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NOTE

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Foreign & Commonwealth Office
June 1980

- 5 EMO/EMR (Contingency Brief)
- 6 Employment and Social Policy
- 7 Preparation for Economic Summit : Economic Aspects
- 8 Energy
- 9 North/South
- 10 Trade: Relations with Industrialised Countries
- 11 Preparation for Economic Summit : Political Aspects
- 12 International Monetary Problems
- 13 Report of the Three Wise Men
- 14 President of the New Commission
- 15 Political Cooperation (including Middle East,
Iran and Afghanistan)
- 16 Common Judicial Area

Foreign and Commonwealth Office
5 June 1980

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EHG(V)(80)1

5 June 1980

COPY NO 74

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

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12/13 JUNE 1980

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This is the second European Council of the Italian Presidency. The third of the year will be held on 1/2 December under Luxembourg Presidency.

2. There will be satisfaction among Heads of Government that the budget problem has been settled without further recourse to the European Council. It will leave them free to devote this meeting of the Council to its original purpose of providing an opportunity for informal and wide ranging discussion rather than of settling contentious issues that could not be dealt with by the Council of Ministers. This will be all the more important on this occasion when the Middle East will form an important focus of attention. Otherwise the main business will be to prepare for the Economic Summit in Venice on 22/23 June.

3. The timetable for the meeting is at Annex A.

AGENDA AND DOCUMENTATION

4. As usual 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 in the Community

Commission Paper

(2) Energy

Commission Paper

(3) North/South

Commission Paper

}
in preparation
for the Economic
Summit

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- (4) Relations with Industrialised Countries } in preparation
Commission Paper } for the Economic Summit
- (5) Three Wise Men's Report
Presidency Report
- (6) International Monetary Problems
- (7) Employment
Commission Paper

There will also be discussion of international questions, especially the Middle East. And the Presidency have confirmed that the European Council will probably also choose the next President of the Commission. Each Head of Government is free to raise other subjects. The order of discussion will be for the Council itself to settle.

UK OBJECTIVES

- 5. (a) to give the smaller countries an opportunity to contribute to the Economic Summit, while keeping our hands free of Community commitments;
- (b) to secure agreement that the Economic Summit should also serve as a demonstration of the political solidarity of the West and Japan in the face of the Soviet expansionism;
- (c) to discourage the Commission proposal on North/South;
- (d) to agree a statement on the Middle East and to invite the Presidency to take agreed follow up action in consultation with others in the Nine.
- (e) to get agreement on the implementation of as many of the Wise Men's proposals as are acceptable to us;
- (f) to avoid a lengthy discussion of employment.

OBJECTIVES OF OTHER GOVERNMENTS

- 6. All our partners wish to devote the bulk of discussion to preparations for the Economic Summit. The Commission have

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produced three papers. Trade is unlikely to feature prominently. Energy has been largely prepared by the IEA Ministerial meeting on 22/23 May. This means that our partners' attention may focus on North/South matters in which they tend to be more optimistic and to take a more active interest than ourselves. They will wish to

- (a) express concern at the financial problems facing LDCs;
- (b) perhaps, endorse the idea of a North/South summit;
- (c) give political impetus to the Global Negotiations to be held at New York early next year;

We shall have to ensure that we make no new or implied financial commitments. This will not be easy but it should be possible to find some form of words.

- 7. On the Middle East our objectives will be shared by most others though doubts remain about the French who may press for language which would be provocative in the United States.
- 8. All Member States, especially the smaller ones, will want to get agreement on as much of the Wise Men's Report as possible.
- 9. It is not clear what useful purpose will be served at this stage in a discussion of international monetary problems and employment. On the latter the Presidency want a take-note discussion of coordination of national employment and training services and work sharing.

TACTICS

- 10. Now that the budget problem has been settled, we shall want to be seen to be playing a constructive part in influencing foreign policy and Community business on a level with France and Germany, but also listening to the views of smaller Member States (who were aggrieved at not being adequately consulted over the budget settlement, and are of course excluded from Economic Summits). In this way we shall be able to get away

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from the 8 - 1 situation which developed during the budget negotiations, and this will help to pave the way for progress on important Community business in which UK interests will be involved in the coming months : implementation of the budget settlement, fish and restructuring of the budget.

11. The discussion of the Economic Summit is intended mainly to enable the smaller countries to have their say. Provided that the course of discussion is satisfactory, the running can be left to the Presidency and the Commission. There is, however, a Commission proposal on North/South matters (Brief No 12) which we should discourage without, if possible, taking the lead.

/SUMMARY

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SUMMARY OF BRIEFS

POLITICAL CO-OPERATION (Brief No 15)

12. The European Council will consider a report by Foreign Ministers on the Middle East, making the case for a move by the Nine. It will probably recommend a new statement by the Council and put forward for consideration a draft which clarifies the Nine's position on some of the key issues. The draft is likely to incorporate the idea of subsequent soundings by the Nine (through the Presidency or an emissary) of all the concerned parties and a cautious restart of the Euro-Arab dialogue. The aim of the soundings would be to explore what further steps towards a comprehensive settlement might be taken, bearing in mind the need to retain US and Israeli goodwill as far as possible. Expectations of an initiative by the Nine are widespread. Tension in the area is high, particularly following recent violent incidents on the West Bank. Other probable topics for discussion will be East/West relations where our objective will be to stimulate a serious discussion and re-establish a stronger Western consensus following Giscard's meeting with Breznev; and Iran where a number of possible avenues currently being explored could lead to a resolution of the hostage problem. Meanwhile no further European action on Iran seems likely to be helpful.

ECONOMIC SITUATION IN THE COMMUNITY (Brief No 4)

13. There was a full discussion on this at Luxembourg. The ground will not probably need to be covered again in any detail. But the wide measure of agreement already reached that tackling inflation is the first priority was useful and could be reaffirmed if necessary.

14. There is unlikely to be any substantive exchange on the EMS or the establishment of the European Monetary Fund (Brief No 5). The latter was discussed at Luxembourg and referred back to the Monetary Committee.

/EMPLOYMENT

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EMPLOYMENT (Brief No 6)

15. We want employment dealt with in a low key. None of the proposals on work sharing is likely to be helpful to the UK. (They will probably include proposals on the controlled use of temporary work, on part-time workers, on overtime working and flexible retirement).

16. A satisfactory outcome from our point of view would be for the European Council to take note of the outcome of the Social Affairs Council and work currently in hand. We should resist attempts to give the Commission high-sounding instructions, which raise expectations and impose burdens on industry.

VENICE ECONOMIC SUMMIT
ECONOMIC ASPECTS (Brief No 7)

17. The Presidency intend discussion to be based on the Commission's papers on energy, North/South matters and relations with industrialised countries. These are covered in brief nos 8, 9 and 10 respectively.

18. The Council meeting is an opportunity for non-Summit members to have their say so that the Italian Presidency can take due note.

19. Preparatory work for the Economic Summit is well advanced. The primacy of the fight against inflation is likely to be the main theme. Energy will also be important; we hope the stress will be on medium term issues. Neither trade nor international monetary reform are likely to be prominent (see also para 27 below).

Energy (Brief No 8)

20. The Commission Report outlines progress made on energy matters since the last European Council. We expect discussion of energy issues in preparation for the Venice Economic Summit to be brief. The Venice Economic Summit should concentrate on long term issues. The Commission Report should reassure non-Summit member states that Summit discussions on energy will take their interests into account.

/North

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North/South (Brief No 9)

21. Other Heads of Government are likely to show interest in this subject. The Commission have proposed an initiative in the financial field and a North/South Summit. We should discourage both but preferably without taking the lead. Our main partners are likely to be cautious about the North/South Summit which, in any case, the Mexicans and Austrians have in hand. We should argue that the International Financial Institutions (IFIs) have measures in hand; the best course for the Community is to support them.

22. We should, nevertheless, make clear our concern about the serious problems facing LDCs and the need for practical solutions. We must also take account of the need to preserve the Community's political interests, eg by avoiding giving an unduly negative impression.

23. Others may raise the possibility of a Dialogue with oil producers. We should acknowledge their crucial role but advocate caution. Global Negotiations are too cumbersome. Discussions with OPEC as an organisation could strengthen the hard-liners. Any smaller members (eg Gulf producers) would be nervous of their OPEC flank. It would be best to express readiness to talk while feeling our way forward.

Relations with Industrialised Countries (Brief No 10)

24. The Council will have before it a report by the Commission on EC relations with the United States and Japan. We should endorse the conclusion that the EC should continue to cooperate with the other major industrialised countries in seeking to maintain an open world trading system.

VENICE ECONOMIC SUMMIT : POLITICAL ASPECTS (Brief No 11)

25. In view of the strains among the allies caused by divergent reactions to the Soviet invasion of Afghanistan, there is a need to use the Venice Economic Summit to reassert the underlying cohesion of the West and Japan.

26. The French were reluctant earlier to see this 'economic'

/summit

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summit used for political purposes, and still more reluctant to associate themselves with American-led opposition to the Soviet Union. In public they are modifying their stance on the first point (and more so in private). They have now agreed to discuss political matters at Venice but may wish to limit reference to this in the communique to language so general as to weaken the public impact and miss the objective of demonstrating solidarity.

INTERNATIONAL MONETARY PROBLEMS (Brief No 12)

27. It is not yet clear how the Presidency plan to handle discussion of this item. Although they have not specifically included it in the list of items for discussion in preparation for the Economic Summit, they probably intend it as an opportunity for non-Summit members to express their views before the Summit. There are no special UK points to make. If there is discussion the UK interest is to seek agreement that existing institutions must be built upon. Some discussion of re-cycling is possible depending on the outcome of the ECO/FIN Council on 9 June.

THREE WISE MEN (Brief No 13)

28. The meeting will have before it a document from Foreign Ministers seeking the European Council's endorsement of those of the Wise Men's proposals on which agreement has been reached and its decision on those that are still disagreed. Of the latter the most important is the size of the Commission. Our position is that the status quo should be maintained until the accession of Spain and Portugal.

PRESIDENT OF THE NEW COMMISSION (Brief No 14)

29. At Luxembourg the European Council agreed to the proposal of the Three Wise Men that the President of the Commission should be appointed six months in advance of taking office. Since Mr Jenkins' term ends on 31 December, a decision on his successor should therefore be taken at or shortly after Venice. No consensus has yet formed. Early runners were Gundelach (who is now however reported to have withdrawn) and Thorn (not yet an /official

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official candidate but known to want the job). The Irish have talked of running O'Kennedy. We do not regard any of these as 'papabile'. Much more interesting from our point of view is the possibility of an Italian candidate. The Italians are keeping their cards close to their chest, but a Pandolfi candidature is increasingly talked about, with speculation that Colombo is an alternative possibility. We would want to support either. The French are reported to be in no hurry to come to a decision; and, if only unsatisfactory names are put forward at Venice, nor are we.

BUDGET AND RELATED ISSUES (Brief No 3)

30. There should now be no need for a substantive discussion of this subject. The Council of Ministers and the Commission should be encouraged to solve any points of detail and to prepare the legal instruments to put the decisions into effect expeditiously. Work will be proceeding on the implementation of the settlement. It is too early to know how matters will stand by the time of the European Council. The question is also likely to be linked with the wish for an early adoption of the 1980 budget, with the 1981 budget procedures following close behind. A supplementary brief will be provided if necessary.

COMMON JUDICIAL AREA (Brief No 16)

31. If, as we expect, the Dutch decide that they will not sign the draft Convention on Extradition which has been agreed by officials of the Nine, this will effectively kill the French proposal for a Common Judicial Area. Giscard may try to relaunch the proposal.

FOREIGN AND COMMONWEALTH OFFICE
5 JUNE 1980

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ANNEX A

TIMETABLE OF EVENTS

THURSDAY 12 JUNE

1500 to 1900	Cini Foundation	First Session of European Council
2000		Dinner for Foreign Ministers, hosted by Italian Foreign Minister
2100		Dinner for Heads of State/Government hosted by Italian Prime Minister
	Cipriani Hotel	UK delegation debriefing meeting

FRIDAY 13 JUNE

0830	Cipriani Hotel	UK Delegation briefing meeting
0955	Cini Foundation	Family photograph
1000 to 1200	Cini Foundation	Second Session of European Council
1200	Cini Foundation	Press conference by the President of the European Council and the President of the Commission
1330	Cini Foundation	Informal buffet lunch

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10 June 1980

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12/13 JUNE 1980

STEERING BRIEF

Note by Foreign and Commonwealth Office

A Revised Annex A - Timetable of Events -
is attached.

Foreign and Commonwealth Office

10 June 1980

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ANNEX A (Revised)

TIMETABLE OF EVENTS

THURSDAY 12 JUNE

1300	Cini Foundation	Lunch for delegation members
1500	Cini Foundation	First Session of European Council
to	(Biblioteca	
1900	Lenghena)	
1900	Cini Foundation	Buffet dinner for delegation members
2100	Palais Pisani	Dinner for Heads of State/Government hosted by Italian Prime Minister
	Palais Pisani	Dinner for Foreign Ministers hosted by Italian Foreign Minister
	Palais Pisani	Informal talks
	Cipriani Hotel	UK delegation debriefing meeting

FRIDAY 13 JUNE

0830	Cipriani Hotel	UK delegation briefing meeting
0955	Cini Foundation	Family photograph
1000	Biblioteca Lenghena	Second Session of European Council
	Cini Foundation	Press conference by the President of the European Council and the President of the Commission
1330	Cini Foundation	Informal buffet lunch

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UK BUDGET CONTRIBUTION AND RELATED SUBJECTS

Brief by the Foreign and Commonwealth Office, HM Treasury and MAPF
OBJECTIVE

1. To ensure that any discussion is limited to confirming the agreement reached in Brussels on 29-30 May.

POINTS TO MAKE (for use as necessary)

2. Glad it has been possible to reach agreement. No winners, no losers.

3. Now possible for Community to focus on other major issues, external and internal.

4. On budget, in general interest to expedite agreement on required legal instruments in appropriate Councils.

5. In the medium term must put to good use the review we have agreed to have of the development of Community policies and examination of operation of Community budget, including need to keep within 1% ceiling and to prevent recurrence of an unacceptable situation for any Member State. Review needs to be well prepared.

6. [If 1980 budget raised] Can agree to European Council urging Council of Ministers to make rapid progress. We want budget adopted by end July. Under some chapters 12/12ths could be exhausted by end August.

7. [If Regional Development Fund raised] 1200 mEUA is right figure for 1980. Proposed by Commission. UK budget agreement is based on Commission estimate of UK net contribution that assumes RDF of this size. This higher figure will help to secure Parliament's agreement to the budget as it is the figure they wanted.

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BACKGROUND

- References: A: UKREP telno 2654: reporting Foreign Affairs Council conclusions of 30 May
- B: Note on CAP prices package
- C: Note on sheepmeat settlement
- D: Council Declaration on Common Fisheries Policy

Budget

8. Essential elements of Foreign Affairs Council conclusions (from text at Ref. A) were:

(a) 1980 contribution would be limited to 609 mEUA provided Commission estimate of our net contribution of 1784 mEUA not exceeded. If actual figure exceeds Commission estimate, risk sharing agreement will split remainder 25% to UK, 75% to others;

(b) In 1981 provided UK figure does not exceed Commission estimate of 2140 mEUA, limit on our contribution of 730 mEUA. If it does exceed, risk sharing formula as follows:

- (i) first 20 mEUA borne by UK;
- (ii) next 100 mEUA split 50:50;
- (iii) thereafter 25:75 as in 1980.

(c) For 1982 solution to UK problem provided by Community pledge to resolve problem of structural changes (involving examination of development of Community policies and with aim of preventing occurrence of unacceptable situations);

(d) If not, Commission will make proposals along lines of 80-81 solution and Council will act accordingly;

(e) payments up to and including 1982 will be made through adapted Financial Mechanism and Article 235 Regulation (neither of which has been discussed in detail in Council up to now);

(f) credits paid in the first instance as under present Financial Mechanism Regulation i.e. 75% on 1 January of following year and remainder as soon as state of accounts enables final adjustments to be made. However, special clause included to enable Council to make advances on request by the UK.

French tried to insist that 1981 price fixing should not be challenged (normal timetable would involve discussion shortly before date of French Presidential election May 1981. Giscard is concerned about effect on farming vote if price fixing is held up again). But French acquiesced in the end to a formula committing Member States /merely

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merely to "do their best" to ensure decisions are taken expeditiously.

9. Reiteration of earlier Finance Ministers conclusion on need to adopt prudent farm price policy and control CAP spending (para.8 of conclusions).

10. Reference also to 1% ceiling. Useful because this is an important lever in our hand for ensuring that the 1981 review leads to radical change.

11. We shall press in Council for rapid agreement to texts of new regulations. (Commission likely to be considering draft texts at 11 June meeting). Vital that these be ready at early stage in order to enable Commission to start spending money in UK. No problem over actual payments. These could run over in 1981 if necessary but still be made within UK 1980/81 financial year.

12. 1980 Budget: Italians are trying to get 1980 budget adopted as soon as possible (preferably before their Presidency ends). Have proposed budget Council on 16 June. Parliament to hold emergency session on 26/27 June. They could adopt it then, but only if they were willing to leave it unamended. They may well amend, in which case second Budget Council would be needed in early July followed by Parliament's second reading at its 7-11 July sitting.

13. Major UK aims will be:

(a) To ensure a substantial sum entered for advance payments to UK budget solution (given method of payment, will only be possible to get a part in 1980 budget);

(b) To secure highest level of RDF possible (Commission budget proposals have reverted to their earlier figure of 1.2 billion EUA (they have also based their estimates of our 1980 net contribution on this assumption); 1979 second Budget Council agreed to 1015 mEUA. Italians will probably urge us to press for higher sum to be established by Council on 16 June. Together we could block Council agreement to lower figure, but not get our own figure entered unless others support).

