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The Prime Minister's visit to
Luxembourg on 18-19 October 1979,
- Policy.
and 18 April 1989

LUXEMBOURG

SEPTEMBER 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
20.9.79							
12.10.79							
16.10.79							
22.10.79							
22.10.79							
12.11.79							
20.8.80							
18-4-89							

PREM 19/2 769

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CLOSED**

For papers on the Prime Minister's
Speech - the Winston "Churchill
Memorial Lecture", see:

PRIME MINISTER, ~~SE~~ CHURCHILL MEMORIAL LECTURE,
LUXEMBOURG, -18.10.79
AUGUST 1979.

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SUBJECT cc MASTER



Cole SR
cepc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 April 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE SOVIET PRIME MINISTER

The Prime Minister had a talk in Luxembourg this afternoon with the Soviet Prime Minister. Mr. Ryzkhov was accompanied by Adamishin and a notetaker.

The Prime Minister began by renewing our invitation to Ryzkhov to visit the United Kingdom. We hoped he might be able to come later this year or early next. She referred to the success of Mr. Gorbachev's recent visit and invited Mr. Ryzkhov to tell her about progress with economic reform in the Soviet Union.

Ryzkhov said that he would be delighted to visit the United Kingdom and would be in touch about dates. He agreed that Gorbachev's visit had been very valuable. It had attracted wide interest in the Soviet Union as had the Prime Minister's interview with Soviet television and with Izvestia.

The Prime Minister said that we had been impressed by the pace of political reform in the Soviet Union, but economic change was obviously proving more difficult. It would not be realistic to expect progress across the board. It might be best to focus on one or two key sectors and try to make a success of them. Ryzkhov said that he fully agreed: he was looking for breakthroughs in particular areas. Initially, he and his colleagues had set unrealistic objectives, concentrating investment heavily on the metallurgy interest. The result had been to neglect other sectors, where results which would improve people's standard of living could be achieved more easily. The Prime Minister was right to say that political reform was easier than economic reform. Structural changes in the economy were proving very difficult to make. Some 400 military production facilities were being switched to civil purposes. But this would take at least two years. Meanwhile there was a lot of criticism of the Government, mostly from people who did not realise that they had to work harder themselves to get what they wanted. The Prime Minister commented on the importance of motivating the workforce. This took the leadership from good managers. Ryzkhov agreed: slogans were useless, as the Soviet Union had found to its cost. The Prime Minister said there was a lot of

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psychology involved. It sometimes seemed to her that people in the Soviet Union suffered from a poverty of ambition. Ryzkhov said that it was indeed the case that many people were more or less content with what they had, and seemed to be unwilling to use the benefits of perestroika to better themselves. Another problem was that many people still did not understand the reforms or have confidence that they would last.

The Prime Minister said that she was very grateful to General-Secretary Gorbachev for inviting her to visit the Soviet Union again in 1990 and suggesting that they meet in Kiev. She would give some thought to the proposed British manifestation in Kiev. It should not just be an occasion to display British goods but also the processes by which they were made. She would discuss this with some of the industrialists. Ryzkhov said that he would welcome this.

The Prime Minister said that she wanted to mention the situation in Lebanon, which she had discussed earlier in the afternoon with the United Nations Secretary-General. A ceasefire would require the major countries to exert pressure on the various parties in Lebanon. It would be very helpful if the Soviet Union would bring pressure to bear on Syria. It was important that we should all work together for a solution. Ryzkhov took note but did not comment.

Ryzkhov said that he wished to mention the situation in Georgia which was a tragedy. The Prime Minister said that she had followed it closely. Ryzkhov added his condolences for the disaster at the Hillsborough stadium. He also referred to Britain's generous help to Armenia, welcoming in particular our gift of a school.

Ryzkhov was urbane and friendly, sipping a whisky and soda as he talked, and appearing to go out of his way to find points of agreement with the Prime Minister.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (H M Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,
C. D. Powell

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

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SUBJECT cc MASTER

File SKW
etc



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 April 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE AUSTRIAN CHANCELLOR

The Prime Minister had a talk with Chancellor Vranitzky at the Luxembourg Foreign Ministry this afternoon. No one else was present on the Austrian side. I am recording one part of the conversation separately.

Chancellor Vranitzky began by expressing condolences on the Hillsborough Stadium tragedy. The Prime Minister undertook to convey these to the families of the victims.

Vranitzky continued that the Austrian Cabinet had yesterday completed a report by the Government to Parliament concerning Austria's application for membership of the European Community. No formal decision to apply had yet been reached. The Government's strategy was to involve Parliament in the decision. He expected the Parliament to reach a positive conclusion before the summer, following which the Austrian Government would put in a formal application. The most difficult aspect was the implications for Austria's neutrality. The Soviet Union continued to have some doubts on this score, but he was doing his best to reassure them and had discussed the matter once more with Ryzhkov in Luxembourg. It was evident that Austria's application would be subject to quite lengthy negotiations and that would help accustom people to the fact that membership could be compatible with neutrality. At the same time, he believed that Austria's particular status could be helpful to the European Community in relations with Eastern Europe.

The Prime Minister warned Vranitzky against expecting any quick decision from the Community. There was no enthusiasm for considering new members at least before completion of the Single Market in 1992. But it would be helpful for the Community to start to think through consequences of an Austrian application now. It would certainly need very careful handling. Vranitzky commented that the Soviet Union was adopting a wait and see attitude. A question-mark also remained over their wider approach to Eastern Europe and how far they would allow Hungary to

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follow its own course. But he was optimistic that they could be reconciled to Austrian membership of the Community.

I am copying this letter to Neil Thornton (Department of Trade and Industry), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours sincerely
C. D. Powell

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 April 1989

SUBJECT & MASTER

SWZATE

PRIME MINISTER'S TALK WITH CHANCELLOR VRANITZKY: IMLAU

The Prime Minister had a talk with Chancellor Vranitzky in Luxembourg this afternoon about her holiday plans in Imlau.

Vranitzky said how pleased he was that the Prime Minister was returning to Austria. He planned to join her at one or two performances at Salzburg. This would make it less likely that she would encounter Waldheim, although he could not guarantee that they would not come across each other briefly. The Prime Minister said that she understood this. She hoped that Vranitzky would come to lunch at Imlau on one day.

The Prime Minister continued that she would also like to pay a number of visits from Imlau, for instance to Graz to see Consul Bruehl. Vranitzky said that the Austrian Government would be very happy to help with arrangements for such visits. They would also provide security for the Prime Minister while she was at Imlau. There should be contacts between his office and No.10 about this. (In fact I imagine it will be sufficient for you to handle this in conjunction with Detective Sergeant Kingston, who will be getting in touch with you.)

(C. D. POWELL)

R. P. Nash, Esq., L.V.O.,
British Embassy,
Vienna.



Foreign and Commonwealth Office

London SW1A 2AH

17 April 1989

Rie Kinoshita

[Signature]
17/4.

Dear Charles,

Prime Minister's Visit to Luxembourg: 18 April

My letters of 13 April contained general briefing for the Prime Minister's visit to Luxembourg on 18 April and points to make in her bilateral meetings there.

It has now been confirmed that at the dinner the Prime Minister will probably sit between Prime Ministers Santer and Rocard (although in strict protocol terms she should be seated next to Vranitzky).

The Prime Minister last saw Rocard in London on 8 February before his Jean Monnet Commemorative Lecture to Chatham House. I attach a personality note. The Prime Minister might like to draw on the following:

- Her impressions of Gorbachev's visit. He is due to visit Paris in early July.
- French Bicentenary Celebrations: the Prime Minister has accepted in principle President Mitterrand's invitation for 13-14 July.
- Economic Summit (14-17 July), which will follow the Bicentenary Celebrations: it should address all items on the economic agenda - not concentrate on debt.
- The Prime Minister might say that she is glad that the Nissan problem has been sorted out; and thank M. Rocard for his help (the DTI are reporting the details separately).
- Industrial collaboration is good (eg Airbus, Channel Tunnel, Ariane) and the two private sectors are very active (making more mergers and acquisitions than any other in Europe with an eye to 1992).
- Corsica: the Prime Minister might ask about the scope for a settlement. Strikes have greatly disrupted air travel to the island. There has been some civil unrest.

/- Lebanon



- Lebanon: Rocard may raise this. The French are being criticised for being one-sided in their support of the Christians in Beirut. We think the Twelve should give top priority to backing the Arab League attempt to mediate a ceasefire. At French initiative, the Twelve are looking to issue a statement today, 17 April, appealing for a ceasefire. The French want the statement to commit the Community to provide humanitarian aid to Lebanon. Our view is that this can only happen when a ceasefire has been established. At the time of writing, this point in the statement is still in dispute between us.

And for?

I am copying this letter to Trevor Woolley (Cabinet Office). It has not been seen by the Foreign Secretary in draft.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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ROCARD, MICHEL

Prime Minister.

Born 1930 in the suburbs of Paris. Son of Professor Yves Rocard, CBE, a distinguished physicist, who worked in Britain during the war. Studied literature and entered the Ecole Nationale d'Administration (ENA). Inspecteur des Finances 1958. Head of the Economic Budget Division in the Planning Department of the Ministry of Finance 1965. Secretary-General of the Commission des Comptes et des Budgets Economiques, 1965-67. Resigned from government service in 1967 to stand (unsuccessfully) in Legislative Elections as PSU (Parti Socialiste Unifié) candidate. Secretary-General of the PSU 1967-73. PSU presidential candidate, 1969. PSU Deputy for the Yvelines, 1969-73. Joined Socialist Party (PS) 1964. Member of the National Secretariat 1965-79. PS Deputy for the Yvelines since 1978. Minister for the Plan 1981-83. Minister for Agriculture from 1983 until his resignation in 1985. Appointed Prime Minister in May 1988 and again after the Legislative Elections in June 1988.

Rocard made his name as a national figure during the May events of 1968. His party was the only one to be identified with the student movement, and its leaders occupied key positions in the main student and teacher organisations. He broke with the PSU in 1974 after its failure to amalgamate with the PS. He then rose swiftly in the PS. He moved away from the leftist ideas he espoused in the late 1960's towards centrist policies of pragmatism and moderation.

At the PS Congress at Metz in 1979 a re-alignment of forces within the Party left Rocard and his ally Mauroy in the minority. Both remained members of the Executive Bureau of the Party but lost their places at National Secretaries. In 1980 Rocard made an unsuccessful bid for the PS's nomination for the 1981 presidential election in place of Mitterrand, who is reputed to continue to hold this against him. In 1981 Mitterrand appointed him Minister responsible for the Plan. This gave him the chance to put into practice his ideas about economic self-management and decentralisation. Moved in 1983 to the Ministry of Agriculture. His resignation in 1986 was allegedly motivated by opposition to the introduction of proportional representation for legislative elections. He subsequently concentrated on trying to strengthen his position for the 1988 presidential elections. He announced his intention to run again to become President, even if Mitterrand were again a candidate, and for many months stood at the top of the opinion polls. But he eventually decided not to challenge Mitterrand and loyally campaigned for his re-election.

His appointment as Prime Minister on 10 May 1988 was both a reward and a sign of Mitterrand's wish to make an opening towards the centre. Half the Ministers in Rocard's government are non-PS members. Rocard's initial success in reconciling the communities in New Caledonia - the Matignon agreements - confirmed his reputation for moderation and pragmatism.

Rocard has long been one of France's most popular politicians, with a reputation for honesty and sincerity (which is sometimes ascribed to his Protestant upbringing). His motto is "parler vrai". He has a strong intellect, and keen political instincts, though doubts remain about his drive ("no killer instinct") and organisational skills. Can be a good speaker, when audible (very rapid delivery) but can also be obscure. His distinctive brand of intellectual imagery sometimes suggests more a hyper-clever university don than a statesman of presidential stamp.

In 1980 and again in January 1988 he visited the UK as a COI Category I sponsored visitor. He is a self professed Anglophile, for whom memories of wartime co-operation continue to

count. But he expresses disappointment about what he perceives the lack of "vision" in Britain's approach to Europe.

Rocard speaks good English. He is divorced and remarried to Michèle (a sociologist). He has two children by each marriage. His hobbies are sailing and skiing.

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PRIME MINISTER'S MEETING WITH SOVIET PRIME MINISTER, 18 APRIL

SUMMARY

1. WITH RYZHKOV TOMORROW THE PRIME MINISTER MIGHT:
 - (A) REINFORCE THE SUPPORT FOR PERESTROIKA SHE EXPRESSED TO GORBACHEV TEN DAYS AGO SEMICOLON
 - (B) NOTE THE SUCCESS OF THE BRITISH TRADE MONTH, INCLUDING MR PARKINSON'S VISIT AND THE SIGNATURE OF TWO LARGE CONTRACTS SEMICOLON
 - (C) LOOK AHEAD TO LORD YOUNG'S VISIT IN JUNE SEMICOLON
 - (D) EXPRESS APPRECIATION OF ARRANGEMENTS MADE FOR PRINCE EDWARD.

DETAIL

2. DURING HER BRIEF BILATERAL WITH SOVIET PRIME MINISTER RYZHKOV IN LUXEMBOURG ON 18 APRIL (EFFECTIVELY 20 MINUTES OF CONVERSATION, ALLOWING FOR TIME LOST IN INTERPRETATION), THE PRIME MINISTER MAY WISH TO FOCUS ON THE FOLLOWING SUBJECTS.
 - (A) PERESTROIKA
3. MRS THATCHER WENT OVER THE GROUND THOROUGHLY WITH GORBACHEV. BUT AT THIS CRITICAL TIME I WOULD SEE MERIT IN HER REINFORCING WITH RYZHKOV THE WORDS OF ENCOURAGEMENT AND SUPPORT SHE OFFERED IN THE DOWNING STREET TALKS, ESPECIALLY TO COUNTER GORBACHEV'S ASSERTION THAT CERTAIN CIRCLES ARE HOPING THAT PERESTROIKA WILL FAIL.
 - (B) BRITISH/SOVIET TRADE MONTH
4. THE EXHIBITION IN MOSCOW ORGANISED BY THE BRITISH/SOVIET CHAMBER OF COMMERCE ENTERS ITS SECOND WEEK ON 18 APRIL. IT WAS OPENED ON 11

APRIL BY MR CECIL PARKINSON, IN THE PRESENCE OF DEPUTY PRIME MINISTER KAMENTSEV. BY CLOSURE ON 28 APRIL OVER 300 BRITISH COMPANIES WILL HAVE PARTICIPATED. PRINCE EDWARD IS VISITING THE EXHIBITION ON MONDAY 17 APRIL, TO MEET BRITISH PARTICIPANTS AS THEY SET UP THEIR STANDS FOR THE SECOND WEEK.

5. THE FIRST WEEK WAS DEVOTED TO THE AGRICULTURE, ENERGY, TRANSPORT AND CHEMICAL SECTORS. DURING THIS WEEK TWO NEW LARGE TRADE DEALS HAVE BEEN STRUCK.

- COURTAULDS HAVE SIGNED A LETTER OF INTENT WITH THE MINISTRY OF CHEMICAL INDUSTRY FOR THE MODERNISATION OF ACRYLIC FIBRE PLANTS (WORTH ABOUT 200 MILLION POUNDS).

- ELCON HAVE LANDED A HOTEL CONTRACT WORTH AROUND FIFTY MILLION POUNDS.

6. ALTHOUGH RYZHKOV HIMSELF WAS UNFORTUNATELY NOT ABLE TO MEET THE SECRETARY OF STATE FOR ENERGY, MR PARKINSON'S VISIT WENT WELL AND HE HAD SERIOUS AND USEFUL ENCOUNTERS WITH KEY FIGURES IN THE ENERGY SECTOR.

(C) GENERAL TRADE PICTURE

7. AS THE PRIME MINISTER KNOWS, WE ARE STILL SOME WAY SHORT OF THE TARGET OF BILATERAL TRADE TURNOVER OF 2.5 MILLION ROUBLES BY 1990, AND THE TRADE BALANCE REMAINS HEAVILY IN SOVIET FAVOUR. BRITISH COMPANIES HAVE SHOWN THEIR WILLINGNESS TO CONSIDER MUTUALLY ADVANTAGEOUS NEW FORMS OF TRADE, INCLUDING JOINT VENTURES AND CONSORTIA. FOLLOWING THE VISITS TO THE BRITISH MONTH OF SIR JAMES CLEMINSON, BOTB CHAIRMAN (THIS WEEK) AND MR MALCOLM STEPHENS, ECGD CHIEF EXECUTIVE (NEW WEEK), MRS THATCHER MAY WISH TO LOOK AHEAD TO THE VISIT TO THE USSR OF THE SECRETARY OF STATE FOR TRADE AND INDUSTRY AT THE END OF JUNE. WE NATURALLY HOPE THAT RYZHKOV WILL BE ABLE TO SEE LORD YOUNG.

(D) PRINCE EDWARD

8. PRINCE EDWARD FLIES HOME THIS AFTERNOON, 17 APRIL, AFTER A RELAZED AND ENTIRELY SUCCESSFUL 48 HOURS IN MOSCOW. HE ATTENDED THE NATIONAL YOUTH THEATRE'S 'MURDER IN THE CATHEDRAL' ON THE EVENING OF 16 APRIL. EARLIER IN THE DAY, INTER ALIA, HE ATTENDED A SERVICE IN THE HISTORIC WORKING CHURCH AT KOLOMENSKOYE.

9. PRINCE EDWARD'S OFFICIAL HOSTS HAVE BEEN THE MINISTRY OF CULTURE, AND THE COUNCIL OF MINISTERS HAS BEEN RESPONSIBLE FOR PROVIDING LOGISTIC FACILITIES. THE PRIME MINISTER COULD THANK RYZHKOV BRIEFLY FOR THE CONTRIBUTION OF HIS SUBORDINATES IN HELPING TO BRING ABOUT EXACTLY THE RIGHT BLEND OF OFFICIAL AND UNOFFICIAL INVOLVEMENT IN THIS VISIT. SHE COULD AT THE SAME TIME LOOK AHEAD TO THE VISIT BY HERSELF AND THE PRINCESS ROYAL TO THE BRITISH WEEK IN KIEV IN JUNE 1990, ONCE THE RUSSIANS HAVE CONFIRMED THE TIMING WE HAVE REQUESTED.

BACKGROUND

10. ASIDE FROM THE STATE OF THE ECONOMY AND THE ELECTORAL PROCESS (WINDING ITS WAY TOWARDS THE FIRST SESSION ON 25 MAY OF THE NEW SUPREME SOVIET) EVENTS IN GEORGIA WILL BE A PREOCCUPATION IN RYZHKOV'S MIND. WE ARE SUMMARISING IN A SEPARATE TELEGRAM THE LATEST DEVELOPMENTS THERE, INCLUDING THE RESIGNATIONS OF THE FIRST SECRETARY OF THE PARTY AND THE CHAIRMAN OF THE COUNCIL OF MINISTERS.

11. OVER THE PAST YEAR, RYZHKOV'S STAR HAS CONTINUED TO RISE. HE DOES NOT COMPETE FOR THE POLITICAL LIMELIGHT WITH GORBACHEV, LIGACHEV AND OTHER PROTAGONISTS IN BATTLES OVER PERESTROIKA, AND HAS REMAINED AN UNCONTROVERSIAL FIGURE. BUT HE CONTINUES TO IMPRESS FOREIGN VISITORS WITH HIS COMPETENCE, AND HAS DONE A USEFUL JOB FOR GORBACHEV BY PINNING TOGETHER THE MACHINERY OF GOVERNMENT IN A TIME OF UPHEAVAL. HIS STYLE, LIKE HIS WORK, IS SOLID AND UNSPECTACULAR: AND HE COMES ACROSS AS A LITTLE COLOURLESS (WHICH IN CERTAIN RESPECTS MAY BE AN ASSET). BUT HE FILLS A VITAL NICHE IN THE UPPER REACHES OF THE LEADERSHIP.

12. COD: PLEASE ADVANCE TO NO 10 DOWNING ST.

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PRIME MINISTER

VISIT TO LUXEMBOURG

You are to visit Luxembourg on Tuesday for the 150th anniversary celebrations. Other Heads of Government attending are Martens, Lubbers, Vranitzky, Rocard and Ryzhkov. Kohl has just dropped out because of his political problems at home. Perez de Cuellar and Woerner will both be there.

I attach the programme. It is fairly rushed. You leave straight from the Queen Elizabeth Conference Centre after your speech to the CSCE Forum, to get to Luxembourg by 1420. There are a number of formal occasions in Luxembourg:

- an audience with the Grand Duke;
- a family photograph;
- a flag-raising ceremony;
- a commemorative ceremony with speeches;
- viewing of an exhibition;
- and a dinner.

You will be first in protocol order for these events, which means you will arrive last and leave first (except for the Luxembourg Royal Family).

In between these you are squeezing in three short bilaterals with Vranitzky, Ryzhkov and Perez de Cuellar.

Luxembourg Aspects

There is no provision for any formal discussions with members of the Luxembourg government. But as the most senior Head of Government attending, you are likely to be seated next to Monsieur Santer at dinner. The attached note by the Foreign and Commonwealth Office and telegram from our Ambassador sets out the current Luxembourg background. The main feature is the election expected in June at the same as the Euro-election. Santer's position is looking slightly dodgy:

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but the outcome of Luxembourg's election is impossible to predict, since any number of combinations are theoretically possible. The economy continues to boom. But the Luxembourgers remain anxious about the EC withholding tax and will be looking to you to take a lead against this. You could also discuss with Monsieur Santer the Delors Committee report on which his attitude will probably be positive. We have close cooperation with them on satellite broadcasting.

Bilateral with Chancellor Vranitzky

The main subject to discuss with Vranitzky is your holiday in Austria about which he is informed. The proposed dates are 10-20 August. He has kindly suggested that he should take you to the opera one evening. You hope that he will come to lunch at Imlau. You need to say that you are sure he will understand the position over Waldheim: since you are on holiday, you would not want him to suggest a meeting and hope that Vranitzky can help ensure this does not happen.

The other main issue is Austria's likely application for membership of the EC Community this summer. I see no need for you to be discouraging: Austria's membership would, in my view, be a useful step towards dilution of the Community. But there is no realistic prospect of the EC giving early consideration to an application, at least until the Single Market exercise is complete in 1992. Moreover, an Austrian application cannot be considered in isolation from others such as Turkey, Norway (possibly) and Cyprus.

There are no other major issues. You might give him an account of Mr. Gorbachev's visit and ask his views about developments in Hungary. You should thank him for cooperation against terrorism, while underlying the continuing threat from radical Arab and Iranian groups. You could say that we are ready to sell Austria Javelin missiles.

Bilateral with UN Secretary-General

The main subjects are Namibia, Cyprus and drugs.

Lebanon Caspary

On Namibia we shall need to see how the situation stands early next week. But your main message is the need to do everything possible to keep the independence process on course, because of the potentially very positive effects of success in Namibia for developments elsewhere in Southern Africa.

On Cyprus you might ask for his impressions following his recent talks with Vassiliou and Denktash in New York. What does he intend to do next? We are not enthusiastic about involving the Security Council, because we do not want to give the Russians a foothold.

On drugs you will recall the cry for help we have received from Joan Anstee, who has now been to London and seen the Home Secretary. We are providing some modest bilateral help to her. You will want to say that we attach high priority to the United Nations work on drugs and want to see more resources allocated to it from the UN's regular budget.

Other points you might touch on are Arab/Israel, Iran/Iraq and the environment. On the last you could underline your resistance to establishing new institutions as proposed by the French: our preference is to strengthen existing UN bodies.

Bilateral with Ryzhkov

Time will be very limited (allowing for interpretation). The main points to make are:

- underline our view of the success of Mr. Gorbachev's visit;
- urge Ryzhkov to take up his own invitation to visit the United Kingdom, perhaps later this year or early next;

- refer to his role in taking charge of reconstruction in Armenia, and our intention to provide a new school;
- urge greater efforts to reach the target of a 40 per cent increase in trade which you agreed with him during your visit to Moscow. You might mention our need for a prestigious building in central Moscow for a trade centre as well as the proposed British week in Kiev in 1990;
- you could ask about the prospects for economic reform, in the light of your talk with Mr. Gorbachev;
- you might also mention the nationalities issue, in a sympathetic way.

Fuller notes by the Foreign Office for all these meetings are attached.

C.D.P.

(C. D. POWELL)

14 April 1989

PRIME MINISTER'S VISIT TO LUXEMBOURG, 18 APRIL

PROGRAMME (all times local)

1130 Leave CSCE Forum
To Northolt by helicopter

1200 Take off from Northolt

1420 Arrive Luxembourg

c.1430 After-lunch coffee and audience with the Grand
Duke at the Grand Ducal Palace

1445 "Family Photo"

1515 Flag-raising ceremony at Golden Lady Monument

1545 All gather at MFA

1550-1610 Bilateral with Vranitzky

1610-1635 Bilateral with Perez de Cuellar

1645 Séance Académique at the Municipal Theatre

1750 Viewing of Luxembourg history exhibition
and signing of the Golden Book of the City of
Luxembourg

1845 Bilateral with Ryzhkov at the Residence

1915 Prepare for dinner

1945 Leave Residence for Château de Bourglinster

2000 Dinner

2130 Leave Bourglinster

2150 Take off

2210 Arrive Heathrow

LIST OF GUESTS OF HONOUR

Governments

Netherlands	Mr Ruud Lubbers	Prime Minister
Belgium	Mr Wilfried Martens	Prime Minister
France	Mr Michel Rocard	Prime Minister
FRG	? Mr Genscher	Foreign Minister
Austria	Mr Franz Vranitzky	Chancellor
United Kingdom	Mrs Margaret Thatcher	Prime Minister
USSR	Mr N I Ryzhkov	Chairman, Council of Ministers

International Organisations

United Nations	Mr Perez de Cuellar	Secretary General
NATO	Mr Manfred Wörner	Secretary General
BENELUX	Mr E D J Kruijtbosch	Secretary General
BENELUX Parliamentary Council	Mr Aly Schroeder	President
OECD	Mr Jean-Claude Paye	Secretary General
Council of Europe (COE)	Mr Marcelino Oreja	Secretary General
COE Parliamentary Assembly	Mr Louis Jung	President
WEU	Mr Alfred Cahen	Secretary General
WEU Parliamentary Assembly	Mr Charles Goerens	President
EIB	Mr Ernst-Günther Bröder	President
European Parliament	Lord Plumb	President
European Court of Justice	Mr Ole Due	President
Commission	Mr Jacques Delors	President
EC Court of Auditors	Mr Marcel Mart	President
Shape	General John R Galvin	SACEUR

Luxembourg

Mr Léon Bollendorff

President of the Chamber of
Deputies

Mr Jacques F Poos

Deputy Prime Minister, Minister
of Foreign Affairs

Mr Pierre Werner

Honorary Minister of State
(ex-Prime Minister)

Mr Gaston Thorn

Honorary Minister of State
(ex-Prime Minister)

NB: Not in protocol order.



Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

13 April 1989

Dear Charles,

and

Prime Minister's visit to Luxembourg: Bilateral
with UN Secretary General

The Prime Minister will have a bilateral with Mr Perez de Cuellar during her visit to Luxembourg. She last met him on 23 May 1988 in London. A personality note is attached.

Namibia

The Prime Minister will wish to express our firm support for the UN plan for Namibian independence. The Prime Minister may wish to recall her intervention with Pik Botha in Namibia on 1 April, welcome the agreed framework for the return of SWAPO forces to Angola, and express the hope that this will place the UN plan firmly back on course. The Prime Minister might add that we were glad to be able to redeploy our signallers to man assembly points for SWAPO personnel, and to help with the UN Secretariat's urgent need for transport in Namibia by providing at short notice over 50 Landrovers and a dozen trucks for UNTAG. You will obviously need an update on Namibia next week.

Cyprus

The Secretary-General reviewed progress with Vassiliou and Denktash in New York on 6 April. The Prime Minister may wish to congratulate him on getting Vassiliou and Denktash to agree to keep the talks going, and to ask if he has achieved more than buying time. What are the prospects for substantial progress by the end of May? (The two sides have agreed to cooperate with the UN in preparing a draft outline settlement, but it is clear that after 87 hours of talks between the two Cypriot leaders neither trusts the other's intentions.) As Vassiliou showed in his latest message to the Prime Minister (on which Perez de Cuellar has been briefed), he continues to believe that Britain and others can achieve a settlement for him by means of Turkish leverage on Denktash. It seems to us that both sides need to make concessions.

What are the Secretary-General's intentions? We have doubts about involving the Five Permanent Members of the

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Security Council, or the Council as a whole, although we could support a statement calling on both sides to cooperate with the Secretary General and to negotiate flexibly. Meanwhile we remain ready to help the Secretary-General in any way we can.

Drugs Bodies

The Prime Minister might say that we attach high priority to the UN's drugs work and believe that resources should be reallocated to this from the UN's Regular Budget. (The Prime Minister has recently been in correspondence on this with the coordinator of UN drugs work, Miss Anstee, who visited London on 16 March for talks with the Home Secretary and Mr Eggar.) We have agreed to provide two officers for the drugs bodies for one or two years and are considering what more we can do. We want a review of the UN drugs bodies aimed at increasing their cost-effectiveness and are pursuing this with other interested governments.

Environment

The Prime Minister may wish to say that we fully support the work of the United Nations Environment Programme. We see no need for a new international institution, and prefer to strengthen the existing ones.

Iran/Iraq

meeting) The Prime Minister may wish to mention Iran/Iraq. What are the prospects for the expected 20 April? Despite continuing ceasefire violations, we see no sign of either side wishing to resume hostilities. The UK (and the rest of the Five) remain ready to offer support to the UN Secretary-General wherever needed.

Arab/Israel

The Secretary-General was delighted by the Prime Minister's statement in Marrakesh that the Permanent Five's support was one of the three things required before negotiations can begin. She might confirm that we share his wish to include the Middle East on the Five's agenda. But there is a difference between informal discussions among the Five designed to help the peace process forward and active preparations for an international conference. The traffic, especially in Israel but also in Washington, will not stand these yet. Any attempt to stimulate formal activity by the UN will encounter American opposition, and revive traditional Israeli fears of being arraigned before the UN "Court". For the same reason we are opposed to the (Soviet) idea of appointing a new Special Representative, which in any case is a recipe for failure. The Secretary-General should keep the threads in his own hands for the moment. The aim should be to produce a situation in which an international

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conference, with Five Power participation, would seem the only logical way to carry negotiations forward. We shall continue to encourage the Americans (as no doubt he will) to see the virtues of informal talks among the Five, and with the Secretary-General, as a support mechanism for US activity. This does not mean that the Security Council should be gagged if there is an outrage (from one side or the other) in the Occupied Territories or if the already wretched situation in Lebanon continues to deteriorate further.

Central America

The Secretary-General may mention the proposed UN security verification group for Central America (ONUCA), which he expects to bring to the Security Council in May. The Prime Minister could confirm that we see no objection to the force as presently envisaged (ie 160-200 men, drawn from Canada, Spain and the FRG). But US concerns on mandate and effectiveness must be given proper consideration.

The Secretary-General might also mention the separate Central American request for UN verification of Nicaragua's election process. The Secretariat is considering this, but is concerned about likely US attitudes. We do not oppose the idea in principle, but would want to see detailed proposals before going further.

I am copying this letter to Trevor Woolley (Cabinet Office).

Jaw,
Stephe Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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PEREZ DE CUELLAR, JAVIER

Secretary-General of the United Nations since 1 January 1982.

Peruvian. Born 1920 in Lima. Graduated from the Law Faculty of the Catholic University, Lima in 1943. Joined the Peruvian Diplomatic Service in 1944 and was a member of the Peruvian delegation to the first session of the General Assembly in 1946. Subsequently served in the Peruvian Embassies in Paris, London, La Paz and Rio.

1961-64: Ministry of External Relations, Lima (successively Director of Administration, Director of Protocol and Political Director).

1964-66: Ambassador in Berne.

1966-69: Secretary-General (ie PUS) of the Ministry of External Relations, Lima.

1969-71: Ambassador in Moscow (and concurrently Warsaw).

1971-75: Permanent Representative at the UN (President of the Security Council during the 1974 Cyprus crisis).

October 1975-December 1977: Secretary-General's Special Representative in Cyprus.

December 1977-February 1979: Ambassador in Caracas.

February 1979: appointed UN Under-Secretary-General for Special Political Affairs.

He was additionally appointed the Secretary-General's Personal Representative for Afghanistan in 1980 and also represented the Secretary-General at the Rhodesian independence elections. He resigned as Under-Secretary General on 31 May 1981, but remained Waldheim's Personal Representative for Afghanistan. He was then nominated as Ambassador in Brasilia but his appointment became a political issue in the Peruvian Parliament, where the Senate rejected it on the grounds that he had continued in office as Secretary-General at the Foreign Ministry when President Belaunde was overthrown by Velasco in a military coup in October 1968 and had been present at the swearing-in ceremony of Velasco and his government. He finally left the active service of the Peruvian government in October 1981.

In the 1981 contest for the Secretary-Generalship of the United Nations, the only declared candidates initially were Kurt Waldheim and Salim Salim (Foreign Minister of Tanzania). The Peruvian government lobbied intensively for Perez de Cuellar as a compromise candidate in the event of deadlock between Waldheim and Salim, but Perez de Cuellar himself stayed quietly in his tent outside Lima, a tactic which won him points over the other potential compromise candidates who were visible and active in New York. When Waldheim and Salim finally agreed to withdraw from the contest, and thus made way for new candidates, the Russians immediately made clear that Perez de Cuellar was the only one of the latter whom they were prepared to accept. (He had been largely responsible for the improvement in relations with the Soviet Union after the Velasco coup and was Peru's first Ambassador in Moscow.) In the subsequent ballot in the Security Council he received the necessary nine votes and no vetoes. In 1986 he was re-elected for a second term by unanimous vote of the Security Council, with the backing of all 5 permanent members.

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Perez de Cuellar is an exceedingly able diplomat, self-effacing and modest. Unlike his predecessor as Secretary-General, he shuns the limelight and thinks hard and carefully before acting. He regards his service in London and Paris as his formative years and professes special admiration for the institutions and traditions of the UK; he is always eager to visit London and did so most recently in May 1988, when he saw the Prime Minister. He played a central role in attempts to negotiate a peaceful solution to the Falklands crisis in the first half of 1982. He brought considerable professionalism and skill to this thankless task and was scrupulously impartial. It was not his fault that his efforts failed.

Perez de Cuellar is conscious both of the delicacy and the potential importance of his position. He is almost certainly willing to take a strong stand if it is necessary or if it is likely to lead to success. In such circumstances he might well be willing to disoblige the Soviets: he is a true Democrat and distrusts them. Moreover, he wishes to make a mark as Secretary-General and to leave the office stronger than he received it. But he is cautious about being propelled into the firing line with possible consequent damage to his authority.

He speaks perfect French. His English is less good and he does not always understand what is said, especially in a conversation involving two or more native English speakers. This is a point to be borne in mind. His spoken English is better but his lack of nuance has frequently let him down when fielding questions from the media. He underwent heart by-pass surgery in August 1986, and has since seemed in better health, with more energy and determination.

His first marriage, by which he had two children, ended in divorce. His second wife, is Marcela Temple de Perez de Cuellar (a Peruvian lady whose father is of British origin) - see separate entry.



Foreign and Commonwealth Office

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London SW1A 2AH

13 April 1989

Dear Charles,

Prime Minister's visit to Luxembourg: Meeting with
Soviet Prime Minister Ryzhkov, 18 April

This will be the Prime Minister's first meeting with Ryzhkov since her visit to Moscow in 1987, when they jointly agreed to aim for a 40% increase in bilateral trade by 1990. Ryzhkov's principal responsibilities are domestic/economic. He rarely travels outside the CMEA. But he has had an invitation to visit Britain outstanding since 1987 and the Prime Minister could usefully renew this (perhaps suggesting a visit later this year).

Ryzhkov's star is rising. He is as far as we can tell a firm supporter of perestroika and seems personally close to Gorbachev. At the same time he is one of the very few plausible alternatives to Gorbachev. He put up an impressive performance when taking charge of the (generally chaotic) rescue/reconstruction operation after the Armenian earthquake. The Prime Minister might mention this, the planned school, and add that British companies remain keen to offer their expertise (on a commercial basis) to help with reconstruction in Armenia.

The Prime Minister might also underline our view of the success of Mr Gorbachev's visit.

The Prime Minister could mention the British week in Kiev in 1990 and our hope that the authorities can agree that it be in June. She could invite Mr Ryzhkov to visit it and say that she hopes to go herself.

For the rest, the Prime Minister might concentrate on trade, management training and economic reform.

On trade, a British Month involving 300 British companies was opened in Moscow on 11 April by Mr Parkinson. The Prime Minister could say that this underlines the UK's commitment to increasing bilateral trade, which was also an important theme during the Gorbachev visit - contracts worth some £150 million were signed and more are in the pipeline. But there is still a long way to go before the agreed 40% target is met. The

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Trade Month will be followed by visits by Sir Trevor Holdsworth (CBI) in May and Lord Young in June. We are doing all we can to give new impetus to bilateral trade, including forming consortia. But more major projects need to be awarded to British companies with competitive bids if the increasing trade imbalance is to be redressed. The proposed British Trade Centre in Moscow is also important. We welcome Mr Gorbachev's statement to senior businessmen during his visit to London that such a Centre is "essential". We hope early agreement can be reached on a suitably central and prestigious site.

On management training, the Prime Minister could underline the importance of reinforced management skills if economic reforms are to be introduced successfully and individuals are to run enterprises effectively, free from central interference. We are providing help (London Business School course this month) and planning more in the future. British companies and business schools themselves are also enthusiastic (eg Rank Xerox are putting in £50,000 next year). But the Prime Minister could also encourage Mr Ryzhkov to allocate some of the Russians' own hard currency to such training: know-how, not just new technology, is the key if perestroika is to deliver the goods. Buying consultancy expertise where Britain has a lot to offer, is also a good investment.

Finally, the Prime Minister could follow up her discussions with Mr Gorbachev on the wider prospects for economic reform and the potential role of joint ventures, special economic zones and similar ideas designed to involve Western companies in the process of perestroika. She might ask Ryzhkov (who has been involved in consideration of the Soros proposals) how this process is developing in general and whether foreign companies now show signs of being willing to invest in the Soviet Union on a large scale. Recalling Mr Gorbachev's concern about not trying to do too much too soon, she could ask Ryzhkov about plans to tackle inflation and the budget deficit (spending on major investment projects is already being cut back).

Nationality problems are looming increasingly large, following the very serious events in Georgia (about which the authorities appear increasingly embarrassed). The Prime Minister will wish to avoid appearing too interested in a problem where sensitivities about possible Western incitement are so great, but could ask about the planned Central Committee plenum on the subject in the summer; and how the federal structure might be altered.

There is no need to raise human rights in any detail, but the meeting would be a good opportunity to remind Ryzhkov, as Prime Minister, of the more liberal legislation which has been

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promised on emigration, freedom of expression, freedom of conscience, etc: we hope to see it on the statute books and in operation soon. This will be a vital step towards a law-based state.

/ I enclose a personality note on Ryzhkov.

I am copying this letter to Trevor Woolley (Cabinet Office).

Jaw,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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RYZHKOV, Nikolai Ivanovich

Chairman of the Council of Ministers; Member of the Politburo.

Ryzhkov (57) began his career in a machine-building plant in the Urals, rising to become General Director of the Urals Machinery Production Association. For a time he was First Deputy Minister of Heavy Transport Machine-Building, then First Deputy Chairman of the State Planning Committee (Gosplan). In 1981 he was elected a member of the CC CPSU, and in late 1982 he became a CC Secretary and Head of the CC Economics Department supervising the management of the economy.

In early 1985 Ryzhkov was promoted to membership of the Politburo and later in the year he succeeded Nikolai Tikhonov as Chairman of the Council of Ministers (Prime Minister).

Ryzhkov has not travelled widely. Apart from Eastern Europe, he has visited Vietnam, Austria and Cuba; he attended Olaf Palme's funeral in Stockholm in March 1986 and paid an official visit to Finland in January 1987.

Opinions on Ryzhkov differ among those Westerners who have met him in the last year. Some found him confident and impressive, while others thought him uncertain of his ground outside his own field and inclined to stick rigidly to his brief. On the whole however he seems to have gained considerably in confidence and makes an effective and unpolemical interlocutor.

Ryzhkov's wife Lyudmila accompanied him to Helsinki in January.



CONFIDENTIAL Foreign and Commonwealth Office

London SW1A 2AH

13 April 1989

Dear Charles,

Prime Minister's visit to Luxembourg: Bilateral with
the Austrian Chancellor, 18 April

The Prime Minister will meet Dr Franz Vranitzky at her request during her visit to Luxembourg on 18 April. This will be at 1550 in the MFA. Vranitzky last met the Prime Minister on 4 July 1988. We expect that discussion will concentrate on EC/EFTA matters and Austria's likely EC membership application. Vranitzky speaks excellent English.

I enclose a biographical note. A scene-setting telegram from Vienna will follow. Bilateral relations are good, though conducted in a low key for the moment because of Waldheim. There are no plans for any high level exchanges before publication of the MOD Waldheim Review (the timing of which is being considered by MOD). Vranitzky understands the situation. The Foreign Secretary met both Vranitzky and Mock at the CSCE and CFE meetings in Vienna this year.

EC/EFTA/Austria

The main Austrian political parties now seem agreed on an application for EC accession this summer. This will almost certainly contain a reservation about Austria's neutrality which Vranitzky has said must be maintained.

We judge that the economic effects for the UK of Austrian membership would be broadly balanced. But Austria's neutrality could give rise to political difficulties, for example over the development of European Political Cooperation. There could also be legal difficulties arising from the State Treaty, which prohibits "political or economic union with Germany in any form whatsoever", but we would not wish to raise this issue with the Austrians.

While welcoming Austria's interest in EC developments, the Prime Minister might commend the strengthening of EC/EFTA cooperation. We look forward to pursuing, at a further Ministerial meeting in the autumn, the desire of EC and EFTA Ministers on 20 March to deepen and extend the relationship. The Prime Minister might add that EC members are currently concentrating on completing the Single Market and are generally agreed on no further enlargement, at least until

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after 1992. A decision to apply for membership is of course a matter for Austria. But Austria should take full account of the political as well as economic obligations of membership.

If Vranitzky refers to Austria's possible contribution on East/West relations and European security, the Prime Minister might refer to the political and economic links which the EC is already developing with Eastern Europe and the Soviet Union. The Prime Minister may also wish to ask about Soviet attitudes towards the implications for Austrian neutrality of possible membership of the EC. (The Russians have been tougher in private than the Austrians like to admit; Soviet attachment to Austrian neutrality, and locus as a signatory to the State Treaty, could lead them to claim a droit de regard over developments in the Community if Austria joined.)

East/West Relations

On wider East/West relations, Austria's increasingly close links with Hungary, in particular, may give them useful insights. They will have noted recent statements by the Soviet leadership which the Hungarians regard as giving approval to their reform programme, but we have seen reports that Gorbachev takes a more cautious line in private. Vranitzky may have his own views. He would also clearly welcome an account of Gorbachev's visit to the UK.

Nationalised Industries

Austrian nationalised industries account for 17% of industrial employment and 18% of exports. Inefficiency and padding have made them a severe drain on the economy and the Austrians have sought help from British firms over restructuring. The Prime Minister might welcome this.

CW

Vranitzky might raise the possibility of Vienna hosting the International Implementation Agency for a CW convention. If so, the Prime Minister might take note but say that our main priority is to achieve an effectively verifiable convention and much work remains to be done.

Terrorism

We have had close cooperation with Austria on counter terrorism. But their firmness hitherto has shown signs of wavering. The Prime Minister might therefore thank Vranitzky for the cooperation but remind him of the continuing threat from radical Arabs, notably from the PFLP-GC, Libya and Abu Nidhal.

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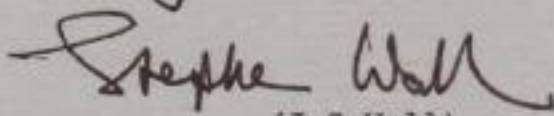


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Defence Sales

The Prime Minister might say that we are willing to offer Austria Javelin missiles: although the State Treaty bans the acquisition of certain types of missiles, we do not regard short-range defensive weapons as falling within these categories.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours,

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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VRANITZKY, DR FRANZ

Federal Chancellor since June 1986. Socialist Party (SPö).

Born 1937. His whole professional career before becoming Chancellor was in accounting and banking, including periods with the Austrian National Bank and the Ministry of Finance. Has good links with the international financial community including British banks and institutions. A member of the Austrian Bankers' Mission to the UK in October 1982.

Appointed Chairman of the Österreichische Länderbank in April 1981 after a short period as a Deputy Chairman and an earlier spell (1976-81) as Deputy Chairman of the largest state-run bank, the Creditanstalt-Bankverein. Was given the task of restructuring the Länderbank and rescuing it from its financial difficulties following the collapse of some of its largest industrial investments. Minister of Finance September 1984- June 1986. Chairman of SPö since May 1988.

Regarded as an able technocrat rather than a party man, although he has consistently increased his hold over the Party in the last year. On the right of the Party (a financial conservative). No political experience prior to becoming Minister of Finance in 1984.

Considerable personal popularity, which was crucial in winning the 1986 election and in maintaining the SPö position since, despite a spate of recent scandals affecting the party. Vranitzky has the image of a level-headed, objective statesman, guiding his country through difficult waters whilst staying to a large degree above party politics.

The SPö is the dominant partner in Coalition with the conservative ÖVP. Vranitzky has shown disapproval at the "oppositionist" behaviour of the ÖVP over major issues, and at the support of its leader, Vice Chancellor and Foreign Minister Alois Mock, for President Waldheim.

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Vranitzky believes that Waldheim has damaged Austria and hindered the efficient working of Government. But he has always observed protocol and has never publicly condemned Waldheim or called for his resignation.

Vranitzky has been cautious and statesmanlike throughout the debate on the EC issue, and has ensured that the issues were fully analysed. He is known to be personally in favour of membership, and gained the formal approval of the Party for membership at a recent meeting which gave him remarkably high support and dissolved his left-wing opponents. He expects to request to open negotiations with the EC in the summer.

Called on Mrs Thatcher during a private visit to Britain in July 1988.

A keen sportsman, a former Austrian National Team Basketball player.

Married, with two children. Speaks good English.

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PRIME MINISTER'S BILATERAL WITH VRANITZKY : LUXEMBOURG : 18 APRIL
STATE OF THE COALITION

SUMMARY

1. VRANITZKY HAS CONSOLIDATED HIS GRIP, IN GOVERNMENT AND ON THE SOCIALIST PARTY (SPO). POLITICAL INEPTNESS BY THE CONSERVATIVES HAS HELPED. VRANITZKY HAS SET THE SOCIALIST SEAL ON AN EARLY EC APPLICATION.

DETAIL

2. VRANITZKY IS BY FAR THE MOST SUCCESSFUL POLITICAL FIGURE IN AUSTRIA TODAY. HIS POLITICAL SURE-FOOTEDNESS HAS ENSURED THAT THE SPO HAS REMAINED DOMINANT IN A BUMPY PERIOD. HE HAS EASILY RIDDEN OUT A SERIES OF CORRUPTION SCANDALS WHICH HAVE AFFLICTED THE SPO SINCE LAST AUTUMN AND WHICH HAVE RESULTED IN IMPORTANT RESIGNATIONS : BY THE TWO SPO CENTRAL SECRETARIES, BY ONE OF THE PARTY'S MOST SENIOR MINISTERS AND BY THE (SOCIALIST) SPEAKER OF PARLIAMENT. WITH THE DEPARTURE OF THE QUOTE KREISKY GUARD UNQUOTE VRANITZKY SET ABOUT REFORMING THE PARTY IN HIS OWN IMAGE. SUCCESSORS IN THESE KEY POSTS ARE YOUNGER, WITH THE NEW PROFESSIONAL IMAGE : AND ABOVE REPROACH IN THEIR PUBLIC CONDUCT. THE PURPOSEFUL MANNER OF THIS TRANSFORMATION HAS BROUGHT VRANITZKY MUCH ACCLAIM. THE CHANGES WERE MADE IN TIME TO MINIMISE SOCIALIST LOSSES IN PROVINCIAL ELECTIONS IN TIROL, SALZBURG AND CARINTHIA IN MARCH.

3. BY CONTRAST, THE COALITION PARTNER, THE PEOPLE'S PARTY, WHICH HAS FRAMED MANY OF THE GOVERNMENT'S BASIC ECONOMIC AND EUROPEAN POLICIES, HAS MADE A VERY POOR SHOWING AND HAS BEEN UNABLE TO CAPITALISE ON SOCIALIST DIFFICULTIES. IN THE MARCH ELECTIONS, THERE WERE MAJOR OVP LOSSES, MOSTLY TO THE SMALL FREEDOM PARTY. THE RESULT IS A POWER STRUGGLE, CONDUCTED ON THE FRONT PAGES OF THE NATIONAL DAILIES, IN WHICH VICE CHANCELLOR MOCK, THE PARTY LEADER, HAS COME UNDER INTENSE PRESSURE TO STAND DOWN. ONCE AGAIN, THE SOCIALISTS ARE PREENING THEMSELVES.

4. WHEN HE BECAME PARTY CHAIRMAN, MANY ON THE LEFT CONSIDERED

VRANITZKY'S LACK OF PARTY BACKGROUND AND HIS ECONOMIC CONSERVATISM A MAJOR HINDRANCE. HE WAS PARTICULARLY OPPOSED OVER THE EC. THE MAIN LEFTIST CONCERN WAS PERPETUAL NEUTRALITY : BUT THERE WERE SIGNS, TOO, THAT OLDER ELEMENTS FEARED THE LOSS OF AUSTRIAN PROTECTIONISM. DISCONTENT CAME TO A HEAD IN FEBRUARY AND MARCH WITH A NUMBER OF CRITICAL STATEMENTS BY PARTY ELDERS. BUT VRANITZKY EFFECTIVELY SILENCED THEM AT A NATIONAL PARTY LEADERSHIP MEETING IN EARLY APRIL WHEN HIS PROPOSAL TO APPLY FOR EC MEMBERSHIP WAS ADOPTED BY A MARGIN OF 50 VOTES TO 4. EFFECTIVE OPPOSITION TO EC MEMBERSHIP APPLICATION WAS THUS EXTINGUISHED.

5. IN THE MONTHS AHEAD, THE COMMUNITY WILL REMAIN THE DOMINANT FOCUS. THE GOVERNMENT WILL AGREE A COMPREHENSIVE REPORT TO PARLIAMENT NEXT MONDAY, MAKING A DETAILED CASE FOR MEMBERSHIP. PARLIAMENTARY APPROVAL IS EXPECTED BY LATE JUNE, AT WHICH STAGE THE GOVERNMENT WILL PROCEED WITH THE APPLICATION. I EXPECT VRANITZKY TO CONTINUE TO HANDLE THE ISSUE WITH HIS USUAL CARE. HE WILL WANT TO ENSURE THE BEST PRESENTATION OF THE AUSTRIAN CASE BOTH WITHIN AUSTRIA AND OUTSIDE : TO THE EUROPEAN COMMUNITY COUNTRIES AND, PARTICULARLY, TO THE SOVIET UNION. ON THE LATTER, VRANITZKY WILL HAVE A BILATERAL WITH RYZHKOV IN LUXEMBOURG NEXT TUESDAY, WHEN HE HAS SAID HE WILL QUOTE INFORM UNQUOTE THE RUSSIANS ABOUT THE CURRENT STATE OF PLAY.

