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PRIME MINISTER

Energy Issues

The free world uses about 7,000 million tonnes of coal equivalent of energy a year. About 50 per cent of this is oil, about 20 per cent coal, about 20 per cent natural gas, about 7 per cent hydroelectric power and about 3 per cent nuclear. Most of the non-oil energy is consumed near the point of production. Oil is the balancing fuel. About 45 per cent of the free world's oil is produced in the Middle East and 90 per cent of this enters international trade.

2. With the exception of the United Kingdom, Norway and Canada, the industrialised Western countries are all heavily dependent on imported oil to maintain their economies. The USA imports 40 per cent of its supplies and takes nearly 20 per cent of the oil moving in international trade - mostly from the Middle East. The EEC countries import something over half of their combined energy requirements, again mostly oil and mostly from the Middle East. Japan imports 90 per cent of her energy - once again mostly as oil and mostly from the Middle East.

3. The United Kingdom has an especially favoured position among Western nations in terms of energy supply. By next year we should be producing as much energy as we consume - though because our oil is mostly valuable high-quality crude, and two-thirds of our requirements can be met adequately by cheaper low-quality crude, we will remain substantial international traders in energy.

4. The heavy dependence of the Western industrialised countries on Middle East has become a point of danger. The price-fixing activities of the OPEC cartel have imposed very heavy burdens on the Western economies and have threatened the stability of the world financial system. The vulnerability of the West to interruptions in oil supply has been underlined by recent events in Iran. But Iran provided only about 10 per cent of the world's oil consumption. Saudi Arabia produces nearly twice as much.

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5. Against this background energy issues loom large on any Government's agenda. Internationally we are joined, through our membership of the International Energy Agency, in a joint effort with the industrialised West to cut oil consumption. Nationally we are seeking to save energy and need to devote a substantial effort to the production of our own energy supplies.

6. As three (coal, gas and electricity) of our energy industries are in national ownership and the fourth (oil) has a considerable public stake (BNOG plus the Government's share in BP and the necessary Government involvement in the regulation, licensing, taxation and control of the North Sea) a good many energy issues inevitably come to the Government for decision. The Department of Energy is of course in the lead in these matters but other Departments, notably, but not exclusively, the Treasury, the Foreign and Commonwealth Office and the Scottish Office have a locus, and a high proportion of the necessary decisions require to be taken by Ministers collectively. The following paragraphs describe briefly the main issues which you and your colleagues may face on energy matters over the coming months.

Issues

7. Oil consumption: In order to achieve the target 5 per cent reduction in oil consumption to which we have committed ourselves in the IEA and to accommodate to a rather similar EEC decision, we have now embarked upon the policy of increasing the burning of coal in power stations through the summer months. But our ability to continue the effort next winter is in doubt, partly because the hard winter has run down our coal stocks and partly because of uncertainties about coal production - and transport capacity - next winter. You will want to satisfy yourself that continued increased coal burn can be accommodated at a reasonable cost and without reducing coal stocks to a dangerous level (and thus affecting the Government's bargaining position with the miners). Among other matters this raises the difficult question of coal imports. An early situation report is needed from the Department of Energy.

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8. Coal: Linked with this is the dreadful financial position of the National Coal Board (NCB), with a prospective loss of around £300 million in 1979-80. To keep within the cash limits will probably require either cutting back heavily on investment or closing uneconomic pits, together with a substantial further increase in coal prices in the autumn (perhaps to levels which affect the NCB's ability to keep its market share). In simple economic terms the choice is clear, but pit closures will not be easy. Imported coal is substantially cheaper than that of our marginal pits and you will wish to consider what place imports should have in our economy. A particularly important case is fuel for the steel industry as further imports of coking coal have recently been the subject of licensing controls. These fundamental questions will arise naturally over the next few months when the Government come to consider the long-term coal policy review on which officials are now working.

9. Nuclear energy: We are at present committed to building two new advanced gas-cooled reactors (AGRs) and to proceeding with design and development work on a pressurised water reactor (PWR). The organisation of the nuclear construction industry is in disarray. There is a general wish to change the structure of the National Nuclear Corporation, ownership of which is currently vested partly in the public and partly in the private sectors and in which GEC have the management contract. GEC were strong protagonists for the PWR and since the decision was taken to go ahead with additional AGRs, they have indicated their wish to pull out of the business. The uncertain future of the industry has led to the loss of key staff and continuing low morale. You will need therefore to consider quite quickly what needs to be done to prevent the industry drifting further and to remove uncertainties about its future. Decisions are also needed fairly soon on our policy towards Fast Breeder Reactors (FBRs). In particular a decision is needed on whether we should go ahead with a first commercial FBR and, if so, whether it should be built on the basis of international collaboration. This is likely to be a difficult decision not least because of the great

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uncertainties of what will necessarily be a very expensive project. There are those who would advocate not proceeding with an FBR at all, relying on thermal reactors (AGRs or PWRs) until such time in the 21st century when fusion may provide virtually unlimited low-cost energy. But either route involves a highly risky gamble. Department of Energy are in the lead and you will want early proposals from them over the whole nuclear field.

10. Interest relief grants: Interest relief grants under the Industry Act have been used for some years as a means of stimulating the United Kingdom offshore supplies industry. They are currently under attack from the EEC as a distortion of competition and there are growing doubts in Whitehall whether they still represent value for money. There is a strong possibility that the EEC Commission will initiate legal proceedings against us over these grants and a very early review of their effectiveness will be needed.

11. Taxation of North Sea Oil: Your Party is now committed to making the changes in Petroleum Revenue tax proposed by the previous Government. As world oil prices rise the possibility of extracting yet further Government revenue from the North Sea will present itself. This is a matter for the Chancellor of the Exchequer in the first instance, but you will want to keep the possibility in the back of your mind.

12. British Gas Corporation profits: The British Gas Corporation is highly profitable, partly because it enjoys some very favourable supply contracts from the earlier North Sea fields and partly because its prices to the industrial consumer are related to the price of oil and rise with it. As a result the Corporation is actively and massively repaying its debts to the Government. You will want to consider whether there is a case for clawing back some of this profit in a more direct way. This, too, is primarily a matter for the Chancellor but again you will want to bear the possibility in mind.

13. North Sea Oil and Gas Depletion policy: So far the exploitation of oil and gas from the North Sea has been on the basis of maximum exploitation for maximum short-term benefit to the economy. The time may however be approaching when we need to assess anew the balance between short-term gains and the possible longer-term advantages of spinning out our reserves. No

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immediate decisions are needed because the sixth licensing round has just been completed and there is a legacy of past promises to those holding earlier licences. Nevertheless future decisions on licensing and to an extent production from existing finds require to be based on a view of the most nationally advantageous profile of future production. The Department of Energy keep these matters under regular review and you might care to ask for a paper to come forward later in the year.

14. Electricity: Decisions in the nergy sector are characterised by long lead times, none more so in electricity generation where power stations have to be ordered 7-10 years ahead of forecast need. Past decisions mean that we have a good deal of apparently spare capacity in hand or on order. Current demand on the power plant industry is therefore low and it is desperately short of work. It is difficult to believe that the two turbine manufacturers - GEC and NEI(Parsons) - can both stay in the business and early rationalisation may be inevitable. There are substantial regional employment implications and you may wish to commission an early review from the Departments of Industry and Energy as a basis for later decisions.

15. The Role of the BNOC: BNOC is at present a producer and trader in oil, adviser to the Government on oil matters and an important instrument in carrying out the previous Government's participation policies. You will want an early review here so that the future course of the BNOC can be charted in ways acceptable to you. Linked with this is the future of the existing "participation" agreements with the private oil companies. Views about their real importance vary and there is some doubt about their legal validity. The Department of Energy should be asked for advice.

16. BP: The Government is the major shareholder in BP and its relations with that company are of prime importance. You will want to consider whether the Government prefers to reduce its shareholding (remembering that 17 per cent of the Company's shares are held by the Bank of England as a result of the Burmah rescue operation and their ownership is currently a matter of legal dispute).

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17. Disposal of North Sea Oil: The previous Government erected three non-statutory guidelines for the disposal of oil from the North Sea. These guidelines covered the proportion of North Sea oil which it was felt desirable to refine in the United Kingdom; the maximum length of contracts for the sale of North Sea oil; and the restriction of North Sea oil imports to member countries of the EEC and the IEA. The issues are complex and link with foreign policy, not only through the IEA and the EEC but also through the recurring questions of the possible supply of oil to Israel and South Africa. You will want an opportunity to confirm, alter or abandon the guidelines.

18. Energy Conservation: The Iranian situation showed clearly how vulnerable was the world in general and the West in particular to even a marginal and temporary interruption in oil supplies and it jolted the IEA countries to make further immediate efforts towards energy savings. By international standards our present policies are reasonably good, but there is no doubt that more can be done. A number of proposals are in preparation by officials. As some involve extra Government spending you will want to take decisions in time for them to be reflected in the public expenditure review.