14. Most unlikely that European Council will discuss details. However, if Italians propose higher RDF on grounds that they should e.g. be compensated for their contribution to UK budget solution, we should support. As we get 27% of RDF expenditure we benefit too.

/CAP Prices ...

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CAP Prices Package

15. The main provisions of the 1980/81 CAP prices settlement and the most important implications for the UK interests are set out in Note at Ref B. Nearly all the appropriate regulations implementing the settlement were agreed on 5 June and the new prices were to take effect either immediately for commodities, like milk and beef, for which the current year had already ended or at the beginning of the respective commodity marketing years for other products i.e. sugar (1 July), cereals (1 August), and wine (mid-December). The commitment to production refunds for cereals used in whisky remains to be implemented before the end of 1980 through negotiation in the Agriculture Council. The next Council in mid-June will consider certain agricultural aid proposals for Northern Ireland. The Council is also committed to continue discussion of savings in the beef sector.

Sheepmeat

16. The scheme should protect the interests of New Zealand and other third country suppliers. A summary is at Ref C. The basic Regulation and prices for 1980/81 are agreed, but the regime will not enter into force until the implementation of the voluntary restraint agreements being negotiated by the Commission with third country suppliers, notably New Zealand. New Zealand accounts for over 80% of the Community's annual third country imports of about 230,000 tonnes. The New Zealanders have a number of reservations about the proposed regime, as Mr Muldoon told the Prime Minister on 1 June, but they decided on 3 June to enter into negotiations with the Commission. Since the provisions in the agreement in respect of New Zealand give her an effective veto over the introduction of the regime, the New Zealanders have the opportunity to negotiate not only on the volume of imports and tariff reductions but also on the operation of export refunds and other matters of interest to them.

17. The Australians have delivered an aide memoire recently expressing concern about the regime's effect on their own trade, although this trade is of very much less economic importance to them than New Zealand's. It is open to them to negotiate a voluntary restraint agreement which will safeguard their rather smaller interests.

/Fish

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Fish

18. The Foreign Affairs Council on 30 May agreed to include a declaration on fisheries as part of the proposed budget 'package' (text at Ref D).

19. The main points are:

- (a) a deadline of 1 January 1981 for settlement of the revised CFP;
- (b) a list of most of the main elements which need to be decided in a revised CFP (conservation, quotas, control measures, structural aids, third country arrangements), with criteria which should be applied in determining the solution on each element;
- (c) a separate section on access arrangements which also mentions criteria to be taken into account in making a decision on this aspect. We regard this as defining access to be an additional element in the fisheries package on which a decision must be reached before 1 January 1981;
- (d) an instruction to the Fisheries Council to proceed with negotiations on 16 June, especially on certain aspects.

20. The text leaves fisheries to be negotiated on its merits. Despite pressure from the Germans and others, it does not include unacceptable language on (or explicit reference to) "equal access".

21. There is no reason to raise fisheries at Venice. If others do so it is important to stress that all CFP issues (i.e. including access) should be considered together. We should resist changes to the Brussels text.

Foreign and Commonwealth Office

5 June 1980

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COMMUNITY BUDGET REVIEW AND RESTRUCTURING

Note by Foreign and Commonwealth Office

Attached is an additional brief, on Community Budget Review and Restructuring. The number and title of this brief should be added to the Index of Briefs (Brief No 1).

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COMMUNITY BUDGET REVIEW AND RESTRUCTURING

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. We have no particular interest in raising this subject ourselves. The Commission already have a satisfactory mandate to make proposals by the end of June 1981 and we do not want discussion of that mandate reopened.

POINTS TO MAKE [IF THE SUBJECT IS RAISED]

2. The agreement of 30 May offers us a real opportunity to prevent the recurrence of unacceptable situations for any Member State. The 1% ceiling is also going to provide a valuable discipline.
3. The review the Community will be conducting will require careful preparation. But it will also need to be pressed forward with great determination. It is in everyone's interest that decisions be taken by the end of 1981.
4. We shall approach this constructively. We have no wish to challenge the principles of the Community.
5. We are looking for a better control over CAP expenditure and a better balance between it and expenditure on other Community policies.
6. [If the French or Germans raise their ideas about limiting net benefits] This is one of the ideas which will need careful examination.
7. [If Schmidt or others raise CAP reform] Entirely agree with need for changes. Commitment to reform could be incorporated in Presidency Conclusions.

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/BACKGROUND

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BACKGROUND

8. The Commission mandate is as follows (para 7 of 30 May Foreign Affairs Council Conclusions - full text attached as Reference A to Brief No 3): "For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate to be fulfilled by the end of June 1981. The examination should concern the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, nor the basic principles of the Common Agricultural Policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the 1980-81 solution and the Council will act accordingly."

9. The UK interest is to avoid substantive discussion at this stage. The 30 May Budget agreement pledged the Community to resolve the UK Budget problem by means of structural changes. The Commission mandate is to put forward proposals by the end of June 1981. Left to itself, the Commission is more likely to come up with proposals that suit us than it would if the 30 May agreement was glossed in some way at French instigation.

10. We are concerned not to start discussions on contentious matters relating to the 1981 review (eg. Giscard and Schmidt's ideas on a limit on net benefits from the Community Budget) before we have got agreement on Community legislation to implement the 30 May budget settlement. It is important not to provoke the smaller Member States at a time when we shall need their support in getting the legislation through in a form acceptable to us.

11. The question may however be raised in any discussion on enlargement that takes place as a result of President Giscard's speech on 5 June (Brief No 17). Giscard may, for example, use

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the occasion of the European Council to put forward ideas for reviewing the rules of Community financing.

12. We understand from the Embassy in Bonn that Schmidt intends to press for Council endorsement of a commitment to reform of the CAP by the end of 1981. He seems to envisage this exercise being contemporaneous with the budget review (with which, of course, it is closely linked). The French President, Prime Minister and Foreign Minister also suggested last week in connexion with the National Assembly debate on the Brussels agreement that they were ready to contemplate improvements in the management methods of CAP. The Prime Minister will wish to support any move of this kind, but not take the lead. Tactically, it would also be wise to avoid any formal linkage between the budget review and this exercise. Satisfactory reform of the CAP can be achieved without amendment to the basic principles contained in Article 39 of the Treaty. It will not, however, be appropriate for this Council to discuss specific methods of reform and, in endorsing any commitment to reform, we need to avoid any undertakings on financial solidarity, unity of the market or Community preference which the French will probably wish to have inserted in the text and which could be used subsequently to preclude certain types of reform eg. part national financing of CAP expenditure. If the French insist on a reference to the Treaty, it should be argued that a simple reference to Article 39 is all that is necessary.

FOREIGN AND COMMONWEALTH OFFICE

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ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

Brief by HM Treasury

OBJECTIVE

1. To emphasise that UK policies are part of agreed Community formula.

POINTS TO MAKE

2. (i) Activity in most economies beginning to slow down after recent unexpected resilience. Growth prospects this year are poor and little if any recovery is likely in 1981.
- (ii) Upsurge in inflation may be reaching its peak, with wage settlements modest in many major countries.
- (iii) Widespread acceptance that tight fiscal and monetary policies unavoidable. US interest rates have come off the boil but this might take a little longer elsewhere.
- (iv) Better distribution of current account deficits than after 1973-74 oil shock. Helpful that countries which can finance deficits are doing so rather than trying to push them on to others less well off.

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(v) But LDC's will have to reduce deficits to levels that can be financed. Increased recourse by them to the IMF seems necessary and desirable.

BACKGROUND (All information useable)

References

A: Com(80)300. The economic and social situation in the Community.

3. Recent price increases have underlined the disarray in the oil markets. Although stocks are high and demand and supply are broadly in balance, the price structure remains unstable and many major countries are in a weak supply position. The deflationary impact of oil price rises since 1978 is around 2 per cent of the OECD area's GDP, much the same as in 1973-74.

4. But although growth is likely to weaken substantially, the reversal should be less severe than in 1974-75. GNP growth in the OECD is expected to fall from almost $\frac{3}{2}$ per cent in 1979 to around $\frac{1}{2}$ per cent in 1980. The US recession could be quite deep, increasing the possibility that OECD growth will recover little, if at all, in 1981. Within the EC, growth held up surprisingly well last year - notably in Italy and Germany - and this year could average around $1\frac{1}{2}$ - $1\frac{3}{4}$ per cent. This implies growth in Italy and the Netherlands over $2\frac{1}{2}$ per cent lower in 1980 than in 1979 and in France and Germany between $1\frac{1}{2}$ and 2 per cent lower. In Denmark, like the UK, output is expected to fall this year.

5. The average inflation rate in the major countries reached over $12\frac{1}{2}$ per cent in March, but the upsurge that started in

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mid-1978 might now have run its course. In general, only a small part of the upsurge has been home-grown. Wages have increased much less sharply in most countries than after the 1973-74 oil shock. Within the EC, experience in containing the increase in oil prices has varied widely. The average inflation rate is above that of the OECD as a whole and the gap between the best performers (Germany, Luxembourg) and the worst (Italy, UK) has grown. A number of EC countries have some form of indexation which makes the problem of containment especially severe. Italy is particularly vulnerable. A pay freeze is in force in the Netherlands.

6. Monetary policy has been the main weapon in the fight against inflation to which all countries have given priority. With money supply targets being maintained or tightened, interest rates reached record levels in most countries earlier this year as inflationary expectations worsened. Rates have fallen back dramatically in the US on the arrival of the recession and with clear evidence that money supply was growing well below target. An immediate or precipitate fall in European rates is unlikely. The European economies are slowing down later in the cycle than the US and money supply targets are not being as comfortably met.

7. Fiscal policy in many countries is becoming generally more restrictive as they seek to restrain or (in the US) eliminate budget deficits. Some of the smaller EC members, who have acute problems over the size or financing of their borrowing requirements, have suggested that policies are generally too tight. But advocacy of relaxation has won little support in the major countries. The Commission's view in its paper is that "there is ...no alternative to maintaining broadly restrictive budgetary and monetary policies".

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8. The UK's commitments to lower government borrowing and the reduction of public spending are essential to squeeze out inflation and improve economic performance. The commitments have been widely endorsed internationally. To quote the Commission's paper, "A reduction of the budget deficit in proportion to GDP must indeed be a key medium-term objective for the Community as a whole..."

9. The OECD area is now expected to have a current account deficit of around \$100 billion in 1980, of which about one-half could fall on Community countries. Deficits within the industrial countries should be better distributed than in the mid-1970's. Germany and Japan might share a deficit of around \$40 billion and the US deficit could be quite small. It seems to be accepted that countries able to finance their deficits should do so rather than attempt to shuffle them off on to others. Recent moves by Germany and Japan to arrange capital inflows are welcome. However, some smaller EC countries, notably Denmark and Ireland, have especially severe current account problems and may have to tighten policy further.

10. The position of the LDC's is likely to deteriorate significantly. Even if they cut import growth sharply their combined deficit could rise to around \$55 billion in 1980. No single initiative can solve their problems though, and they will need to reduce their deficits to what can be financed.

11. Concern has been expressed about the ability of the international banking system to recycle OPEC surpluses as smoothly as in the mid-1970's. Market conditions could be less favourable to borrowers, but it remains to be proved that the

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banking system will encounter serious difficulties. It is clear, though, that the IMF will have to play a larger role and its credit arrangements are currently being reviewed. The LDC's should be encouraged to approach the Fund and agree adjustment programmes at an early stage.

HM TREASURY
3 JUNE 1980

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EHG (V)(80)5

COPY NO 74

3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

EMS/EMF (CONTINGENCY BRIEF)

Brief by HM Treasury

OBJECTIVE

1. To avoid a commitment on sterling's participation in the EMS exchange rate arrangements, but to be ready (if necessary) to explain our position in a positive way.
2. To avoid a substantive debate on the EMF while the options are imprecise.

POINTS TO MAKE

3. If she comes under pressure on sterling's participation in the EMS exchange rate arrangements, the Prime Minister should draw on the draft statement at Annex A.
4. The Community bodies have not had time to further their work on the EMF since the last European Council. Better to wait for this before discussing the question further.

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BACKGROUND

5. Neither subject is scheduled for discussion.

6. The Prime Minister will be aware of the difficulties for monetary policy that could be posed by early participation in the EMS exchange rate mechanism. The draft statement at Annex A is designed to present these in as favourable a light as possible.

7. The Luxembourg European Council had before it three reports on progress towards the establishment of the European Monetary Fund. Heads of Government took note of these, and invited the relevant Community bodies to press ahead with work in order to move on to the institutional stage of the EMS which would include the creation of the European Monetary Fund. There has been no time for further work since the Luxembourg European Council.

8. No mention was made in the European Council conclusions of the target date for the establishment of the EMF, which is March 1981. It is now almost certainly too late to keep to this. This suits the French and Germans, who find the date uncomfortably close to their domestic elections, but may displease some of the smaller member states. It is not an important matter for us. Any discussion of a new target date would be better deferred until the scope of the problems involved in setting up the EMF has been more fully assessed.

HM Treasury
3 June 1980

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ANNEX A

STATEMENT ON EMS

The United Kingdom Government fully supports closer monetary co-operation in the Community in the interests of the fight against inflation; and fully supports also the European Monetary System both as a major step forward for monetary co-operation in the Community and as a Community instrument for resisting inflation.

The United Kingdom is participating fully in the discussions on the setting up of the European Monetary Fund and intends to bring sterling into the exchange rate mechanism of the EMS when conditions permit. The Government wish to do this in circumstances and at a time which are best for the Community and for the System, as well as right for our own economy.

We are giving first priority to gaining control of our own monetary conditions, achieving our monetary targets and bringing our rate of inflation nearer to that in most other Community countries. In those conditions we would have more room to reconcile monetary and exchange rate objectives, and the stability of our exchange rate would be reinforced to the advantage of the System. We shall also have to continue to have regard to the differential impact which oil developments can have on sterling and on other Community currencies. All these complex issues are relevant to a decision on joining the exchange rate mechanism and we are very willing to discuss them in the appropriate Community fora.

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The March Budget represents an important stage in reasserting control of the United Kingdom money supply, public borrowing and inflation - objectives which the Government believes have the support of their Community partners. The Government look forward to the time when the success of these efforts will enable the United Kingdom to join the exchange rate mechanism of the EMS.

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EHG(V)(80)6

COPY NO. 74

4 June 1980

EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980

EMPLOYMENT AND SOCIAL POLICY
Brief by Department of Employment

OBJECTIVE

1. To be seen to be associated with Community concern at rising unemployment. But to focus attention on practical steps such as work on employment and training services now being discussed in the Social Affairs Council.

POINTS TO MAKE

Employment

2. a) The Commission is right to emphasise the importance of reducing inflation and increasing Community and national competitiveness to improve employment prospects. But only so much can be done by governments. The rest must be done by industry itself. Initiatives at Community level might usefully concentrate on aid for declining industrial areas and for traditional industries (Shipbuilding, steel, textiles) which are major local employers.

b) We must see that employment and training services meet the needs of our workforces which have to adapt to new technologies. But we must not

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raise expectations about Community initiatives in areas in which they cannot be expected to operate satisfactorily - work sharing, for instance, is substantially a matter to be settled by negotiations between managements and employees with an eye to what can be afforded in each individual firm or industry.

Social Measures for Steel (if raised)

c) The UK is broadly in favour of the Commission's proposals. But further discussions seem necessary to clarify the proposals and how they could best be used.

Council of Social Affairs Ministers, 9 June

d) [The Council has agreed a Resolution on Guidelines for a Labour Market Policy. This should usefully support the strengthening, where necessary of the training and employment services.] An approach of this kind is perhaps more relevant to present needs than measures to reduce or share working time which would have results which threaten the competitiveness of Community industry in world markets.

e) But the Community does itself no service if antagonism is allowed to grow between the Council and the ETUC. We need to continue efforts to seek common ground with unions and managements and encourage the Commission in its contacts to underpin the dialogue between them.

BACKGROUND

Reference: A: Commission Paper COM(80)304 final: 'The Unemployment Problem'

3. The Commission's paper on the Unemployment Problem points to the interrelationship of economic, energy and industrial policies in determining levels of employment. The paper stresses the need to develop the links with

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managements and unions and expresses fears about the deterioration in the social climate that could arise from present economic and social difficulties. The paper makes no new specific recommendation but indicates the importance attached to new technology as a factor in employment and the Commission's wish to continue its work on the adaptation of working time (Work Sharing).

4. On points of detail in the Commission's paper the UK does not endorse the suggestion (page 3) that our overseas aid falls short of earlier commitments and believes that our ability to provide more aid depends on the strength of our economy. Nor do we go along entirely with the implications, e.g. in the paragraphs on energy (page 2) and industrial policy (page 3) that greater intervention by national governments and the Community will lead to improved employment prospects.

Social Affairs Council

5. [The Social Affairs Council met on 9 June] and agreed a Resolution on "Guidelines for a Labour Market Policy" - effectively a series of suggestions for improving national employment and training services where necessary and improving Community cooperation in this general area. The subject matter was not seriously controversial in itself. The unions, however, made clear when this same subject was considered at a meeting of the Standing Employment Committee on 29 May (unions, managements, employment ministers and the Commission) that they regard this kind of topic a secondary subject and a poor substitute for further Community action to bring down unemployment levels, in particular as they advocate, by measures aimed at sharing available work and reducing working time.

