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Date 4 December 1980

EUROPEAN COUNCIL 1/2 DECEMBER

1. I agreed with Paul Lever that I would try to put together a compos informal record in note form of proceedings at the European Council in Luxembourg drawing on the Secretary of State's notes and the notes which I made myself during the Council from briefings from other delegations (mainly the Dutch: Van der Klaauw is a prolific note-taker).

2. I make no claim for the authenticity of these notes where they go beyond the Secretary of State's own notes. I also cannot guarantee always to have interpreted his notes correctly. I had no information to add to the Secretary of State's account of the discussion on the Middle East, so I have not tried to do so. Equally I have not attempted to record the de-briefing from the Prime Minister and the Secretary of State on their dinner conversations, on the assumption that Private Secretaries will have recorded whatever they judged necessary. But I still have the notes I took at the time should there be a need to refer to them.

3. So à toutes fins utiles...

J A Shepherd

cc: P Lever Esq, APS/S of S, FCO

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Type 1 +

SECURITY CLASSIFICATION

Top Secret,
Secret.
Confidential.
Restricted.
Unclassified.

To:-

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER

From

Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

Informal Record1 DecemberA. IntroductionWerner opened the meeting by:

(i) welcoming the Greek Prime Minister

(ii) announcing his intention of dealing first with the Italian earthquake, then discussing the economic and social situation until 6pm, when he would invite M Thorn in for the discussion of the Middle East.

B. Italian EarthquakeForlani gave the following figures: 5000 dead, 1000 injured and 300,000-400,000 homeless. Grateful for immediate help. No final estimate of the cost of reconstruction could be given, but a figure of 10,000 bn lire (\$12 billion) over 2 years seemed likely. Community support for reconstruction (not emergency relief) would be welcome. He suggested that Italy's requirements be studied and that the Commission make a proposal.Werner accepted procedure suggested: the Council would deal with the issue. Giscard expressed solidarity.C. Economic and Social SituationOrtoli gave standard review of the economic situation./ Haughey

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Haughey stressed need to do more about unemployment - the highest priority. More investment needed. Commission should propose new ideas as soon as possible. Community loans should be available for wider range of investments. Common agricultural policy vital: must not be interfered with. Farmers must get decent prices at once.

Van Agt suggested joint meeting of economic, financial and social affairs ministers to tackle economic situation. It would raise expectations and so needed thorough preparation. Commission document required. Would take time: not necessary to hold meeting in first half of 1981.

Giscard said economic situation worst since founding of Community. Competitiveness of Community weak. UK interest rate policy make things more difficult. Remedy in our own hands. EMS could help. So could international trading agreements. A further increase in oil prices would be a disaster: unacceptable damage to our economies. Oil producers not too unwilling to discuss problem. Intensive diplomatic contacts needed: action would be needed within the next two weeks. (Comment: at least one French language paper reported this as action on stocks as decided by the Energy Council on 27 November.)

Jorgensen agreed with Haughey on the need to give priority to fighting unemployment and criticised the lack of a Community energy policy. EMS was in good shape. He hoped the UK would soon become a full participant. In agriculture the principle of Community financing must be maintained.

/Forlani

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Forlani agreed with Giscard on energy prices and stressed need to reduce production costs. National measures against economic problems were no longer sufficient. Three priority objectives:

- (i) increase employment
- (ii) fight inflation
- (iii) reinforce links with ldc's.

Schmidt analysed the consequences of the oil price increases: a) for ldc's - disastrous; b) for OECD countries - no increase in demand, too high rates of interest, stagnation of production, real prices of our exports falling, oil rising, all leading to higher unemployment. All except UK had balance of payments deficit. These deficits would get worse and OPEC surpluses bigger. The role of oil in our economies should be reduced; non-energy intensive investment should be given priority. This restructuring would cause unemployment in short run. All this brought danger of protectionism, which would lead to chaos. OECD countries and non-oil producing ldc's must fight nonsensical oil price increases. The Saudis were showing signs of being willing to cooperate. The world could not survive a third oil price explosion.