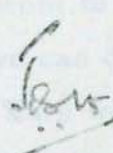
19. Energy Prices: Soundly-based energy prices are the key to energy conservation, to the financial health of the energy industries and to the Government's tax take or expenditures on energy supply. Oil prices are set externally by the world market and you presumably would not wish to seek to hold down our domestic oil prices artificially. The price of coal and natural gas follow oil prices (not always very closely) and there is no national economic advantage to be gained by seeking to interfere in this process. Electricity prices follow from the costs of the primary fuels used and the very heavy capital costs incurred in providing new generating capacity. Given the strength of the OPEC cartel it is likely that energy prices will in any case tend to rise in the long run faster than prices in general. More immediately a substantial increase in coal prices seems inevitable in the autumn which will have a consequential effect on electricity prices. In the normal course of business both of these decisions would come to Ministers for endorsement.

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There are however two underlying energy price issues which you may also care to have examined. The first relates to gas prices where those for domestic supplies, unlike industrial sales, are currently below the oil-related price. Should they be increased in the interests of conservation? Both the coal and electricity industries will argue that they currently suffer unfair competition in their domestic sales from gas. The other issue relates to current cost accounting. The BGC's accounting practices already come close to full CCA depreciation. But the depreciation practices of both the NCB and the Electricity Supply authorities fall well short of this. The effects of full CCA depreciation could be particularly dramatic for electricity. You may think that Ministers should be presented with the arithmetic so that they can take a conscious decision on the issue.

Conclusions

20. The energy sector will present your Administration with a series of challenging and complex problems of great national significance. It would be well worth while asking the new Secretary of State for Energy, in consultation with interested colleagues, to let you have quickly a full list of the main issues that need to be tackled together with a considered timetable for bringing them forward for collective consideration.


John Hunt

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PRIME MINISTER

European Issues

The new Government faces both a challenge and an opportunity in Europe - a challenge because it has a number of difficult negotiating objectives (not all that dissimilar from those of its predecessors) in respect of our contribution to the EEC Budget, a freeze on farm prices, etc.: and an opportunity because a greater commitment to Europe expressed publicly and in direct contact with our partners will ensure a more sympathetic hearing.

2. The attached paper sets out the main issues which will need early discussion and on which fuller Departmental briefing is of course being submitted. On agricultural prices for 1979-80 there will be meetings of the Agriculture Council probably coming to a crunch at the end of June; and "Convergence", which from our point of view means our net contribution to the Community Budget, will be a key subject for the European Council on 21st-22nd June. The Government will therefore need to take an early decision on how it is going to play its hand.

3. Tactics will be very important. There are a number of areas where we could show a more forthcoming attitude without any detriment to our substantive negotiating objectives. For example -

- (a) EMS: even if the new Government does not want to take an early decision on joining the exchange rate mechanism, we can deposit 20 per cent of our reserves against the issue of ECUs. This would cost nothing in practical terms but would be an important gesture of support for the EMS and would be confirmation of an open-minded approach to the concept of a zone of monetary stability in Europe consistent with the mainstream of Community development.
- (b) There are a number of issues which are not intrinsically of great importance but where the United Kingdom is blocking otherwise unanimous Community decisions simply because they imply an extension of the Community's role. These include a number of maritime and environment matters, such as signature by the Community of Protocols to the Bonn and Barcelona Conventions.

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- (c) We are in dispute within the Community on certain state aid questions which the new Government's attitude to subsidies would make it easier to resolve.
- (d) Energy in particular is an area where our favourable situation leaves room for us to play a more co-operative role within the Community without any sacrifice of our vital interests in relation to North Sea oil.
4. The fact that, in the last two or three years, the mood of the Community has changed and there is less emphasis on supranationalism, and a greater readiness to accommodate different national requirements, makes it easier for us to move on all these fronts.
5. But it would be wrong to do so without regard to the value of such moves in relation to our major objectives on the CAP and the Budget. The last thing we should do is to give the impression that the United Kingdom is now a soft touch, or to arouse exaggerated expectations. On the fisheries issue, for example, we have important interests to defend, although there are strong arguments for seeking an early settlement to safeguard fish stocks and before Spanish entry to the Community. The timing of moves on those matters where we could be forthcoming will need very careful consideration in relation to the sort of response we are getting from other member Governments on issues of crucial importance to us.
6. Ministers may feel however that there is a strong case for an early statement in Parliament and possibly in the Council, which would set a new tone from the outset and establish a momentum towards solving problems rather than digging into opposing trenches. This could be based on Chapter 6 of the Manifesto showing a genuine wish to co-operate with our partners combined with firmness on matters which are of real importance to us.
7. Copies of the attached paper, but not of this covering minute, are being given to the Foreign Secretary and other Ministers concerned with European questions.

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EEC : SURVEY OF MAIN CURRENT COMMUNITY ISSUES : MAY TO JULY

INTRODUCTION

1. This paper sets out the major issues which will be discussed in the Community during the summer and on which Ministers will need to take positions. The issues will be dealt with in more detail in departmental papers. Ministers may however find a tour d'horizon useful since effective negotiation in the Community requires a coherent policy across the whole range of Community questions. The policy priorities need to be set clearly and pursued consistently; and negotiating capital saved for issues which are of real importance to British interests.

2. Our main concerns are the related problems of the UK contribution to the Community Budget and the excessive cost of the Common Agricultural Policy. Both will be live issues in the next two months. The Commission have proposed a price freeze for 1979/80 as the beginning of an attempt to eliminate agricultural surpluses and this awaits decision in the Agricultural Council (paragraphs 12 to 15 below). The European Council on 21/22 June will as usual be a focal point for discussion of the main Community and world issues. There will be continued discussion of the impact of the Community Budget on the economic performance of individual Member States (paragraphs 6 and 7 below). As this will be the first European Council after the general elections in the UK and Italy and probably with a new Government in Belgium as well, it could be an important opportunity for a new look at this problem, though a single meeting is unlikely to prove a decisive turning point.

3. The EMS (paragraphs 9 to 11 below) and the Common Fisheries Policy (paragraphs 16 to 18) will also require decisions in the period. In other areas of less importance (eg certain environmental and maritime proposals - see paragraph 22 below) there are outstanding UK reservations which are preventing agreement.

4. The Community as a whole has other preoccupations: the general economic situation (likely to be discussed at the European Council in the context of preparations for the Tokyo Summit on 28/29 June), enlargement (paragraphs 26-30)

below), and the Direct Elections to the European Assembly on 7-10 June: the Community will be running a short campaign to give these elections publicity and other Member States will watch with close interest the line taken by the Government and its supporters in the campaign.

5. Against this background, and the forthcoming programme of Community meetings requiring Ministerial attendance (at Annex), the paragraphs which follow outline the state of play on the main problems.

THE COMMUNITY BUDGET AND CONVERGENCE

6. The latest Commission figures show that, on the interpretation of the figures which we favour, our net contribution in 1978 was £747 million - the largest net contribution to the Budget. (The figures depend on the treatment of monetary compensatory amounts (MCAs) on which there is an unresolved dispute; but even on the basis of the least favourable interpretation the UK emerges as the second largest net contributor. The problem can only get worse as long as 75 per cent of the Budget goes on the CAP. In our view the less prosperous Members of the Community should not be significant net contributors to the Budget. The immediate UK interest is to secure acceptance of the principle that net resource transfers resulting from Community policies, taken as a whole, should contribute to convergence by being properly related to the relative economic strengths of Member States. Once this principle is secured, and its application to the UK is accepted, there are a variety of ways in which the alleviation of the UK budgetary burden can be sought.

7. Though some progress has been made in getting the rest of the Community to accept that a problem exists, there is still great resistance to doing anything about it from all except the Italians, who have been useful allies. The task for the UK at the June European Council will be to get agreement that a problem exists, that a specific solution is required in terms as close as possible to those in paragraph 6 above and that a mandate be given to the Commission to make proposals for remedial action in time for decisions at the December European Council. Before then, meetings of the Finance and Foreign Affairs Councils will provide opportunities for discussion of this question and for a statement of UK policy.

EUROPEAN MONETARY SYSTEM

8. This is a major issue in its own right which Ministers will wish to consider carefully. The EMS started on 13 March 1979. The UK does not participate in the exchange rate and intervention mechanism but does participate in other aspects, notably the introduction and development of the ECU (the European Currency Unit, a basket unit comprising weighted proportions of all Community currencies), the expansion of the Community's medium term credit facility and the long term goal (scheduled for two years after the start of the system) of the creation of a European Monetary Fund.

9. An early question the UK faces is whether to deposit 20 per cent of our gold and dollar reserves with the European Monetary Co-operation Fund in return for which we shall receive ECUs. We can do this at any time, but if an affirmative decision is taken there would be political advantage in making these deposits at the earliest moment since this action would help to confirm that the UK does have a commitment to the EMS even though we are not participating in the exchange rate mechanism.

10. The EMS will be discussed at the Finance Councils on 14 May, 18 June and 16 July. In September 1979 there will be a review of the functioning of the divergence indicator, an aspect of the EMS which has been considered to be of particular importance to the UK in that it is a way of putting pressure on strong currencies corresponding to the pressure weaker currencies experience in using reserves to maintain their levels within the margins. The review provides a natural occasion for re-examination of the question of UK participation in all aspects of the EMS.

COMMON AGRICULTURAL POLICY (CAP)

11. The immediate issue for Ministers will be the Government's attitude towards the Commission's proposal for a price freeze for 1979/80. Negotiations have been suspended during the United Kingdom Election. In the meantime various changes have been made in "green currency" rates, including a 5 per cent devaluation of the Green Pound.