6. For its part, the Commission complains, e.g. at the Standing Employment

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Committee, of inconsistency between the remits it receives from the European Council and subsequent action in the Council of Ministers. The conclusions at the last two meetings of the European Council have included the following passages:-

November 1979 [our underlining]

"A more coordinated approach to employment problems should be defined. The European Council accordingly requests the Commission to submit proposals on specific measures which could be framed to promote more incisive Community action to deal with the unemployment problem."

April 1980

"..... efforts within the Community to reduce structural unemployment should be stepped up and better coordinated taking into account the proposals which the European Council had at its previous meeting asked the Commission to submit."

This kind of wording raises expectations. But the Council subsequently gets reproached by the Commission for going no further than agreeing limited generalisations of a non-binding character. Yet if managements and unions have no common ground, the Council cannot mark it out. And neither can the Commission bring effective proposals if they only have support of one side of industry.

7. The conclusions of the Council should, therefore, give some impetus to further development of the consultative relationship rather than call for further specific measures. The European Council might for instance:-

a) note a useful outcome to the Social Affairs Council on 9 June;

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/b)

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- b) note the Commission's efforts (perhaps even commend them) for developing useful consultation with and between managements and unions;
- c) urge the Commission to continue with this task of consultation as part of the background preparation for the Commission work on employment policies including the effects of new technology, and the envisaged communications on working time which the Commission is now preparing;

Social Measures for the Steel Industry

8. The special temporary measures proposed by the Commission to help alleviate the social effects of the restructuring of the steel industry comprise 1) early retirement provisions, 2) assistance on a strictly limited and tapering basis for reorganisation of the work cycle. The proposals have been discussed in varying community fora but agreement has not yet been reached between member states. Meanwhile, officials at the Commission have held talks with representatives from BSC and with officials from the Department of Industry.

Unemployment

9. Average 5.7%. Highest is Belgium 8.5%; lowest is Germany at 3.2%. UK is 5.8% (source. Eurostat 4 - 1980 of 19 May '80).

DEPARTMENT OF EMPLOYMENT

4 June 1980

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EGH(V)(80)7

COPY NO 74

3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PREPARATION FOR ECONOMIC SUMMIT: (22/23 JUNE)

ECONOMIC ASPECTS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. Let non-Summit members have their say.

POINTS TO MAKE

2. Nil.

BACKGROUND

3. The Commission have prepared three papers to form the basis of a discussion of the Venice Economic Summit (see brief nos 8, 9 and 10).
4. Non-Summit member states will be represented by the Italian Presidency and by the President of the Commission, who attends for discussion of matters relating to Community competence. They have been kept informed of preparations by regular briefings of COREPER by a member of Mr Jenkins' office.
5. Preparatory work well advanced. No unforeseen difficulties so far. Draft communiqué largely agreed.
6. Economic Summit likely to stress over-riding priority of fight against inflation. This accords well with Community policy and is likely message from OECD Ministerial meeting in Paris, 3-4 June.

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7. Energy also likely to be important (see brief no 8). North/South matters likely to be more prominent (brief no 9). Trade unlikely to feature much except for a commitment to maintain open markets (brief no 10).
8. International monetary matters unlikely to be prominent. Giscard initiative has not materialised. IMF discussions on a Substitution Account have faded. However, some discussion of re-cycling possible. Continued importance of private markets broadly agreed; role of international institutions likely to increase (brief no 12).

Foreign and Commonwealth Office

3 June 1980

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EHG (V) (80) 8

5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

ENERGY

Brief by the Department of Energy

OBJECTIVE

- (i) to prepare for the Venice Economic Summit by promoting a discussion focussing on long-term energy problems;
- (ii) to let the non-Summit Member States have their say on preparations for Venice Economic Summit.

POINTS TO MAKE

1. Venice Economic Summit

Energy problems intimately linked with wider economic problems of 1980s. Doubling of oil prices last year a severe shock to world economic growth. OECD have calculated that by 1981 loss to Western economies will be \$300 - 400 billion or \$1,500 - \$2,000 per family. Vital to avoid a situation where energy supplies become a permanent constraint on economic growth.

2. World oil production probably close to its peak. Production increasing in North Sea and Mexico, but falling elsewhere (eg US). Unlikely that OPEC production will rise much above its present level in 1980s.

Key long-term objective must be restructuring of energy economy, particularly to reduce dependence on oil. Venice Economic Summit should focus on policy measures needed to achieve this. Must recognise that some hard political decisions may be necessary. Setting targets not enough. Firm commitments to action needed at national and international level. Welcome work done in EEC and IEA to define long-term objectives as positive

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input to Economic Summit.

4. Main weight of restructuring energy economy must lie with national programmes, complemented by collaboration within Community and on wider international basis. Community has valuable role in ensuring convergence of national programmes to meet agreed objectives. We shall also co-operate fully in current studies of possible scope for further action at Community level.

5. UK playing its part in massive Community-wide effort by Member States to reduce Community's oil dependence, eg through new impetus to UK nuclear developments, and by support for UK coal production which helps reduce dependence of Community as a whole on imported oil. In North Sea oil, £15 billion has so far been invested. In the first quarter of 1980, other Community countries took two thirds of our total oil exports - one third of total UKCS production.

6. Important to give consumers clear and consistent price signals. Domestic energy prices must reflect world prices. Economic Summit should also give impetus to vigorous programmes to exploit coal and nuclear power, and help gain public acceptance for these.

7. Difficult short term problems of oil prices too. OPEC countries have shown in past few months that they are able to push prices up even in slack market. Must recognise that there are limits to what governments can do, and that tinkering with established market mechanisms unlikely to help. But governments must keep situation under review, and be prepared to consider further measures if situation worsens. Must press ahead with examination of new approaches to stock policies. Must permit price mechanism to play full role in process of adjustment.

Commission Paper

8. Useful summary of recent discussions at Luxembourg and 13 May Energy Council. Welcome progress made in establishing

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strategy for 1990. Look forward to further discussion in Energy Council once present studies completed.

(If necessary) Further consideration should now await outcome of various studies commissioned by 13 May Energy Council for its September meeting.

9. 13 May Energy Council

Helped to pave the way for satisfactory outcome of IEA discussion of oil market situation and 1990 energy objectives. Should also be useful groundwork for Venice Economic Summit. Council should continue monitoring development at Community level against wider international background.

10. Community Energy Initiative (If necessary)

Preparation of precise Commission proposals on any one of the components of this complex subject will take time. Ready to participate constructively in discussion of need for Community assistance, on the basis of examination of national planned investment programmes.

BACKGROUND

1. Oil Market Outlook

The oil market in 1980 - 81 is likely to be in balance, in the sense that there will be no general pressure on oil supplies. Demand for oil has fallen because of slowdown in world economic activity, itself largely a consequence of last year's doubling of prices. Consumers can 'walk away' from high prices by individual producers (eg Iran) and have done so, but not from OPEC as a whole; OPEC countries have raised prices by \$2 per barrel twice this year, despite slack market, following Saudi attempts to bring their prices into line.

2. Projections for 1980s bound to be uncertain. On some assumptions - favourable but not impossible - oil market in 1985 could balance at real price not much above present price.

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But downside risks are large. In particular, supplies remain vulnerable to political accidents; and Gulf producers may cut production, because they do not need the revenue immediately, and may conclude that oil in the ground is more valuable than money in the bank. Outlook for late 1980s even more uncertain but could be even less favourable than for early part of decade.

3. Venice Economic Summit

Preparations for Venice Economic Summit have produced broad agreement on energy issues. Summit should focus on long-term policy measures to reduce consumption of oil in individual sectors (electricity generation, industry, domestic, transport etc), and promote production and use of alternatives to oil, particularly coal and nuclear power. We and Germans have argued successfully against setting of new targets, but Americans will want some quantified guidelines. We can accept reiteration of guidelines agreed at 13 May Energy Council and 21/22 May IEA Ministerial (see paragraph 4 below).

4. International Energy Targets: IEA Ministerial

Following Luxembourg European Council conclusions the 13 May Energy Council adopted the following Community energy objectives for 1990: to reduce to 0-7 the ratio of growth in gross primary energy consumption to growth in GDP; to reduce oil's share of total primary energy consumption to approximately 40%; to cover 70 -75% of primary energy requirements for electricity generation from coal and nuclear sources; to encourage the use of renewable energies; to pursue appropriate energy pricing policies. The 21/22 May IEA Ministerial agreed the following objectives for the IEA as a whole in 1990: 40% oil share objective; reduction of energy coefficient to about 0.6. In a compromise on US demands the IEA Ministerial also agreed: for 1980 - 81, to meet at short notice, if tight market conditions threatened to decide on the need for demand restraint measures and on the use of individual oil import ceilings; for 1985, that IEA countries as a group should substantially undershoot the existing 1985 group oil import objective of 26.2 mbpd. (IEA Secretariat estimate by 4 mbpd). IEA Ministers also considered

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the use of stocks above the 90 day energy reserve requirement and of normal working stocks to respond to oil market conditions. They endorsed the report of the International Energy Technology Group.

5. 13 May Energy Council

Discussed matters referred to it by Luxembourg European Council, especially oil market situation and 1990 energy strategy. Agreed Resolutions on 1990 Energy Objectives and New Lines of Action in Energy Saving. Asked Commission to report in September on Community Energy Initiative, and possible additional measures to cope with oil supply difficulties including discouraging high prices; improved consultation on stocks and pricing; scope for sub-crisis formal oil-sharing; possibilities of increasing oil and gas production. (In further discussion of scope for increasing UKCS oil production in supply difficulties, other Member States have so far appeared to accept that practical scope is extremely limited).

Commission Paper on Energy

6. The Commission paper, dated 23 May, merely recalls the conclusions reached on energy at the Luxembourg European Council, and the outcome of the 13 May Energy Council. It welcomes the progress made, and asserts that the agreements reached should be helpful in respect of the Venice Economic Summit. No contentious issues are raised, and there is no need to comment specifically on the paper, which is unlikely itself to be the subject of substantive discussion.

Community Energy Initiative

7. Commission has made proposals for a Community energy initiative based on: price and tax harmonisation; enhanced energy investment with Community support; funded by Community energy taxes, probably including oil import levy and production tax. Initial reactions of our partners suggest this may be generally regarded as ambitious. The Energy Council welcomed the Commission's intention to start at the beginning - with a study of need for further Community action - before considering

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how funds might be raised.

Possible French Initiative on Spot Markets

8. It is possible that the French will repeat proposals, made earlier in the Energy Council, for additional measures to monitor high price transactions in the oil market - with the objective of exercising some control over spot markets. We are very sceptical about the practical value of their proposals for an accelerated price reporting system and a 'hotline' between administrations. We are, however, happy for existing reporting systems to continue.

Department of Energy

5 June 1980

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EHG(V)(80)8 Corrigendum

9 June 1980

COPY NO 74

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

ENERGY

Brief by Department of Energy

In line 5 of paragraph 5 of the Points to Make,
please delete "£15 billion" and substitute "£18 billion
(at 1980 prices)".

Department of Energy

9 June 1980

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EHG (V)(80)8a

COPY NO 74

9 JUNE 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

NORTH SEA OIL POLICY

Brief by the Department of Energy

OBJECTIVE

If question is raised, to persuade our partners of the constructive contribution to Community objectives made by our North Sea policies.

POINTS TO MAKE

(a) North Sea Policies [for use as necessary]

1. North Sea Oil Exports

About half our production is exported and over half these exports go to the rest of the Community - in 1979 it received 22 million tonnes. In the first quarter of 1980 other Community countries took some 66% of our total exports - one third of our total production. Our exports to the Community should continue to increase as our production continues to rise over the next few years. [Annex B shows North Sea disposals].

2. North Sea Oil Prices

Prices for North Sea oil follow but do not lead world market for similar high quality, low sulphur crudes. We have made clear to the companies operating in the North Sea our expectation that this will continue. All but about 1% of sales are at term prices with no additional premia. [Annex A can also be drawn on as necessary].

3. Supply of Off-shore Equipment

Other Member States' companies have enjoyed a high level of involvement. For example, of 35 major oil and gas platform

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structures so far ordered for the UKCS, 19 were built by other Member States' companies, or by EC/UK or EC/Norway joint ventures. Of the remainder, most involved a substantial input from other Member States' companies, in the provision of technology, topside, fabrication, steel etc. Other Member States' companies particularly Dutch, French and Italian, have also been much involved in off-shore installation work. This involvement has brought them valuable business and helped enhance their role in world markets.

4. Increased UKCS Production [Defensive - if raised]

We have indicated previously that scope for increasing production from the North Sea in the short-term would at best be very limited. Production is already at the highest level compatible with good oilfield management. Our policy has been to bring fields into production as fast as possible. By the end of 1979, 14 fields were in production. It took the UK only 4 years to reach production of over one and a half mbpd, much quicker than any other country (Libya: 6 years; others longer). With platforms costing £500 m or more no-one has developed fields to leave them non-productive. However, we agreed at Luxembourg that Energy Ministers should examine the possibility of increasing production as one component of a study of several possible aspects of dealing with short-term supply problems. This study has just begun.

[If necessary] We must now await the Commission's report to September Energy Council on short-term supply problems. Can take the subject no further in meantime.

5. Depletion [Defensive]

We are considering depletion policy against the long term background of managing a limited resource. Will explain fully to partners before any announcement is made.

6. North Sea Oil 'Wealth'

North Sea oil contributed only 2.5% of UK GNP in 1979 and will contribute only 6% even at peak production.

7. We are not yet net exporters. Even at peak production we will only be marginal net exporters. Rising world oil prices

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damage an open, essentially trading and manufacturing economy such as the UK (with about 30% of GDP in exports).

Background

1. UKCS Oil Production 1980 Forecast

Our production in 1980 is expected to be in the range 80-85 m tonnes (towards the lower end) compared with consumption of about 90 m tonnes. This suggests that we shall probably need rather less imports in 1980 than our 12 M tonnes 1980 net oil import target. But we may need it if anything went seriously wrong with North Sea production this year (although we have no reason to expect this), and production fell below 80 m tonnes. If asked to quote figures we should stress the uncertainty surrounding them.

2. North Sea Exports and Prices

Production will probably rise until about 1984-86 even if the Government adopts a conservationist depletion policy (see paragraph 7 below). The pattern of approximately 50% UKCS oil consumed in the UK and the rest exported is likely to continue. Annex B illustrates crude disposals to Community Member States in 1979 and first quarter of 1980.

3. It now seems generally accepted that our prices follow the world market for similar high quality crude (in practice that produced by Algeria, Nigeria and Libya). BNOC's latest price rise of £2 was announced on 28 May, and followed a general £2 per barrel increase by practically all OPEC producers including the Africans.

4. Seventh Round of Off-shore licensing

The arrangements for the Round were announced on 1 May. The Round is to be of about 90 blocks, larger than the 70 blocks originally proposed. There will be full opportunity for participation by Community companies.

5. Increasing UKCS Production in a Sub-crisis

The question of increasing UKCS supplies to the Community during a crisis/sub-crisis was raised briefly at Luxembourg. The

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Prime Minister made no commitment. But the Presidency's conclusions record that:

"The European Council considers that the Community should clearly co-ordinate its response to the immediate problems of oil supplies, and invites the Council and Energy Ministers to consider what further action is required taking into account the undertakings given by the Member States in the framework of the agreement on supplies in the event of a crisis, and with special reference to the possibility of increasing production of hydrocarbons."

6. The 13 May Energy Council confirmed that the scope for increasing indigenous hydrocarbon production (Dutch and Danish gas - at German insistence - as well as UKCS resources) should be one element in further examination of possibilities for dealing with short-term oil supply difficulties. The Energy Council agreed to return to this question in September on the basis of these studies, which the Commission have now begun at official level. The German Cabinet is reported to have said recently that it expected the UK to take account of the interests of her European partners in setting oil and natural gas policy, in particular at times of oil supply difficulty. There is in fact little if any scope for increasing UKCS production in an emergency, or helping in other ways (eg, diverting BNOC oil to the Community). Having agreed already in the Energy Council to the scope for increased UKCS production being examined we can appear helpful whilst, without committing ourselves, explaining if the subject is raised that the practical scope is extremely limited.

7. Depletion

Ministers agreed on action to defer net exportable surpluses of oil during the 1980's and discussions are under way with the oil companies PSBR implications are also being examined. Arrangements would be made to explain the policy to our partners before any announcement.

8. The following are attached:

Annex A: **CONFIDENTIAL**
UKCS Prices

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Annex B: North Sea Oil Disposals

Department of Energy
9 June 1980

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ANNEX A

UKCS Price Setting

1. UKCS crude is comparable to African crudes (Appendix 1). The participation agreements entitle producers to the market price for crude oil which they must sell to BNOC. If the price cannot be agreed there is provision for recourse to expert determination.
2. Although some 70% of UKCS oil production passes through BNOC's books only one sixth of the oil BNOC is currently selling is its own equity oil. Participation oil makes up the bulk of the remainder purchased at the market price prior to selling. BNOC is not therefore a free market price setter.
3. HMG has no statutory powers to determine UKCS prices. Reserve powers exist in the Energy Act 1976, but may be exercised only in an emergency or to implement formal obligations to the EEC or IEA. This power would, in any case, not extend to crude oil traded offshore.

Crude Oil Market Development and Government Intervention in UKCS prices

4. Between 1974 and mid 1978 world oil prices were relatively stable. Term prices were set by a Saudi marker with differentials for other crudes reflecting quality differences and location only. Spot prices were close to term prices.
5. The Iranian crisis changed the market from demand constrained to supply constrained. During 1979 spot prices rose well above term prices and the term market became fragmented with a widening of the differential for sweet light crudes including North Sea oil. The downward trend of price in real terms from 1975 to the end of 1978 was reversed and real prices are now about 50% above the 1974 level.
6. This anarchy in the market led to considerable pressure for Government to intervene on UKCS prices particularly from the middle of 1979; both BNOC and companies were urged to be moderate with price increases.

