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EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

INDEX OF BRIEFS

Brief by Foreign and Commonwealth Office

1. Index
2. Steering Brief

Main Briefs

3. Economic and Social Situation
4. Community Relations with other Industrialised Countries
5. Internal Market
6. Enlargement
7. Political Cooperation
8. Genscher/Colombo Proposals
9. Progress towards European Union
10. Common Fisheries Policy
11. Budget Problem

CONFIDENTIAL

Contingency Briefs

12. Greece and the EC
13. Greenland
14. Energy
15. Steel
16. ERDF
17. Social Fund
18. EMS
19. Common Electoral System
20. CAP
21. Industrial Policy/New Technology
22. North-South
23. Northern Ireland Housing

Additional Briefs

24. Import Restrictions against the USSR
25. East/West Economic Relations
26. EC/US Agriculture
27. French Technology Initiative

Foreign and Commonwealth Office

2 December 1982

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22 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. The impasse over the Common Fisheries Policy resulting from Danish refusal to accept the package agreed by the other nine Member States is likely to remain when the European Council meets. On our budget problem, the end-November deadline for a solution will not have been met and the European Council will receive a report of the Foreign Affairs Council's decision on the handling of the Commission's paper. The enlargement negotiations remain substantially becalmed: the Commission's recent paper to Heads of Government put forward some new ideas and it will be important to ensure that any guidance the European Council produces is on the right lines.

2. This meeting does at least come at a time when the Member States can derive a modest amount of satisfaction from having worked together effectively over a number of important problems. In recent months solutions have been found to problems with the US over steel and the pipeline; the difficulties over our refunds for

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1982 have been sorted out and the Commission paper on the budget problem for 1983 and later is on the table. With the exception of Greece, the Ten showed solidarity with us by not supporting the Latin American resolution on the Falklands.

3. A dominant worry in the minds of all present will be the continuing world recession, the problems of unemployment associated with it, the poor prospects of early or rapid recovery, the threats of trade protectionism which have been growing, and continuing anxieties about the international financial framework.

4. Since the last meeting in June there have been several changes of government in the Member States and thus in the membership of the European Council. Of those who attended in June, apart from the Prime Minister, only Mitterrand, Martens, Papandreou and Werner are sure to be there. Haughey will be present but his future is dependent on the outcome of the elections, which should be known on 26 November. The newcomers (Kohl, Schlueter and Lubbers) all represent new centre-right governments. Of these, the Dutch Government appears the most securely based, at least for the next six months, while the German faces elections in March and the Danish Government has difficult decisions to take on its national budget as well as the Common Fisheries Policy. It is not yet clear who will form the Italian Government following Signor Spadolini's resignation.

AGENDA AND DOCUMENTATION

5. The following are likely to be the main subjects:

- i) Economic and Social Situation. In addition to the usual paper by the Commission on the Economic and Social situation, the Council will have before it a Commission paper on investment which also deals with the internal market and a report by the Presidency covering the conclusions of the ECO/FIN Council on investment and of the

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Joint ECO/FIN/Social Affairs Council (the "Jumbo" Council) on economic policy more generally. One subject for discussion is likely to be current problems facing the international financial system.

- ii) Enlargement. The European Council will have before it the Commission's inventory and report on enlargement which were called for at the last meeting of the Council in June.
- iii) Community Relations with other Industrialised Countries. This is intended to cover EC/US relations. There is also likely to be discussion of other international trade issues and protectionism for which the French in particular have called.
- iv) Political Cooperation. The main focus of discussion is likely to be on Poland, the CSCE, East-West relations post Brezhnev and the Middle-East.
- v) The Genscher/Colombo Proposals. There will probably be an oral progress report by the Presidency but there should be no need for substantive discussion. The Germans are likely to indicate that they will give this a high priority under their Presidency and may seek agreement in principle to early decisions being taken.
- vi) European Union. Heads of State/Government will be invited to take note of the Foreign Affairs Council's annual report on European Union. This is a routine procedure; there should be no need for discussion.
- vii) Common Fisheries Policy. The Presidency have declined to put this on the agenda and have said that it is up to anyone who wishes to raise it. The course of any discussion will be largely influenced by the outcome of the 29 November Fisheries Council.

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- viii) UK Budget Problem: Subsequent Solution. There will be an oral report by the Presidency on the procedure agreed by the Council on 22 November for handling the Commission's recent paper on the budget problem. They do not intend that there should be any discussion.

UK OBJECTIVES

6. i) In discussion of the Common Fisheries Policy to ensure that the nine Member States hold together and maximise pressure on the Danes to accept the agreed package and, if this fails, to ensure that effective steps are taken to avoid a lacuna and to secure viable arrangements for the New Year.
- ii) On the budget problem to make it clear that we would regard failure to reach agreement by the time of the next European Council as a serious matter, but, if possible, to avoid a detailed discussion of the Commission's paper in which the French and others would set out their reservations on it.
- iii) On enlargement to give the candidates some encouragement without prejudicing UK interests; and to ensure that any discussion of the own resources ceiling, whether this is raised under the budget item or under enlargement, focuses on the question of agricultural surpluses and does not prejudice the question of raising the ceiling.
- iv) In the discussion on the economic and social situation to get the European Council to endorse the helpful conclusions reached by the ECO/FIN and "Jumbo" Councils including the encouragement of efforts to reinforce the international institutions, particularly the IMF; and to emphasise our commitment to progress on the internal market at the forthcoming meeting of the special Council of Ministers on the completion of the internal market.

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- v) In discussion of relations with other industrial countries to welcome progress made in resolving the Community's problems with the US and to emphasise the need to ensure that the open trading system operates more fairly.

OBJECTIVES OF OTHER MEMBER STATES

7. The Danish Presidency will no doubt be seeking to have a harmonious Council; above all they will want to avoid being put in a corner over the Common Fisheries Policy. The French have said they want to have a major discussion of commercial policy problems and protectionism. Most Member States are likely to want to avoid detailed discussion of the Community budget problem but if such discussion does develop, the French in particular may well argue that the Commission's report goes too far in our direction and that any solutions should be temporary and degressive. In such a discussion the Germans would no doubt say that their contribution to any further refunds must once more be restricted and the poorer countries (Italy, Greece, Ireland) would want to register their concern that their contributions should also be limited or nugatory. The Greeks may want to refer to the problems over Greek accession, on which the Commission have produced a memorandum.

SUMMARY OF BRIEFS

A. MAIN BRIEFS

ECONOMIC AND SOCIAL SITUATION (brief no 3)

8. The Council will have before it the usual Commission paper on the economic and social situation (not yet available), the conclusions of the ECO/FIN Council on investment and the conclusions of the "Jumbo" Council. Both sets of Council conclusions are fully acceptable and it would be helpful to secure

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their endorsement by the European Council. In discussion, the Prime Minister will wish to place the emphasis on the need to get the macro-economic climate right. She will wish to point to British success in bringing down both inflation and interest rates, and to stress that only if a stable economic environment is created can we expect an upturn in business confidence and investment and so the creation of durable employment in the Community. It would be right also to point to the importance of strengthening the role and resources of international institutions, especially the IMF, to enable them to play their necessary part in the difficult adjustment processes which many countries are having to undertake. There is reference to this in the conclusions of the "Jumbo" Council, and the European Council will wish to give encouragement to the progress which is being made in informal discussions, and urge rapid completion.

9. The conclusions of the "Jumbo" Council already contain a number of acceptable pointers to future action, especially in emphasising the central place of youth unemployment in the Community's overall strategy for combating unemployment. It should be sufficient for the European Council simply to urge that these be followed up.

COMMUNITY RELATIONS WITH OTHER INDUSTRIALISED COUNTRIES
(brief no 4)

10. Discussion of international trade issues is expected to be stimulated by M Mitterrand, no doubt partly with the aim of moving the Community in a protectionist direction in relation to third countries and partly to distract attention from France's own recently announced protectionist measures. It will have to take account of the outcome of the GATT Ministerial (24-27 November). While acknowledging the extent of the Community's stake in the open trading system we should emphasise the importance of ensuring that it operates more fairly. A number of countries outside the Community (Japan, Spain, the leading NIC) must be convinced of the

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need to pull their weight, notably where they maintain excessive and unnecessary import barriers. The Community has the potential to exercise effective pressure but can only do so if there is a stronger collective commitment to a firm and united line. The Commission are coming up with some potentially helpful ideas on Japan, and it would be useful if the European Council could give a positive steer to the Foreign Affairs Council, which will be discussing the subject on 13/14 December.

11. There is bound to be some discussion of relations with the United States. President Mitterrand is likely to set out his strong views on American behaviour over the pipeline and steel. Subject to developments at the GATT Ministerial meeting, there could be more general criticism of the American attack on the Community's agricultural policies. Our interest will be to keep the discussion in a low key and to avoid any conclusions which could inhibit progress in the studies to which we have agreed of various aspects of East-West economic relations.

INTERNAL MARKET (brief no 5)

12. In any discussion of internal trade issues the Prime Minister might emphasise our strong commitment to progress on the internal market, for example by liberalisation in the field of services (insurance and air services), greater freedom in the movement of goods and transparency of standards. We welcome the forthcoming German Presidency's determination to give this priority and the agreement to hold a special meeting of the Council to deal with internal market council questions. In the event of criticism, implicit or explicit, of recent French protectionist measures, the Prime Minister may wish to lend our support without however leading the pack.

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ENLARGEMENT (brief no 6)

13. The Council will discuss the Commission's report on the problems posed by enlargement which was commissioned by the June European Council. The report helpfully reaffirms the traditional approach to the negotiations, (ie, settling the problems in the accession negotiations and not afterwards) thus by implication putting down French and Italian ideas for variable geometry. It goes on to propose a deal whereby, in return for setting a target date for completion of the negotiations and some money, Spain and Portugal should accept production disciplines before accession in sensitive areas (steel, textiles and - we hope - some agricultural products).

14. We want the Council to give the candidates a strong signal of encouragement. Agreement on a target date for accession would help in this respect, but since it would be a bit of a hostage to fortune, we should not propose it. But we need not resist it, if most others can accept (the French will probably block it). We can agree to study the Commission's ideas for a deal. But we shall want to cast doubt on the need to bribe the applicants to make necessary adjustments to their economies which our industries have had to make without help.

15. The Prime Minister may want to point out that the Commission could with advantage have dealt in their paper with the problem posed, both before accession and in relation to the transition period thereafter, by competitive sectors of Spanish industry sheltering behind unjustifiable tariffs.

16. This discussion will also provide a chance to

a) get the Commission to provide data to back our view that the real problem over own resources is the continuing failure to control CAP expenditure; and

b) set an early deadline for decisions on Mediterranean agricultural regimes.

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POLITICAL COOPERATION (brief no 7)

17. The political Cooperation topics likely to be discussed are East-West relations, the Middle East and Latin America. Most of this will probably be done by the Foreign Ministers at dinner.

18. Foreign Ministers had a full exchange of views on East-West relations on 23 November. They will wish to pursue their discussion of the change of Soviet leadership in the light of the most recent developments. On Poland, too, they will wish to consider the latest developments with a view to a concerted Western response if martial law is lifted on 13 December. On CSCE our aim is to continue with the present Western approach, and to encourage the Ten to concentrate on maintaining Western solidarity.

19. On the Middle East, Mr Elleman-Jensen will report to his colleagues on the outcome of his visit to Israel. We should press for consideration of what the Ten can do to sustain the momentum towards a peace settlement following the Reagan initiative and Arab moves.

20. On Latin America the Council will be invited to follow up the announcement of the Community aid package for Central America with a statement reaffirming the importance the Ten attach to their links with that part of the world.

GENSCHER/COLOMBO PROPOSALS (brief no 8)

21. The Danish Presidency will make a brief oral report on progress. The Germans may indicate their intentions for handling this subject during their Presidency and seek agreement in principle to early decisions being taken. No discussion of the text is envisaged.

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EUROPEAN UNION (brief no 9)

22. This is a regular (annual) item under which the European Council takes formal note of the Council's report on progress towards European Union. There should be no discussion.

COMMON FISHERIES POLICY (brief no 10)

23. [Subject to the outcome of the Fisheries Council on 29 November] Our aim will be to ensure that the nine hold together and thus maximise the pressure on the Danes to accept the proposals now on the table and to make it clear that the proposals will be implemented among the nine, unless agreement is reached.

BUDGET PROBLEM (brief no 11)

24. The Foreign Affairs Council on 22 November remitted the Commission paper on the solution to the UK problem for 1983 and later to the Committee of Permanent Representatives for study; and agreed that they would have a substantive discussion at their January meeting. The French resisted the adoption of the March European Council as a new deadline and may well stick to this in Copenhagen. Our objective should be to make it clear that we would regard failure to reach agreement by the time of the next European Council as a serious matter. Tactically this might best be pursued by suggesting, during the discussion of press handling, that the Presidency should make the point that Foreign Ministers would be working for a solution before the next meeting of the European Council in March. There is much in the Commission paper which is useful to us and we would not want any discussion of it at Copenhagen to provoke the French into setting out their reservations; or the Germans or the poorer countries into restating, no doubt in an extreme form, their demands for special treatment. But, if the discussion did develop in this way, we

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should explain what we see as the good and bad points in the Commission's paper. If discussion broadens to cover the future of own resources, we should need to stress that any review must tackle the problem of budgetary imbalances and find ways of bringing the growth of surpluses and thus of CAP expenditure under effective control; and that, in our view, the present own resources will be sufficient even after enlargement.

B. CONTINGENCY BRIEFS

GREECE AND THE EC (brief no 12)

25. The Greek Memorandum on problems relating to their accession may be raised by Papandreou. There should be no discussion. The Commission have now produced a paper and discussions between Greece and the Commission are proceeding. The brief also notes our concern about areas where Greece is not yet conforming to its obligations under the accession Treaty or is now discriminating against other Member States (eg insurance, pharmaceuticals, cars, VAT).

GREENLAND (brief no 13)

26. Denmark has proposed that Greenland be allowed to withdraw from full membership of the Community and assume Overseas Countries and Territories (OCT) status. This would pose problems, particularly in the field of aid and fisheries. Our objective is to play this long, pending receipt of the Commission's report, which is expected early next year.

ENERGY (brief no 14)

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27. If energy questions are raised, the Prime Minister could welcome recent work in the Community, in particular the political commitment to develop a coherent strategy to promote the role of solid fuels (especially coal) in the Community, from which, as the Community's leading coal producer, we could benefit substantially. STEEL (brief no 15)

28. If steel is discussed the Prime Minister will want to urge the need for more rigorous implementation of the anti-crisis measures and for all Member States to bear their fair share of capacity reductions.

EUROPEAN REGIONAL DEVELOPMENT FUND (brief no 16)

29. In the current review of the Regional Fund, our main aim is to increase concentration on areas of greatest need, including urban problems. The development of the Regional Fund should help to produce a better balanced Community budget.

SOCIAL FUND (brief no 17)

30. Our objectives in the current review are to have a fund capable of making a real contribution towards solving the major employment problems facing the Community, ie youth unemployment, long-term unemployment, and the relatively worsening position of regions with high unemployment (especially those suffering from industrial decline).

EMS (brief no 18)

31. A defensive note is provided which gives our position on the question of full UK participation in the EMS.

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COMMON ELECTORAL SYSTEM (brief no 19)

32. The Dutch, Germans and Italians are pressing for progress before the end of the year on the European Parliament's proposals for a uniform system of election based on proportional representation. This is necessary if the new system is to be used in the 1984 European Parliament elections. There are many unresolved problems and our line is that further detailed work is needed. We wish to avoid being saddled with the blame for missing this deadline.

CAP (brief no 20)

33. The Commission will be making their proposals for 1983/4 prices soon after the European Council. We do not wish to raise this at the Council but if others do, ie high inflation countries urging the case for high price increases, we should take the line that in view of rising surplus production and improving farm incomes across the Community, a very restrictive approach to the next price-fixing will be necessary, particularly for products in surplus.

INDUSTRIAL POLICY/NEW TECHNOLOGY (brief no 21)

34. We want to stress the importance of cooperation on new technology for Community industry and our wish to see progress on the current Community initiatives in this field.