12. Currency fluctuations and the measures taken to operate the CAP in spite of them - green rates and monetary compensatory amounts - mean that prices in national currencies have diverged markedly from the agreed 'common' price. German prices, the highest, are now some 30 per cent higher than UK prices, the lowest. High common prices, exacerbated by even higher German prices, inevitably produce surpluses and increase the United Kingdom contribution to the budget and the resource costs of importing food. The United Kingdom's interest, as far as the CAP itself is concerned, is to reduce the cost of the CAP and to eliminate structural surpluses.

13. The United Kingdom can secure a price freeze if the Commission stands firm on its proposals and the United Kingdom refuses to accept any increase, since the Council may change the Commission's proposals only by unanimity. If the Commission were to yield to pressure from other member states for price increases, and change its proposals, the Council may then accept them by a qualified majority and the United Kingdom might have to invoke the Luxembourg Compromise to assert a right of veto in order to enforce a freeze. The freeze is not generally popular. Italy still supports it in a rather half hearted manner but may well allow itself to be bought off. The countries with positive MCAs, Benelux and Germany, are determined not to agree to a fall in their agricultural prices in their own currencies. They therefore insist that only a price increase will enable them to begin to dismantle their MCAs. Denmark and Ireland who effectively have no MCA might accept a freeze on products in surplus (milk and sugar - perhaps cereals). France is anxious for some price increase, not least as a method of securing some reduction in positive MCAs.

14. The next Agriculture Council is scheduled for 8 May (but not to deal with prices). There is to be an informal Council meeting from 14-15 May at Perpignan, and the next Council is fixed for 18 June. It is possible that additional Council meetings will be added in order to speed up the price fixing. Meanwhile, prices remain fixed at last year's level.

COMMON FISHERIES POLICY (CFP)

15. The immediate problem is on conservation measures. HMG must decide whether to implement certain conservation measures which have already been announced in Parliament as coming into effect on 1 June but which may well

be challenged in the Community. Conservation is also likely to be a prominent aspect of the next Fisheries Council which will probably be during June. Three UK national conservation measures taken in 1978 were challenged by the Commission and are now before the European Court and generally the UK's freedom of manoeuvre on conservation is narrowing.

16. On the general internal regime for a modified Common Fisheries Policy there have been long and inconclusive discussions. The UK's principal requirements in the areas in dispute have been: virtually exclusive access for UK fishermen within 12 miles of the entire UK coastline; preferential access for UK fishermen in wide areas beyond 12 miles; an adequate conservation regime including the residual right to take national measures; a greater percentage allocation of catch quotas than is envisaged under the present Commission proposal; and a preferential share of any growth in fish stocks. The question of preferential access is the most difficult. The UK and the Commission argue that the UK demands, particularly beyond 12 miles, are in conflict with the principle of equal access accepted by the UK (with temporary derogations) in the Treaty of Accession. The Community has been waiting for a general election in the UK and may now hope for a new approach from HMG.

17. The Community's external fisheries regime is unlikely to present critical problems in the period. Annual arrangements on reciprocal fishing access have been concluded for 1979 with the other countries concerned, notably the Faroes, Norway, Sweden and Spain. However, the UK has withheld its agreement to the signature of longer term framework agreements with third countries pending progress on the internal regime. The Government will need to decide whether to maintain these reserves and more generally the extent to which parts of the CFP package should be linked.

INDUSTRIAL, REGIONAL AND INTERNAL MARKET QUESTIONS

18. Attempts to set up a general Community industrial policy have been unsuccessful but the similarity of problems throughout the Community has led in particular sectors to a readiness to find some common policies. On steel, there is in operation a regime for trade between the Community and third countries. A draft Decision determining the conditions under which aids to the steel industry may be granted is opposed only by the UK and

Italy and there will be pressure to agree to a steel aids decision before the summer . The Commission are pressing for the adoption of guidelines for a Community policy on textiles. For shipbuilding the Fourth Directive agreed in 1978 sets out the conditions under which aids can be granted . The Commission has raised difficulties over certain proposed aids to British Shipbuilders and Harland and Wolff , and has not approved a renewal of the Intervention Fund. It is also still considering whether the last Government's proposal for an Employment Development Aid is compatible with competition policy .

19 . The Community's funds for non-agricultural purposes are still small but there is an awareness of the imbalance in the pattern of Community spending. The Regional Development Fund has recently been increased to approximately £600 million for 1979 and may be further expanded in the context of enlargement. The Social Fund, which aims to alleviate unemployment by supporting training schemes, will dispose of some £500 million in 1979. On both these Funds, we receive a higher share (27 per cent of the Regional Fund and 20-35 per cent of the Social Fund) than our share of contributions. Proposals for concerted action to combat unemployment (such as an agreement on shorter working hours) have been discussed but there is little sign of early Community agreement. Other schemes are under discussion including a fund for industrial restructuring, a fund for transport infrastructure and a subsidised loan scheme for projects of Community interest. If these or other schemes are pursued we need to ensure that the criteria will benefit the United Kingdom eg by focussing on the United Kingdom's regional problems and the economic disadvantages of our peripheral location, ageing infrastructure and high concentration of declining industries .

20. Progress towards the completion of the common market through the elimination of non-tariff barriers has been slow but could be accelerated if there were a common political will to achieve results . The United Kingdom has stimulated proposals for progress towards a genuine common market in fields where United Kingdom industry is likely to prove competitive eg insurance and motor vehicle components; but has in general shown an aversion to "harmonisation" proposals (under Article 100 of the EEC Treaty) which have not always been justified in terms of their beneficial trade effects.

21. There are a number of proposals in the environmental and maritime fields on which the United Kingdom has reserves, because of their possible implications for the "competence" of the Community although they do not raise matters of significant practical importance for the United Kingdom. These include proposals on aircraft noise control, ship inspection, and Community Accession to the Bonn and Barcelona Marine Pollution Conventions.

EURATOM

22. A discrepancy exists between the extensive powers accorded to the Commission in certain areas of the Euratom Treaty and the limited role it actually plays in nuclear trade. European Court judgements have confirmed that the provisions of Chapter VI of the Treaty remain in force even though unused. The United Kingdom has argued that Chapter VI of the Treaty should be amended as provided for in the Treaty itself. We have also argued that responsibility for non-proliferation controls and conditions applied to nuclear trade within or outside the Community should remain in the hands of Member States. French views on these points are similar and they have been taking the lead. Opposition can be expected, particularly from some of the smaller Members. Discussions on non-proliferation is expected to begin in political co-operation in May. Commission proposals relating to Chapter VI of the Treaty itself are also expected soon. Discussion will also continue of a mandate for the Commission to negotiate a safeguards agreement which will enable deliveries of Australian uranium to be made to the Community; our own bilateral agreement with the Australians will also need to be authorised by the Commission.

ENERGY

23. The Community has had great difficulty in moving towards its consistently stated objective of a common energy policy despite the pressures of a turbulent world energy situation. The significantly different energy endowments and different economic strengths and weaknesses have made agreement very difficult. Our relatively strong energy situation gives us something potentially to contribute; others would welcome a lead, but up to now we have shown greater concern to avoid encroachments on our national competence. At the last meeting of the Council of Ministers (Energy) on 27 March, the main emphasis was put on the national energy programmes of Members States. The Community's role was seen as agreeing common objectives, for example on reduced dependence on imported oil; comparing national energy programmes and their adequacy to meet these objectives; and considering whether there are any gaps

which might usefully be filled by Community action . In line with this approach the Council commissioned a study of national policies; work on a long term outlook for world oil supply; and work on the development of Community coal policy (which could benefit the United Kingdom provided the terms are right). There is likely to be a short meeting of Energy Ministers on 17 May to consider the difficult oil supply situation resulting from the Iranian crisis, but the Council will return to the main questions of Community energy policy on 25 June and Ministers will wish to reassess the United Kingdom line .

24. An issue on which an early decision is likely to be required by Ministers is the handling of our Interest Relief Grant (IRG) Scheme for offshore supplies . We know that the Commission have already approved in principle a Decision requiring us to abolish the scheme although they have not yet formally communicated this to us (because of the General Election). If we do not comply with the Decision we would risk being taken to the European Court (where we would be likely to lose). The Commission have also queried other important aspects of our North Sea policies -- the requirement under which all North Sea oil must be landed in the United Kingdom unless a specific exemption is granted, the policy of ensuring that British industry has "full and fair opportunity" to compete for North Sea business; and the requirement for United Kingdom Continental Shelf licences to have their central management and control in the United Kingdom. A further approach can be expected from the Commission after the Election.

ENLARGEMENT OF THE EUROPEAN COMMUNITY

25. Although there are still some questions to be resolved which are sensitive for the United Kingdom, the negotiations for the enlargement of the Community are generally proceeding satisfactorily.

26. The Greek negotiations have been virtually completed and signature of the accession Treaty is due to take place in Athens on 28 May. The Prime Minister and the Foreign and Commonwealth Secretary have been invited to attend). Greece is likely to enter the Community on 1 January 1981. There will be a transitional period of five years (seven in certain sectors, eg the free movement of labour).

27 . Negotiations with Portugal began formally in October 1978, but the main substance will not be tackled before the summer break and is unlikely to be settled before the end of 1980. This suggests signature of a Treaty in 1981 with accession perhaps on 1 January 1983. Since the Portuguese economy is weak a transitional period of ten years in some sectors may be necessary.

