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EHG(L)77 Steering Brief

COPY NO 2

22 June 1977

EUROPEAN COUNCIL, LONDON

29-30 JUNE 1977

STEERING BRIEF

Brief by Foreign and Commonwealth Office

INTRODUCTION

1. This meeting takes place on the last two days of the UK Presidency and will influence the judgement of both the public and of other Member Governments on our stewardship. So far our record is regarded as mixed. The March European Council was an important success, particularly by contrast with its immediate predecessor in The Hague. It produced a substantial statement on growth, inflation and employment and agreement on the principle of the Common Fund, as well as useful progress on Steel and Japan, and a resolution of the immediate problem of Community participation at the Downing Street Summit. The Prime Minister's chairmanship and the organisation of the discussion were generally praised.
2. This was however immediately followed by an unusually bitter confrontation over the agricultural price review and a failure to reach agreement in the Research Council on JET. Both incidents led to recrimination among Member States and to charges that the UK had failed to observe the impartiality expected of the Chair. Foreign Ministers later held a valuable free-ranging discussion on enlargement at Leeds Castle; and good progress has been made towards intensifying and expanding EIB lending. There remains a wide area of disagreement between us and the majority of our partners over the revision of the Common Fisheries Policy. The picture is therefore chequered: while reasonable progress has

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been recorded across a wide range of Community business, and political cooperation has gone well, our Presidency would tend to be singled out for its efficiency rather than for its efforts to identify and promote the interests of the Community as such.

3. Our Presidency apart, other general factors setting the scene for this meeting are:

- (a) Other Member States cannot fail to view with concern the renewed discussion within the UK about the merits of British membership of the Community.
- (b) A difficult political situation is faced by a number of Member Governments: Giscard's actions are now to a considerable extent influenced by domestic weakness; the German coalition looks much less firmly based than it did a year ago; and Italy remains chronically insecure. Of the smaller Member States, the Belgians and Netherlands Governments have been strengthened by recent elections, but the Irish elections on 16 June resulted in a landslide defeat for Cosgrave who will be attending the European Council as a lame-duck Prime Minister. (It was agreed between the Irish parties that Lynch who takes office on 5 July should not attend.)

THEMES

4. On the content of the meeting, there are two major themes:
 - (i) Employment and related subjects: what can be achieved here will be to some extent dependent on the outcome of the OECD Ministerial meeting on 23-24 June, the Tripartite Conference on 27 June and the Social Affairs Council on the following day.
 - (ii) There is also scope for substantial discussion of broad foreign policy questions concerning Europe's place in the world.

In addition:

- (a) Some Member States will want to discuss North/South relations, particularly in the aftermath of the CIGC - a major tonic for the Germans at the last two European Councils.

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- (b) As demonstrated by discussion between Foreign Ministers at Leeds Castle, there is growing concern and indeed some incipient doubt in the Community about the problems inherent in enlarging the Community to bring in Greece, Portugal and Spain.

UK OBJECTIVES

5. (a) To focus on unemployment as the dominant theme of the meeting. While not ignoring the worldwide dimensions of the problem and the wider international action envisaged following the Downing Street summit, we will wish to show progress in the Community consideration of measures to deal with unemployment launched at the March European Council, with some tangible points of agreement to announce.
- (b) if possible, in the margins of the European Council, to achieve a positive orientation on the site for JET.
- (c) To have useful informal exchanges on foreign affairs topics, including North/South problems, East-West relations, the Middle East and Africa; and on enlargement.
- (d) Thus to end our Presidency on a positive note.

AGENDA

6. There will be two sessions of talks, the first beginning at 3pm on Wednesday 29 June, and the second at 9.30am on Thursday 30 June. In accordance with the pattern which proved generally acceptable in Rome we have proposed that the subjects should again be divided into those falling into the informal general discussion and prepared topics on which decisions or statements are anticipated. Foreign Ministers discussed the preparations on June 21. On the pattern of the Rome European Council, we shall be circulating an annotated agenda in advance (Annex A). The subjects agreed by Foreign Ministers are:

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- A. Specific topics (Items on which decisions may require to be recorded or agreed statements issued)
- 1) Growth, inflation and employment (Presidency draft at Annex B)
 - 2) (possibly) Middle East (draft statement at Annex C)
 - 3) European Council Procedures (briefly - Presidency note at Annex D).
- B. General Discussion The understanding is that no special preparation is required, apart from prior notification of subjects which Heads of Government wish to raise. The main subjects are likely to be:
- 1) Enlargement
 - 2) Relations with the third world, including North /South
 - 3) East/West relations
 - 4) Non-proliferation
 - 5) Africa
- C. JPT (To be raised informally over lunch on 29 June)