NORTH/SOUTH (brief no 22)

35. Any discussion is likely to focus on the Global Negotiations. Community support for the Versailles amendments must be maintained.

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NORTHERN IRELAND HOUSING REGULATION (brief no 23)

36. Thorn may try to persuade Kohl in the margins of the Council to reverse his predecessor's opposition to Community aid for Northern Ireland Housing. We do not think he is likely to succeed, but, if the opportunity arises in private conversation with either Kohl or Thorn, the Prime Minister will want to emphasise the importance we too attach to this regulation.

Foreign and Commonwealth Office
25 November 1982

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3/4 DECEMBER 1982

ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

The attached brief EHG(C)(82)3(Revise) replaces only the original brief EHG(C)(82)3. The existing Annexes and addenda (EHG(C)(82)3 - Annex A; Addendum 1; Addendum 2) should be retained.

HM Treasury

2 December 1982

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ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

OBJECTIVE

To secure endorsement of Jumbo Council conclusions that reductions in unemployment and increases in investment can only be brought about by maintaining prudent counter-inflationary policies. To agree need to strengthen the international financial institutions especially the IMF.

2. To agree - if others, particularly France, take the initiative - to an invitation to the Council to accelerate agreement to New Community Instrument III, which would be a further extension of a Community loan mechanism.

POINTS TO MAKE

3. World activity has still not recovered. Output growth this year and next have been revised down because world trade has declined more than expected though US and Japan have been less affected by this.

4. Inflation has fallen faster than initially expected and this has allowed lower interest rates everywhere. Unemployment has continued to increase particularly among young people.

5. Important that the Community pursue co-ordinated monetary and fiscal policies of controlling public expenditure, reducing budget deficits while maintaining firm, but not excessive, downward pressure on monetary aggregates. This helps to foster a stable international financial environment.

6. Warn of inflationary dangers of any policy relaxation as sometimes suggested by the Commission for UK and Germany though should take account of recession in assessing policy stance.

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- 2 -

7. Investment. Revival of investment essential to economic recovery. ECOFIN discussions confirmed that creation of right macro-economic conditions is best way to foster revival of investment.
8. Jumbo Council. Welcome consensus that a lasting improvement in unemployment requires better competitiveness and higher profitability. Importance of controlling and reducing public sector deficits also stressed.
9. Important to strengthen role of IMF and reach early agreement on quota increase and new borrowing arrangements. Further improvements still required in international banking practice and on allocation of supervisory responsibilities.
10. [New Community Instrument III - if raised.] We should not overstate the speed and scale of results which might flow, but it is useful and timely to demonstrate the importance the Community attaches to the maintenance of productive investment of the kind envisaged by the Commission.

BACKGROUND

- A. Council paper covering ECOFIN and Jumbo Council conclusions
(11093/1/82 REV. 1) - ANNEX A. ALREADY CIRCULATED)
- B. Commission paper on economic and social situation
(EGH(C)(82)3 ADDENDUM 1 ALREADY CIRCULATED)
- C. Commission Communication on Investment (EHG(C)(82)3 - ADDENDUM 2
ALREADY CIRCULATED)

11. The June European Council asked for practical proposals on the development of investment. ECOFIN discussions, based on papers by the Commission and the Economic Policy Committee have been in response to this remit. The agreed conclusions (at Annex A) accord with the UK's general approach in laying particular stress on creating the right macro-economic conditions for encouraging investment (paragraphs 3-4). The passages in paragraphs 5-8 on possible Community and national policies to assist investment were put in largely to please the French and others; but they contain no commitments on the part of either member states individually or the Council collectively, and they are clearly made subordinate to getting the economic situation right.

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12. The Jumbo Council met in November in response to a request from the June European Council. Unlike 1981 there was this year substantial agreement on the right approach to unemployment. The conclusions (at Annex A) emphasise the need for improving competitiveness and profitability as a means to a lasting increase in employment. They also stressed the importance of controlling public expenditure while giving more emphasis to capital expenditure and a reduction in budget deficits if interest rates are to continue to fall. On the internal market, Ministers agreed on the advantages of calling an early Council meeting to discuss completion of the common market.

13. There is now a remarkable degree of consensus in the Community over the right economic objectives and the appropriate policies. At earlier European Councils, France, Denmark, Belgium and Ireland and others argued for expansionary policies. At the recent Jumbo there was general acceptance of the prudent approach followed by UK, Germany and the Netherlands.

14. The recovery expected in Europe during the second half of this year has so far failed to materialise. Confidence remains low and business prospects are gloomy. The Commission forecast for growth in the Community in 1982 has been revised down partly due to export markets being weaker than expected. Stagnant European activity should be seen against modest growth in Japan while the growth evident earlier this year in the US may now have levelled out.

15. A modest recovery only is in prospect next year with the Commission predicting growth of 1 per cent for the Community and 2 per cent for all industrial countries. Growth in the US and Japan will be much higher than in Europe.

16. Inflation in the UK and the US has fallen much faster than expected. Despite the general fall in inflation and Commission estimates showing a slight convergence, there will still be a wide spread between inflation rates in the Community in 1983 ranging from over 14 per cent in Italy to less than 4 per cent in Germany.

17. This unemployment rate has risen throughout the industrial world reaching 9.8 per cent, 11 million unemployed, in the Community. The slight recovery next year is insufficient to prevent unemployment rising further.

18. Rising unemployment has particularly affected young people and the long term unemployed. Over one-third of the unemployed in the Community are under 25 years of age. We can endorse the Jumbo Council's commitment to ensure that all young people entering the labour market should have the opportunity of vocational training or a first job experience. The long-term unemployed also deserve special attention.

19. On fiscal policy, most Community Governments are seeking firmer control over public expenditure but the effects of the recession on revenues and expenditure have pushed up budget deficits. The Commission estimates deficits as a proportion of GDP will average 5 per cent in 1982 and 1983, ranging from around 1 per cent for the UK to 14 per cent for Ireland.

20. The international financial scene is much calmer after earlier strains which are inevitable in a period of transition to lower inflation, though complacency must be avoided. It is important to ensure the World Bank and the IMF have adequate resources and that early agreement is reached on IMF quota increases and new borrowing arrangements. We should encourage the informal discussions which have increased the likelihood of such agreement. Debtor countries must adjust and many are benefitting from IMF conditional programmes. Further improvements are still required in international banking practice including risk assessment and in the allocation of responsibilities for banking supervision.

21. The New Community Instrument is a mechanism under which the Community borrows on world capital markets, including those of the Community, to on-lend for investment in particular projects in Community countries. An expansion within a new ceiling of 3 billion ecu was provisionally agreed by the European Council in November 1981, as part of the Mandate exercise. With that exercise not being completed, a more modest second tranche of 1 billion ecu (NCI II) was authorised by the ECOFIN Council in March 1982. The latest proposal is now for a new NCI III of 3 billion ecus.

22. The coverage for investment would remain as before - energy, infrastructure and small and medium-sized enterprises (SME), but larger enterprises might also on this occasion be included.

23. France is very enthusiastic, both as a potential recipient and in the desire to extend Community operations of this kind. Italy and smaller countries which would expect to be recipients of investment are similarly keen. Germany has shown fairly strong resistance, not expecting direct benefit and tending to resist in principle expansion of credit facilities.

24. The UK does not see great benefit (although we would probably try to get some share of the investment flow, if only as a token) because the level of investment domestically is not held back by lack of capital at market rates. But experience suggests that earlier fears about difficulties of raising money for the New Instrument can now be discarded and our main interest is to give reasonably friendly support to French and other interests at a time when a move of this kind will be widely seen as appropriate.

GENERAL SECRETARIAT
OF THE COUNCIL

Brussels, 22 November 1982

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REPORT

from the Council to the European Council

subject : Implementation of the economic and social strategy
laid down by the European Council of 29/30 March 1982

The European Council at its meeting on 29/30 March 1982 adopted guidelines for a series of measures which it considered necessary to arrest the growth of unemployment, particularly among young people, and to resolve the Community's fundamental structural problems. The excessively high average rate of inflation, insufficient productive investment and the too high degree of energy dependence were stressed in this connection. The European Council decided to undertake an initial review of the implementation of these measures at the end of 1982.

The present report sets out the progress made so far.

.../...

1. Social and economic policy in general and the unemployment problem

At its meeting in March the European Council decided that a special meeting of the Council would be held to study the specific measures to be taken to promote employment. For this purpose a joint Council meeting, composed of Ministers for Economic and Financial Affairs and Ministers for Labour and Social Affairs, was held on 16 November 1982.

This Council agreed on a comprehensive economic and social strategy in accordance with the guidelines adopted by the European Council. The joint Council furthermore decided on the procedure to be followed in the continued work.

Annex I contains the text of the conclusions of the joint Council.

2. Investment

The Council (Economic and Financial Ministers) and its subsidiary bodies have carried out a thorough examination of this question based on communications and proposals from the Commission.

At its meeting on 15 November 1982 the Council agreed on the conclusions in Annex II setting out guidelines for the policy to be pursued by Member State and the Community in this area.

3. Japan

The October Council conducted a thorough review of comprehensive strategy laid down by the March Council and will take up the matter in December on the basis of operational proposals from the Commission.

4. North-South

The Council has held wide-ranging discussions on the basis of a memorandum submitted by the Commission on the Community's development policy and arrived at a number of conclusions in this field.

The Commission will submit to the Council, in the first months of 1983 concrete proposals for Community positions in view of the forthcoming negotiations on the future EEC/ACP Convention.

CONCLUSIONSJoint Council (ECO/FIN-SOC) on 16 November 1982

The Council met on 16 November 1982 to discuss the economic and social situation against the background of the conclusions of the European Council meetings in Brussels on 29/30 March and 29 June 1982. The Council was composed of Ministers for Economic and Financial Affairs and Ministers for Labour and Social Affairs. Representatives of European workers' and employers' organizations were consulted before the start of the meeting.

The Council reaffirms the importance it attaches to the close and continuing association of the social partners in the development of Community policies.

The meeting, like the one held in Luxembourg on 11 June 1981, took place in order to develop a higher degree of mutual understanding of all aspects of the unemployment problem and to examine in common the economic and social situation and the scope for further Community initiatives aimed at complementing and strengthening adjustment policies in the Member States.

I. THE ECONOMIC AND SOCIAL SITUATION

The gravity of the present economic and social situation characterized by a continuation of the recession, of high rates of inflation in a number of Member States, and high levels of unemployment growing at different rates in all Member States makes it imperative that all efforts at the national as well as the Community level be made to bring about a marked change. This need calls for action in the immediate, in the medium and in the longer term in a number of areas which were examined by the Council, with a view to establishing a strategy comprising the promotion of economic and financial stability, an increase in investments, promotion of the competitiveness and profitability of industry, completion of the Common Market, and positive labour market adjustments, leading to a marked improvement in the employment situation which is the most urgent task of the Community in the present circumstances.

A lasting increase in employment will have to spring from a strengthening of the competitive capacity and profitability of undertakings, which presupposes an improvement of the economic situation in general, building upon the achievements in the fight against inflation.

The dangers and risks of the present economic situation can only be checked and reversed if appropriate policies are backed by a broad-based willingness to share the necessary costs related to the adjustment process. Close consultation with the social partners is of particular importance in this respect. Efforts should be made to ensure that the burden of the present economic difficulties is shared with due regard to the more vulnerable groups; in particular, efforts to reduce existing social or regional inequalities should not be jeopardized in the adjustment process.

II. MEASURES

1. International economic and financial stability

The Council reaffirms the Community's determination to continue to combat protectionist tendencies in all its forms in international trade including use of competitive devaluations. They are one of the main dangers to the world economy and to living standards. Ministers recognize the need to develop policies which can contribute in a more significant way to the strengthening of trade flows.

The stabilization and adjustment efforts by governments can only be successful if the international monetary system is managed in a way that allows interest rates to decline and exchange rates to stabilize. The Community intends to play an active role in co-operation with other countries, in particular the USA and Japan,

in order to strengthen the international financial system and to reduce uncertainties in international financial relations. It intends to make a substantial contribution to ensuring a successful result of ongoing efforts to reinforce the role of the multilateral financial institutions, particularly the I.M.F. and the World Bank.

2. Convergence and economic stability within the Community

It is essential that interest rates continue to fall, in order to strengthen productive investment; in this context the Council considers that control and redistribution of public expenditure and reduction of budgetary deficits is indispensable. This is in particular true for countries that still experience a high rate of inflation and where insufficient progress has been made towards a reduction of budget deficits and bringing both public finances and external payments into better balance.

At the same time the Council underlines the risk which could arise if all Member States independently of their level of inflation, level of real interest rates or financial situation pursue the same degree of restraint with regard to public expenditure. Countries recording a satisfactory slow-down in inflation, reduced real interest rates and a more favourable external fiscal and monetary position should consider using the scope for budget policy initiatives to support economic activity.

An important objective is the redistribution of public expenditure from consumption towards productive investment and activities which will strengthen the productive capacities of enterprises. The Council (Economic and Financial Affairs) will, in 1983, in connection with the annual approval of budget guidelines and on the basis of a Commission report, undertake an analysis of Member States' public budgets in order to review the evolution of productive public expenditure.

The Council is determined to make full use of existing procedures for the close co-ordination of Member States' economic policies. The potential of the European Monetary System with regard to increased discipline and greater convergence in the economic performance of Member States is a major consideration in efforts to strengthen the EMS.

3. Investment

The Council noted the conclusions, including the procedural decisions, reached by the Council (ECO/FIN) on 15 November 1982.

The Council reaffirms that all possible means for a substantial increase of the share of GNP taken up by product investments to increase employment should be systematically and urgently exploited in a coordinated manner, both at national and at Community level.

Concerning national policies, the Council notes with satisfaction that, since the meeting of the European Council on 29 and 30 March 1982, some Member States have put into effect important measures with a view to increasing investment, and several others intend to implement measures shortly. The Council agrees that the need for additional measures to promote investment will be regularly reassessed.

Priority attention will be given to action which increases the profitability of and the ability to form capital in enterprises.

The particular role and potential of small and medium sized enterprises (including cooperatives) will be given specific attention.

The Community instruments, E.I.B., ECSC, the New Community Instrument, as well as the Regional Fund, now undergoing revision, will continue to play an important role and must therefore be used to their full extent and with a high degree of effectiveness. The Council noted with interest that the Commission has proposed a 3.000 MECU increase in the borrowing capacity of the NCI, and the Council intends to reach a clear decision on this early in 1983. The Council will also give further consideration to the recent Commission proposal for interest rebates at Community level in the field of the rational use of energy.

4. Internal market

The Council agrees that the reestablishment of confidence essential to recovery and to greater private investment presupposes the safeguarding of the common market and a rapid development towards its completion, an essential factor in the Community's economic development. The Council therefore agrees that appropriate work programmes will be established for accelerated progress in the fields of technical standards, company law, certain services and internal frontier formalities. The Council is of the view that a session of the Council should be devoted to these issues in order to make substantial progress towards the completion of the common market.

The Council agrees that Member Governments will review the practices of their national administrations in this field. The Council invites the Commission to present urgently an evaluation of the functioning of the Community's internal market.

5. Industrial policy

A marked increase in firm's competitiveness and profitability in all Member States has to be achieved if the Community is to face competition from other major industrial countries and from the newly industrialised countries. The Community and Member States will seek to help their industries not only by removing administrative and financial constraints, but also by encouraging inter-industry cooperation in strategic sectors, within the rules of the Treaty.

Bearing in mind the importance of new technologies in any industrial recovery much greater emphasis will be attached to innovation policy at both national and Community level. Small and medium sized enterprises have a particularly important role to play in this field. Recent decisions by the Council (Research) should rapidly be followed up.

The examination of Commission proposals to this effect should be accelerated.

The Council recalls the urgency of industrial reconversion. The ECSC and the Regional and Social Funds should continue actively their contributions in this field.

The Council while emphasising the vital importance for industrial development of maintaining conditions of free competition agrees that in the present international economic climate care must be taken to ensure that the Community conducts an efficient commercial policy able to ensure that our external trade is conducted in conditions of competition, in accordance with the principles of the GATT.