28. Spain with a population of 36 million presents larger problems than Greece (population 9.1 million) and Portugal (9.7 million). The Spanish market has so far been relatively protected from EEC industrial exports which can therefore expect to benefit from Spain's accession. On the other hand there will be problems for Community producers of Mediterranean agricultural products, and on textiles and fisheries. The negotiations with Spain opened formally in February with the substantive phase due to start after the summer break. Spain might enter the Community together with Portugal in 1983 with a transitional period of perhaps eight years.

29. Fears have been expressed on the effect which enlargement will have on the workings of the Community's Institutions. It will be more difficult to reach a consensus on certain matters with 12 members than in; and the Community will have three new official languages. The risk of stratification of the Community into more and less prosperous members may be increased. The Committee of three Wise Men, including Mr Edmund Dell, is looking into some of these problems and is due to report in the Autumn.

EXTERNAL RELATIONS

30. The Community's external relations cover a wide field of economic activity, but give rise to few major immediate problems for the United Kingdom. Now that the GATT Multilateral Trade Negotiations (MTNs) have been initialled by the main participants (though not yet by the development countries), the main item on the Community's external agenda in the coming months concern the re-negotiation of the Lome Convention and the Community's policy at the May meeting of UNCTAD V. Also under active discussion are the Community's relations with Japan, Yugoslavia, Turkey, CMEA and China. Later in the year decisions will be needed on the post 1980 Generalised Scheme of Preferences (GSP) and on the lending commitments of the European Investment Bank (EIB) after 1981.

31. Under the present Lome Convention 57 African, Caribbean and Pacific (ACP) states (which include 27 Commonwealth countries) enjoy an advantageous aid and trade relationship with the Community. This expires in March 1980 and a successor agreement is currently under negotiation. The final Ministerial conference to settle its terms is due to be held in Brussels on 24/25 May. The

last Foreign Affairs Council at which the Community's position can be discussed is that of 8 May, though it is possible that a further special Council will be needed for this purpose, perhaps just before the 24/25 May meeting. One important decision required will be the amount of EEC aid to be offered under the new Convention.

32. UNCTAD V opens at Manila on 5 May. The co-operation of Community positions was discussed at the March and April Foreign Affairs Councils and the 8 May Council is likely to approve detailed positions now under intensive discussion in Brussels.

33. Trade relations between the EEC and Japan are under some strain. Negotiations are in progress for a new preferential trade agreement with Yugoslavia. Turkey presents important and urgent economic problems for the Community. Negotiations with the Soviet-dominated CMEA to which the Eastern Europeans and the Soviet Union belong have arisen because the CMEA has insisted that there should be an EEC/CMEA trade agreement before CMEA members would be entitled to negotiate bilaterally with the Community. The Community agreement with China was signed in 1978 and has given rise to practical problems, including access for Chinese textile exports. There are also unresolved problems with Malta, Cyprus and Turkey over access for textiles.

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25-27 or
28-29
30-31

Foreign Affairs Council (Brussels)
Finance Ministers (Brussels)
Foreign Affairs Council (Brussels)
European Council (Luxembourg)
Agriculture Council (Luxembourg)
Transport Council (Luxembourg)
Agriculture Council (Luxembourg)
Finance Ministers (Luxembourg)
ECU Ministerial (Paris)
Environment Council (Luxembourg)
European Council (Strasbourg)
Energy Council (Luxembourg)

Finance Ministers (Brussels)
Agriculture Council (Brussels)
Foreign Affairs Council (Brussels)

FORTHCOMING COMMUNITY MEETINGS REQUIRING THE ATTENDANCE OF MINISTERS
(To be revised)

May

8	Foreign Affairs Council (Brussels)
8	Agriculture Council (Brussels)
12-13	Foreign Ministers' informal meeting (Cahos)
14-15	Agricultural Ministers' informal meeting in Perpignan
14	Finance Ministers (Brussels)
15	Social Affairs Council (Brussels)
15 or 22 (subject to cancellation)	Research Council (Brussels)
17	Energy Council (Brussels)
22	Standing Committee on Employment (Brussels)
24-25	ACP/EEC Ministerial Negotiating Conference
28	Possible signature of Greek Accession Treaty in Athens
29 (provisional)	Foreign Affairs Council (Brussels)

June

12	Foreign Affairs Council (Luxembourg)
11-12	Agriculture Council (Luxembourg)
13	Transport Council (Luxembourg)
18	Agriculture Council (Luxembourg)
18	Finance Ministers (Luxembourg)
18	POCO Ministerial (Paris)
19	Environment Council (Luxembourg)
21-22	European Council (Strasbourg)
25	Energy Council (Luxembourg)

July

16	Finance Ministers (Brussels)
16-17 or	Agriculture Council (Brussels)
23-24	
23-24	Foreign Affairs Council (Brussels)

PRIME MINISTERHouse of Commons Procedure: Open Government:
Official Secrets

The Government are likely to be asked early in the new Parliament whether they support the immediate reorganisation of the Select Committees to monitor the work of Departments, as proposed in the Report of the Procedure Committee. Or alternatively whether, at least for the time being, they favour the appointment of select committees on the existing basis.

2. In the Manifesto you undertook to give the House the early chance of coming to a decision on the Report. You may like to seek the Lord President's advice on the handling of its various recommendations and on the extent to which the Government should commend them to the House. The Cabinet Office are preparing a fuller note for him.

3. The Procedure Committee's proposals have some links with Open Government and Official Secrets; in particular there is the recommendation that select committees should have wider powers to order the attendance of Ministers and the production of papers and records. The Government will wish to consider this carefully. With its reference to the release of documents, it ties in with Open Government and raises some of the questions discussed in the previous Administration's Green Paper. The counterpart of open government are official secrets and the acknowledged need to amend Section 2 of the Official Secrets Act. The two subjects were, of course, taken together in Mr. Freud's Freedom of Information Bill.

4. You may think that it would be worth having the three issues examined together by a group of Ministers under the chairmanship of the Lord President: if so, I could let you have advice on composition. Alternatively, you could invite the Lord President to advise urgently on the

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Procedure of the House, the Lord Privy Seal to work up proposals on open government and the Home Secretary to bring forward a Bill to amend the Official Secrets Act.

5. Assuming that there will in due course be much more systematic openness in Government, there is a case for correspondingly tighter control over the unauthorised disclosure of material which continues to be restricted. The last Government had an increasingly bad record for leaks, and you may want to set a different tone from the outset.

John
4/5
John Hunt

CONFIDENTIAL

Ref. A09458

PRIME MINISTER

Devolution

Although no immediate action or decisions are required on devolution, this note is submitted because:-

- (a) Responsibility for devolution at official level has been located in the Cabinet Office itself with a small Constitution Unit working directly to the Lord President of the Council on this issue since 1974.
- (b) You may want to consider whether Ministerial responsibility might now revert to the Secretary of State for Scotland on a view of the kind of changes in the government of Scotland which remain to be considered; devolution to Wales is clearly no longer a distinct policy issue.

2. The draft Orders in Council for the repeal of the Scotland and Wales Acts were laid on 22nd March and survive for consideration in the new Parliament. They require approval by a Resolution of each House. Before the draft Orders are debated, however, you might first want to have reviewed what the Government might propose about possible changes for the government of Scotland and Wales.

3. For Wales, there is a Manifesto commitment to propose a Select Committee for Welsh Affairs. This proposal can be put to the House together with the recommendations of the Select Committee on Procedure for which you have undertaken to provide an early opportunity for the House to come to decisions. There is also a commitment to propose a reformed Welsh Council consisting of representatives of all the county and district councils. No doubt you will look to the Secretary of State for Wales to undertake the necessary consultations with the interests concerned.

4. For Scotland, your Scottish Manifesto also proposed the early establishment of a Select Committee for Scottish Affairs. This too could be pursued in the context of the Select Committee on Procedure's recommendations, without prejudice to whatever might be the outcome of the discussions with other Parties on the future government of Scotland to which you are committed.

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5. As for a possible forum for these discussions, you might want to proceed relatively slowly. Informal soundings of the views of other Parties on what arrangements might attract the widest support would seem necessary. The possibilities could include an all-Party conference of Ministers and Party Leaders, a Joint Select Committee and a Commons Select Committee. But the choice of a forum might in the main depend on what options for change the Government themselves might want to put forward.

6. The outcome of the referendum can be accounted a rejection of an elected Assembly with legislative and executive powers for Scotland alone and it has not so far been possible to conceive alternative proposals for such an Assembly which would be likely to prove more acceptable or provide for greater constitutional stability, particularly in respect of the role of Scottish Members of Parliament. Although a federal system for the United Kingdom as a whole, with a parity of relationships for each of its parts, could accommodate a Scottish legislative Assembly, there is clearly little interest in and less demand for so fundamental a change in the country as a whole.

7. Although it might not be possible to avoid discussion of these options given the policies of other Parties, and both were included in the draft of a submission for an all-Party conference published by the Conservative Party last December, the remaining options proposed for discussion in the draft were:-

- (a) Further changes to House of Commons procedures for Scotland, including a greater role for the Scottish Grand Committee which might meet when practicable in Scotland.
- (b) An inquisitorial Assembly constituted from representatives of local government or other interests, although this could result in a conflict of role with a Scottish Select Committee and might not be welcomed by Scottish Members. If elected, an Assembly of this kind would more acutely provide for uncertainties about representation and could foster political instability.