7. In November 1979 ~~CONFIDENTIAL~~ BNOC's increase was premature, albeit by only a few days, and attracted much international criticism.

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Further increases in 1980 have been better timed; the decision being unannounced for longer giving the impression that the UK was last to come into line (although the effective date of increases was similar to that for other producers.) In addition the price has not exceeded the official prices of any of the comparable African crudes. During January settlement of UKOS crude prices below the market level was achieved only through pressure being applied to a number of companies. The most recent increase of £2 across all grades, effective 20 May brings the price of Forties to £36.25 per barrel. Many OPEC countries in fact charge premia in addition to the official price. Against this background UK prices look very moderate (see Appendix 2).

UK Interest in oil prices

8. Much play has been made by our partners of the value of North Sea oil to us. But we are not yet self-sufficient and increases in world oil prices are a net cost to the economy. Some 30% of GDP comes from international trade; thus GDP will be affected by any recession caused by high oil prices and the loss will not be offset by higher oil revenues (which in total only account for a few per cent of GDP).

Community benefits from UKOS

9. There is no restriction on exports and about one third of UK production is exported to the EEC. Only 1% of output is sold at spot prices; all the rest is sold at term prices and there are no premia or surcharges equivalent to those levied by some OPEC countries.

OP(H) Division

D/Energy

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ANNEX A
Appendix 1

CRUDE OIL QUALITY COMPARISONS

1. Oil prices are related to the quality of the crude. In general crudes from Nigeria, Algeria and Libya are closest in quality to those of North Sea crudes.

2. There are two major aspects:

(i) Yield differentials

The lighter the crude (in terms of specific gravity), the larger the yield of the higher value products like gasoline, naphtha and gas oil. From light North Sea and North African crudes these products may total 60-70% of the product yield, whereas Gulf crudes yield 50% or less of these products.

(ii) Sulphur content

The lower the sulphur content the higher the value of the crude, especially to purchasers in countries with strict pollution controls. North Sea and North African crudes contain only 0.1 to 0.3% by weight of sulphur, compared with 2% for Arabian Light and 3 - 4% in some other Gulf crudes.

3. Under normal market conditions, North Sea crudes could be expected to command a quality premium of about £3 per barrel over Arabian Light.

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ANNEX A
Appendix 2

COUNTRY/CRUDE	<u>% per barrel</u> OFFICIAL PRICE	REPORTED PREMIA OR SIGNATURE DONUS	APPROX PERCENTAGE OF OUTPUT SOLD WITH PREMIA	TOP TERM SELL- ING PRICE
Iraq Kirkuk	30.18	7.50	10	37.68
Libyan Es Sider	36.50	3.00	less than 5	39.50
Iran Light	35.37	2.50		37.87
Nigerian Bonny Light	36.69	3.00	less than 5	39.69
Algerian Saharan Blend	35.21	3.00		38.21
Qatar Dukhan	31.42	6.00	25	37.42
Indonesian Minas	31.50	5.40	15	36.90
Kuwait	29.50	5.50	25	35.00

These prices compare with a fixed term price with no extras of \$36.25 barrel for UK Forties.

Saudi Arabian crude at \$28/barrel is generally recognised to be under-priced.

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ANNEX B

EUROPEAN COUNCIL

North Sea Oil Disposals

	1979	%	1980 (1st quarter)	
	Amount		Amount	(Provisional figures)
<u>Disposals</u>			m tonnes	
UK	38.2		9.9	
EXPORT	38.9	50.5%	9.8	49.7%
EC	22.4	29.1%	6.5	33.0%
NON-EC	<u>16.5</u>	<u>21.4%</u>	<u>3.3</u>	<u>16.7%</u>
Total	77.1		19.7	

Exports

BELGIUM	0.2	0.5%	-	-
DENMARK	2.9	7.5%	0.6	6.1%
FRANCE	2.7	6.9%	0.7	7.1%
IRELAND	-	-	-	-
ITALY	-	-	-	-
NETHERLANDS	7.0	18.0%	1.5	15.3%
W GERMANY	9.6	24.7%	3.7	37.8%
(Total EC)	(22.4)	(57.6%)	(6.5)	(66.3%)
OTHER	16.5	42.4%	3.3	33.7%
<u>Total</u>	38.9		9.8	

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3 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To discourage a premature Commission proposal (paragraph 9 below) for an initiative in the financial field and a North/South Summit.

2. To make clear, nevertheless, our concern at the economic problems facing LDCs and their political implications.

POINTS TO MAKE

3. LDCs will soon need urgent help. Use of International Financial Institutions (IFIs) probably the best way forward. Community should continue to take a positive line in IFIs.

4. Practical approach essential but must also take account of need to preserve Community's political interests in the Third World eg by avoiding unduly negative positions in the forthcoming Global Negotiations.

5. Oil producers hold key to world economic prospects. Any attempt at a dialogue requires great caution. Global Negotiations much too cumbersome but could set the scene. An attempt to negotiate with OPEC as such could strengthen the hard liners.

Any smaller number, (eg Gulf producers) would be nervous of their OPEC flank. Best posture for Community is to express readiness to talk while feeling our way forward.

6. North/South Summit would need careful preparation and timing. Mexicans and Austrians already engaged. Community initiative untimely.

7. No scope for an increase in British overseas aid until economic difficulties improve.

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BACKGROUND

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REF A : Commission Paper - COM(80) 302 final

8. Other Heads of Government will show interest in this subject.

Some have domestic constituencies (Netherlands, Denmark). Others are concerned about oil supplies and hope (rather vaguely) that North/South discussions will help (Germany, Italy, Belgium). The French like to cultivate their image in the Third World. The Commission regard themselves as progressive and exploit their right of initiative.

COMMISSION PROPOSAL

9. Commission paper is one of three intended as a basis for discussion of the 7 nation economic summit. They have taken the opportunity to propose a twin initiative in the North/South context:-

(a) To promote the adoption of immediate financial measures, preferably with the involvement of oil producers, designed to:

(i) increase Official Development Assistance (ODA);

(ii) strengthen the role of International Financial Institutions (IFIs) in the recycling process;

(iii) preserve the recycling role of private banks by various measures.

(b) To call for one or several limited North/South Summits to:

(i) set in hand urgent action in the financial field;

(ii) maintain political impetus for the Global Negotiations next year.

10. There have been press indications that the Germans will seek discussion of the financial problems facing LDCs. Others will share their concern, as do we. However, we consider that remedies must be based on the IFIs where work is already in hand. (See Annex) There will be less enthusiasm for a North/South Summit (see paragraph 11 below). It would be better to let others take the lead in opposing these ideas

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lest we be subsequently singled out as responsible for their demise.

NORTH/SOUTH SUMMIT

Idea of limited North/South Summit has gathered some momentum. President Portillo and Chancellor Kreisky in the lead. They may well invite selected Heads of Government to Mexico City early next year. (Not for use. Selection of participants from Community bound to be difficult. We should certainly not wish Community to be represented by a single voice. Others may wish the European Council to endorse the idea of a North/South Summit. We should not stand out against this - subsequent economic summit likely to describe it as a 'useful suggestion'.)

BRANDT REPORT

12. Luxembourg European Council taking note of Brandt Commission's Report. We should advocate selective approach, building on some proposals while expressing reservations about others. (Not for use. We would not wish to endorse Report as a whole nor see it negotiated as a package. But we should avoid an unduly negative tone. OD are expected to discuss a Report by officials on 10 June. Parliamentary debate has been promised before economic summit.)

GLOBAL NEGOTIATIONS

13. Global Negotiations are due to start at the UN in January 81 and last about 8 months. They will cover major issues in the fields of energy, raw materials, trade, development, money and finance. They will be formally launched by Special Session of General Assembly in August. Preparations under way in New York in Committee of Whole (COW); they are still at an early stage.

ECONOMIC SUMMIT

14. Discussion of North/South usually brief but there may be more interest this year. The Americans are promoting initiatives on food production and increased lending by the IBRD for the development of energy resources for LDCs. (Not for use. Draft communique welcomes the Brandt Report and says that its recommendations will be carefully considered.)

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Foreign and Commonwealth Office

3 June 1980

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EHG(V)(80)-9 ANNEX

PROGRESS IN THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

(See also Brief No 12: International Monetary Problems)

1. Pressure likely from South and others following recommendations in Brandt Report for reform of international monetary system including IFIs. But facilities and programmes of IFIs under constant review. Community initiative would merely duplicate effort and confuse process. Both IMF and IBRD already studying Brandt Report recommendations in detail.

2. Recent improvements in IMF facilities include:

- (a) expansion and liberalisation of Compensatory Financing Facility.
- (b) extension of Extended Fund Facility repayment period from eight to ten years.
- (c) amendment of conditionality guidelines to take account of internal social and political factors.

Current discussions in IMF focussing on increasing borrowing by member countries and expanding Fund's resources by borrowing from Surplus countries and on the market.

3. Recent developments in the IBRD include:

- (a) agreement by members to double the capital of the IBRD from \$40 billion to \$80 billion.
- (b) agreement by members to the 6th Replenishment of IDA amounting to \$12 billion.
- (c) introduction of the structural adjustment loans programme whereby the Bank will make loans against promises to undertake structural adjustment by the borrowers.
- (d) study by the Bank's staff of the recommendations of the Brandt Commission, eg that the Bank capital/lending ratio should be raised from 1:1 to 1:2.

4. The future of 3(a) and (b) is, however, uncertain since as the US Congress has not yet authorised the necessary payments.

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4 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

TRADE: RELATIONS WITH THE INDUSTRIALISED COUNTRIES

Brief by Department of Trade

OBJECTIVE

1. Generally to endorse Commission analysis while sounding a note of caution on relations with Japan.

POINTS TO MAKE

2. Generally agree with Commission analysis.
3. Confirm UK's commitment to the open trading system and its determination not to resort to large scale protectionism.
4. But other countries must also play their part. Problems over US exports of chemicals and textiles, where US domestic energy policy can be cited as unfair, are a major irritant to EC/US relations.
5. Need cautious approach to negotiation with Japan to ensure that the Community does not make concessions to the Japanese except in return for concessions of at least equal value.

BACKGROUND

Reference A: Commission paper COM(80)303 final: Relations with the Industrialised Countries.

6. Trade issues are not expected to figure very largely at the Venice Economic Summit and the Commission paper is largely, but not wholly, a description we can endorse of current issues and

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problems in developed world trade, particularly trade relations between the EC and the US and Japan. It has a rather narrow perspective because it does not cover developed countries' markets in, and dependence on, the third world.

7. Our policy is to avoid protectionist measures except where the injury to UK industry makes action necessary and fully compatible with our international commitments. This is also the line taken by the Commission and the Community generally, though some Member States (notably the Germans), defending free-trade principles, take a more hard-line attitude against any restrictions at all. In some cases anti-dumping action may be an alternative and this is more readily accepted internationally.

UNITED STATES

8. The potential advantages for US producers arising out of US domestic energy policy have been and will continue to be a major bilateral issue between the Community and the US. The Commission has already taken anti-dumping action on acrylic fibres and introduced quotas on imports of two types of synthetic yarn into the UK. Other anti-dumping cases against textile products and some chemicals are in the pipeline. The Germans have made clear, through their resistance to the anti-dumping case and one of the UK quotas, that they are prepared to see action only in the most exceptional cases, and that they will take a very rigorous interpretation of the Community's international trading obligations.

9. Despite the limited coverage of the synthetic yarn quotas and their relatively generous levels, the US has maintained a firm line in seeking some recompense. (The GATT provisions give them an automatic right to retaliate in order to restore a balance of concessions, regardless of whether or not the action is justified under the provisions). So far they have refrained from

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retaliation and sought compensation from the EC; this would mean that the EC would reduce some tariffs, instead of the US raising some. Their original demands were excessive and it is not yet clear whether an accommodation will be found. If there is no agreement by 20 June, there is a strong expectation that the US will retaliate against products of special interest to the UK - notably in the wool textiles area. This would almost certainly lead in turn to an argument in GATT about whether the retaliation was excessive.

10. After a long and eventually unsuccessful negotiation with the US Administration for tax and environmental concessions United States Steel (much the weakest of the big US steel firms) launched seven anti-dumping cases against Community steel exporters, including BSC, in March. As a result the Administration immediately suspended the 'Trigger Price Mechanism' whereby American steel producers were guaranteed rapid anti-dumping action if minimum reference prices were not honoured. The United States domestic procedures for deciding whether anti-dumping duties should be imposed are now in train. The independent International Trade Commission found a prima facie case that US industry was being materially injured in early May and a full investigation is now under way. Community exporters are becoming increasingly concerned at the probability of anti-dumping duties being imposed. BSC stand to lose less than other Community producers from the effective closure of the US market which would follow, but the repercussive effects on other markets - notably the UK itself - would be extremely serious for them.

11. There is therefore a strong case for asking the Commission to try to negotiate a settlement, which could involve re-instatement of the Trigger Price Mechanism at higher price levels and some

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measure of control on quantities. The sooner negotiations begin the better. Any orders that BSC take after July will be at risk from duties likely to be imposed in October; there are formidable difficulties involved in getting the Community producers to agree what would be appropriate quotas for each of them; and the longer the parties delay the more likely it is that the US Presidential election will influence the Administration in its response to pressures for tough protective action. Commissioner Davignon has had some contacts with the Administration but it may need a direct approach from Mr Jenkins to the President to get serious discussions under way. This would best be urged on Mr Jenkins privately, unless other Community leaders have been briefed to raise the matter.

JAPAN

12. The last section of paragraph 9, about the Community's residual quantitative restrictions on imports from Japan is likely to be contentious. France and Italy have the biggest ranges of these; we have none but we use voluntary restraint arrangements (see para 14 below), which the Japanese are happier about. Some QRs are restraints of real economic importance (e.g. on cars) while others are of very much less economic importance.

13. (Not for use). The main attack on the Commission's willingness to negotiate the removal of residual QRs can be expected to come from France and Italy. It is doubtful whether it will be possible in the short term to obtain sufficient concessions of real value from the Japanese to justify the removal of many restrictions, and whether the Germans would anyway agree to quotas on their imports from Japan so as to complete a pan-Community import policy. But it would be useful to get French and Italian QRs dismantled in the interests of a more even distribution of Japanese imports

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within the Community, and because we can hope to benefit from the substantial concessions the Japanese would have to make in return. So we support the Commission view that consideration should be given within the Community to whether some QRs could be eliminated, bearing in mind that we will need major concessions from the Japanese in exchange.

14. From our point of view it is voluntary restraint arrangements with Japan that are important. These arrangements are mostly informal ones between industries though some have intergovernmental backing. Our objective in any Community policy towards Japan is to avoid any threat to these arrangements unless this was part of a Community-wide policy within which our particular arrangements could be subsumed without conceding anything. If the Commission do wish to bring forward detailed proposals they will have to be scrutinised carefully in the Foreign Affairs Council.

Department of Trade

4 June 1980

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5 June 1980

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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PREPARATION FOR ECONOMIC SUMMIT: POLITICAL ASPECTS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To gain support for display of political solidarity at Seven-power economic summit at Venice, and to reassure the smaller partners that major decisions affecting them will not be taken over their heads.

POINTS TO MAKE

2. Relations between Western Europe and the US strained this year. Agreement on condemning Soviet invasion of Afghanistan but important differences on how to react to it.
3. Economic Summit of Seven later this month should not be turned into political summit, but should take opportunity to reassert basic unity of West in face of Soviet aggression.
4. Would like to know views of those who will not be at Economic Summit.
5. Responsibility for preparation of Economic Summit (political as well as economic aspects) lies with Italy.

BACKGROUND

6. In these terms, this should not be a controversial line since main potential objectors, the French, have now not only overcome their earlier reservations about discussing political

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issues at the seven-power summit, but are prepared to be seen to do so. However, President Giscard's conversion to this line is probably recent and may not yet be deep. He may not be ready to display in the European Council the same readiness as his officials have shown in private. It would be best therefore at this stage to tread softly.

7. Those who will not be at Venice may regard the prospect of political discussions there with the usual mixed feelings. It would be best not to suggest that the discussions are likely to be extensive or to produce major new initiatives. (In any case neither is likely). Best tactic is to give them a chance to air their views, and take note without commitment, leaving the subsequent responsibility as far as possible with the Italians.

Foreign and Commonwealth Office
5 June 1980

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EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980
INTERNATIONAL MONETARY PROBLEMS
Brief by HM Treasury

OBJECTIVE

No special UK points. If there is discussion to seek agreement that existing institutions must be built upon.

POINTS TO MAKE

1. Fears about ability of commercial banks to play central role in recycling over the next 2 years are exaggerated, although the situation may tighten thereafter. But efforts to improve prudential supervision must continue.
2. But international financial institutions, mainly IMF, must play an increasing part. IMF should increase its lending but should continue to apply appropriate economic policy conditions to borrowers in order to ensure adjustment.
3. No scope for increasing IBRD (World Bank) lending above present plans but some additional emphasis on IBRD programme lending through the new structural adjustment facility may be possible.
4. No need for new financial institutions (eg medium-term lending organisation suggested by Brandt). Better to rely on tried and trusted existing institutions, adapted as necessary.

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5. Little if any scope for significant Community initiative on recycling. Community institutions (eg EIB) might help recycling to Community members but could only play very limited role in wider recycling.

6. One way for Community countries to help recycling and meet OPEC wishes is to allow their own currencies to be held more widely in national reserves.