6. Youth and Labour Market

The Council expresses its deep concern about the employment situation for the young generation and recalls the precise guidelines from the March European Council which emphasized the central place of youth employment in the Community's overall strategy to combat unemployment and reaffirms its commitment of ensuring over the next five years that all young people entering the labour market for the first time should be given the opportunity of taking vocational training or a first job experience.

The Council welcomes the Commission's communication on vocational training and the proposal for the revision of the European Social Fund which aims to improve the employment prospects of young people; these Commission initiatives should be dealt with rapidly. The Council also looks forward to receiving a new communication from the Commission with proposals for specific measures to promote the recruitment of young people and to increase the volume of employment opportunities available to them.

The Council invites the Commission to ensure effective execution of the programme of pilot projects on post-school training and education decided in May 1982 for the period 1983-86; it also instructs the subordinate bodies to accelerate work on the Commission's recent proposal on professional training in new technologies for the period 1983-87.

Regarding national policies the Council emphasizes the importance of concrete schemes for education and vocational training for young people.

7. Reorganizing of working time

The Council considers that a reorganisation of working time, possibly in combination with a reduction in working hours, can under certain conditions help improve employment, in particular if a more flexible use of the means of production is involved. The Council :

- agrees that a reorganisation and a reduction of working hours can only have positive employment effects if the competitive position of firms is not impaired, if there is sufficient flexibility in the Labour market to prevent bottlenecks, and if appropriate account is taken of the specific and sectoral characteristics - notably the size of the firms;

- notes with satisfaction that the Commission intends to present before the end of 1982 the memorandum on working time requested by the Social Affairs Council on 27 May 1982;

- notes that the Commission will continue its work towards the formulation of a Community approach, where appropriate, on the reorganisation of working hours, in accordance with the Council Resolution of 18 December 1979;

- invites the Social Council to conclude its consideration of the proposed directive on voluntary part-time employment and the draft recommendation on flexible retirement.

8. Other specific measures

The Council invited the Commission to undertake a study of long-term unemployment and possible proposals for remedial action.

It also noted the suggestion of one delegation for an updated Commission study of ways and means to further the participation of workers in the capital formation of enterprises. The Commission will examine this idea and make such proposals as it seems appropriate.

III. PROCEDURE

It is agreed that the Council in its appropriate formations should ensure rapid implementation in the relevant areas covered by the conclusions.

Subject: Investment promotion

- conclusions of the ECO/FIN Council held on
15 November 1982,

1. The Council held a renewed exchange of views in depth on a Commission communication to the Council on investment promotion and two reports of the Economic Policy Committee to the Council; one on the problem of investment, the other on real labour costs, profitability and employment.
2. The Council noted that the policies being pursued by the Member States have helped to reduce inflation rates and to improve external balances. This has again made it possible to move towards lower interest rates, in nominal terms.

These gratifying developments may have further beneficial effects for the European economy in the medium term.

The Council reaffirms its belief that economic stabilization must remain a fundamental objective in order to secure permanent and stable growth in the longer run.

3. Despite the efforts being made to improve the economic climate, the outlook for growth and employment, however, remains bleak.

Any lasting rise in investment depends largely on an improvement in the situation and in the economic outlook and on an increase in firms' self-financing. Nevertheless, all existing possibilities for developing investment must be systematically exploited.

4. The Council has reviewed Member States' policies intended to promote investment. It feels that each Member State should, insofar as it is concerned, do its utmost to:

- increase the aftertax profitability of firms and the availability of finance;
- improve specific incentives to investment: where they aim at correcting market imperfections, or encourage innovations and the activities of small and medium-sized firms, they can contribute to economic adjustments;
- restructure public expenditure in favour of productive expenditure.
- reduce the budgetary deficits in those countries where these deficits are large so as to reduce the interest burden and thus increase the means available on the capital markets in favour of productive investments.

5. The Council approved the procedures proposed in these areas by the Commission in its communication concerning investment promotion and accordingly agreed that:

- the Commission would continue to assess the tax and financial measures introduced to help investment in the Member States and would submit any conclusions for the attention of the Council at one of its meetings in the first half of 1983;
- it was necessary to adopt the principle of an operation during the coming year to improve the existing aid arrangements while ensuring that they were compatible with the proper functioning of the common market, and in particular with the provisions of the Treaty on aid and competition;
- between now and the end of 1982 a balance-sheet should be drawn up of the way in which the principle of increasing public expenditure to assist development was starting to be implemented in the budgets for 1983, and that it was necessary to embark as quickly as possible in the Member States on an examination of the procedure for medium-term readjustment of public finance to help investment expenditure.

.../...

6. Community policies could give important additional stimulus to productive investment. The Council notes that the Commission has put forward concrete proposals to strengthen the internal market, among others by abolishing frontier formalities, by establishing technical norms and standards at Community level, through further harmonization of company law and by more co-ordinated use of public contracts to ensure an adequate development potential for advanced technologies.

The Council wishes to emphasize the need for an early decision on these and other proposals to improve the functioning of the internal market.

7. The Council notes with interest that the Commission has proposed action in specific fields of strategic importance to the strengthening of the European economy such as industrial innovation, research and development, new technologies, energy and education. The Council believes that decisions should be taken at the earliest possible moment on concrete proposals in areas where Community measures can be more effective than national measures, or can assist national endeavours in these areas of common interest.
8. The financial instruments of the Community are playing an important role in structural adjustment and development, and the Council believes that they should be used to their full extent and with a high degree of effectiveness. The Council notes with interest that the Commission has proposed a further increase in the borrowing possibilities of the New Community Instrument. The Council intends to reach a decision on this early in 1983.
9. The Council will follow closely the results of policies to promote productive investment and restructure public expenditure, and it wishes to review the situation at an early date on the basis of the further communications announced by the Commission.

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29 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

The Commission paper on the economic and social situation is circulated herewith. The brief already prepared covers the points made by the Commission. Three points are worth emphasising:

- i. The Commission is if anything slightly gloomier about the economic outlook than before (section 2 of paper).
- ii. As predicted in paragraph 5 of the points to make section of the brief, the Commission hint in section 3 at the possibility of countries in a relatively comfortable position relaxing their policy stance. We should continue to warn of the danger such a step could pose on inflation and interest rates.
- iii. In section 3(iv), the Commission call for 'quick-acting' measures on unemployment. This was discussed by the Jumbo Council, and their conclusions are already before the European Council; there is no need to go further than the endorsement of those conclusions.

H M Treasury

29 November 1982

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 800 final

Brussels, 24 november 1982

THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY

(Communication by the Commission to the
European Council meeting of 3-4 December 1982)

COM(82) 800 final

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The Economic and Social Situation in the Community

(Communication by the Commission to the
European Council meeting of 3-4 December 1982)

Contents

1. Introduction
2. Economic trends and prospects
3. Four priorities for cyclical and structural recovery.

Table 1. Main economic aggregates 1980-83

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1. Introduction

The present note summarises the Commission's appreciation of the present economic and employment outlook and of the main economic policy issues that are outstanding. The problem of investment is treated in a separate paper which should be considered in conjunction with the present one. In addition the joint meeting of ministers of Finance and Economic Affairs and Employment and Social Affairs on 16th November has reached conclusions on (i) strengthening of the economic environment, (ii) reorganisation of working time and (iii) increase of employment opportunities for young people. The European Council will have available the conclusions of this meeting.

2. Economic trends and prospects

The trend in production and employment in 1982 has been very unfavourable. A year ago exports were growing fast. There were hopes that, as a result of an improvement in the balance of payments, compensating the effects of the second oil shock, a strengthening of internal and world demand would occur. However, the first half of this year in fact saw a weakening in several of the EC's export markets - the OPEC countries, the non-oil developing countries and the United States. These influences were sufficient to cancel out the modest increase in domestic demand in the Community. Overall gross domestic product is expected to increase a mere 0,3 % in 1982 in volume terms.

These difficulties have been reflected in a renewed deterioration in business confidence since mid-year. Moreover the latest industrial production statistics show evidence of a renewed drop in activity since June.

If this tendency was to be confirmed, the modest 1,1 % growth projections for 1983 in the Commission's Annual Economic Report are likely to prove over-optimistic.

Unemployment has continued to rise, and is now over 10 %, i.e. almost double the level of 5,4 % reached during the 1978-79 business recovery before the second oil shock. On present trends unemployment is likely to rise substantially in the coming year. Over 40 % of those currently unemployed are under 25 years old.

Inflation has been decelerating in the EC as a whole, although not as fast as in the United States and Japan. For the EC as a whole consumer prices increased 10,7 % over the last twelve months (ranging from 5 % in Germany to 22 % in Greece), compared to 14,1 % in 1980. In the UK the slow-down in inflation has been as striking as in the United States. Further progress is expected in reducing inflation in the year ahead, with a 1983 average of 8,8 % expected for the EC as a whole (ranging from 3 1/2 % in Germany to 21 % in Greece).

The balance of payments current account deficit has for the EC as a whole been reducing, with a total deficit in 1982 of ECU 15 billion, representing 0,7 % of GDP compared to twice as large a figure in 1980. Some

of the largest country deficits as a share of GDP, such as those seen in Belgium and Ireland, are reducing. But severe balance of payments constraints remain in several countries.

Two basic phenomena seem to be overlapping in the present European economic situation. First, deep structural economic weaknesses have accumulated in many European countries. These weaknesses are manifest in an excessive share of general government expenditure in gross national product as well as in an unbalanced distribution of income between wages and profits and of expenditure between consumption and investment. Overall these have resulted in a low propensity of the productive sector to increase employment. Secondly, there have been, and still are, serious problems of policy management in the world's principal economic regions, problems related to the sequence of oil shocks, to erratic exchange rate and interest rate fluctuations and to the external indebtedness crises; this has also led to defensive reactions in trade policies. Together these problems have been interacting with the effect of extending and deepening the recession in world trade and aggravating the problems of managing internal structural change within Europe.

3. Policy issues : four priorities for cyclical and structural recovery

This combination of structural and cyclical crises has now reached a point of exceptional gravity. To restore growth and create more employment, strong remedies, coherently related to each other across the European Community and then concerted with its main partners in the world economy, are required. Inconsistent and competitive reaction between countries and regions would be dangerous.

The Commission believes that a comprehensive strategy is required comprising a broad range of economic and social policies. Four priorities should guide a coordinated movement leading through a cyclical recovery into a sounder medium-term economic performance.

- (i) strengthen and consolidate actions of macroeconomic stabilisation and structural improvement where these are necessary;
- (ii) take appropriate action to support activity and to prepare the recovery where this can now be done without prejudicing stabilisation and structural policy objectives;
- (iii) reinforce international concertation to reduce the risks of destabilising developments in different countries or regions;
- (iv) support and strengthen the employment-creating effects of these policies through specific actions in the labour market, especially where unemployment is inequitably concentrated.

(i) In the first category efforts should be aimed at two complementary objectives: macroeconomic stabilisation and structural improvement.

With respect to macroeconomic stabilisation important efforts are currently being made in several European Community countries. It is important to support these actions, which concern public finance and incomes, including issues of indexation in both fields. Inaction in the face of excessive increases of public expenditure and budget deficits has led several countries to excessive external indebtedness or has caused too high inflation or both. During 1982 important changes in policy have emerged: Belgium early in the year, with new developments now in Denmark, Ireland, and

the Netherlands. In addition strong measures on the de-indexation of incomes are at present being discussed in France and Italy, which would make an essential contribution to the realisation of stabilisation objectives in these countries. When the foregoing policy initiatives are implemented they will constitute major factors promoting convergence between the Member States along the lines that the Community institutions have been consistently advocating.

With respect to structural improvements it is necessary to continue and intensify actions aiming at promotion of investment and industrial change on the national as well as on the Community level. This issue, which is the subject of a separate communication, is here only mentioned. However, its direct relationship to employment policy should be underlined. The expansion of productive activity, the establishment of modern and competitive manufacturing and service industries within a sound economic framework, are the best weapons in the fight against unemployment.

(ii) In the second category, of action to support a business recovery, the most important variable for the time being is the rate of the interest.

For the present, interest rates are being reduced, and care should be taken to consolidate this trend in the United States and Europe. With evidence of further deceleration in inflation and weak economic activity, especially in Germany, the United Kingdom and the Netherlands, these countries can afford to implement continuing interest rate reductions in Europe. Other countries in the Community face substantial balance of payments constraints. Such countries are not in a position to undertake autonomous interest rate reductions but may follow, in part at least, a general downward movement of rates.

As regards budgetary policy, if the economic situation worsened, countries experiencing a satisfactory reduction in inflation should avoid action to offset the increases in budget-deficits that would result from the loss of activity. In other countries, until and unless interest rates have been brought down in conditions of sound policy management, there is unlikely to be a case for budget policy relaxation.

Interest rate reductions should still in the present phase be the main agent of counter-cyclical policy. But as and when the scope for interest rate reductions is exhausted and on the condition that both the pace of infla-

tion has been substantially reduced and public finances are sufficiently under control, budget policy initiatives to support economic activity could in these circumstances be wholly compatible with monetary policy objectives. Such budgetary action could typically include tax-cuts or changes in tax and expenditure structures designed to have maximum supply-side and employment benefits.

(iii) The third category of actions concerns particularly the field of international finance, exchange rates and trade policies.

First, within the Community, the European Monetary System must continue to be carefully managed and exploited as a valuable safeguard against destabilising influences that are latent in the international economy. In particular the EMS serves as a guarantee against exaggerated exchange rate movements, contributes significantly to the convergence of economic policies and constitutes the necessary base for a better organisation of monetary cooperation between Europe and its partners. The Community cannot but benefit from a simultaneous strengthening of the mechanisms of the EMS and of the convergence it brings about.

With respect to international monetary questions the Community should aim at persuading the United States and Japan to implement monetary policies adequately adapted to these countries' effective responsibilities for the stability of the world financial and trading system. This means notably that the EC, Japan and the United States reach an agreement on the necessity of a higher degree of stability of interest rates and of exchange rates and take the appropriate measures to this end.

An early and substantial agreement on the replenishment of the financial resources of the IMF must be reached.

Trends towards trade protectionism must be strongly resisted and the Community should participate to all efforts, including those involving internal adjustment measures, aiming at ensuring a sufficient expansion of trade with developing countries.

(iv) In addition to these actions, further, more specific initiatives need to be taken in order to create more employment opportunities.

Young people continue to be among the main victims of the recession, experiencing increasingly long spells of unemployment before and between jobs. The unemployment rate for young people is now over 20%.

Further progress needs to be made in the implementation of the Community-wide guarantee of training and work experience for young people as agreed in principle by the European Council on 29/30 March, and as further defined by the Commission in its communication to the Council on Vocational Training in 1980s, supported by its Opinion on the Review of the European Social Fund.

However great the effort on training, the results for the young unemployed will depend largely on the success of overall economic policies and the availability of employment opportunities.

Urgent consideration needs to be given by public authorities and social partners alike to the further development of special recruitment programmes for young people linked when appropriate to reductions in working time. Different kinds of direct or indirect employment subsidies could be used to stimulate this kind of arrangement and to help disadvantaged young people obtain stable employment either in commercial or industrial firms or in non-traditional forms of enterprise or activities. In any case, rather than a new analysis of this well-known problem, it is vigorous and quick-acting measures which are needed now.

The Community has a role to play, in particular through its financial instruments, in supporting the expansion of special employment provisions for young people and other disadvantaged groups such as the long-term unemployed. The Joint Council welcomed the Commission's intention of presenting proposals for specific measures to promote the recruitment of young people and to increase the volume of employment opportunities available to them.

9.

On the reorganisation of working time, the Joint Council on 16 November endorsed the Commission's view that a reorganisation of working time, possibly in combination with a reduction in working hours, can lead to an increase in employment provided that the competitive position of firms is not impaired, that there is sufficient flexibility in labour markets to prevent labour bottlenecks, and that constraints resulting from differences in production methods and/or scale of operation are accepted. Moreover, reductions in working time must not be systematically offset by increases in overtime working. The details of any attempt to reorganise worktime should be designed and negotiated at the most appropriate level. Indeed, job creation and job maintenance through working time reductions are already becoming a feature of collective negotiations.