8. You will want a considered political judgment on this issue in the light of the experience of the election campaign in Scotland but, on a preliminary view, the course of action might be:-

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- (a) Repeal of the Scotland and Wales Acts.
 - (b) As a first step, propose a Select Committee for Scottish Affairs and that all-Party consideration might be given (for example, by the Select Committee on Procedure and the Scottish Grand Committee) to other possible changes in House of Commons procedures for Scotland.
 - (c) Consider in the longer term whether some different all-Party forum should be constituted to consider other possible changes for the government of Scotland on a view of what the Government itself might wish to propose.
9. You might want to invite the Secretary of State for Scotland to take the lead in developing proposals.

J.H.
4/15
(John Hunt)

PERSONAL AND CONFIDENTIAL

Ref. A09455

PRIME MINISTER

Northern Ireland

Northern Ireland is likely to become a more urgent political problem following the Election than it has been for many months past. Though the previous Administration tried to make progress with the Northern Ireland Parties with its so-called "framework" proposals, in practice everybody was marking time in the months before the Election. Both the Unionists and the SDLP believed that they stood to gain more after the Election than before, and so neither was prepared to move off its entrenched positions. The Unionists want to return to full devolved government of the pre-1972 Stormont kind. They are firmly opposed to any kind of power-sharing in government with the minority. The SDLP seek to participate in the government of Northern Ireland and they will resist any moves which, in their view, will make it more difficult for them to achieve their long-term aim of a united Ireland. The impression has built up in Northern Ireland that the period of political inactivity before the Election was a prelude to some new initiative by an incoming Government with the authority of a fresh mandate.

2. Expectations are also high in Dublin and the United States. The Irish Republic Government have in general been reasonably helpful to us over Northern Ireland in the recent past, but they are under constant pressure to take a tougher, more nationalist line. One source of that pressure is from the Irish lobby in the United States. The United States Government come under similar pressure from the same direction. The approach of election year in the United States will add to this pressure; recent speeches by Speaker O'Neill and Governor Carey are a foretaste. So far they too have been helpful in their approach to Northern Ireland. But if we are not seen to be taking some early and positive steps to bring about some progress, it will be increasingly difficult for both the Irish and American Governments not to become more critical in private and in public. This would encourage the SDLP to make more extreme demands; and the Unionists would take fright and in turn become even less disposed to compromise.

PERSONAL AND CONFIDENTIAL

3. There is therefore a clear need for the Government to move into a higher gear. But however high the expectations of a new approach by the Government may be, the reality is that the room for manoeuvre is very tightly constrained. The Northern Ireland Office do not have a new blueprint ready to put to the Parties which is likely to solve everything. They have a number of ideas. Some of these are similar to initiatives that have been tried before and failed: others are more imaginative but more risky, and we may well have to consider these. In this situation the role of the person you choose as Secretary of State for Northern Ireland will be crucial. There will be a short period after he takes office when he will have a stock of political credit. If we are to make any progress, he must use this to the best advantage before the sheer pressure of events compromises him in the eyes of one side or the other.

4. I think this means that the Secretary of State should make rapid contact with the Parties and with the Irish Government. He will need to be firm on law and order but to gain the confidence of both communities: this means that he must be seen to be open-minded and without bias in one direction or the other, while at the same time capable of having ideas of his own. He will need to be highly active in private but ready, at least initially, to take a restrained line in public. If he succeeds in getting things off the ground, he will have to handle complex and possibly protracted negotiations.

5. When he has completed his initial round of contacts with the parties, the Secretary of State will need to seek your approval for the way he proposes to try to make progress since it will be essential for him to have a clear objective and to be seen to have the full backing of the Cabinet. Because of the nature of the problem he will necessarily have to operate rather more on his own than most Ministers do; and experience shows that Secretaries of State for Northern Ireland can easily get out of touch with their colleagues.

J. Hunt
John Hunt

2nd May 1979

CONFIDENTIAL

Ref. A09468

PRIME MINISTER

East-West Relations

Both the North Atlantic Alliance and the Warsaw Pact are committed to the pursuit of detente. But detente means different things to different people. This brief takes it to mean the evolution of East-West relations away from confrontation and towards a sober modus vivendi based on a common interest in the avoidance of a nuclear war and leading to a measure of co-operation both between the two super-powers and between their respective allies, but without the security of either side being weakened.

2. The Soviet Union sees detente both as meeting its own security interests and as facilitating the pursuit of its long-term objective of the triumph of the Soviet brand of communism. The Russians seek to avoid a renewed spiral in the arms race, to institutionalise strategic parity with the United States, to secure access to Western technology and credits, to retain freedom to conduct "the political and ideological struggle", to expand their influence in the Third World, to isolate China and to preserve and if possible extend their authority on the European continent (which includes the containment of Germany). The United States seeks to manage the emergence of the Soviet Union as a super-power by involving it in a range of arms control negotiations, where possible in a degree of international crisis management, and in a network of bilateral links designed to create a vested interest in co-operation. The Eastern European States seek access to Western markets and technology and opportunities for some assertion of their national personalities. The Western European countries in general share American objectives but tend to attach somewhat greater importance to East-West trade. The Federal Republic of Germany has special concerns arising from the division of Germany, from its geographical location and from the large number of ethnic Germans seeking to emigrate from the Soviet Union and Eastern Europe. France has long sought to maintain something of a special relationship with the Soviet Union as an aspect of her independent role in international affairs. The United Kingdom has been particularly conscious of

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the paradox that, as detente progresses, public recognition of its limitations as an instrument for change in Soviet policies has increased; but we have stressed within the Alliance the need to pursue detente in the absence of an acceptable alternative and to formulate a co-ordinated Western policy.

3. For the two super-powers, SALT is very important in the detente context and a SALT II agreement has now almost been reached (I have submitted a separate brief on SALT). A further major element in the development of detente is the negotiation of a Comprehensive Test Ban Treaty which is now going on between the United States, Soviet Union and the Kingdom Kingdom (see also separate brief). Another important negotiation between East and West is the talks on Mutual and Balanced Force Reductions (MBFR) in Central Europe (I have not prepared a separate brief on this subject at this stage). These negotiations, which involve several members of NATO, including the United Kingdom, and of the Warsaw Pact, have been going on for over five years. The West are seeking reductions in the forces of both sides to a common level and are arguing that because of existing disparities the Warsaw Pact should reduce by more than NATO. The Soviet Union and its allies accept the goal of approximate parity at a lower level of forces but claim that assymetrical reductions are not needed because the forces on both sides are roughly in balance now. The prospects of an early agreement are not good. A further aspect of the East-West relationship is the Conference on Security and Co-operation in Europe (CSCE). Both East and West attach importance, though in different ways, to the implementation of the provisions of the CSCE's Final Act. Preparations are now beginning in the Nine and in NATO for the next follow-up meeting in Madrid in 1980.

4. The credibility of detente has been damaged in recent years by Soviet readiness to exploit instability in the Third World, in some cases with the active support of Cuban military intervention. But while exploiting opportunities offered by existing tensions, the Russians have not been able to create new opportunities or to capitalise on all the existing ones, and in some countries they have lost ground. Their wish to avoid a major confrontation with the United States acts as a constraint. Their dismal aid performance and their irrelevance to the North-South economic dialogue are liabilities in the more stable areas. The

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Soviet threat in the Third World therefore needs to be seen in perspective. Nonetheless, it remains a serious challenge to which the West must constantly seek an adequate response. The most effective response in many cases will be found in a concerted and enlightened Western approach to the needs and aspirations of Third World countries.

5. The Russians have an atavistic fear of China and regard its burgeoning relations with the West with great suspicion. China poses no military threat to the Soviet Union at present but the Russians fear that with Western arms and technology it could come to do so, thus contributing to the "encirclement" of the USSR.

6. Soviet foreign policy seems unlikely to change greatly when Brezhnev goes. As for other countries, there are a number of basic constants. The Soviet Union will remain fundamentally antagonistic to the West and China and expansionist in the Third World, but its aims will continue to be pursued pragmatically and with a healthy awareness of the Soviet Union's own needs, problems and uncertainties. These include China, currently the most important; potential instability in Eastern Europe; economic problems at home; and fissiparous tendencies in the world communist movement.

JHC
" "
(John Hunt) 4/5

SECRET

Ref. A09463

PRIME MINISTER

Comprehensive Test Ban

You will of course know that since July 1977 the United Kingdom has participated in negotiations with the United States and the Soviet Union for a multilateral comprehensive test ban treaty. Much of the treaty has already been agreed tripartitely, but there are a few outstanding and important issues still to be settled, including especially problems relating to verification.

2. I attach a note describing the current state of play in the negotiations and indicating the problems which remain to be resolved. It has been prepared by a small group of officials under Cabinet Office chairmanship and is for information only. Further submissions will be made as and when decisions are required by Ministers.

3. It is convenient to mention one related point at this stage. Difficult scientific and technical questions arise over e.g. stockpile reliability and safety in the absence of testing (see paragraph 7 of the attached note): and we have felt the need for some independent source of advice in addition to that provided by the experts in the Ministry of Defence. Accordingly a small panel of eminent outside scientists was established a few months ago under the chairmanship of Lord Penney to advise on such nuclear weapons matters as might be referred to it.