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Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

13 April 1989

Dear Charles,

Prime Minister's visit to Luxembourg: 18 April

The Prime Minister will represent Britain as one of the Signatory States to the 1839 Treaty of London which established Luxembourg as independent of Belgium (notes on the British role are at Annex C). Heads of Government of five of the six other Signatory States will be present: Martens, Lubbers, Vranitzky, Rocard and Ryzhkov, together with representatives of many international organisations (see Annex A for a full list of participants). We have just heard that Kohl will not attend. He may be represented by Genscher. We shall confirm this as and when we can.

Bilaterals

The Prime Minister will have bilaterals with Vranitzky, Perez de Cuellar and Ryzhkov. I am sending separate briefing letters on each of these.

The Grand Duke

On arrival, the Prime Minister will join the other principal guests over coffee after their lunch with the Grand Duke. She will have an audience with the Grand Duke at 1430 before the 'family photo' at 1445. The Grand Duke (personality note at Annex D) is expected to abdicate before his seventieth birthday (1991) in favour of his son, Crown Prince Henri. Grand Duke Jean (addressed as Your Royal Highness) is strongly Anglophile: he was educated here, served in the British Army during the Second World War and is Colonel of the Irish Guards.

Links between the Luxembourg and British Royal Families are close: The Queen has just offered the Crown Prince an Honorary Commission in the Parachute Regiment (although this is not yet public) and the Duchess of Kent will be a guest of the Grand Ducal Family in June when she opens the "Britain in Luxembourg" trade exhibition. The Princess Royal will make a private visit in August.

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Relations with Luxembourg

The Prime Minister last went to Luxembourg on 21 September 1988, the day after her speech at Bruges. She last saw Prime Minister Santer at the Rhodes European Council. At his request, she has also agreed to see him on 15 May in London. Other recent contacts are listed in Annex E.

The most promising topics for conversation with Luxembourg Ministers are:

- Luxembourg's fast growing banking industry, in which the UK is a major partner. Lloyds and TSB opened there last year. The Luxembourgers strongly share our opposition to the EC withholding tax, since their banks are a traditional haven for deposits from France, Belgium etc;
- Satellite Broadcasting. Britain is Luxembourg's biggest partner. UK firms have bought 9 of the 12 channels so far offered for sale on Luxembourg's Astra TV Satellite (including Sky TV). We have worked together over the EC transfrontier broadcasting directive (and Council of Europe Convention) to ensure a liberal regime. This has gone well and is close to settlement.

Luxembourg Internal

Elections are due in June at the same time as the Euro-elections. Unusually for Luxembourg, the present Coalition of the Christian Social Party (led by Santer) and the Socialist Party (led by Foreign Minister Poos) has run its full course. (The opposition are the Democrats headed by Colette Flesch). No one in Luxembourg is predicting the outcome of the election but it is unlikely to affect our bilateral interests. There is a consensus on most major issues between the three main parties.

Economic/Trade

The economic indicators are healthy with minimal unemployment and around 3% growth. Inflation is 2.1%. The steel sector (responsible for 30% of industrial production) has recovered after fundamental restructuring. But the Government is determined to diversify the economy, notably into the financial and broadcasting sectors.

Trade figures for Belgium and Luxembourg are combined under the Belgo-Luxembourg Economic Union (BLEU). Overall this is our fifth largest market but Luxembourg (population approx 360,000) obviously accounts for a very small share. We are increasingly encouraging business to treat Luxembourg as a market in its own right.

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Practical arrangements

The Prime Minister will be escorted by the Luxembourg Ambassador in London, M Jean Wagner, who will be retiring at the end of May, and by our Ambassador, Mrs Juliet Campbell. M Wagner will guide the Prime Minister through the programme.

As the longest serving Head of Government the Prime Minister will be first in protocol order among them. She will leave each event first and arrive last (except for the Luxembourg Royals).

The bilaterals with Vranitzky and Perez de Cuellar will take place in the MFA (as explained in my letter of 23 March). The meeting with Ryzhkov will be at the Residence (with a Russian interpreter).

The programme

A programme is attached at Annex B. The Prime Minister will be met at the airport by M Wagner and Mrs Campbell. Guests to the "Séance Académique" (at 1645) will be greeted by Lydie Wurth-Polfer, Mayor of Luxembourg (who attended the Prince of Wales' dinner on 22 March). This session will include short speeches by M Santer and a leading historian, a response by Perez de Cuellar, musical interludes and a brief video about Luxembourg.

Britain has provided material for the history exhibition (at 1750) including portraits from the National Portrait Gallery (Palmerston), the Royal Collection and the Wellington Museum, and the English version of the Congress of Vienna Treaty of 1815. Each VIP will be given a personal tour of the exhibition and then sign the Golden Book. The Prime Minister should leave immediately after the Royals and go to the Ambassador's Residence for her meeting with Ryzhkov. All Heads of Government (except Kohl's stand-in) and Perez de Cuellar will attend the dinner at the Chateau de Bourglinster.

I am copying this letter to Trevor Woolley (Cabinet Office).

Yours,
Stephen Wall
(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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THE TREATY OF LONDON: 19 APRIL 1839

After Napoleon's defeat in 1815, the Great Powers set up a buffer state incorporating the Netherlands and Belgium, but in 1830 Belgium rebelled against Dutch rule. An armistice was engineered by the Great Powers who realised that the only way to avoid war was to set up an independent and neutral Belgium and selected a King, Leopold, uncle of Queen Victoria.

Luxembourg remained a sticking point. The Great Powers had given it to the Netherlands, the Belgians wanted to keep it. The Netherlands and France mobilised their troops; but a dangerous situation was defused, largely by Lord Palmerston with his combination of firmness and tact.

The eventual settlement was first signed in 1831, splitting Luxembourg between the Netherlands and Belgium, but it was another eight years before both sides agreed to this compromise. Luxembourg became "independent" at this point in the sense that it was now a near-independent Grand Duchy, linked dynastically to the Netherlands. The Luxembourg royal family finally hived off from the Dutch one in 1912. 1839 came into focus as the key date for Luxembourg when it was ostentatiously celebrated in 1939 - as a reminder to Germany of her independence.

Lord Palmerston was in charge of the negotiations almost throughout. According to one historian he showed "an unbroken record of patience and wisdom", showing infinite ingenuity in moving matters forward inch by inch. When he saw an opportunity to reach partial agreement he would pin it down in a protocol or a convention before moving on to tackle the next problem (hence his nickname "Protocol Palmerston"). Britain's main interest was a stable settlement to keep French hands firmly off Antwerp and the other Belgian ports. Palmerston knew when to show flexibility and when to stand firm and never lost sight of his essential objective: security for Britain and a lasting peace in Europe.

HIS ROYAL HIGHNESS THE GRAND DUKE OF LUXEMBOURG, KG (1972)
DUKE OF NASSAU, PRINCE OF BOURBON-PARMA

Born 5 January 1921. Eldest son of Charlotte, Grand Duchess of Luxembourg, and Félix, Prince of Bourbon-Parma. Acceded 12 November 1964 on the abdication of his Mother.

Educated at Ampleforth (1934-38) and Laval University, Quebec, (Law and Political Science). Married 9 April 1953 to Princess Josephine-Charlotte, daughter of the late King Leopold III of Belgium. 5 children.

In 1940 Prince Jean escaped with the other members of the Royal Family via France, Spain and Portugal to Canada. In 1942 he returned with his parents to Britain, enlisted and was subsequently commissioned in the Irish Guards. After demobilisation in 1946, he devoted himself to various national interests in preparation for his future role as sovereign. 1984 appointed honorary Colonel of the Irish Guards on the 40th anniversary of the Normandy Landings. 1985 nominated Colonel-in-Chief of the Regiment and participated in Trooping of the Colour ceremonies in his regimental capacity.

Since coming to the throne in 1964 the Grand Duke has tackled his task with energy and devotion and has won the affection of his people. Although his mother spoke Letzeburgesch, he is the first of the dynasty to speak it like a Luxembourger. Like her he appears to be a devout Catholic.

His Royal Highness has great charm and has overcome a natural shyness. He is interested in and well informed about international affairs. He and the Grand Duchess prefer a country life. Their recreations include shooting, fishing and skiing. They live in Luxembourg in a country castle.

His Royal speaks perfect English and frequently visits Britain. He is proud of his English education and his connection with the British Army, which he cultivates actively. Although most Luxembourgers are fond of Britain, the Grand Duke is almost alone among the leading personalities in being inclined towards British ways and habits of thought rather than towards France.

He was the guest of Her Majesty at the Garter Ceremony in June 1975. He and The Grand Duchess speak warmly of their State Visit to Great Britain in 1972 and The Queen and the Duke of Edinburgh's return visit to Luxembourg in 1976. He attended the Prince of Wales' wedding in 1981.

MRS JULIET (JEANNE D'AUVERGNE) CAMPBELL

Born London 1935. Guernsey family. Queen's College, London and schools in South Africa and Lebanon. Read PPE at Lady Margaret Hall, Oxford.

Joined Foreign Office 1957. Brussels (with the UK Delegation to the Common Market Conference); UK delegation to (SEATO) at Bangkok; The Hague; 1977: appointed Counsellor (Information) at Paris. 1981: Royal College of Defence Studies. 1982: to Jakarta as Counsellor. January 1984 to January 1988: Head of Training Department in the FCO. She took up her present post as Ambassador to Luxembourg in February 1988.

In 1983 Mrs Campbell (née Collings) married Professor Alexander (Elmslie) Campbell, a widower born in 1929. He was Professor of American History and Director of American Studies at Birmingham University from 1972 until 1987. They now live in Oxford.

WAGNER, JEAN

Luxembourg Ambassador to London, and (non-resident) to Dublin, and Reykjavik since 1986.

Formerly Political Director, MFA; Ambassador to Rome; Secretary General in the MFA 1981-84. Ambassador to NATO, Belgium and the Holy See 1984-5.

He chaired the Middle East Working Group during the Luxembourg Presidency in 1980 and has become something of a Middle East expert.

He is generally well-informed and hard working. Extrovert and shrewd, he enjoys being witty. Speaks good English.

Amiable wife and three children.


WURTH-POLFER, LYDIE

MEP (Democrat ie Conservative). Mayor of the City of Luxembourg. (Will greet guests at the Séance Académique and accompany to History Exhibition).

Born 1952. Law degree from the University of Grenoble. Won a high personal vote in 1981 communal elections. Shortly afterwards her father, Camille Polfer, resigned as Mayor of Luxembourg on grounds of health, and she succeeded him, becoming at 29 the youngest Mayor of a Community capital city (so following in the footsteps of Colette Flesch, her political mentor). Re-elected to Chamber of Deputies in 1984 with the second highest votes of her party. Become an MEP in place of Colette Flesch in July 1985.

A young, capable, highly intelligent politician with a bright future. Visited UK as member of NATO Parliamentary Delegation in late 1982 and as a Sponsored Visitor in 1983.

She speaks excellent English and is very friendly. One daughter born September 1983.



POOS, JACQUES

Vice-President of the Government, Minister of Foreign Affairs, Foreign Trade and Cooperation, of the Economy, of the Middle Classes and of the Treasury. (Socialist).

Born 1937. Educated Lausanne University. Former civil servant and journalist. Elected to the Chamber of Deputies in 1974. Minister of Finance 1976, at the same time becoming a director of the World Bank, IMF and the EIB. Led Socialist party in the 1984 elections, gained the highest personal vote of all the candidates, and played a large part in the formation of the coalition with the Christian Social Party.

His chief interests at the MFA are economic and financial matters. The Luxembourg Presidency demonstrated his nice ability to mix patience and authority in the Councils he chaired.

Has written several books on economic and financial matters. Married for the second time. Three children, one of them by the first marriage.

Speaks good but dull English.

SANTER, JACQUES

Minister of State (Prime Minister), Minister of Finance, of National Development and of the Posts, Telecommunications and Information Technology. (Christian Social).

Born 1937. Educated in Strasbourg and Paris (Doctorate in Law). Worked as lawyer at the Luxembourg Court of Appeal for 4 years before going into politics. Deputy since 1974. MEP 1974-79. Appointed Minister of Labour, Social Security and Finance 1979. He led the PCS election campaign in 1984 and was invited to form a government where the Christian Social Party again gained the highest number of seats.

A devout Catholic, who retains a strong interest in social and labour affairs. Though a strong performer on EC matters he has distanced himself and his country from the integrationists. Keenly interested in TV/Satellite questions.

Speaks English but prefers French. COI visitor to UK (1973).

BILATERAL CONTACTS

1988

21 September Prime Minister to Luxembourg

7-10 November Crown Prince Henri led Trade Mission to London, Birmingham and Manchester

1989

17 April Chancellor to see Poos (Foreign Minister and Minister of the Economy in the margins of ECOFIN)

15 May Prime Minister Santer to London. Will see Prime Minister, Secretary of State, the Chancellor, Mr Renton, Mr Maude

2-4 June Duchess of Kent to Luxembourg to open British food promotion and "Britain in Luxembourg" commercial exhibition

early August Princess Royal to attend International Show Jumping and Dressage Competition at Mondorf

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PRIME MINISTER'S VISIT TO LUXEMBOURG: 18 APRIL: POLITICAL AND
ECONOMIC ROUND-UP

SUMMARY

1. WITH THE ELECTIONS ONLY 2 MONTHS AWAY THE PROSPECTS ARE UNCERTAIN, PARTICULARLY FOR SANTER AND THE CHRISTIAN SOCIAL PARTY. SINGLE ISSUE PARTIES REFLECTING POPULAR WORRIES OVER IMMIGRATION, PENSIONS AND THE ENVIRONMENT COULD WIN SEVERAL SEATS. THE ECONOMY IS BOOMING BUT THERE ARE SHOALS AHEAD ESPECIALLY IN THE CONTEXT OF 1992.

DETAIL

POLITICAL

2. THE ANNIVERSARY CELEBRATIONS FALL JUST BEFORE THE CAMPAIGN FOR THE NATIONAL AND EUROPEAN ELECTIONS (DUE ON 18 JUNE) GETS GOING IN EARNEST. THE PRIME MINISTER WILL FIND SANTER AND POOS KEEN TO GAIN POLITICAL MILEAGE FROM THE OCCASION. THEIR CHRISTIAN SOCIAL/SOCIALIST COALITION LOOKS INCREASINGLY UNLIKELY TO SURVIVE.
3. SANTER, IN PARTICULAR, APPEARS MUCH IN NEED OF A BOOST. DESPITE A BOOMING ECONOMY AND FEW REALLY SERIOUS POLITICAL PROBLEMS THE VIEW IS GAINING GROUND - EVEN INSIDE HIS OWN CHRISTIAN SOCIAL PARTY - THAT HIS LEADERSHIP LACKS FIRMNESS AND DIRECTION. POOS, WHO LONGS TO BE LUXEMBOURG'S FIRST SOCIALIST PRIME MINISTER, LOOKS STRONGER, WHILE COLETTE FLESCHE'S OPPOSITION DEMOCRATS ARE FIGHTING A DETERMINED CAMPAIGN, CRITICISING THE PRESENT GOVERNMENT'S COMPETENCE.
4. LUXEMBOURG'S NEXT GOVERNMENT WILL INEVITABLY BE A COALITION DRAWN FROM THE THREE MAIN PARTIES. BUT THE CAMPAIGN WILL BE MUCH AFFECTED BY THE UNUSUALLY HIGH NUMBER OF SINGLE ISSUE PARTIES EXPLOITING POPULAR WORRIES ON IMMIGRATION, ENVIRONMENT AND PENSIONS. SEMI COLON THESE LOOK LIKELY TO DAMAGE SANTER'S CHRISTIAN SOCIAL PARTY MORE THAN ITS MAIN RIVALS.
5. FORECASTING THE ELECTION RESULT IS MADE MORE DIFFICULT BY A REDUCTION IN SEATS FROM 64 TO 60. BUT MOST PEOPLE NOW THINK THAT

THE CSP WILL BE THE MAIN LOSERS, WHILE REMAINING THE LARGEST SINGLE PARTY. THEY COULD WELL FIND THEMSELVES IN OPPOSITION IF THE OTHER TWO MAJOR PARTIES CAN AGREE ON A PROGRAMME AND A DIVISION OF THE SPOILS.

THE ECONOMY

6. THE LUXEMBOURG ECONOMY IS BOOMING. IN THE 5 YEARS OF THE PRESENT GOVERNMENT STEEL PRODUCTION HAS REMAINED STABLE WITH PRODUCTIVITY RISING. INDUSTRIAL PRODUCTION HAS INCREASED BY A THIRD. THE BANKING AND FINANCIAL SERVICES SECTORS CONTINUE THEIR RAPID EXPANSION. INFLATION AND UNEMPLOYMENT ARE NEGLIGIBLE. THE BUDGET IS IN BALANCE, THERE IS NO GOVERNMENT DEBT AND TAXES HAVE BEEN PROGRESSIVELY REDUCED.

7. THERE ARE NEVERTHELESS CLOUDS ON THE HORIZON, THE MOST IMMEDIATE ONES BEING THE COMMUNITY'S PROPOSALS FOR A WITHHOLDING TAX ON SAVINGS AND THE HARMONISATION OF EXCISE DUTIES AND VAT. MORE GENERALLY 1992 IS SEEN AS A MAJOR CHALLENGE WITH, PERHAPS FOR THE FIRST TIME IN AN EC CONTEXT, THERE BEING DISADVANTAGES FOR LUXEMBOURG TO SET AGAINST THE ADVANTAGES. THE GOVERNMENT IS FULLY AWARE OF THE CHALLENGE BUT HAS ATTRACTED POSSIBLY UNFAIR CRITICISM FOR AN ALLEGED LACK OF IDEAS. IN THE LONGER TERM THERE IS A GROWING CONCERN AT LUXEMBOURG'S DEMOGRAPHIC TREND (A NEGATIVE BIRTH RATE): THE SOCIAL IMPLICATIONS ARE ALREADY BEING FELT IN A GROWING NATIONALISM AND XENOPHOBIA LINKED TO THE INCREASING DEPENDENCE ON IMMIGRANT LABOUR (NOW APPROX 37.5 PER CENT OF THE TOTAL WORK FORCE). COMMUNITY PROPOSALS TO GIVE OTHER EC NATIONALS THE VOTE IN LOCAL ELECTIONS TOUCH A PARTICULARLY SORE NERVE.

18 APRIL CELEBRATIONS

8. THE CELEBRATIONS COMMEMORATE A TREATY WHICH, IN ADDITION TO ESTABLISHING THE COUNTRY'S INDEPENDENCE, RESULTED IN A SIGNIFICANT LOSS OF TERRITORY. BUT THERE IS NO DOUBTING THE GENERAL PLEASURE THE CELEBRATIONS WILL REFLECT OR LUXEMBOURG'S GREAT PRIDE IN HAVING GATHERED SUCH A DISTINGUISHED GROUP OF STATESMEN TO HELP THEM MARK THE OCCASION. PRIDE OF PLACE WILL BE ENJOYED BY THE PRIME MINISTER, AND NOT ONLY ON GROUNDS OF SENIORITY.

CAMPBELL

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Western European Department
DS No 2/80

PRIME MINISTER'S VISIT TO LUXEMBOURG 18-19 OCTOBER 1979

(Her Majesty's Ambassador at Luxembourg to the
Secretary of State for Foreign and Commonwealth
Affairs).

SUMMARY

1. Mrs Thatcher visited Luxembourg on 18 and 19 October, and gave the Churchill Memorial Lecture. A return visit had been outstanding since M Thorn's visit to London in April 1975. We have had less high level bilateral contact with Luxembourg than have some of our other partners.
(Paragraphs 1-3)
2. The Prime Minister was met by M Werner, and dined privately at the Grand Ducal Palace before the lecture, which was well attended. In spite of some criticism from the Luxembourg left-wing press, its forthright tone and content impressed the audience, who appreciated the choice of Luxembourg for its delivery.
(Paragraphs 4-6)
3. Tête-à-tête talks with M Werner next morning dealt mainly with steel, and with the European Monetary System (on which M Werner expressed the hope that we would join the exchange rate mechanism soon). Plenary talks covered East/West relations, defence, the Community Budget, the Common Agricultural Policy and energy. On the Budget, the Luxembourg Government and public will have been impressed by the determination and energy with which the Prime Minister presented our case. Her advocacy of civil nuclear power pleased M Thorn.
(Paragraphs 7-10)
4. Mrs Thatcher was interviewed by Radio-Télé Luxembourg and held a joint press conference with M Werner. Luxembourgers will have welcomed her remarks about the role of the smaller Community countries, and the site of the European Parliament. The press conference was mainly concerned with the Budget.
(Paragraphs 11-12)
5. At the concluding lunch, Mrs Thatcher sat between M Werner and M Thorn. The latter appeared edgy - how long will he stay in Government?
(Paragraph 13)
6. M Werner's speech expressed appreciation for this first bilateral visit by a British Prime Minister since 1967. But has it achieved a practical change in

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Luxembourg's attitude to the Budget problem? We shall not know before Dublin, but they certainly now understand our case clearly. Apart from this, the other two aims of the visit (to pay bilateral attention to Luxembourg, and to provide a forum for a major speech on Europe) were amply fulfilled. Personal contact with M Werner could also be useful in the future. The Luxembourgers were bruised by recent French and German behaviour, and appreciated the attention which Mrs Thatcher devoted to them. I am grateful.
(Paragraphs 14-17)

Luxembourg
29 October 1979

My Lord

1. The Prime Minister paid a brief official visit to Luxembourg on 18 and 19 October, in the course of which she delivered the Winston Churchill Memorial Lecture on "Europe: the Obligations of Liberty". A copy of the programme and the text of her Lecture are enclosed.
2. The origins of this visit go back several years to the official visit which Monsieur Gaston Thorn, then Prime Minister of Luxembourg, paid to London in April 1975. A return visit had been outstanding since that time, and the Luxembourgers well understood that a bilateral visit to the smallest of our Community partners was not likely to be given very high priority in the planning of British Prime Ministerial visits, particularly in view of the very high level attention paid to them by The Queen's visit in November 1976. M Thorn nevertheless drew my attention, soon after my arrival here in 1977, to the paucity of our bilateral contacts at senior ministerial level, in marked contrast to the very frequent contacts which he maintained with his French, German, Belgian and other Community colleagues at both Foreign Minister and Head of Government level. In a sense, this comparative lack of bilateral contact on our part was underlined, rather than compensated, by the frequency of British ministerial visits to Luxembourg at all levels for multilateral Community meetings.
3. It therefore gave considerable pleasure to the Luxembourg Government, as it did to myself, to learn in late July that Mrs Thatcher had agreed to visit Luxembourg and to deliver this year's lecture in the series instituted in 1973 as part of Luxembourg's memorial to her predecessor, Sir Winston Churchill. When I called on M Pierre Werner (who had by that time succeeded M Thorn as Prime Minister, following the success of his Christian Social Party in the June elections) to deliver this news, he responded enthusiastically and immediately confirmed his invitation to the Prime Minister to pay an official visit to Luxembourg as his guest. After a brief period of negotiation, during which the date first proposed by ourselves was found to coincide with the Opening of Parliament, it was agreed by all concerned that Mrs Thatcher should deliver the Winston Churchill Memorial

Lecture on the evening of 18 October, and that the main official part of the programme should take place on the following day.

4. The Prime Minister arrived at Luxembourg Airport in the late afternoon of 18 October, accompanied by a small party which included her Private Secretary, Mr Michael Alexander, her Chief Press Secretary, Mr Henry James, and Mr John Fretwell, Assistant Under-Secretary in the Foreign and Commonwealth Office. M Werner came personally to the airport for the Prime Minister's arrival (as he did for her departure on the following day) and full military honours were provided. After M Werner had accompanied Mrs Thatcher to my house, and had stayed for a brief talk, the Prime Minister, accompanied by my wife and myself, went to the Palace for an informal supper with the Grand Duke. The only others present were the Grand Duchess and their two younger sons, Prince Jean and Prince Guillaume. I am told that the original intention had been to invite the Werners and a few other Luxembourg guests, but that the Grand Duke made the personal decision to receive Mrs Thatcher en famille. Although this decision must partly have been dictated by the pressure of time before the Lecture, members of the Grand Duke's household have subsequently told me that this almost unprecedented manner of receiving an official visitor should be seen as a mark of the admiration and affection which the Grand Duke (who was educated at Ampleforth and served as a Captain in the Irish Guards) feels towards Britain. My wife and I certainly found the dinner, as I hope Mrs Thatcher did also, a relaxed occasion, which also gave the Prime Minister and the Grand Duke an opportunity to exchange views on China, Hong Kong and Japan, following the visit to all three from which he and the Grand Duchess had returned only the day before.

5. Following a short break at my house (during which we learnt that United Press had reported, and subsequently retracted, the news that Mr Brezhnev had died), the Prime Minister went to the Cercle Municipal to deliver her lecture. Improbable though it may seem, the three sponsors of this annual occasion (the British-Luxembourg Society, the Ligue Luxembourgeoise des Prisonniers Politiques et Déportés and the Association des Anciens Combattants) had initially expressed doubts about the choice of venue on the grounds that there could be no guarantee, on the basis of their experience of similar occasions in Luxembourg, that its 520 seats would be filled. My confidence that the demand would greatly exceed this seating capacity was amply justified, and the hall was filled to capacity, with more than a hundred extra listeners sitting in the gallery and standing round the walls. The Prime Minister spoke for just under an hour, to an audience which included the Grand Duke and three members of his family, Monsieur and Madame Werner and half the Luxembourg Government, several senior members of the EEC Institutions resident in Luxembourg and as many members of the British community as were able to obtain tickets. To simplify seating arrangements, the sponsors had agreed with ourselves and the Foreign Ministry that only the front three rows needed to be reserved by name; this included the dozen or so Ambassadors resident in Luxembourg, but excluded Chargés d'Affaires. The newly arrived Soviet Ambassador had not yet presented his credentials, and the unfortunate Soviet Charge, who arrived

late (but whose English is not, I think, good enough to have enabled him immediately to grasp the full impact of the Prime Minister's remarks on East/West relations) found himself wedged among those standing at one side of the hall. As one of my colleagues later commented, it would have been physically impossible for the Russian to stage a diplomatic walk-out, even if he had so decided'.