Governments could consider to what extent they might share in the costs of launching new working time arrangements and should seek to remove legal or other obstacles to a more flexible organisation of working time.

In order to stimulate policy convergence, the Commission will continue to work towards the formulation of a Community approach where appropriate, on the reorganisation of working time. The Commission has already tabled proposals on flexible retirement and voluntary part-time work, on which it hopes for early agreement in the Council. It intends to present a memorandum on the reorganisation of working time before the end of the year.

The Commission will continue to play its part in employment affairs and attaches a particular importance to the close and continuing association of the social partners in the development of Community policies.

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Main economic indicators for the European Community, United States and Japan

TABLE 1: Gross domestic product (percentage change at constant prices on preceding year, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B ³	3.2	3.2	2.3	2.5	-1.7	-0.5	0.5
DK ³	2.6	1.3	3.0	-0.2	-0.2	2.0	1.6
D ⁴	2.9	3.3	4.3	2.0	0.1	-0.5	1.0
GR ²	4.8	6.7	3.8	1.7	-0.7	0.7	1.9
F ²	3.6	3.5	3.0	1.3	0.3	1.1	1.0
IRL ³	4.4	6.7	2.4	1.9	1.1	2.0	2.4
I ²	3.2	2.7	4.9	4.0	-0.2	0.8	1.0
L ³	3.1	4.6	4.1	0.7	-2.4	-0.3	1.0
NL ³	3.6	2.7	1.8	0.6	-1.1	-0.5	-0.3
UK ³	2.2	3.3	1.4	-1.4	-1.9	0.6	1.7
EC	3.1	3.2	3.3	1.4	-0.6	0.3	1.1
USA	2.9	4.4	2.4	-0.2	2.0	-1.6	2.0
JAP	6.9	5.0	5.5	4.4	3.0	2.5	3.3

TABLE 2: Deflator of private consumption (percentage change on preceding year, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982 ¹	1983 ¹
B	6.7	3.9	3.9	6.5	9.1	9.0	8.5
DK	9.8	9.8	9.6	11.5	10.7	9.9	7.0
D	5.1	2.4	4.0	5.3	6.0	5.0	3.6
GR	11.5	12.6	17.7	23.7	24.4	23.0	21.0
F	8.6	8.8	10.9	13.2	12.5	11.0	8.9
IRL	12.8	7.5	13.4	18.3	19.6	18.5	13.0
I	13.1	12.9	16.0	20.4	19.0	16.6	15.0
L	6.3	3.5	6.8	7.7	8.1	11.0	9.0
NL	7.5	4.3	4.3	6.6	6.5	6.3	4.5
UK	12.3	8.9	14.3	15.5	10.9	8.8	6.9
EC	9.1	7.1	9.1	11.1	11.8	10.5	8.8
USA	6.1	6.8	9.1	10.2	8.5	5.6	4.5
JAP	7.7	4.6	3.4	7.1	4.6	2.5	1.8

TABLE 3: Number of unemployed as percentage of working population (EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	5.0	8.4	8.7	9.4	11.7	13.9	14.8
DK	3.3	6.5	5.3	6.1	8.4	9.1	9.2
D	2.5	3.9	3.4	3.4	4.8	6.9	8.3
GR	-	2.2	(2.2)	(2.8)	(3.1)	(3.8)	(4.0)
F	3.3	5.2	6.0	6.4	7.3	8.3	9.3
IRL	7.1	8.4	7.4	8.3	10.3	12.1	14.0
I	5.6	7.1	7.5	8.0	8.5	9.9	10.5
L	0.2	0.7	0.7	0.7	1.0	1.2	1.3
NL	3.0	4.1	4.1	4.7	7.5	10.4	13.1
UK	4.0	5.7	5.3	6.9	10.6	12.2	12.5
EC	3.8	5.4	5.4	6.0	7.8	9.4	10.3
USA	6.2	6.0	5.8	7.1	7.6	9.4	9.6
JAP	1.7	2.2	2.1	2.0	2.2	2.3	2.1

TABLE 4: Balance on current account (per cent of GDP, EC countries, EC, US, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982 ¹	1983 ¹
B	0.4	-1.6	-2.9	-5.3	-5.4	-4.0	-3.2
DK	-2.9	-2.7	-4.5	-3.8	-3.2	-4.1	-4.0
D	0.9	1.5	-0.6	-1.8	-1.1	0.1	0.3
GR	-2.8	-2.3	-2.9	-2.4	-2.2	-2.4	-2.3
F	-0.3	0.6	0.1	-1.4	-2.0	-2.6	-1.9
IRL	-4.2	-3.1	-9.8	-8.4	-13.2	-9.0	-7.6
I	-0.2	2.4	1.7	-2.5	-2.3	-1.3	-0.5
L	22.5	23.3	28.1	22.7	20.3	19.7	18.8
NL	1.3	-0.8	-1.3	-1.4	2.3	4.0	5.0
UK	-0.9	0.4	-0.0	1.4	2.4	0.8	-0.2
EC	-0.1	0.8	-0.4	-1.4	-0.8	-0.7	-0.6
USA	0.1	-0.6	-0.1	-0.2	0.1	0.3	-0.2
JAP	0.8	1.7	-0.9	-1.1	0.4	0.6	1.0

TABLE 5: General government lending or borrowing (-) as percentage of GDP (EC countries, EC, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	-4.2	-5.5	-6.9	-9.4	-13.4	-12.8	-12.1
DK	0.0	-2.2	-3.1	-5.9	-7.1	-9.5	-9.6
D	-1.5	-2.8	-3.0	-3.5	-4.0	-3.9	-4.1
GR	-4.4	-5.1	-4.8	-5.4	-10.1	-9.2	-8.6
F	-0.6	-2.3	-0.8	0.5	-1.5	-3.0	-3.0
IRL	-8.5	-10.5	-11.0	-12.8	-15.4	-14.7	-14.4
I	-8.6	-9.7	-9.5	-8.4	-11.9	-11.6	-11.0
L	2.3	3.3	0.1	-1.8	-0.8	-0.9	-1.0
NL	-1.3	-2.1	-2.0	-3.4	-4.5	-5.7	-5.5
UK	-3.2	-4.0	-3.3	-3.5	-2.1	-0.9	-0.5
EC	-2.9	-4.0	-3.6	-3.5	-4.8	-5.0	-4.9

TABLE 6: Money supply M2/M3 (percentage change at end of year on twelve months earlier, EC countries, EC, USA, Japan, 1970-1983)

	1970 1979	1978	1979	1980	1981	1982	1983
B	10.9	7.8	6.0	2.7	6.6	6.5	7.0
DK	11.0	6.7	9.9	10.9	9.6	12.0	11.0
D	10.1	11.0	6.0	6.2	5.0	7.0	5.0
GR	23.3	39.4	18.4	24.7	34.3	29.1	23.0
F	15.4	12.2	14.4	9.7	11.5	12.5	12.0
IRL	18.2	28.9	19.0	16.9	17.4	16.8	16.5
I	19.6	23.0	20.3	12.0	16.0	15.8	16.2
L	-	-	-	-	-	-	-
NL	11.6	4.2	7.6	3.6	5.2	7.6	7.0
UK	13.6	15.0	12.7	18.6	14.6	10.2	10.1
EC	13.9	13.9	11.9	10.5	10.8	10.8	10.0
USA	9.5	8.3	8.8	10.1	9.5	-	-
JAP	16.9	13.1	9.1	7.2	8.7	-	-

Source: Commission services.

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EHG(C)(82)3 ADDENDUM 2

COPY NO 1

30 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

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ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

A Commission communication on investment is circulated herewith. Paragraphs 6 and 9 of the brief deal with the issues raised in the communication, which does little more than summarise earlier Commission papers and proposals. Paragraph 6 of the attached communication asks the European Council to confirm the ECOFIN Council conclusions (annexed to the brief); to call for Council decisions on the internal market and on the New Community Instrument by the end of Q1 1983; and to invite speedy Council action on proposals in the areas of research and development, innovation and energy. These points largely repeat conclusions reached either by the ECOFIN Council or by the Jumbo Council, and although some of the deadlines may be a trifle unrealistic (this depends in large part on the German Presidency), we have no reason to make difficulties over any of them. The only possible problem for the UK would arise if the Commission or others were to suggest deadlines for harmonisation of company law (not mentioned in the attached paper, but referred to in the Jumbo Council conclusions).

H M Treasury

30 November 1982

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EHG(C) (82) 3 ADDENDUM 2

By MURAX 4

ANNEX A
Mr King
Eco(I)

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 788 final

by 4/12

Rec'd 2/12

Brussels, 25th November 1982

COMMISSION COMMUNICATION ON INVESTMENT
TO THE EUROPEAN COUNCIL

(COPENHAGEN, 3 AND 4 DECEMBER 1982)

COM(82) 788 final

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COMMISSION COMMUNICATION TO THE EUROPEAN COUNCIL ON INVESTMENT

1. At its meeting on 29 and 30 March 1982, the European Council expressed its concern at the inadequate level of productive investment in Europe, especially in the industries of the future. It requested the Commission to make whatever proposals it considered useful and the Council to adopt the necessary means and procedures. The Commission presented interim reports to the Council and to the European Council at its meeting on 28 and 29 June 1982 and subsequently a set of proposals or guidelines (CON(82)641 final) on which the Council stated its views on 15 November. This document sets out the measures that have already been agreed or that will shortly be proposed.

2. At a time when economic prospects and the employment situation are cause for concern, a recovery in productive investment, both private and public, is:

- in the short term, the preferred policy instrument: for underpinning economic activity without fuelling inflation, since any growth in incomes or expansion of public expenditure is subject to unavoidable restraints and international demand is sluggish.

- in the longer term, the condition for making the Community's productive apparatus competitive once again and hence, directly or indirectly, for preserving and expanding employment in an open international trading system.

3. The general economic environment must improve before there can be any strong and lasting recovery in investment. It is against this backdrop that specific measures for making the most of existing opportunities must be assessed. The Commission has described these measures in its communication on initiatives for promoting investment, the general thrust of which was endorsed by the Council (Economic and Financial Affairs) on 15 November. These measures are summarised briefly below.

4. The measures taken by the national authorities must be geared to:

- increasing the after-tax profitability of firms and their access to financing;
- enhancing the impact of specific investment incentives, while ensuring their compatibility with the common market;
- restructuring public expenditure in favour of productive expenditure;
- reducing budget deficits in countries with large deficits in order to alleviate the interest burden and thereby to expand the resources available on capital markets for financing productive investments.

5. The Commission reiterated that the Community has its own part to play in promoting a dynamic adjustment to change by:

- ensuring full use of the common market in order to extract the utmost advantage from the resulting economies of scale, positive effects of competition and scope for boosting investment;
- providing support for the strategic activities which are essential if our economies are to haul themselves out of the current structural crisis since they are either the necessary condition or the target for investment and new technologies;
- expanding the Community's financial instruments and adapting them to the requirements of industrial investment.

In this context the Commission has proposed:

- that the single Community market be consolidated; in particular, it has requested that the Council act in three key areas by 30 June 1983 (see Annex); it has also urged that these matters receive unequivocal political support;

- that, where the Community dimension is likely to give an edge, the Community's budgetary and financial instruments should be used to promote a number of activities in strategic fields: research and development, innovation, energy, biotechnology, information technologies, industrial conversion (see Annex);

- an additional allocation (3 000 million ECU) for the New Community Instrument, to guarantee continued Community financing for infrastructure and energy projects and small business and to promote industrial modernisation.

6. The Commission requests the European Council:

- to confirm the importance it attaches to the recent conclusions of the Council (Economic and Financial Affairs) concerning the appraisal of tax and financial measures to promote investment, sharpening the impact of present aid schemes and the examination of immediate and medium-term measures to restructure public expenditure in favour of investment;

- to emphasise the special impact which the consolidation of the common market can have on investment and accordingly to ask the Council to decide, by the end of June 1983 at the latest, on the priority measures proposed by the Commission to reinforce the internal market;

- to endorse the measures to promote investment in the priority areas of research and development, innovation and energy;

- to acknowledge the importance of the Council's agreeing at its last meeting (Economic and Financial Affairs) to take a decision early in 1983 on the expansion of the New Community Instrument; and to express, by approving the principle of expanding the NCI, the value that it attaches to the reinforcement of Community action which helps directly to bolster investment;

- to ask the specialist Councils of Ministers to speed up the adoption of the Commission's current and forthcoming proposals in these fields and to establish, where necessary, the most efficient appraisal and decision-making procedures.

If it takes these steps, the European Council will be able to achieve the political objective of adopting, in the first half of 1983, a programme of practical and complementary measures to bolster investment.

COMMUNITY MEASURES IN SPECIFIC AREAS

Present situation

Single market:

In its Communication, the Commission stressed both the need and the scope for rapid progress in three key areas: the treatment of products from non-Community countries within the framework of Community certification resulting from the technical harmonisation Directives; the procedure for providing information on technical rules introduced by authorities in the Member States and on the industrial standards established by national standards institutions; and the simplification of frontier formalities.

R & D:

Before the end of 1982, the Commission will present an outline programme of Community scientific and technical activities for the period 1984-87, with the aim, in particular, of improving coordination of Community and national measures to make Community industry more competitive by introducing new technologies in the traditional industries, fostering advanced technologies and establishing new standards and references.

Innovation:

The Commission recently proposed a plan for action for develop a transnational infrastructure in the field of innovation. Early in 1983 it will present a proposal for Community action on the financing of innovation in SME*. The Commission attaches great importance to the study of tax measures affecting the promotion of investment to disseminate innovation. Towards the end of 1983, it will put forward proposals concerning the information market.

*Small and medium enterprises

Energy:

The Commission recently proposed that interest rate subsidies be made available on loans to various categories of investment in the rational use of energy, since much investment cannot become profitable until after a relatively long period. The Commission has also proposed to the Council that part of the ERDF's non-quota measures should be used to finance measures for the application of new hydroelectric and alternative energy technologies.

Information
technology:

The Commission has laid before the Council, as part of the 1983 budget procedure, a series of pre-competitive R&D pilot projects comprising major Community action supplementing national and corporate programmes. This initiative supplements the current proposals and measures relating to telecommunications (gradual opening up of public contracts and deregulation, integrated digital network (INSIS)), micro-electronics, information processing and data banks (Euronet).

Biotechnology:

The Commission is considering launching a major programme in 1983 that will take account of the features peculiar to this sector.

Industrial
conversion:

Under the ECSC Treaty, the Community is helping to finance the investment planned under corporate and government restructuring programmes in order to secure the international competitiveness of the steel industry and hence preserve steelworkers' jobs.

The Commission has also sent the Council three proposals for using the ERDF's non-quota section to finance measures to create or develop new activities in the areas adversely affected by restructuring in the steel, textile and shipbuilding industries.

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EHG(C)(82) 4

COPY NO.

26 November 1982

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EUROPEAN COUNCIL : COPENHAGEN

3/4 DECEMBER 1982

COMMUNITY RELATIONS WITH OTHER INDUSTRIALISED COUNTRIES

Brief by Department of Trade

OBJECTIVE

1. To reassert UK support for the open trading system. To make clear the UK's concerns on unfair market access and press for other Member States' co-operation in tackling the problem.

POINTS TO MAKE

General

2. Community must play its part in resisting slide into protectionism.
3. This means convincing our trading partners that closed markets are not tolerable.
4. UK wants EC to co-operate on this problem but cannot afford delay in waiting for results.
5. Now faced with domestic problem of substantial proportions. Present situation will undermine open trading system, to which UK remains committed.

EC/US

6. Clear that protectionist pressures are strong in Congress, and have been reinforced by mid-term elections - though Administration will be working to temper them. European response should be rational, and should not give colour to the idea that there is a general transatlantic crisis. Do not want to under-estimate dangers, but best way to contain them is to deal with issues individually in a pragmatic way.
7. Important that we should quickly resolve outstanding issues on exports of stainless and special steels by negotiation.
8. US dissatisfaction with the CAP persists. Agriculture trade war is in nobody's interests.
9. Helpful that US sanctions now out of the way and East/West exercise still on the rails. Hope momentum of work can be kept up.

