the seabed.
- (iv) In order to get the international Enterprise started it will be given a number of important advantages:
  - (a) States Parties to the Convention will make long-term interest-free loans covering half the cost of one mine site and guarantee loans for the other half.
  - (b) The Enterprise will not have to make payments to the Authority for an initial period of up to ten years.
  - (c) The Enterprise must negotiate for exemption from national taxation.

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- (d) Other deep sea miners must prospect one mine site for the Enterprise for each one which they have.
- (e) Other deep sea miners must, during an initial period, be ready to make their technology available to the Enterprise on 'fair and reasonable commercial terms and conditions'. A similar obligation, to which the United Kingdom and other Western industrialised countries object strongly, would benefit developing countries.
- (v) The Authority will be composed of a plenary Assembly, a restricted Council, a Secretariat, the Enterprise and other organs. The Council will have control over the exercise of most of the Authority's important functions, and the Western deep sea mining countries, acting together, will be able to block decisions of the Council. They would therefore have negative control over the Authority but could not, of course, ensure positive action. This blocking power is the single most difficult outstanding issue at the Conference, and the US have so far maintained firmly that without such a blocking power they would not be ready to adhere to the Convention.
- (vi) A review Conference will convene after twenty years, and may, by a two-thirds majority, change the system. (Dissatisfied parties could denounce the Convention.)

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## UNLOSC: FINANCIAL ASPECTS

## 1. DIRECT PAYMENTS BY HMG FOR THE INTERNATIONAL SEABED AUTHORITY, THE ENTERPRISE, ETC

(a) The Enterprise

Under the present proposals the UK would be liable for about 5% of the costs of the first Enterprise project. Any estimates of these costs are bound to be speculative: but using the UK companies' own estimates of costs of a similar project (about \$1800m, or in the range of \$1260-234m) we estimate the liability to HMG as about £40m, half in long-term interest-free loans, half as guarantees for loans taken out elsewhere by the Authority.

(b) The Authority

The likely UK contribution to the administrative expenses of the Authority, until it becomes self-financing, is about £220,000 pa for 7-10 years.

(c) The Preparatory Commission

A Preparatory Commission is likely to be set up for the period before entry into force of a Convention, with similar costs for 3-5 years. Total likely contribution is therefore £220,000 pa for 10-15 years.

(d) The Law of the Sea Tribunal

The UK contribution to the expenses of a Law of the Sea Tribunal might be about £110,000 pa (5% of \$5m pa)

(e) Training

There is also likely to be a Training Fund to which the UK and other industrialised countries would be expected (but not, under the terms of the Convention, obliged) to contribute.

2. LOSS OF TAX REVENUE

If, in some form, full tax credit were granted for payments to the Authority, as the companies request and as the governments of their competitors seem willing to grant, there could be a potential loss of tax revenue of £85m on each of the 1 to 3 projects the consortium might undertake in the first 20-25 years of deep seabed mining. If tax reliefs short of full tax credits were given, the loss of tax revenue would be correspondingly lower.

It should be noted that the 'loss of tax revenue' referred to above is that compared with the hypothetical and 'ideal' case of a consortium mining under US or UK unilateral mining legislation, and paying national tax only. While mining under an international regime would have some profits 'taxed' by the Authority, other profits especially in the downstream activities of transport and processing would be subject to national tax. Thus despite tax credits or allowances HMG should get net tax revenue from participation by UK companies in deep seabed mining.

3. PAYMENTS BY UK COMPANIES TO THE AUTHORITY

The proposed payments by deep seabed mining companies to the Authority are related to profits and are difficult to estimate. However, in the 'baseline case' used as an example in the Conference, payments totalling \$574m over 20 years accrue to the Authority from a single mining site. As UK companies have a 30-35% interest in the Kennecott mining consortium, their share of the payments might therefore be about £85m per site over 20 years.

4. CONTINENTAL SHELF: REVENUE SHARING PAYMENTS FROM EXPLOITATION BEYOND 200 MILES

The estimate<sup>is</sup> calculated on basis of present negotiating text figures of 1 per cent of the value of the volume of production at rate in the sixth year of production rising to 7 per cent in year

12 and thereafter. The estimates of possible UK reserves in the Continental Shelf beyond 200 miles have tentatively been put at 275 million tons, valued at £30,000 million at current prices, of which the UK tax take might be 70% or £21,000 million. Revenue sharing payments would therefore be about £660 million at current prices.

5. REMOVAL OF INSTALLATIONS

Article 30.3 and 80 require that all disused or abandoned offshore installations on the EEZ or Continental Shelf should be entirely removed. Complete removal of the structures now in the Northern and Southern Basins of the North Sea are estimated at £2,500 million. These costs fall primarily on the operators but can be offset partially against PRT and Corporation Tax and would thus cause an equal loss of tax revenue.



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