BACKGROUND (all material except paragraph 7 may be freely used).

References: (i) There may be a report from the Eco/Fin Council on 9 June;
(ii) The Commission paper on the North/South dialogue refers to this subject. See brief 9.

7. It is not clear how the Presidency intend to handle this item, but their intention is probably to allow those not attending the Summit to express their views.

8. The OPEC surplus is likely to reach \$135 billion in 1980. OECD deficit estimated at \$101 billion; LDC deficit \$55 billion (1981 estimates are \$108 billion, \$84 billion, \$54 billion respectively).

9. Recycling was discussed at a low-key meeting of the IMF Interim Committee in Hamburg on 26 April. (Next IMF Ministerial meeting is in Washington, end-September). Ministers agreed that the IMF does not have an immediate liquidity problem but needs to consider how to meet the likely increase in demand for balance of payments help.

10. The IMF Executive Board are starting a review of policies. We favour giving individual members access to more IMF funds as a proportion of their quota (ie allowing greater multiples of quota to be drawn). The Fund's main resources should be increased by 50 per cent when the 7th Quota Review is ratified.

UK intend to ratify (via Order subject to Affirmative Resolution) shortly. Main problem is US ratification - making slow progress through Congress. UK view is that IMF should borrow from members (particularly OPEC) if it runs short (market borrowing might also be considered but could raise problems). But LDC pressure for the sale of the remaining IMF gold and for the weakening of IMF conditionality should be resisted.

11. The World Bank is introducing a new facility called structural adjustment lending (SAL) to give medium term balance of payment support to countries prepared to undertake suitable programmes of action. (Most IERD lending is on projects - funds are disbursed relatively slowly. Up to now IERD programme lending has usually followed crises - wars, hurricanes etc, but SAL is intended to make a more constructive contribution to recycling.) UK view is that SAL must not be allowed to undermine IMF discipline (eg with weaker conditionality) and must not be additional to agreed World Bank commitment levels.

12. [May need amendment after 9 June Eco/Fin Council.] The EC Monetary Committee (especially Germany and the UK) found very little scope for direct Community action on recycling to developing countries (as opposed to concerted action in the IMF and ECU-denominated borrowing for use inside the Community). But the French appeared to see political advantage in some kind of direct Community action, though they seem unclear about what form this should take.

HM TREASURY
3 June 1980

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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

THREE WISE MEN'S REPORT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. Conclude discussion to allow implementation of Report's recommendations before Greek accession at the beginning of 1981.

POINTS TO MAKE

General Attitude

2. Welcome thorough useful report. Full of sound ideas. Important to conclude discussion so that can act on as many proposals as possible. Hope it will bring new impetus to working of Community institutions.

Attendance of the President of the European Council at meetings of the European Parliament

3. Can accept; Presidency should decide each case.

Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council

4. Could agree on a case by case basis, but would prefer all Member States to agree in each case.

Attendance of other persons at meetings of the European Council

5. Decision for Heads of Government collectively, not Presidency alone. Can agree to presence of President of COREPER; do not believe all delegations should have national note-takers but can accept majority view if consensus emerges in favour.

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- 2 -

Number of Commissioners

6. Maintain status quo until accession of Spain and Portugal.

Involvement of the European Parliament in the process of appointing the President or members of the Commission

7. Keep to present position under Treaties. Members of Commission appointed by common accord of member Governments. No role provided for Parliament.

Secretary General of the Council

8. Support modest strengthening of Council Secretariat, through its Secretary General, to give greater support to Presidency.

Points on which there is broad consensus

9. Can accept consensus already reached by Foreign Ministers and prepared to endorse it.

BACKGROUND

10. References:

- | | |
|---|--|
| A | Wise Men's own summary of Report
[Report itself too long to duplicate but
copies will be made available to those
who need to have it] |
| B | Presidency Paper - Draft report of
Ministerial examination of Report
[Final report not yet received] |
| C | 1977 Agreement on European Council
Procedures |

11. The Dublin European Council asked Foreign Ministers to examine the report with a view to preparing the discussion in the European Council. The meeting in Luxembourg in April agreed that the President of the Commission should be chosen six months before his term of office began but the remaining proposals in the Wise Men's Report were held over for discussion at Venice.

/12.

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- 3 -

12. Foreign Ministers have now completed their discussion of the Report and the Presidency Paper identifies those questions on which a consensus has still to be reached and those on which there is broad agreement. The main points outstanding for decision are listed in the Points to Make.

13. The European Council will also be invited to endorse those points on which Foreign Ministers have reached broad consensus. The most important of these are as follows:

A. European Council

- (i) While it is for the European Council to give political impetus and guidance to the Community, there should not be a specific plan of priorities adopted by the European Council;
- (ii) Meetings of the European Council must continue to be flexible and pragmatic;
- (iii) Meetings of the European Council should be prepared by the Council of Ministers and COREPER where Community topics are concerned.

B. Council of Ministers

- (i) It is for the Foreign Affairs Council to ensure co-ordination, consistency and continuity of Community work;

Voting

- (ii) There is no need for new principles to be laid down regarding the voting rules (i.e. Luxembourg Compromise preserved);

Delegation of powers to the Commission

- (iii) Powers should be delegated more frequently to the Commission, but only on a case-by-case basis; the Council is to decide each time.

FOREIGN AND COMMONWEALTH OFFICE

5 JUNE 1980

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10 June 1980

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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

THREE WISE MEN'S REPORT

Note by Foreign and Commonwealth Office

Attached is a revise of Ref B to Brief No 13 - Report
from the Ministers for Foreign Affairs to the European
Council.

Foreign and Commonwealth Office

10 June 1980

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CENTRAL SECRETARIAT
OF THE COUNCIL

REPLACEMENT FOR REF. 13

Brussels, 6 June 1980
(09.06)

REVISED VERSION

Re cc : Mr Williams, Cabinet Affairs
Mr. Manning
Mr. Spackley
Mr. Goodenough

+ back to me.

REPORT

from the Ministers for Foreign Affairs
to the
European Council

Subject: Report from the Three Wise Men

At its meeting on 27 and 28 April 1980 the European Council requested the Ministers for Foreign Affairs to complete their examination of the report from the Committee of Three Wise Men in time for the next meeting of the European Council.

The report from the Ministers for Foreign Affairs to the European Council is attached hereto.

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Report from the Ministers for Foreign Affairs
to the
European Council

Subject: Report from the Three Wise Men

In accordance with the instructions which they received from the European Council, the Ministers for Foreign Affairs examined the various suggestions contained in the report from the Three Wise Men.

The discussions held by the Ministers for Foreign Affairs highlighted the various factors which had already led the European Council to speak of the excellence of the report. The profundity of the analysis of the institutional situation and the perspicacity of the solutions proposed make this report an extremely valuable document. The Ministers wish to point out that, for these reasons, the results of their deliberations and the concrete proposals arising therefrom at this stage do not entirely cover all the suggestions in the report of the Three Wise Men, nor do they exhaust the matter. Leaving aside such decisions as may be taken in the near future, the report provides and will continue to provide a rich and useful source of ideas and suggestions to which the Institutions and the Member States may make reference in support of their reflections on the Community's institutional system.

The discussions of the Ministers for Foreign Affairs revealed that there were points on which there was as yet no general agreement and which required further examination. These points are set out in Section I below.

On the other hand, a convergence of views, which should be confirmed by the European Council, emerged on numerous other points. These are set out in Section II below.

The Ministers for Foreign Affairs also noted in the Report from the Three Wise Men several suggestions which need not be submitted to the European Council.

I. POINTS STILL REQUIRING EXAMINATION

A. The European Council

(a) Attendance of the President of the European Council at meetings of the European Parliament

The Report of the Three Wise Men suggests bridging the gap created by the absence of relations between the European Council and the European Parliament, and to this end proposes that the President of the European Council should attend the Parliament in person once in each Presidency to report on the outcome of the European Council.

In the light of the discussions, it is proposed that each Presidency decide case by case, after informing the other Member States, whether the President of the European Council should attend sittings of the European Parliament to make a statement on the outcome of the meetings of the European Council.

Several representatives were able to agree in principle to this suggestion. Some wondered, however, if it should not supplement more general measures for the improvement of relations between the European Parliament and the Council.

.../...

The French representative said that, in addition to the constitutional difficulties which, under a French Presidency, would prevent the President of the European Council from appearing before the European Parliament, he had objections of principle to this proposal. He referred to the precedent that would be set by the first appearance of a President of the European Council before the European Parliament.

(b) Delegation by the President of the European Council of responsibility for a particular dossier to another member of that Council ⁽¹⁾

According to the Report from the Three Wise Men such delegation of responsibility would lighten the burden of the President of the European Council and enable him to call on the expertise of any of his colleagues particularly qualified to deal with any individual dossier.

Several representatives had reservations concerning this suggestion, their main objection being that its implementation could prove injurious to the unity of action of the Presidency. If, however, such temporary delegation of responsibilities were to take place, the relevant decisions should be taken pragmatically by the European Council in each individual instance.

⁽¹⁾ The Report from the Three Wise Men contains an identical suggestion with regard to the Council of the European Communities.

.../...

(c) Attendance of other persons at meetings of the European Council

The need to ensure more efficacious implementation of the conclusions of the European Council was recognized.

Several representatives felt that, in order to achieve this, it would be useful if members of the European Council were accompanied by one person per delegation responsible for taking note of the outcome.

Other representatives spoke of the role of the General Secretariat of the Council should play in drawing up the conclusions of the European Council.

B. The Commission

(a) Composition of the Commission

The exchange of views on whether the number of members of the Commission should be reduced revealed at this stage three possibilities:

- (1) A reduction in the number of Commissioners to one per Member State, as suggested in the Report from the Three Wise Men. Both they and the representatives who were in favour of such a reduction advanced as their prime reason the desire for efficiency and the difficulty of achieving a balanced allocation of tasks among too large a number of Commissioners.

.../...

The representatives who said they could agree to a reduction in the number of members of the Commission thought that, if the number of the Commissioners was reduced, this should not involve any loss of powers for each of them individually nor any compensation in the distribution of portfolios among the members of the Commission overall.

- (2) Maintenance of the principle on which the number of members of the Commission is currently determined.

In the view of those representatives supporting this option maintaining this principle would make it possible:

- to preserve the present balance in the composition of the Commission and the political significance thereof;
- to avoid the Commission becoming like an inter-governmental body;
- to ensure a more balanced representation of the major European political groupings within the Commission.

Although they shared the wish expressed by others to see greater efficacy on the part of the Commission these representatives said that the objective sought by the Three Wise Men - optimum operation of the Commission - could possibly be achieved otherwise than by reducing the number of Commissioners to one per Member State, for example by means of an effort by the Commission to redefine the portfolios it assigned to each of its members.

- (3) The third possibility would involve maintaining provisionally the principle of allocation currently in force on the understanding that a reduction would be made at the time of the enlargement following that connected with Greek accession.

.../...

It was pointed out in support of such a transitional solution

- that it would be difficult between now and the end of 1980 to achieve any reduction in the number of Commissioners;
- that other means designed to complement a reduction in the number of Commissioners in order to achieve the desired level of efficiency could be studied in the meantime.

In opposition to this solution, it was pointed out that any reduction in the number of Commissioners at the time of the enlargement following that connected with the accession of Greece might fall in 1983, i.e. during the next Commission's term. This would entail not inconsiderable difficulties for the functioning of the new Commission.

(b) Involvement of the European Parliament in the process of appointing the President of the Commission

Since, according to the Treaties, the Commission should be the privileged interlocutor of the European Parliament, to which it is moreover responsible, certain representatives said that they could agree to informal contacts between the Presidency of the Council and the Presidency of the European Parliament or the political groups of that Institution before completion of the flexible and informal procedure which precedes the appointment of the President of the Commission in order to obtain their reactions to the persons likely to accede to the office of President of the Commission. It was pointed out that this could increase the authority of the President of the Commission.

.../...

Other representatives pointed out that the President of the Commission was appointed by common agreement of the Governments of the Member States and that there were no more reasons on this point than on others for changing the allocation of powers laid down by the Treaties. The point was also made that the European Parliament had available to it the powers laid down in the Treaties vis-à-vis the Commission.

C. General Secretariat of the Council

It emerged from the exchanges of views held on this subject that it seemed possible for agreement to be reached that the person required to discharge the duties of Secretary-General should have at his disposal the means enabling him to provide substantive assistance to the Presidency of the Council, which should rely more generally on the Secretary-General and the departments under him.

Most representatives thought that, to enable the Secretary-General to exercise fully his greater role, he should be relieved of purely administrative duties.

Several representatives considered that the Secretary-General should have a fixed term of office, which might possibly be renewable (e.g. five years).

The Ministers for Foreign Affairs intend to continue studying the role and functions of the future Secretary-General - and the organization of the General Secretariat with a view to meeting the increased responsibilities - in the light, inter alia, of any suggestions which the latter might make.

II. POINTS ON WHICH THERE IS BROAD CONSENSUS TO BE CONFIRMED BY THE EUROPEAN COUNCIL

A. The European Council

- The role of the European Council is to give general policy guidelines such as to facilitate solutions to the problems facing the Community.

.../...

- Consequently, the preparation of a specific plan of priorities for Community action should not be a task for the European Council. The preparation of any such master plan should rather be a task for the Council.⁽¹⁾
- Meetings of the European Council must continue to be flexible and pragmatic, as at present.
- Preparation of meetings of the European Council and implementation of its conclusions are matters for the Council and the Permanent Representatives Committee, where Community topics are concerned.

B. The Council

1. (a) Role of the Council

The European Council could confirm the role which, in approving the "Marlia procedure", the Heads of Government in December 1974 in Paris and the European Council in December 1975 in Rome conferred upon the Council of the European Communities (Ministers for Foreign Affairs), viz. that it provide the impulse and co-ordination to ensure consistency in Community activities and continuity of work.

⁽¹⁾ Some delegations suggested that the Commission and the European Parliament should be involved in the preparation of such a plan, due regard being had for their respective powers.

(b) Consistency of Community action

Such consistency of Community action could be more readily achieved if, in each Member State, there were better co-ordination among the departments involved in the various dossiers handled by the Council in its different formations. The suggestion was made that in those countries where this did not already exist an appropriate body should be set up to carry out such co-ordination. In this connection, the Permanent Representative should take part in the process culminating in definition of the position to be adopted by the State he represents.

(c) Voting

There is no need for new principles to be laid down regarding the voting rules.

(d) Delegation of powers to the Commission

It is desirable that powers should be delegated more frequently to the Commission, with the latter being asked to submit stock formulae (as the "Wise Men" suggested) for the principal eventualities, on the understanding that it remains for the Council to decide, on a case-by-case basis, when the appropriate conditions are fulfilled for recourse to such delegation of powers.

(e) Organization of Council proceedings

Council agendas should contain only a limited number of items raising important problems.

Informal meetings of the members of the Council should be held only if strictly necessary.

2. The Permanent Representatives Committee

- As provided by the Treaty establishing a single Council and a single Commission of the European Communities, the Permanent Representatives Committee "shall be responsible for preparing the work of the Council" for each of its meetings, regardless of the Council's composition. The Committee should to this end be able to co-ordinate better the activities of the various Working Parties or specialist Committees.

- If it is to perform effectively this work of preparing all Council meetings and be able to relieve the Council of a certain number of dossiers, the Permanent Representatives Committee must have wider powers of decision and to this end the Permanent Representatives must be given broad and flexible instructions to enable them, at their level, to resolve the greatest possible number of problems. To this end, instructions such as would enable a common position to be found should be given by each Member State as early as possible in the examination of a dossier, so that meaningful negotiations culminating in agreement may begin within the Permanent Representatives Committee.

.../...

To this end:

- (a) The Permanent Representatives Committee should aim to submit to Ministers the main points of policy and, in the light of guidelines laid down by the Council, then to prepare agreed texts for the Council's approval;
 - (b) the Council should on suitable occasions instruct the Permanent Representatives Committee to solve an outstanding problem within a time-limit and Ministers should then give Permanent Representatives appropriate instructions;
 - (c) the Presidency should announce in advance its plans for reaching agreement in the Permanent Representatives Committee so that Permanent Representatives can obtain instructions in time.
- The Permanent Representatives Committee, which has the power to set up working parties, should exert stronger control over the activities of these bodies and may itself discuss at any time the dossiers which are before the working parties.
 - The Permanent Representatives Committee is invited to examine the points on which its working methods might be improved, taking as its basis the various suggestions made during the examination of the Report from the Three Wise Men.

3. The Presidency

The prime role of the Presidency, assisted at all levels by the General Secretariat, involves in particular organization of work, preparation of Council agendas, monitoring of the progress made in discussions within working parties and co-ordination of the work done within the different bodies, with a view to ensuring the consistency of Council decisions.

C. The Commission

- The importance of the Commission's role and the need to maintain both the balance established among the Institutions by the Treaties and the allocation of powers to each Institution were recognized by all the representatives.
- The President of the Commission should be appointed a sufficiently long time in advance of taking up his duties and before the process of appointing the other members of the Commission begins.

D. Relations between the European Parliament and the Council

(a) Relations with the European Parliament

- General agreement was reached on maintaining the allocation of powers among the Institutions as laid down by the Treaties.
- In this connection, the development of relations between the European Parliament and the Council should be continued, particularly as regards the response to European Parliament Resolutions and keeping Parliament better informed.

(b) Conciliation procedure

- Implementation of this procedure appeared to give rise to two major problems:

.../...