Japan

10. Essential that concerted Community pressure on Japan is maintained - particularly at December Foreign Affairs Council. Most important, need to press for changes in macro-economic policies (expand domestic demand, liberalise domestic financial markets and encourage internationalisation and strengthening of the Yen). We must stress the unique strains that

Japan's trading patterns are continuing to put on the open trading system. Need to present firm Community position to new Japanese Government. Task of EC is complicated by unilateral statements like that made recently in Tokyo by Belgian Economics Minister . Welcome signs that the Commission are prepared to recommend a tougher and more realistic line.

11. Failure on this could lead to some countries adopting bilateral solutions which would be in long term much less satisfactory; and ultimately disastrous slide into protectionism.

12. Although Japanese exports to EC as a whole slightly down from last year, they have gone up in the case of the UK. Meanwhile Japan's imports not increasing and recent Japanese import measures showing predictably little impact. The overall trade imbalance is still unacceptably high.

Spain

13. Obvious and in certain sectors entirely unjustifiable disparity in trading opportunity between Community and Spain sanctioned by the 1970 Agreement, concluded in very different circumstances; disparity aggravated by present recession. Spain, as a sign of her long-term commitment to abolishing her protective barriers to her future Community partners, should take

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immediate steps to reduce her barriers in a few specific areas where they are particularly inequitable, eg cars and components, footwear, toys, etc. Accept as a minimum Commission's recent proposals to bring Spain's practices in steel and textiles in conformity with Community practice.

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BACKGROUND

General

14. The European Council takes place the week after the GATT Ministerial Meeting. There may be some stocktaking in the light of the results of that meeting. But this should not deflect the UK from pursuit of its trade objectives.

15. We continue to believe that the EC has the potential to exercise effective pressure to bring about a fairer balance in trading opportunities. But it will only be able to exploit this potential if there is a much greater degree of commitment than hitherto on the part of the Commission and all Member States to a firm and united line. The French may take the lead in urging the merits of a tougher approach to third countries in the hope of diverting attention from their own import barriers which hit their EC partners. We can support them on the former point, but should join others in ensuring that they are not let off the hook on the latter (see brief no. 5 on the internal market).

EC/US

16. As industrialised recession and high unemployment in the US continue, protectionist pressures (always

strong) are building up further in the US Congress. Some influential Democratic politicians eg Senators Mondale and Kennedy, advocated increased protection, particularly against Japanese imports, during mid-term elections. US Administration is afraid that an unsatisfactory outcome to the GATT Ministerial Meeting could reinforce these pressures during the next Congress.

17. Stainless and special steels were not included in EC/US carbon steel arrangement. Action against Community exports of these products has been initiated by US industry under two procedures:

(i) S.301 of 1974 Trade Act, which President Reagan has switched to accelerated 201 action to obtain global settlement, and

(ii) countervailing action (against certain UK products only).

Essential that the EC agrees a common line which takes account of UK's particular problem. Davignon told Mr Jenkin at Elsinore on 18 November that the Community should respond quickly.

18. On agriculture, the US have been making their complaints, particularly about the CAP, the centre-piece of their position at the GATT Ministerial

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Meeting. They are reported to have said that they will 'close the door' unless there is progress. What this means in practical terms is unclear, but what is likely is that differences over agriculture will grow more acute over the months ahead. They are already a major preoccupation in the legislature and there have been calls for the US to unload its agricultural surpluses onto the world market. An agricultural trade war will benefit nobody and we should try to hold the more belligerent EC Member States (notably France) in check. This may be made more difficult by an outcome in Geneva which is perceived as inadequate by CAP supporters.

19. France continues not to be party to Washington conclusions on East-West economic relations. Cheysson told EC Foreign Ministers on 23 November that France saw no room for further Washington talks at present. But he repeated France's commitment to the studies in OECD, COCOM and elsewhere, as provided for by Shultz non-paper. French are ready for such work to continue provided public attention is not drawn to the process and it is not explicitly linked to the non-paper. Important to ensure France is kept on board. Best tack is probably to encourage their participation in follow-up work itself without pressing them to accept Shultz non-paper.

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20. Commission have said they will produce papers on credit policy, but intend to play the paper long. In addition Presidency and Commission are now producing a joint paper on the organisation of follow-up work.

Japan

21. There has been disappointingly little progress over the past six months in developing a more effective EC approach to Japan. Divisions among Member States remain but there are now signs of greater determination on the part of the Commission to put the sort of robust but realistic recommendations that are needed to the 13/14 December Foreign Affairs Council.

22. As already agreed in March the Community has been pursuing a complaint against Japan under the first stage of the Dispute Settlement Procedure of the GATT (Article 23.1 of the General Agreement). This involves bilateral consultations between the parties concerned, of which there have now been three rounds. The Commission has made it clear to the Japanese that much more needs to be done in addition to the two (inadequate) import promotion packages which they introduced in the first half of this year. But their reaction has shown that they are discomforted by the Community acting together and putting their practices under the spotlight in this way. They have lobbied hard against a move to the second stage of the GATT

procedure (Article 23.2); this would involve reference of the EC complaint to a Working Party on which other GATT members would also be represented.

23. In the run-up to the October Foreign Affairs Council it became clear that Member States were not yet ready to agree to move to Article 23.2 as the UK would have preferred. The Germans' reluctance for action against the Japanese seems to have been strengthened by the decline in their imports from Japan so far this year (see para 27 below) while the Italians were (and remain) anxious about the prospect of a Japanese counter attack in the GATT on their discriminatory quotas. The most the Council was in the event able to agree in October was a further round of bilateral consultations under GATT Article 23.1 which would include an up-to-date request list. The French attacked this as inadequate, demanding EC action to secure effective restraint on imports of a wide range of additional products and threatening to seek such restraints on a bilateral basis in the absence of agreement to Community action by the Council in December.

24. The problem with a bilateral approach by individual Member States is the doubtful legality and enforceability of any import controls whether

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threatened or actually applied. The Japanese are well aware of this. But we understand the Commission are now proposing to recommend a more robust Community approach involving extension of Community-wide import surveillance to light commercial vehicles (LCVs), video tape recorders (VTRs) and quartz watches together with Community negotiated restraint arrangements for those Member States which need them, possibly covering cars, LCVs, colour TVs and tubes, VTRs, forklift trucks, quartz watches and machine tools. (Where national arrangements already exist it is possible that the Commission will propose putting them under an EC umbrella rather than insisting on their immediate surrender as they have in the past.) Finally they will press for an immediate decision to refer the EC GATT case against Japan to a working party under Article 23.2. It would be very helpful if the Americans were to associate themselves with the EC GATT case. So far they have been reticent. But they too are becoming increasingly frustrated with the Japanese over trade and have recently indicated willingness to consider joining in.

25. Taken as a whole these developments are generally welcome, though so far as the Commission's ideas are concerned we shall need to ensure there really is no

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risk of weakening existing UK inter-industry arrangements or prejudicing those in prospect (eg for machine tools).

26. At the same time Ministers have agreed that only concerted international pressure is likely to persuade the Japanese to make the far reaching adjustments to their trade and macro-economic policies which are urgently required to bring about a significant improvement. We should urge on other Member States the importance of avoiding behaviour like that of M Eyskens (Belgian Economics Minister) who publicly dissociated Belgium from the EC GATT case against Japan on a visit to Tokyo in October. This will have given the Japanese extreme satisfaction.

27. EC visible trade deficit with Japan 9% down in the first 9 months of 1982 compared with the corresponding period last year largely due to a fall in imports. But against this general trend UK deficit, exceptionally, up 39%. (US deficit up 15%).

Spain

28. Ministers agreed at E Committee on 28 October that the UK could not afford to wait for the receding prospect of early Spanish accession to the Community to reduce the barriers faced by our exporters. The EC/Spain Agreement, signed in 1970 when Spain was

considerably less industrially advanced than she is now, never revised as originally envisaged and which permits Spain to retain high tariff barriers, is increasingly anachronistic. Spain's implementation of this agreement has been poor and repeated Community complaints (about eg fiscal discrimination against imports generally and blond tobaccos in particular, export subsidies and opaque administration of quotas) have been ignored. Meanwhile continuing Spanish industrial expansion and exports in sensitive industrial sectors eg cars, steel, shipbuilding and chemicals threaten Community's painful efforts to rationalise capacity.

29. Tariff disparities have been highlighted especially in car sector, where Spanish duty of 36.7% compares with the EC's 4.2%, by Ford's decision to source about half of UK sales of its popular Fiesta model from Spain. This means about 70,000 Spanish cars exported to the UK annually - a figure which the planned Spanish-built GM Corsa could rapidly increase to 100,000 per annum - compared with a few hundred mainly luxury UK models exported to Spain annually over duty and fiscal barriers which double the landed cost of a car. Similar disparities exist in other sectors.

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30. The UK has already begun to campaign in Brussels and other Community capitals to convince our partners of the need for an early Commission report to the Council (now agreed) and early action by the new Spanish Government. Reactions so far have been cautious.

31. In the enlargement context (see brief no.6), we are pressing for early and substantial reductions in Spain's tariff on products where she is already fully export competitive to eradicate the problems as early as possible.

Department of Trade

26 November 1982

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23 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

INTERNAL MARKET

Brief by Department of Trade

OBJECTIVE

1. To repeat our commitment to perfecting the Community's Internal Market, a fundamental principle of the Treaty of Rome.

POINTS TO MAKE

2. The removal of barriers to trade within the Community is necessary to maximise the international competitiveness of European industry: and especially so at a time of world recession. Very much welcome the idea of an Internal Market Council which should help focus attention where it is needed. We must work together towards completion of the internal market; protectionism should have no place in intra-Community trade.

3. There are areas where progress can be made to the benefit of all. Action is needed to speed up the flow of goods across frontiers. New technical barriers to trade must be controlled. These are not just technicalities for experts; they are practical matters of time and money for tens of thousands of

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European business. Must emphasise that progress is needed in liberalising trade in services, as well as in goods: we need progress on, for example, lorry movements, air services and insurance. An open internal market in services is moreover a Treaty right.

French Measures

[if others raise them]

4. We share the concern of other Member States and look to the Commission to report urgently on the compatibility of these measures with the Treaty.

BACKGROUND

References: The French have indicated that they may table a discussion paper covering intra-Community trade (not yet available).

Internal Market Council

5. The Belgians suggested an Internal Market Council at the end of their Presidency, but the idea foundered through lack of preparation. The Economic and Social Affairs (Jumbo) Council concluded on 16 November with a commitment to hold such a Council. The Minister for Trade, in his speech in Bremen the same day, called on the Germans to convene a special Council on the Internal Market during their Presidency.

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German and French Attitudes

6. The Germans, despite their professed liberalism, do not share our enthusiasm for free trade in services. They criticise us for "Buy British" and origin marking. Although they have said that they regard completion of the Internal Market as one of their Presidency priorities, they are not likely to push for greater transparency in standards-making, which we favour. The French, themselves masters of the non-tariff barrier, have complained to us that German national standards comprise an effective system of barriers to trade. They have also compiled, and circulated in Paris, a propagandist dossier of "British protectionist measures", and have attacked other Community partners, including the Germans, in similar terms.

French Measures to Reduce their Trade Deficit

7. On 20 October, the French Government announced several measures of a protectionist nature, which would apparently apply to fellow EC Member States, as well as to the outside world. Community reaction has been unanimously critical. Lord Cockfield made our concern very clear to M Jobert during the Anglo-French Summit on 4/5 November. Although M Jobert said that France would act in compliance with her Community and other international obligations, he did not undertake to ensure that the measures would have no effect on UK/French trade.

8. The Commission are investigating the measures, and preparing infraction proceedings against the French over two of them: the requirement that Customs formalities for videos should be centred at Poitiers and that documentation accompanying imports should be in French. The language

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requirement has aroused the greatest concern among UK exporters, though it appears that in practice it may not be enforced against them or other Community firms. The Commission have also renewed their attack on French and UK origin marking requirements. (On 20 October, the French announced an intention to extend origin marking to all goods.)

Insurance

9. A non-life insurance services directive, to facilitate cross-frontier insurance of large industrial, commercial and professional risks, was first proposed by the Commission in 1975 but is still far from being agreed. We and the Dutch are the only proponents of liberalisation in this field. Germany and others have refused to abandon notification and government control of policy conditions and premium rates, which we consider unnecessary for this business, where policy-holders have easy access to expert advice and no desire for 'government protection'.

Air Services

10. Again, the Netherlands and we are virtually alone in pressing for gradual liberalisation through adoption of the three Commission proposals now on the table: a regulation to apply the Treaty competition rules to air transport, a directive on air fares and one on regional air services. The last may well be ready for agreement at the December Transport Council; our aim is to ensure that the text is not more rigid

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than our present hard-won bilateral arrangements. Our domestic air carriers, particularly BA, are not much interested in lower air fares in Europe in present circumstances; but we should keep up the pressure in Brussels and seek gradual change.

Department of Trade

23 November 1982

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25 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

ENLARGEMENT

Brief by Foreign and Commonwealth Office

OBJECTIVE /

(a) To get the European Council

(1) to give a strong signal to the applicant countries of support for enlargement and determination to make progress in the accession negotiations;

and, in the context of the Commission's paper on the problems of enlargement;

(2) to instruct M Thorn to report on the recent and expected future trends in agricultural expenditure, early in the New Year; and

(3) to instruct the Agriculture Ministers to complete work on reform of Mediterranean agricultural regimes by the end of February.

(b) To draw attention, in discussion of the Commission paper, to the problem posed by competitive sectors of

Spanish industry trading into the EC on unequal terms under the 1970 EC/Spain Agreement.

POINTS TO MAKE

General

- ① 1. Spain and Portugal will be looking to the European Council for a signal of encouragement and of strong support for enlargement, after a difficult year in the negotiations. Important that they should get it.
- ② 2. The Commission have clearly had this point very much in mind in producing their paper, and are to be congratulated on a thorough and constructive piece of work. Glad they have concluded that the classic approach to enlargement negotiations, - the approach of agreeing the terms of accession in advance, and dealing with problems through transitional arrangements and any necessary specific derogations - remains the right one.
- ③ 3. ✓ Agree that enlargement need not place an intolerable burden on the Community's budget. But, for that very reason, I do not agree that enlargement will make an increase in own resources necessary. ✓ We shall not know exactly what enlargement will cost the Community budget until the accession negotiations are over and a good deal will depend upon the existing

Community taking the right decisions to control
expenditure on the Mediterranean agricultural régimes.
 But, by itself, enlargement will place far less
 strain on the own resources system than the
 continuing increase in the CAP expenditure as a
 whole, which should be a matter of concern to us all.
 The urgent need is to take immediate action to stop any
further growth of agricultural surpluses well before
enlargement and thus to restrain the growth of FEOGA
to well below that of the Community's revenues. If
 that is done, I believe it will become clear that
 there is no need for any increase in the Community's
 own resources. We need to get the facts straight. It
 would be very valuable if the European Council were to
 ask M. Thorn to report to the Heads of Government
early in the New Year on recent trends in FEOGA
expenditure, and their expected development over the
next few years. This information is essential to any
serious discussion of the Community's finances.

4. We have not yet had time to digest the details of
 the Commission's proposal for a 'deal' with the
 applicant countries. Sure that we should follow up the
 idea of encouraging them to limit capacity in sectors
where there is already excess capacity in the
Community. But less convinced that the Community

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should provide substantial new money to help them do it: how could we justify this to our own industries, which have cut back their capacity in those very sectors without Community help? Will, however, of course be ready to look into Commission ideas in more detail and discuss them with Commission and partners.

5. But sorry that one problem to which I drew attention in my own letter to M. Thorn on the inventory exercise does not feature in Commission paper. Spain has, in expectation of accession, attracted foreign capital to build up highly modern and competitive industries, heavily orientated towards exports. These take advantage of low Community tariffs while enjoying a domestic market sheltered by high tariff walls. These tariffs are reinforced by administrative practices hard to reconcile with the terms of Spain's 1970 Agreement with the Community. Quite wrong that Community should continue to tolerate this situation; we have asked the Commission to advise the Council on remedies, and we look for quick and effective action.