4. Copies of the attached note are being given to the incoming Foreign and Commonwealth Secretary and the Secretary of State for Defence: but it will not have any wider circulation until you decide whether you wish sensitive matters of this kind to be handled in the Defence Committee or in a smaller group. I will let you have a separate submission on this when your main appointments have been made.

JOHN HUNT

SECRET

COMPREHENSIVE TEST BAN NEGOTIATIONS

The United States, the Soviet Union and the United Kingdom have been engaged since July 1977 in negotiations in Geneva on a multilateral Comprehensive Test Ban (CTB) Treaty, to be supplemented by a Separate Verification Agreement (SVA) between the three of them. The greater part of the multilateral treaty has been agreed, but much of the SVA has still to be negotiated.

United Kingdom Objectives

2. Since the Partial Test Ban Treaty was concluded in 1963, the United Kingdom has supported the aim of making the ban comprehensive, by extending it to cover underground tests. This objective is widely shared in the international community. The non-nuclear powers see a CTB as a necessary demonstration of the nuclear weapon states' commitment to nuclear arms control, as a counterpart to their own renunciation of nuclear weapons.
3. The United Kingdom's main objectives in seeking a CTB, which are shared by the United States Administration, are to curb the qualitative development of nuclear weapons without adversely affecting Western security; and to help prevent their proliferation to more countries. The first of these objectives should be met, provided the CTB is properly verified and provided no safety or reliability problems arise in the existing weapons stockpile which are beyond our capability to solve without nuclear testing. The second objective requires the kind of treaty which will attract the adherence of key non-nuclear weapon states, such as India and Pakistan, that have kept open the nuclear weapons option by not adhering to the Non-Proliferation Treaty. This is an aspect to which we have attached special importance since there is disquieting intelligence about the extent to which Pakistan in particular is pressing ahead with a nuclear weapons programme.

Soviet Motives

4. The Russians have long claimed to want a CTB. When President Carter proposed negotiations on assuming office they readily agreed. They share our interest in non-proliferation, and they probably see a CTB as contributing to the process of detente. We have to recognise that no CTB is totally verifiable and we must therefore seek to reduce to a minimum the possibility for the Russians to gain military advantages by cheating (see paragraphs 9-11 below).

The Scope of the Treaty

5. It has been agreed in the negotiations that the multilateral treaty should ban all nuclear tests in all environments. A protocol, which would form an integral part of the treaty, is to provide for the cessation of peaceful nuclear explosions (PNE). The Russians earlier in the negotiations wanted to exempt PNE, which they argued were necessary in the development of the Soviet economy. But the United States and United Kingdom insisted that PNE should cease, since in their development the same basic technology as nuclear warheads is used and they would inevitably confer military benefits.

6. The Americans intend during a CTB to continue very small nuclear experiments (of yields below 100 lb in TNT equivalent) in order to maintain their technical capability. Such experiments are not nuclear tests in the accepted sense of the term and therefore in our view would not detract from the comprehensiveness of the treaty. The United Kingdom will have similar requirements but no decisions have been taken on any British programme of experiments. Experiments of these very small yields cannot be used to test weapons in the stockpile or to develop new weapons. The Americans will probably want the Russians to accept some understanding that such experiments will not fall within the treaty prohibitions. But the Russians are likely to resist because they can conduct them without detection and see no need for any understanding. This difficult point has yet to be settled.

The Duration of the Treaty

7. The United States and United Kingdom originally proposed unlimited duration. This position was changed in order to take account of possible problems in maintaining the safety and reliability of their stockpiles of nuclear weapons indefinitely without testing. On United States initiative all parties are now negotiating on the basis that the treaty will have an initial duration of three years as advocated by the Russians from the start. But the United Kingdom has made clear that it would have preferred an initial duration of five years, as a greater inducement to non-nuclear weapon states.

8. It is envisaged that during the final year there will be a review conference of the parties to the treaty to consider what should happen on expiry of the initial period. The Americans want the conference to be able to consider all options, including not only the lapsing or extension of the

treaty, but also its modification, eg by the introduction of a threshold of, say, 5 kt below which testing could be resumed. The Russians insist that the conference should consider only the question of extending the treaty and that this should depend on whether non-parties - ie France and especially China, neither of whom can be expected to adhere to a CTB for the foreseeable future - are conducting tests. The United Kingdom has supported the United States position which would enable us to decide in the light of all the relevant considerations (including the state of our nuclear stockpiles) what should happen after the initial period. In particular we attach importance to keeping the possibility of extension open, so as not to prejudice the chances of adherence to the treaty by key non-nuclear weapon states. This has so far proved an intractable issue.

Verification

9. The multilateral treaty will provide for parties to use their national technical means for verifying the compliance of others with the Treaty; and for an international exchange of data from seismic monitoring stations in many countries. It will also give each party the right to request an on-site inspection of another party's territory, if it has reason to suspect that a violation of the treaty may have occurred. The United States and United Kingdom at the start of the negotiations were still insisting that such inspection should be mandatory. But other means of verification, notably satellite monitoring, have been developed, so that inspection, while still important as a means of checking suspect events, is not as central to verification as in the past. We have accordingly accepted that inspection will be subject to the agreement of the inspected state.

10. In the case of the three negotiating states, these multilateral measures of verification will be supplemented by additional ones in the tripartite Separate Verification Agreement (SVA). This will make clear that refusal of a properly substantiated request for inspection under the SVA would be a serious political matter. It will also spell out the detailed arrangements for inspections between the three parties. We have proposed that the United Kingdom should have a special status in this connection: rather than exercising an independent inspection capability, we should be free to participate in United States inspections in the Soviet Union.

11. The most important provision of the SVA will be for high quality seismic monitoring installations, known as National Seismic Stations (NSS), to be located on Soviet, United States and British territory. The United States, with British support, is seeking 10 NSS in the Soviet Union, to be installed during the first two years of the treaty. These tamper-proof stations will augment the existing means of detecting, identifying and locating seismic events in the Soviet Union. It is estimated that United States national technical means of verification supplemented by 10 NSS in the Soviet Union would reliably detect seismic events (whether earthquakes or nuclear explosions) in the Soviet Union down to a yield between about 300 tons and about 3 kilotons (TNT equivalent) depending upon whether the event occurred in hard or soft rock. The network would positively identify a seismic event as an explosion (and not an earthquake) at yields three times those levels. This United States verification capability would deter attempts at evasion and have a high chance of detecting Soviet testing at large enough yields to advance nuclear warhead technology. The Russians might hope to get away with very small clandestine tests to check the safety and reliability of warheads in their stockpiles. But under a three year treaty this would be unlikely to bring them militarily significant advantages over the Americans.

12. The Russians have agreed to accept 10 NSS on condition that the United States and United Kingdom each does likewise. They have proposed that 9 of the United Kingdom stations should be in British dependent territories. They have refused to discuss the technical characteristics of NSS (which will govern their performance) and the timetable for installation until agreement is reached on numbers. The United States has accepted 10 NSS. The United Kingdom has agreed to one NSS in the United Kingdom itself (at Eskdalemuir in Scotland) but has maintained that there is no technical justification for NSS in United Kingdom dependent territories. We have argued that NSS are relevant only for monitoring large land masses and would add nothing to the capability of Soviet national technical means, such as satellite observation, to monitor our dependent territories. Moreover they would represent an addition to public expenditure and there may be difficulties over finding enough suitable sites in dependent territories. The Russians have countered that there is no technical case for NSS anywhere under a three year treaty; that they only accepted 10 NSS because they considered that this was a political requirement of the United States Administration (to make the CTB acceptable to Congress); and that it is

a Soviet political requirement that the United States and United Kingdom should accept "equal obligations". The Americans, at official level, have suggested to us that the present United Kingdom position could endanger the chances of securing the important breakthrough of 10 NSS in the Soviet Union and that we shall have to change it when the negotiations resume (scheduled for 21 May) if progress is to be made. This is another very difficult issue, which will be the subject of a separate submission.

Negotiating Timetable

13. The timetable for completion of the tripartite negotiations is likely to be determined largely by the time it takes to negotiate the details of NSS. That might involve several months of intensive discussion. Meanwhile the Russians recognise that, because arms control proposals are controversial in the United States, the Administration will not wish to reduce the chances of SALT II ratification by submitting a CTB treaty to the Senate before the latter has voted on SALT II.

14. There is no agreement yet on how the treaty should be handled once tripartite agreement has been reached. The Russians favour immediate signature by themselves, the Americans and ourselves. The United States and United Kingdom consider that there will be more chance of persuading key non-nuclear powers to adhere if they are given some part in the preparation of the treaty. We therefore envisage that the tripartite negotiations might be followed by a series of consultations about the resulting treaty with key non-nuclear powers. In the light of these, we would decide whether to sign the treaty or first to submit it for discussion - but not substantive amendment - to the 40-nation Committee on Disarmament in Geneva.

May 1979

SECRET

Ref. A09462

PRIME MINISTER

Strategic Arms Limitation Talks

It is probable that the SALT II Agreement will be signed shortly at a Summit meeting between President Carter and President Brezhnev. This will be followed by a lengthy and controversial ratification debate in the United States Congress. The Government will need to take up a public position, both nationally and through the Alliance, soon after signature of the agreement. Separate advice will be submitted on the line we should take. Meanwhile I attach a background note which has been prepared by a small group of officials under Cabinet Office chairmanship on the content of the SALT II Agreement, and on the main issues which have arisen during the negotiations and are likely to affect our interests in SALT III.