6. Following the Lecture, the Prime Minister had kindly agreed to a late reception at my house, at which she was able to greet personally about 250 of those who had heard her speak, and to receive a large number of obviously genuine compliments on the forthright tone and content of her lecture. Although, as I have reported to the Department in my telegram number 284, there has been some implied criticism in the Socialist press here at what they described as the "arch conservatism" of the Prime Minister's theme, and some entirely predictable attacks in the Luxembourg Communist press on what they saw as the Prime Minister's rejection of détente, there is no doubt that the overwhelming majority of Luxembourgers who heard the Lecture, or who read the sizeable extracts subsequently printed in the press, were deeply impressed by the frank and determined way in which she spoke, and appreciated the compliment that Luxembourg and the Churchill Memorial Lecture should have been chosen for her speech.

7. On the morning of 19 October, the Prime Minister had half an hour's so-called tête-à-tête with M Werner (at which the Luxembourg Ambassador in London, the Prime Minister's Private Secretary and myself were also present). At this meeting, M Werner gave the Prime Minister a brief account of the problems of the Luxembourg steel industry, and of the attempts by the Luxembourg Government to attract new industry here to compensate for the declining importance of steel in Luxembourg's economy. The Prime Minister was able in turn to give M Werner, in response to his question, an account of the prospects of sterling joining the exchange rate mechanism of the European Monetary System - an account which M Werner later asked the Prime Minister to repeat to his colleagues in the "plenary" session of talks, at which he was joined by his Deputy Prime Minister and Minister of Foreign and Economic Affairs, M Thorn, as well as by two junior Ministers for Foreign and Financial Affairs, Messrs Helminger and Muhlen, in addition to several officials. M Werner will have been pleased to hear that, as the Prime Minister later put it at her press conference, it was the Government's "ultimate objective" to join; his long experience in finance will have made him readier to understand the reasons advanced by the Prime Minister - the continuing dismantling of exchange controls, and the uncertain effect of oil prices on sterling parity - for our inability to join immediately. M Werner nevertheless made it very clear that Luxembourg, and our other Community partners, would very much welcome our joining as soon as we could.

8. The plenary talks, for which an hour had been allowed in the programme, also re-covered much of the ground dealt with in the Prime Minister's lecture of the previous evening. On East/West relations and defence, the Prime Minister argued that the West should respond firmly to Mr Brezhnev's recent speech, and

that the deterrent capability of the Alliance should be kept effective at every level. M Werner, who is cautious by temperament, and whom my American colleague has found markedly more reticent about Luxembourg's defence relationship with the United States than his predecessor, M Thorn, acknowledged the need to maintain the link with the United States, but argued that the West should try to put the ball back in Mr Brezhnev's court, and should tell him that the West would proceed with the modernisation of its forces unless the Soviet Government produced measures of genuine disarmament.

9. On the question of our contribution to the Community Budget, the Prime Minister had already set forth the Government's position publicly and forcefully during her lecture on the previous evening, and neither M Werner nor his colleagues can have been left in any doubt - if any doubt still remained - about the strength of the British Government's views on this question, or about the Prime Minister's determination to see a solution reached at the Dublin Summit next month. In their response, both M Werner and M Thorn acknowledged the reality of the problem, and agreed that some corrective mechanism would have to be found, though they expressed predictable concern that any such mechanism should be fully compatible with the basic philosophy of the Treaties. They also argued, as they have before, that the advantages of Community membership could not, and should not, be measured only in quantifiable receipts and contributions. M Thorn was also anxious that any corrective mechanism should be subject to a clear time limit.

10. This discussion led on to a suggestion by M Werner that a longer term solution to the problem of the Community Budget, and to the disproportionate share of the Budget devoted to the Common Agricultural Policy, might lie in the United Kingdom, with its special position as a major producer of both coal and oil, taking a lead in developing a Community Energy Policy, just as the French had played a major role - from their respective position of strength - in developing the Common Agricultural Policy (a Policy which M Thorn admitted to have been strongly advantageous to Luxembourg, whatever its anomalies, when he described it as "ridiculous but good"). This led in turn to a discussion on the possibilities of developing civil nuclear power, a subject of some political sensitivity in Luxembourg, given the decision to shelve plans for a civil nuclear power station during the life of this Parliament, following vociferous opposition from environmentalists and from the Socialist Party. M Thorn made no attempt to conceal his delight at Mrs Thatcher's powerful advocacy of the need for nuclear power, commenting at this point in the discussion: "if you were a Luxembourg politician I would be voting for you!".

11. After the plenary talks, the Prime Minister went to the studios of Radio-Télé Luxembourg, where she had agreed to be interviewed by four correspondents of RTL's different television and radio stations covering a wide audience in Luxembourg, France, Germany and the United Kingdom. The transcript of the questions and answers, which RTL estimate to have been heard by an audience of some 40 million listeners and viewers, is enclosed. RTL themselves were aware that the Prime Minister had never granted a similar interview abroad before, and were very grateful for this exception made in their favour. For their Luxembourg audience,

perhaps the most significant of the Prime Minister's replies were those in which she emphasised the role which the smaller countries can play in the Community (carrying with it the implication that the Presidency should continue to rotate among the Nine as at present); and her categorical statement - later repeated at her press conference with M Werner - that she had no wish to change the present situation over the site of the European Parliament.

12. The press conference, which was held, at M Werner's suggestion, jointly with him in the Cabinet Room, was mainly remarkable for the persistent questioning by the BBC and Daily Telegraph correspondents on the Community Budget; the Luxembourg journalists asked very few questions, possibly deterred by the need to speak English (though the Luxembourg Government Spokesman later confessed to the cynical view that Luxembourg correspondents are too lazy to ask questions to which they have to write down the answers). Nevertheless, the press conference provided the Prime Minister with a further opportunity to express her views on the Community Budget, and to explain publicly the Government's position on the European Monetary System.

13. The last item on the programme was a lunch, of Luxembourg proportions, hosted by M Werner at the Chateau de Senningen, some 10 miles out of the city, at which most senior members of the Government and public service were present, as well as senior members of the British international community. Seated as she was between them both, the Prime Minister will, I hope, have found the lunch a useful opportunity to get to know both M Werner and M Thorn better. But to those of us who see them both frequently, this was an occasion on which the strains between M Werner and his Deputy were sadly evident; M Thorn, in particular, seemed ill at ease and edgy. I found several people, after the lunch, indulging again in Luxembourg's favourite current speculation - how long will Gaston remain in Government?

14. In his speech after lunch, M Werner expressed warm appreciation for this first bilateral visit by a British Prime Minister since 1967. He referred to the strong support which Luxembourg (under his own Prime Minister) had given to British membership of the Community, and expressed the view that "discussions in the United Kingdom on the principle and the conditions of membership" had somewhat prevented Luxembourg's hopes for progress in the Community from being fulfilled. In a clear reference to Luxembourg fears about a "directoire" of the larger members of the Community, he argued that the spirit of the Community would not tolerate the emergence of "a new kind of internal power politics" within the organisation. He also expressed the view that the Community's difficulties and strains should not be over-emphasised, arguing (as he had in the plenary talks) that the asset which the Community represented for all its members was "only partly translatable into figures".

15. The last point leads inevitably to the question: "has the Prime Minister's visit led to any practical change in Luxembourg's attitude towards the problem of the Community Budget?". The answer is that we shall not know for certain until

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the Dublin Summit, and that, in real terms, perhaps Luxembourg's attitude does not matter very much. But I have no doubt at all that the Prime Minister's visit will have brought home very clearly, both to the Luxembourg Government and to the Luxembourg public at large, not only our wish to make the Community a success but also the reality of our problem with the Budget, and our determination to see the problem solved. Luxembourg's ability to help us over the problem should not, of course, be exaggerated; but I believe that the very clear appreciation which they must now have of our attitude towards it can only be of benefit, when Luxembourg representatives come to discuss the problem, whether among the Nine or among the more restricted councils of Benelux.

16. In other respects, I have no hesitation in pronouncing the Prime Minister's visit an unqualified success. In his despatch of 6 July, reporting on Mrs Thatcher's visit to Australia, Sir Donald Tebbit referred to the besetting temptation for Heads of Mission to hail any and all visits by their own Heads of Government an outstanding success. But if, as I see them, the three aims of the Prime Minister's visit to Luxembourg this month were first, to show high-level bilateral attention to the smallest of our Community partners; secondly, to provide a forum for a major policy speech; and thirdly, to present publicly our case on the Community Budget - then all three aims were fully achieved. If, in addition, the Prime Minister was able to establish a personal rapport with M Werner, I believe that this could be of benefit to us in the future. I am conscious of another besetting temptation for Ambassadors - to exaggerate the importance of their clients. But I do believe that there may well be occasions when it will be useful for the Prime Minister to maintain personal contact with M Werner - as their French and German colleagues do - and I hope that this visit will have made such contact easier.

17. As I reported to the Department in July, Mrs Thatcher's agreement to visit Luxembourg came at a time when Luxembourgers were feeling somewhat bruised by the treatment they had received at the hands of both the Germans and the French over the election to the Presidency and Vice-Presidencies of the European Parliament, and there have been other more recent occasions when they have felt ignored or slighted by their two large neighbours. Many Luxembourgers I have spoken to were very appreciative of the fact that the Prime Minister decided to devote 24 hours of a very busy period of the year to Luxembourg, and to give a lecture in memory of a man whom many Luxembourgers still venerate as one of the principal restorers of their independence and liberty. In terms of its impact on Luxembourg, and the welcome boost it will have given to our bilateral relations, the visit was an outstanding success, and I am most grateful to the Prime Minister for this.

18. I am sending copies of this despatch, without enclosures, to Her Majesty's Ambassadors in Community Posts, and to the United Kingdom Permanent Representatives to the European Communities and to the North Atlantic Council.

I am, My Lord
Yours faithfully

Patricia Wright

COVERING CONFIDENTIAL

Luxembourg



Foreign and Commonwealth Office

London SW1A 2AH

12 November 1979

For
Paul

Dear Michael,

PRIME MINISTER'S VISIT TO LUXEMBOURG:
18/19 OCTOBER

--- I attach a copy of a despatch from
HM Ambassador at Luxembourg about the
Prime Minister's visit there on 18/19
October.

Yours etc

Paul
(P Lever)

M O'D B Alexander Esq
10 Downing Street

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PRIME MINISTER'S VISIT TO LUXEMBOURG 18 - 19 OCTOBER 1979

SUMMARY

1. Mrs Thatcher visited Luxembourg on 18 and 19 October, and gave the Churchill Memorial Lecture. A return visit had been outstanding since M Thorn's visit to London in April 1975. We have had less high level bilateral contact with Luxembourg than have some of our other partners. (Paras 1 - 3).
2. The Prime Minister was met by M Werner, and dined privately at the Grand Ducal Palace before the lecture, which was well attended. In spite of some criticism from the Luxembourg left-wing press, its forthright tone and content impressed the audience, who appreciated the choice of Luxembourg for its delivery. (Paras 4 - 6)
3. Tête-à-tête talks with M Werner next morning dealt mainly with steel, and with the European Monetary System (on which M Werner expressed the hope that we would join the exchange/^{rate}mechanism soon). Plenary talks covered East/West relations, defence, the Community Budget, the Common Agricultural Policy and energy. On the Budget, the Luxembourg Government and public will have been impressed by the determination and energy with which the Prime Minister presented

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our case. Her advocacy of civil nuclear power pleased M Thorn. (Paras 7 - 10).

4. Mrs Thatcher was interviewed by Radio-Télé Luxembourg and held a joint press conference with M Werner. Luxembourgers will have welcomed her remarks about the role of the smaller Community countries, and the site of the European Parliament. The press conference was mainly concerned with the Budget. (Paras 11 - 12).

5. At the concluding lunch, Mrs Thatcher sat between M Werner and M Thorn. The latter appeared edgy - how long will he stay in Government? (Para 13).

6. M Werner's speech expressed appreciation for this first bilateral visit by a British Prime Minister since 1967. But has it achieved a practical change in Luxembourg's attitude to the Budget problem? We shall not know before Dublin, but they certainly now understand our case clearly. Apart from this, the other two aims of the visit (to pay bilateral attention to Luxembourg, and to provide a forum for a major speech on Europe) were amply fulfilled. Personal contact with M Werner could also be useful in the future. The Luxembourgers were bruised by recent French and German behaviour, and appreciated the attention which Mrs Thatcher devoted to them. I am grateful. (Paras 14 - 17).

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BRITISH EMBASSY,
LUXEMBOURG.

29 October 1979

The Right Honourable
The Lord Carrington KCMG MC
LONDON

My Lord

The Prime Minister paid a brief official visit to Luxembourg on 18 and 19 October, in the course of which she delivered the Winston Churchill Memorial Lecture on "Europe: the Obligations of Liberty". A copy of the programme and the text of her Lecture are enclosed.

2. The origins of this visit go back several years to the official visit which Monsieur Gaston Thorn, then Prime Minister of Luxembourg, paid to London in April 1975. A return visit had been outstanding since that time, and the Luxembourgers well understood that a bilateral visit to the smallest of our Community partners was not likely to be given very high priority in the planning of British Prime Ministerial visits, particularly in view of the very high level attention paid to them by The Queen's visit in November 1976. M Thorn nevertheless drew my attention, soon after my arrival here in 1977, to the paucity of our bilateral contacts at senior ministerial level, in marked contrast to the very frequent contacts which he maintained with his French, German, Belgian and other Community colleagues at both Foreign Minister and Head of Government level. In a sense, this comparative lack of bilateral contact on our part was underlined, rather than compensated, by the

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frequency of British ministerial visits to Luxembourg at all levels for multilateral Community meetings.

3. It therefore gave considerable pleasure to the Luxembourg Government, as it did to myself, to learn in late July that Mrs Thatcher had agreed to visit Luxembourg and to deliver this year's lecture in the series instituted in 1973 as part of Luxembourg's memorial to her predecessor, Sir Winston Churchill. When I called on M Pierre Werner (who had by that time succeeded M Thorn as Prime Minister, following the success of his Christian Social Party in the June elections) to deliver this news, he responded enthusiastically and immediately confirmed his invitation to the Prime Minister to pay an official visit to Luxembourg as his guest. After a brief period of negotiation, during which the date first proposed by ourselves was found to coincide with the Opening of Parliament, it was agreed by all concerned that Mrs Thatcher should deliver the Winston Churchill Memorial Lecture on the evening of 18 October, and that the main official part of the programme should take place on the following day.

4. The Prime Minister arrived at Luxembourg Airport in the late afternoon of 18 October, accompanied by a small party which included her Private Secretary, Mr Michael Alexander, her Chief Press Secretary, Mr Henry James, and Mr John Fretwell, Assistant Under-Secretary in the Foreign and Commonwealth Office.

/M Werner

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M Werner came personally to the airport for the Prime Minister's arrival (as he did for her departure on the following day) and full military honours were provided. After M Werner had accompanied Mrs Thatcher to my house, and had stayed for a brief talk, the Prime Minister, accompanied by my wife and myself, went to the Palace for an informal supper with the Grand Duke. The only others present were the Grand Duchess and their two younger sons, Prince Jean and Prince Guillaume. I am told that the original intention had been to invite the Werners and a few other Luxembourg guests, but that the Grand Duke made the personal decision to receive Mrs Thatcher en famille. Although this decision must partly have been dictated by the pressure of time before the Lecture, members of the Grand Duke's household have subsequently told me that this almost unprecedented manner of receiving an official visitor should be seen as a mark of the admiration and affection which the Grand Duke (who was educated at Ampleforth and served as a Captain in the Irish Guards) feels towards Britain. My wife and I certainly found the dinner, as I hope Mrs Thatcher did also, a relaxed occasion, which also gave the Prime Minister and the Grand Duke an opportunity to exchange views on China, Hong Kong and Japan, following the visit to all three from which he and the Grand Duchess had returned only the day before.

/5. Following

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5. Following a short break at my house (during which we learnt that United Press had reported, and subsequently retracted, the news that Mr Brezhnev had died), the Prime Minister went to the Cercle Municipal to deliver her lecture. Improbable though it may seem, the three sponsors of this annual occasion (the British-Luxembourg Society, the Ligue Luxembourgeoise des Prisonniers Politiques et Déportés and the Association des Anciens Combattants) had initially expressed doubts about the choice of venue on the grounds that there could be no guarantee, on the basis of their experience of similar occasions in Luxembourg, that its 520 seats would be filled. My confidence that the demand would greatly exceed this seating capacity was amply justified, and the hall was filled to capacity, with more than a hundred extra listeners sitting in the gallery and standing round the walls. The Prime Minister spoke for just under an hour, to an audience which included the Grand Duke and three members of his family, Monsieur and Madame Werner and half the Luxembourg Government, several senior members of the EEC Institutions resident in Luxembourg and as many members of the British community as were able to obtain tickets. To simplify seating arrangements, the sponsors had agreed with ourselves and the Foreign Ministry that only the front three rows needed to be reserved by name; this included the dozen or so Ambassadors resident in Luxembourg, but excluded Chargés d'Affaires. The newly arrived Soviet Ambassador had not yet presented his credentials, and the unfortunate Soviet Chargé, who arrived late (but whose English is not, I think, good enough to have enable him immediately to grasp



the full impact of the Prime Minister's remarks on East/West relations) found himself wedged among those standing at one side of the hall. As one of my colleagues later commented, it would have been physically impossible for the Russian to stage a diplomatic walk-out, even if he had so decided!

6. Following the Lecture, the Prime Minister had kindly agreed to a late reception at my house, at which she was able to greet personally about 250 of those who had heard her speak, and to receive a large number of obviously genuine compliments on the forthright tone and content of her lecture. Although, as I have reported to the Department in my telegram number 284, there has been some implied criticism in the Socialist press here at what they described as the "arch conservatism" of the Prime Minister's theme, and some entirely predictable attacks in the Luxembourg Communist press on what they saw as the Prime Minister's rejection of détente, there is no doubt that the overwhelming majority of Luxembourgers who heard the Lecture, or who read the sizeable extracts subsequently printed in the press, were deeply impressed by the frank and determined way in which she spoke, and appreciated the compliment that Luxembourg and the Churchill Memorial Lecture should have been chosen for her speech.

/7. On



7. On the morning of 19 October, the Prime Minister had half an hour's so-called tête-à-tête with M Werner (at which the Luxembourg Ambassador in London, the Prime Minister's Private Secretary and myself were also present). At this meeting, M Werner gave the Prime Minister a brief account of the problems of the Luxembourg steel industry, and of the attempts by the Luxembourg Government to attract new industry here to compensate for the declining importance of steel in Luxembourg's economy. The Prime Minister was able in turn to give M Werner, in response to his question, an account of the prospects of sterling joining the exchange rate mechanism of the European Monetary System - an account which M Werner later asked the Prime Minister to repeat to his colleagues in the "plenary" session of talks, at which he was joined by his Deputy Prime Minister and Minister of Foreign and Economic Affairs, M Thorn, as well as by two junior Ministers for Foreign and Financial Affairs, Messrs Helminger and Muhlen, in addition to several officials. M Werner will have been pleased to hear that, as the Prime Minister later put it at her press conference, it was the Government's "ultimate objective" to join; his long experience in finance will have made him readier to understand the reasons advanced by the Prime Minister - the continuing dismantling of exchange controls, and the uncertain effect of oil prices on sterling parity - for our inability to join immediately. M Werner nevertheless made it very clear that Luxembourg, and our other Community partners, would very much welcome our joining as soon as we could.



8. The plenary talks, for which an hour had been allowed in the programme, also re-covered much of the ground dealt with in the Prime Minister's lecture of the previous evening. On East/West relations and defence, the Prime Minister argued that the West should respond firmly to Mr Brezhnev's recent speech, and that the deterrent capability of the Alliance should be kept effective at every level. M Werner, who is cautious by temperament, and whom my American colleague has found markedly more reticent about Luxembourg's defence relationship with the United States than his predecessor, M Thorn, acknowledged the need to maintain the link with the United States, but argued that the West should try to put the ball back in Mr Brezhnev's court, and should tell him that the West would proceed with the modernisation of its forces unless the Soviet Government produced measures of genuine disarmament.

9. On the question of our contribution to the Community Budget, the Prime Minister had already set forth the Government's position publicly and forcefully during her lecture on the previous evening, and neither M Werner nor his colleagues can have been left in any doubt - if any doubt still remained - about the strength of the British Government's views on this question, or about the Prime Minister's determination to see a solution reached at the Dublin Summit next month. In their response, both M Werner and M Thorn acknowledged the reality of the problem, and agreed that some

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corrective mechanism would have to be found, though they expressed predictable concern that any such mechanism should be fully compatible with the basic philosophy of the Treaties. They also argued, as they have before, that the advantages of Community membership could not, and should not, be measured only in quantifiable receipts and contributions. M Thorn was also anxious that any corrective mechanism should be subject to a clear time limit.

10. This discussion led on to a suggestion by M Werner that a longer term solution to the problem of the Community Budget, and to the disproportionate share of the Budget devoted to the Common Agricultural Policy, might lie in the United Kingdom, with its special position as a major producer of both coal and oil, taking a lead in developing a Community Energy Policy, just as the French had played a major role - from their respective position of strength - in developing the Common Agricultural Policy (a Policy which M Thorn admitted to have been strongly advantageous to Luxembourg, whatever its anomalies, when he described it as "ridiculous but good"). This led in turn to a discussion on the possibilities of developing civil nuclear power, a subject of some political sensitivity in Luxembourg, given the decision to shelve plans for a civil nuclear power station during the life of this Parliament, following vociferous opposition from environmentalists

/and



and from the Socialist Party. M Thorn made no attempt to conceal his delight at Mrs Thatcher's powerful advocacy of the need for nuclear power, commenting at this point in the discussion: "if you were a Luxembourg politician I would be voting for you!"

11. After the plenary talks, the Prime Minister went to the studios of Radio-Télé Luxembourg, where she had agreed to be interviewed by four correspondents of RTL's different television and radio stations covering a wide audience in Luxembourg, France, Germany and the United Kingdom. The transcript of the questions and answers, which RTL estimate to have been heard by an audience of some 40 million listeners and viewers, is enclosed. RTL themselves were aware that the Prime Minister had never granted a similar interview abroad before, and were very grateful for this exception made in their favour. For their Luxembourg audience, perhaps the most significant of the Prime Minister's replies were those in which she emphasised the role which the smaller countries can play in the Community (carrying with it the implication that the Presidency should continue to rotate among the Nine as at present); and her categorical statement - later repeated at her press conference with M Werner - that she had no wish to change the present situation over the site of the European Parliament.

12. The press conference, which was held, at M Werner's suggestion, jointly with him in the Cabinet Room, was mainly remarkable for

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the persistent questioning by the BBC and Daily Telegraph correspondents on the Community Budget; the Luxembourg journalists asked very few questions, possibly deterred by the need to speak English (though the Luxembourg Government Spokesman later confessed to the cynical view that Luxembourg correspondents are too lazy to ask questions to which they have to write down the answers). Nevertheless, the press conference provided the Prime Minister with a further opportunity to express her views on the Community Budget, and to explain publicly the Government's position on the European Monetary System.

13. The last item on the programme was a lunch, of Luxembourg proportions, hosted by M Werner at the Château de Senningen, some 10 miles out of the city, at which most senior members of the Government and public service were present, as well as senior members of the British international community. Seated as she was between them both, the Prime Minister will, I hope, have found the lunch a useful opportunity to get to know both M Werner and M Thorn better. But to those of us who see them both frequently, this was an occasion on which the strains between M Werner and his Deputy were sadly evident; M Thorn, in particular, seemed ill at ease and edgy. I found several people, after the lunch, indulging again in Luxembourg's favourite current speculation - how long will Gaston remain in Government?



14. In his speech after lunch, M Werner expressed warm appreciation for this first bilateral visit by a British Prime Minister since 1967. He referred to the strong support which Luxembourg (under his own Prime Ministry) had given to British membership of the Community, and expressed the view that "discussions in the United Kingdom on the principle and the conditions of membership" had somewhat prevented Luxembourg's hopes for progress in the Community from being fulfilled. In a clear reference to Luxembourg fears about a "directoire" of the larger members of the Community, he argued that the spirit of the Community would not tolerate the emergence of "a new kind of internal power politics" within the organisation. He also expressed the view that the Community's difficulties and strains should not be over-emphasised, arguing (as he had in the plenary talks) that the asset which the Community represented for all its members was "only partly translatable into figures".

15. The last point leads inevitably to the question: "has the Prime Minister's visit led to any practical change in Luxembourg's attitude towards the problem of the Community Budget?". The answer is that we shall not know for certain until the Dublin Summit, and that, in real terms, perhaps Luxembourg's attitude does not matter very much. But I have no doubt at all that the Prime Minister's visit will have brought home very clearly, both to the Luxembourg Government and to the Luxembourg public at large, not only our wish to make the Community a success but also the

/reality



reality of our problem with the Budget, and our determination to see the problem solved. Luxembourg's ability to help us over the problem should not, of course, be exaggerated; but I believe that the very clear appreciation which they must now have of our attitude towards it can only be of benefit, when Luxembourg representatives come to discuss the problem, whether among the Nine or among the more restricted councils of Benelux.