6. Agree with Commission that there are two important steps Community must take to open way for enlargement - agreements on CFP and on reform of Mediterranean agricultural regimes. On the latter, there must

clearly be changes, but surpluses and costs must be kept down. Disappointed at slow progress: believe Council should now instruct Agriculture Ministers to finish work by a fixed date - suggest end of February.

Points for use as necessary in discussion

7. Simultaneous Accession. Obviously makes practical sense. But must not result in imposing intolerable delay on Portuguese.
8. Target Date. Nothing against this in principle - though to be of any value it would surely have to be a date for accession not just conclusion of negotiations. Shortage of a hostage to fortune. Can we agree on a date which is both realistic and not so distant as to be seen as a rebuff rather than a helpful gesture?
9. Decision Making. Increase in Commission powers should be considered on its merits as and when necessary. Always prepared to consider majority voting where treaties so provide; but Member States must retain the right to insist that a majority decision be deferred when an important national interest is involved.

Other Internal Measures to prepare Community for enlargement.

10. Firmly support existing Commission proposals amending ERDF, with stepping up of aid to less favoured regions

11. Await Commission proposals on integrated development programme for Mediterranean. Coherent framework for assistance useful.

12. Community should meet its obligations to non member Mediterranean countries with whom it has association or co-operation agreements.

Phased entry (French and Italian ideas)

13. Sceptical; would cause major political problems over extent of participation in policies and decision making. Postponement of decisions on such a wide range of key issues will not help the Community resolve them.

BACKGROUND

1. The Commission Report on the Problems of enlargement, requested by the June European Council was circulated to Head of State and Government on 11 November. The text of M Thorn's covering letter is attached at Annex. The paper is deliberately general on a number of important issues, and all Member States will wish to see these clarified in ways helpful to their own position. At the European Council, they are likely to want to sound positive and keep most options open.

General Principles

2. The Commission's paper reaffirms the Community's objective of achieving enlargement within a reasonable period and notes that there are no unforeseen problems. It recognises, however, that the impact of recession since the Commission's Fresco on Enlargement in 1978 has made the problem of internal restructuring within the Community more difficult. Accordingly, the Commission proposes three general principles as the basis for enlargement:

- (i) clarity in accession terms
- (ii) the full adoption of Community obligations
- (iii) simultaneous accession.

3. We can endorse all three principles. Clarity of terms would rule out later misunderstandings and renegotiations, (as in Greek case) and would also help to rule out the Italian ideas (for a two speed approach with some key issues left unresolved until after accession), and the French ideas (on Portuguese agriculture, for phased integration into Mediterranean CAP regions with Council decisions necessary to pass from one phase to the other). Full adoption of Community obligations is also standard, on the usual understanding that this is subject to any derogations

and any measures (including differential application of measures agreed to be necessary for a transitional period. Simultaneous accession of both candidates continues to have clear political and practical advantages. But Portugal (now well ahead of Spain) has indicated that she would only be prepared to wait 12-18 months between the end of accession negotiations and accession itself.

INTERNAL MEASURES BY COMMUNITY

4. This section of the paper presents a number of familiar points of difficulty, particularly the question of an increase in own resources (stressed in M Thorn's covering letter) and a further extension of majority voting in the Council.

(a) Own Resources and CAP Expenditure

While the report concludes that the Community should in principle be ready to increase own resources, it also recognises that :

- (i) the costs of enlargement will not be intolerable and;
- (ii) other factors such as the growth of CAP expenditure are also relevant. Agricultural guarantee expenditure actually fell in 1981; the original budget provision for 1982 is also well under-spent (funds are being transferred, notably to pay the UK and German refunds for 1982). But surplus production is now again on the increase (details in brief 20 on the CAP), implying further strains on the CAP's finances. The guarantee provision in the draft 1983 budget (about 14bn ecu, 14% up on the adjusted 1982 provision) was tightly drawn on the basis of expectations this spring and some Commission officials have suggested that a sizeable supplementary budget may be needed even before taking account of the next price-fixing. Further ahead, if existing trends continue, CAP expenditure looks set to increase faster than the growth of Own Resources and the 1% VAT ceiling could be reached in 1985, if not 1984.

(b) Institutional Question.

On the debit side, the Commission propose more delegation of powers to it by Member States, more systematic recourse to majority voting, and an extension of majority voting beyond the areas envisaged in the Treaty. On the credit side the Commission also proposes to reflect on its own composition and procedures including the question of working languages. We can encourage both of these and should be willing to offer up one of our own 2 Commissioner posts on enlargement. (Such an offer would earn us credit which we might try to exploit by advocating other institutional reforms at the time of enlargement).

PROBLEMS IN THE ACCESSION NEGOTIATIONS

5. The report notes that most of the problems raised in accession negotiations can be worked out by the classic approach, whereby problems of adaptation are dealt with by agreed transitional measures or derogations. But it identifies problem areas where the classic approach needs to be supplemented, eg Mediterranean agriculture, fisheries, textiles and steel. The Commission argue that these sectors concern areas of the Community either less favoured (the Mediterranean) or in crisis (declining industry, coastal regions dependent on fisheries). It therefore proposes that the applicant countries be asked to apply Community disciplines pre-accession in certain sectors. In return, the Community would offer:

(a) a target date for the conclusion of the accession negotiations and

|| (b) some financial help to assist the candidate countries carry out their obligations.

6. We doubt that a target date is a realistic proposition. But it will give much greater difficulty to others (France and Italy) and there is no need for us to cast the first stone.

7. The rest needs more careful examination. The candidate countries must in any case in the accession negotiations give undertakings to move towards Community policies by a given date after accession, and the length of any agreed transitional period or derogation gives them a time scale in which to accomplish this. Portugal, for example, has already accepted a rigorous regime on textiles both pre and post accession. Spain is being asked to do the same. Portugal has also agreed to apply the Community's anti-crisis measures on steel on accession. The Community is seeking (but has not secured) satisfactory undertakings on steel from Spain too.

8. There may be good in the Commission ideas, particularly if they denote Mediterranean agricultural production disciplines pre-accession, which would be a new element in the accession context. But we would not want to pay a substantial price in pre-accession aid to persuade the candidates to do what they are already asked to do in the context of the accession negotiations. Both countries have already received substantial EIB loans (Portugal has also received aid from Community budget) to help them restructure their economies pre-accession.

9. Finally, the Commission mention a number of internal Community programmes which must be completed before enlargement such as fisheries, the reform of Mediterranean Agricultural Régimes (see para 10 below) policy towards the non-member Mediterranean countries and a revision of the Regional Policy.

Reform of the Mediterranean Agricultural Regimes.

10. Negotiations began in Autumn 1981 to revise Community support arrangements for the Mediterranean products (wine, olive oil and fruit and vegetables) before enlargement (negotiations on these products cannot begin with Spain and Portugal until reform completed). New arrangements for wine and citrus fruit were

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agreed at the last CAP price fixing. Agriculture Council committed itself to settle the rest by end October. But negotiations have stalled. Danish Presidency have diagnosed insufficient political will and suggested that the European Council be invited to lay down political guidelines and a timetable for completion of the exercise. Producing countries wish to see support and protection for their own Mediterranean farmers improved before the full force of Spanish competition is felt; and we and other non-producers are chiefly concerned to limit the cost of supporting Mediterranean agriculture in an enlarged Community.

Foreign & Commonwealth Office
25 November 1982

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DESKBY 150830Z

FM UKREP BRUSSELS 131010Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 4273 OF 13 NOVEMBER

INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS LISBON MADRID.

MY TEL NO 4180 (NOT TO ALL) : ENLARGEMENT OF THE COMMUNITY.

WE HAVE RECEIVED TODAY THE FINAL VERSION OF THE COMMISSION'S QUOTE INVENTORY UNQUOTE PAPER FOR THE EUROPEAN COUNCIL, ON THE PROBLEMS OF ENLARGEMENT. IT HAS BEEN SENT UNDER COVER OF A LETTER FROM THORN TO THE PRIME MINISTER WHICH READS AS FOLLOWS:

THE PAPER I ENCLOSE IS THE COMMISSION'S RESPONSE TO THE WISH EXPRESSED BY THE EUROPEAN COUNCIL IN JUNE CONCERNING COMMUNITY ENLARGEMENT. THE PERSONAL CONTRIBUTIONS SENT ME BY THE SEVERAL HEADS OF STATE AND HEADS OF GOVERNMENT HAVE BEEN A GREAT HELP TO ME BOTH IN PINPOINTING PROBLEMS AND IN COUGHING OUT SOLUTIONS.

THE COMMISSION NOTES THAT THERE IS UNANIMOUS POLITICAL COMMITMENT TO ENLARGING THE COMMUNITY TO INCLUDE SPAIN AND PORTUGAL. IT HAS ACCORDINGLY CONCLUDED THAT AFTER CLOSE ON FIVE YEARS'S WORK THE NEGOTIATIONS CAN BE CONCLUDED REASONABLY QUICKLY IN SUCH A WAY AS TO ENSURE THE PROPER FUNCTIONING OF THE ENLARGED COMMUNITY. ENLARGEMENT WILL NOT POSE ANY PROBLEM THAT WE WOULD NOT HAVE HAD TO DEAL WITH IN ANY CASE. IN SOME CASES IT AGGRAVATES PROBLEMS, IN OTHERS IT CONFRONTS US WITH THEM SOONER, BUT IN NONE DOES IT ACTUALLY RAISE NEW PROBLEMS. THE IMMEDIATE DIFFICULTIES TO BE RESOLVED ARE NEGLIGIBLE WHEN SET AGAINST THE POLITICAL AND ECONOMIC BENEFIT ENLARGEMENT WILL AFFORD THE PRESENT COMMUNITY AND THE APPLICANT COUNTRIES IN THE LONGER TERM.

IT IS WITH THIS APPROACH IN MIND THAT THE COMMISSION SETS OUT, OR RESTATES, THE SOLUTIONS IT ADVOCATES TO THE MAIN PROBLEMS TO BE TACKLED.

FOR THE OPERATION OF THE FUTURE COMMUNITY, TWO MAJOR DECISIONS HAVE TO BE TAKEN.

THE FIRST CONCERNS OWN RESOURCES. RETENTION OF THE PRESENT CEILING ON THESE IS JUST NOT ON, NOT MERELY AS REGARDS COPING WITH THE FINANCIAL IMPLICATIONS OF ENLARGEMENT BUT, QUITE APART FROM THAT ASPECT, AS REGARDS CONTINUING AND WORKING UP THE COMMON POLICIES.

/IT IS NOT

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IT IS NOT POSSIBLE TO COME OUT IN FAVOUR OF ENLARGEMENT AND AT THE SAME TIME WITHHOLD THE BUDGET FUNDS THAT WOULD MAKE IT UNWORKABLE. IT IS THEREFORE VITAL THAT THE MEMBER STATES GIVE A CLEAR UNDERTAKING TO PROVIDE THE COMMUNITY WITH THE WHEREWITHAL TO CARRY OUT ITS POLICIES AS SOON AS THE NEED ARISES.

THE SECOND CONCERNS THE DECISION-MAKING PROCESS. THE PRESENT HOLD-UPS ARE MAKING IT IMPOSSIBLE FOR THE COMMUNITY TO GO FORWARD TO ANY EXTENT TO SPEAK OF. THE COMMISSION THEREFORE PROPOSES THAT GREATER USE SHOULD BE MADE OF MAJORITY VOTING WHERE IT IS ALREADY PROVIDED FOR, AND THAT CERTAIN TREATY PROVISIONS REQUIRING UNANIMITY SHOULD BE CHANGED.

AS REGARDS THE NEGOTIATIONS PROPER, THE COMMISSION WOULD POINT OUT HOW ABSOLUTELY ESSENTIAL IT IS TO OUR SUCCESS THAT THE QUOTE ACQUIS COMMUNAUTAIRE UNQUOTE BE CONSOLIDATED AND EXPANDED, ON THE BASIS OF THE PROPOSALS IT HAS ALREADY TABLED OR WILL SHORTLY BE TABLING WITH RESPECT TO SUCH MATTERS AS MARKET ARRANGEMENTS FOR MEDITERRANEAN AGRICULTURAL PRODUCTS, INCREASING THE EFFECTIVENESS OF THE REGIONAL FUND, THE ADOPTION OF MEDITERRANEAN INTEGRATED PROGRAMMES, THE COMMON FISHERIES POLICY AND THE IMPLICATIONS OF ENLARGEMENT FOR NON-MEMBER COUNTRIES IN THE MEDITERRANEAN AREA.

THE SERIOUSNESS OF THE ECONOMIC CRISIS AND THE NEED TO ENSURE COMPLIANCE WITH THE RULES ALREADY ADOPTED BY THE COMMUNITY FOR CERTAIN PARTICULARLY SENSITIVE SECTORS HAVE PROMPTED THE COMMISSION TO PROPOSE A QUITE NEW APPROACH.

THE PROPOSAL IS THAT THE APPLICANT COUNTRIES SHOULD BE ASKED, IN A FEW FIELDS, FOR AN UNDERTAKING THAT THEY WILL BEGIN APPLYING BEFORE THEIR ACTUAL ACCESSION RULES AND DISCIPLINES SIMILAR TO, OR INDEED THE SAME AS, THE ONES THE COMMUNITY IMPOSES ON ITSELF, TO HELP PREPARE THE WAY FOR INTEGRATION TO PROCEED AS SMOOTHLY AS POSSIBLE.

THE COMMUNITY FOR ITS PART WOULD SET ITSELF A TARGET DATE FOR THE CONCLUSION OF THE NEGOTIATIONS, AND WOULD STEP UP FINANCIAL CO-OPERATION.

THESE, AS I SEE IT, ARE THE MATTERS ON WHICH OUR REPRESENTATIVES SHOULD CONCENTRATE, IN THE DETERMINATION TO SUCCEED. WHILE FULLY ALIVE TO OUR COUNTRIES' TROUBLES, WHICH NOBODY WOULD DREAM OF IGNORING, I WOULD AGAIN STRESS THE POLITICAL IMPORTANCE OF THE DECISION AHEAD OF US.

IF WE FAIL, THE SPECIFIC ARGUMENTS THAT ANY OF US CAN REASONABLY USE WILL HARDLY EXCUSE US IN THE EYES OF FUTURE GENERATIONS.

I TRUST THAT FOLLOWING THE COMING EUROPEAN COUNCIL SESSION IT WILL BE POSSIBLE FOR THE COMMISSION'S COMMUNICATION TO BE SO TACKLED AS TO IMPART FRESH MOMENTUM TO THE NEGOTIATIONS NOW PROCEEDING.

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12. WE

2. WE SHALL MUFAX TEXT OF THE PAPER TO THE DEPARTMENT FIRST THING ON 15 NOVEMBER. ORIGINAL FOLLOWS BY BAG.

FCO ADVANCE TO:-

FCO - EVANS BULLARD HANNAY GOODISON CROWE MS EVANS
CAB - HANCOCK MS LAMBERT
DOT - GRAY MISS LACKEY WELLS
MAFF - ANDREWES
TSY - LITTLER EDWARDS
- PS/NO. 10

BUTLER

LIMITED
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ECD (I)
NEWS D
PS
PS/MR HURD
PS/PUS
SIR J BULLARD
MR EVANS
MR HANNAY
MR GOODISON

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EHG(C)(82)7 Revise 1

COPY NO. 1

1 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

The following briefs on Political Cooperation are attached:

ANNEX A EAST/WEST RELATIONS: CSCE

ANNEX B EAST/WEST RELATIONS: POLAND

ANNEX C EAST/WEST RELATIONS: RELATIONS WITH THE SOVIET UNION

ANNEX D MIDDLE EAST

ANNEX E LATIN AMERICA

Foreign and Commonwealth Office

1 December 1982

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ANNEX A EAST-WEST RELATIONS: CSCE

OBJECTIVE

- 1 To consider progress made at Madrid.

POINTS TO MAKE

- 2 Agree West should maintain its present approach.

BACKGROUND

Reference

- A FCO tel 155 to Copenhagen

3 At their meeting in Copenhagen on 23 November, Foreign Ministers of the Ten expressed satisfaction that the position taken by the Ten to work for a substantive and balanced concluding document had received the support of Allies and friends. They instructed their delegations to maintain this position in close cooperation with other Western delegations and close contact with the Neutral and Non-Aligned.

