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FM UKREP BRUSSELS 301545Z MAR 82
TO IMMEDIATE FCO
TELNO 1297 OF 30 MARCH
INFO PRIORITY EC POSTS ROUTINE WASHINGTON TOKYO

EUROPEAN COUNCIL 29/30 MARCH

1. THE FOLLOWING ARE VERBATIM EXTRACTS FROM THE PRIME MINISTER'S PRESS CONFERENCE IN BRUSSELS IMMEDIATELY AFTER THE EUROPEAN COUNCIL:

INVESTMENT AND EMPLOYMENT

2. WE HAD A VERY EXTENSIVE DISCUSSION ON ECONOMIC AND SOCIAL POLICIES, CENTRED ROUND HOW TO RELIEVE UNEMPLOYMENT... WE ARE ANXIOUS TO HAVE INCREASED INVESTMENT BUT VERY MUCH AWARE THAT YOU CAN ONLY HAVE INCREASED INVESTMENT IF YOU REDUCE CONSUMPTION. THE SECOND POINT WAS THAT NOT ALL INVESTMENT IS PRODUCTIVE INVESTMENT AND YOU HAVE TO BE CAREFUL TO CHOOSE INVESTMENT WHICH WILL HAVE A RETURN AND WHICH WILL ESSENTIALLY BELONG TO THE INDUSTRIES OF THE FUTURE AND NOT OF THE PAST. THE THIRD POINT WAS THAT WE WILL HAVE IN THE MEANTIME TO HAVE POLICIES TO TRY TO ALLEVIATE THE EFFECTS OF UNEMPLOYMENT ON OUR YOUNG PEOPLE. IN GREAT BRITAIN WE HAVE A VERY VERY LARGE PROGRAMME RECENTLY ANNOUNCED FOR JUST THIS PURPOSE. ANOTHER POINT IN THE COMMISSION PAPER WAS THE NEED TO ENCOURAGE SMALL BUSINESS AND SERVICE INDUSTRIES. THIS WAS ALL AGAINST THE BACKGROUND THAT ONE MUST CONTINUE TO FIGHT INFLATION.

THE MANDATE

3. THERE WAS A BRIEF DISCUSSION ON THE MANDATE. THE COUNCIL OF FOREIGN MINISTERS HAVE BEEN DEALING WITH THAT IN DETAIL AND PROPOSALS HAVE BEEN MADE BY M. TINEMANS AND M. THORN ABOUT A METHOD WHICH WOULD FORM THE BASIS FOR NEGOTIATION ON THE BUDGET SIDE OF THE MANDATE. WE ARE PREPARED TO WORK ON THAT AND I MADE A BRIEF SPEECH YESTERDAY, SAYING THE FUNDAMENTALS WE WOULD REQUIRE FROM THAT FORMULA. WE ALL RECOGNISE THAT ALL THREE PARTS OF THE MANDATE HAVE TO BE SOLVED TOGETHER. CAP AND THE BUDGET SOLUTION HAVE TO GO HAND IN HAND BECAUSE, AS THE COMMISSION POINTS OUT, IT IS THE WAY IN WHICH THE CAP WORKS WHICH IS LARGELY RESPONSIBLE FOR BRITAIN'S BUDGETARY PROBLEMS. SOLUTIONS TO ALL THREE PARTS HAVE TO BE FOUND AND IMPLEMENTED SIMULTANEOUSLY.

4. Q. ARE YOU SATISFIED THAT THE FRENCH GOVERNMENT ACCEPTS THE THORN/TINDEMANS PROPOSAL AS A BASIS FOR FUTURE DISCUSSION BY THE FOREIGN MINISTERS IN LUXEMBOURG?

/A. THEY

A. THEY MADE IT PERFECTLY CLEAR THAT THEY DID NOT IN FACT ACCEPT THOSE PROPOSALS AS A BASIS FOR FUTURE DISCUSSION. WE DO, AND WE ARE PREPARED TO GO AHEAD AND WORK ON THEM. WE ARE PREPARED TO GO AHEAD ON THAT BASIS, MODIFYING IT CONSIDERABLY TO MEET SOME OF OUR PROBLEMS.

Q. THEY DID NOT OUTLINE THE POSSIBLE ALTERNATIVE BASIS?

A. NO, NO. THEY MADE IT CLEAR BOTH YESTERDAY AND AGAIN THIS MORNING THAT THEY DID NOT ACCEPT THE PROPOSALS OF MR THORN AND MR TINDEMANS AS A BASIS FOR DISCUSSION. BUT THAT IS THEIR PROBLEM..... I WOULD THINK IT WOULD BE A VERY OPTIMISTIC PERSON WHO WOULD THINK THAT WE WOULD GET A SOLUTION ON SATURDAY.

MANDATE/AGRICULTURE LINK

5. Q. IN VIEW OF THE PRIME MINISTER'S INSISTENCE THAT THE MANDATE ASPECTS SHOULD BE IN PARALLEL AND FOLLOWING THE FRENCH STATEMENTS OF LAST NIGHT, WHAT CHANCE DOES THE PRIME MINISTER SEE FOR AGREEMENT BEING REACHED AT THE AGRICULTURE COUNCIL THIS WEEK?

A. I SHOULD THINK IT IS VERY SLIGHT. WE HAVE ALL AGREED THAT WE HAD TO COME TO DECISIONS IN PARALLEL ON THE THREE CHAPTERS. QUITE APART FROM THAT AGREEMENT IT WOULD JUST NOT BE POSSIBLE TO COME TO AN AGREEMENT ON THE CAP KNOWING FULL WELL THAT BOTH PRICE LEVELS AND OTHER PROPOSALS, - ON THE PROPORTION WHICH THE CAP TAKES OF THE BUDGET, ON MILK, ON MEDITERRANEAN PRODUCTS - ALL HAVE A VERY CONSIDERABLE EFFECT ON OUR BUDGET PROBLEM. THE DIFFICULTY IS NOT OF GREAT BRITAIN'S MAKING. WE ARE ANXIOUS TO GO AHEAD ON ALL ASPECTS AS SOON AS POSSIBLE BECAUSE WE BELIEVE IT IS IN THE INTERESTS OF THE COMMUNITY TO DO SO.

COMMUNITY INDUSTRIAL POLICIES

6. Q. PARAGRAPH 6 OF THE CONCLUSIONS DEALS WITH A SPECIFIC COMMUNITY DIMENSION OF THE INDUSTRIAL STRATEGY. MRS THATCHER, COULD YOU GIVE US ANY SPECIFIC EXAMPLES OF WHETHER YOU EXPECT THE COMMUNITY TO BE DOING THINGS IN THIS AREA IT IS NOT DOING AT PRESENT, IN SOME WAY DISTINCT FROM WHAT NATIONAL GOVERNMENTS ARE DOING?

A. ONE THING IS SERVICES. THERE ARE STILL BARRIERS TO FREEDOM OF SERVICES WITHIN THE COMMON MARKET. IT IS ABOUT TIME THEY WERE REMOVED. INSURANCE IS ONE. ARE FARES IS ANOTHER. IT IS ABOUT TIME THOSE BARRIERS WERE REMOVED. ANOTHER ONE IS IN THE LATEST DEVELOPMENTS IN TELECOMMUNICATIONS, INFORMATION TECHNOLOGY, AND ELECTRONICS. YOU NEED CROSS - COOPERATION BETWEEN COUNTRIES OR BETWEEN FIRMS. YOU COULD CALL SOME OF THE THINGS WE HAVE BEEN DISCUSSING AN ACTUAL INDUSTRIAL STRATEGY.

RELATIONS WITH THE UNITED STATES

7. WE HAVE RECEIVED A MESSAGE FROM PRESIDENT REAGAN ON THE OCCASION OF THE 25TH ANNIVERSARY OF THE COMMUNITY SAYING HOW VERY MUCH IN FAVOUR THE UNITED STATES HAS ALWAYS BEEN OF A COMMUNITY AND OF COURSE WE WISH TO HAVE CLOSER CONSULTATIONS, EVEN CLOSER THAN WE HAVE HAD IN THE PAST.

EAST/WEST RELATIONS.

