



Foreign and Commonwealth Office
London SW1

30 April 1981

Mr Scott and Edwards

You kindly wrote to Peter Carrington, Douglas Hurd and me on 16 April, enclosing copies of your excellent paper on the forthcoming UK Presidency. I should like to thank you for it on behalf of all of us at the FCO - and, if that is acceptable, on behalf of Francis Pym (and perhaps others) to whom you have also written.

I was very glad to see how closely your approach and ours coincide. In particular you have highlighted the basic but, I hope, manageable dilemma of how to make public opinion aware of the inherent limitations and constraints on a Presidency while at the same time not missing the opportunities a Presidency offers to demonstrate that the UK can play a leading and positive role in the Community. The detailed ideas in your paper provide a most useful quarry. For the most part they cover the same ground as our own thinking and come to the same conclusions, but you have also suggested some new and potentially attractive areas of Community activity which we will look at closely and with interest.

I should perhaps also mention that in certain areas you have made proposals which we had already considered carefully but come to different conclusions from yours. The list is short:

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- a. The 'jobs depend on Europe' theme needs to be carefully handled given that until very recently we have been running a trade deficit with the rest of the Community. The inward investment from third countries aspect, though unquantifiable as to the Community considerations which lead to inward investment decisions, is probably more cogent than attempting to relate exports to jobs;
- b. 'Jumbo' Council (foot of page 6). For your information, we would rather not have any follow-up meeting and certainly not preside over one. We see dangers in institutionalising such meetings which always carry the risk of raising expectations which cannot be fulfilled;
- c. Health care (page 7, paragraph xv). I fear the abolition of the E 111 Form will take a great deal longer than the time available to us. Although the idea has a number of attractions, it would be unrealistic to build up hopes for rapid progress at this stage;
- d. Forestry (page 8, paragraph xix). Our own analysis of the Commission's proposals has led us to conclude that they would not benefit the UK;
- e. European Parliament (page 9). We entirely share your view that the Parliament's goodwill can be a valuable asset and we should seek it. We will certainly treat them 'seriously and courteously'. Douglas Hurd has been given specific responsibility for assisting Peter Carrington in this field. He has already visited Strasbourg to call on the President and other leading members, and plans to do so again during the June session. But two of your specific proposals raise problems for us:
- (i) We have doubts about the wisdom of the Prime Minister participating in either of the two major Parliamentary occasions (the report on the European Council in December and the inaugural statement in July). The fact is that there is no unanimity in the European Council and even the Dutch, for all their European fervour, did not feel it wise to invite trouble in the Council on this. Peter Carrington will therefore probably take this on;
- (ii) He will also conduct both Colloquies with the

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Political Affairs Committee in Strasbourg not London. I know that some British MEPs have been pressing for London but we have explained to them that for various reasons we would prefer to send one man to Strasbourg rather than bring sixty of them to London (both meetings of Foreign Ministers in Political Co-operation, on which Peter Carrington will be reporting to the Parliament Political Committee, fall in weeks when the Parliament will be in session).

Finally, three points of omission in your paper, one general and two others more particular:

- a. although you make a passing reference in the second paragraph on page 2 to 'Europe is good for Britain's voice in the world', I think you may be underrating the possibilities in this area. We believe that the whole theme of Europe's role in the world, eg North/South issues, the Middle East etc, has considerable public appeal;
- b. you perhaps do less than justice to David Howell at the foot of page 7 by making no reference to his coal initiative last year (though the slow progress since that initiative is an indication of the difficulties that lie ahead in this area which perhaps too obviously benefits the UK);
- c. You do not mention enlargement. While we would not wish to raise hopes that decisive progress will be made under our Presidency, we will be pressing ahead firmly with the Spanish and Portugues accession negotiations.

Thank you for sending us your most helpful thoughts.

May I also take this opportunity to thank you for your further letter of 22 April setting out the list of objectives adopted by the EDG members of the Political Affairs Committee.

John
La Cour

BJR Unkredy
emg 17 May (9.5.)

