

PRIVATE & CONFIDENTIAL

Prime Minister

Note prepared following a meeting of the European Affairs Committee held at 5.00 p.m. on Monday 21st January 1980 addressed by Ted Heath on the subject "Europe in the Eighties"

1. Ted Heath said that after her withdrawal from Vietnam, the United States had lost its will to assert a world role, and that there was a credibility gap as to whether the United States and the West mean what they say in foreign policy.
2. There were two conclusions which flowed from this analysis:
 - (a) Europe must now play a much bigger role in world affairs.
 - (b) Europe must formulate a strategy for world affairs - and not simply react to events.
3. The EEC must:
 - (a) Settle its internal difference at once. It was absurd that virtually the whole of the last Summit in Dublin and probably the whole of the next Summit, should be devoted to the UK budget contribution, when the Community ought to be devoting its attention to other matters.
 - (b) Stop the very worst duplication of effort in research. Pooled Community research would be much more sensible use of resources than individual efforts by the Member States.
 - (c) Develop jointly, those immensely costly projects (eg aerospace and fast breeder reactors).
 - (d) Bring the United Kingdom into the EMS.
4. Because of its highly privileged position about energy, the United Kingdom should take the lead in giving preference to our EEC partners so far as energy is concerned; in return the United Kingdom should be entitled to look to the Community later in the decade for food supplies on preferential terms.
5. So far as the EEC budget is concerned, the United Kingdom should not try to change the basis of budgetary contributions. We should seek to negotiate compensatory arrangements.
6. It was important for the Community to develop a common foreign policy. In that connection, Japan was unlikely to enter the world stage as a major force in foreign affairs.

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7. The EEC must give substantial economic support to those countries in the Third World which are sympathetic to us. This economic support must not provide military bases for the West or armies. We should give economic aid, without strings.
8. The EEC had neglected South America, (from which Ted had just returned). It was likely that the accession of Spain and Portugal to the Community would increase Community interest in South America.
9. It was absurd that the EEC had given only £1 million a year in aid to Afghanistan. The demands of the developing countries are enormous. These demands must be met by the EEC.
10. As a matter of urgency, the EEC should negotiate with the OPEC about the use of oil surpluses. These surpluses could contribute to a strategy of holding the non-Soviet world with us, by means of investing in the non-Soviet world. Unless we do this, we shall only react to events.

Questions followed:

- A. Julian Critchley asked about our Budget contribution.
Ted Heath said that one way of solving this would be by EEC investment in the UK - eg in the coal and steel industries.
- B. Jim Spicer said that he believed that the political purpose of the EEC was more important than the economic one.
Ted Heath said that "we must rouse the people of Europe" to believe in the purpose of the Community but that it was extremely difficult to do this until we had first settled our internal differences. Ted said that we could have a kind of Common Energy Policy, with taxes on energy imported from outside the Community.
- C. Nick Budgen asked whether Ted still retained his confidence in the ability of Governments to intervene effectively in industrial, monetary and energy policies and asked whether Ted still believed in Regional Policy, intervention of Governments in industrial policy and in fixed Exchange Rates.
Ted said that businessmen did not like fluctuating exchange rates and that he was in favour of fixed Exchange Rates. He said that the EEC should invest in our coal industry and in our fast breeder reactor programme.
- D. Ray Whitney asked whether, if the EEC had invested £10 million a year in Afghanistan, that would have prevented the Soviet invasion.

Ted did not answer this question but went off at a tangent saying that the Community should take a joint initiative to solving the Cyprus problem. He also said that Brazil and the Argentine were countries in which massive EEC investment was required.

E. Robin Squire, asked about the Palestine problem.

Ted said that there should be an EEC initiative to solving the Palestine problem and that we ought to talk to Arafat.

22nd January 1980

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