8. WE HAD A LONG DISCUSSION ON EAST/WEST RELATIONS AND ON POLAND. PARTS OF THE EASTERN BLOC ARE FINDING IT DIFFICULT TO MEET THEIR CREDIT OBLIGATIONS AND WE HAVE HAD TO DO SOME RESCHEDULING OF DEBT WITH POLAND. WE NEED TO HAVE A LOOK AT THE WHOLE QUESTION OF CREDIT PROVIDED BY THE WEST TO THE EASTERN BLOC IN VIEW OF ALL THE LATEST DEVELOPMENTS.

AFGHANISTAN

9. THERE IS A COMMUNIQUE ON AFGHANISTAN AND I AM PARTICULARLY ANXIOUS THAT AFGHANISTAN SHOULD NOT BE FORGOTTEN. WE STILL HAVE NOT FOUND A SOLUTION TO IT.

MIDDLE EAST

10. THERE IS A SHORT COMMUNIQUE ON THE MIDDLE EAST BECAUSE OF OUR CONCERN WITH EVENTS IN THE WEST BANK. ON THE BASIS OF THAT COMMUNIQUE LORD CARRINGTON WILL BE GOING TO ISRAEL TONIGHT

JAPAN

11. WE HAD SOME THINGS TO SAY ABOUT JAPANESE TRADE, AND THE WAY IN WHICH JAPAN RUNS HER ECONOMY. IF YOU HAVE AN ECONOMY LIKE JAPAN, WHERE YOU HAVE A LOW LEVEL OF INFLATION, A HIGH RATE OF GROWTH, HIGH BALANCE OF PAYMENTS, YOU WOULD NORMALLY EXPECT THE YEN TO REACT TO THIS BY BEING HIGH. IT IS NOT. IT IS LOW AND THAT IS BECAUSE OF THE VERY SLACK WAY THEY RUN THEIR MONETARY POLICY AND A VERY TIGHT FISCAL POLICY. THAT HAS REPERCUSSIONS ON THE EXPORTS OF JAPAN.

FCO ADVANCE TO:

FCO - FENN, HANNAY, SPRECKLEY, PS, PS/PUS, PS/LPS

CAB - HANCOCK

TSY - COUZENS

MAFF - PS/HAYES, MISS BROWN (EC DIV)

NO 10 - INGHAM

OOI - GORDON-WALKER

BUTLER

[ADVANCED AS REQUESTED]

FRAME GENERAL

ECD (I)

GRS 2000
UNCLASSIFIED

DESKBY 301600Z

FROM UKREP BRUSSELS 301408Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1296 OF 30 MARCH 1982

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS UKMIS NEW YORK WASHINGTON WARSAW MOSCOW
ANKARA INFO ROUTINE MIDDLE EAST POSTS
INFO SAVING STRASBOURG LISBON MADRID UKDEL NATO

EUROPEAN COUNCIL BRUSSELS 29/30 MARCH

FOLLOWING IS TEXT OF EUROPEAN COUNCIL CONCLUSIONS ON
POLITICAL COOPERATION ASPECTS

I. TRANSATLANTIC RELATIONS.

THE EUROPEAN COUNCIL DISCUSSED THE STATE OF TRANSATLANTIC
RELATIONS.

IT EMPHASISED THE IMPORTANCE WHICH IT ATTACHES TO THE
LINKS OF THE TEN WITH THE UNITED STATES AND ITS WILLINGNESS
TO DEVELOP FURTHER CONSULTATIONS BETWEEN EUROPEANS AND
AMERICANS.

IT VALUED THE STATEMENT MADE BY PRESIDENCY REAGAN ON THE
OCCASION OF THE 25TH ANNIVERSARY OF THE TREATIES OF ROME,
IN WHICH THE UNITED STATES CONFIRMED ITS WISH TO COOPERATE
CLOSELY AND ON THE BASIS OF PARTNERSHIP WITH A UNITED EUROPE
AND IN ACCORDANCE WITH EUROPE'S ECONOMIC AND POLITICAL
IMPORTANCE, AND ITS ROLE IN THE WORLD.

II. EAST-WEST RELATIONS.

(A) THE HEADS OF STATE AND OF GOVERNMENT NOTED THAT THE
SITUATION IN POLAND CONTINUED TO PLACE A STRAIN ON EAST-WEST
RELATIONS, AND THUS TO AFFECT THE RELATIONS OF THE TEN WITH
POLAND, AND THE U.S.S.R. WHICH BORE A CLEAR RESPONSIBILITY
IN THIS SITUATION.

THE TEN RECALLED THEIR EARLIER STATEMENTS ON THE GRAVE CONSEQUENCES
OF THE PRESENT SITUATION IN POLAND FOR SECURITY AND COOPERATION IN
EUROPE, AND FOR EAST-WEST RELATIONS AS A WHOLE.

THEY RENEWED THEIR CALL TO THE POLISH AUTHORITIES WITH THE
MINIMUM DELAY TO END THE STATE OF MARTIAL LAW, RELEASE
THOSE ARRESTED AND RESUME A GENUINE DIALOGUE WITH THE
CHURCH AND SOLIDARITY.

THE TEN ALSO NOTED WITH CONCERN THE RECENT STATEMENTS OF THE
POLISH AUTHORITIES ON THE POSSIBILITY OF THE DEPARTURE OF
DETAINEES FROM THE COUNTRY. THE TEN REJECTED ANY ATTEMPT TO
PLACE PRESSURE ON THOSE CONCERNED. THEY WOULD INTERPRET SUCH A
POLICY AS A FURTHER DETERIORATION OF THE SITUATION IN POLAND,
AND A GRAVE BREACH OF FUNDAMENTAL HUMAN RIGHTS.

(THE GREEK DELEGATION HAS RESERVED ITS POSITION ON THE SECTION
OF THE FIRST SENTENCE WHICH INDICATES THAT THE POLISH
SITUATION AFFECTS THE RELATIONS OF THE TEN WITH THE U.S.S.R.)

/(B) THE

(B) THE HEADS OF STATE AND OF GOVERNMENT REVIEWED THE STATE OF ECONOMIC RELATIONS BETWEEN THEIR OWN COUNTRIES AND THOSE OF EASTERN EUROPE, PARTICULARLY IN THE LIGHT OF THE SIGNIFICANT ROLE PLAYED BY COMMUNITY TRADE WITH THESE COUNTRIES.

THEY RECOGNIZED THE ROLE WHICH ECONOMIC AND COMMERCIAL CONTACTS AND COOPERATION HAVE PLAYED IN THE STABILISATION AND THE DEVELOPMENT OF EAST-WEST RELATIONS AS A WHOLE AND WHICH THEY WISH TO SEE CONTINUE ON THE BASIS OF A GENUINE MUTUAL INTEREST. THEY DISCUSSED THE BASIS ON WHICH EAST-WEST ECONOMIC AND COMMERCIAL RELATIONS HAD BEEN CONDUCTED.

THE HEADS OF STATE AND OF GOVERNMENT AGREED THAT THESE QUESTIONS, INCLUDING THE IMPORTANT AND RELATED QUESTION OF CREDIT POLICY, SHOULD BE THE SUBJECT OF CAREFUL STUDY BY THE EUROPEAN COMMUNITY AND BY THEIR OWN AND OTHER GOVERNMENTS, BOTH NATIONALLY AND INTERNATIONALLY AND IN CLOSE CONSULTATION WITH OTHER MEMBERS OF THE O.E.C.D.

(THE GREEK DELEGATION HAS RESERVED ITS POSITION ON THE SECTION OF THIS TEXT BEGINNING "THEY DISCUSSED" AND ENDING "...THE OTHER MEMBERS OF THE O.E.C.D."').

(C) THE EUROPEAN COUNCIL REGRETTED THAT VIOLATIONS OF THE PRINCIPLES OF THE HELSINKI FINAL ACT, OF WHICH THE REPRESSION IN POLAND CONSTITUTES A PARTICULARLY GRAVE ELEMENT, HAD NOT ONLY PREVENTED THE MADRID MEETING FROM ACHIEVING POSITIVE RESULTS, BUT ALSO PUT AT RISK THE ENTIRE C.S.C.E. PROCESS.