TACTICAL HANDLING

7. There would be advantage in launching discussion of growth, inflation and employment on the first day, so that any drafting work can be commissioned overnight on the pattern of the Rome meeting and a statement issued at the conclusion of the meeting. This would lead naturally into discussion of the world economic and monetary situation and would also fit in presentationally with our wish to have employment the dominant theme of the meeting. (The Prime Minister will be meeting representatives of ETUC and UNICE, the European Employers' Organisation on the morning of 30 June) The Belgians have said that they will wish to raise the Downing Street summit in the general discussion of the world economic situation. Our aim will be to avoid acrimonious discussion of Community competence, both in the context of the preparation of further summits of the Downing Street type and of non-proliferation. There will be advantage in seeking agreement on the first day to the statement on the Middle East. The Prime Minister may wish to raise enlargement after dinner on 29 June. Other subjects concerning external relations could be left to the second day.

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OBJECTIVES OF OTHER MEMBER STATES

8. Despite differences of approach, most Member States are likely to want the meeting to say something about employment. The Germans however may argue against highlighting the subject. Schmidt is on the defensive domestically because of his inability to counter unemployment. The French have suggested that this meeting should largely focus on political cooperation subjects, in particular the Middle East, Africa and Non-proliferation. Giscard may raise the question of protection against low-cost imports. He and Thorn may also well raise the site of the European Parliament (contingency brief provided). The Belgians have a special interest in the questions that will arise in their Presidency.

SPECIFIC TOPICS

Growth, Inflation and Employment (Brief No 1)

9. In the statement issued after its March meeting, the European Council agreed to review progress at its June meeting on a range of problems: training and employment opportunities for young people and women; the encouragement of higher levels of investment; and halting divergence and promoting convergence in the economic performance of Member States. To this end, the Commission and the Governors of the ECU were invited to seek ways of improving the effectiveness of their activities.
10. The European Council will have available the results of the Tripartite Conference on 27 June. This was a successful review of prospects and possibilities which ended with agreement on a substantial programme of cooperative studies which could later form the basis of proposals for action by Community institutions. It was agreed that this would enable the Council in due course to determine when it would be opportune to hold another Conference, no doubt within the next year.
11. The Council will also have available the results of the Social Affairs Council on 28 June to discuss the future of the Social Fund. The Commission have tabled two papers, one on specific labour market problems proposing further measures in the youth employment field to be financed by a moderate increase in Community resources, particularly the Social Fund; the other on investment /and borrowing

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and borrowing in the Community, containing a proposal for the Commission to raise market loans to finance investment in the Community. In response to the Prime Minister's letter to the FIB after the Rome European Council the FIB have proposed a widening of the scope and extent of its lending. This would take effect within the current year, and would be planned to proceed on an accelerating trend with lending rising from about one billion units of account in 1976 to 1100/1200 millions in 1977 and 1250/1500 millions in 1978. Such developments would involve the Bank in deciding some time during 1978 to increase their capital. (The Bank have calculated that they can finance the first twelve months of their new expanded programme from the unused part of their existing borrowing and lending capacity, based on the last capital increase in 1975.)

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12. The Council will want to demonstrate in its statement that these activities form part of a coherent international approach to these world wide problems, and that the work in hand is directed to the examination of results to which the Council is committed at the end of this year.

13. On youth employment, some of the Commission's proposals (eg for employment subsidies) involve extending the scope of the Social Fund in ways unlikely to be generally acceptable. Their other proposals can be implemented within the existing scope of the Fund, but the present Young People's Scheme is heavily over-subscribed. An increase in the Social Fund is technically dependent on proposals from the Commission and endorsement by the Council of Ministers and the European Parliament. The Commission would undoubtedly respond to an orientation given by the European Council which might accordingly invite the Commission to make proposals for a moderate increase in the budget of the Social Fund so as to make possible an expansion of its activities with the particular purpose of helping the unemployed young. The European Council might also endorse the Commission's present work on employment and education, and invite it to make further proposals for its development as a contribution to resolving the structural problems of youth unemployment.

