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EUROPEAN COUNCIL, LUXEMBOURG  
27/28 APRIL 1980

**STEERING BRIEF**

Brief by the Foreign and Commonwealth Office

**INTRODUCTION**

1. This is the first European Council of the Italian Presidency, postponed from 31 March/1 April. The second will be in Venice on 12/13 June; the third of the year on 1/2 December under Luxembourg Presidency.
2. The Council will be dominated by the UK budget problem, though Iran (particularly) and Afghanistan could take up a certain amount of time.
3. The timetable for the meeting is at Annex A.
4. There are meetings of Finance, Foreign Affairs and Agriculture Councils on 21/22 April. Briefing may need to be supplemented after them.

**AGENDA AND DOCUMENTATION**

5. There is no formal agenda. The Presidency have proposed the following subjects for discussion. Relevant documents are shown under each item.

(1) Economic and Social Situation

Commission Paper. Discussion will cover also the Commission Report on the European Monetary Fund.

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- (2) Convergence and UK Budget questions  
Commission Papers of 5 February and 20 March.  
Draft Presidency Conclusions.
  
- (3) Energy  
Commission Paper.
  
- (4) Three Wise Men's Report  
Interim Presidency report.

There will also be discussion of political cooperation subjects (in particular Iran, the Middle East and Afghanistan).

6. Each Head of Government is free to raise other subjects. It is now clear that the Council will discuss subjects which others regard as related to the budget. especially fish, energy and sheepmeat. (on all of which the Dublin Council recognised the need to reach rapid Community solutions) and CAP prices. The French have taken the position that any solution to the UK budget problem should be accompanied by solutions to other outstanding problems, especially CAP prices, sheepmeat and fisheries. Access for New Zealand butter and EMS may also be raised.

7. The order of discussion will be for the Council itself to settle. The Prime Minister can expect Signor Cossiga's support in getting the budget taken at an early stage and given priority (see para 14 below on tactics).

**UK OBJECTIVES**

8. Our main objective is to get firm decisions providing an adequate and durable reduction in the UK net contribution to the Community budget with effect from 1980, including agreement on a revised 1975 Financial Mechanism, supplementary Community expenditure in the United Kingdom and a commitment in principle on restructuring the budget; and to ensure that specific directives are issued to appropriate Community bodies for formal decisions and implementing action to be taken within a brief timescale.

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9. On issues raised by others in relation to the budget, our general objective is to deal with them on their merits and, in certain cases where we might make concessions, only to do so if we are getting satisfaction on the budget and to keep such concessions to the minimum.

10. Our objectives on other main items are:

(a) to avoid detailed discussion of the Wise Men's Report and to have the main decisions remitted to the June European Council;

(b) to limit as far as possible time spent on EMF:

(c) to avoid Commission proposals for a common energy policy getting entangled in the budget negotiations, but to make clear our willingness to work with our partners and to welcome indication of Commission thinking, while avoiding commitment until there has been an opportunity for careful study.

**OBJECTIVES OF OTHER GOVERNMENTS**

11. There is a general wish among all governments to get the budget out of the way so that the Community can tackle the major political and economic problems it faces externally, but in a way that enables them to claim they have protected Community principles. They want to leave the June Council free inter alia to prepare for the Venice Economic Summit. Some at least are seeking specific concessions to be won from us in areas of interest to them (for details see paras 26-33 below) while all will want, for domestic political reasons, to be able to point to some benefit to themselves from the Council. There may be scope for turning any linkages made by others to our account.

12. On the budget, while our partners are now seriously working for a settlement, they will want one that:

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- (a) limits the cost to themselves;
- (b) can be presented as communautaire;
- (c) puts a time limit on any solution.

Italy and Ireland will be pursuing their frequently expressed wish not to have to contribute to a UK budget settlement. And Italy will be seeking to increase its receipts.

13. Our partners' main interest in Wise Men, EMF and Energy is that they flesh out the agenda so that the Council will be seen to discuss more than the budget and political cooperation. Their interest in these subjects may be less if Iran is a major item of discussion. The Benelux are disappointed that France and Germany have apparently agreed that the introduction of the EMF scheduled for 1981 should be postponed.