IT NOTED THAT THE ADJOURNMENT OF THE MADRID MEETING WAS NECESSARY TO PRESERVE THE C.S.C.E. PROCESS, TO WHICH THE TEN REMAINED FULLY COMMITTED. THE OBJECTIVE REMAINED THE ADOPTION OF A SUBSTANTIAL AND BALANCED FINAL DOCUMENT.

THE TEN EXPRESSED THE HOPE THAT, WHEN THE MADRID MEETING RESUMED IN NOVEMBER, THE PREVAILING CIRCUMSTANCES WOULD BE MORE CONDUCTIVE TO THE ACHIEVEMENT OF A POSITIVE OUTCOME.

III. AFGHANISTAN

WITH THE RECENT INTERNATIONAL DAY OF AFGHANISTAN IN MIND, THE EUROPEAN COUNCIL CONSIDERS IT RIGHT TO DRAW PARTICULAR ATTENTION TO THE TRAGIC SITUATION OF THAT COUNTRY, NOW IN ITS THIRD YEAR OF MILITARY OCCUPATION. THE SOVIET EXPEDITIONARY FORCE HAS RECENTLY BEEN STRENGTHENED; REPRESSION OF THE CIVILIAN POPULATION CONTINUES WITHOUT RESPITE; AND EVERY DAY ADDS TO THE TOTAL OF REFUGEES, WHO ALREADY NUMBER SOME 3 MILLION, OR ONE IN FIVE OF THE POPULATION.

IN THE VIEW OF THE EUROPEAN COUNCIL, IT IS MORE NECESSARY THAN EVER TO HASTEN THE SEARCH FOR A POLITICAL SOLUTION TO THE AFGHANISTAN PROBLEM. THIS CAN ONLY BE ON THE BASIS OF THE COMPLETE WITHDRAWAL OF THE SOVIET TROOPS AND RESPECT FOR THE INDEPENDENCE, SOVEREIGNTY AND NON-ALIGNMENT OF AFGHANISTAN.

/THE

THE COUNCIL STRONGLY REAFFIRMS THE POSITION TAKEN BY THE EUROPEAN COUNCIL OF LUXEMBOURG AND LONDON, AND THE DESIRE OF THE TEN TO CONTRIBUTE UP TO THE LIMIT OF THEIR POWERS TO AN ACCEPTABLE SETTLEMENT. IT DENOUNCES THE NEGATIVE ATTITUDE OF THE SOVIET UNION IN REJECTING SUCCESSIVELY THE PROPOSALS MADE BY THE TEN, THE NON-ALIGNED MOVEMENT, THE ISLAMIC CONFERENCE AND THE GENERAL ASSEMBLY OF THE UNITED NATIONS.

THE COUNCIL WELCOMES THE NOMINATION BY THE SECRETARY-GENERAL OF THE UNITED NATIONS OF A PERSONAL REPRESENTATIVE FOR THE AFGHAN QUESTION, AND HOPES THAT THIS INITIATIVE WILL CONTRIBUTE TO A SOLUTION IN ACCORDANCE WITH THE PRINCIPLES OF THE RESOLUTIONS ADOPTED BY THE GENERAL ASSEMBLY.

IV. MIDDLE EAST

THE EUROPEAN COUNCIL DISCUSSED DEVELOPMENTS IN THE MIDDLE EAST. DEEPLY CONCERNED BY THE GRAVE EVENTS TAKING PLACE IN THE WEST BANK, THE EUROPEAN COUNCIL APPEALED URGENTLY FOR AN END TO THE DANGEROUS CYCLE OF VIOLENCE AND REPRESSION. IT PARTICULARLY DENOUNCED MEASURES IMPOSED ON THE PALESTINIAN POPULATIONS SUCH AS THE DISMISSAL OF DEMOCRATICALLY ELECTED MAYORS BY THE ISRAELI AUTHORITIES, AS WELL AS THE VIOLATIONS OF THE LIBERTIES AND RIGHTS OF THE INHABITANTS OF THESE TERRITORIES WHICH FOLLOWED THE MEASURES TAKEN BY ISRAEL WITH REGARD TO THE GOLAN HEIGHTS, AND WHICH COULD ONLY DAMAGE THE PROSPECTS FOR PEACE.

CONCERNED AT THE CONTINUING CLASHES IN THE LEBANON, THE EUROPEAN COUNCIL URGED ALL THE PARTIES INVOLVED TO RENOUNCE THE USE OF FORCE AND TO ASSURE CONDITIONS FOR THE RESPECT OF THE FULL SOVEREIGNTY AND TERRITORIAL INTEGRITY OF THE COUNTRY.

IT FURTHERMORE REAFFIRMED THE WISH OF THE TEN, EXPRESSED ON MANY OCCASIONS, TO CONTRIBUTE TO THE ACHIEVEMENT OF A JUST AND LASTING PEACE IN THE MIDDLE EAST.

THE PARTICIPATION OF FOUR MEMBER STATES OF THE EUROPEAN COMMUNITY IN THE MULTINATIONAL FORCE AND OBSERVERS IN SINAI (MFO) WAS A POSITIVE CONTRIBUTION IN THE CONTEXT OF THE FORTHCOMING COMPLETION, ON 25 APRIL, OF THE ISRAELI WITHDRAWAL FROM SINAI.

V. CENTRAL AMERICA.

THE EUROPEAN COUNCIL DISCUSSED THE SITUATION IN CENTRAL AMERICA. IT EXPRESSED SERIOUS CONCERN AT THE CONTINUED GROWTH OF TENSIONS IN THE REGION. IT WELCOMED WITH INTEREST ANY INITIATIVE LIKELY TO PUT AN END TO VIOLENCE AND LEAD, THROUGH DIALOGUE, AND RESPECT FOR DEMOCRATIC NORMS AND FOR HUMAN RIGHTS, TO THE RESTORATION OF PEACE IN THE REGION, WHILE SAFEGUARDING NATIONAL SOVEREIGNTY AND THE WISHES OF THE PEOPLE.

IN THIS CONTEXT IT NOTED WITH INTEREST THE PROPOSALS MADE BY A NUMBER OF COUNTRIES IN THE REGION.

NOTING THAT THE TENSIONS AND CONFLICTS RAVAGING CENTRAL AMERICA FREQUENTLY STEMMED FROM THE GRAVE ECONOMIC PROBLEMS AND SOCIAL INEQUALITIES WHICH HAD BEEN AGGRAVATED BY

WORLD ECONOMIC CONDITIONS TO THE DETRIMENT OF THE POOREST COUNTRIES, THE EUROPEAN COUNCIL BELIEVED THAT THE INTERNATIONAL COMMUNITY COULD NOT REMAIN INDIFFERENT TO THESE EVILS. IT WELCOMED THE EFFORTS CURRENTLY BEING EXERTED TO REMEDY THEM, AND PARTICULARLY HOPES THAT THE INITIATIVE OF THE NASSAU GROUP WILL CONTRIBUTE TO THIS IN ACCORDANCE WITH THE PRINCIPLES SET OUT ABOVE.

THE COMMUNITY AND ITS MEMBER STATES TOO HAD, IN THE PAST PROVIDED SUBSTANTIAL ASSISTANCE TO THE REGION.

THE EUROPEAN COUNCIL HOWEVER AGREED THAT THE AID GIVEN BY THE MEMBER STATES OF THE COMMUNITY AND BY THE COMMUNITY ITSELF FOR DEVELOPMENT IN CENTRAL AMERICA AND THE CARIBBEAN SHOULD BE COORDINATED AND INCREASED WITHIN THE LIMITS OF THEIR POSSIBILITIES.

VI. TURKEY.

THE EUROPEAN COUNCIL HEARD THE REPORT OF THE PRESIDENT OF THE COUNCIL OF MINISTERS, MR LEO TINDEMANS, ON THE EXECUTION OF THE MANDATE GIVEN TO HIM BY THE TEN ON 23 FEBRUARY.

IT EXPRESSED ITS APPRECIATION FOR THE WAY IN WHICH THIS TASK HAD BEEN CARRIED OUT.