14. On the Commission's proposals for borrowing, there are practical limits on the amounts which can be raised on the markets in the Community's name, which could mean that the EIB and Community schemes would be potentially conflicting. The Germans and Dutch oppose the Commission scheme; the French are sitting on the fence. As President, we shall seek to ensure that disagreement over the relative

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merits of the schemes does not become a pretext for inaction. We particularly wish to maintain momentum on the EIB initiative which we proposed in the first place. The Council could welcome the EIB's response and note that the Governors intend to decide in 1978 on any necessary increase in capital. The Commission's proposals for borrowing need further elaboration but could be of value. We should encourage the Council towards a positive approach leading to further study by Finance Ministers.

World Economic and Monetary Situation (Brief No 2)

15. While this has not been noted as a separate subject for discussion the Prime Minister will no doubt wish to broaden the discussion on growth, inflation and unemployment into a wider ranging macro-economic discussion of the type that has taken place on previous occasions. The likely persistence of oil surpluses and the divergences between a few strong economies, including the three largest in the industrialized world, and the weaker remainder, which suffer in varying degrees from high inflation and current account deficits, has imparted a deflationary bias into the world economy. Promoting growth, led by the strong countries, so as to contribute to adjustment of current account disequilibria and ensuring that adequate finance is available to deficit countries, under appropriate conditions, are crucial objectives. Progress was made by the OECD Finance Ministers on 24 June when they agreed that somewhat faster growth in the OECD area as a whole in 1978 than in 1977 should be the objective; they agreed that where necessary and appropriate action should be taken to achieve this. They agreed to communicate their preliminary objectives for growth of output and domestic demand in 1978 to OECD, which would provide the basis for monitoring progress. Community countries will play their full part in this. (The Commission have circulated a paper on the economic situation in the Community as background to the discussion.)

16. Giscard may return to his concept of "controlled liberalism" in world trade, on which he got short shrift from the Germans and others at the Downing Street summit. The French are worried about Japanese industrial competition and other low-cost imports. They have recently tried to take action of doubtful legality
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against certain textile imports. On the general question, our line can be as in the Downing Street communique (that protectionism fosters unemployment and the multilateral trade negotiations should be pursued, while maintaining the right of countries under existing international agreements to avoid significant disruption); and (if necessary) that action against low-cost textile imports should continue to be taken on a Community basis and in such a manner as not to jeopardise current multilateral negotiations (Brief No 2 - Annex).

Community Participation in Future Economic Summits (Brief No 3)

17. We should try to avoid discussion as a separate topic of Community participation in the follow-up and preparation for further Summits of the Downing Street type. But Belgium will wish to raise the matter and is likely to be supported by the other smaller members of the Community and the Commission. It is recommended that the Prime Minister should take the line that it is his understanding that the Commission should be invited to participate in the next meeting of the Carlton Group (which is charged with the overall monitoring of the Summit pledges) for those topics which fall within Community competence and that follow-up on other specific issues will be carried out within existing international organisations (e.g. OECD, IMF, IBRD). We thus hope to defuse the kind of dispute which preceded the last European Council.

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Joint European Torus (JET) (Brief No 4)

18. We have informed the other Member States that the Prime Minister intends to raise informally over lunch on 29 June the question of the site for JET. Our aim will be to achieve a general orientation. Technically, any formal decision on the site, management and Joint Research Centre (JRC) would have to be taken by a Ministerial Council during the Belgian Presidency. The possibility of progress will depend on Schmidt's attitude. Our aim will be to emphasise our desire that a positive decision should be taken to go ahead with JET; that, after four years' membership of the Community, we still have no Community institution in the United Kingdom; and that the existing JET design team is at Culham in Oxfordshire. It would not be usual within the Community for an issue of this importance to be decided by majority vote: our object will be to try to achieve a consensus in favour of Culham. The Prime Minister may wish to indicate tactically that we will be prepared to lift our reserves on the Joint Research Centre (JRC) programme at Ispra, if this helps towards a positive decision on the site. The Italians will not be willing to discuss JET without dealing also with the JRC. If the question of the use of tritium is raised by the French, there is no impediment to this under present UK legislation. If it is clear that no progress can be made, our aim will be to avoid a decision against Culham or to abandon the project. The Prime Minister might express regret that it has not been possible to settle this question during our Presidency; and say that it will therefore have to be remitted to a Council under the Belgian Presidency.

/European Council

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European Council Procedures (Brief No 12)

19. While there was general agreement at the last European Council with the broad pattern of arrangements followed in preparing and conducting the meeting, the discussion of procedures ended in a remit to Foreign Ministers to consider certain aspects. When they did so only the French showed any disposition to pursue the matter. Bilateral discussions have been held to clarify their concern, and a brief note has been circulated to other Member States (Annex D) taking account of French comments on the paper we circulated in March. It is to be hoped that Heads of Government will accept this as a practical basis for future arrangements without getting drawn into a long argument on underlying points of philosophy. If the document gives rise to much discussion, further work could be remitted to Foreign Ministers.