16. In other respects, I have no hesitation in pronouncing the Prime Minister's visit an unqualified success. In his despatch of 6 July, reporting on Mrs Thatcher's visit to Australia, Sir Donald Tebbit referred to the besetting temptation for Heads of Mission to hail any and all visits by their own Heads of Government an outstanding success. But if, as I see them, the three aims of the Prime Minister's visit to Luxembourg this month were first, to show high-level bilateral attention to the smallest of our Community partners; secondly, to provide a forum for a major policy speech; and thirdly, to present publicly our case on the Community Budget - then all three aims were fully achieved. If, in addition, the Prime Minister was able to establish a personal rapport with M Werner, I believe that this could be of benefit to us in the future. I am conscious of another besetting temptation for Ambassadors - to exaggerate the importance of their clients. But I do believe that there may well be occasions when it will be useful for the Prime Minister to maintain personal contact with M Werner - as their French and German colleagues do - and I hope that this visit will have made such contact easier.

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17. As I reported to the Department in July, Mrs Thatcher's agreement to visit Luxembourg came at a time when Luxembourgers were feeling somewhat bruised by the treatment they had received at the hands of both the Germans and the French over the election to the Presidency and Vice-Presidencies of the European Parliament, and there have been other more recent occasions when they have felt ignored or slighted by their two large neighbours. Many Luxembourgers I have spoken to were very appreciative of the fact that the Prime Minister decided to devote 24 hours of a very busy period of the year to Luxembourg, and to give a lecture in memory of a man whom many Luxembourgers still venerate as one of the principal restorers of their independence and liberty. In terms of its impact on Luxembourg, and the welcome boost it will have given to our bilateral relations, the visit was an outstanding success, and I am most grateful to the Prime Minister for this.

18. I am sending copies of this despatch, without enclosures, to Her Majesty's Ambassadors in Community Posts, and to the United Kingdom Permanent Representatives to the European Communities and to the North Atlantic Council.

I am, My Lord

Yours faithfully

A handwritten signature in black ink, which appears to read "Patrick Higney". The signature is written in a cursive style with a large initial 'P' and a long horizontal stroke at the end.

Mr Alexander



Personal - for amusement!

With the compliments of

E A J Fergusson

FOREIGN AND COMMONWEALTH OFFICE

LONDON, SW1A 2AH

7 November 1979

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BRITISH EMBASSY

MOSCOW

24 October 1979

S H Band Esq
EESD
FCO

Dear Stephen

THE PRIME MINISTER'S SPEECH IN LUXEMBOURG

1. We gave you the flavour of Yuri Zhukov's article in Pravda on 20 October in Moscow telno 704. Just in case there is more interest in it I attach a translation of the whole article.

Yours ever
John.
J L Taylor

✓ sent 8/6 10/79.
Copy to Defence Dept
Research Dept (Gov Sect)
O10
News D

Mr. Bracher B 24/10
Mr. Johnson B 11/10
Mr. Ferguson 01/11
Mr. Mellor 05/11

Enter

JK 25/10.



MRS THATCHER IN CHURCHILL'S TROUSERS

1. In the capital of the tiny Western European state of Luxembourg, once quiet and tranquil, though this was forfeited when it was dragged into NATO, another bellicose demonstration has taken place: there they celebrated the memory of Winston Churchill. Yes, the same Churchill who once threatened to smother our revolution in its cradle and organised intervention against Soviet Russia and who in 1946 announced the beginning of the notorious "Cold War" which suffered as ignominious a failure as the military intervention.

2. It would have been possible not to mention this mob, if it were not for one fact: Mrs Thatcher, the present Prime Minister of Britain, appeared in Luxembourg to make a vociferous speech. Mrs Thatcher is impatient to emulate Churchill. And here, at this Luxembourg masquerade, she tried on his trousers, clearly nourishing the hope that over the ocean admirers of the Churchill doctrine, having envisaged the smothering of Soviet power, would appreciate her efforts.

3. What then did this bellicose lady utter? She appealed to all the members of this aggressive alliance to accept immediately on their territory new American missiles capable of, as she expressed herself, causing the Soviet people the same "colossal suffering" as the USSR went through in the years of the Second World War, "exactly this and even worse", as Mrs Prime Minister found it necessary to underline.

4. Lady Thatcher goes too far. Only one thing is not clear: have her military advisers informed her what risks would be brought on to Great Britain if her Government really decides to station on its islands a launch pad for new American missiles?

5. The British population knows and understands this risk and it is no accident in London as in other capitals of Western Europe voices are being heard even louder, demanding before such a dangerous decision is taken, to discuss the new construction proposals of the USSR.

6. But what does the bellicose Mrs Thatcher say of this? She announced that she only takes "into consideration Brezhnev's readiness to withdraw a few (!) tanks and some (!) troops from East Germany and the conditions which he attached to his statement about nuclear weapons", but ... "having said that it must not divert us (that is the countries of NATO - Y. Zhukov) from our intentions" - to deploy about 600 new American nuclear missiles.

7. Mrs Thatcher does not have courage to quote correctly Comrade L I Brezhnev's statement. To say that a thousand tanks pulled out from the GDR by us, is a "few", that 20,000 Soviet soldiers leaving there is "some troops", to pass over in



- 2 -

silence what the USSR is really suggesting with the aim of reducing nuclear confrontation in the centre of Europe - this can only be put forward by a person who is mortally afraid of the truth and unable to provide any kind of counter-arguments.

8. Churchill would hardly be pleased on discovering that some day such a politician would replace him in the post of Prime Minister. Trying on the trousers in Luxembourg clearly did not work out well.

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Luxembourg

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FM LUXEMBOURG 201000Z

TO PRIORITY FCO

TELEGRAM NUMBER 256 OF 20 OCTOBER 1979

INFO ROUTINE TO ALL EEC POSTS

PRIME MINISTER'S VISIT TO LUXEMBOURG

mt

1. I SHALL REPORT BY DESPATCH ON THE PRIME MINISTER'S VISIT OF 18/19 OCTOBER WHEN RECORDS OF HER TALKS WITH M WERNER, AND TRANSCRIPTS OF HER INTERVIEW ON RTL AND HER PRESS CONFERENCE, ARE AVAILABLE. MEANWHILE IT IS IMMEDIATELY CLEAR BOTH FROM MY OWN OBSERVATION, AND FROM INDIVIDUAL AND PRESS COMMENT WHICH WE HAVE SO FAR RECEIVED, THAT THE VISIT WAS REGARDED HERE AS AN OUTSTANDING SUCCESS.
2. THE THREE PRINCIPAL AIMS OF THE VISIT--TO SHOW THE LUXEMBOURGERS HIGH-LEVEL BILATERAL ATTENTION, TO PROVIDE A FORUM FOR A MAJOR SPEECH ON EUROPE, AND TO PRESENT TO THEM OUR CASE ON THE COMMUNITY BUDGET--WERE ALL AMPLY FULFILLED. THE LUXEMBOURGERS WERE FLATTERED, AND SAID SO, THAT MRS THATCHER SHOULD HAVE DEVOTED 24 HOURS TO THEM AT A VERY BUSY TIME. THE GRAND DUKE (WHO HAD FLOWN HOME 24 HOURS EARLY FROM HIS FAR EAST TOUR IN ORDER TO RECEIVE HER) INVITED HER TO AN INFORMAL "FAMILY" DINNER, AND ACCOMPANIED THE GRAND DUCHESS AND THE TWO YOUNGER PRINCES TO THE SUBSEQUENT LECTURE. M WERNER, WHO WAS AT THE AIRPORT ON BOTH ARRIVAL AND DEPARTURE, MOVED HIS WEEKLY CABINET MEETING TO GIVE MORE TIME FOR THE TALKS AND TO ENABLE HIM TO JOIN THE PRIME MINISTER FOR HER CLOSING PRESS CONFERENCE.
3. THE CHURCHILL MEMORIAL LECTURE HAS RECEIVED WIDE COVERAGE IN BOTH THE BRITISH AND FOREIGN PRESS. THE PRIME MINISTER'S FORTHRIGHT DELIVERY OF HER VIEWS, BOTH ON EAST/WEST RELATIONS AND ON THE EEC, AND HER DECISION TO UNDERTAKE THIS ANNUAL TRIBUTE TO A MAN WHOM MANY LUXEMBOURGERS REGARD AS HAVING PLAYED A PRINCIPAL ROLE IN RESTORING THEIR INDEPENDENCE, WERE ENTHUSIASTICALLY RECEIVED BY A LARGE AUDIENCE.
4. THE LECTURE AND THE SUBSEQUENT OFFICIAL TALKS GAVE THE PRIME MINISTER AN OPPORTUNITY TO PRESENT BOTH PUBLICLY AND PRIVATELY A CLEAR AND FORCEFUL ACCOUNT OF OUR VIEWS ON THE INEQUITY OF THE COMMUNITY BUDGET. IT IS DIFFICULT TO TELL WHAT PRACTICAL EFFECT THIS WILL HAVE ON LUXEMBOURG PERFORMANCE AT THE EUROPEAN COUNCIL.

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BOTH M WERNER AND M THORN ACKNOWLEDGED THE REALITY OF THE PROBLEM, AND THE NEED FOR SOME CORRECTIVE MECHANISM TO DEAL WITH IT, WHILE EXPRESSING PREDICTABLE CONCERN THAT NEITHER THE TREATIES NOR THE PHILOSOPHY OF THE COMMUNITY SHOULD BE UPSET. THEY CANNOT HAVE FAILED TO BE IMPRESSED BY THE SINCERITY AND STRENGTH WITH WHICH THE PRIME MINISTER PUT FORWARD OUR CASE, THE MORE SO SINCE IT WAS PRESENTED AS AN ARGUMENT FOR THE PRESERVATION AND WELL-BEING OF THE COMMUNITY. THEY WILL ALSO HAVE NOTED WITH APPRECIATION THE PRIME MINISTER'S READINESS TO STATE PUBLICLY THAT SHE HAD NO WISH TO MAKE ANY CHANGE IN THE ARRANGEMENTS FOR THE SITING OF THE EUROPEAN PARLIAMENT.

4. WHETHER THE VISIT WILL HAVE PERSUADED THE LUXEMBOURGERS TO PUT THEIR HANDS IN THEIR OWN POCKETS TO HELP SOLVE THE BUDGETARY PROBLEM REMAINS TO BE SEEN. BUT THERE IS NO DOUBT THAT THE VISIT, AND THE IMPRESSION WHICH THE PRIME MINISTER MADE ON THE LUXEMBOURG GOVERNMENT AND PUBLIC, WILL HAVE STRIKINGLY BROUGHT HOME TO THEM THE URGENCY OF THE PROBLEM, AND WILL HAVE SERVED AS A MOST WELCOME BOOST TO OUR BILATERAL RELATIONS. I AM GRATEFUL TO THE PRIME MINISTER FOR HAVING AGREED TO FIND THE TIME FOR IT.

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File 16
Luxembourg

10 DOWNING STREET

From the Private Secretary

22 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

As you know, the Prime Minister visited Luxembourg on 18/19 October. I enclose copies of the records of her conversations with the Luxembourg Prime Minister. The first record is of a tete-a-tete discussion and the second of a discussion in plenary session. I should be grateful if both records could be given an appropriately limited distribution.

I am sending copies of this letter with both records to Tony Battishill (H.M. Treasury) and to Martin Vile (Cabinet Office). I am sending copies of this letter with extracts as appropriate to Brian Norbury (Ministry of Defence), Garth Waters (Ministry of Agriculture, Fisheries and Food), Bill Burroughs (Department of Energy) and to Ian Ellison (Department of Industry).

M. O'D. B. ALEXANDER

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

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RECORD OF THE PLENARY SESSION BETWEEN THE PRIME MINISTER AND THE PRIME
MINISTER OF LUXEMBOURG, MONSIEUR PIERRE WERNER, IN LUXEMBOURG, AT 1040
ON 19 OCTOBER 1979

Present:

Prime Minister

H.E. Ambassador to Luxembourg

Mr. M.J. Fretwell

Mr. Henry James

Mr. Michael Alexander

M. Pierre Werner, Prime Minister

M. Gaston Thorn, Deputy Prime Minister

M. Ernest Mühlen, Secretary of State
for Finance

M. Paul Helminger, Secretary of State
for M. Thorn's portfolios

M. Albert Hansen, Secretary General
of the Government

M. Roger Hastert, Luxembourg
Ambassador to London

M. Jean Rodembourg, Prime Minister's
Department

M. Jos Weyland, Economic Director,
Ministry of Foreign Affairs

M. Jean Hostert, Director of Protocol
Ministry of Foreign Affairs

* * * * *

After an exchange of courtesies, the Prime Minister said that the most important thing about the Community was that it was a Community of free countries. The Community needed to be strong in its resolve to defend liberty. The problems facing the Community had to be solved in order to enable it to pursue its great purpose. The Community could not be inward looking. It had to think of others. It had to be more than a group of countries sheltering behind a common tariff. On the defence side, the relationship with the United States had to be kept in good repair. The developing countries had to be encouraged to adopt or maintain the democratic way of life. Britain's objective in the negotiations about the future of Rhodesia was to keep that country and the region friendly to the West.

Defence

M. Werner said that he fully agreed with the Prime Minister's approach and her view of the need to maintain the link with the United States. He agreed also that the Community's problems had to be tackled in a spirit of friendship. The defence problems were particularly difficult.

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/ Dr. Kissinger's

Dr. Kissinger's recent statement had shattered the confidence of many in the existing arrangements for strategic security. The Prime Minister said that the decisions facing the Alliance on the modernisation of theatre nuclear forces were very difficult. But if members of the Alliance were not prepared to take those decisions, the situation would be even worse. Britain and the Federal Republic would accept the basing of the new weapons on their territory. The Italians probably would. She hoped that either the Dutch or the Belgians would also do so. It was essential that the Alliance deterrent capability should be effective at every level. It was for that reason that she had paid a visit to Italy recently. She was worried about the effect of President Brezhnev's recent speech which was clearly the first shot in a psychological campaign. She had considered it essential that President Brezhnev should know that she had recognised this and that he should be reminded that she would not easily be bullied. Hence her speech the previous evening. M. Werner suggested that the West should try to put the ball back in President Brezhnev's court. He should be told that either the Soviet Government had to produce measures of genuine disarmament or the West would proceed with the modernisation of its forces. The Prime Minister said that we would have to wait to see what further action he took. Withdrawing some tanks and troops a few miles was of no great significance. The West must not display weakness. The Soviet Government must be left in no doubt about the resolve of Western Governments.

Community Budget

The Prime Minister referred to her remarks on the budget in the Winston Churchill Memorial Lecture the previous evening. She said that she was determined to reduce expenditure in the United Kingdom. The growth assumed by the previous government had not occurred. She was not prepared to increase the Government's deficit or to borrow more money. This created major political problems for her. It was impossible for the United Kingdom to transfer money to wealthier countries which enjoyed lower tax rates. If she were to do so anti-EEC feeling could easily well up again. People in Britain accepted the ideological and defence arguments for close association with Europe. But they would not accept a position where Britain was the financier of the Community. The situation was utterly inequitable and had to be put right. She did not wish to have to outdo Mr. Silkin but a solution would have to be found. She did not expect to receive money

from the Community but she would not play Sister Bountiful.

M. Werner said that he only had two words to say on the question of the budget (M. Thorn interjected that this would not be enough!). The Luxembourg Government recognised that there was a problem. Action would have to be taken. But whatever the corrective found, it should be compatible with the basic philosophy of the Treaty. It must neither upset the 'acquis communautaire' nor be at variance with the Treaty. Membership of the EEC was advantageous to all its members even if the advantages could not always be quantified.

Mr. Thorn, referring to M. Werner's remark about the need for a corrective to the system, asked whether a solution based on Article 131 would be acceptable. The Prime Minister said that there had to be a mechanism. The mechanism need only last as long as the problem. She was quite prepared to see Britain's contribution rise as the GNP rose. If Britain were to become one of the richer members of the Community, she would also become one of the larger contributors. M. Thorn said that it was important to eschew the concept of the juste retour. The Prime Minister emphatically agreed. M. Thorn said that clearly something serious had to be done. But he thought there should be a time limit to any corrective mechanism. We should also be tackling the problem by changing Community policies. The Prime Minister said that she acknowledged the need to change policies but she could not wait until such changes took effect. A solution was necessary in the meantime.

Energy

M. Werner regretted that it had so far proved impossible for members of the Community to develop convergent policies on this crucial problem about which everyone was so worried. Could not the United Kingdom, with its special resources, take a lead in developing and co-ordinating a Community policy. The Prime Minister referred to the proposals put forward by the British Government for encouraging the production of coal. She noted that agreement had been achieved on oil import targets and recalled the discussion of long term sales at the European Council meeting in Strasbourg. The next stage should be an intensified effort by members of the Community to free themselves

/ from

dependence on oil. That, in her view, meant the development of civil nuclear power. Britain had eleven MAGNOX stations in operation; two advanced gas-cooled reactors in action, three under construction, and two on order. 13% of our electricity was already supplied by nuclear power stations. Britain had had little trouble with these power stations. There was of course ^{an} ecological lobby in the United Kingdom. But politicians had a duty to give a lead in this area. People would not thank them if in ten years there was a major power shortage because of a failure to take difficult decisions now. The environmental problems associated with other sources of energy e.g. the exploitation of the tar sands, oil shale and wind, were severe. The problems of disposing of nuclear waste were, thanks to the development of fast breeder reactors and vitrification techniques, on the way to solution. There was no effective alternative to nuclear power. There was probably just about time to develop an effective programme if western governments started now.

M. Thorn said that if Mrs. Thatcher were a Luxembourg politician, he would be voting for her! M. Werner having commented on the strong position created for Britain by the prospect of self-sufficiency in oil, again urged that Mrs. Thatcher should take the lead in developing a Community energy policy. M. Thorn said that the French had many years ago decided to concentrate on agriculture and had succeeded in defining the Community's agricultural policy. Britain should similarly take the lead in the energy sector. This might enable the Community to come closer to a solution of the budget problem. At the moment Britain's contribution was going to supporting the Common Agricultural Policy. It would be better if it were supporting other policies e.g. in the field of energy.

Common Agricultural Policy

The Prime Minister asked about the views of the Luxembourg Government on the Common Agricultural Policy. M. Thorn said that some kind of agricultural policy was necessary in order to give stability to agricultural incomes in the long term. The Community had succeeded, where even the Benelux countries had failed, in developing such a policy. Correctives were needed but it would not be possible to run an agricultural policy on a purely economic basis. The Prime Minister said that, ironically, Britain's agriculture was very efficient. The farmers were not hindered by strong trade unions. But the more they produced, in the present

circumstances, the more the Community's surpluses would increase. Britain could easily expand its production of milk, butter, beef and lamb. The Italians also felt strongly about the budget and the CAP. They wanted a greater percentage of the budget to be spent on other policies and also to see the direction of the CAP itself changed. When it was conceived, the CAP had been intended to protect the livelihood of small farmers. Social circumstances had changed and farming was now for many small-holders a hobby rather than a means of earning a living. M. Werner said that he thought there might be means of meeting the social objectives of the CAP while avoiding over-production. It might be possible to penalise large producers.

Location of Community institutions

M. Werner and M. Thorn described the historical background to the problem which had arisen over the siting of the European Parliament. M. Werner said that to pursue the question now could only complicate other difficult problems. The Luxembourg Government wished to maintain the status quo. They admitted the inconvenience of the present arrangements but thought that governments would not find it easy to agree on any change at present. If the Community developed further, rationalisation could no doubt be discussed. But that time had not yet come. The Prime Minister said that she would not wish to raise the question. Brussels already had enough of the Community institutions, as well as the NATO headquarters, and a change would be very expensive.

EMS

M. Werner asked Mrs. Thatcher to repeat what she had told him during their tête-à-tête about Britain's attitude towards the European Monetary System. The Prime Minister said that Britain would not enter the exchange rate mechanism immediately but that it was the Government's objective to do so. There were two problems:

- (a) Britain was engaged in dismantling exchange controls. Two steps had already been taken but the Government wished to go a little further. The precise effect of a further step was unpredictable and it was necessary to be cautious;

/ (b)

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- (b) The value of sterling was linked to the price of oil rather than to the performance of the United Kingdom economy. Time had to be given for the parity of sterling to shake down and stabilise.

But the will to enter the EMS was there. The fact that Britain had made over some of her reserves to the system was an earnest of Britain's good faith and of her intention to come into the exchange rate mechanism.

The discussion ended at 1130.

Ambs

19 October 1979

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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF LUXEMBOURG, MONSIEUR PIERRE WERNER, IN LUXEMBOURG AT 1000 on 19 OCTOBER 1979

Present:-

Prime Minister	Monsieur Pierre Werner,
H.E. Mr. Patrick Wright	H.E. Monsieur Roger Hastert
Mr. Michael Alexander	

After an exchange of courtesies the Prime Minister asked M. Werner about his Government's success in bringing their steel industry through the crisis which had so badly affected the same industry in other countries. M. Werner said that the work force in the steel industry was in process of being reduced by some 30 per cent. From an initial total of 25,000, the aim was to reach a reduced staff of 16,500 by 1981. This slimming had been essential in order to maintain the industry's competitiveness. The reductions had been achieved as a result of tripartite discussions between management, work force and Government. The Government had given no financial support.

More generally, M. Werner said that unemployment was not a problem in Luxembourg. They were fortunate in that the availability of immigrant and trans-frontier labour gave the Government a good deal of flexibility. The real problem was what M. Werner referred to as "qualified unemployment". The working population of the Grand Duchy had become highly educated and very well qualified. There were many jobs that they were reluctant to accept. Two years ago there had been, for instance, no masons in Luxembourg. The Government was trying to revalue manual work but this could only be a long term process. There was also some disguised unemployment in Luxembourg. Some of the workers in the steel industry who had lost their jobs were being employed in public works and being paid the wages they would have earned had they remained in the steel industry. This was only a temporary scheme and the general social situation was extremely stable. Nonetheless Luxembourg was anxious to attract new industry to compensate for the declining importance of the steel industry and for the jobs lost there.

/The Prime Minister

The Prime Minister asked M. Werner for his impressions of the IMF meeting in Belgrade. M. Werner said that the meeting had been pessimistic. This was in part, but only in part, because the participants had felt that last year they had been over-optimistic and were determined to be more cautious this year. There had been no real convergence of opinion about the measures necessary to overcome the situation. It was true that the problems, at least the purely monetary ones, had been identified more clearly. It was also true that the Americans had begun to acknowledge their responsibilities. But overall the impression had not been particularly heartening.

The Prime Minister commented that the European Monetary System (EMS) had come through its first revaluation exercise well. She asked M. Werner for his comments on how the system was working. M. Werner said that the EMS was more flexible than the Snake had been. This was for two reasons:-

- (a) The financial resources available to the EMS were much larger than those which had been available to the Snake; and
- (b) People were not set on achieving absolute stability.

Provided changes in parity were not too frequent and fell within the 2-3% range, modification in exchange rates was possible without undue drama. Only one aspect of the arrangements was causing difficulty. This was the requirement that changes in parity had to be mutually ie unanimously agreed. This had given rise to some tension at the revaluation meeting in September. But in general the system was workable and was clearly advantageous to its members.

M. Werner enquired about the possibility of UK accession to the exchange mechanism. The Prime Minister said that the ultimate wishes of HMG were not in doubt: we hoped to join. But:-

- (a) we were in the process of dismantling our exchange controls. Two steps in the process had been completed. But the full effect of the process was not yet apparent. The dismantling of exchange controls was clearly desirable. By assisting money to flow out of the country, it enabled us to covert the income from North Sea oil into overseas investments. There would have to be a

/ further

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further relaxation in exchange controls in the not too distant future. Despite the urging of Chancellor Schmidt at the last meeting of the European Council, the British Government had approached the dismantling of exchange controls with caution. However the process would have to be completed. It would be important to see the effects of this on the parity of sterling before taking a decision about entering;

- (b) a further oil price rise before the end of the year might well have an effect on the value of sterling. Sterling's rate had recently been determined more by the price of oil than by Britain's economic performance. We had to see where the rate would stabilise: it had been at 2.30 only a few weeks ago.

The moment the Government were able to take a clear view of the effects on the sterling rate of the relaxation of exchange controls and the threatened oil price^{rise}, they would be able to make a judgement about entry into the exchange rate mechanism. Britain's positive attitude towards EMS was shown by her willingness to commit reserves to the system. M. Werner said that he understood the need for a period of stability in sterling's exchange rate. But it would be a great thing for other members of the Community if Britain was able to join the exchange rate mechanism.

M. Werner commented that recent speculative movements in international exchange rates had been irrational. The Prime Minister said that it was not easy to see what could be done to stop such a movement. There was a lot of uncommitted money floating around. Various suggestions had been made at the last meeting of the European Council for ways of getting together with the OPEC countries to deal with the problem. This collaboration with the OPEC countries was unlikely to have rapid effects but it might work in time. It was clearly not in the interests of the OPEC countries to undermine the West's way of life. Mr. Werner commented that if the Middle East's political problems could be solved, the oil problem would also disappear. The Prime Minister commented that this hardly applied to the situation in Iran where the government had discovered that it could get an / adequate

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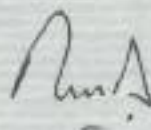
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- 4 -

adequate income from reduced production. It was essential for the West to free itself from its dependence on oil. This dependence gave the oil producing countries, and in particular the Arab countries, too much political power.