MR LEO TINDEMANS HAD IMPRESSED UPON THE TURKISH GOVERNMENT THE SERIOUS CONCERN OF THE TEN WITH REGARD TO HUMAN RIGHTS IN TURKEY, AND HAD EMPHASIZED THE NEED FOR THAT COUNTRY TO RETURN AS SOON AS POSSIBLE TO A DEMOCRATIC REGIME, WHICH PRESUPPOSES IN PARTICULAR THE RELEASE OF THOSE ARRESTED FOR THEIR VIEWS OR FOR TRADE UNION ACTIVITIES, AND THE ENDING OF MARTIAL LAW.

HIS INTERLOCUTORS HAD ASSURED HIM OF THE COUNTRY'S RETURN TO DEMOCRACY WITHIN TWO YEARS AT THE MOST. ACCORDING TO THEIR DECLARATIONS THE REFERENDUM ON THE APPROVAL OF A DEMOCRATIC CONSTITUTION WOULD TAKE PLACE IN NOVEMBER 1982 AND THE GENERAL ELECTIONS IN AUTUMN 1983 OR, AT THE LATEST, IN SPRING 1984.

THE EUROPEAN COUNCIL TRUSTS THAT MR LEO TINDEMANS' VISIT WILL PROVE TO HAVE CONTRIBUTED TO THE ACHIEVEMENT OF ITS OBJECTIVES, TO WHICH THE TEN ATTACH ESSENTIAL IMPORTANCE.

FCO ADVANCE TO:-

FCO - PS PS/LPS BULLARD CROWE COOPER
CAB - PS/SIR R ARMSTRONG
NO 10 - COLES

FCO PASS SAVING TO STRASBOURG LISBON MADRID

BUTLER		[ADVANCED/REPEATED AS REQUESTED]
STANDARD		[COPIES SENT TO NO 10 DOWNING STREET]
ECD (E)	SAD	MCAD
ECD (I)	MED	SED
NAD	NENAD	CABINET OFFICE
EESD		

FCO
 P.S.
 PS/LORD PRIVY SEAL
 PS/MR HURD
 PS/PS
 MR BULLARD
 MR HANNAY
 LORD BRIDGES

RESIDENT CLERK
 HD/ECD I (3)
 HD/NEWS
 HD/ERD
 HD/...E.C.D.(E)
 HD/.....

PLUS FCO

Ps/Sir R Osmington
CABINET OFFICE
 MR D HANCOCK
 MR D M ELLIOTT
 MR RHODES
 MR S WENTWORTH
 MR GARDENBURGH

D.O.T.

PLUS OGDS

MW COLES No 10

H M TREASURY
 SIR H COUBENS
 MR ASHFORD
~~MR HANCOCK~~ *Mr J & Hillier*
 MR EDWARDS

M.A.F.F.

SIR B HAYES
MR G STAPLETON

MR P KENT
H M CUSTOMS &
EXCISE

~~UNCLASSIFIED~~
 FRAME ECONOMIC
 DESKBY 301600Z
 FM UKREP BRUSSELS 301407Z MAR 82
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 INFO SAVING WASHINGTON UKDEL NATO

EUROPEAN COUNCIL BRUSSELS 29/30 MARCH

FOLLOWING IS TEXT OF PRESIDENCY CONCLUSIONS ON COMMUNITY ASPECTS.

PREAMBLE

1. THE EUROPEAN COUNCIL COMMEMORATED THE 25TH ANNIVERSARY OF THE SIGNING OF THE TREATY OF ROME, RECALLING THE IMPORTANCE OF THE CONTRIBUTION MADE BY THE EUROPEAN COMMUNITY OVER A QUARTER OF A CENTURY TO THE ACHIEVEMENT OF THE OBJECTIVES OF ECONOMIC AND SOCIAL PROGRESS IN THE MEMBER COUNTRIES. IT EMPHASIZED THE IMPORTANCE OF THE PROGRESS MADE TOWARDS UNION DESPITE THE WORLDWIDE ECONOMIC DIFFICULTIES OF THE

THE EUROPEAN COUNCIL CONFIRMED ITS INTENTION OF CONTINUING ALONG THE ROAD TOWARDS GREATER ECONOMIC INTEGRATION.

2. THE EUROPEAN COUNCIL DEVOTED MOST OF ITS MEETING TO DISCUSSING THE ECONOMIC AND SOCIAL SITUATION ON THE BASIS OF THE REPORT FROM THE COMMISSION.

THE WORLD ECONOMY WAS IN A STATE OF MAJOR STRUCTURAL CRISIS WHICH WAS AFFECTING EVERY COUNTRY. THIS CRISIS COULD BE OVERCOME ONLY IF ALL GOVERNMENTS TOOK THE NECESSARY MEASURES WITH THE SUPPORT OF ALL ECONOMIC AND SOCIAL CIRCLES.

ALTHOUGH THE SPECIFIC CHARACTERISTICS OF THE SITUATION IN EACH MEMBER STATE MIGHT CALL FOR VARYING POLICIES AND SOLUTIONS TO COMBAT THE ECONOMIC CRISIS, ALL THE COMMUNITY COUNTRIES WERE FACED WITH THE SAME RISKS AND HAD THE SAME INTERESTS IN COMBATING UNEMPLOYMENT AND RESTORING ECONOMIC GROWTH WHILE PRESERVING MONETARY STABILITY AND ENSURING THE COMPETITIVENESS OF THEIR ECONOMIES.

3. THE EUROPEAN COUNCIL NOTED SIGNS OF AN IMPROVEMENT IN THE SHORT TERM FOR 1982. HOWEVER, A SLIGHT RECOVERY WAS INSUFFICIENT TO ARREST THE GROWTH OF UNEMPLOYMENT, THE HIGH LEVEL OF WHICH, MORE PARTICULARLY AMONG YOUNG PEOPLE, WAS CREATING AN INTOLERABLE SITUATION; MOREOVER, THAT RECOVERY COULD NOT ON ITS OWN RESOLVE THE COMMUNITY'S FUNDAMENTAL STRUCTURAL PROBLEMS, IN PARTICULAR AN EXCESSIVELY HIGH AVERAGE RATE OF INFLATION, INSUFFICIENT PRODUCTIVE INVESTMENT AND A DEGREE OF ENERGY DEPENDENCE WHICH WAS STILL TOO GREAT.

THE EUROPEAN COUNCIL CONSIDERED A SERIES OF PRACTICAL COMPLEMENTARY MEASURES TO BE NECESSARY.

1. POLICIES WITHIN THE COMMUNITY

4. THE COUNCIL EMPHASIZED THE NEED FOR A CO-ORDINATED POLICY TO PROMOTE INVESTMENT AND TO COMBAT UNEMPLOYMENT.

SUCH CONCERTED ACTION SHOULD BE ACCOMPANIED BY INTENSIFIED EFFORTS TO CONTROL THE EVOLUTION OF ALL PRODUCTION COSTS. STRESS SHOULD BE LAID MORE ON PRIVATE AND PUBLIC PRODUCTIVE INVESTMENT. IT WAS ESSENTIAL IN THIS CONNECTION THAT...

AND PUBLIC PRODUCTIVE INVESTMENT. IT WAS ESSENTIAL IN THIS CONNECTION THAT BOTH SIDES OF INDUSTRY CONTRIBUTE TO THE ACHIEVEMENT OF THOSE OBJECTIVES.

5. AS REGARDS INVESTMENT, THE EUROPEAN COUNCIL EXPRESSED ITS CONCERN AT THE LEVEL OF PRODUCTIVE INVESTMENT IN EUROPE, ESPECIALLY IN THE INDUSTRIES OF THE FUTURE, WHICH WAS STILL TOO LOW IN RELATION TO ITS GDP. IT THEREFORE AGREED ON THE NEED FOR THE COMMUNITY AND EACH MEMBER STATE TO TAKE, AS FROM THIS YEAR, EACH AS FAR AS IT WAS INDIVIDUALLY CONCERNED, ALL APPROPRIATE STEPS OR INITIATIVES TO REVERSE THIS TREND.

IN THIS CONNECTION, IT CONFIRMED THE IMPORTANCE IT ATTRIBUTED TO THE LOWERING OF INTEREST RATES AND THE STRENGTHENING OF THE COMMUNITY LENDING INSTRUMENTS FOR THE BENEFIT OF INVESTMENT, PARTICULARLY IN THE FIELDS OF ENERGY AND INDUSTRIAL AND AGRI-FOODSTUFFS DEVELOPMENT.