A CONSERVATIVE PRESIDENCY

INTRODUCTION

It is clear that the amount which can be achieved during a six-month Presidency, except where external crises accelerate the rate of decision-making, is very limited. Accordingly, the Government will wish to be selective in setting itself objectives for the period, our feeling is that Ministerial speeches over the coming months should avoid reference to the British Presidency as being a time when much can be achieved. On most fronts we will probably do well if we can do more than inch forward.

Set against these considerations, however, there is an extremely urgent political need to make the maximum impact on public attitudes towards the Community. Shortly after the Government was elected, public support for Britain's Community membership stood at its highest level since the Referendum, although the hard-core of support was somewhat lower than in 1975. Following the lengthy dispute over Britain's net contribution to the Community Budget three opinion polls taken in the autumn of 1980 showed that public approval of the Community had fallen to under a quarter of the electorate. The under-resourced "campaign" of Ministerial speeches has had only a marginal effect upon public opinion, whilst the publicity achieved by the "good news" from the Community (eg. Budget refunds, steel quotas, improvements in foreign policy co-operation) has been far outweighed by adverse publicity (eg. Euro-junkets, fishing). If we are to make any headway in neutralising public hostility prior to the election, we must make good use of the six month period, since our margin for manoeuvre is likely to be limited thereafter (assuming that negotiations over the restructuring take at least 18-24 months).

Subject to a number of provisos (eg. Giscard being reelected and there being no dramatic effect on the German Federal Government flowing from the Berlin election), the Presidency will take place against a background of relative governmental stability, with no elections scheduled in the five largest Member States for at least eighteen months. This will present a rare opportunity for slightly greater "give and take" in negotiations.

The great advantage that the Presidency does offer is the opportunity for British Ministers to be seen to be playing a leading role at the helm of the Community. Although the Government may feel somewhat constrained during its period in the Chair from fighting too overtly to promote purely British interests - which the UK was accused of doing in 1977 - there are many areas where it is in the interests of both Britain and the Community for progress to be made.

The two underlying themes which we should be aiming to put across in relation to our Community membership are that "jobs depend on Europe" and that "Europe is good for Britain's voice in the world, and is a force for peace". In addition to that, for the sake of our own supporters we should be aiming to cultivate an image of a Conservative Presidency with an emphasis on streamlining working methods (reducing bureaucracy?), an assertive role in world affairs and liberalisation of services (air fares, insurance).

Ministers will not have many further opportunities to put the anti-Marketees onto the defensive before the next General or European elections. The period of the Presidency should serve to underpin, with facts and evidence, the political, commercial and economic arguments for membership. Every possible opportunity should be taken to show that the United Kingdom is influential in determining, and vital to, the Community's future.

THE ISSUES

This paper makes two assumptions. The first being realistic, and the second optimistic:

- that the one per cent ceiling has receded sufficiently so as not to be reached before the second half of 1982, at the earliest;
- that a fishing agreement will either be completed following the French Presidential elections, or failing that, the issue will not cause a breakdown in relations with our Community partners.

The Commission's proposals on the restructuring of the Budget should be discussed for the first time by the European Council at the end of June. As the prospects for an overall package agreement or for radical progress inside eighteen months are fairly remote then we must keep the temperature as low as possible during the

early stages of the negotiations. Short of a Directive harmonising royal marriages, few things could be more disastrous in terms of public opinion than for a centrepiece of our Presidency to be a bloody battleground with no conclusive victor. Hence whilst these major negotiations rumble on we should be seeking to highlight Europe's place in the world and small advances which might be made in the specialist Councils.