Prime Minister Greatest danger a further increase in oil prices. UK buys and sells at market prices. Need to face up to OPEC, a number of whose members were beginning to realise things could not go on as they were. Trading patterns had changed. We faced exports from Korea and

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Japan of products we used to export to them. Cheap energy in the USA gave US chemical industries an unfair advantage. Joint meeting proposed by Van Agt could be dangerous. There were no magic solutions. Priority areas: i) To expand trade. Community should call for world-wide free and fair trade. Even in Community this was a problem: insurance, air fares. Commission should examine this; ii) Domestically, the fight against unemployment must continue, with relief measures especially for the young; iii) Competitive position must be improved by improving productivity.

Martens supported Dutch proposal and explained his government's efforts to restrain incomes.

Jorgensen said that OECD and oil producers should cooperate; this would also help ldc's. Oil producers should be persuaded to lend to ldc's, so that they could buy from us. Referred to Kreisky's ideas and Brandt Report.

Ortoli expected a slight increase in world trade. European policies could not replace national policies. There was no magic formula, though coordination would help. Policies were needed to reduce balance of payments deficits, though these risked being deflationary. He was pessimistic about prospects for a dialogue with oil producers as a group: individual countries should be approached. On monetary matters he hoped the Central Bank Governors could do something to improve interest rate coordination; he acknowledged that incorrect value of currencies of some major trading partners presented a problem. The Community should beware of long-term loans

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for balance of payments support. He doubted whether the EC Budget could have a major economic influence - its limits were narrow, some modification was possible, but it was an illusion to think in terms, say, of doubling the size of the Social Fund. To the extent that structural adaptation was possible, it should be directed at energy-saving.

Giscard said that since the Community could evidently not exert any pressure on the oil producers this would have to be done bilaterally. A Kreisky-type "Marshall Plan" for the Third World was unrealistic.

Schmidt argued that recycling was now of limited value. The Third World could absorb no more loans. Industrial countries could continue in present conditions for a few more years. The Third World could not. The oil producers must give them grants or there would be famine with millions of dead. Summits (? Mexico) could help by making these arguments clear to oil producers and Third World.

Werner in a first summing up, singled out the following themes for communiqué: i) fight against inflation; ii) need to exploit opportunities offered by Community; iii) need not to forget agriculture in the less-favoured regions; iv) the NL suggestion for Economic Financial and Social Affairs ministers to meet; v) the need to reaffirm statements on oil prices.

Schmidt said that the public must be made to understand the limits of governments' ability to act (the oil price increase not fault of Community or governments). He argued for concentration on domestic energy production, ie nuclear energy. Giscard agreed. There must be less dependence

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on oil. No solution to economic problem without solution of oil problem. He also argued against reducing working hours. Prime Minister agreed with Schmidt and Giscard.

D. EMS

Ortoli said there could be no second stage next year. Giscard agreed with the Commission: EMS had not done badly. Schmidt agreed. The DM had hit the lower limits as forecast but it would not remain there. He was worried about interest rate differentials.

E. Innovation

Jenkins introduced Commission paper. Giscard suggested creating a Commission portfolio on this. Jorgensen argued that productivity was increasing anyway, and that working hours should be shortened.

Prime Minister noted astonishing weight of research by Japan. Europe must commission more. If not we would be unable to compete. The Commission paper had no conclusion. More emphasis on innovation essential. Next Commission paper should have some practical conclusions. Schmidt thought Presidency conclusions should cover innovation.

F. Restructuring

Schmidt was concerned that the new Commission should be aware of the need to respect the 1% VAT ceiling. Jenkins, dissenting, pointed out that the mandate could not be changed. Giscard said that the mandate need not be changed but that the communiqué should mention fact that some member states insisted on respect for the 1% ceiling. Haughey and Jorgensen agreed that the mandate should not be changed. Forlani thought it

would be wrong to lay down a prohibition on breaching the 1% ceiling. Giscard stressed the need to avoid ambiguity. He could not accept anything beyond the 1% limit.