THE EUROPEAN COUNCIL REQUESTED THE COMMISSION TO MAKE ANY PROPOSALS IT DEEMED USEFUL AND THE COUNCIL TO ADOPT THE MEANS AND PROCEDURES FOR ATTAINING THESE OBJECTIVES.

A FIRST REPORT ON THE PRACTICAL MEASURES TAKEN ON THE BASIS OF THESE GUIDELINES WOULD BE DRAWN UP FOR THE EUROPEAN COUNCIL MEETING IN JUNE.

6. THE EUROPEAN COUNCIL STRESSED THE IMPORTANCE OF MAINTAINING AND DEVELOPING THE COMMUNITY'S INTERNAL MARKET, WHICH, ALSO AS A CONSEQUENCE OF A MORE ACTIVE EXTERNAL POLICY, GAVE IT A CONTINENTAL DIMENSION COMPARABLE TO THAT OF ANY OF THE MAIN ECONOMIC UNITS OF THE WORLD. THAT DIMENSION MADE IT POSSIBLE TO DEVELOP COMMUNITY INDUSTRIAL STRATEGIES AND FORMULATE A TECHNOLOGY AND INNOVATION POLICY.

THE SERVICES SECTOR WAS FELT TO BE OF PARTICULAR IMPORTANCE IN THIS CONNECTION.

THE INDUSTRIAL, ENERGY AND RESEARCH POLICIES AND THE AGRICULTURAL POLICY WERE AMONGST THOSE WHERE THE COMMUNITY DIMENSION COULD MAKE THE GREATEST CONTRIBUTION.

THE EUROPEAN COUNCIL ASKED THE COUNCIL, IN ALL ITS COMPOSITIONS, TO REINFORCE THOSE POLICIES ON THE BASIS OF COMMISSION PROPOSALS.

COMMISSION PROPOSALS

A REPORT ON THE FOLLOW-UP TO THESE GUIDELINES WOULD BE DRAWN UP FOR THE MEETING OF THE EUROPEAN COUNCIL AT THE END OF THE YEAR.

7. AS REGARDS EMPLOYMENT, THE COUNCIL RECOGNIZED THAT, IN ADDITION TO INCREASED EFFORTS TO FOSTER PRODUCTIVE INVESTMENT AND CONTROL PRODUCTION COSTS, THE GRAVITY OF THE UNEMPLOYMENT SITUATION CALLED FOR SPECIFIC QUICK-ACTING MEASURES.

IN ORDER TO CONTRIBUTE THE PROGRESSIVE DEFINITION OF A EUROPEAN SOCIAL POLICY, THE MEMBER STATES WOULD TAKE MEASURES CONCERNING MORE PARTICULARLY THE VOCATIONAL TRAINING OF YOUNG PEOPLE.

AS A FIRST STEP, THE MEMBER STATES WOULD STRIVE TO ENSURE OVER THE NEXT FIVE YEARS THAT ALL YOUNG PERSONS ENTERING THE LABOUR MARKET FOR THE FIRST TIME WOULD RECEIVE VOCATIONAL TRAINING OR INITIAL WORK EXPERIENCE WITHIN THE FRAMEWORK OF SPECIAL YOUTH SCHEMES OR CONTRACTS OF EMPLOYMENT: THE COUNCIL WAS REQUESTED TO REPORT BACK TO THE EUROPEAN COUNCIL AT ITS MEETING AT THE END OF THE YEAR ON THE DECISIONS AND MEASURES ADOPTED TO THIS END, BOTH BY THE MEMBER STATES AND AT COMMUNITY LEVEL. FOR THIS PURPOSE A SPECIAL MEETING OF THE COUNCIL WOULD STUDY THE SPECIFIC MEASURES TO BE TAKEN TO PROMOTE EMPLOYMENT. THE MEMBER STATES WOULD CONSULT EACH OTHER ON THEIR NATIONAL MEASURES FOR THE ADAPTATION OF WORKING TIME.

8. THE EUROPEAN COUNCIL NOTED THAT THE EUROPEAN MONETARY SYSTEM HAD OPERATED SATISFACTORILY IN ITS FIRST THREE YEARS. ACTION SHOULD NOW BE TAKEN TO GIVE FRESH MOMENTUM TO THE SYSTEM BY STRENGTHENING ECONOMIC CONVERGENCE, THE EMS MECHANISMS, THE ROLE OF THE ECU AND MONETARY CO-OPERATION BETWEEN THE COMMUNITY AND THIRD COUNTRIES. IT ASKED THE ECO-FIN COUNCIL TO REPORT BACK.

II. INTERNATIONAL ECONOMIC POLICY

9. THE EUROPEAN COUNCIL LOOKED TO THE VERSAILLES SUMMIT AT THE BEGINNING OF JUNE TO INSTITUTE INCREASED CO-OPERATION BETWEEN THE MAJOR INDUSTRIAL PARTNERS, AIMED PARTICULARLY AT ENCOURAGING A REDUCTION IN INTEREST RATES, MAKING EXCHANGE RATES LESS VOLATILE AND STRENGTHENING NORTH-SOUTH RELATIONS. THIS

BASED ON A JOINT DEFINITION OF

CO-OPERATION MUST BE BASED ON A JOINT DEFINITION OF THE OBLIGATIONS INCUMBENT UPON EACH PARTY. THE COMMUNITY WAS READY TO MAKE ITS CONTRIBUTION TO SUCH CO-OPERATION AND WOULD SUBMIT PROPOSALS ON THE MATTER.

10. THE PERSISTENCE OF HIGH REAL INTEREST RATES ON THE INTERNATIONAL FINANCIAL MARKETS, COMBINED WITH THE INADEQUACY OF ECONOMIC ACTIVITY AND THE LOW LEVEL OF OVERALL DEMAND WAS LEADING TO A SIGNIFICANT REDUCTION IN PRODUCTIVE INVESTMENT AND A FURTHER WORSENING OF UNEMPLOYMENT SINCE, BECAUSE OF THE CONSIDERABLE SQUEEZE ON THEIR LIQUIDITY AND PROFITS, UNDERTAKINGS WERE REDUCING THEIR INVESTMENTS AND STAFFING LEVELS. THIS DEVELOPMENT WAS PARTICULARLY DISTURBING AT A TIME WHEN THE ADJUSTMENT OF INDUSTRIAL STRUCTURES, FOLLOWING THE OIL PRICE RISES AND THE NEED TO DEAL WITH UNEMPLOYMENT, CALLED FOR AN INCREASE IN THE PART PLAYED BY INVESTMENT IN OVERALL DEMAND.

HIGH INTEREST RATES ALSO GREATLY INCREASED THE COST OF SERVICING THE PUBLIC DEBT IN MANY INDUSTRIALIZED COUNTRIES AND DEVELOPING COUNTRIES.

11. FLUCTUATIONS IN EXCHANGE RATES NOT JUSTIFIED BY THE BASIC FACTS OF THE ECONOMY ADDED A FURTHER ELEMENT OF UNCERTAINTY AND WERE AFFECTING INTERNATIONAL TRADE.

THE CO-ORDINATION OF THE MAJOR INDUSTRIAL COUNTRIES' EXCHANGE-MARKET POLICIES IN ORDER TO AVOID UNCONTROLLED FLUCTUATIONS IN PRICE LEVELS CONTINUED TO BE A MATTER OF URGENCY.

12. THE COMMUNITY URGED JAPAN TO OPEN ITS MARKET AND INTEGRATE IT MORE FULLY INTO INTERNATIONAL TRADE. JAPAN SHOULD FOLLOW AN ECONOMIC, COMMERCIAL AND EXCHANGE POLICY WHICH WAS MORE COMPATIBLE WITH THE BALANCE OF RESPONSIBILITIES TO BE BORNE BY THE WHOLE OF THE INDUSTRIALIZED WORLD, THEREBY CONTRIBUTING TO ECONOMIC RECOVERY.