FOREIGN POLICY CO-OPERATION: This area could be dominated by a Soviet intervention in Poland. The effect of such an event in transforming the political climate of Western Europe is outside the scope of this paper. Suffice it to say that a seriously divided Community response to such a crisis could do immense damage to the credibility of the Community in Britain, whilst a tough and united approach could play a major part in turning opinion round. The three other areas in which there may be political mileage are:

- i) The Middle East: the international political advantages of the Community being seen as a peace-broker would be enormous; the domestic political advantage for this process to be led by British Ministers would be equally great. Nevertheless, we must be sensitive to certain sections of public opinion which would be quick to paint the government as "anti-Israeli" or pro "terrorist", in its handling of negotiations with the PLO.
- ii) Political Co-operation Secretariat: foreign policy co-operation has traditionally been the most electorally popular aspect of the UK's Community membership and if the UK was seen to be playing a leading role in achieving more effective European responses to world events this could be of some help. This will only be the case however if the principle is not lost in the divisions of opinion over the nature of the mechanism or the detailed constitution of any Secretariat.
- iii) Another issue on which we might try to make headway, although this depends upon progress on the Middle East initiative, is in the Euro-Arab dialogue. Failing progress in this area, we may be faced with a cut in Gulf oil production and a consequent increase in the price of oil; worse still, the international monetary system could be further imperilled.

On a quite separate point, the Community's relations with Turkey might cause problems: the Labour Party may try to embarrass H.M.G. on supposed

"reasonable standards" around the anniversary of the military coup in September; and pressure will almost certainly come from some sections of the European Parliament to suspend the Association Agreement.

TRADE AND INDUSTRY

iv) Trade with Japan: Ideally any further initiatives in this area during the British Presidency should be geared towards encouraging more European exports to Japan rather than putting the emphasis on restricting their imports. As the Japanese seem keen to explore the possibilities for a closer relationship with the Community in the political co-operation sphere there may be potential for progress, and if the Community collectively can be seen to achieve things not achieved by individual Member States it would be a valuable counter in the "jobs depend on Europe" argument.

v) Anti-Dumping: The effectiveness of the Commission's anti-dumping staff has been under attack for some time, from the European Parliament, the CBI and from the so-called European Reform Group. We could perhaps use the Presidency to: encourage the Council to accept in the 1982 Budget a realistic appropriation for covering the cost of better staffing for the Commission's unit (the EDG are willing to be helpful in this context); introduction of more rigorous anti-dumping procedures against Eastern European non-GATT signatories (East Germany, Bulgaria); better use of Member States' trade representatives in providing information on costs and prices in an offending supplier's country; shifting the burden of obtaining and verifying price and cost information from the complainant to the defendant. In this technical area where there is widespread concern about the efficacy of the Commission's present operating methods; there could be considerable scope for success.

vi) Multi-Fibre Arrangement: Negotiations will proceed for a renewal of the MFA to run from January 1982. Although the Commission's mandate will have been set during the Dutch Presidency, the renewal will be signed before the end of our Presidency and we might be able to claim some credit at home for whatever results. The results will clearly be of importance to our fortunes in the marginal seats of the North-West and West Yorkshire. One problem may be that, however good the deal may be in preserving jobs, the textile industry will always claim that something better could have been negotiated. If the industry does overdo it then the consumers' organisations should be encouraged to put their viewpoint rather more forcefully.

viii) Non-tariff barriers to Trade: The Davignon Initiative which followed the Cassis de Dijon case seems to have become bogged down in the Council. It would be consistent with the theme of a "Conservative Presidency" to be seen to be adopting a "global" approach to the problem of NTBs, thus freeing trade but with the minimum of harmonisation. Concentration on this issue can be portrayed as being useful in assisting the completion of the Common Market and thus having a helpful effect on the level of employment by increasing the level of trading activity. NTBs are a considerable handicap, in some sectors, working against the growth of export orientated small firms.

ix) Liberalisation of Insurance Services and Air Fares: The Dutch have been trying to accelerate the passage of the non-life insurance directive which the Government would presumably like to see emerge from the Council during our Presidency. The net benefit to the City of £55 million a year should be fully publicised if this is achieved.