- that of finding ways to improve the procedure's efficiency, by first seeking solutions acceptable to all sides;
- that of setting a time limit on the conciliation procedure so that it does not protract the Community's decision-making procedure.
- The need for improved preparation of the meetings of the Conciliation Committee was underlined. To this end, the Presidency-in-Office might be given the task, in conjunction with the Commission, of making informal contact with the European Parliament before the formal meeting of the Conciliation Committee.
- With respect to the termination of the conciliation procedure, the Presidency intends to ascertain from the European Parliament whether it can agree on the detailed rules for implementing the conciliation procedure proposed by the "Wise Men" with respect to the termination of the procedure, viz.:
 - "(a) when the Council's common position on a conciliable measure has been sent to the Parliament, the latter should indicate within a set period (e.g. six weeks) whether it wants to hold a conciliation meeting;
 - (b) the time limit for completion of the procedure runs from the date of the first meeting;
 - (c) the procedure should stop after either three months or three meetings between the institutions, whichever is the shorter;

.../...

- (d) If, when the deadline is reached, either institution wants to go on, the Presidencies of the Council and the Parliament should try to reach agreement on a suitable extension. If the institutions cannot agree on an extension, the procedure is terminated."

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EHG(V)(80)14

4 June 1980

COPY NO 74

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

PRESIDENT OF THE NEW COMMISSION

Brief by Foreign and Commonwealth Office

1. A list of possible and declared candidates, together with personality notes, is attached, together with background on previous presidents and their rotation.
2. The only candidature officially declared so far has been that of Gundelach, the present Danish Commissioner, but he is now reported in the press to have withdrawn (and to want to stay on in his present job as Agriculture Commissioner). Thorn, Luxembourg Foreign Minister, is however known to want the job, though not yet an official candidate. O'Kennedy, ex Irish Foreign Minister, has told Lord Carrington in confidence that he is interested and he may be put forward as an official Irish candidate either as President or Commissioner. None of these candidates are likely to make good Presidents nor to be satisfactory from the British point of view.
3. There are increasingly strong rumours that the Italians will make a bid for the job and that their candidate will be Pandolfi, presently Minister of Finance. Pandolfi would be a good choice from our point of view (the Chancellor of the Exchequer is in favour). There has been some speculation that the Italian candidate might in the end turn out to be Colombo, presently Foreign Minister, rather than Pandolfi. This seems to us less likely, but not impossible. It will be for the Italians to decide which is a candidate. We would also want to support a Colombo candidature.

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4. If either of these two Italian names emerge they are likely to be strong candidates. If they do not, it will be in our interest to work for a postponement of the decision on the grounds that more time and a wider choice is needed in order to avoid the risk of having to oppose, for example, an emerging consensus in favour of Thorn. The French, who have told us that they are in no hurry over reaching a decision (though they acknowledge that Pandolfi would be a candidate 'meriting attention') could be helpful in securing a postponement in such circumstances, particularly since Giscard is known to have reservations about Thorn. A private word with the French might therefore be desirable if events develop in such a way that postponement of a decision would be the best we could hope for. The possibility of a further two year term for Jenkins could be another delaying tactic although that will be more attractive for the Germans than for the French.

5. It will be important for us to prevent any Member State establishing at this stage a pre-emptive right to any specific Portfolio or Portfolios in the new Commission (eg. by the French to the Development Portfolio, which they have held uninterruptedly since the founding of the Community and which we will probably want to try to wrest from them). Attempts to establish such pre-emptive rights could be made as part of the bargaining about the Commission Presidency. We should ensure that it is impossible after Venice for any Member State to claim that 'understandings' had been reached there about the distribution of Commission Portfolios.

BACKGROUND

Candidates for President of Commission

Declared, with Government backing (but now reported to have withdrawn)
GUNDELACH (Denmark) - Agriculture Commissioner

Undeclared, but running hard

THORN (Luxembourg) - Foreign Minister

Mentioned more than once

JENKINS (UK) - President of Commission
COLOMBO (Italy) - Foreign Minister
BARRE (France) - Prime Minister
PANDOLFI (Italy) - Minister of Finance

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/Mentioned

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Mentioned

TINDEMANS (Belgium) - Former Prime Minister and Foreign Minister
An Irish candidate, probably O'Kennedy - ex Irish Foreign Minister

Mentioned but not runners at this stage

Van de STEE (Netherlands) - Minister of Finance
ZIJLSTRA (' ') - Former Minister, President Netherlands
Bank since 1967
BIESHEUVEL (' ') - Former Prime Minister, one of Three Wise
Men
FITZGERALD (Ireland) - Former Foreign Minister, leader of Opposition

Previous Presidents

HALLSTEIN (Germany) - Jan 1958-June 1967
REY (Belgium) - July 1967-June 1970
MALFATTI (Italy) - July 1970-March 1972
MANSHOLD (Netherlands) - March 1972-December 1972
ORTOLI (France) - Jan 1973-December 1976
JENKINS (UK) - Jan 1977-[December 1980]

Rotation of Presidency

1. When the Communities were established, there was no general principle of rotation. Under French pressure during discussion in 1966-7 of implementation of the 1965 Merger Treaty, which established a single Council and Commission, it was agreed that the Presidency should rotate every four years (from 1967): the Treaty specifies only that the President (and Vice-Presidents) shall be appointed for a term of 2 years which may be renewed.

2. For this purpose, the Benelux are considered as one country, while Denmark and Ireland have also been considered as one country since enlargement. The smaller states are arguing that it is their turn to provide the President, either from the Benelux - and the Netherlands do not consider that Mansholt's short Presidency rules them out - or Ireland/Denmark.

FOREIGN AND COMMONWEALTH OFFICE
4 June 1980

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EHG(V)(80)14 : ADDENDUM

COPY NO 74

11 JUNE 1980

EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980

PRESIDENT OF THE NEW COMMISSION:
POSITION JUST BEFORE THE COUNCIL

Brief by the Foreign and Commonwealth Office

1. No consensus has formed. It therefore seems possible that a new President may not be chosen at Venice. Further preparation could be needed.
2. Reports from our posts show the following positions in Community capitals:
FRG
2. No candidate. Believe Presidency should go to one of smaller States. Would like job taken by a prestigious political figure with good European credentials and proven ability to operate a machine as complicated as the Commission. Very preliminary thinking tends to favour Thorn over Gundelach, but Schmidt has been too busy (eg. with party conference) to give the matter much thought and we have no indication of his own views.

FRANCE

3. No decision taken. We do not know what candidate Giscard favours. Thinking at present still seems to be focussed on the idea of a candidate from a smaller country.

ITALY

4. Names of Colombo (Foreign Affairs) and Pandolfi (Finance)

/both

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both mentioned. Repeated insistence from Rome that Colombo will not be a candidate but indications that Pandolfi would if he could be assured of selection. On 9 June Pandolfi told the Chancellor of the Exchequer that he would be a candidate if there were a consensus in his favour but he did not want his name to be thrust forward prematurely. He also said that ^{he} believed that the French and German Governments were now considering a candidate from one of the smaller Member States 'in order to develop a different, less bureaucratic style of management in the Commission'.

LUXEMBOURG

5. Thorn is still a firm though formally undeclared candidate. On 8 June Prime Minister Werner said on Luxembourg television that he judged the moment had come when his country should put forward its candidate for the Presidency. He had a particular candidate to propose, but did not say who.

DENMARK

6. The Danish Prime Minister will probably recommend Gundelach at Venice as a good candidate but how he puts this may depend on FRG/French/UK views. He is more likely to press Gundelach's case against Thorn than Pandolfi.

IRELAND

7. No change. O'Kennedy, Finance Minister and ex-Foreign Minister, remains a possible candidate. The Irish press has speculated that the Irish Government may put forward John Hume, SDLP leader. This seems improbable.

BELGIUM

8. No declared candidate, but rumours that Tindemans (former Prime Minister) or Davignon (Commissioner for Industrial Affairs) might be put forward. French officials have said that Davignon would undoubtedly make a very active and effective President - 'while these might not be sufficient reasons in themselves to eliminate any candidate it was unlikely that anyone else would propose Davignon if his own Government did not do so'.

NETHERLANDS

9. No candidate.

FOREIGN AND COMMONWEALTH OFFICE

11 June 1980

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EHG(V) (80)15

COPY NO. 74

5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

The following Briefing material is
attached:

Annex A	Middle East
B	Iran
C	Afghanistan

Foreign & Commonwealth Office

3 June 1980

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ANNEX A

EH6(V)(80)15

MIDDLE EAST

(THIS BRIEF MAY BE SUBJECT TO REVISION IN THE LIGHT
OF MINISTERIAL DISCUSSIONS)

OBJECTIVE

1. To agree a Council statement and follow-up action.

POINTS TO MAKE

2. Agree a move by the Nine is needed to avoid dangerous vacuum. Cannot repudiate autonomy talks but no prospect of progress from them.
3. Line proposed in report (A) broadly acceptable, as is draft statement (B) subject to following comments (see paragraph 9 below).
4. Options for Nine following soundings must remain open, including Security Council action, but soundings process itself a useful time-buyer.
5. Contacts must include the PLO but working, low-key meetings needed, not publicity jamboree; West Bankers should also be separately consulted.
6. Key is mutual acceptance of rights. Must concentrate on problem of how self-determination can be put into practice and reconciled with Israel's security needs.
7. Nine cannot aspire to play the dominant role in peace efforts. US goodwill must be retained as far as possible which means careful and co-ordinated presentation. Great care also needed to avoid alienating Israelis, with whom a settlement must ultimately be negotiated.

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BACKGROUND

References

A1: Draft Foreign Ministers' report (not yet available).

A2: Draft European Council statement.

A3: Minute from the Foreign and Commonwealth Secretary covering the paper agreed at Chequers on 30 May (not yet available).

8. Paragraphs 11 and 12 below may be freely used. Paragraphs 9 and 10 are not for general disclosure in the Council.

9. General agreement has been reached at official level on the terms of the Foreign Ministers' report and statement.

Our partners' views coincide in general with our own. But the French remain inclined to push the Nine into as independent and far-reaching a role as possible, while the Germans and Dutch are reluctant to move beyond declaratory diplomacy. A few specific problems (some of which may be removed by the Foreign Ministers during the Council) remain on the statement.

10. No decisions have yet been taken on who should carry out the soundings proposed in the draft statement. At the request of the Political Directors we have suggested four possibilities:

(i) the Presidency alone, with the delegation headed by the Foreign Minister. Support could be provided by a small expert team drawn from the Nine as a whole;

(ii) the troika (ie in the next 6 months Luxembourg as Presidency, ie M. Thorn, and Italy and the Netherlands as the previous and future Presidencies);

(iii) a commission composed of, say, three members including at least one of the permanent members of the Security Council.

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(iv) a special emissary, again with a small team provided from the Nine as a whole. A figure of political stature and experience (eg Mr Brandt) would be required. Any of these alternatives would mean that none of the three major members of the Nine would be involved except perhaps through provision of an expert. This problem will need to be resolved in detail by officials and foreign ministers but a decision in principle from the Council is needed.

11. The details of the mandate of the mission and whom it should consult will also need to be worked out following the issue of the Council statement. Our assumption is that a mission should visit Israel, Egypt, the US, the important Arab states (ie at least Jordan, Syria, Lebanon, Saudi Arabia, Tunisia (on the Security Council) and perhaps Iraq and Kuwait, and also meet representatives of the PLO and West Bank opinion (presumably some of the mayors). The mission should concentrate on eliciting firm answers to questions on the lines of those referred to in the Foreign Ministers' report.

12. The Ambassadors of the Nine in Washington have recommended that particular thought should be given to presentation to the Americans of the Nine's move. This applies to Israel and the Arabs also. The Presidency may propose a common line to take.

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Appx A2

UNOFFICIAL TRANSLATION

EUROPEAN COUNCIL: DRAFT STATEMENT OF THE NINE ON THE MIDDLE EAST

1. The Heads of State and Government and the Foreign Ministers have exchanged views in depth on the situation in the Middle East [including the current state of negotiations resulting from the agreements signed between Egypt and Israel in March 1979]. They agreed that the growing tensions [which affect this region constitute a growing danger] [which affect this region constitute a serious danger to peace] [affect seriously the security of this region [and] make a comprehensive solution of the Arab/Israel conflict more than ever necessary and urgent.
2. The Nine countries of the European Community consider that the traditional links and common interests which bind Europe to the Middle East require them to play a special role and call upon them today to work towards peace in a more concrete manner.
3. [In their action] [in acting thus], the Nine countries of the Community base themselves on Resolutions 242 and 338 of the Security Council and the positions which they have expressed on numerous occasions, notably in their declarations of 29 June 1977, 19 September 1978, 26 March and 18 June 1979, as well as in the speech made on their behalf on 25 September last by the Irish Foreign Minister at the 34th UN General Assembly.
4. On the basis thus set out, the time has come to work for the recognition and implementation of the two principles universally accepted by the international community: the right to exist and to security of all the states in the region including Israel, and justice for all the peoples which implies recognition of the legitimate rights of the Palestinian people.
5. All the countries of the region have the right to live in peace within secure recognised and guaranteed boundaries. The guarantees of the peace settlement should be provided by the United Nations by decision of the Security Council and, as appropriate, according to other mutually agreed procedures. The Nine once more declare themselves ready to participate in a system of international guarantees in the context of a comprehensive settlement.

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6. The Palestinian problem, which is not simply a refugee problem, must at last find a just solution. The Palestinian people, who are conscious of their own existence as such, must be put in a position to exercise their right to self-determination [through an appropriate process] within the framework of the comprehensive peace settlement. The exercise of this right involves the establishment of a homeland for the Palestinian people [organised by itself and, if it so desires, a Palestinian state on the territories which Israel should evacuate in Palestine].

7. The implementation of these aims requires the adherence and concurrence of all the parties involved in the peace settlement which the Nine are striving to promote on the basis of the principles set out in the declarations mentioned above. These principles are valid for all the parties concerned, including the Palestinian people, which [involves the participation] [necessitates the participation] [involves the association] of the PLO in the negotiation.

8. The Nine recognise the particularly important role which the question of Jerusalem possesses for all the parties concerned. In the speech of the then Presidency at the then United Nations on 25 September 1979, the Nine stressed *inter alia* that they did not accept any unilateral move which claimed to change the status of Jerusalem and that any agreement on the status of the city should guarantee the right of free access for all to the Holy Places.

9. The Nine recall the need for Israel to end the territorial occupation which it has maintained since the conflict of 1967. They are deeply convinced that the Israel settlements represent a serious obstacle to the peace process in the Middle East. The Nine consider that these settlements [as well as demographic and property modifications in the occupied Arab territories] are contrary to international law.

10. Concerned to put an end to violence, the Nine consider that only the renunciation of force and the threat of force by all the parties can create a climate of confidence in the region, and constitutes a fundamental element for a comprehensive settlement on the Middle East conflict.

/11.

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The Nine have decided [to undertake the necessary soundings with] [to make the necessary contacts with] [all] the parties involved. In the light of the results of this consultation the Nine will decide the precise modalities of their future action [the precise methods and timetable for an initiative on their part].

12. The Nine also stressed the importance which they attach to the Euro/Arab Dialogue on all fronts and the need to develop its political dimension. They have accordingly agreed that a meeting at the political level between the two parts would be opportune. They intend thus to contribute to the development of co-operation and mutual understanding between Europe and the Arab world.

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Annex B

IRAN

SUBJECTIVE: TO AVOID DISCUSSION ON THE SANCTIONS ADOPTED BY MEMBER STATES

POINTS TO MAKE

DIFFERENCES BETWEEN MEMBER STATES' MEASURES

1. All member states have put their measures into force: the differences are less important than to avoid an appearance of lack of confidence in what is being done.

FURTHER CONSULTATIONS

2. We should keep under review the way sanctions work out. It is only if a serious distortion of trade becomes apparent that any further consultations need be considered.

PURPOSE OF SANCTIONS

3. We are not trying to bring the Iranian economy to its knees, but to demonstrate to Iran that it cannot expect to enjoy normal relations while continuing to hold the hostages.

REACTION IN IRAN

4. The Iranians have made light of sanctions. However, there are indications that they are more concerned about the impact than they wish to admit.

(DEFENSIVE) COVERAGE OF SANCTIONS

5. Discrepancy in our cut off date for exempted contracts will make little practical difference: the reason was parliamentary aversion to retrospection. We would be ready to implement other aspects of the Security Council Resolution (eg new service contracts in support of industrial projects) if our partners would make parallel orders.

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1. All other member states put their sanctions into effect on 22 May. However, although they all claim to be following the Naples agreement concerning the implementation of the Security Council Draft Resolution, there are considerable differences between their measures.

2. At the meeting of the Iran Working Group in Brussels on 30 May, the Commission, supported by some states, wished to prepare an analysis of the different measures. France and the UK saw no virtue in this.

3. Our introduction of sanctions has not affected our Embassy's relations with the Iranian Government. However, we know that Iran has been looking for alternative sources of supply in Korea and in Eastern Europe for goods which will be affected by the sanctions, and has made some arrangements for goods which have to come from Europe to be sent to an intermediate destination before being shipped on. These measures will at least cause additional inconvenience, and increase prices in Iran.

Power Struggle

4. The power struggle in Iran bedevils efforts by outsiders to contribute effectively to the release of the hostages. Some leading politicians, eg Bani Sadr and Qotbzadeh want to release the hostages but others, the 'students' and Beheshti group remain intransigent. Khomeini, too, seems obdurate, or at least fears the consequences of being seen to change his mind. Parliament (convened on 28 May) is to tackle hostage problem, but unlikely to do so before late July. Even then, Bani Sadr and 'moderates' may be overruled by hardliners, including Beheshti faction, who wish to exploit hostage issue in context of Iranian domestic politics.