13. THE COUNCIL INTENDED TO PERSEVERE IN A POLICY OF ACTIVE CO-OPERATION FOR THE BENEFIT OF THE DEVELOPING COUNTRIES AND WOULD LIKE TO SEE NORTH-SOUTH DIALOGUE RESUMED WITHOUT DELAY. THE EUROPEAN COUNCIL POINTED OUT THAT THE COUNTRIES OF EASTERN EUROPE ALSO HAD

... THAT THE COUNTRIES OF EASTERN EUROPE ALSO HAD
RESPONSIBILITIES IN THIS CONTEXT.

III. CONCLUSIONS

14. THE EUROPEAN COUNCIL STRESSED THAT THE ECONOMIC RECOVERY OF EUROPEAN COUNTRIES DEPENDED ON INTERNAL ACTION AND EXTERNAL FACTORS WHICH THE COMMUNITY SHOULD CONTRIBUTE TO CONTROLLING MORE EFFECTIVELY WITHIN THE FRAMEWORK OF INCREASED AND BETTER ORGANIZED INTERNATIONAL CO-OPERATION. TO THIS END, THE STRENGTHENING OF EUROPEAN UNITY BY GREATER CONVERGENCE OF ECONOMIC POLICIES WITHIN THE COMMUNITY AND BETTER CO-ORDINATION OF ECONOMIC RECOVERY MEASURES WOULD BE LIKELY TO STRENGTHEN THE COMMUNITY'S INTERNATIONAL ROLE.

AT ITS MEETING AT THE END OF THE YEAR, THE EUROPEAN COUNCIL WOULD UNDERTAKE AN INITIAL REVIEW OF THE IMPLEMENTATION OF THE MEASURES WHICH IT HAD JUST DECIDED ON AND WOULD WORK OUT NEW GUIDELINES.

MANDATE OF 30 MAY

THE EUROPEAN COUNCIL HEARD A REPORT FROM MR TINDEMANS ON THE PROGRESS OF THE WORK OF THE COUNCIL (MINISTERS FOR FOREIGN AFFAIRS) ON THE MANDATE.

THE EUROPEAN COUNCIL ASKED THE COUNCIL OF MINISTERS (FOREIGN AFFAIRS) TO DO ALL IN THEIR POWER TO ENABLE DECISIONS TO BE TAKEN AS SOON AS POSSIBLE.

MEMORANDUM FROM THE GREEK GOVERNMENT

THE EUROPEAN COUNCIL NOTED A STATEMENT BY THE GREEK PRIME MINISTER. THE COMMISSION WOULD MAKE A STUDY OF THE MEMORANDUM SUBMITTED BY THE GREEK GOVERNMENT AND WOULD REPORT BACK TO THE COUNCIL.

FCO ADVANCE TO:

FCO - PS, PS/LPS, PS, PUS, BRIDGES, HANNAY, SPRECKLEY, CROWE

CAB - PS/SIR R ARMSTRONG, HANCOCK, ELLIOTT, GOODENOUGH

TSY - COUZENS, LITTLER, EDWARDS

NO 10. - COLES

FCO PASS SAVING TO:

WASHINGTON

BUTLER

RESTRICTED

GPS 500

RESTRICTED
FRAME GENERAL
DESKBY 301600Z
FM UKREP BRUSSELS 301406Z MAR 82
TO IMMEDIATE FCO
TELNO 1294 OF 30 MARCH
INFO PRIORITY EC POSTS
INFO SAVING STRASBOURG WASHINGTON UKDEL NATO

p.a.
MDL 2/3

MIPT: EUROPEAN COUNCIL BRUSSELS 29/30 MARCH

1. FOLLOWING IS TEXT OF PRIME MINISTER'S STATE ON THE
30 MAY MANDATE:

BEGINS

IT IS DISAPPOINTING THAT THE FOREIGN MINISTERS
HAVE SO FAR BEEN UNABLE TO COMPLETE THE TASK WHICH
WE SET THEM LAST NOVEMBER AT LANCASTER HOUSE DESPITE THE
SERIES OF MEETINGS THEY HAVE DEVOTED TO IT. THEY HAVE
BEEN UNABLE TO REACH AGREEMENT ON THREE KEY PROBLEMS:
A FINANCIAL GUIDELINE ON THE CAP, MILK AND THE BUDGET PROBLEM.
IT WOULD NOT BE IN THE COMMUNITY'S INTEREST FOR
THIS DEADLOCK TO CONTINUE AND IT IS FOR US, AS
HEADS OF STATE AND GOVERNMENT, TO ENSURE THAT THE
NECESSARY INSTRUCTIONS ARE GIVEN TO ENABLE SUBSTANTIVE
SOLUTIONS TO BE FOUND WITHOUT FURTHER DELAY.

THE PRESIDENTS OF THE COMMISSION AND THE COUNCIL
HAVE NOW MADE NEW SUGGESTIONS FOR A METHOD TO SOLVE THE
BUDGET PROBLEM. IT IS GOOD THAT THE NEGOTIATIONS ARE
NOW SERIOUSLY UNDER WAY AGAIN AND THAT THE FOREIGN MINISTERS
HAVE SET THEMSELVES A TIGHT TIMETABLE FOR AGREEMENT BOTH
ON THE METHOD AND ON THE SUBSTANTIVE SOLUTION OF THE
PROBLEM. IT IS UP TO ALL OF US TO MAKE SURE THAT OUR
FOREIGN MINISTERS ARE IN A POSITION TO FIND AN AGREEMENT
BOTH ON THE METHOD AND ON THE FIGURES AT THEIR MEETING
ON 3 APRIL SO AS TO ENABLE EARLY DECISIONS TO BE TAKEN
ON THE THREE CHAPTERS OF THE MANDATE IN PARALLEL AS WE
AGREED LAST YEAR.

AS FOREIGN MINISTERS ARE TO MEET SOON, I DO NOT
WANT TO PRESS FOR A DISCUSSION HERE AND NOW ABOUT THE
DETAILS OF A SOLUTION. I WOULD LIKE, HOWEVER, TO MAKE
A FEW GENERAL POINTS WHICH I HOPE FOREIGN MINISTERS
WILL BEAR IN MIND.

FIRST, WE MUST TRY TO GIVE THE COMMUNITY A PERIOD
OF STABILITY BY TAKING THIS PROBLEM OUT OF THE ARENA

RESTRICTED

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RESTRICTED

OF POLITICAL DISCUSSION FOR A SUBSTANTIAL PERIOD. A BUDGET SOLUTION WHICH INVOLVED EITHER NEGOTIATIONS ABOUT FIGURES EVERY YEAR, OR ANOTHER MAJOR NEGOTIATION LIKE THIS ONE IN TWO OR THREE YEARS TIME, WOULD NOT GIVE THE COMMUNITY THE BREATHING SPACE THAT IT NEEDS IF IT IS TO RESPOND EFFECTIVELY TO THE CHALLENGES PRESENTED BY ITS INTERNAL ECONOMIC PROBLEMS AND AN INCREASINGLY DANGEROUS WORLD ENVIRONMENT.

SECOND, THE METHOD OF CORRECTION MUST DEAL WITH THE PROBLEM IN ITS ENTIRETY AND MUST BE SUFFICIENTLY FLEXIBLE TO ENSURE A FAIR OUTCOME IF CIRCUMSTANCES CHANGE.

THIRD, THE SCALE OF COMPENSATION MUST BE FAIR. AS A LESS PROSPEROUS MEMBER STATE, THE UK COULD REASONABLY EXPECT TO BE A NET BENEFICIARY OF THE COMMUNITY'S FINANCIAL ARRANGEMENTS, ESPECIALLY IN VIEW OF THE COMMON COMMITMENT TO THE CONVERGENCE OF THE ECONOMIES OF THE MEMBER STATES. WE REALISE THAT SUCH A BIG CHANGE IN THE PRESENT FINANCIAL PATTERN WOULD CREAT PROBLEMS FOR OUR PARTNERS AND WE ARE READY TO TAKE ACCOUNT OF THIS. BUT WE CAN SEE NO JUSTIFICATION FOR THE UNITED KINGDOM BEING MORE THAN A VERY MODEST NET CONTRIBUTOR.