More difficult in the liberalisation sphere is the touchy matter of air fares. It would however be one of the most electorally attractive causes to carry forward given the relatively large popular benefit which would result. If, however, the chances of success look remote due to the somewhat unhealthy state of most of the State-run European airlines then rather than have a damaging failure it may be better to leave the issue on the back-burner. If we are seen to be championing liberalisation in most of the service sectors, then we may also come under pressure to be more forthcoming in regard to shipping.

x) Steel Quotas: Agreement now looks probable between the major European steel companies for a reasonable production and price regime, which stops the Government from being saddled with an immediate crisis with Germany over extending the compulsory steel quotas at the beginning of July. Insufficient mileage has been made by the Government over the very constructive part which the Community has played in providing a stable market framework for restructuring BSC. Any decision on ECSC finance for social measures for redundant steel workers during the Presidency will also merit wide publicity.

The Government could promote the German initiative on the phasing out of national aids to the steel industry, if no final position is agreed on this during the Dutch Presidency. This is an eminently "Conservative" issue; and the UK could even look to other areas where we could seek rationalisation of national aids to industry which are competitive between Member States. Nevertheless, the British Government risks accusations of hypocrisy, having just got our aid to BSC and BL through.

xi) Telematics: Although there has been much discussion over the development of the European electronic and telecommunications industries there has been little progress in agreeing what role the Community might have in encouraging a more competitive European high-technology sector which can make up lost ground in relation to the Americans and Japanese. In September 1980 Etienne Davignon suggested that if no agreement was reached in the telematics sector by the end of 1981 then the task of fostering an innovative European industry would become much harder. The Government have declared themselves in favour of limited Community involvement and it could be an electorally attractive area for further progress.

xii) Regional Policy: The Commission will be producing a proposal for a new ERDF Regulation following the extension of the original Regulation to cover the first year of Greek membership. The Government might consider whether there should be greater provision within the ERDF for urban renewal projects, it is arguable that the current fund is too rigid and that an extension of its activities in this direction could be of benefit to the UK. This should be consistent with the Government's desire to concentrate regional aid in the areas of greatest need.

SOCIAL AND EMPLOYMENT

Although no major initiative to combat unemployment is likely or probably desirable, if the Dutch Presidency's "jumbo Council" is successful, the Government might consider holding a follow-up meeting. If handled with care, such an event could be helpful domestically.

xviii) Improving the information flow on job vacancies in the Community: Better information on job vacancies could be achieved at little net cost through improvements to the SEDOC machinery. Such an initiative would not only be "communautaire" but would also be furthering a Conservative ideal of improving the geographical mobility of labour. The presentation of this initiative needs to circumvent likely allegations of exporting British unemployment, or making it easier for skilled British workers to go and work for our competitors.

xiv) Disabled People: To coincide with the International Year of Disabled People, the Commission are due to produce new proposals on Community action. The Government might suggest that these should include: freer access to public transport (to a limited extent British Rail are already doing this); the improvement of facilities for disabled people at major airports; a review of practices in Member States relating to the employment of the disabled; the encouragement of educating physically disabled children in normal schools where possible; and a review of the practices of Member States in relation to charging VAT on charities working with the disabled and on aids for the disabled (the Government of course took action on this front through the Budget).

xv) Health Care: Particularly with the advent of the "European" Passport it should not be necessary for British citizens travelling within the Community to fill-out Form E111 in order to obtain free health care in other Member States. Anyone in need of treatment should be able to get it through presenting his Euro-passport - which might, if accepted, make it easier to sell the new passport format on grounds other than the rather unexciting territory of "machine readability".

ENERGY

This may be an area for further development in the overall restructuring negotiations, but during the Presidency, there are two areas where action could be taken.

xvi) Energy Subsidies: It would be popular both with British industry generally and with the horticultural industry in particular if the draft directive on transparency of energy subsidies could be promoted.

xvii) Coal: In the context of the Community's expressed desire to reduce its dependence upon imported oil perhaps progress towards creating new mechanisms for investment in indigenous coal production would be desirable.