The only way to reduce our dependence on oil was to develop our use of non-fossil fuels. Concern about the ^{civil} use of nuclear power was understandable. But there was no other way. Wind and solar power would not be enough. Britain's nuclear power programme had gone very well. The MAGNOX stations were producing power at a reasonable cost and their safety record was unblemished. Not a single worker in the nuclear power industry had lost his life. M. Werner said that he was not opposed to the use of nuclear power as such. But in the present state of art, it raised too many security, technical and economic problems for Luxembourg. He intended to leave the option open for the future. He did not anticipate that Luxembourg would have an energy problem before the mid 1980s. Meanwhile he intended to investigate other sources of power e.g. coal or agreements with neighbouring countries. It might be possible to seek agreement with the French who were building nuclear power stations close to Luxembourg.

The discussion ended at 1035.



19 October 1979

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Private Secretary

THE PRIME MINISTER'S TALKS WITH MONSIEUR WERNER ON 19 OCTOBER

1. As you know, Monsieur Werner has proposed that there should be about half an hour's tete à tete from 1000, followed by "plenary" talks until 1130.

2. For the tete à tete, Monsieur Werner will be accompanied only by the Luxembourg Ambassador to London, Monsieur Roger Hastert; on our side, he expects that the Prime Minister will be accompanied by yourself and myself.

3. For the plenary talks, the Luxembourg side is now likely to be the following (8 or 9 people):

Monsieur Werner

Monsieur Gaston Thorn

Deputy Prime Minister,
Minister of Foreign Affairs,
External Affairs and National
Economy

Monsieur Ernest Muhlen

Secretary of State (ie Junior
Minister) for Finance

Monsieur Paul Helminger

Secretary of State for
Monsieur Thorn's portfolios

Monsieur Albert Hansen

Secretary General of the
Government

Monsieur Roger Hastert

Luxembourg Ambassador to
London

Monsieur Jean Rodembourg

Prime Minister's Department

Monsieur Jos Weyland

Economic Director, Ministry of
Foreign Affairs

~~and possibly~~

Monsieur Jean Hostert

Director of Protocol, Ministry
of Foreign Affairs

We have told the Foreign Ministry that our side for the plenary talks will consist, apart from the Prime Minister, yourself and myself, of Mr James and Mr Fretwell.

/For



4. For the Press Conference, which is now to be held jointly in the Cabinet Room at the Ministry of Finance, Monsieur Werner will almost certainly have with him Monsieur Thorn, Monsieur Hansen (see above) and Monsieur André Claude, the Government Spokesman.

A handwritten signature in black ink, appearing to read 'P R H Wright', with a large, sweeping flourish underneath.

P R H Wright

18 October 1979

Copied to:

Mr James

Mr Fretwell



Foreign and Commonwealth Office

London SW1A 2AH

17 October 1979

*La.
Pauls 19/x*

Dear Michael,

Prime Minister's Visit to Luxembourg: 18/19 October

On checking some of the figures in Brief No 2, on Community Issues, for the Prime Minister's visit to Luxembourg, we have noticed a couple of points which ought perhaps to have been made more precisely:-

- (a) The figure for the proportion of the Community Budget absorbed by agriculture is given as "over 70%" in paragraph 3 line 4 and as "almost 75%" in paragraph 18 line 3. The exact figure, according to the existing budget provisions for 1979, is in fact 74.8%.
- (b) The figure given in paragraph 18 line 4 for the percentage of the total budget accounted for by surpluses is 50%. In fact the correct current figure is 47%.

Yours etc

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

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

October, 1979

Dear Minister,

PRIME MINISTER'S VISIT TO LUXEMBOURG:
THE EUROPEAN MONETARY FUND AND ECONOMIC
AND MONETARY UNION

We discovered earlier in the week that the Luxembourg Prime Minister had been discussing the EMP and EMU with the President of the Commission. Since both of these issues are likely to be fresh in M. Werner's mind, and since he chaired the Committee which produced the "Werner Report" in 1970 on the attainment of economic and monetary union by stages, it seems sensible to prepare a short additional brief for the Prime Minister on both these issues.

in briefing

2. This is attached. I am sorry you did not get this earlier.
3. I am copying this to Paul Lever and Martin Vile.

Yours ever,
A.M.W. Battishill

A.M.W. BATTISHILL

M. Alexander, Esq.,
PS/The Prime Minister
10 Downing Street.

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Foreign and Commonwealth Office

London SW1A 2AH

16 October 1979

Dear Michael,

Prime Minister's Visit to Luxembourg: 18/19 October

*Filed with other
Drafts at
12 Oct.*

Further to my letter of 12 October, I attach ten copies of the full version of the Steering Brief for the Prime Minister's visit to Luxembourg, including Annexes and a slightly expanded section on the programme.

I am sending a copy of this letter with two copies of the Brief to Martin Vile (Cabinet Office).

Yours etc

Paul

(P Lever)
Private Secretary

M O' D B Alexander Esq
10 Downing Street
LONDON

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Luxembourg.



Foreign and Commonwealth Office

London S.W.1

16 October 1979

*Michael
shall I
amend
accordingly
TP
20th Oct
1979*

*All copies amended
JPT 16.10.*

Dear Michael,

PRIME MINISTER'S VISIT TO LUXEMBOURG

The brief No 2 (Community Issues) for the Prime Minister's visit to Luxembourg mentions in paragraph 3 of the Essential Facts on the Community Budget that the Commission are to meet on 24 October to consider their paper on proposals for solutions to the UK budget problem. We have now learned from UKREP that the first substantive discussion of the Commission proposals will take place on 17 October. You may wish to make an appropriate amendment to the brief.

Yours etc

(P Lever)

M O'D B Alexander Esq
10 Downing Street

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GRS 636

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FM LUXEMBOURG 13 0903Z OCT 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 239 OF 13 OCTOBER

INFO UKREP BRUSSELS, PARIS, BONN, BRUSSELS, THE HAGUE

INFO SAVING ROME, DUBLIN AND COPENHAGEN

→ Prime Minister

[Handwritten signature]

MY TELNO 205 (NOT TO ALL): PRIME MINISTER'S VISIT TO LUXEMBOURG

1. WITH LESS THAN A WEEK BEFORE THE PRIME MINISTER'S VISIT, IT MAY BE HELPFUL TO SET OUT THE MAIN PREOCCUPATIONS LIKELY TO BE ON M WERNER'S MIND WHEN HE MEETS MRS THATCHER ON 18 OCTOBER.

2. ON EEC QUESTIONS, BOTH M WERNER AND M THORN ARE WELL AWARE OF OUR DISSATISFACTION WITH THE BUDGET, AND WILL CERTAINLY EXPECT THE PRIME MINISTER TO RAISE THIS, PARTICULARLY IN THE LIGHT OF PRESS REPORTS OF THE PRIME MINISTER'S VISIT TO ROME AND HER SPEECH AT BLACKPOOL. THEY ARE LIKELY TO ARGUE (AS M FRANCOIS-PONCET DID DURING HIS TALK WITH YOU ON 3 SEPTEMBER) THAT THE BUDGET SHOULD NOT BE SEEN IN ISOLATION FROM THE WIDER QUOTE ECONOMIC ENVIRONMENT UNQUOTE OF THE COMMUNITY (I.E. THAT ADDITIONAL COMMUNITY REGIONAL AND INDUSTRIAL POLICIES NEED TO BE PURSUED MORE VIGOROUSLY). WHILE TAKING ISSUE WITH PARTS OF THE COMMISSION PAPER (THEY SHARE BELGIAN RESERVATIONS ABOUT THE EXTENT TO WHICH ADMINISTRATIVE EXPENDITURE BY THE EEC INSTITUTIONS SHOULD BE SEEN AS A NATIONAL BENEFIT), THEY ACCEPT, AS M SANTER, THE MINISTER OF FINANCE, TOLD ME ON 12 OCTOBER, THAT THE COMMISSION HAVE PRODUCED A CLEAR DESCRIPTION OF THE PROBLEM, AND ACKNOWLEDGE THAT SOMETHING MUST BE DONE AT LEAST TO REDUCE THE DISPROPORTIONATE SHARE OF EEC EXPENDITURE ON THE COMMON AGRICULTURAL POLICY. I DO NOT THINK THEY DISPUTE THAT OUR SITUATION IS INEQUITABLE, AND I BELIEVE THAT OUR BEST CHANCE OF WINNING THEIR POSITIVE SUPPORT FOR ANY CORRECTING MECHANISM WE MAY PROPOSE LIES IN APPEARING TO SEEK THEIR ADVICE ON TACTICS IN ADVANCE OF THE DUBLIN SUMMIT.

3. M WERNER WILL CERTAINLY HOPE TO HEAR FROM THE PRIME MINISTER WHETHER AND WHEN WE ARE LIKELY TO JOIN THE EMS. ALTHOUGH THE LUXEMBOURGERS WELL UNDERSTOOD THE TECHNICAL REASONS FOR OUR FAILURE TO JOIN AT THE OUTSET, THEY REGRET OUR ABSENCE ON POLITICAL GROUNDS, AND HOPE THAT WE WILL FIND IT POSSIBLE TO JOIN SOON (SEE THE ACCOUNT IN UKREP BRUSSELS TELNO 5325 OF M WERNER'S PRIVATE DISCUSSION WITH MR JENKINS ON 10 OCTOBER). M WERNER

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|MAY

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MAY ALSO WISH TO DISCUSS WITH THE PRIME MINISTER SOME OF THE LONGER TERM COMMUNITY QUESTIONS ON WHICH THE LUXEMBOURGERS ARE NOW STARTING TO FOCUS WITH A VIEW TO THEIR OWN PRESIDENCY NEXT JULY.

4. AS SEEN FROM HERE, THE MAIN VALUE OF NEXT WEEK'S VISIT (APART FROM THE FORUM IT PROVIDES FOR THE PRIME MINISTER'S SPEECH ON 18 OCTOBER) LIES IN THE OPPORTUNITY WHICH IT GIVES TO DISCUSS A RANGE OF COMMUNITY AND WORLD ISSUES, WITH THE PARTICULAR HOPE OF GAINING BROAD LUXEMBOURG SUPPORT (E.G. WITH THEIR BENELUX PARTNERS) FOR OUR BUDGETARY CASE. MORE GENERALLY, THE VISIT PROVIDES TIMELY EVIDENCE OF THE ATTENTION WHICH WE ARE PREPARED TO PAY THE SMALLEST OF OUR EEC PARTNERS. THERE WERE BRUISED FEELINGS HERE AT THE WAY IN WHICH THE FRENCH AND GERMANS APPEARED TO RIDE ROUGH-SHOD OVER LUXEMBOURG SENSITIVITIES DURING THE ELECTIONS FOR THE PRESIDENCY AND VICE-PRESIDENCIES OF THE EUROPEAN PARLIAMENT, AND THE RECENT ANNOUNCEMENT OF FRANCO-GERMAN AGREEMENT ON TELEVISION SATELLITES (WITH APPARENT DISREGARD FOR RTL'S REQUIREMENTS) HAS ALSO CAUSED SOME RESENTMENT HERE. THERE IS ALSO OF COURSE CONTINUING CONCERN ABOUT FRENCH ATTEMPTS TO LURE AWAY THE EUROPEAN PARLIAMENT SECRETARIAT AND SESSIONS FROM LUXEMBOURG TO STRASSBOURG, AND M WERNER HAS AGAIN THIS WEEK PUBLICLY EMPHASISED LUXEMBOURG'S DETERMINATION TO MAINTAIN THE STATUS QUO.

5. ON WIDER ISSUES, RHODESIA AND CHINA MAY BE OF PARTICULAR INTEREST. ON THE FIRST, I HOPE THAT THE PRIME MINISTER CAN MAKE AN APPRECIATIVE REFERENCE TO M THORN'S SPEECH TO THE GENERAL ASSEMBLY (UKMIS NEW YORK TELNO 1224). ON THE SECOND, THE LUXEMBOURGERS WILL NO DOUBT BE READY TO GIVE THE PRIME MINISTER AN ACCOUNT OF THE GRAND DUKE'S VISIT (PEKING TELNO 888), IN ADVANCE OF PREMIER HUA'S VISIT TO LONDON.

FCO PASS SAVING TO ROME, DUBLIN AND COPENHAGEN

(REPEATED AS REQUESTED)

WRIGHT

[COPIES SENT TO NO 10 DOWNING ST]

DEPTL DISTN

WED

EID

FRD

RHODESIA-D

FED

CABINET OFFICE

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

12 October 1979

to: Paul - only

Dear Michael,

Prime Minister's Visit to Luxembourg
18/19 October 1979

now with briefs 25/10 13-19

/ I attach 10 copies of the briefs for the Prime Minister's meeting with M Werner, except for the brief on Rhodesia, which will be sent to you on the afternoon of Wednesday 17 October.
/ I also attach speaking notes for the Prime Minister's use at the lunch on 19 October.

I am sending a copy of this letter, with two copies of the briefs, to Martin Vile (Cabinet Office).

Your as

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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PRIME MINISTER'S VISIT TO LUXEMBOURG

LIST OF BRIEFS

1. Steering Brief
2. Community Issues
3. Rhodesia
4. East/West Relations (including China)
5. South East Asia
6. Luxembourg: Internal Political and Economic

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BRIEF NO 1

COPY NO

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

18-19 OCTOBER 1979

STEERING BRIEF

Brief by Foreign & Commonwealth Office

INTRODUCTION

1. The visit to Luxembourg stems from the Prime Minister's acceptance of the invitation to give the Churchill Memorial Lecture on 18 October. Her speech will set the tone for the talks on the following day.

2. At the dinner before the lecture, the Prime Minister can expect to find the Grand Duke's recent State Visit to China uppermost in his mind. The tour of the Far East also included a few days in Hong Kong, a private visit to Thailand while the rest of the party were in Korea, and a semi-official visit to Japan. The new government is established with a comfortable majority in the Chamber of Deputies, and has few pressing problems. Luxembourg's prosperity is based primarily on the steel industry and a high degree of social and industrial harmony has contributed to the relative ease

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/with

which the industry has faced the recession. The country has one of the highest standards of living in the Community. The Prime Minister will be M Werner's first prime-ministerial guest since he took office in July.

MAIN OBJECTIVE

3. This will be the last opportunity before the Dublin Council to impress on the Luxembourgers at the highest level the importance we attach to achieving a satisfactory solution to our budgetary problem. The main British aim will be to obtain Luxembourg support for our case and to explore ways in which our objectives and theirs can be reconciled. M Werner will no doubt pass on his impressions to his Benelux partners, in particular at their regular informal discussions just before the Council meeting.

OTHER BRITISH OBJECTIVES

4. The Luxembourgers have not proposed a specific agenda, preferring to have a tour d'horizon of both Community and wider issues, including Rhodesia. There are no specific British objectives vis-à-vis Luxembourg at present but it will obviously be valuable to establish a good personal and working relationship between the Prime Minister and M Werner, whom she has not yet met.

LUXEMBOURG OBJECTIVES

5. On the basis of discussions with Luxembourg officials, their main objectives are likely to be:

- (i) To establish a cordial working relationship between Mrs Thatcher and M Werner, and to hear at first-hand about HMG's economic policies.
- (ii) To seek confirmation of HMG's commitment to the Community and specifically to learn how the Prime Minister sees our future relationship with the European Monetary System.
- (iii) To explore the Prime Minister's ideas about the future of the Community, including enlargement.

TACTICS

6. Not surprisingly, the Luxembourgers are on the look out for signs that they are being ignored or patronised. Bruised by their failure to gain any of the Vice-Presidencies in the European Parliament, they feel let down by the Germans and suspect them to have been in collusion with the French. They also (correctly) suspect the French of working for the removal of some European Institutions - especially Head-quarters of the European Parliament - from Luxembourg to France. In practice, the contribution which Luxembourg makes to the Community stems from the high calibre of a few leading personalities; the Luxembourgers will respond well to indications that we take them seriously and are ready to listen to them.

7. This suggests that the best way to tackle the issue of the Budget will be to start by acknowledging M Werner's

status as a leading expert on the Community's financial affairs (he is an author of the concept of EMU) and seek his advice on how to play the British hand during the run-up to the Dublin Council and at the Council itself. This will not of course preclude the Prime Minister from going on to explain, as discussion develops, how HMG sees the problem. Membership of the EEC is the dominant, almost the exclusive, element in Luxembourg's foreign relations, and the Luxembourgers will place particular weight on the Prime Minister's explanation of the European as opposed to the national dimensions of the problem.

PROGRAMME

8. The Prime Minister is due to arrive in Luxembourg on Thursday 18 October, in time for a private dinner at 6.30 pm with the Grand Duke and Duchess. The Churchill Memorial Lecture is to be given at 8.30 pm, followed by a reception at the British Embassy for about 200 guests. The Prime Minister calls on M Werner at 10 am on Friday 19 October. Simultaneous radio and television interviews with Radio-Télé Luxembourg and a meeting with the local press will be followed by a lunch given by M Werner. The Prime Minister leaves Luxembourg at 3 pm. She will be accompanied by Mr Fretwell (Assistant Under Secretary (EEC) in the FCO) and a Private Secretary.

3. 1. 1.

9. Personality notes on the Grand Duke and Duchess and

their children, M Werner, M Thorn and Mme Flesch are at Annex A; a list of participants at the talks and of briefs is at Annex B and Essential Facts and Figures on Luxembourg and on Anglo-Luxembourg trade at Annex C.

RESUME OF BRIEFS

EUROPEAN COMMUNITY QUESTIONS (Brief No 2)

10. Aim is to obtain Luxembourg support for effective action to reduce UK net Budget contribution at Dublin Council (Brief No 2A). Luxembourg's position so far has been somewhat more sympathetic than for instance the Belgian but they attach some importance to the Community objections of principle to the kind of ideas we have put forward for a solution to our problem. They do however seem to recognise that there is need for some form of solution. M Werner will wish to hear the Prime Minister's general views on the Community. Since we want to focus attention on the Budget there is no need to go into detail on the CAP (Brief No 2C) except to the extent that CAP reform impinges on the Budget problem; (the linkage between these was established in the Anglo-Italian talks of 4/5 October).

11. The Luxembourgers may want assurances of the new Government's more positive approach to Community questions (Brief No 2B) and to hear that we have not closed the door

to participation in the EMS (Brief No 2D) to which they attach political importance. They may also want to hear our views on Community institutions including the site of the European Parliament (Brief No 2E) and the question of enlargement (Brief No 2F).

RHODESIA (Brief No 3)

12. To inform the Luxembourgers of progress to date at the Constitutional Conference, and maintain their support, particularly in the Nine, for our approach.

EAST/WEST RELATIONS (including CHINA) (Brief No 4)

13. To coordinate views on policy towards the Soviet Union, especially concerning Theatre Nuclear Force Modernisation, CSCE, and the handling of relations with China.

SOUTH-EAST ASIA (Brief No 5)

14. To compare views on the refugee problem and on measures to relieve famine in Cambodia; and to discuss tactics for handling Indo-Chinese problems at the UN.

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BRIEF NO 1

COPY NO 1

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

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STEERING BRIEF

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-3-

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status as a leading expert on the Community's financial affairs (he is an author of the concept of EMU) and seek his advice on how to play the British hand during the run-up to the Dublin Council and at the Council itself. This will not of course preclude the Prime Minister from going on to explain, as discussion develops, how HMG sees the problem. Membership of the EEC is the dominant, almost the exclusive, element in Luxembourg's foreign relations, and the Luxembourgers will place particular weight on the Prime Minister's explanation of the European as opposed to the national dimensions of the problem.

PROGRAMME

8. The Prime Minister is due to arrive in Luxembourg on Thursday 18 October, in time for a private dinner at 6.30 pm with the Grand Duke and Duchess. The Churchill Memorial Lecture is to be given at 8.30 pm, followed by a reception at the British Embassy for about 200 guests. The Prime Minister calls on M Werner at 10 am on Friday 19 October for a tête-à-tête discussion. This will be followed by an hour's plenary session which M Thorn will attend. At 11.40 the Prime Minister is to have radio and television interviews with Radio-Télé Luxembourg followed by a meeting with the local press. After a lunch given by M Werner, the Prime Minister leaves Luxembourg at 3 pm. She will be accompanied by Mr Fretwell (Assistant Under Secretary (EEC) in the FCO) and a Private Secretary.

9. Personality notes on the Grand Duke and Duchess and

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their children, M Werner, M Thorn and Mme Flesch are at Annex A; a list of participants at the talks and of briefs is at Annex B and Essential Facts and Figures on Luxembourg and on Anglo-Luxembourg trade at Annex C.

RESUME OF BRIEFS

EUROPEAN COMMUNITY QUESTIONS (Brief No 2)

10. Aim is to obtain Luxembourg support for effective action to reduce UK net Budget contribution at Dublin Council (Brief No 2A). Luxembourg's position so far has been somewhat more sympathetic than for instance the Belgian but they attach some importance to the Community objections of principle to the kind of ideas we have put forward for a solution to our problem. They do however seem to recognise that there is need for some form of solution. M Werner will wish to hear the Prime Minister's general views on the Community. Since we want to focus attention on the Budget there is no need to go into detail on the CAP (Brief No 2C) except to the extent that CAP reform impinges on the Budget problem; (the linkage between these was established in the Anglo-Italian talks of 4/5 October).

11. The Luxembourgers may want assurances of the new Government's more positive approach to Community questions (Brief No 2B) and to hear that we have not closed the door

/to

to participation in the EMS (Brief No 2D) to which they attach political importance. They may also want to hear our views on Community institutions including the site of the European Parliament (Brief No 2E) and the question of enlargement (Brief No 2F).

RHODESIA (Brief No 3)

12. To inform the Luxembourgers of progress to date at the Constitutional Conference, and maintain their support, particularly in the Nine, for our approach.

EAST/WEST RELATIONS (including CHINA) (Brief No 4)

13. To coordinate views on policy towards the Soviet Union, especially concerning Theatre Nuclear Force Modernisation, CSCE, and the handling of relations with China.

SOUTH-EAST ASIA (Brief No 5)

14. To compare views on the refugee problem and on measures to relieve famine in Cambodia; and to discuss tactics for handling Indo-Chinese problems at the UN.

HIS ROYAL HIGHNESS THE GRAND DUKE OF LUXEMBOURG, KG (1972)

Duke of Nassau, Prince of Bourbon-Parma

Born 5 January 1921. Eldest son of Charlotte, Grand Duchess of Luxembourg, and Felix, Prince of Bourbon-Parma. Acceded 12 November 1964 on the abdication of his Mother.

Educated at Ampleforth (1934-8) and Laval University, Quebec, (law and political science). Married 9 April 1953 to Princess Joséphine-Charlotte, daughter of King Leopold III of Belgium. 5 children: Princess Marie-Astrid 17 February 1954; Prince Henri (qv) 16 April 1955; twins, Prince Jean and Princess Margaretha, 15 May 1957; and Prince Guillaume 1 May 1963.

In 1940 Prince Jean escaped with the other members of the Royal Family via France, Spain and Portugal to Canada. In 1942 he returned with his parents to Britain and enlisted and was subsequently commissioned in the Irish Guards. He landed in Normandy as a lieutenant with the Guards Armoured Division and continued to serve with that Division during its advance into Belgium and Germany. In May 1945 he was seconded as Liaison Officer with the rank of Captain, to the Allied Military Mission in Luxembourg. After demobilisation in 1946, he devoted himself to various national interests in preparation for his future rôle as sovereign.

Since coming to the throne in 1964 he has tackled his task with energy and devotion and has won the affections of his people who, however, retain a special affection for his Mother in her retirement. Although his mother speaks Letzeburgesch, he is the first of the dynasty to speak it like a Luxembourger.

His Royal Highness has great charm and has overcome a natural shyness. He is interested in and well informed about international affairs. He and the Grand Duchess prefer a country life. Their recreations include shooting, fishing and skiing. They live in Luxembourg in a country castle and also have properties at Vorderriss in Bavaria and at Cabasson in the south of France and a chalet in Switzerland.

His Royal Highness speaks perfect English and frequently visits Britain. He is proud of his English education and his connexion with the British Army (he presented the shamrock to the Irish Guards in Germany on St Patrick's Day 1977). Although most Luxembourgers are fond of Britain, the Grand Duke is almost alone among the leading personalities in being orientated towards British ways and habits of thought rather than towards France.

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He was the guest of Her Majesty at the Garter Ceremony in June 1975. He and The Grand Duchess speak warmly of their State Visit to Great Britain in 1972 and The Queen and The Duke of Edinburgh's return visit to Luxembourg in 1976.

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HER ROYAL HIGHNESS THE GRAND DUCHESS JOSEPHINE-CHARLOTTE,
Princess of Belgium

Born 11 October 1927 in Belgium, daughter of King Leopold III and Queen Astrid.

Educated privately in Belgium.

In 1940, on the German invasion of Belgium, Her Royal Highness escaped first to France and then to Spain. She returned some two months later after the capitulation of the Belgian Army and rejoined her father at Laachen. In 1944, just after the Allied invasion of Normandy, she was taken with other members of the Belgian Royal Family to Germany where she was interned until liberation in May 1945. After the War she lived for 4 years in Switzerland with her father and step-mother and did not return to Belgium until 1950 when the Belgian Royal crisis was over. It is said that she felt deeply her father's second marriage and that, since her own marriage in 1953, neither she nor her children see him.

The Grand Duchess is gracious and intelligent and speaks excellent English (which she learnt by herself). She seems to share some of her husband's shyness in public but has a mind of her own and brings up her children very strictly and in a rather secluded atmosphere. She certainly shares his preference for country life and is a keen gardener.

It has been apparent since 1974 that she is suffering from back trouble but the problem now seems to affect her less seriously. She has however had trouble with her leg following a skiing accident in early 1978.

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HIS ROYAL HIGHNESS PRINCE HENRI, PRINCE HERITIER, GCVO (1976)

Born 16 April 1955.

Educated in Luxembourg, Switzerland and France. He has done short courses in England to improve his English and in 1975 he successfully completed a six months' course at Sandhurst.