THESE SEEM TO ME TO BE ESSENTIAL POLITICAL POINTS WHICH FOREIGN MINISTERS WILL NEED TO BEAR IN MIND. I HOPE THAT WE CAN ALL AGREE THAT IT IS IN THE INTERESTS OF THE COMMUNITY THAT ALL ASPECTS OF THE MANDATE SHOULD NOW BE RESOLVED WITH ALL POSSIBLE SPEED AND THAT WE SHOULD INSTRUCT FOREIGN MINISTERS ACCORDINGLY.
ENDS

FCO ADVANCE TO:

FCO - PS, PS/LPS, PS/PUS, BRIDGES, HANNAY, SPRECKLEY, DEFONBLANQUE
FRY

CAB - PS/SIR R ARMSTRONG, HANCOCK, ELLIOTT, GOODENOUGH, WENTWORTH

MAFF - PS/MIN, SIR B HAYES, ANDREWS

TSY - COUZENS, LITTLER, EDWARDS

NO 10. - COLES

FCO PASS SAVING TO:

STRASBOURG WASHINGTON

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FRAME GENERAL

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PS/LORD PRIVY SEAL
PS/PUS
MR BULLARD
MR HANNAY
LORD BRIDGES

~~RESIDENT CLERK~~

HD/ECD I (3)
HD/NEWS
HD/
HD/.....
HD/.....
HD/.....

PLUS FCO

CABINET OFFICE

PS/D R ARMSTRONG

MR D HANCOCK
MR D M ELLIOTT
MR A M GOODENOUGH

D.O.T.

MR R GRAY
MR R H S WELLS WEG

PLUS OGDS

~~Mr Coles~~ No 10

H M TREASURY

SIR K COUZENS
MR ASHFORD

*Mr Little
Mr Edwards*

M A F F

PS/Minister

SIR B HAYES
Mr Andrews

GRS 1350

CONFIDENTIAL
FRAME GENERAL
DESKBY 301600Z

FROM UKREP BRUSSELS 301405Z MAR 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1293 OF 30 MARCH 1982

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN

LUXEMBOURG ATHENS

INFO ROUTINE WASHINGTON

INFO SAVING STRASBOURG UKDEL NATO

EUROPEAN COUNCIL BRUSSELS 29/30 MARCH

A. ECONOMIC AND SOCIAL SITUATION

1. THE FIRST THREE HOURS WERE TAKEN UP WITH USUAL ROUND OF SET SPEECHES. AMONG THE POINTS MADE, MAINLY BASED ON THE COMMISSION'S PAPER, INTRODUCED BY THORN AND ORTOLI, WERE THE FOLLOWING:

(A) THE NEED TO TAKE ACTION INCLUDING TRAINING TO COPE WITH

(A) THE NEED TO TAKE ACTION INCLUDING TRAINING TO COPE WITH UNEMPLOYMENT AMONG THE YOUNG (NEARLY ALL DELEGATIONS), AND TO REDUCE WORKING HOURS OR SHARE EXISTING WORK (F,L,NL):

(B) THE NEED TO CURB WAGES AND REDUCE CONSUMPTION (D,F,UK), EXPAND COMMUNITY LENDING CAPACITY (I,IRL) IN ORDER TO INCREASE INVESTMENT : WITH DK STRESSING THE PRIMACY OF ACTION AGAINST UNEMPLOYMENT.

(C) THE NEED TO CONVINCING THE USA AND JAPAN TO TAKE ACCOUNT OF EUROPEAN INTERESTS, EG IN MATTERS OF INTEREST RATES, EXCHANGE RATES, PARTLY BY STRENGTHENING EMS (NEARLY ALL):

(D) THE NEED TO CURB BUDGET DEFICITS (B, I, D):

(E) THE NEED TO REDISTRIBUTE INCOMES FROM RICH TO POOR DURING RECESSION, AS A MEANS OF STIMULATING GROWTH (E,F).

2. SCHMIDT LED THE SCEPTICS ABOUT THE EFFICACY OR POSSIBILITY OF COMMUNITY ACTION, BUT SPADOLINI ALSO SPOKE OF THE DIFFERENCES BETWEEN EACH MEMBER STATE'S ROOM FOR MANOEUVRE. MITTERRAND SPOKE AT GREAT LENGTH. HE NOTED THE PROBLEM CAUSED BY MULTINATIONALS WHO ENCOURAGED THE TRANSFER OF TECHNOLOGY TO THE NEWLY INDUSTRIALISING. HE ARGUED FOR THE REDISTRIBUTION OF INCOME: THE STIMULATION OF INVESTMENT IN MAJOR WORKS AND RESEARCH (AGREEING ON THE NEED TO REDUCE CONSUMPTION): THE ENCOURAGEMENT OF EMPLOYMENT: THE REFORM OF THE SOCIAL SECURITY "ASSIETTE": THE NORTH-SOUTH DIALOGUE: DEFENCE AGAINST JAPANESE AND US ACTIONS AND POLICIES. JORGENSEN SAID MUCH THE SAME AS HIS LETTER TO SCHMIDT. WERNER WAS THE ONLY SPEAKER TO SPECIFICALLY TO SUGGEST PUTTING INTO EFFECT THE DRAFT GUIDELINES ON CHAPTER I OF THE 30 MAY MANDATE, BUT OTHERS IMPLIED THE SAME (EG SPADOLINI ON INCREASING THE NIC TO 3 BN ECUS, MAKING IT PERMANENT AND PROVIDING IT WITH INTEREST RATE SUBSIDIES.)

3. THE PRIME MINISTER MADE THE FOLLOWING POINTS:

(A) THE NEED TO TAKE ADVANTAGE OF THE FALL IN OIL PRICES IN THE BEST WAY:

(B) NEED TO TACKLE UNEMPLOYMENT WITHOUT JEOPARDISING THE FIGHT AGAINST INFLATION:

(C) INVESTMENT COULD ONLY COME FROM CUTTING CONSUMPTION: BUT NOT ALL INVESTMENT WAS WORTHWHILE (EG IN SHIPS.

(C) INVESTMENT COULD ONLY COME FROM CUTTING CONSUMPTION; BUT NOT ALL INVESTMENT WAS WORTHWHILE (EG IN SHIPS, STEEL, CARS); ONE SHOULD STRESS INVESTMENT IN NEW TECHNOLOGIES AND IN SMALL FIRMS WHO EMPLOYED MORE LABOUR, WHILE LARGE FIRMS SET WAGE LEVELS TOO HIGH TO THE DETRIMENT OF THE SMALL FIRMS;

(D) NEED FOR TRAINING SCHEMES FOR THE YOUNG UNEMPLOYED;

(E) THE EMPLOYMENT PROSPECTS OF THE FUTURE WERE IN THE SERVICE SECTOR, IN WHICH FREEDOM OF ESTABLISHMENT/MOVEMENT WAS THEREFORE IMPORTANT;

(F) NEED TO TACKLE THE CHALLENGE OF JAPANESE COMPETITION.

4. MARTENS' SUMMING UP INCLUDED A NUMBER OF POINTS WHICH HAD NOT FOUND MUCH SUPPORT AROUND THE TABLE OR HAD NOT EVEN BEEN MENTIONED, SUCH AS COORDINATION OF POLICIES, A GUIDELINE THAT INVESTMENT BE INCREASED BY 1 PER CENT, REDUCING CONSUMPTION BY THE SAME AMOUNT, THAT THE EMS HAD WORKED WELL, THE NEED FOR A JUMBO COUNCIL (VAN AGT). THE PRIME MINISTER RESISTED THE MENTION OF AN INVESTMENT TARGET FIGURE, AND SCHMIDT WARNED THAT THE EMS HAD NOT BEEN INVENTED SO THAT EVERYONE COULD DEVALUE WITHIN IT.

5. A DRAFT TEXT WAS PRODUCED OVERNIGHT, DISCUSSED DURING THE TUESDAY MORNING SESSION AND AGREED.

B. 30 MAY MANDATE

6. TINDEMANS MADE A BRIEF REPORT. AFTER A SILENCE THE PRIME MINISTER SPOKE AS IN MIFT.

7. MITTERRAND AGREED THAT DISCUSSION SHOULD BE RESUMED. FRANCE WAS NOT REFUSING TO EXAMINE ANY ASPECT, BUT ON THE BASIS OF THE THORN/TINDEMANS NON-PAPER IT WOULD BE DIFFICULT WITHOUT DIRECTIVES FROM THE EUROPEAN COUNCIL. HE COULD NOT ACCEPT THE BASIS OF THE THORN/TINDEMANS PROPOSAL.