**TACTICS**

14. It will be essential to get the budget problem properly discussed early on the first day and firm guidance agreed on points which can then be turned into precise language by officials overnight. The more ground made on the first day the better.

15. By the time the Council meets there are likely to be draft Presidency Conclusions on the budget and related subjects. It may be necessary to remind other Heads of Government that, while we are ready to see progress on all issues in the same timescale, what we might agree to on the other subjects is closely related to the solution to the budget problem. The handling of CAP prices may be particularly difficult; the situation on the day cannot yet be foreseen.

16. Iran and the post-Afghanistan situation may compete for Heads of Government's attention at the expense of the budget problem. The best tactic might be to ensure that Foreign Ministers, all of whom are expected to be present, should tackle political cooperation subjects separately.

/SUMMARY OF BRIEFS



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SUMMARY OF BRIEFS

ITEMS DEFINITELY FOR DISCUSSION

Economic Situation in the Community (Brief No 9)

17. On this occasion, this routine item will give an opportunity to explain the Government's economic strategy following the budget and our very poor economic prospects (eg. an expected 2% fall in GNP against up to 2% rise for most of the rest of the Community; Denmark is the only one of our partners expected to experience a fall in output other than the UK). There will also probably be the usual discussion of the world economic and monetary situation. In this context there may well be a suggestion that the European Council should give some kind of commendation to the Report of the Brandt Commission or endorse its proposal for a North/South summit of about 25 nations. We should seek to avoid both suggestions but need not stand out alone against them (Brief No 19).

18. The Presidency intend to consider the Commission report on EMF (Brief No 11) under this item. Heads of Government agreed in Dublin that the EMF should be set up on schedule (March 1981), but the French are unhappy about this timetable. They and the Germans are likely to be on the defensive. The French have suggested discussion of this item should be subsumed in discussion on the economic and social situation. Our main concern is that, if EMF is discussed, it should be after a first discussion on the budget problem. There is no reason to become closely involved in discussion ourselves and we could accept any likely consensus on the timetable. It is possible that it will give rise to consideration of our own attitude towards EMS (see para 33 below).

19. There may also be discussion under this item of the employment and social situation in the Community. The Dublin meeting called for 'specific measures on the employment problem'. None are ready for consideration. We and the Germans are critical of recent Commission proposals (Brief No 10).

/Budget/Convergence (Brief No 3)



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Budget/Convergence (Brief No 3)

20. The conclusions of the Dublin European Council pointed the way to a three part solution:

- (a) revision of the existing Financial Mechanism;
- (b) increased Community expenditure in the UK; and
- (c) longer-term restructuring of the budget (the main aim of which would be to reduce the proportion absorbed by the CAP and to release resources for other Community policies).

The Commission's Paper of 20 March proposed a solution on these lines and contained detailed ideas on (b) including the proposal that extra expenditure should be on the basis of a new regulation under Article 235.

21. Work since the Council was postponed has proceeded on these lines. Our partners are not raising major issues of principle about the method and even the French are not contesting the principle of spending funds in this way. It will be desirable to leave as much of the running on the method and the availability of sufficient projects and programmes in the UK to the Commission who are likely to give us firm support. The main battle will be over the amount, duration and 'dynamism' of increased Community expenditure. Any solution must be both adequate and durable. So far indications are of a greater willingness to move towards us on the amount than on the other two aspects. It is likely to be necessary to make it clear that a fixed sum, three year solution is not acceptable and is a recipe for the re-emergence of the problem in the period leading up to the next election.

22. Our objective is to reach an agreement on the main aspects which cannot be unpicked later, even though the necessary legal instruments will have to be left to be worked out subsequently by Foreign/Finance Ministers.

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23. It is not in our interest to raise the question of who pays for our solution until a solution has, in its broad lines, been agreed. Italy is prepared to contribute towards a refund to the UK under the revised 1975 Mechanism, but will expect to share in the benefits from any Community arrangements for additional expenditure. Ireland, on the other hand, will argue for exemption from any contribution towards our refund, or for equivalent compensation. A number of our other partners will be very reluctant to concede these points.

