

E.R.
PRIME MINISTER

EUROPEAN COUNCIL

The briefs for the European Council have inevitably been considerably amended and, I fear, expanded in the light of developments during this week. You will wish to keep any additional reading to a minimum, but I attach a note by Sir Roy Denman about the Agenda, (Flag A) which you may find useful as a basis for any discussion with the Foreign and Commonwealth Secretary on the aircraft tomorrow morning.

The main tactical question which you will wish to discuss with Dr. Owen tomorrow is how to handle the question of Community representation at the Downing Street Conference. I attach a report (Flag B) on Dr. Owen's contacts with Foreign Ministers today, but you should know that we have also received an indirect message from Chancellor Schmidt advising you to try to persuade the smaller countries to accept that there should be no formal discussion on the question at the European Council and that any reference to it should be deferred until tomorrow evening's dinner. I attach at Flag C a note by Sir Roy Denman on the subject, but Dr. Owen will no doubt take this into account in talking to you tomorrow.

I also attach a full annotated programme for tomorrow (Flag D).

24 March 1977

PHW
(I have also prepared some cards, which
I have put in the box - they
are not quite complete)



QZ 0534

MR PATRICK WRIGHT

cc Mr Fergusson
Sir John Hunt
Sir Michael Palliser
Sir Donald Maitland
Mr Hibbert
Mr Butler
Mr Pearson
Mr Fretwell

EUROPEAN COUNCIL ROME

I have submitted separately on Community representation at the London Summit. Perhaps in this minute I could summarise very briefly the state of play on the other main issues.

a) Agenda

The French Embassy gave us on 22 March a "non paper" on the European Council agenda. The only substantive differences between their paper and the annotated agenda which we have circulated is that the French want enlargement included and that "growth inflation and unemployment" figure among the subjects on which the French want no public statement. Sir Donald Maitland took action on this in COREPER yesterday making it clear that our annotated agenda stands, that the French non paper is not an official document, that President Giscard will be free to raise enlargement at an appropriate point in the informal general discussions and that in relation to "growth inflation and unemployment" Heads of Government will no doubt decide themselves whether to issue a statement bearing in mind the draft which we as the Presidency have now circulated.

b) Japan

COREPER yesterday took note of the Commission report and approved the contingency draft statement produced by the ad hoc group for submission to the European Council. This draft will therefore go forward to the European Council. Some Member States will argue against it being issued - in the view, for example, of the Netherlands a statement might do more harm than good. The Belgians on the other hand will support a statement on these lines. The essential point here



is that having brought the matter up at the European Council last November in The Hague it would seem odd for this European Council to make no reference to the subject, although of course great care has been taken to draft something which will not seem provocative to the Japanese.

c) Steel

COREPER considered yesterday the Commission report together with its draft resolution for the European Council in the light of a presentation by Commissioner Davignon. Some delegations were favourable to the resolution in its present form while others expressed reservations on it. It is clear that the Germans in particular will be opposed to a statement as extensive as that put forward by the Commission and it should not be too difficult for us to secure our aim that the Council should simply issue a brief statement noting the serious situation in the steel industry and proposing that the Council of Ministers should give early consideration to Commission proposals.

d) Growth, inflation and unemployment

There has been a generally favourable reaction to our paper and draft statement in European capitals (there was no substantive discussion yesterday in COREPER). But we may have trouble on this with the French and Germans. The French may argue that the gist of our proposal would be more suitable for Presidency press briefing than for a statement; that more emphasis should be given to the fight against inflation. They may be in favour of expanding the activities of the European Investment Bank, and that EIB loans might be directed more towards the countries in need; but they may resist any suggestion that they might be used for exchange rate guarantees. In general they seem unlikely to be prepared to put much pressure on Schmidt to reflate. And while the Germans apparently at official level expected stronger stuff from us "Herr Schmidt his officials say may think our draft a bit Keynesian". And the proposed increase in EIB capital may cause them difficulty.

e) CIEC

There are several difficulties here. We do not know as yet the reaction of Chancellor Schmidt to the message which the Prime Minister sent him arguing against his desire to postpone substantive discussion to the London Summit. But he may well return to this theme (as well as a Stabex scheme) And the Dutch show signs of running out on the Community position on the Common Fund. Perhaps, if this is convenient, we could arrange a short oral briefing session on this item during the plane journey.

C

ROY DENMAN

24 March 1977