Steps Forward

5. Best tactic for time being is to keep hostage issue off front pages as far as possible, while moderates try to work out scenario for favourable decision by Majles. This could include some international
/'recognition'

'recognition' of Iranian grievances, and/or reactivation of UN Commission of Enquiry (Daoudi, Waldheim's Syrian representative) still in Tehran.

6. Apparent US plans to ventilate ICJ decision in Security Council could cut across this process, stimulate enhanced press scrutiny of efforts to find a solution, and make it harder for Iranians to agree to a solution.

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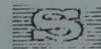
1. UN Security Council Draft Resolution, 16 January.
2. Declaration by EC Foreign Ministers on Iran, Naples, 18 May.

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APPx B 1



UNITED NATIONS
SECURITY
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Distr.
GENERAL

S/3735
10 January 1980

ORIGINAL: ENGLISH

United States of America: draft resolution

The Security Council,

Recalling its resolutions 457 (1979) of 4 December 1979, and 461 (1979) of 31 December 1979,

Recalling also the appeal made by the President of the Security Council on 9 November 1979 (S/13616) which was reiterated on 27 November 1979 (S/13652),

Having taken note of the letters dated 13 November 1979 and 1 December 1979 concerning the grievances and views of Iran (S/13626 and S/13671, respectively),

Having taken into account the Order of the International Court of Justice of 15 December 1979 calling on the Government of the Islamic Republic of Iran to ensure the immediate release, without any exception, of all persons of United States nationality, who are being held as hostages in Iran (S/13697) and also calling on the Government of the United States of America and the Government of the Islamic Republic of Iran to ensure that no action is taken by them which will aggravate the tension between the two countries,

Further recalling the letter dated 25 November 1979 from the Secretary-General (S/13646) stating that, in his opinion, the present crisis between the Islamic Republic of Iran and the United States of America poses a serious threat to international peace and security,

Bearing in mind the adoption by the General Assembly by consensus on 17 December 1979 of the Convention Against the Taking of Hostages,

Mindful of the obligation of States to settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered and, to that end, to respect the decision of the Security Council,

Conscious of the responsibility of States to refrain in their international relations from the threat of use of force against the territorial integrity or political independence of any State, or in any other manner inconsistent with the purposes of the United Nations,

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Affirming that the safe release and departure from Iran of all those being held hostage is an essential first step in resolving peacefully the issues between Iran and the United States and the other States members of the international community,

Reiterating that once the hostages have been safely released, the Government of Iran and the United States of America should take steps to resolve peacefully the remaining issues between them to their mutual satisfaction in accordance with the purposes and principles of the United Nations,

Further taking into account the report of the Secretary-General of 6 January 1980 (S/13730) made pursuant to resolutions 457 (1979) of 4 December 1979 and 461 (1979) of 31 December 1979,

Bearing in mind that the continued detention of the hostages constitutes a continuing threat to international peace and security,

Acting in accordance with Articles 39 and 41 of the Charter of the United Nations,

1. Urgently calls, once again, on the Government of the Islamic Republic of Iran to release immediately all persons of United States nationality being held as hostages in Iran, to provide them protection and to allow them to leave the country;

2. Decides that, until such time as the hostages are released and have safely departed from Iran, all States Members of the United Nations:

(a) shall prevent the sale or supply, by their nationals or from their territories, whether or not originating in their territories, to or destined for Iranian governmental entities in Iran, or any other person or body in Iran, or to or destined for any other person or body for the purposes of any enterprise carried on in Iran, of all items, commodities, or products, except food, medicine, and supplies intended strictly for medical purposes;

(b) shall prevent the shipment by vessel, aircraft, railway, or other land transport of their registration or owned by or under charter to their nationals, or the carriage whether or not in bond by land transport facilities across their territories of any of the items, commodities, and products covered by subparagraph (a) which are consigned to or destined for Iranian governmental entities or any person or body in Iran, or to any enterprise carried on in Iran;

(c) shall not make available to the Iranian authorities or to any person in Iran or to any enterprise controlled by any Iranian governmental entity any new credits or loans; shall not, with respect to such persons or enterprises, make available any new deposit facilities or allow substantial increases in existing non-dollar deposits or allow more favourable terms of payment than customarily used in international commercial transactions; and shall act in a businesslike manner in exercising any rights when payments due on existing credits or loans are

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not made on time and shall require any persons or entities within their jurisdiction to do likewise;

(d) shall prevent the shipment from their territories on vessels or aircraft registered in Iran of products and commodities covered by subparagraph (a) above;

(e) shall reduce to a minimum the personnel of Iranian diplomatic missions accredited to them;

(f) shall prevent their nationals, or firms located in their territories, from engaging in new service contracts in support of industrial projects in Iran, other than those concerned with medical care;

(g) shall prevent their nationals or any person or body in their territories from engaging in any activity which evades or has the purpose of evading any of the decisions set out in this resolution;

3. Decides that all States Members of the United Nations shall give effect forthwith to the decisions set out in operative paragraph 2 of this resolution notwithstanding any contract entered into or licence granted before the date of this resolution;

4. Calls upon all States Members of the United Nations to carry out these decisions of the Security Council in accordance with Article 25 of the Charter;

5. Urges, having regard to the principles stated in Article 2 of the Charter, States not members of the United Nations to act in accordance with the provisions of the present resolution;

6. Calls upon all other United Nations bodies and the specialized agencies of the United Nations and their members to conform their relations with Iran to the terms of this resolution;

7. Calls upon all States Members of the United Nations, and in particular those with primary responsibility under the Charter for the maintenance of international peace and security, to assist effectively in the implementation of the measures called for by the present resolution;

8. Calls upon all States Members of the United Nations or of the specialized agencies to report to the Secretary-General by 1 February 1980 on measures taken to implement the present resolution;

9. Requests the Secretary-General to report to the Council on the progress of the implementation of the present resolution, the first report to be submitted not later than 1 March 1980.

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DECLARATION BY THE FOREIGN MINISTERS OF THE NINE CONCERNING
IRAN : NAPLES, 18 MAY 1980

1. At their meeting in Naples on 17 and 18 May 1980, the Foreign Ministers of the Nine Member States of the European Community reconsidered, in accordance with their declaration of 22 April, the situation resulting from the detention of the American hostages in Iran, which constitutes a flagrant violation of international law.
2. The Ministers examined the information emanating from Iran. While noting that there were a number of developments which could be important for the release of the hostages, in particular the completion of the second round of Parliamentary elections and the forthcoming convening of the Majlis, they were obliged to recognise that no decisive progress leading to the release of the hostages had been made since 22 April last.
3. Consequently, they decided immediately to apply the measures provided for in the Security Council draft resolution of 10 January 1980, according to jointly agreed conditions and procedures. They agreed, in particular, that all contracts concluded after 4 November 1979 will be affected by these measures. They will continue to consult closely pursuant to Art 224 of the Treaty of Rome.
4. The sole purpose of these measures is to hasten the release of the hostages. At the same time, the Ministers reaffirmed their intention to respect the independence of Iran and the right of the Iranian people to determine their own future.

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5. The Ministers expressed great satisfaction at the decision of the UN Secretary-General to entrust to Mr Adib Daoudi, member of the UN Commission of Inquiry, the task of entering into contact with the Iranian Government in order to enable the Commission to resume its work and to secure the resolution of the crisis. They fully support the Secretary-General and will remain in constant touch with him in order to establish whether the progress of the UN mission is such as to enable them rapidly to suspend the measures taken in respect of Iran.

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Annex C

EAST-WEST RELATIONS

OBJECTIVE

1. To stimulate a wide-ranging discussion

POINTS TO MAKE

2. The Russians are anxious to divert attention from Afghanistan. The Warsaw Pact call on 15 May for a World Peace Summit "to remove hotbeds of tension" was a ploy in this sense. The Russians will also seek to promote and gain advantage from any signs of division between Western allies.

3. Close consultation and cooperation between European partners are vital. We should make it clear that we have a common appreciation of, and approach to, problems caused by the invasion of Afghanistan. We must convince the Russians that East/West relations will suffer continued damage whilst they remain in Afghanistan and that there will be no return to 'business as usual' until they withdraw.

AFGHANISTAN

4. Meetings between Lord Carrington and Gromyko, and President Giscard and Brezhnev have brought little concrete evidence of Soviet willingness to negotiate seriously. But the Russians are feeling the pressure of world opinion and are trying to appear flexible. We should continue to probe their position, whilst maintaining pressure for an acceptable political solution.

CSCE

5. The Russians are anxious for Madrid to take place, and to use it to promote an impression of 'business as usual'. They want agreement to a conference on Disarmament and Military détente. We must take a strong line at Madrid to show that détente cannot be broken down into packages to suit Soviet

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purposes and that negotiation of new proposals is meaningless if existing obligations continue to be disregarded.

OLYMPICS

6. Defensive : The decision of the British Olympic Association (BOA) to accept invitation to participate in Moscow Games was taken against strong Government advice. It is not binding on Governing Bodies of Olympic Sports or on individual sportsmen. BOA agreed to re-examine if circumstances change. We shall continue quietly but firmly to advise and urge non-participation.

BACKGROUND

AFGHANISTAN

7. The Soviet position on Afghanistan has not altered but recent proposals by the Kabul regime and high level contacts - Secretary of State/Gromyko on 17 May in Vienna and Giscard/Brezhnev on 19 May in Warsaw - suggest that the Russians have felt a need at least to appear willing to be reasonable. But they still attach unacceptable pre-conditions to any political settlement. In particular they wish to secure recognition of the Babrak Karmal regime, particularly by Pakistan and Iran.

8. There is, nevertheless, a certain ambiguity, perhaps intentional, in Soviet statements about withdrawal. Brezhnev hinted to Giscard that a Soviet withdrawal could start after bilateral negotiations had been completed between Afghanistan and Pakistan/Iran but before guarantees of non-intervention given by other countries. Brezhnev also said in a speech on 27 May that the timescale for beginning the withdrawal could be decided in the context of the proposed settlement and taking into account the appropriate national guarantees of the ending and non-resumption of all forms of outside intervention. We now intend to probe the Russians further to see if this indicates a possible willingness to move toward our insistence that

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guarantees of non-intervention must go hand in hand with a Soviet withdrawal.

9. The attitude of non-aligned States has held up quite well. Neither Pakistan nor Iran reacted favourably to the Soviet-inspired Afghan proposals of 14 May for a political settlement. The Islamic Conference on 17 - 22 May repeated its condemnation of the Soviet invasion and set up a 3-man commission comprising the Foreign Ministers of Iran and Pakistan and the Secretary-General of the Islamic Conference to seek a solution by "appropriate consultations". This may get into difficulties if they are obliged to meet only representatives of the Babrak regime, but they are aware of the dangers.

GISCARD-BREZHNEV MEETING

10. Without any prior consultation with his allies President Giscard met Brezhnev on 19 May in Warsaw. He achieved little, though he claimed in response to press criticism in France and abroad, that Brezhnev had been left in no doubt about Western solidarity over Afghanistan. The Soviet press, however, claimed that the meeting had revealed "a growing tendency in Europe towards the continuation of contacts, the preservation and strengthening of détente and mutually advantageous cooperation"

CSCE

11. The next CSCE review meeting will begin in Madrid on 11 November and will be preceded by a preparatory meeting also in Madrid, beginning on 9 September. We want a balanced outcome covering all areas of the CSCE Final Act, and will emphasize the review of implementation. The Russians will attempt to concentrate on the military aspects of security including the idea of a disarmament conference. Lord Carrington made it clear to Gromyko on 17 May that the atmosphere at Madrid would be

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"less warm", if there had been no solution to the problem of Afghanistan.

OLYMPICS

12. All EC National Olympic Committees (NOCs) except the Germans have decided to go to Moscow against the advice of their governments. Germans are feeling isolated. Herr Genscher has asked us to make efforts at a higher level to persuade sports bodies to change their minds. Lord Carrington commended him to the Prime Minister's four letters to BOA and said that further meetings with sports bodies were under consideration.

13. Hockey, yachting, equestrian and shooting bodies in UK are boycotting.

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COPY NO.

74

5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

COMMON JUDICIAL AREA

Brief by Foreign and Commonwealth Office
and Home Office

OBJECTIVE

To make clear that the UK is prepared to sign the draft Convention on Cooperation in Criminal Matters (which is primarily concerned with extradition among the Nine), but to give the Dutch support on the general issue of the future of the Common Judicial Area.

POINTS TO MAKE

1. UK will be disappointed if the Convention does not come into force.
2. Difficulties in reconciling common law and continental legal systems likely to make future work on the Common Judicial Area increasingly unprofitable, especially in the field of civil law.

BACKGROUND

1. President Giscard launched the idea of a Common Judicial Area among the Nine at the European Council in December 1977. The rationale of this proposal was that criminals should not be allowed to profit from the free movement between European countries provided for by the Treaty of Rome. The French later proposed that the Common Judicial Area should include civil law.

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2. Following President Giscard's proposals, a group of officials has met within the framework of Political Cooperation and negotiated a draft Convention among the Nine on Cooperation in Criminal Matters. The Convention is based on the principle that States shall either extradite or consider prosecution of suspected criminals. Initially the draft Convention seemed likely to raise problems for the UK, since it would have required us to take much wider extra-territorial jurisdiction than exists at present with consequent practical difficulties, because of the need to call witnesses in UK courts. It would also have required us to abandon some of the traditional features of our extradition system, eg the establishment of a prima facie case against the fugitive. However, the rest of the Nine have proved accommodating, and the draft Convention as agreed by officials is now acceptable to the UK. As it stands, the treaty is potentially useful, but by no means essential to us.

3. The Dutch, however, who gave no hint of this in the course of the negotiations, are now expected to announce that they will not sign the Convention. Their principal objections to this Convention and to the whole concept of a Common Judicial Area are that it is unnecessary and will reduce the credibility of the Council of Europe (where similar Conventions already exist) and at the same time undermine Community institutions, as it does not give the European Court a role. (The UK is opposed to any such extension of the European Court's jurisdiction). The Convention can only come into force when all Nine have ratified it, so that refusal by one of the Nine to sign it would effectively kill it, and with it probably future work on the Common Judicial Area, since this Convention has been seen by the French, in particular, as the first step towards the creation of the Common Judicial Area.

4. The UK recognises that there is a certain logic in the idea of a Common Judicial Area, but doubts whether it would be useful to embark on any further work on it at this stage. Given the difference between the common law and the continental legal systems,

/in practice

in practice such work is likely to be increasingly difficult and its results meagre.

5. If, as a result of the Dutch decision, further progress cooperation on criminal matters is impossible, the French may press instead for discussions on the civil field. However there would be little point in trying to create a Common Judicial Area in matters of civil law, since this would duplicate the work of other bodies, e.g. the Council of Europe and The Hague Conference on Private International Law. So far French proposals in this field have also failed to take account of the existence of separate jurisdictions in England, Scotland and Northern Ireland, and are wholly impractical for the UK.

Foreign and Commonwealth Office
and Home Office

5 June 1980.

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EHG(V)(80) 16 revise

COPY NO. 74

9 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

COMMON JUDICIAL AREA

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3. The Dutch, however, who gave no hint of this in the course of the negotiations, have now announced that they will not sign the Convention. Their principal objections to this Convention (and to the whole concept of a Common Judicial Area) are that it is unnecessary and will reduce the credibility of the Council of Europe (where similar Conventions already exist) and at the same time undermine Community institutions, as it does not give the European Court a role. (The UK is opposed to any such extension of the European Court's jurisdiction.) The Convention can only come into force when all Nine have ratified it, so that refusal by one of the Nine to sign it will effectively kill it, and with it probably future work on the Common Judicial Area, since this Convention has been seen by the French, in particular, as the first step towards the creation of the Common Judicial Area.

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REFERENCE

Dutch Coreu telegram announcing their decision not to sign the Convention.

[NOTE:

Revisions have been underlined.]

Foreign and Commonwealth Office and Home Office
9 June 1980

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EHG(V)(80)16 Revise

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TO ALL COREU
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CPE MUL ETR 2150 (CPE BIL ETR 235 HAYE)
07.06.1980 08.00 HEURES

FM LA HAYE COREU
TO ROME COREU - IMMEDIAT
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CPE/BIL ETR 235
06-06-1980 17.16 HEURES

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OBJET: ESPACE JUDICIAIRE

THE NETHERLANDS INFORM THEIR PARTNERS THAT THE QUESTION OF SIGNATURE OF THE DRAFT CONVENTION AMONG THE MEMBER STATES OF THE EUROPEAN COMMUNITIES ON COOPERATION IN CRIMINAL MATTERS, SCHEDULED FOR THE ABOVE-MENTIONED MEETING, HAS BEEN SUBMITTED TO ITS GOVERNMENT AND THAT THE COUNCIL OF MINISTERS IN ITS

SESSION OF 6 JUNE, 1980, HAS DECIDED THAT THE SAID DRAFT CONVENTION WILL NOT BE SIGNED FOR THE KINGDOM OF THE NETHERLANDS TAKING INTO ACCOUNT ITS CONTENT AND STRUCTURE. THIS DECISION IS BASED ON CONSIDERATIONS OF BOTH A POLITICAL AND A LEGAL NATURE WHICH ARE RELATED TO THE PRACTICAL UTILITY OF THE CONVENTION, ITS LEGAL CHARACTER, ITS POTENTIAL EFFECTS, ON THE FUNCTIONING OF CERTAIN INTERNATIONAL ORGANISATIONS, IN PARTICULAR WITH A VIEW TO INTERNATIONAL AGREEMENTS CONCLUDED OR ENVISAGED IN THE FRAMEWORK THEREOF, AND THE CHANCES THAT THE CONVENTION WILL FAIL TO RECEIVE PARLIAMENTARY APPROVAL.