24. The existing 1% VAT ceiling provides enough room in 1980 to accommodate a solution to our problem and any likely increase in CAP prices. All Member States, except possibly Italy, whose position is not clear, and Ireland, want to avoid any commitment at this stage to raising the 1% ceiling and there will be no financial justification for forcing the issue on this occasion.

25. We also want a firm commitment by the Community to reduce the percentage of the budget going to agriculture. We have suggested bringing FEOGA Guarantee expenditure down to 55% of the total by 1986. It will be important to stress that this is the best way to ensure that the budget solution we need is indeed temporary. The firmer the Community's commitment to substantial restructuring the less likely a re-emergence of our problem becomes. The reverse is also true.

**BUDGET RELATED ISSUES.**

26. We should not concede formal linkage between the budget and the issues listed in para 6. But it may be necessary to make limited concessions in certain areas in order to obtain a satisfactory settlement on the budget; it will be important that our partners have some benefits to show from a solution to the budget problem. The handling of the individual items in any package is covered separately in succeeding paragraphs and the subject briefs, which may need to be supplemented later.

/CAP Prices/Economy Package



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CAP Prices/Economy Package (Brief No 4)

27. The French have made it clear that they will not agree to a budget solution without UK concessions on CAP prices.

The Irish and Dutch appear to make a similar link on prices. It is assumed by other Member States that there must be such a package. Without a budget solution, we should not agree to concessions on prices and should make it clear that a settlement on the one will depend on the other.

28. Tactics on this subject will depend on the outcome of the Agriculture Council on 21/22 April which will determine how the issue comes before the European Council.

Sheepmeat (Brief No 5)

29. Giscard will insist on agreement to a sheepmeat regulation which he can present as a victory for France if he is to go along with a budget solution. We are in a reasonably strong position on sheepmeat because the French have played their hand badly. The French refused to lift restrictions on mutton trade until there is a permanent Community regime for sheepmeat. Discussions on the regime have been blocked because of French insistence on intervention. We could accept some limited form of intervention so long as we derived a resource benefit and it was part of a settlement on the budget. We should not agree on sheepmeat without a settlement on the budget.

Fish (Brief No 6)

30. The French, Germans and others have mentioned fish as another linked subject. This could be more difficult for us but we recognise some reference in the communique is inevitable and, so long as it is in general terms, it would not be damaging to us. We are making some progress in negotiating an improved CFP internal regime but face contentious arguments on the allocation of quotas among Member States and access preference for UK fishermen. Fresh proposals from the Commission on quotas have been promised but are not yet on the table. It would be very damaging for the Government's

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relations with the industry and Parliament (whose support during the CFP negotiations is essential) if our negotiating position were thought to have been prejudiced for the sake of the budget. We could, however, go along with general undertakings on progress with CFP negotiations. Work is continuing in the official group on acceptable language to all.

New Zealand Butter (Brief No 6A)

31. This subject has not so far been raised in the context of the European Council; and it is not in our interests that it should be. The Commission's proposals for post-1980 access are not now expected to be tabled in advance of the European Council. But France and Ireland have asked for it to be discussed at the Agriculture Council on 21/22 April. No overt attempts have been made to link this with the UK budget issue or the CAP price-fixing but it is possible that Giscard and Haughey in particular could try for language in the Council's conclusions which might prejudice subsequent discussion of the Commission proposals. We should reject this and say that the question of New Zealand butter needs to be considered on its merits in the appropriate Council machinery. On the substance we shall wish to say no more than is necessary to hold the position fully open pending such consideration, in the light of comments others may have made.