G. Middle East

(See Secretary of State's note)

2 December

H. Mr Jenkins' Report

Jenkins listed the Community's achievements during his 4 years in the office: EMS modest but substantial; a directly elected Parliament - governments must treat it with reasonable respect; the negotiation of Lomé II; resistance to protectionism; trade negotiations with some success with USA, with less success with Japan; completion of Greek accession (though negotiations with Spain and Portugal still in progress); political cooperation doing well. A reasonably good record, but apprehensive about the future. There was no consensus in the Community on how to move forward nor on what we meant by European Unity. The present situation within the Community would not last since it benefitted some and not others. He was pessimistic about a reduction in the real cost of the CAP. He thought the 1% ceiling should be held until agricultural spending was under control, but after that it would be impossible. An increase in total expenditure was inevitable, but it might be better to have some revenue-raising mechanism other than a higher VAT percentage. Turning to institutional matters, he stressed the need for the Court to be obeyed: if the law was not

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acceptable to Member States it should be changed. The European Council was working well, but it had taken power away from the General Affairs Council which was working badly because, a) too many people attended; b) it involved itself in too much detail, and, c) poor ministerial attendance. COREPER had also become bogged down in detail. The Commission was a small organisation, too small for its task and too rigid. The suggestions in the Spierenburg report needed to be put into effect as soon as possible. The Commission was also not sufficiently trusted by the Council. Finally, he expressed his gratitude for the privilege of having served as President. His early idealism had not survived but he had retained his deep faith in Europe.

Giscard said that EMS was a more than modest achievement and that the European Council was a very important institution. The nature of the Community had changed with enlargement and would change further. The Commission had helped to overcome these difficulties. But the constant struggle between the institutions too keen on empire building was an irritation. The Parliament should confine itself to those matters which were within its competence. Much work was needed during the next 4 years to improve the functioning of the institutions. Externally the Community's economic relations needed to be simplified. There was a confusing profusion of different forms of association with third questions. Political cooperation worked well. He gave as examples Venice, Afghanistan, and Poland. But in circumstances of tension there were differences of analysis. He summed

up with the phrase, "l'Europe n'a pas reculé".

Jorgensen referred to Jenkins' plea for trust in the Commission. The Commission caused problems for itself by making proposals which were disadvantageous to one or another Member State. There was no underlying lack of confidence.

Schmidt noted that since the days of Hallstein the Commission's approach had (Gott sei dank!) become less supranational. The Member States wanted to retain their national identity as the debates in their Parliament showed. They would not accept dictation from the centre but would not quarrel with the need to coordinate policies. We were far from European Union - and no one knew what that meant. The General Affairs Council was too weak, partly because there were too many specialised Councils. There were also too many bureaucrats, and there should be only one Commissioner per Member State.

I. Three Wise Men

Van Agt supported the suggestion that the President of the European Council should report to the European Parliament on meetings of the European Council and thought it inevitable that there would be only one Commissioner per country.

Francois-Poncet did not agree that the European Council President should appear in Parliament, but Colombo supported the idea. Van Agt argued that nothing in the Treaty prevented it. Prime Minister suggested that each Presidency should decide for itself how to inform the European Parliament. The UK would be willing to look at the number

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of Commissioners. Giscard said he would not agree (? on EC President/EP or number of Commissioners - not clear).

J. New Zealand

Prime Minister mentioned need to resolve New Zealand butter issue. The issue was of great importance and urgency for them. Van Agt gave full support. So did Jorgensen.

(No French or German spoke: see FCO telegram number)

K. North-South

Van Agt raised North-South issue briefly, but there was no discussion.



- 8 DEC 1980