Middle East (Brief No 10)

20. It was originally at French instigation that the Middle East was included in the draft agenda for the European Council. It has been agreed that Political Directors should, in the margins of the European Council up-date as necessary the draft statement on the Middle East so that the way will be open for the European Council to issue a statement if the heads of government so decide; we ourselves hope to get agreement for two minor modifications to the text (as indicated in Annex C). The Nine are aware that the Americans have been consulted, but in view of French susceptibility it might be better not to labour this point.

Enlargement (Brief No 7)

21. The Prime Minister has suggested raising the question informally, perhaps after dinner on 29 June. The Prime Minister may wish to say that enlargement was discussed by the Foreign Ministers at their informal meeting on 21/22 May at Leeds Castle; and ask if anyone has any particular points to raise. (A speaking note is provided in Brief No 7). There may be no need for much further discussion, though the President of the Commission may wish to report briefly on the negotiations. Wine, fruit and vegetables represent 60% of agricultural production in the south

/of France

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from 1 January 1978 on condition that the change would not affect our budgetary contribution. The Commission have supported us, but most member states, led by Germany, have advocated a different interpretation which on the Commission's calculation could increase our budgetary contribution in 1978 and 1979 by over £470 millions. The Chancellor of the Exchequer has told EEC Finance Ministers that this is completely unacceptable. We should aim to persuade the Heads of Government to accept our point of view, though it may well be resisted by Schmidt and Giscard. (An alternative, if we cannot get a satisfactory interpretation of Article 131, would be to aim for postponement of the new unit of account until 1980. To the extent that this is possible we should seek to persuade others to come forward with this solution - though it is not likely to be acceptable to the Commission or the European Parliament. In case the Dutch or Danes should raise the general complex of VAT/own resources/unit of account problems, these are dealt with in the Annex to Brief No 16.)

EUROPE PLUS THIRTY (Brief No 17)

27. The President of the Commission will expect to have the chance to make a statement on the role which he sees for forecasting within the Community. He is disposed to establish some form of "think tank". Our line is to encourage the Community to have a sensible discussion of practicable proposals. This matter has arisen in the context of the elaborate proposals on forecasting in the Community in Lord Kennet's "Europe Plus Thirty" report.

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CONTINGENCY BRIEF

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FISH (BRIEF NO 13)

28. The special Council of Agriculture Ministers to discuss fisheries was held on 27 June. The discussion on the internal regime was amicable, but confirmed the wide area of disagreement between ourselves and the majority of our partners. It will be resumed in July. If another Member State should raise the Common Fisheries Policy at the European Council, our aim will be to stress the political importance of this issue to the United Kingdom, and to have it referred back to the Council of Ministers. At the Council, discussion broke down on the Commission's proposals to extend the ban on herring fishing in the North Sea. Britain and the Commission stood alone in arguing for the ban in the interests of conservation. Other Member States wanted limited quotas. We may wish to exercise our right to introduce national measures (a decision will be taken on 28 June). Our line in the European Council should (if necessary) be to stress that our position is based on genuine conservation needs and is non-discriminatory.

Site of the European Parliament (Brief No 19)

29. Giscard and Thorn have let it be known, as a last minute addition, that they are likely to raise this question to pre-empt a rumoured attempt by the European Parliament to acquire premises in Brussels. Both have vested interests in defending the status quo whereby the Parliament meets in Strasbourg and Luxembourg - unless of course they could get it agreed that the site should be in their own country. While the UK has been careful not to take sides in this argument hitherto, there are good practical arguments for ending the expensive and time-consuming shuttle between Strasbourg and Luxembourg, as most members of the Assembly strongly desire. We need not be too hasty to fall in with French and Luxembourg wishes on this, particularly if they have not been helpful to us on other issues. It must however be remembered that under the Treaty any decision on the seat of the institutions requires unanimous agreement of the member states.

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of France as well as being important in Italy. Both countries fear increased competition following enlargement, especially if Spain comes in. However, they are not at this stage likely to question acceptance of the principle of enlargement. It is important that any discussion should remain confidential and unattributable and not create political difficulties with the applicant countries. It has been agreed that there should be no formal statement; but the press might be told that the Council had taken note of the continuing work in the Community and had reaffirmed the principle of enlargement.