THIS DECISION IS HOWEVER NOT TO BE UNDERSTOOD AS A CHANGE IN EXISTING DUTCH POLICIES AND PRACTICES IN REGARD TO OTHER MEMBER STATES IN MATTERS OF EXTRADITION.

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EHG(V)(80)17

9 JUNE 1980

COPY NO 74

EUROPEAN COUNCIL, VENICE

12/13 June 1980

ENLARGEMENT

Note by Foreign and Commonwealth Office

Attached is an additional brief on Enlargement.
The number and title of this brief should be added
to the Index of Briefs (Brief No 1).

Foreign and Commonwealth Office

9 June 1980

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EHG (V)(80) 17

JUNE 1980

EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980

ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To make plain if necessary that the UK continues firmly to support the accession of Spain and Portugal and does not accept that the Community's internal situation provides justification for delaying this.

POINTS TO MAKE

2. UK has supported and continues firmly to support accession of Greece, Portugal and Spain.
3. Accession of Greece now assured, that of Portugal and Spain should be pursued no less vigorously.
4. Community of course has internal problems but these must be kept in perspective. Recent events have demonstrated Community's ability to confront and surmount its problems. Am confident that it will continue to be able to do so. Therefore cannot agree that Community's internal problems require delay in negotiations for accession of Portugal and Spain.

BACKGROUND

5. On 5 June President Giscard told a meeting of the Chambers of Agriculture in Paris that because of problems over the integration of 'certain new member states' into the Community it was 'right that the Community should give priority to finishing off the first enlargement before being able to undertake a second'. These remarks have been widely interpreted both inside and outside France as marking a change in the French attitude to enlargement. Hitherto while not hiding privately their doubts and the likely difficulties, the French, particularly at the high political level, have paid lip service to the desirability of Portuguese and Spanish accession (it has been

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made clear that President Giscard's remarks do not apply to Greece, which of course signed its treaty with the Community over a year ago). The Spaniards reacted sharply.

6. The pretext given by President Giscard for delaying the accession of Portugal and (in particular) Spain is not plausible. The real French motive lies in the fears of French farmers that they will suffer seriously from increased competition in, especially, Mediterranean products once Spain and Portugal join. The Gaullists and the Communists are already firmly opposed to their entry and President Giscard appears to have decided, no doubt for electoral reasons, that he also must take notice of the views of his farming constituents.

7. It will be in the UK interest firmly to maintain our public support for Portuguese and Spanish entry. We have nothing to lose economically (and could have something to gain); the political case for helping to consolidate democracy in Portugal and Spain by welcoming them into the Community remains as valid as ever; and our bilateral relations with them require a favourable British attitude.

8. These reasons are reinforced in the case of Spain by the consideration that consistent UK support of early Spanish accession will be an asset which the Spaniards will be reluctant to put at risk (particularly if the French are being difficult). This reluctance will in turn help us to keep the Spaniards to their commitments over Gibraltar.

9. At the same time it would not necessarily be against UK interests if the French attitude indeed lead to some delay in the timetable for Spanish accession (on which our formal position is one of support for signature of a treaty in 1981 and entry on 1 January 1983). We attach great importance to the review of the Community Budget on which the Commission are committed to make proposals by June 1981 and would not want this to be complicated or delayed by the accession negotiations. Similar considerations could apply when the Community reaches the 1% VAT ceiling some time in 1981/82.

FOREIGN AND COMMONWEALTH OFFICE

9 JUNE 1980

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EHG (V)(80) 17 Revise

9 JUNE 1980

COPY NO 71

EUROPEAN COUNCIL, VENICE
12/13 JUNE 1980

ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To make plain if necessary that the UK continues firmly to support the accession of Spain and Portugal and does not accept that the Community's internal situation provides justification for delaying this.

POINTS TO MAKE

2. UK has supported and continues firmly to support accession of Greece, Portugal and Spain.

3. Accession of Greece now assured, that of Portugal and Spain should be pursued no less vigorously.

4. Community of course has internal problems but these must be kept in perspective. Recent events have demonstrated Community's ability to confront and surmount its problems. Am confident that it will continue to be able to do so. Do not believe that Community's internal problems require delay in negotiations for accession of Portugal and Spain.

BACKGROUND

5. On 5 June President Giscard told a meeting of the Chambers of Agriculture in Paris that because of problems over the integration of 'certain new member states' into the Community it was 'right that the Community should give priority to finishing off the first enlargement before being able to undertake a second'. These remarks have been widely interpreted both inside and outside France as marking a change in the French attitude to enlargement. Hitherto while not hiding privately their doubts and the likely difficulties, the French, particularly at the high political level, have paid lip service to the desirability of Portuguese and Spanish accession (it has been

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7. On 9 June Chancellor Schmidt, speaking to a Social Democrat Party Congress, made a brief reference to enlargement in the course of a wide ranging speech. He said that unless things changed in the Community (by implication CAP and budgetary arrangements) it would not be possible to finance an enlarged Community. Contrary to the impression given in The Times report, however, he did not (according to a member of our embassy who was present) endorse President Giscard's suggestion that enlargement would thus have to be delayed.

8. It is likely to be in the UK interest firmly to maintain our public support for Portuguese and Spanish entry. This rests essentially on the political case for helping to consolidate democracy in Portugal and Spain by welcoming them into the Community; also our bilateral relations with them require a favourable British attitude.

9. In the case of Spain these reasons are now reinforced by the consideration that consistent UK support for the Spanish application will be of increased importance to the Spaniards in view of the new French attitude and this could help us to hold the Spaniards to their commitments over Gibraltar.

10. At the same time it would not necessarily be against UK interests if the French attitude indeed led to some delay in the timetable for Spanish accession (on which our formal position is one of support for signature of a treaty in 1981 and entry on 1 January 1983). We attach great importance to the review of the Community Budget on which the Commission are committed to make proposals by June 1981 and would not want this to be complicated or delayed by the accession negotiations. Similar considerations

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FOREIGN & COMMONWEALTH OFFICE

9 JUNE 1980

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EHG(V)(80)18

COPY NO 74

10 June 1980

EUROPEAN COUNCIL VENICE

12/13 JUNE 1980

UN LAW OF THE SEA CONFERENCE (UNLOSC)

Note by Foreign and Commonwealth Office

Attached is an additional brief, on UNLOSC. The number and title should be added to the Index of Briefs (Brief No 1).

Foreign and Commonwealth Office

10 June 1980

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10 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

UN LAW OF THE SEA CONFERENCE (UNLOSC)

Brief by Foreign and Commonwealth

Office

OBJECTIVE

1. Defensive: against the possibility that Chancellor Schmidt will raise the subject, as a prelude to raising it at the Economic Summit.

POINTS TO MAKE

2. It is not yet finally clear whether a Convention will be in our interests overall; but a generally acceptable Convention would have strategic value to the West. And there can be no safe seabed mining without an international regime.

3. Deep seabed mining. Aim is assured access plus the conditions favourable to investment in a new industry. Text still needs improvement but we believe agreement is now within reach.

4. The Council. A blocking vote for the main producers/consumers essential.

5. Community accession. Conference generally not hostile. USSR opposed on principle. Community should therefore agree on a draft provision which our main potential allies, eg the US, could buy.

6. UK Continental Shelf. If Law of the Sea Conference is raised by Schmidt: express the hope that the FRG delegation will in future be more helpful than hitherto to the UK on the Shelf which is among our principal interests at the Conference.

/BACKGROUND

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BACKGROUND

7. The Conference, which began its work in 1973 will resume in Geneva from 28 July to 29 August with the intention of completing negotiations and adopting a draft Convention if not this year, early in 1981. The Conference has developed its own methods of work which include two important innovations: consensus rather than voting has been the basis for decisions; and the use of a multitude of separate groups for negotiation. Both innovations have worked to our advantage and have enabled us and others in a minority position to obtain essential points we would never have gained by vote.

8. Community coordination for UNLOSC forms part of the Political Coordination machinery. Meetings at Heads of Delegation and expert level take place regularly during sessions and inter-sessional periods. Certain questions, in particular, Community adherence to an eventual LOS Treaty will have to be submitted to the Council in time. But there is no UK advantage in discussing UNLOSC at Council level at present. The Germans may, however, inform their colleagues that they intend to raise the subject at the Economic Summit. (Not to be revealed.) Our main coordinating effort across negotiations as a whole takes place in the Group of Five (G5 - UK, US, USSR, France, Japan), and on seabed mining, in the Coordinating Group (UK, US, FRG, France, Japan).

THE SCOPE OF NEGOTIATIONS AND PRESENT POSITION

9. The negotiations fall under the following headings:

(a) Traditional Law of the Sea issues (freedom of navigation, territorial sea limits, archipelagic regimes, maritime delimitation, etc)

(b) the 200 mile exclusive economic zone (EEZ);

(c) Continental margin;

(d) Deep seabed mining;

(e) Protection and preservation of the marine environment

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(marine pollution);

(f) Marine scientific research (MSR);

(g) Legal issues (preamble and final clauses).

Of the above the texts of (a), (b), (e) and (f) are generally acceptable to the UK. Overall they provide us with guaranteed freedom of navigation worldwide, important for our defence interests; confirm the management and exploitation of our fish stocks within 200 miles; provide for more effective control of marine pollution and an acceptable degree of freedom of scientific research without prejudicing our navigation or offshore interests. The Continental Shelf texts contain a definition of the outer edge of the Continental margin which will confirm UK control of all exploitable offshore hydrocarbon reserves, including in the North West. The Deep Seabed Mining text, although not yet acceptable in all respects in general represents a balance between the need of the industrialised countries for secure access to strategically important deep seabed hard minerals (copper, nickel, manganese, cobalt) on terms conducive to investment by industry; and the G77's more restrictive aims. Details of the proposed regime are at Annex A. Nevertheless important questions remain to be resolved in both the Continental Shelf and Deep Seabed mining negotiations. In particular:

(a) Continental Shelf:

(i) The role of the proposed International Boundary Commission in determining the furthest limit of Continental Shelf rights.

(ii) Revenue Sharing: the amount of levy paid to developing countries from Continental Shelf exploitation beyond 200 miles.

(b) Deep Seabed Mining:

(i) Decision-making in the Council of the Authority,

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in particular the question of a blocking vote.

(ii) Production limitation: initiated by the land-based producers, led by Canada. At present, while providing a floor of 3% would limit deep sea production to 100% of growth in projected world demand.

10. A number of the provisions of a Convention could be expected to impose financial obligations on HMG and other governments in the event of signature and ratification. Details of the estimated cost to HMG are annexed (Annex B). No final decision on whether the UK should accede to the Convention will be called for until the negotiations have been completed. Ministers are however expected to take stock of the negotiations and UK objectives before the next session.

COMMUNITY PARTICIPATION

11. The Community has competence in respect of some of the subjects under negotiation eg the management of fisheries (the 200 mile EEZ). It has accordingly been agreed in the Council that the Member States should try to obtain a clause which would permit the EC to adhere to a Convention. Such a clause is opposed by the USSR. The US are anxious to prevent Member States not intending to accede from picking up some benefits of a Convention through Community accession while avoiding unwelcome obligations. We believe a formula can be found which will satisfy the US. The remainder of the Conference is not against EC accession though the Arabs have linked it with their proposal to allow liberation movements to participate.

FRG AND UK CONTINENTAL SHELF

12. The UK objective of confirming the exercise of our rights over the Continental Shelf beyond ^{the} 200 miles EEZ has been consistently opposed by the FRG, and to a lesser extent by Denmark and the Netherlands. Despite repeated representations, drawing attention to the importance of the question for the UK and the desirability of EC acquiescence

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acquiescence, if not support, in difficult and delicate negotiation in which we and other Broad margin states are in a small minority, German opposition continues, though that of Denmark and the Netherlands has ceased. Various explanations have been aired: dissatisfaction with UK performance in the EC; pressure from the German fishing lobby; sour grapes (FRG has no Continental Shelf, and a short coast-line and stands to derive little direct benefit from a Convention) and the wish to apply an EC regime to the Continental Shelf. Herr Schmidt himself is said to have taken a direct interest in the question. It is not one on which we can afford to make concessions to German opinion.

Annexes

A: Deep Seabed Mining Regime

B: Financial Obligations

Maritime, Aviation and Environment Department
Foreign and Commonwealth Office

10 June 1980

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ANNEX A

DEEP SEA MINING REGIME

The main feature of the international regime, as it is likely to emerge, are:

- (i) An international organisation, the International Seabed Authority ('the Authority+'), will draw up a detailed mining code regulating all aspects of deep sea mining. (This will in practice probably be done before the Convention comes into force by a Preparatory Commission.)
- (ii) The Authority will then award mining contracts to qualified applicants, who may be states or companies or an international Enterprise to be established as the mining arm of the Authority. The Authority's discretion in awarding contracts will be narrowly defined. Under these contracts deep sea miners will have to pay large contributions to the Authority which will be used mainly for development aid.
- (iii) In order to protect land-based producers the Convention will lay down a 'production ceiling' limiting the volume of production from the seabed.
- (iv) In order to get the international Enterprise started it will be given a number of important advantages:
 - (a) States Parties to the Convention will make long-term interest-free loans covering half the cost of one mine site and guarantee loans for the other half.
 - (b) The Enterprise will not have to make payments to the Authority for an initial period of up to ten years.
 - (c) The Enterprise must negotiate for exemption from national taxation.

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(d) Other deep sea miners must prospect one mine site for the Enterprise for each one which they have.

(e) Other deep sea miners must, during an initial period, be ready to make their technology available to the Enterprise on 'fair and reasonable commercial terms and conditions'. A similar obligation, to which the United Kingdom and other Western industrialised countries object strongly, would benefit developing countries.

(v) The Authority will be composed of a plenary Assembly, a restricted Council, a Secretariat, the Enterprise and other organs. The Council will have control over the exercise of most of the Authority's important functions, and the Western deep sea mining countries, acting together, will be able to block decisions of the Council. They would therefore have negative control over the Authority but could not, of course, ensure positive action. This blocking power is the single most difficult outstanding issue at the Conference, and the US have so far maintained firmly that without such a blocking power they would not be ready to adhere to the Convention.

(vi) A review Conference will convene after twenty years, and may, by a two-thirds majority, change the system. (Dissatisfied parties could denounce the Convention.)

UNLOS; FINANCIAL ASPECTS

DIRECT PAYMENTS BY HMG FOR THE INTERNATIONAL SEABED AUTHORITY, THE ENTERPRISE, ETC

(a) The Enterprise

Under the present proposals the UK would be liable for about 5% of the costs of the first Enterprise project. Any estimates of these costs are bound to be speculative: but using the UK companies' own estimates of costs of a similar project (about \$1800m, or in the range of \$1260-234m) we estimate the liability to HMG as about £40m, half in long-term interest-free loans, half as guarantees for loans taken out elsewhere by the Authority.

(b) The Authority

The likely UK contribution to the administrative expenses of the Authority, until it becomes self-financing, is about £220,000 pa for 7-10 years.

(c) The Preparatory Commission

A Preparatory Commission is likely to be set up for the period before entry into force of a Convention, with similar costs for 3-5 years. Total likely contribution is therefore £220,000 pa for 10-15 years.

(d) The Law of the Sea Tribunal

The UK contribution to the expenses of a Law of the Sea Tribunal might be about £110,000 pa (5% of \$5m pa)

(e) Training

There is also likely to be a Training Fund to which the UK and other industrialised countries would be expected (but not, under the terms of the Convention, obliged) to contribute.

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2. LOSS OF TAX REVENUE

If, in some form, full tax credit were granted for payments to the Authority, as the companies request and as the governments of their competitors seem willing to grant, there could be a potential loss of tax revenue of £85m on each of the 1 to 3 projects the consortium might undertake in the first 20-25 years of deep seabed mining. If tax reliefs short of full tax credits were given, the loss of tax revenue would be correspondingly lower.

It should be noted that the 'loss of tax revenue' referred to above is that compared with the hypothetical and 'ideal' case of a consortium mining under US or UK unilateral mining legislation, and paying national tax only. While mining under an international regime would have some profits 'taxed' by the Authority, other profits especially in the downstream activities of transport and processing would be subject to national tax. Thus despite tax credits or allowances HMG should get net tax revenue from participation by UK companies in deep seabed mining.

3. PAYMENTS BY UK COMPANIES TO THE AUTHORITY

The proposed payments by deep seabed mining companies to the Authority are related to profits and are difficult to estimate. However, in the 'baseline case' used as an example in the Conference, payments totalling \$574m over 20 years accrue to the Authority from a single mining site. As UK companies have a 30-35% interest in the Kennecott mining consortium, their share of the payments might therefore be about £85m per site over 20 years.

4. CONTINENTAL SHELF: REVENUE SHARING PAYMENTS FROM EXPLOITATION BEYOND 200 MILES

The estimate^{is} calculated on basis of present negotiating text figures of 1 per cent of the value of the volume of production at rate in the sixth year of production rising to 7 per cent in year

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12 and thereafter. The estimates of possible UK reserves in the Continental Shelf beyond 200 miles have tentatively been put at 275 million tons, valued at £30,000 million at current prices, of which the UK tax take might be 70% or £21,000 million. Revenue sharing payments would therefore be about £660 million at current prices.

5. REMOVAL OF INSTALLATIONS

Article 80.3 and 80 require that all disused or abandoned offshore installations on the EEZ or Continental Shelf should be entirely removed. Complete removal of the structures now in the Northern and Southern Basins of the North Sea are estimated at £2,500 million. These costs fall primarily on the operators but can be offset partially against PRT and Corporation Tax and would thus cause an equal loss of tax revenue.

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