He appears regularly in public and often represents his father on official occasions. As honorary President of the Luxembourg Economic Development Committee, he has undertaken some visits abroad (eg to the USA in 1978).

Tall, good-looking and (like his father) shy; but extremely likeable. He shares his parents' interest in sport, nature and an outdoor life.

THE CHILDREN OF THE GRAND DUKE AND GRAND DUCHESS

As well as Prince Henri (qv), Princess Marie-Astrid (born 1954) plays an active part in public life when she is in Luxembourg. An attractive, quiet and conscientious girl, she has worked as a nurse and was at one time interested in nursing in Africa. She has studied in Brussels and Paris and in 1977 took an intensive English course in Cambridge. In early 1979, she went to Washington for a six month attachment to the World Bank. (If legislation laid before the Belgian Chamber of Deputies in 1978 had been passed, she would have been heir-presumptive to the Belgian Throne.)

Prince Jean (born 1957) is very shy but increasingly represents his father on public occasions. Like his elder brother he has attended Sandhurst where he passed out in August 1977. His twin sister, Princess Margaretha, who is probably the most extrovert of the Grand-Ducal family, was educated at St Mary's Ascot and is now finishing her studies in the United States. Prince Guillaume (born 1963) is made to appear in public occasionally (eg the National Day) but clearly finds it rather a strain. He is in the French stream of the European School in Luxembourg, but is said to be very keen to follow his brothers to Sandhurst.

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WERNER, PIERRE

Prime Minister, and Minister of Culture, Religious Affairs, Information and Press, Development and the Treasury (Christian Social).

Born near Lille in 1913.

Educated in Paris, Doctor of Law (1938), but soon left the Bar for the Banque Générale. 1945 appointed Banking Control Commissioner. 1953 appointed by M Bech as Minister of Finance and (1954) of the Armed Forces. Prime Minister from 1959 of successive coalition governments; with the Democrats (1959-64 and 1969-74); and with the Socialists (1964-69). Having also, at one time or another in this period, held the portfolios of Foreign Affairs, Justice and the Civil Service, there is not much he does not know about the working of the Luxembourg Administration.

A very impressive public servant who commanded widespread respect and esteem during his long years of office, not least for the patience he showed in allowing decisions to emerge by consensus. His record in Catholic Action and his strong religious convictions undoubtedly helped to ensure his rapid rise to the head of his party once he entered politics. He lacks the skill in public relations of M Thorn but is an excellent speaker. In the 1974 elections his party lost a number of seats, and though still the largest party, he decided to resign. He thought that the Christian Social Party had probably been in power for too long (over 50 years) and would benefit from a period to readjust and rethink. He devoted a year to the organisation of the party, particularly to stimulating interest from the younger generation, and the considerable success of his Party in the 1979 elections was largely due to his efforts. He achieved the highest personal vote in the 1979 national elections and the second highest (after M Thorn) in the European Elections.

He is well-known internationally and for his chairmanship of the European Community's "Werner Committee" on Economic and Monetary Union (on which subject he published a further book in 1977).

M Werner has a relaxed, friendly, open and attractive personality. He speaks fluent English and understands better than most the British way of doing things. He is a devoted family man, fond also of music (he is a good pianist) and gardening. His wife comes from the distinguished and influential Pescatore family and is a strong character in her own right. Keen on the Oecumenical movement. Also speaks good English. 5 children.

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

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 Federation 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, 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

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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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FLESCH, COLETTE, CBE (1976)

Deputy and Mayor of Luxembourg (Democrat).

Born 1937. Her father died young. Her mother, a lady of strong character who died in 1976, took her in 1942 to the Dordogne, where she stayed until 1948, thus being grounded in French rather than her native language. Though young at the time she has retained vivid memories of the Nazi occupation of France.

Educated at the Sorbonne and from 1958 to 1962 at Wellesley College and the Fletcher School of Law and Diplomacy in the USA. She worked as an administrateur in the EEC Council Secretariat's agriculture division until 1968 and remains a committed supporter of the European Community. 1969 elected to the Chamber of Deputies. 1970 Mayor of Luxembourg (the first woman to be elected Mayor of a capital city). Member of the European Parliament and Chairman of its Committee on Development and Cooperation (re-appointed in 1979). 1975 re-elected Mayor after convincingly defeating a strong Christian-Social challenge led by M Werner. Appointed Secretary General of Democrat Party 1976. Re-elected to the Chamber of Deputies and the European Parliament in 1979.

An intelligent and dynamic young politician who will certainly have Ministerial office in the future (if not as Luxembourg's first woman Prime Minister). She has so far stayed in the job of Mayor because it is considered more important than most ministerial portfolios, though she would like to become a Minister, and would have been Deputy Prime Minister and Foreign Minister in the 1979 coalition if M Thorn (qv) had been elected President of the European Parliament. She is something of a heroine with the younger generation and received very high popular votes in both the 1974 and 1979 elections. She has a friendly and warm personality and speaks perfect English. Fenced in the Olympic Games of 1960, 1964, and 1968, and a good skier. COI visits to the UK in 1970 and 1978.

Unmarried.

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TETE-A-TETE DISCUSSION: 10.00-10.30

The Prime Minister

Mr Patrick Wright, CMG, HM Ambassador, Luxembourg

Mr Alexander

M. Pierre Werner

(Prime Minister)

M. Roger Hastert

(Luxembourg Ambassador, London)

PLENARY SESSION: 10.30-11.30

British Delegation

The Prime Minister

HM Ambassador, Luxembourg

Mr John Fretwell, Assistant Under Secretary, FCO

Mr Michael Alexander, Private Secretary to the Prime Minister

Mr Henry James, Press Secretary

Luxembourg Delegation

M. Pierre Werner

(Prime Minister)

M. Gaston Thorn

(Minister of Foreign and Economic Affairs)

M. Paul Helminger

(State Secretary for Foreign and
Economic Affairs)

M. Roger Hastert

(Luxembourg Ambassador, London)

Other Possibles

M. Ernest Muhlen

(State Secretary for Labour and Finance)

M. Charles Reichling

(Secretary-General, MFA)

M. Paul Mertz

(Director for Political Affairs, MFA)

M. Jos Weyland

(Director of International Economic
Relations, MFA)

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LIST OF BRIEFS

- Brief No 1: Steering Brief
- 2: Community Issues
- (A) Budget
- (B) UK General Policies on Community
- (C) CAP
- (D) EMS
- (E) Institutions (including Three Wise Men)
- (F) Enlargement
- 3: Rhodesia
- 4: East/West relations (including China)
- 5: South-East Asia
- 6: Luxembourg: internal political and economic scene

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LUXEMBOURG: FACTS AND FIGURES

ANNEX C

Land size: 2586 km² (= c.999 square miles)

Population: 357,600
(of which 269,200 Luxembourgers
88,400 aliens)

Rate of inflation: 3.1% (1978)
4.2% (July 1979 on July 1978)

Exchange rates for £1 (Lux franc at par with Belgian franc)	1979 March	1979 August	1979 October
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Financial:	60.17	66.04	62.90
Official:	61.25	69.25	64.90

Unemployment: September 1978 : 1,167
September 1979 : 984
Less than 1% of active population (approx 151,000)

GNP growth rate 1976 - 80 : 2.5%
1980 - : 3% (predicted)

Draft budget 1980: Lux francs 45 billion (small public sector
deficit of LF 200 m)

Principal exports: Total value 1978 = LF 72 b (of which LF 55b to
EEC countries, including LF 2.4b to UK)
Base metals (iron and steel), plastic and rubber,
textiles, mechanical and electrical equipment.

Principal imports: Total value 1978 = LF 81b (of which LF 74b from
EEC countries, including LF 1.4b from UK)
Minerals (ore, slag, fuels), mechanical and electrical
equipment, base metals, food and beverages,
transport equipment.

British exports to Luxembourg 1978 = £23m (1.7% of Luxembourg imports)

Luxembourg exports to Britain 1978 = £41m

Estimated size of British community in Luxembourg = 2,500+

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BRIEF NO. 2

COPY NO 1

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

18-19 OCTOBER 1979

COMMUNITY ISSUES

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

(A) THE COMMUNITY BUDGET

1. The Commission Reference Paper has elucidated the facts. In 1980 the UK will be the seventh poorest Member of the Community in terms of per capita GDP but will make the largest net contribution to the budget. The problem will tend to get worse if nothing is done. The scale is enormous - over £1,000 million in 1980. Incomprehensible to public and unacceptable.
2. Will not bow to objections based on dogma (eg alleged non-existence of "national" contributions: they become real enough when it is a question of sharing them.) Problems affecting real resources need real answers. Luxembourg believes in Community and should help find them. A lop-sided Community will get nowhere.
3. Commission anticipated at the time of our accession negotiations that agricultural spending would now amount to 40-60% of the budget, and UK receipts to 12½-15½%. Reality quite different: agriculture absorbs over 70%. Commission estimate UK receipts at 9.6% for 1980. The "unacceptable situation" which the Community committed itself to remedy in 1970 has arisen, and the 1975 financial mechanism cannot cope with it.

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4. We are not seeking to become net beneficiaries but to achieve a broad balance. Longer term developments, eg reduction of expenditure on the CAP and development of new policies benefiting the UK and other poorer members may eventually change the picture. But for the moment no alternative to a corrective mechanism which will last as long as the present imbalance exists. Must relate to both our excessive gross contribution and our exceptionally low level of receipts. Our preliminary view is that this may call for a mechanism operating directly on our net contribution. But it could be based on existing financial mechanism though with a further feature added in compensation for low receipts. Alternatively it could take the form of a new mechanism.

5. Commission will come forward with proposals for solutions in early November. Hope that the Luxembourg Government will quickly address itself to these in preparation for the November European Council. Agreed at Strasbourg that decisions would be taken then.

DEFENSIVE POINTS

6. UK is now in strong economic situation because of North Sea oil: single resource does not set whole picture right. Our per capita GNP (a recognised objective yardstick) already reflects these benefits, yet it remains well below the Community average.

7. UK attributes MCAs wrongly: for practical purposes this argument now barely relevant. UK MCA is small compared with a year ago. It recently dropped to zero and is currently at 8.8% compared with 39.9% at one time in 1978. But MCAs are principally of economic benefit to the exporter who would otherwise be unable to sell at all or would have to sell at a

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loss on lower priced markets like UK.

8. UK seeking "juste retour" implies that each state should get back from each policy what it puts in: we are not asking for this. On the contrary we believe that in ideal circumstances there should be flows to the less prosperous (eg Ireland) - the latter include the UK, at present a major contributor. Taking refuge in slogans is an inadequate response to a Community problem of exceptional gravity.

9. No such thing as a national contribution: we do not seek to change the own resources system but a duty or a share of VAT collected in UK and remitted to Brussels to be spent elsewhere is an undeniable transfer. The scale of these transfers has reached a point where something has to be done about it. We are talking about the economic consequences of the own resources system and asking that they should not run counter to the Community's other aims; not challenging the system. The Financial Mechanism recognises that the tariffs and levies constitute a national contribution.

10. Rotterdam problem: we recognise that imports through Rotterdam to eg Luxembourg may result in wrong attribution of the incidence of duties (and therefore contributions). But this does not apply in the case of the UK where transit trade is less significant. And since imports from other Member States (which may incorporate an element of duty) exceed exports, the burden of duties on the UK is if anything understated.

11. UK would pay less if it changed its pattern of imports: the proportion of our imports from the rest of the Community has risen substantially since we joined and will probably continue to rise. (27% in 1970, 31.6% in 1973 to 40.5% in 1978) But we totally

reject implications of this criticism: EEC aim is to encourage world trade (Article 110) not stifle it. To deny consumers a free choice quite unacceptable to UK Government (as to that of any other Member State).

12. UK asking too much at time of widespread budgetary stringency: if others cannot bear even part of this burden, how can it be considered politically or economically acceptable for the UK to bear the lot?

13. UK budgetary solution should be linked to concessions on fish, energy etc: we do not see why the Community should ask us to pay for a fair solution to a Community problem. We are ready to work for parallel progress across the whole front of Community business but each area raises its own economic and political problems.

14. New Zealand Butter: the Community butter mountain arises from too high CAP support prices not New Zealand imports, which are small compared with Community surpluses. The Community's practice of dumping subsidised exports on the world market also makes it very difficult for New Zealand to diversify her outlets. New Zealand is a factor for political stability in the South Pacific. The Community has an interest in her economic health on this account, too.

15. All that is needed/negotiable is some arrangement for partial alleviation over the next year or two: this means the Community would face the problem yet again when the arrangement expired. Much better to dispose of problem now. Burden too great for mere tinkering. In the longer term, expect to tackle with our partners the problems (chiefly relating to CAP) which underlie our budget difficulties, so need for corrective mechanism should be reduced or removed in time. But cannot wait for remedial action in that

timescale.

16. Commission have wrongly attributed Community administrative expenditure arising in Luxembourg as part of Luxembourg's receipts: we accept that economic benefit varies between different categories of expenditure. Convention of attributing administrative expenditure in this way may slightly exaggerate benefit to Luxembourg economy. But presence of Community institutions does bring considerable and substantial economic gains. In any case it is clear that the problem the Community has to tackle relates to the British contribution not to Luxembourg's.

(B) UK's GENERAL POLICIES ON THE COMMUNITY

17. Our actions demonstrate determination to make a success of the Community and our membership. Have now lifted or agreed to lift most of the outstanding reserves placed by previous Government on Community policies. At the European Council in Strasbourg I announced our intention to participate in the deposit of reserves on a swap basis; and we subsequently lifted UK reserve on EMS Interest Rate Subsidies Regulation. We have announced termination of Offshore Supplies Interest Relief Grant Scheme. We have adopted a more constructive policy on energy and are anxious to co-operate with our partners in dealing with the energy problems facing the Community.

(C) COMMON AGRICULTURAL POLICY

18. We do not want to destroy CAP. But if it is to survive, vital for Community to bring costs under control. It absorbs almost 75% of entire budget and is rising faster than "own resources". Surpluses alone account for 50% of total budget. Excessive support prices stimulate surpluses and also put

unnecessary burden on consumers.

19. Present system hits net food importers like UK and Italy because of high import costs as well as budgetary costs. This increases disparities within Community.

20. The VAT 1% ceiling will require the Community to impose discipline.

(D) EUROPEAN MONETARY SYSTEM

20. The European Monetary System is a vital part of the Community's defence against world monetary instability. The British Government support the system and already have many links with it.

21. We have not yet taken a decision about entry into the exchange rate mechanism. The present fluctuation in the value of sterling, which is determined by our oil reserves rather than by our economic performance, is a problem. It is the British Government's objective to join the EMS when conditions are sufficiently stable.

(E) INSTITUTIONS

REPORT OF THE THREE WISE MEN

22. Report seems likely to contain modest and uncontroversial proposals. Hope to reach a political consensus in favour of some straightforward procedural reforms. We do not see any requirement for change in the present inter-institutional balance.

23. European Council likely to take note and refer to appropriate Community bodies for detailed study.

24. [If Mr Werner mentions Giscard idea of two year Presidency of European Council] Share French view of importance of the European Council. Not clear whether Giscard has formally advocated longer-term Presidency. An interesting idea but it

would require much thought.

EUROPEAN PARLIAMENT [If raised]

25. Hope that as it settles down it will come to play a constructive part in development of the Community. Relationship with Council, particularly, should develop in spirit of co-operation not confrontation. While legitimate for European Parliament to seek to increase influence see no reason to extend formal powers under the Treaties.

Site of European Parliament [If raised]

26. Favour most efficient, cost-effective solution in long run but accept that all Member States must agree on permanent sites.

COMMISSION REVIEW BODY (SPIERENBURG) [If raised]

27. Still studying recent Spierenburg Report. No final view on idea of reducing number of Commissioners to one per country. Reduction and rationalisation of Directorates-General could make sense. Keen to reduce bureaucracy.

EUROPEAN ECONOMIC AND SOCIAL POLICY RESEARCH INSTITUTE [If raised]

28. Doubt need for this new institute. Likely to duplicate other work. But we recognise interest of other Member States and are willing to continue discussions if that is general wish.

EUROPEAN COURT OF JUSTICE [If raised]

29. (a) Role of Court important and its authority must be upheld;

(b) but we are dubious about Court's tendency to extend boundaries of Community competence eg attribution to Community of exclusive treaty making powers in fields which are not the subject of comprehensive Community legislation.

(F) ENLARGEMENT

30. Firmly support enlargement. It will help to consolidate democracy in the applicant countries and contribute to European stability.

31. Well aware that it is likely to create economic strains in the Community. This makes it even more important to resolve now questions such as agricultural spending, budgetary arrangements, fisheries policy, and future of Regional and Social Funds.

32. Glad Greek negotiations completed successfully. Member States should now allow Spanish and Portuguese negotiations to take their natural course, avoiding unnecessary delay.

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ESSENTIAL FACTS

(A) COMMUNITY BUDGET

Luxembourg Attitude

1. The last substantive bilateral discussion with the Luxembourgers was on 11 June (Lord Privy Seal/M. Thorn). They were helpfully disposed to us in admitting the need for an urgent solution, but were concerned that the own resources system should not be damaged. It is unlikely that the change of government will have made any difference to their general approach.
2. In the 17 September Finance Council, M. Muhler did not take an extreme position, though he expressed doubt about the Commission's figures (principally because of the question of attribution of Community administrative expenditure, a point which concerns the Belgians as well. Without administrative expenditure, Luxembourg has estimated net receipts of 11 million EUA for 1980, with: 292 million EUA).

Timetable

3. Commission began work on their second paper at their recent informal country weekend, which went quite well from our point of view. M. Noël will once again co-ordinate paper. Commission will take up paper formally on ¹⁷~~24~~ October. Finalise 29 October. Should be available early in November.
4. One of our main difficulties in the period leading up to the Dublin Summit will be to ensure that Italian demand for compensation for CAP trade effects (the extra cost of buying from other Member States at CAP determined prices instead of at world prices) does not enable our opponents to put off a

decision on the UK budget solution. Unlikely to be brought up by Mr Werner.

(B) UK GENERAL POLICIES ON THE COMMUNITY

5. We now support Community accession to the Bonn, Barcelona and Oslo Conventions (on marine pollution) and have agreed to lift our reserves on the Aircraft Noise Directive and three nuclear communications. Our approach on Regional Policy and Shipbuilding Policy is more acceptable to the Commission. We are taking a positive stance on the three VAT directives. Working to resolve outstanding problems in other fields (e.g. architects directive, social insurance directives, etc). While opposing waste or unnecessary activity we have been able to strike a positive note about the need for more effective Community policies in such fields as industrial research and development, the environment, transport infrastructure, further removal of barriers to trade, etc.

(C) CAP

6. Total provision for EEC expenditure in 1979 currently about £9 billion, of which CAP accounts for £6.5 billion. But the Commission are about to present a supplementary budget for £550 million wholly on account of the CAP. On present policies, the CAP will cost at least a further £600 million in 1980. Even assuming no increase in expenditure on other policies, total EEC expenditure is likely to reach the limit of the Community's "own resources" (the 1% VAT rate) in 1981, or even earlier, unless the rate of increase in CAP expenditure is sharply reduced.

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7. Now that Schmidt and Giscard have come out firmly against raising the 1% limit, other Member States are beginning to realise that difficult decisions on the CAP will have to be made. Luxembourg, like the other smaller Member States, is a strong supporter of the CAP both as the Community's most ambitious policy and because of the benefits she derives from it.

8. Main commodities persistently in heavy surplus: milk products (butter and skimmed milk powders), wheat and sugar. In 1978 some 15% of Community milk production was surplus to requirements and about 40% (£2,200 million) of the agricultural budget was spent on support for this sector.

9. In 1978, adverse trade effects for UK amounted to £200 million (on top of net budget contribution in that year of £662 million).

(D) EMS

10. The review of certain features of the EMS, due to take place in September, was terminated ahead of schedule by the Finance Ministers on 17 September, because it was thought to be unsettling the foreign exchange markets.

11. On 23 September, there was a realignment of EMS currencies. The Deutschmark was revalued by 2%, and the Danish kroner devalued by 3%. This showed that parity changes can take place reasonably promptly in response to market pressure. But some members of the EMS spent considerable sums out of their reserves supporting their currencies in the week before the realignment. And inevitably agreement was not easy and required compromise.

12. The procedure on 23 September did not provide for the degree of consultation of the UK, as a non-participant in the exchange rate arrangements, laid down in the EMS resolution of the European Council. Some other Member States felt this too. We have said that the procedures need to be reviewed and improved.

(E) INSTITUTIONS

Three Wise Men

13. Terms of reference at Annex.

14. Their report due to be given to Member States and published end October/beginning November. Although we have not yet seen a copy of the draft report, we understand it will conform to terms of reference and concentrate on practical measures which can be implemented without Treaty amendment.

European Parliament

15. Direct elections to the European Parliament were held on 7-10 June; the UK has 81 members (MEPs) and Luxembourg 6. At the inaugural session in July Mme Simone Veil, the former Minister of Health under President Giscard was elected President. The support of the UK Conservatives in the European Democratic Group was instrumental in securing her election. M. Thorn, the former Prime Minister of Luxembourg and now deputy Prime Minister and Foreign Minister, would have liked the job. The directly-elected Parliament has not yet settled down. Mme Veil is inexperienced and her chairmanship ineffective; many of the new MEPs are still finding their feet. But there are some powerful names (e.g. Brandt, Chirac) and

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we can expect the Parliament to try to increase its influence, if not its formal powers. It is already looking for ways to exploit its responsibilities under the budgetary procedure and might challenge the Council over the 1980 budget.

Site of the European Parliament

16. The Parliament's Secretariat is in Luxembourg; its sessions are held in Strasbourg and Luxembourg (although the latter has not yet got a building large enough to hold the 410 directly-elected MEPs) and its Committees meet mainly in Brussels. This wastes time and money. The Treaties say "Luxembourg, Brussels and Strasbourg shall remain the provisional places of work of the institutions of the Community"; and to change this would require the agreement of all the Member States. Neither Luxembourg nor France would be likely to agree a change. Little point in the UK pressing for a single permanent site now. Our interest is to ensure that nothing is done which prejudices further the chances of achieving a more sensible solution in time.

Commission Review Body (Spiereburg)

17. Commission Review Body chaired by Ambassador Spiereburg (Dutch) reported to the Commission on 24 September. Principal recommendations were: One Commissioner per Member State following enlargement; reduction number of portfolios and of Directorates-General; reduction power of Cabinets; series of staff changes aimed at improving management flexibility, operational effectiveness of Commission etc. UK officials now studying proposals and will submit recommendations to Ministers. Premature to give definitive comment. Formally

next step is for Commission to decide what it intends to do with the report.

European Economic and Social Policy Institute (EESPRI)

18. Commission proposal for mandate to negotiate establishment of a European Economic and Social Policy Research Institute (modelled on American Brookings) currently before Council. UK has questioned need for such an institute. Discussions continue later this month in COREPER.

Court of Justice

19. Luxembourgers may express concern at French attitude to the Court, which they suspect UK shares, and which they regard as a potential threat to the independence of the Court.

20. French have shown concern about recent judgements by the European Court, particularly its confirmation of parts of the Euratom Treaty which had long ceased to have practical effect. We share this concern, especially in relation to a series of judgements and opinions which have extended significantly the concept that by virtue of its internal legislation (existing or potential) the Community may acquire exclusive Treaty-making powers in the field of external relations, thereby extinguishing, correspondingly, the individual treaty-making power of the Member States in the area covered.

21. Despite this partial coincidence of view we are reluctant to give French overt support at this stage: such support may be a negotiating card later, but there are risks of antagonising other Member States, including Luxembourg, at a time when we need their support too on the budget.

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(F) ENLARGEMENT

Timetable

22. (a) Greece

Treaty of Accession signed 28 May. Formal entry due 1 January 1981.

(b) Portugal and Spain

Negotiations in train. Entry probably in 1983.

Prospects for negotiations

23. Portuguese negotiations unlikely to raise major difficulties because Portuguese economy no threat to any existing Member State. But some problems expected over textiles and Portuguese requests for costly pre-accession aid. The main problems will be for Portugal itself in adapting its economy to the strains of membership.

24. Spanish negotiations likely to be difficult mainly because of present degree of protection of Spanish industry and because of French and Italian concern over Spanish competition in Mediterranean agricultural produce. French deliberately slowed down negotiations during their Presidency. French Presidential elections in March 1983 likely to be an important factor.

25. Luxembourg supports enlargement but like other small Member States concerned at possible weakening of Community.

Economic Implications

26. New strains will be put on CAP (applicants have large agricultural sectors), Regional and Social Funds, and fisheries policy (Spain has largest fleet in Europe). Three new members will be net recipients from Budget. Budget's size will be increased by 11-14% (assuming policies unchanged).

27. Absorption of three less prosperous members may act as drag on Community and increase tendencies towards development of two tiers. But scale of problem should not be exaggerated: GDP of three applicants put together only about 10% of present Community.

Foreign and Commonwealth Office

12 October 1979

FOLLOWING ARE TERMS OF REFERENCE FOR THE "COMMITTEE OF WISE MEN"

As a follow-up to the proposal made by the President of the French Republic, the European Council has agreed to call upon a number of eminent persons with special knowledge of European affairs to give thought to such affairs.

The Committee thus formed is made up of the following persons:

Mr Barend Biesheuvel

Mr Edmund Dell

Mr Robert Marjolin

The European Council invites the Committee to consider the adjustments to the machinery and procedures of the institutions which are required for the proper operation of the Communities on the basis of and in compliance with the Treaties, including their institutional arrangements, and for progress towards European Union. It emphasises the interest it attaches to having available specific proposals in this connection which may be implemented swiftly and which take into account experience to date and the prospective enlargement to twelve.

The European Council requests the Committee to report back on its conclusions when the Council meets in October 1979.