Relations with the Third World (Brief No 6)

22. Member States would no doubt welcome an account from the Prime Minister of the Commonwealth Heads of Government meeting, especially on North/South issues. The Germans will wish for a discussion of North/South questions in the aftermath of the CIEC; but it does not at present appear that any decisions by the European Council will be necessary. Schmidt may focus attention again on the paucity of Soviet economic aid for the third world.

East/West Relations (Brief No 8)

23. The Prime Minister could invite President Giscard to brief his colleagues on Brezhnev's visit to Paris. This might appropriately lead on to general discussion of the current state of East/West relations. Specific discussion of the official-level Belgrade CSCE Preparatory Meeting is unlikely to be required though the smaller Member States may raise questions about Community representation in Belgrade. There may also be further discussion of human rights issues in the East/West context, although from the UK point of view there are no new points to be made. The Italians may want to say something about China: Siemor Forlani will have been there on a visit. Schmidt can be expected to emphasize three points in discussion: the importance of a common strategy in Belgrade to isolate the Russians and East Europeans; the importance of bringing them into future discussions on the North/South dialogue; and his familiar views on the handling of human rights.

/Non-Proliferation

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Non-Proliferation (Brief No 11)

24. The French first suggested that this should be on the agenda. The suggestion is that President Giscard wants to engage the smaller members of the Nine on the lines of thinking developed by their larger partners during the Downing Street summit. It should perhaps be left to Giscard to take the lead. We do not want to see the Community as such involved in the seven nation preliminary analysis agreed by the Downing Street summit. But the question of Community participation arises also over the substantive study - the International Nuclear Fuel Cycle Evaluation Programme (INFCEP) - which will follow. We believe that all Member States who have something to contribute should participate in INFCEP, together with the Commission. But French motives may also involve a desire to rally Community support for the position they are fighting for vis-a-vis the Americans in the seven nation group. On this we have some sympathy for the French (and German, Italian and Japanese) wish to get assurances from the United States and the Canadians that they will not, while INFCEP is going on, operate nuclear export policies of such a restrictive nature, as on reprocessing, as to damage others' nuclear energy programmes. But we must be careful to avoid an appearance of engaging up against the Americans.

Africa (Brief No 9)

25. The Prime Minister's account of the discussions at the Commonwealth Heads of Government meeting in the North/South context could lead into a discussion of African questions. This would provide an opportunity to consider the position reached on Rhodesia and Namibia. It may also be necessary to refer to Uganda. The French, who originally suggested that Africa should be discussed at the European Council, may wish to raise the situation in the Horn of Africa.

Article 131 (Brief No 16)

26. The Prime Minister is recommended to raise in the margins of the meeting, particularly with Herr Schmidt, the question of our budgetary contribution (Article 131). We accepted the proposed introduction of the new European Unit of Account (EUA)

/from 1 January

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30. Some of the Prime Minister's colleagues may ask about the position on direct elections (Brief No 14). A contingency brief is also provided on the CAP (Brief No 15), and a short general speaking note on the Commonwealth Heads of Government Meeting, should the Prime Minister wish to draw on this (Brief No 18).

FOREIGN AND COMMONWEALTH OFFICE
28 June 1977

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EUROPEAN COUNCIL, LONDON
29/30 JUNE 1977
STEERING BRIEF

Brief by Foreign and Commonwealth Office
CORRIGENDUM

Annex A should now read:

EUROPEAN COUNCIL : ANNOTATED AGENDA

- A. Specific Topics (Items on which decisions may require to be recorded or agreed statements issued) BCH
- Growth, Inflation and Employment
Papers: (a) Commission paper on investment and borrowing (COM(77)300 Final)
(b) Commission paper on Community action in the labour market (COM(77)301 Final)
(c) Letter from Chairman of the Board of Governors of EIB to President of the European Council dated 20 June.
(d) Presidency draft statement on Growth, Inflation and Employment.
 - (possibly) Middle East
Paper: Draft statement in preparation by Political Directors. ?
 - European Council Procedures
Paper: Presidency Note.
- B. General Discussion
The subjects which have been proposed include:
- Enlargement - 7
 - Relations with the Third World, including North/South dialogue - 6
 - East/West Relations - 8
 - Non-Proliferation - 11
 - Africa. - 9
- C. It has also been agreed that JET should be raised informally, leaving formal decisions to be taken by a subsequent meeting of the Council.

Foreign and Commonwealth Office
24 June 1977

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