8. MARTENS MERELY CONCLUDED THAT FOREIGN MINISTERS WOULD NEED TO DO THEIR BEST.

9. DISCUSSION CONTINUED AT THE FOREIGN MINISTERS' DINNER. TINDEMANS TOLD CHEYSSON HE HAD BEEN DISTRESSED BY MITTERRAND'S STATEMENT. CHEYSSON MADE A LONG, INVOLVED AND UNCONVINCING REPLY, THE MAIN THRUST OF WHICH WAS THAT FRANCE COULD NOT AGREE A SETTLEMENT THE OUTCOME OF WHICH WOULD BE AS ILL - DEFINED AS THE THORN/TINDEMANS FORMULA. PRECISE FIGURES WERE NEEDED. (COMMENT: THE MAIN FRENCH

PRECISE FIGURES WERE NEEDED. (COMMENT: THE MAIN FRENCH WORRY SEEMS TO BE THAT THEIR CALCULATIONS SHOW THE FORMULA WOULD YIELD PROGRESSIVE RESULTS FOR THE UK.)

10. DURING AN EXTENDED DISCUSSION, YOU SAID YOU HAD BEEN PUZZLED BY MITTERRAND'S REMARKS. FOREIGN MINISTERS HAD BEEN RESCUED FROM FAILURE BY THE THORN/TINDEMANS FORMULA, AND THE MEETING ON 3 APRIL WAS TO BE HELD ON THE BASIS OF IT. YOU DID NOT LIKE IT ALL, BUT IT WAS A BASIS FOR DISCUSSION. YOUR OTHER COLLEAGUES AGREED; MANY EXPRESSED CONCERN TO CHEYSSON. GENSCHER INTERVENED STRONGLY, WARNING THAT IF THE AFFAIR DRAGGED ON GERMAN DEMANDS FOR ACTION ON THEIR PROBLEM WOULD GROW.

C. DINNER DISCUSSION

11. MITTERRAND REPORTED AT LENGTH ON HIS VISITS TO ISRAEL AND THE USA. THERE WAS SOME DISCUSSION OF EAST-WEST AND US-CHINA RELATIONS. PAPANDREOU RAISED THE QUESTION OF THE TURKS IN CYPRUS: GREECE WAS PREPARED TO PAY THE WHOLE COST OF REPLACING THE TURKISH ARMY BY UN TROOPS.

12. VAN AGT RAISED COMMUNITY REPRESENTATION AT THE VERSAILLES SUMMIT AND OTHER SMALLER STATES SUPPORTED HIM. THE PRIME MINISTER SAID SHE HAD NO OBJECTION TO BOTH PRESIDENTS ATTENDING, BUT THEY WOULD NEED TO SORT OUT WHO WENT TO WHICH DISCUSSIONS. SCHMIDT SAID THAT THE NON-EUROPEAN PARTICIPANTS WOULD THINK THAT THE COMMUNITY WAS OVEREGGING IT IF IT WAS REPRESENTED BY SO MANY PEOPLE.

13. SCHMIDT SAID THAT THE FRG WAS PREPARED TO HELP THE HUNGARIANS WITH THEIR DEBT PROBLEM, AS DID THE PRIME MINISTER AND VAN AGT. THERE SEEMED TO BE GENERAL AGREEMENT THAT IT WOULD BE BETTER TO RESCHEDULE POLAND'S DEBTS RATHER THAN HAVING AN ENFORCED DEFAULT. BUT THE WHOLE FUTURE OF CREDIT TO EASTERN EUROPE SHOULD BE EXAMINED. AT THEIR SEPARATE DINNER FOREIGN MINISTERS ALSO DISCUSSED THE OUTCOME OF THE BUCKLEY MISSION IN THE CONTEXT OF THE DRAFT EUROPEAN COUNCIL DECLARATION. (THEY ALSO DISCUSSED THE OTHER POLITICAL COOPERATION TEXTS.)

TUESDAY 30 MARCH

D. GREECE AND THE EC

D. GREECE AND THE EC

14. PAPANDEOU INTRODUCED THE GREEK PAPER ON THE EXPECTED LINES, WITH A SIDE-SWIPE AT NATO'S FAILURE TO RESPOND TO THE HIGH LEVEL OF GREECE'S CONTRIBUTION TO THE ALLIANCE BY DEFENDING GREECE'S FRONTIERS (IE AGAINST TURKEY). THORN SAID THAT THE COMMISSION WOULD MAKE ITS FIRST RESPONSE NEXT MONTH AND REPORT TO THE COUNCIL IN JUNE.

E. CONCLUSION

15. AFTER DETAILED EXAMINATION OF THE DRAFT PRESIDENCY CONCLUSIONS ON COMMUNITY AND POLITICAL CO-OPERATION MATTERS THE MEETING ENDED SHORTLY AFTER 2.00 PM.

16. PRESIDENCY CONCLUSIONS ON COMMUNITY MATTERS IN MY SECOND IFT AND ON POCO MATTERS IN MY THIRD IFT.

FCO ADVANCE TO:-

FCO - PS PS/LPS PS/PUS BRIDGES HANNAY SPRECKLEY CROWE
CAB - PS/SIR R ARMSTRONG HANCOCK ELLIOTT GOODENOUGH
MAFF - PS/MINISTER SIR B HAYES ANDREWS
TSY - COUZENS LITTLER EDWARDS
NO 10 - COLES

FCO PASS SAVING TO STRASBOURG

BUTLER

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GPS 250
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DESKBY 301630Z

FM UKREP BRUSSELS 301530Z MAR 82

TO IMMEDIATE TEL AVIV

TELNO 1 OF 30 MARCH

INFO FCO

EUROPEAN COUNCIL 29/30 MAY: MIDDLE EAST

1. FOLLOWING IS TEXT OF PRESIDENCY CONCLUSIONS ON MIDDLE EAST.

THE EUROPEAN COUNCIL DISCUSSED DEVELOPMENTS IN THE MIDDLE EAST. DEEPLY CONCERNED BY THE GRAVE EVENTS TAKING PLACE IN THE WEST BANK, THE EUROPEAN COUNCIL APPEALED URGENTLY FOR AN END TO THE DANGEROUS CYCLE OF VIOLENCE AND REPRESSION. IT PARTICULARLY DENOUNCED MEASURES IMPOSED ON THE PALESTINIAN POPULATIONS SUCH AS THE DISMISSAL OF DEMOCRATICALLY ELECTED MAYORS BY THE ISRAELI AUTHORITIES, AS WELL AS THE VIOLATIONS OF THE LIBERTIES AND RIGHTS OF THE INHABITANTS OF THESE TERRITORIES WHICH FOLLOWED THE MEASURES TAKEN BY ISRAEL WITH REGARD TO THE GOLAN HEIGHTS, AND WHICH COULD ONLY DAMAGE THE PROSPECTS FOR PEACE.

CONCERNED AT THE CONTINUING CLASHES IN THE LEBANON, THE EUROPEAN COUNCIL URGED ALL THE PARTIES INVOLVED TO RENOUNCE THE USE OF FORCE AND TO ASSURE CONDITIONS FOR THE RESPECT OF THE FULL SOVEREIGNTY AND TERRITORIAL INTEGRITY OF THE COUNTRY.

IT FURTHERMORE REAFFIRMED THE WISH OF THE TEN, EXPRESSED ON MANY OCCASIONS, TO CONTRIBUTE TO THE ACHIEVEMENT OF A JUST AND LASTING PEACE IN THE MIDDLE EAST.

THE PARTICIPATION OF FOUR MEMBER STATES OF THE EUROPEAN COMMUNITY IN THE MULTINATIONAL FORCE AND OBSERVERS IN SINAI (MFO) WAS A POSITIVE CONTRIBUTION IN THE CONTEXT OF THE FORTHCOMING COMPLETION, ON 25 APRIL, OF THE ISRAELI WITHDRAWAL FROM SINAI.

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