2. Copies of this note are being given to the incoming Foreign and Commonwealth Secretary and the Secretary of State for Defence.

(John Hunt)

STRATEGIC ARMS LIMITATION TALKS

The SALT II Agreement is virtually complete and is likely to be signed soon at a summit between Presidents Carter and Brezhnev, although no date has yet been fixed. Thereafter there will be pressure for early governmental reactions. European statements on SALT II will be scrutinised very closely in the United States and will have an important bearing on relations with the Carter Administration and on the ratification process. Advice will be submitted separately about the line which might be taken publicly by Her Majesty's Government.

Content of the Agreement

2. The main provisions of SALT II are summarised at Annex. SALT II is an advance on the 1972 Interim Agreement in several important ways. It covers all types of strategic nuclear delivery systems. It imposes equal ceilings within each category. It limits certain new systems both in number and in kind. It also makes more detailed provision for verification.

General Criteria

3. For the Alliance as a whole SALT II is likely to be assessed under four general criteria.

i. The East/West balance SALT II codifies the "essential equivalence" in strategic arms between the super powers. It does not assume exact equivalence: the Soviet Union will retain its advantages in heavy missiles, throw-weight and "deliverable megatonnage", while the United States will still have more warheads (except possibly for a short time in the middle of the treaty period), greater accuracy and a more balanced spread between land, sea and air systems. The agreement provides a framework of limitations within which each side can develop its own strategic posture and which does not in itself confer an overall strategic advantage on either side.

ii. NATO strategy The Alliance's deterrence strategy places four main requirements on SALT II: that strategic sufficiency should be maintained; that the Alliance's ability to maintain an adequate theatre nuclear capability should not be impaired; that there should

continue to be credible linkage between strategic and theatre nuclear systems; and the continued effectiveness of the strategic and theatre nuclear elements of the deterrent triad, where survivability is one of the major considerations. In our judgement, these requirements are satisfied by the provisions of SALT II. But the United States Administration accept that they will need to improve their forces during the life of the treaty (see iii. below), and there are some special British and European interests which we shall wish to keep under review (see paragraph 4 below).

iii. Future options The United States Administration consider that American strategic needs can be met fully within the SALT II framework. The agreement would allow the United States to develop and (after the Protocol expires at the end of 1981) to deploy a mobile ICBM to offset the problem of the vulnerability of its existing land-based missiles. It also permits the deployment of cruise missiles on aircraft with the proviso that those with a range greater than 600 km should be carried only on designated heavy bombers and should count against the agreed ceilings. The deployment, but not the testing and development, of ground and sea-launched cruise missiles with a range greater than 600 km is prohibited for the duration of the Protocol (this is especially relevant to the European Allies - see paragraph 4 below).

iv. Arms control The SALT II cuts are modest: about 250 Soviet systems in all. But, in addition to tighter verification provisions, SALT II also bans certain new systems, limits the total number of MIRVs and restricts each side to one new ICBM. All of these constraints mean that the Soviet Union is able to undertake fewer strategic military programmes than would probably be the case in the absence of an agreement.

Special British and European interests

4. In addition to these general criteria (which are of overriding importance to the United States as well as Europe) there are three issues of special concern to the Europeans. These have dominated our consultations with the United States on SALT II.

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i. Transfers of systems and technology SALT II does not forbid the transfer to a third party of equipment or technology. But each side undertakes "not to circumvent the provisions of this agreement through any other State or States or any other manner". The United States will set out their interpretation of this clause in a unilateral statement after signature. This will state that the non-circumvention provision simply makes explicit the inherent obligation any State assumes when party to an international agreement and that it will not in practice interfere with continued United States nuclear co-operation with the Allies. In this connection we have sought and obtained confidential bilateral assurances from the Americans. In July 1977, they assured us that SALT II would not prevent the United States from meeting its obligations under the 1958 Defence Agreement and the 1963 Polaris Agreement; and that, under SALT II, new forms of United States assistance could be agreed in the future. In December 1978, the Americans clarified that the transfer of long range air-launched cruise missiles to the United Kingdom was not precluded in principle under SALT II. They have, understandably, emphasised throughout that any United Kingdom request for transfers would have to be dealt with in the light of circumstances at the time. These private assurances, although in theory not completely watertight, are substantial and should ensure that in practice the United States will be able to transfer systems and technology to meet our foreseeable needs. They have been reflected in a number of official public statements made in the United States (including one by President Carter on 20th February) that the agreement will permit the United States and the Allies to pursue all the defence programmes that may eventually be needed, including cruise missiles. There is one outstanding point on the proposed United States' public statement which has caused us difficulty and which we were trying to resolve in discussion with the Americans. A separate submission will be made on this.

ii. The Protocol Concern has been expressed that the United States will come under pressure to extend the Protocol limits on ground and sea-launched missiles and mobile ICBMs after 1981. The United States have, however, frequently assured us that the restrictions contained in the Protocol would lapse on its expiry.

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Furthermore all the indications are that the United States takes seriously the freedom of choice which it will regain when the Protocol expires. It is spending over \$200 million on ground and sea-launched cruise missiles this year and has budgeted \$670 million for the development of a mobile ICBM next year. According to the State Department, any future limitation on these systems would require United States agreement and Congressional approval. Moreover, Alliance policy on long range theatre systems is being made (under active United States leadership) on the assumption that all types of cruise missile will be deployable from 1982 onwards.

iii. "Grey area" The Soviet Union has a growing advantage in the grey area between strategic systems covered by SALT II and battlefield nuclear systems. It is a source of concern for Western Europe, particularly the Federal Republic of Germany, that SALT II puts no limits on Soviet long range theatre systems, notably the SS20 missile and Backfire, which are targetted on Europe and are therefore strategic in European terms. They were excluded partly because they do not have a genuinely inter-continental range, but, more importantly, as a consequence of United States insistence which, with the support of the Alliance, has been maintained since SALT I, on excluding American theatre nuclear systems from the negotiations. It is expected that the Russians will press for such systems, together with British and French nuclear forces, to be included in SALT III. The Americans intend to state publicly that any future limitations on United States systems principally designed for theatre missions should be accompanied by appropriate limitations on Soviet theatre systems. Meanwhile a NATO Group of senior officials is studying what improvements are needed in NATO's long range theatre nuclear forces (TNF). The indications are that in its final report to Ministers in the autumn, the Group will recommend a mixture of cruise missiles (probably ground-launched) and a longer range

version of the Pershing ballistic missile launcher. In parallel with this a Special Group is considering possible arms control options for limiting Soviet long range theatre systems. This Group will also report in the autumn. It is hoped that Ministers will thus have a wide framework within which to take timely decisions about TNF modernisation.

5. Although we judge that British and European concerns have so far been adequately safeguarded in the SALT process, our interests will increasingly be at issue as future negotiations focus on deeper cuts and possibly on grey area systems. There will be a need for close consultation in the Alliance and for a clearer view of where our interests lie. We hope that the two NATO Groups referred to above will provide the basis for a stronger and more coherent European input.

The United States Ratification Debate

6. It is at present far from certain that President Carter will secure the two-thirds Senate majority needed to ratify SALT II. The position of the United States Administration would become even more difficult if, as seems increasingly likely, the issue becomes entangled with the 1980 Presidential elections. Much of the debate addresses technical questions such as verifiability, ICBM silo vulnerability and whether the United States can afford to allow the Soviet Union to retain the advantages that it has (eg in heavy missiles, throw weight and deliverable megatonnage). But it also coincides with a painful realisation that the United States has lost strategic superiority and must work hard to maintain parity with the Soviet Union during the 1980s. As a result, SALT II is being blamed for problems which have other causes and the issue is broadening into a critique of United States defence policy and of detente in general. But the signs are that the ratification debate, far from inducing complacency, is serving to alert the United States to the need for fresh efforts to preserve strategic stability.

Assessment

7. SALT II is a compromise which covers only a facet, albeit an important one, of East-West competition. It is ideal for neither side. For the West, its main limitations are that, while confirming a rough

equivalence in strategic systems, it will not change the existing and growing imbalance in long range theatre nuclear systems; that it sets a precedent for restraining one of the West's most promising answers to this problem - the cruise missile; and that it has only limited effect on the advances which the Soviet Union has made since SALT I in strategic programmes.

8. These problems would however not disappear if SALT II was rejected; some could be made worse. Rejection would, moreover, set back the process of arms control and would undermine the possibility of restraining Soviet theatre nuclear forces in the foreseeable future. It would rupture the consensus on strategic matters which has served the United States and the Alliance well over the last three decades, and would damage the credibility of United States' leadership. Moreover it would adversely affect the whole conduct of relations between the United States and the Soviet Union. It will therefore be very important that the Alliance is seen to give solid support to the Americans over SALT II. In any case there are positive advantages for the West in the new agreement. It will be seen to be compatible with Alliance strategy. It will largely preserve our own and the Alliance's nuclear options. It will help to reduce the vulnerability of United States ICBM silos. It should provide a useful, if by no means infallible, constraint on Soviet behaviour, especially in the post-Brezhnev era. Finally, it will avoid an all-out competition between the super powers in strategic systems.