4 The meeting in Madrid reconvened on 9 November. Most delegations have now spoken. All speakers have said that the CSCE process should be kept going and that the Conference should work for a substantive and balanced concluding document based on the Neutral and Non-Aligned draft. The West have tabled their package of amendments (except, for tactical reasons, that on a Conference on Disarmament in Europe) designed to make the concluding document acceptable to Western opinion. Individual delegations have supported

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the amendments with detailed criticisms of human rights violations by the Soviet Union (covering eg Helsinki Monitoring Group, religious communities, and those in penal and psychiatric institutions) and Poland (martial law).

5 The East have blamed the US for exploiting the Polish situation, disregarding international agreements and interfering. They have stressed the importance of the Conference on Disarmament in Europe and urged that the Conference should not get bogged down on other matters.

6 Interventions by both the US and the Soviet Delegations have been in low key.

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FM FCO 231824Z NOV 82

TO IMMEDIATE COPENHAGEN

TELEGRAM NUMBER 155 OF 23 NOVEMBER

INFO PRIORITY WASHINGTON, UKDEL MADRID, OTHER EC POSTS, OTHER
NATO POSTS, MOSCOW, BUDAPEST, BUCHAREST, PRAGUE, EAST BERLIN,
BELGRADE WARSAW, LISBON, MADRID, UKMIS NEW YORK, HELSINKI,
VIENNA, STOCKHOLM, BERNE, UKDEL STRASBOURG

INFO SAVING TOKYO, WELLINGTON, MEXICO CITY, CANBERRA

EUROPEAN POLITICAL COOPERATION

MEETING OF FOREIGN MINISTER: BRUSSELS, 23 NOVEMBER 1982

CSCE: MADRID REVIEW CONFERENCE

SUMMARY

1. AGREED TO MAINTAIN PRESENT WESTERN APPROACH AT MADRID.
SUBJECT WILL BE DISCUSSED FURTHER AT EUROPEAN COUNCIL IN
COPENHAGEN ON 3-4 DECEMBER.

DETAIL

2. ELLEMAN-JENSEN (PRESIDENCY) SUMMARISED THE CONCLUSIONS OF
THE POLITICAL COMMITTEE MEETING ON 15-16 NOVEMBER (YOUR TELNO
378). HE SUGGESTED THAT MINISTERS SHOULD ENDORSE ITS
CONCLUSIONS AND RECOMMEND THAT THE SUBJECT BE DISCUSSED FURTHER
AT THE EUROPEAN COUNCIL. THERE WAS NO OBJECTION.

3. VAN DEN BROEK (NETHERLANDS) EMPHASISED THE NEED FOR WESTERN
COHESION. THE TEN MUST REMAIN UNITED ON THE AMENDMENTS ALREADY
PROPOSED. THE NNA HAD NOT RESPONDED NEGATIVELY TO THESE,
ALTHOUGH SOME OF THEM HAD REMAINED MASSIVE. IF ADOPTED, SOME
OF THESE AMENDMENTS, EG THOSE ON MONITORING GROUPS AND TRADE
UNIONS, WOULD SUBSTANTIALLY ALTER THE CURRENT TEXT. THE USSR
HAD BEEN RESERVED, PERHAPS PARTLY BECAUSE OF THE CHANGE OF
LEADERSHIP, AND HAD CONCENTRATED ITS INTERVENTIONS ON THE CDE.
THE TEN SHOULD BE CAREFUL NOT TO ALLOW THE CDE PROPOSAL TO
DISTRACT ATTENTION FROM THE OTHER AMENDMENTS PROPOSED.

4. CHEYSSON (FRANCE) SAID THAT THE WEST WAS NOW IN A GOOD
NEGOTIATING POSITION AT MADRID. IT WAS NOT NECESSARY TO

PRECIPITATE DEVELOPMENTS. IN PARTICULAR WE SHOULD NOT DISCUSS ALTERNATIVE CONCLUSIONS AT THIS STAGE. THE US SHOULD NOT BE ALLOWED TO FORGET THAT THE TEN HOPED TO ACHIEVE AGREEMENT EARLY NEXT YEAR ON A SUBSTANTIVE AND POSITIVE TEXT. MADRID WAS NOT JUST A TRIBUNAL AND A PLATFORM, BUT ALSO A CONTINUATION OF THE HELSINKI PROCESS.

5. THERE WERE NO OTHER COMMENTS AND THE PRESIDENCY MADE NO ATTEMPT TO SUM UP.

PYM

CSCE GENERAL

STANDARD

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CPD	WED
ECD	VED
ES & SD	UND

ADDITIONAL DISTRIBUTION

CSCE GENERAL

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ANNEX B EAST/WEST RELATIONS: POLAND

OBJECTIVE

1. To focus attention on the probable lifting of martial law on 13 December and the need for a coordinated Western response.

POINTS TO MAKE

2. Polish Government have declared their intention to lift martial law on 13 December and release all detainees not held on specific charges. In name, at least, Poles will thereby have fulfilled large part of Western criteria.

3. Will be public and international expectation of an early reaction. Any change of policy however should depend upon assessment of relaxations announced on 13 December and on popular reaction in Poland. Will need time to consider these. If Polish measures lead to real improvements, West should be prepared to respond positively and flexibly.

4. European Council should publicly acknowledge prospect of lifting martial law and hold Polish authorities to fulfil most of their undertakings renewal and reform. Should instruct officials to review matters (possibly late in January) in the light of the effect of measures and their acceptance by Polish people; and to consider whether any adjustments of national and/or Community measures (Brief number 24)

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would be appropriate.

5. (If raised) Glad Commission shortly to put forward further tranche of humanitarian aid to Poland. Right this form of assistance to Polish people should continue within available resources.

BACKGROUND

References

- A. FCO telno 156 to Copenhagen
- B. Draft FCO tel to UKDEL NATO
- C. UKDEL NATO telno 444
- D. CPE MUE ~~ETP~~ 4362: East European Working Group Paper on Poland

6. The Polish Ambassador has officially informed us that martial law in Poland will be lifted on 13 December and all detainees released thereafter except those held for specific charges. The conditions for these moves (the agreement of the Sejm and continued calm) seem likely to be met given the Solidarity Underground's decision to call off protest actions next month and the moderate attitude of the Church. The implementation of these moves would mean the fulfilment at least in formal terms of two of the three Western requirements.

7. Details of the measures likely to replace martial law given to the Press by the Polish Government include the introduction of a number of unspecified emergency powers and the retention of restrictions on political meetings, travel and communications. The authorities have also indicated that an amnesty for

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political prisoners may be introduced at a later date. Following these announcements and the release of Walesa, Solidarity Underground have called off demonstrations planned for 13 December.

8. Initial reactions among partners to the intended Polish measures have been cautious; the consensus among the Ten being one of "wait and see" (Reference A). Likewise within NATO some partners have expressed reservations about anticipating the Western response (Reference C). It seems improbable however that the West will be able to maintain a holding position indefinitely. It would be desirable therefore for the European Council and NATO Foreign Ministers on 9-10 December to make some reference in their communique to the impending Polish moves while reserving the West's considered response until the effect of these had been carefully reviewed. (Suggested elements for a statement on Poland, reflecting discussion among the Ten) are attached at Reference B.)

9. Foreign Ministers of the Ten agreed on 17 October at Hesselet that humanitarian aid to Poland should continue. Commission will shortly put forward a further proposal for 9.5 MECU (£5.2 million) which will exhaust EC funds available.

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FROM FCO 231730Z NOV 82

TO IMMEDIATE COPENHAGEN

TELEGRAM NUMBER 156 OF 23 NOVEMBER

INFO PRIORITY TO OTHER EC AND NATO POSTS WASHINGTON MOSCOW WARSAW

UKDEL NATO UKMIS NEW YORK LISBON MADRID OSLO UKDEL MADRID

TOKYO BUDAPEST BUCHAREST PRAGUE EAST BERLIN BELGRADE.

INFO SAVING MEXICO CITY CANBERRA WELLINGTON HELSINKI UKDEL

STRASBOURG.

EUROPEAN POLITICAL COOPERATION

MEETING OF FOREIGN MINISTERS: BRUSSELS, 23 NOVEMBER 1982.

POLAND

1. ELLEMAN-JENSEN (DANISH PRESIDENCY) RECALLED THE CONCLUSIONS OF THE POLITICAL DIRECTORS MEETING ON 15/16 NOVEMBER (YOUR TELNO 377). HE POSED THE QUESTION HOW THE THREE WESTERN DEMANDS MIGHT NEED TO BE ADJUSTED IN THE LIGHT OF THE CHANGING SITUATION.

2. CHEYSSON (FRANCE) ADVISED CAUTION. WE SHOULD NOT ALLOW OURSELVES TO BE HOODWINKED. THE SYSTEM IMPOSED IN DECEMBER 1981 WAS SECURE ENOUGH TO PERMIT THE RELEASE OF WALESIA. IT MIGHT ALSO ALLOW THE REGIME TO LIFT MARTIAL LAW AND RELEASE MORE INTERNEES. AS TO THE THIRD WESTERN DEMAND, A DIALOGUE OF A KIND ALREADY EXISTED. IF EVENTS MOVED IN THIS DIRECTION, HOW SHOULD THE TEN REACT? SHOULD WE MAINTAIN OUR TOTAL BLOCKAGE OR DISCREETLY ADJUST IT? IF WE DID NOT DO THE LATTER NEXT MONTH, WHEN MIGHT WE DO SO? WHAT WAS CERTAIN WAS THAT WE MUST FIRST AWAIT DEVELOPMENTS. MEANWHILE, TOTAL DISCRETION SHOULD BE MAINTAINED IN PUBLIC COMMENT.

3. GENSCHER (FRG) AGREED ENTIRELY. MOVES HAD BEEN MADE IN POLAND WHICH COULD BE REGARDED POSITIVELY, BUT NO ONE COULD PREDICT THE FUTURE COURSE OF EVENTS. POLITICAL DIRECTORS SHOULD KEEP THE MATTER UNDER REVIEW WITH AN EYE TO THE EUROPEAN COUNCIL MEETING ON 3/4 DECEMBER. BUT IT SHOULD BE MADE KNOWN THAT MINISTERS HAD DISCUSSED POLAND TODAY, IN ORDER TO REMIND THE POLES THAT WE HAD THE MATTER UNDER OBSERVATION.

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4. GENSCHER QUOTED CZYREK AS HAVING TOLD HIM IN MOSCOW THAT
A. MARTIAL LAW WOULD BE LIFTED 'DE FACTO' BY MID-DECEMBER OR AT
LEAST BY THE END OF 1982 (GENSCHER TOOK THIS TO MEAN THAT A
SIMILAR SYSTEM MIGHT BE RETAINED UNDER A DIFFERENT NAME).
- B. TRADE UNIONS WOULD BE PERMITTED TO RESTART IN 1983 IN
INDIVIDUAL ENTERPRISES AND IN 1984 IN SECTORS OF THE ECONOMY:
SUBSEQUENTLY, THE QUESTION OF FORMING TRADE UNION FEDERATIONS
COULD BE DISCUSSED: BUT THERE COULD BE NO PLACE FOR
SOLIDARITY. (GENSCHER SAID THAT THIS LEFT HIM IN DOUBT AS TO
HOW FAR GENUINE TRADE UNION RIGHTS MIGHT BE RESTORED.)
- C. WALESA WAS REGARDED BY THE GOVERNMENT AS AN ORDINARY CITIZEN
(AND THEREFORE, GENSCHER COMMENTED, NOT AS A POSSIBLE
NEGOTIATING PARTNER IN ANY TALKS).
5. GENSCHER AGREED THAT IT WOULD BE POLITICALLY INEPT TO OFFER
EITHER A POSITIVE OR A NEGATIVE INTERPRETATION OF EVENTS AT THIS
STAGE. THE SITUATION SHOULD BE CAREFULLY WATCHED.
6. COLOMBO (ITALY) PHILOSOPHISED ABOUT RECENT EVENTS AND THEIR
CONTRADICTIONARY IMPLICATIONS. CZYREK HAD MADE IT CLEAR TO HIM IN
MOSCOW THAT MARTIAL LAW, IF LIFTED, WOULD BE REPLACED BY OTHER
REGULATIONS ESPECIALLY IN THE ECONOMIC FIELD. COLOMBO SAW
JARUZELSKI'S BRAND OF NORMALISATION AS PROCEEDING ON COURSE.
CURRENT SIGNS OF PROGRESS MIGHT TURN OUT TO BE FALLACIOUS. THE
SITUATION MIGHT BE TRANSFORMED, BUT NOT JUST YET.
7. MCKERNAN (IRELAND, DEPUTISING FOR HIS FOREIGN MINISTER)
AGREED ON THE NEED FOR THE TEN TO TAKE A NOCCOMMITTAL AND PRUDENT
PUBLIC ATTITUDE, BOTH BECAUSE OF THE AMBIGUOUS EVIDENCE AND
BECAUSE THERE WAS AN INTIMATE CONNECTION WITH THE MADRID
CONFERENCE.
8. VAN DEN BROEK (NETHERLANDS) ALSO AGREED. THE LIFTING OF
MARTIAL LAW MIGHT NOT MEAN ANY REAL INCREASE IN FREEDOM: THE
STATUS OF THE DIALOGUE WAS UNCLEAR: AND SO WAS WALESA'S PERSONAL
POSITION. POLITICAL DIRECTORS SHOULD EXAMINE THE SUBJECT,
INCLUDING THE QUESTION WHETHER A NEW APPROACH WAS NEEDED TO THE
RESCHEDULING OF POLISH OFFICIAL DEBT.
9. I TOO EXPRESSED STRONG AGREEMENT ON THE NEED FOR CAUTION.
WE MIGHT FIND THE GOVERNMENT IN WARSAW MEETING SOME OR ALL OF

OUR CRITERIA, IN PART OR IN WHOLE: BUT WOULD THIS SPELL A REAL IMPROVEMENT IN THE CONDITIONS OF LIFE FOR THE POLISH PEOPLE? THE FOREIGN AFFAIRS COUNCIL ON 13/14 DECEMBER WOULD PROVIDE AN OPPORTUNITY TO TAKE STOCK AGAIN. MEANWHILE POLITICAL DIRECTORS SHOULD WATCH THE SITUATION, LOOK AT THE OPTIONS AND BE READY TO RESPOND.

10. HARALAMBOPOULOS (GREECE) STRUCK A DIFFERENT NOTE, URGING THE NEED FOR TACT AND PATIENCE. EVENTS IN POLAND MIGHT LEAD TOWARDS NORMALISATION. WE SHOULD NOT TRY TO JUDGE THIS IN ADVANCE. GREECE WITH HER EXPERIENCE OF MILITARY DICTATORSHIP HAD BEEN AMONG THE FIRST TO CONDEMN THE MEASURES OF DECEMBER 1981. BUT SHE HAD ALSO SPOKEN AGAINST TREATING POLAND AS THE POINT OF REFERENCE FOR EAST/WEST RELATIONS AS A WHOLE. WE SHOULD NOT TRY TO INTERPRET EVENTS A PRIORI, BUT JUDGE THEM BY THEIR LIKELY PRACTICAL CONSEQUENCES.