AGRICULTURE

Restructuring negotiations will dominate this sector, however the Government might be able to make some progress on a few fronts:

xviii) National Aids to Agriculture: No comprehensive record of national aids is available after 1975. Whilst we may wish to reserve our position on the debudgetisation of certain of the social aspects of CAP spending we should at present be arguing for the current system of national aids to be brought into a coherent framework as a first stage in controlling them. It would be helpful if the Commission were instructed to produce an appropriate report.

xix) Forestry: The Commission's forestry package has been stuck in Council since 1978. It is an area where progress would probably be in both British and Community interests, not least because timber is currently the second largest raw material import of the Community, after oil. World availability of timber is expected to fall in the near future thus causing the cost to rise - a co-ordinated programme would help the Community to meet this potential crisis.

INSTITUTIONAL QUESTIONS

xx) The Council: The Government will no doubt have a number of schemes for improving the technical efficiency with which the Council discharges its functions. Not being amongst the cognoscenti in relation to the mysterious workings of the Council we would tentatively hazard two comments:

a) Co-ordination of Specialist Councils: Not only does co-ordination seem to be lacking between Government Departments on European matters in Britain but also between many of the Community's Specialist Councils. The attempt this year to rectify this between the Finance and Agriculture Councils did not perhaps produce the results which might have been hoped for but further efforts should be made.

b) Draft directives: The CBI's recent paper on the "Impact of EEC Legislation on British Business" does make the point, among others, that draft directives do get lodged in the Council for extraordinarily long periods and cause uncertainty by their presence on the horizon. Whilst their idea of an automatic guillotine would probably encourage

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even more delaying tactics, perhaps there might be scope for a review of the current issues at various stages of Council consideration with a view to sending back to the Commission any proposals on which there is not a remote possibility of agreement.

xxi) The European Parliament: The Parliament is often an irritable institution which stands on its dignity. A great deal can be achieved, however, in gaining its goodwill by treating it seriously and courteously. In party political terms it is also important for the Parliament to regain some popularity in this country, otherwise not only will we lose many of our current MEPs in the 1984 direct elections but we will also find them to be less effective as exponents of the benefits of Community membership on a local level.

In furtherance of a policy of giving relations with the Parliament a certain degree of priority the Government might consider four points:

- a) Not only during the Presidency, but also more generally, the Government could use the sixty Conservative Members in the EDG for floating new ideas or giving trial runs to new initiatives. We are never likely to have such massive over-representation and such a well-disposed, homogeneous and well-disciplined Group in the European Parliament.
- b) If the Prime Minister were prepared to ride-out the wrath of the French, a great boost for relations between HMG and the Parliament would be for her to give an account of the proceedings of the European Council to the Parliament. This would also serve as a major focal point for the media. Another option would be for the Prime Minister, with whom our European policy is closely identified in the Community, to present the programme for the Presidency.
- c) One of the colloquys with the Political Affairs Committee should be held in London.
- d) Improvements to the current chaotic budgetary procedure need to be initiated. Perhaps a Council/Parliament working party could be set up to suggest procedural reforms in time for the 1983 Budget round.

OVERALL PRESENTATION

In addition to the increased media coverage which should result from the British Presidency, which will hopefully be of a marginally more helpful nature whilst we occupy the Chair, the European Democratic Group will launch their major pamphlet of the year "Here to Stay" at the end of June. There will also be a Conservative Party Political Broadcast on the Community in the late Autumn.

A broad range of constructive initiatives from Britain over a longer period than just the Presidency should help to emphasise to our partners that Britain is in the Community to stay - and on equal terms.

An extremely helpful development in removing the most glaring example of how a two-speed Community could come about would be if interest and exchange rates were to move in such a way as to make it feasible for the Government to carry out its stated intention of taking Sterling into the EMS. This would probably only be practicable within the 6% fluctuation framework used for Italy. Whatever else followed in other negotiations, joining the EMS would place beyond doubt in the minds of our partners the Conservative Government's commitment to full participation in the Community. Membership might also provide a further buttress to the Government's economic policies.

Of course there are too many issues mentioned above for them all to be pursued with any substantial vigour. However, it is vital that an impression of progress and momentum in the Community is conveyed in at least some areas in order to distract attention from what may be an initially frustrating period in the restructuring negotiations.