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SALT II: THE BROAD OUTLINES

The Shape of the Agreement

1. The SALT II Agreement consists of three parts:
 - (a) A Treaty lasting until 31 December 1985.
 - (b) A Protocol expiring on 31 December 1981, which will cover a number of issues not included in the Treaty.
 - (c) A Joint Statement of Principles on subsequent SAL negotiations.
2. There are also a number of associated documents or statements including:
 - (a) An agreed exchange of statements on the Backfire bomber.
 - (b) A unilateral American interpretative statement on non-circumvention.
 - (c) A unilateral American statement on Theatre systems.

The Treaty

3. The SALT II Treaty is based on the 1974 Vladivostock Accord. The central feature is the ceiling agreed for the total number of strategic nuclear delivery systems both sides may possess, and sub-ceilings for different elements within that aggregate, as follows:

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MIRVed ICBM Launchers	820
MIRVed ICBM Launchers <u>plus</u> SLBM Launchers	1,200
MIRVed ICBM and SLBM Launchers <u>plus</u> aircraft carrying long- range cruise missiles	1,320
All strategic systems	2,250

4. The Treaty contains a large number of detailed provisions associated with these ceilings. In particular:

(a) an agreed timetable of reductions to reach the overall aggregate by 31 December 1981.

About 250 Soviet systems will be dismantled.

The Americans are already below the ceilings.

(b) provisions limiting fractionation

(ie the number of separate Re-entry Vehicles (RVs) which may be fitted to any one missile). The maximum number of RVs on existing missiles is frozen at existing levels. For new ICBMs, up to 10 RVs are permitted. For new SLBMs the figure is 14.

(c) provisions permitting the testing and deployment of ALCMs capable of ranges in excess of 600 km only on aircraft counted under the sub-ceiling for MIRVed systems. This restraint applies both to conventional and nuclear-armed ALCMs.

(d) provisions to aid verification, which, as with SALT I, will be carried out by "national technical means". These include exchange of data, advance notification of missile tests, and the prohibition of the encoding of radio signals transmitted from missiles under test ("telemetry encryption"). This scope of this prohibition remains one of the important unresolved issues.

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5. The Treaty also prohibits the flight testing and deployment of new types of ICBMs, with the exception of one light ICBM for each side (MIRVed or non-MIRVed). There are no limitations on new types of SLBMs.

6. There are restrictions on the modification of existing types of ICBM and SLBM although the details remain a key unresolved issue.

7. The Treaty also prohibits additional fixed launchers of heavy ICBMs as well as the development, testing and deployment of mobile launchers of heavy ICBMs, of heavy SLBMs and their launchers, and of heavy ASBMs.

8. The non-circumvention provision states:-

"In order to ensure the viability and effectiveness of this Agreement each party undertakes not to circumvent the provisions of this Agreement through any other State or States or in any other manner."

There is also a requirement not to assume international obligations in conflict with the Treaty.

The Protocol

9. The central feature is the limitation on Ground and Sea launched Cruise Missiles and mobile ICBMs.

(a) The deployment of conventional and nuclear-armed Cruise Missiles with a range over 600 km on sea-based (SLCMs) or land-based (GLCMs) launchers is prohibited. Testing and development are permitted.

(b) Testing and deployment of light ICBMs from mobile launchers banned. The testing of mobile light ICBM launchers themselves is permitted.

The Joint Statement of Principles

10. This statement contains four agreed principles governing the approach to be adopted towards future negotiations.

(a) a commitment to continue to negotiate to limit strategic arms further in number and in kind.

(b) a reference to the need to strengthen verification and the Standing Consultative Commission in the interests of strengthening compliance with the Treaty.

(c) three specific objectives for future negotiations:

(i) substantial reductions in the number of strategic arms;

(ii) qualitative limitations on strategic arms, including restrictions on the development, testing and deployment of new types of strategic arms, as well as the modernisation of existing strategic arms;

(iii) the resolution of issues included in the protocol.

(d) agreement to consider further measures to enhance strategic stability, including a provision that "each party will be free to raise any issue relative to the further limitation of strategic arms".

/Exchange of Statements on Backfire

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Exchange of Statements on Backfire

11. The Americans have accepted that the Soviet Backfire bomber will not count in the overall limitations on strategic systems but they are looking for assurances on this aircraft outside the formal Treaty. The Russians have indicated that they will provide a unilateral statement giving assurances that they would freeze their current Backfire production rate at "approximately 30" per year and not upgrade the aircraft so as to give it a capability against the United States. The Americans want the production rate to be stipulated precisely at 30 per year and assurances that there will be no significant upgrading of the aircraft's capability.

Unilateral American Interpretative Statement on Non-Circumvention

12. The Americans intend to issue an interpretative statement on non-circumvention for the North Atlantic Council and for Congress. We are still discussing the US draft bilaterally. No draft has yet been considered by the Alliance.

Unilateral American Statement on Theatre Systems

13. The American unilateral statement is designed to reinforce their position on future negotiations. It states that:-

"Any future limitations on US systems principally designed for theatre missions should be accompanied by appropriate limitations on Soviet theatre systems."

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PRIME MINISTER

Rhodesia

The Rhodesian elections which ended on 21st April pose the urgent question of how we should react to them and to the new Rhodesian Government which will be formed at the end of May under Bishop Muzorewa. Indeed much international attention will focus on the first indication which the new British Government gives of its intentions and this will need to be carefully considered. You will of course wish to obtain the early advice of the Foreign and Commonwealth Secretary and to discuss the matter with him and other senior colleagues: but here are my preliminary views.

2. There is now a new situation in Rhodesia. The main question is how best to take advantage of it in order to bring Rhodesia as rapidly as possible to independence without leaving behind a situation which would only be exploited by anti-Western elements.

3. The elections. You will wish to consider reports from Lord Boyd and from other non-official observers. Most comment so far indicates that the elections were well conducted. A number of criticisms have been made (under pressure to vote, plural voting, under-age voting, under-estimates of the total number of voters and so on). But the fact remains that a very large number of Africans did turn out happily to vote and the Patriotic Front, despite their previous threats, were unable to stop them doing so.

4. The problem, however, is that the election, and the establishment of a black government, are not of themselves going to bring the war to an end, nor to bring international recognition of the new government. On the contrary, the initial reaction of the African governments most immediately concerned is violently negative and the rest of Africa and the Third World are likely to follow this lead. Whatever we may say, our own friends and allies will not be easily persuaded to take a strong line against this tide. And of course the Security Council resolution of 30th April (on which we, the Americans and French abstained but did not veto) condemned the elections as null and void and called for continued non-recognition and sanctions.

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5. A lot of this reaction is of course emotional and the result of fixed attitudes, but it will not go quickly away and we cannot afford to disregard it without having regard to our other interests. There is moreover some substance in the contention that the election was held under conditions of martial law and with ZANU and ZAPU banned. It is also fair comment that the constitution, which was approved by a referendum of Whites only, contains a number of clauses which leave room for serious doubt as to whether real power will be exercised by representatives of the black majority.

6. I think you will need therefore to handle the matter in a way which will be acceptable to those parts of the Conservative Party who would like to see early recognition and a lifting of sanctions, but which will at the same time avoid:-

- (i) very severe reactions in Black Africa (where we have increasingly large economic interests) - and from other Commonwealth governments; condemnation at the United Nations and a call for mandatory sanctions;
- (ii) the blame being laid at our door for disruption of plans for The Queen's State Visit to Lusaka and for the Commonwealth Heads of Government Meeting immediately thereafter (1st-8th August);
- (iii) danger of increased Soviet exploitation of black African nationalist frustration and of Zambia's acceptance of Cuban and Soviet aid and influence (despite Kaunda's reluctance and Zambia's recent heavy dependence on the southern route through Rhodesia and South Africa for its copper exports);
- (iv) the end of hopes for a negotiated independence for Namibia on the lines supported by the Five Powers (United States, United Kingdom, Germany, France and Canada) and by the United Nations (because SWAPO and the Front Line States would not co-operate and South Africa might feel free to proceed with an alternative internal settlement).

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Precipitate action could risk all these without achieving the main objective. But that is an argument for playing the hand carefully rather than inaction.

7. A further important point is the close involvement of the Americans in a joint United Kingdom-United States Rhodesian policy hitherto. Once a new Rhodesian government is installed President Carter is required by the 'Case/Javits' amendment to decide whether it was chosen by free elections. The United States Administration will be anxious for early consultations on the line the British Government intends to pursue. Present indications are that they will acknowledge the progress made and the possibility of building on it but will not at this stage wish to recognise the new government. They will, however, face strong Congressional pressures to lift sanctions.

8. My own view is that we should seek to build on the undoubted advance which the Rhodesian elections represent. But the line between missing this opportunity on the one hand and causing great damage to our wider interests on the other (without necessarily gaining our aim of a stable democratic future for Rhodesia) is very narrow. It will need great care to find and tread it successfully. The first steps, after you have discussed the matter with the Foreign and Commonwealth Secretary and other senior colleagues, may be to make early contact with the new Rhodesian Government (and with the South Africans): to consult with the Americans and other allies: and to consider how best to play the cards we have in order to achieve adequate international support for the new regime and real progress towards ending the war. At home this would mean a cautious welcome to recent developments an impression of being willing to seize the opportunity now present: but an avoidance of commitments until these consultations (particularly with the Americans) have taken place.

JH
John Hunt

4th May 1979