North Sea Oil Policy (Brief No 7)

32. The Dublin European Council recognised the need to reach rapid Community solutions to the problem of energy among other issues. Other Member States may seek a forthcoming statement about our North Sea oil policies as part of a solution to the budget problem. We must resist pressure for concessions of substance, but the negotiations may reach a stage where a helpful presentational statement on energy might help clinch a solution to the budget. Such a statement is annexed to Brief No 7. The text is not for negotiation. Whether or not the statement is used, the Prime Minister may wish to illustrate the constructive contribution of North Sea oil to Community objectives.

/European Monetary System



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European Monetary System (Brief No 8)

33. The Germans and the Dutch have told us that joining the exchange rate mechanism or stating our intention to join shortly would have some bearing on the political climate surrounding the budget negotiation. Chancellor Schmidt has been particularly clear on this point, but has recognised privately that we are not going to join at present. Brief No 8 provides a line to take on this issue.

THREE WISE MEN'S REPORT AND THE NEW COMMISSION (Brief No 13)

Wise Men's Report

34. The Presidency will report that Foreign Ministers are still studying the Wise Men's Report and that a final report will go to the June European Council. The only substantive points to be taken in Luxembourg are that the Presidency of the Commission should be appointed six months in advance (para 35 below), which we can agree, and the Wise Men's recommendation that the number of Commissioners be reduced to one per Member State after enlargement on which we are sitting on the fence, the French and Italians being opposed and the Germans favourable. But the Dutch may also raise the possibility of consulting the European Parliament about the nomination of the new President, which we are against.

President of the Commission

35. The Italian Presidency propose to raise this. Mr Jenkins' term of office is up at the end of the year and his successor should be named at the time of the June Council. The main candidates are Gundelach (Danish - present agriculture Commissioner) and Thorn (Luxembourg Foreign Minister). We accept that the new President is likely to come from a small country and do not think that any candidates we have heard of are so good or bad as to demand that we take a position. Our interest is to say nothing, let others woo us and spin the process out until June.

/ENERGY



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ENERGY (Brief No 12)

36. The Commission have circulated a paper giving their ideas for a Community Energy Policy initiative comprising price and tax harmonisation, and enhanced Community energy spending possibly funded by a combination of an oil import levy and a production tax. The ideas are not worked out in details and we shall want to avoid commitment. We also want to avoid these long term issues getting tangled up with the budget negotiations. Subject to that, we should not strike a negative note at what is likely to be a preliminary general discussion: we can welcome some aspects of the Commission's paper and agree to it being studied further.

37. If the subject of the Venice Economic Summit is raised in the energy context, we should say that our aim at Venice will be to focus discussion on broad issues of policy rather than targets.

POLITICAL COOPERATION (Brief No 14)

38. The main subject is likely to be Iran depending on what degree of agreement is reached at the Foreign Affairs Council on 21-22 April. Further topics will be Afghanistan and East-West relations. Here we will want the meeting to endorse and possibly develop the idea of neutral and non-aligned status for Afghanistan but simultaneously to make it clear that political and economic pressures on the USSR will need to continue until Soviet withdrawal from Afghanistan. On the Middle East a short statement may be proposed. Talks continue within the Nine about a Security Council Resolution to supplement Resolution 242, but no action is envisaged before 26 May (the deadline for the autonomy negotiations). The Heads of Government or Foreign Ministers may wish to give instructions on how these ideas should be pursued.

OTHER ITEMS WHICH MAY COME UP

39. No other subject seems likely to come up. But briefs on EC/Turkey (Brief No 17), Enlargement (Brief No 16) and Telematics (Brief No 15) are provided in case any of these subjects are raised.



## TIMETABLE OF EVENTS

Sunday 27 April

1500-1800      Kirchberg      First Session of the European Council.

1900      Separate dinners for Heads of State/  
Government and for Foreign Ministers,  
followed by separate informal conver-  
sations.

1900      Dinner for other members of delegations  
and possible Working Group meetings.

UK delegation debriefing meeting.

Monday 28 April

0830      UK delegation briefing meeting.

0900      Foreign Ministers discuss Communique

0955      Family photograph

1000-1300      Second Session of the European Council.

1330      Buffet lunch for members of delegations  
remaining.

PM      Press Conference by the President of  
the European Council and the President  
of the Commission.