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PRIME MINISTER

European Council : 1/2 December

Michael Franklin has produced the
attached draft speaking note for your use
at the European Council. You may like to
discuss it with the Foreign Secretary and
other members of your party in the aircraft
on the way to Luxembourg.

JWF.

28 November 1980

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EUROPEAN COUNCIL 1/2 DECEMBER

Draft Speaking Note

Part I (for use in general debate on economic and social situation).

1. Rising level of unemployment is a matter of deep concern to us all. But it must not deflect us from our agreed strategy to cut inflation and restore conditions for sustained growth. We have succeeded in substantially narrowing the gap between UK inflation rate and Community average.
2. We must not raise false hopes that a magic wand can reduce unemployment in the short run. Remedial measures should be specific. We are concentrating our help on young people (just decided on measures for 1981/82 costing an additional £250 million in spite of public expenditure stringency). Also value help from Social Fund.
3. At a time of recession, all sectors of the economy are under pressure, but industry is more likely to shed labour than agriculture, which enjoys protected markets. More support for one sector can only be at the expense of another.
4. Recession also brings pressures for import restrictions. We can only resist general protectionism if the Community reacts as effectively as other developed countries in dealing with import surges and unfair trade. Welcome declaration on Japan adopted by Foreign Affairs Council on 25 November. Japan wants to co-operate politically with Europe. A necessary corollary is that Japan

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adjusts her trading policies. The gap on visible trade is widening. Previous initiatives have not produced adequate results. The Japanese must be put on warning by the Community acting solidly together.

5. Our trade relations with the USA may also be entering a difficult phase. Nothing would help more than a commitment from the new Administration to move rapidly to world levels for oil and gas. Coupled with the low dollar, the present US price controls are having a devastating effect on the textile industry and damaging the chemical industry. We shall have to step up concerted Community pressure.

6. In a robust defence of our trading interests, we cannot ride roughshod over those countries to whom we have obligations. Since the UK joined, there have been several battles over access for New Zealand dairy products. The Western world needs the stability of New Zealand in the South Pacific. Her economy is very vulnerable. Since 1973 her access to the UK butter market has been reduced by more than half. Greatly disappointed that the Foreign Affairs Council did not resolve the issue last week. A decision is long overdue. The Community risks being in breach of its commitments unless satisfactory arrangements are agreed within the next week or so. I am not prepared to see the Community let New Zealand down.

/Part II

Part II (which could run on or be reserved for a second intervention after Mr. Jenkins has made his report).

7. Internally, the Community faces financial stringency, as do we all nationally. We cannot contemplate voting the Community more resources when we are trying to cut public expenditure at home. The Community must live within its means. This adds urgency to the mandate given to the Commission to suggest how the budget should be restructured. It will be time enough to debate these matters when the Commission have reported. But no doubt that this should be a priority task for the new Commission - to exercise its imagination and to stick to the timetable.

8. We must be careful that decisions we take in the meantime do not make the problems worse. In particular, the share of the budget taken by agriculture is already too large. The money available next year and for 1982 will be very limited. I agree with Chancellor Schmidt that our Finance Ministers should be invited to explore ways of determining in advance how the Community's expenditure devoted to agriculture in 1981 can be limited.

9. Only by making economies in agriculture can we provide room for other policies (social and regional funds, coal, transport, urban decay); and for the financial consequences of enlargement.

10. We must look for new policies which do not cost money. Struck by the lack of progress in removing internal barriers

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to trade; especially in the field of services. For instance, a draft Directive on the provision of insurance services has been on the table of the Council since 1975. Surely we should bring that quickly to a decision? Or take air traffic. Not suggesting immediate de-regulation. But the air traveller needs a better deal in Europe. Can we tell the Council to get on with it?

11. Progress on issues like these would help to improve public image of the Community. High sounding declarations by this Council will not help, but practical steps. No doubt about this Government's commitment to the Community. Help to carry public opinion if we are seen to be behaving sensibly - not pretending we can achieve more than we can; cutting our coat according to the cloth; but doing what we can do together effectively and well.