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PRIME MINISTER'S VISIT TO LUXEMBOURG
18/19 OCTOBER 1979

COMMUNITY ISSUES: EMF AND EMU
Additional Brief by HM Treasury

Points to make [if raised]

1. We are taking an active part in discussions on the European Monetary Fund and we look forward to it being established on schedule two years after the start of the EMS.
2. The question of the siting of the Fund would need careful consideration. London would be a possibility.
3. EMU is a long way off, but it is a goal that the Community must aim for by making progress with economic convergence. This links with our stance over the UK's budgetary contribution.

Background

4. M. Werner chaired a Committee in 1970 which reported

to the Council on the attainment of economic and monetary union in the Community by stages. The goal was full EMU by 1980. Following the oil price rise and the recession of the mid-1970s, the timetable was abandoned, but the objective remains.

5. It has very recently been reported that the President of the Commission and M. Werner have been discussing EMU and the European Monetary Fund. There is no necessary connection between a European Monetary Fund and economic and monetary union. A Fund with wideranging powers might have some of the functions of a central bank for the Community, but a Fund with limited powers might do no more than administer the existing Community credit facilities. Officials are examining the different possibilities which will be put to the Council of Ministers for a decision at some stage.

HM TREASURY
15 October 1979

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BRIEF NO 3

COPY NO

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

18-19 OCTOBER 1979

RHODESIA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We are keeping in close touch with our partners on Rhodesia, in capitals and in London. Grateful for support of EEC partners so far. Especially grateful for M. Thorn's reference to our initiative at UN General Assembly on 8 October.

2. For almost six weeks, we have been working in the Conference for agreement on a Constitution which indisputably provides for genuine majority rule. We have made no concessions to the Salisbury delegation on this principle. They have now accepted such a Constitution. They have also agreed that there should be elections supervised under our authority; and on a ceasefire.

3. The Constitution which we have drawn up naturally lies between
/two

two very much opposed points of view: we are convinced it is the only basis on which it would be possible for the two sides to agree. The Patriotic Front have not yet accepted it.

But if we sought to re-open the package, Bishop Muzorewa and his delegation could accuse us of bad faith. We are therefore standing firm on the Constitution and are not prepared to discuss the arrangements for implementing it with anyone who has not accepted it.

4. We have thus begun discussing with Bishop Muzorewa's delegation alone the question of the holding of free and fair elections, supervised under our authority, as agreed at Lusaka. It remains open for the Patriotic Front to accept the Constitution and join in. We hope they will, and believe they are close to doing so. We aim to keep the interim arrangements as simple, and the interim period as short, as possible. It is not the purpose of the pre-independence period to pre-judge the decisions of a future government on such matters as the shape of the armed forces and police.

Land [if raised]

5. We recognise the great importance of this problem to both sides. The independence Constitution makes fully adequate provision for the government to acquire land for settlement. But there must also be adequate compensation. We have tried to help the Patriotic Front over this question. Lord Carrington said in the Conference

/on

on 11 October that we would help, within the limits of our financial resources, with technical assistance for land development schemes and capital aid for agricultural development. The Americans have also offered help. We hope that other governments will be ready to do so too.

Sanctions [if raised]

6. The lifting of sanctions will follow the restoration of legality. It will be for the British Parliament to determine when this takes place. We shall keep in touch with our partners about handling at the UN.

BACKGROUND (not for use)

7. The nine have been generally helpful on Rhodesia. M. Thorn made a particularly warm reference to our initiative when addressing the General Assembly on 8 October. Copies are attached of the following:-

- A Statement by EEC Foreign Ministers in Political Co-operation, 11 September
- B Extract from Presidency speech at UNGA, 25 September
- C Extract from M. Thorn's speech at UNGA, 8 October.

8. In dealing with the EEC over Rhodesia, we face two particular problems, neither of which should be tackled at this meeting.

/The

The UNGA statement (ref B) refers to EEC support for a settlement "acceptable to all the parties involved". This could be awkward if, as is possible, we later wish to seek EEC support for a settlement to which one or more of the parties have been unable to agree. But we must cross that bridge when we come to it: for the moment our line must be that we are making a determined effort to achieve all-party agreement.

9. The other problem concerns sanctions. If we fail to achieve all-party agreement we shall argue that since Security Council resolutions imposing sanctions were predicated upon the existence of a state of illegality which constituted a threat to peace, a return to legality automatically makes sanctions lapse. We have tried this out privately on the French, whose lawyers were disinclined to support it. We judge that the amount of support we can get from the EEC will depend very much on the political context in which action is needed in the Security Council. Here again, to try to prepare the ground in advance would simply arouse suspicions on the part of some member countries that we have no intention of reaching agreement with the Patriotic Front.

Foreign and Commonwealth Office

12 October 1979

RHODESIA: STATEMENT AGREED BY THE EEC MINISTERIAL MEETING IN POLITICAL CO-OPERATION, DUBLIN, 11 SEPTEMBER 1979

1. The Foreign Ministers of the Nine welcome the understanding reached by the Commonwealth Heads of Government in Lusaka on the question of Rhodesia. This includes notably the principles that independence on the basis of majority rule requires the adoption of a democratic constitution including appropriate safeguards for minorities, and that a government formed under such an independence constitution must be chosen through free and fair elections properly supervised under British Government authority and with Commonwealth observers.
2. Noting that the Lusaka statement acknowledged that it is the constitutional responsibility of the British Government to grant legal independence to Rhodesia on the basis of majority rule, they welcome the action the United Kingdom Government has taken in circulating constitutional proposals within the Lusaka framework and in inviting the parties to attend a Constitutional Conference which opened at Lancaster House on 10 September.
3. They are encouraged by the agreement of all parties to attend the Conference and urge them to seize this opportunity to achieve a political solution on the basis of genuine majority rule.

8 October 1979

Rhodesia Department

RHODESIA: EXTRACT FROM SPEECH DELIVERED AT THE UN GENERAL ASSEMBLY BY THE IRISH FOREIGN MINISTER, MR MICHAEL O'KENNEDY, ON BEHALF OF THE EEC, ON 25 SEPTEMBER 1979

1. So far as Rhodesia is concerned the Nine in their statement of 11 September welcomed the understanding reached by the Commonwealth Heads of Government in Lusaka and the action of the UK Government in inviting the parties to attend the Constitutional Conference in London. They trust that this will make possible a solution to the conflict on the basis of genuine majority rule. Continued bloodshed will only serve to prolong the suffering of all the people of Zimbabwe. The Nine therefore reaffirm their support for a peaceful settlement acceptable to all the parties involved. Once such a settlement has been achieved, the European Community is ready to play its part in assisting the development of independent Zimbabwe.

8 October 1979

Rhodesia Department

RHODESIA: EXTRACT FROM SPEECH DELIVERED AT THE UN GENERAL ASSEMBLY BY M THORN, DEPUTY PRIME MINISTER AND MINISTER OF FOREIGN AFFAIRS OF LUXEMBOURG, ON 8 OCTOBER 1979.

Now I wish to turn to another part of southern Africa which has been beset by so many conflicts, Zimbabwe-Rhodesia. First and foremost, I should like to pay a sincere tribute to the historic initiative taken by Mrs Margaret Thatcher, Prime Minister of the United Kingdom, and to her Foreign Minister, my colleague Lord Carrington.

The Conference in London is now entering its fifth week. Every single one of the parties will have been seated at the same table. That is a positive point, and we fervently hope that the additional time for thought which they all accorded themselves will bring everybody closer together and closer, also, I hope, to the common goal, which is independence and peace for that part of Africa.

Let all those who are negotiating today be keenly aware of their responsibilities to their fellow citizens, who certainly have no other desire but finally to enjoy a life of peace without poverty, suffering and injustice.

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BRIEF NO 4

COPY NO 1

12 OCTOBER 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG
18-19 OCTOBER 1979

EAST-WEST RELATIONS (INCLUDING CHINA)

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

US-SOVIET RELATIONS

1. Much depends on ratification of SALT II which we support. Welcome President Carter's firm stand on Soviet combat troops in Cuba. Hope Russians will recognise his resolve in this matter.

EUROPEAN SECURITY

2. Concerned about Soviet military build-up and refusal to move in MBFR. NATO must take a firm line.

TNF

3. Hope your Government can join mine in firm support for US deployment proposals.

BREZHNEV'S PROPOSALS OF 6 OCTOBER

4. Need to study Brezhnev's proposals carefully in Alliance; clarifications required. Brezhnev's offers eye-catching but do not provide ground for modifying TNF modernisation plans.

CSCE

5. CSCE can make valuable contribution to East-West relations. But repeat at Madrid of confrontation of Belgrade would damage CSCE's credibility. Much will depend on Eastern implementation

/of

of the Helsinki Final Act.

6. East seeking to shift the emphasis of CSCE to 'military detente'. Serious consideration of this at Madrid inevitable; but must be matched by progress in the humanitarian areas.

CTB [Defensive]

7. We are working steadily but end not yet in sight.

Negotiations focussed on verification.

[If pressed]:

8. Difficulty over Soviet demand for technically unjustified seismic stations on UK's scattered island dependencies.

CHINA

9. How did Grand Duke and Duchess's visit go? What impressions of China and of Premier Hua?

10. Welcome Chinese leadership's outward-looking foreign policies, and realistic modernisation programme. Sino-British relations developing well in political, commercial and cultural fields.

11. Hua's forthcoming visit to UK a major opportunity to impress Western views and values. Look forward to wide-ranging discussion of international situation, including East-West and Sino-Soviet relations, South East Asia and Southern Africa as well as bilateral issues including trade. Co-ordinating our approach on international issues with French, Germans and Italians.

/BACKGROUND

BACKGROUND [MAY BE USED FREELY]

US-SOVIET RELATIONS

1. Our cautious judgement on SALT II ratification prospects has been that the Administration would scrape home. But confirmation of presence of 2-3,000 Soviet combat troops in Cuba came at very difficult time for Administration. Soviet forces do not contravene US-Soviet understanding or threaten US mainland, but created a serious US-Soviet political problem. Remains to be seen whether Carter's statement of 1 October will resolve situation.

2. Many problems for East-West relations next year even if SALT II ratified. Presidential elections in USA, elections in FRG and in due course departure of Brezhnev will cause uncertainty.

CSCE meeting in Madrid and Olympic Games in Moscow could further stimulate Western interest in Soviet and East European human rights record.

THE THIRD WORLD

3. Russians less active of late in Third World except Afghanistan. Cubans bogged down in guerilla warfare in Ethiopia and Angola. A major Soviet gain in Vietnam but corresponding loss of ground in ASEAN and Japan.

TNF

4. Alliance to decide on TNF modernisation at December Ministerials (basing US Cruise and Pershing II missiles in the UK, FRG, Italy, Netherlands and Belgium and a parallel TNF arms control proposal.) Luxembourg not participating directly but Luxembourgish political support useful particularly with the Belgians and the Dutch whose participation is essential.

/BREZHNEV'S

BREZHNEV'S PROPOSALS

5. On 6 October, Brezhnev announced unilateral withdrawal of 20,000 Soviet troops and 1,000 tanks from the GDR and offered to reduce the number of medium range nuclear systems deployed in the 'Western Soviet Union' provided no additional medium range nuclear systems were deployed in Western Europe. He also made some additional proposals on confidence-building measures.

6. Brezhnev's prime motive to complicate and, if possible, frustrate NATO's decision-making about TNF modernisation. His proposals do not refer to the SS20 but to Soviet medium range systems in general and specifically apply only to the Western areas of the Soviet Union, whereas SS20s capable of striking Western European targets are already deployed East of the Urals. But the Russians may hope that a vague expression of willingness to reduce Soviet TNF will reduce public support for the deployment of new TNF especially in the FRG, Belgium and the Netherlands.

7. Subsidiary motives may be to encourage SALT ratification, to disarm Western criticism of the 'Soviet threat', about which the Russians are sensitive, and to inject some animation into MBFR at a time when SALT seems to be stuck. However, the reductions in troops and tanks announced by Brezhnev will do little to reduce Soviet numerical advantages (160,000 ground troops and over 10,000 main battle tanks). In any case a Soviet move in this field is irrelevant to TNF modernisation.

CSCE

8. CSCE review meeting in November 1980 in Madrid to consider implementation of the Helsinki Final Act (1975). The first

/review

review conference at Belgrade (1977) degenerated into public recriminations on human rights and is widely considered to have been a 'non-success'.

9. UK and Luxembourg policies on CSCE are closely co-ordinated in Political Co-operation and in NATO: there are no significant differences of opinion.

CHINA

Grand Duke and Duchess's Visit

10. Grand Duke and Duchess visited China 26 September - 5 October. The party included M Thorn, prominent businessmen and industrialists. They visited Peking, Xian, Nanjing, Guilin and Canton, accompanied by Vice Premier Kang Shien.

11. Grand Duke received in style. Hua and three Vice Premiers met him at airport. Visit primarily ceremonial, but also had economic content. M Thorn and Huang Hua signed a Cultural Agreement and an 'accord relating to regular aviation services for merchandise'. There were detailed discussions on supply of steel and related technology from Luxembourg.

Premier Hua's Visit to Western Europe

12. Hua to visit Britain 28 October - 3 November, after France and West Germany, and before Italy. Will have two sessions of talks with the Prime Minister, and lunch with The Queen. Will be accompanied by Vice Premier Yu Qiuli (China's foremost active economist) and Foreign Minister Huang Hua, as well as four Vice Ministers. Will visit Derby and Oxford.

Sino-Soviet Relations

13. Little progress in the Sino-Soviet talks which started in Moscow in late September. Neither side has expressed optimism /about

about the likely outcome. But some improvement in state relations would be in the interests of both sides.

Sino-Vietnamese Relations

14. Sino-Vietnamese talks similarly unproductive. Chinese have raised tensions by threats of further 'punishment', and both sides continue to exchange accusations of border violations. No signs that further, major Chinese incursions planned for the immediate future.

Foreign and Commonwealth Office
12 October 1979

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BRIEF NO 5

COPY NO

1

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG

18-19 OCTOBER 1979

SOUTH-EAST ASIA

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

Vietnamese Refugees

1. Refugee flow much reduced since Geneva, although recently some up-surge - perhaps with degree of official Vietnamese connivance. Vietnamese Government's moratorium conceded at the July meeting in Geneva partly responsible, but flow usually drops in monsoon season. UN Secretary General's report on the situation is expected October/ November. We favour discussion on it in the General Assembly.

2. Refugees still arriving in Hong Kong (where there are now over 65,000) at a rate of nearly 100 a day. Hong Kong deserves all possible help in off-take. Can Luxembourg do something? Grand Duke and Grand Duchess of Luxembourg recently visited refugee camp in Hong Kong; what were their impressions?

Cambodia: Famine Relief

3. Agreement may stick, for ICRC and UNICEF to start work in Cambodia on acceptable terms. Oxfam and other relief agencies already in the field. Without a massive and properly supervised operation it will be impossible to save thousands of Cambodians from starvation and disease. Our Hercules aircraft,

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provided for a food-shuttle at ICRC request, is already in the area; we will be providing rice and other supplies.

Cambodia: United Nations Debate

4. We shall support ASEAN countries, who have tabled an item on the Cambodian situation; but their intention of combining humanitarian elements with political ones in their resolution could frighten off some countries. The Nine should keep in close touch in New York on tactics.
5. We consider a neutralised Cambodia to be a desirable objective but the Vietnamese and Chinese are unlikely to agree. Vietnamese could consent to eventual international involvement but only to lend sanction to situation on the ground after Vietnam has eliminated the Pol Pot army.

/BACKGROUND

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BACKGROUND

Vietnamese Refugees

1. Even before Geneva the Vietnamese Government were limiting the outflow of boat people, but refugees continue to make landfall in Hong Kong where there are 65,000 of them, of whom 6,500 have arrived since the Geneva meeting of 20-21 July. There is some evidence of official Vietnamese connivance in the latest departures.

2. The Vietnamese have spoken of 1.8-2.5 million more people who wish to leave. At least 800,000 of these are ethnic Chinese, who the Vietnamese want to be rid of; in the longer term we expect the Vietnamese to get them out.

3. The Grand Duke and Grand Duchess were in Hong Kong (where they visited a refugee camp) 5-10 October, during an itinerary that included Thailand and China. The Luxembourg Foreign Minister, Mr Thorn, was with them.

Cambodia: Famine Relief

4. Conditions are appalling. The surviving population is close to starvation. Some relief supplies have been got in, mostly by air. The Vietnamese, who control the Heng Samrin "government" based in Phnom Penh delayed agreement that the ICRC/UNICEF were seeking, on conditions to allow a massive and properly supervised relief operation to begin. (The Vietnamese evidently did not want witnesses of preparation for their impending offensive against Pol Pot.) Agreement has now been reached - although the Heng Samrin "government" have twice denied this. ICRC/UNICEF arrangements are going forward.

5. US\$100 million may be required for their relief programme in the first six months. US\$10 million is needed immediately in cash.

At ICRC request we have provided a Hercules aircraft for a Bangkok

/Phnom Penh

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Phnom Penh food shuttle. We have also agreed to provide £1 million worth of rice for immediate distribution; subject to Parliamentary approval, we shall also provide a further US\$5 million for use by the relief agencies.

6. The EEC will be providing 4 million EUA (about £2.5 million) for essential supplies to be distributed through the relief agencies (our contribution is between 17 and 18 per cent). We are also supporting a proposal, shortly to be put to the Council of Ministers, to supply 5,000 tonnes of rice from Community aid reserves.

Cambodia: UN Debate

7. On 21 September we were among the majority of members of the United Nations General Assembly who supported the candidacy of Pol Pot's representative for the Cambodian seat. Most of the Nine, many of the Non-Aligned (including ASEAN) countries, and the Romanians also supported Pol Pot. We still recognise his Government, although this in no way conveys approval of its policies; like most members of the United Nations, we considered the alternative Cambodian "Government" under Heng Samrin to be merely a Vietnamese puppet.

8. We have seen the text of an ASEAN-sponsored item on Cambodia, to be debated by the General Assembly in late October. The ASEAN countries are incensed with the Vietnamese, and the text includes political elements (which are likely to offend the Vietnamese and their Soviet backers) as well as humanitarian ones. We are committed to supporting ASEAN in their action, but our views on their text have been brought to their attention.

9. There has been less talk recently of the possibility of an international negotiation to create a neutralised Cambodia. The Vietnamese and Russians have been critical of Prince Sihanouk who had
/appeared

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to be an acceptable head for a national Cambodian government. The Vietnamese are mounting an offensive against Pol Pot's remnants and are unlikely to consider negotiating until their primacy in Cambodia is undisputed.

Foreign and Commonwealth Office

12 October 1979

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BRIEF NO 6

COPY NO 1

12 October 1979

PRIME MINISTER'S VISIT TO LUXEMBOURG
18-19 OCTOBER 1979

LUXEMBOURG: INTERNAL POLITICAL AND ECONOMIC SCENE

Brief by Foreign and Commonwealth Office

Internal Political

1. Luxembourg is a constitutional Grand Duchy. Following parliamentary elections on 10 June 1979 a new government, headed by M. Pierre Werner (a former Prime Minister), was formed in mid-July by a coalition of the Christian Social Party (PCS) and the Democrat Party (DP). The government has a comfortable majority with 39 out of the 59 seats in the Chamber of Deputies. The PCS, which has been led by M. Werner for the past 20 years, has 24 seats (the highest number since the 1954 elections) and the DP 15. For the five years before June 1979 the DP leader, M. Gaston Thorn, led a coalition of Democrats and Socialists, although the PCS was still the largest single party. M. Thorn became Deputy Prime Minister in the new government and remains Minister of Foreign and Economic Affairs.

2. On 24 July, M. Werner outlined to the new Chamber of Deputies his government's aims and policies for the next legislature. The

/main

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main points represented the outcome of detailed negotiations between the PCS and the DP on the formation of the government. No change is expected in foreign policy which remains firmly based on Luxembourg membership of the EEC, the Belgian-Luxembourg Economic Union and the Atlantic Alliance. Some greater flexibility may be introduced into implementing the agricultural law passed by the previous government, with a view to helping smaller farmers. Plans for a nuclear power plant, on which the Socialists in the previous coalition imposed a moratorium, have been further shelved for the period of the new legislature - on grounds that the subject is still politically controversial - and the possibility of constructing a coal-fired plant is being studied. At present Luxembourg has to import virtually all its energy supplies, but there is a strong environmental lobby which is currently focusing attention on French plans to build a nuclear plant at Cattenom (near the border with Luxembourg and Germany).

3. One of the government's basic aims will be to continue the tripartite meetings, initiated by the previous government, between government, employers and unions, though less attention will probably be paid to the Socialist oriented union OGBL. Although unemployment is still less than 1%, it remains a cause for concern.

4. The new government has yet to get down to serious business. The Chamber of Deputies reassembled on 9 October and it will be largely concerned in the first few months with the 1980 budget. The government has a strong and experienced team but it remains to be seen how well the coalition partners can work together. In

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particular M. Thorn's relations with M. Werner are still somewhat strained since pre-election criticism of him by PCS politicians and press. Despite his disappointment at failing to defeat Mme Simone Veil for the Presidency of the European Parliament, he may still wish to look for other international posts, eg at the Commission, during the life-time of this government.

Economic

5. Luxembourg has one of the highest standards of living in the European Community, with the highest disposable net national income per head of population in terms of purchasing power. The inflation rate of 3.1% in 1978 was the lowest in the Community after West Germany. For the first half of 1979 it has risen to 4.2%.
6. The prosperity of the country is based primarily on the steel industry which, like steel industries elsewhere, has been going through a period of recession. Most of the 4-5 million tons produced annually have to be exported. There are hopes that the Grand Duke's visit to China in early October 1979 will lead to some joint ventures where Luxembourg steel expertise can be used.
7. The restructuring of the steel industry, for which some government assistance has been made available, has still to be completed. Between 1975 and 1978 the workforce was reduced by 22% and further cuts are planned. Social disruption has however been kept to a minimum.
8. In recent years Luxembourg has had some success in diversifying its economy. In particular it has now developed into an important financial centre, mainly for Euromarket dealings (a

/development

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development encouraged personally by M. Werner during his previous time as Banking Commissioner and later as Minister of Finance). Bank corporation tax provided some 15% of Luxembourg's total tax revenue in 1978. 11 new banks or bank branches have opened so far in 1979 bringing the total number to 108 in early October. (The only British bank, recently established, is S G Warburg.)

9. Agriculture and wine production are also important sectors of the Luxembourg economy. In addition Radio-Télé Luxembourg makes a substantial contribution to government revenue.

Foreign and Commonwealth Office

12 October 1979

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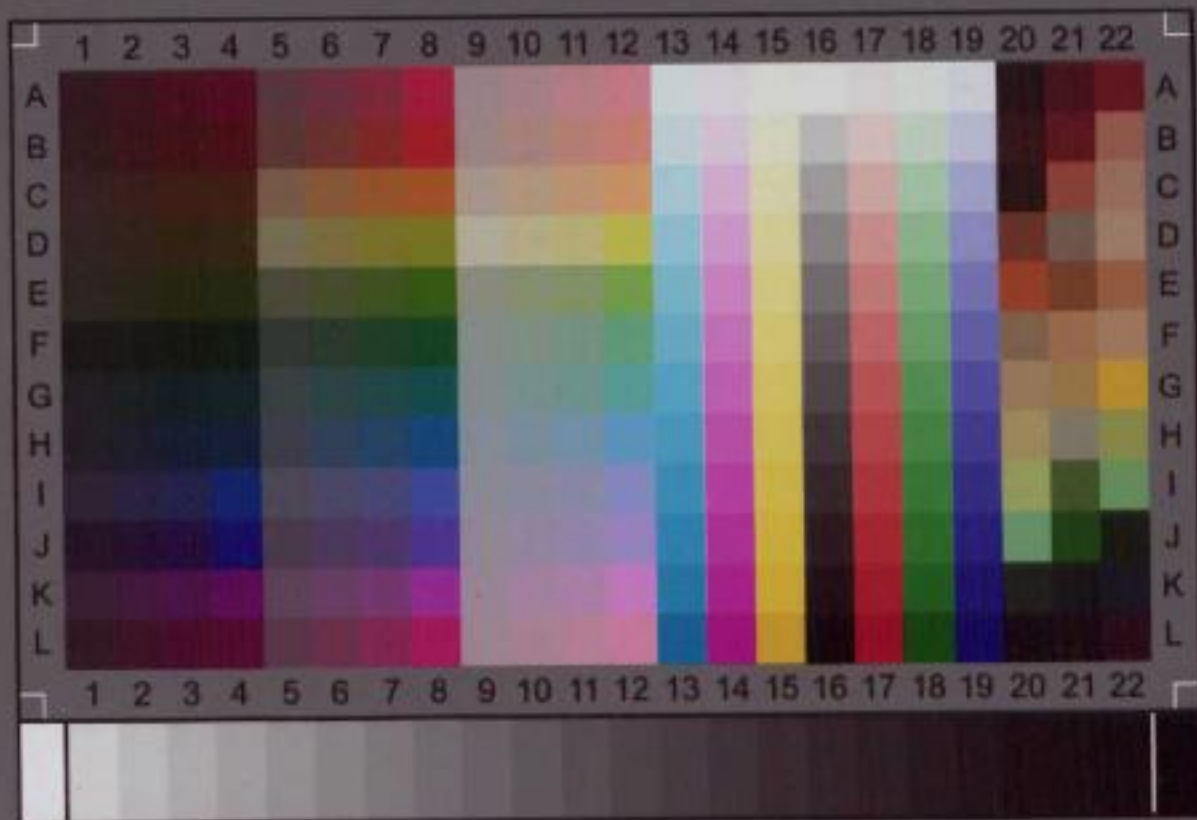
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10 DOWNING STREET

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