11. THE PRESIDENCY DID NOT ATTEMPT TO SUM UP.

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CAVEATS	4	
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TEL NO	8	TELEGRAM NUMBER
	9	INFO PRIORITY WARSAW, NATO POSTS, MOSCOW, EC POSTS, UKMIS NEW
	10	YORK
	11	INFO SAVING BUDAPEST PRAGUE BUCHAREST SOFIA, BELGRADE, EAST
	12	BERLIN, VIENNA, STOCKHOLM, UKMIS GENEVA, UKDEL STRASBOURG
	13	MIPT : POLAND : PUBLIC STATEMENTS
	14	1. The following are the elements we would like to see
	15	reflected in any public statements by the European Council,
	16	or by NATO ministers.
	17	2. EC partners/NATO Ministers
	18	A Wish to stress their desire to maintain and develop
	19	links with the Polish people;
	20	B Recall the communique of 4 January 1982 <u>or</u> the NATO
	21	Declaration of 11 January
///	22	(Any reference to the three criteria to be inserted
//	23	in a retrospective context);
/	24	C Note that the release of Lech Walesa and the Polish
	25	Government's expressed intention to lift martial

NNNN ends telegram	BLANK	Catchword Law
File number	Dept EESD	Distribution Limited EESD ECD(E) TRED ERD Planning Staff Information Dept News Department Mr Goodison Mr Hannay Sir J Bullard PS/PUS PS/ Mr Rifkind PS
Drafted by (Block capitals) MACGREGOR		
Telephone number 233 5667		
Authorised for despatch		
Comcen reference	Time of despatch	

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1 <<<<

2 Law on 13 December are positive developments, but note
3 also that Solidarity has been dissolved contrary to the
4 Polish Government's expressed intention to pursue a
5 policy of reconciliation;

6 D Will continue to follow the situation closely,
7 particularly on how the Polish Government intends to
8 implement its promise of lifting martial law;

9 E Draw to the attention of the Polish authorities the fact
10 that in this regard their actions will be judged by
11 their effects;

12 F Reiterate the expectations of the International Community
13 that the Polish authorities will fulfil their promise
14 to return to path of renewal and reform;

15 G Hope that the situation will develop in such a way as
16 to make it possible for the Ten/NATO to resume and
17 develop the kind of relationship which they would wish
18 to have with Poland and the Polish people.

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20 PYM

21 NNNN

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NNNN ends
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Catchword

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FM UKDEL NATO 301505Z NOV 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 444 OF 30 NOVEMBER
INFO PRIORITY BONN PARIS WASHINGTON WARSAW MOSCOW
COPENHAGEN UKDEL MADRID ROUTINE UKMIS GENEVA

YOUR TELNO 304 (NOT TO ALL): NATO POLITICAL COMMITTEE : POLAND
SUMMARY

1. THERE WAS NO OPPOSITION, AND SOME POSITIVE WELCOME, FOR UK PROPOSAL FOR WORK TO BE DONE ON AN ASSESSMENT OF THE LIKELY CONTENT OF A POLISH ANNOUNCEMENT ON MARTIAL LAW ON 13 DECEMBER AND ON A POSSIBLE ALLIED RESPONSE. INTERNATIONAL STAFF WILL PREPARE A PAPER FOR POLITICAL COMMITTEE ON 7 DECEMBER WHICH WOULD THEN BE AVAILABLE, IF AGREED, FOR THE NAC MINISTERIAL ON 9/10 DECEMBER. ANY FURTHER BRITISH VIEWS COULD BE FED INTO THIS IN THE NEXT COUPLE OF DAYS. INDICATIONS WERE THAT MOST ALLIES WERE PREPARED TO ENVISAGE A CAUTIOUSLY POSITIVE RESPONSE TO THE EXPECTED POLISH ANNOUNCEMENT. BUT CAUTION WAS EXPRESSED ABOUT THE NAC MINISTERIAL COMMUNIQUE CONTAINING REACTION IN ADVANCE TO A PROBABLE POLISH ANNOUNCEMENT ON 13 DECEMBER.

DETAIL

2. ALSTON (UK) DREW ON YOUR TELNOS 645, 646, 647 AND 648 TO WARSAW (NOT TO ALL). HOFSTEE (NETHERLANDS) AND RINDAL (NORWAY) REPORTED SIMILAR DEMARCHES BY POLISH AMBASSADORS TO THAT MADE IN LONDON ON 26 NOVEMBER. HOFSTEE SAID THAT IN REACTING TO THE POLISH DEMARCHE, HIS GOVERNMENT WAS TAKING THE LINE THAT IT WELCOMED ANY SIGN OF PROGRESS IN POLAND BUT NEVERTHELESS WAS PESSIMISTIC BECAUSE IT BELIEVED THAT IN REALITY LITTLE WOULD CHANGE. HE ADDED THAT THE POLISH AMBASSADOR HAD ALSO SAID THAT POLAND WOULD NOT COOPERATE WITH AN ILO INQUIRY. MRS LINDSAY-POULSON (DENMARK) BRIEFED THE COMMITTEE ON THE CONCLUSIONS OF THE WORKING GROUP OF THE TEN. YEROCOSTOPOULOS (GREECE) SAID THAT THEY HAD HEARD THAT THE SEJM WOULD VOTE SPECIAL POWERS TO THE POLISH PRESIDENT.

3. CHAPIN (CANADA), IN SUPPORTING THE UK INITIATIVE, SAID THAT THERE WAS LIKELY TO BE A MOVE TOWARDS FULFILMENT OF THE THREE WESTERN CRITERIA ON 13 DECEMBER. THE CRITERION OF DIALOGUE WITH SOLIDARITY WAS NOW UNLIKELY EVER TO BE MET. THE INTERNAL SITUATION IN POLAND WAS NEVERTHELESS BETTER IN SOME RESPECTS THAN ELSEWHERE IN EASTERN EUROPE. PUBLIC REACTION IN POLAND TO THE LIKELY RELAXATIONS WAS UNPREDICTABLE BUT IT WOULD NOT BE WHOLLY NEGATIVE.

4. CHAPIN ARGUED THAT THE NAC MINISTERIAL COMMUNIQUE WOULD HAVE TO BE CONSISTENT WITH WHAT WE EXPECTED ON 13 DECEMBER EVEN IF IT DID NOT CONTAIN A REACTION IN ADVANCE. A BALANCED PUBLIC STATEMENT IN RESPONSE TO THE POLISH ANNOUNCEMENT WAS CALLED FOR. THIS MIGHT RESERVE JUDGEMENT ON THE SUBSTANCE OF THE POLISH MOVES. IT SHOULD BE FOLLOWED BY A REVIEW OF ALLIED POLICY WITH A VIEW TO SENDING A MORE SUBSTANTIVE SIGNAL TO THE POLES. THERE WAS ALSO A PROBLEM

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OF TIMING AT THE CSCE MEETING IN MADRID WHERE PLENARY SESSIONS WERE SCHEDULED FOR 14 AND 17 DECEMBER. ON 17 DECEMBER THE ALLIES WOULD PROBABLY HAVE TO SAY SOMETHING OF SUBSTANCE IN RESPONSE TO THE POLISH ANNOUNCEMENT.

5. RINDAL (NORWAY) AGREED THAT THE WEST WOULD HAVE TO RESPOND TO A POLISH MOVE: WESTERN PUBLIC OPINION WOULD EXPECT IT. IT COULD BE ARGUED THAT THE NEW TRADE UNION LAW WAS LIBERAL ENOUGH TO CONSTITUTE PARTIAL FULFILMENT OF THE CRITERION ABOUT DIALOGUE WITH SOLIDARITY. A PUBLIC STATEMENT AFTER 13 DECEMBER WOULD BE A BETTER WAY OF PROCEEDING THAN ATTEMPTING A RESPONSE IN THE MINISTERIAL COMMUNIQUE. A REVIEW OF POLICY MIGHT FOCUS FIRST ON WESTERN ECONOMIC MEASURES.

6. ROSSBACH (GERMANY) SAID THAT THE ALLIES SHOULD AVOID PLACING THEMSELVES UNDER TIME PRESSURE TO RESPOND TO A POLISH MOVE. THE LATTER SHOULD BE FULLY ASSESSED. A PRELIMINARY GERMAN LIST OF POSSIBLE SUBSTANTIVE WESTERN RESPONSES HAD DEBT RESCHEDULING AND WESTERN POSITIONS AT THE MADRID MEETING AT THE TOP AND RESUMPTION OF HIGH LEVEL POLITICAL CONTACTS AT THE BOTTOM.

7. DUQUE (FRANCE) SUGGESTED THAT THERE WAS A REAL PROBLEM OF TIMING WITH MINISTERS MEETING BEFORE THE POLISH ANNOUNCEMENT HAD BEEN MADE. HE REMINDED THE COMMITTEE THAT THE FRENCH POSITION WAS BASED ON THREE ELEMENTS: CONCERN ABOUT CONTINUE SOVIET PRESSURE ON POLAND, AND LACK OF FULFILMENT OF THE WESTERN CRITERIA, AND THE RESPONSIBILITY OF THE POLISH GOVERNMENT TO OPEN THE WAY FOR BETTER RELATIONS WITH THE WEST THROUGH POSITIVE ACTIONS.

8. WORREL (US) SAID THAT POLAND WOULD BE DISCUSSED BY MINISTERS NEXT WEEK. THE US WOULD WELCOME ANY MOVES BY THE POLES TOWARDS THE WESTERN CRITERIA AND, IF THESE MOVES WERE GENUINE, WOULD BE PREPARED TO CONSIDER POSSIBLE WESTERN RESPONSES. BUT THERE WAS A NEED FOR CAUTION. THE ANNOUNCEMENT ON 13 DECEMBER MIGHT APPEAR TO BE A STEP TOWARDS FULFILMENT OF THE WESTERN CRITERIA BUT FINAL JUDGEMENT SHOULD BE POSTPONED UNTIL THERE WAS PROOF. UNTIL THEN THE 11 JANUARY ALLIED DECLARATION SHOULD REMAIN THE BENCH-MARK.

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TO ALL COREU - PRIORITE
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CPE/MUL ETR 4362 PART 1 OF 3
30.11.82 1305
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SUBJECT: MEETING OF THE EAST EUROPEAN
WORKING GROUP, NOVEMBER 26, 1982.
AGENDA ITEM 1: THE SITUATION IN POLAND.

THE PRESIDENCY FORWARDS THE WORKING PAPER ON THE SITUATION IN POLAND, REVISED IN THE LIGHT OF COMMENTS FROM PARTNERS AT THE ABOVE MEETING. THE PAPER ALSO CONTAINS AN AMENDED LIST OF RECOMMENDATIONS FOR THE ATTITUDE OF THE TEN TO THE SITUATION IN POLAND IN THE SHORT TERM AND MIGHT BE USED AS BACKGROUND MATERIAL FOR THE MEETING OF THE EUROPEAN COUNCIL, DECEMBER 3-4, 1982.

1. LATEST EVENTS IN POLAND

1. THE PRESENT SITUATION IN POLAND REMAINS TENSE ALTHOUGH ON THE SURFACE RELATIVE CALM SEEMS TO PREVAIL. NO REAL SOLUTION TO THE SOCIAL AND ECONOMIC PROBLEMS APPEARS TO BE AT HAND. THE ECONOMIC CRISIS SHOWS LITTLE SIGNS OF AN IMPROVEMENT. THUS, POLAND IS ENTERING A WINTER OF DISCONTENT WHERE THE FRUSTRATING SUPPLY SITUATION AND THE SMOULDERING DISTRUST IN THE AUTHORITIES MIGHT LEAD TO RENEWED, SPONTANEOUS MANIFESTATIONS.

2. ON NOVEMBER 10, THE BROAD POPULATION APPARENTLY DID NOT FEEL INCLINED TO ENGAGE IN ANY MAJOR STRIKES AGAINST THE REGIME. AT ANY RATE UNDERGROUND SOLIDARITY WAS NOT CAPABLE OF STAGING EXTENSIVE PROTEST ACTIONS. THE REASONS FOR THIS SEEM NOT ONLY TO BE THE COMPREHENSIVE SECURITY MEASURES TAKEN BY THE AUTHORITIES AND MAYBE THE APPEAL FROM THE CHURCH, BUT POSSIBLY ALSO THE HOPE IN THE POPULATION THAT MARTIAL LAW MIGHT BE LIFTED IF THE SITUATION SO PERMITS. MOREOVER, THE EVENTS ON NOVEMBER 10 MIGHT SIGNAL THAT THE POPULATION IS RUN DOWN AND THAT THE PERSONAL RISKS OF PARTICIPATING IN PROTEST ACTIONS HAVE BECOME TOO HIGH.

3. UNDERGROUND SOLIDARITY IS FACING SERIOUS DIFFICULTIES. RECENTLY IT LOST SEVERAL OF ITS LEADERS WHO WERE ARRESTED. THE SCARCE POPULAR SUPPORT FOR THE STRIKES ON NOVEMBER 10 AND THE ALMOST COMPLETE ABSENCE OF MANIFESTATIONS ON NOVEMBER 13 ARE SIGNS THAT THE STRATEGY OF THE UNDERGROUND MOVEMENT

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HAS BEEN BASED ON A MISJUDGEMENT. UNDERGROUND SOLIDARITY IS NOW FORCED TO REVISE ITS TACTICS IN THE LIGHT OF RECENT EVENTS. THE RELEASE OF LECH WALESA MIGHT ADD TO THE DIVISIONS WITHIN THE MOVEMENT.

4. THE POLISH COMMUNIST PARTY (PUWP) REMAINS WEAKENED AND IS NOT EXPECTED TO BE ABLE TO RESUME ITS LEADING ROLE IN THE POLISH SOCIETY IN THE FORESEEABLE FUTURE. THE EXPECTED EFFORTS AT REBUILDING THE PARTY HAVE SO FAR NOT SURFACED. AT THE SAME TIME THE PARTY IS WITNESSING A CONTINUED MILITARIZATION OF THE POLISH SOCIETY - YET ANOTHER SIGN THAT THE PARTY HAS NO DECISIVE PART TO PLAY IN THE PRESENT SITUATION.

5. UP TILL NOW ABOUT 1400 TRADE UNIONS HAVE BEEN ESTABLISHED IN ENTERPRISES THROUGHOUT POLAND IN ACCORDANCE WITH THE RECENTLY PASSED LAW ON A NEW TRADE UNION STRUCTURE. THIS MEANS THAT A VERY SMALL PERCENTAGE OF THE ENTERPRISES IN POLAND HAVE CHOSEN TO JOIN THE NEW TRADE UNIONS. THE GENERAL ATTITUDE AMONG WORKERS APPEARS TO VARY FROM WAIT-AND-SEE TO SCEPTICISM, SUSPICION AND REJECTION. THUS, GOVERNMENT EXPECTATIONS THAT THE NEW TRADE UNION STRUCTURE WOULD GAIN SUBSTANSIVE POPULAR SUPPORT DO NOT SEEM TO HAVE BEEN MET, SO FAR.

6. THE PRON-MOVEMENT, ALLEGEDLY A PARTY-DOMINATED ORGAN, HAS CALLED ON THE SEJM TO LIFT MARTIAL LAW SHORTLY. IN ITS STATEMENT PRON ADVOCATES THE RELEASE OF ALL INTERNEES, PREPARATIONS FOR AMNESTY, AS WELL AS THE RESUMPTION OF OPERATIONS OF THE SUSPENDED ORGANIZATIONS. IN VIEW OF THE HEAVY PARTY DOMINANCE THE STATEMENT MIGHT BE SEEN AS YET ANOTHER INDICATION OF THE GOVERNMENT'S INTENTIONS.

CPE/MUL ETR 4362 PART 2 OF 3

7. THERE IS, SO FAR, NOT SUFFICIENT EVIDENCE TO EVALUATE THE MORE EXACT IMPLICATIONS OF THE RELEASE ON NOVEMBER 13 OF LECH WALESA. HOWEVER, THE DECISION TO RELEASE MR. WALESA AT THIS STAGE DOES INDICATE THAT THE REGIME NOW FEELS CONFIDENT TO BE IN SUFFICIENT CONTROL OF THE INTERNAL SITUATION IN POLAND. IT CAN THEREFORE VENTURE SUCH A GESTURE. MOREOVER, THE AGREEMENT BETWEEN THE CHURCH AND THE AUTHORITIES ON THE DATE FOR THE VISIT OF THE POPE IN 1983 HAS APPARENTLY ALLEVIATED SOME OF THE TENSIONS BETWEEN THESE TWO PARTIES.

8. THE MAIN REASON FOR THE DECISION TO RELEASE MR. WALESA JUST NOW SEEMS RELATIVELY CLEAR. IN THEIR CONSIDERATIONS THE AUTHORITIES HAVE APPARENTLY FELT CONFIDENT THAT IN THE PRESENT SITUATION THE RISKS OF ENCOURAGING OPPOSITIONAL GROUPS TO NEW PROTEST ACTIONS BY RELEASING MR. WALESA WERE OUTWEIGHED BY THE POSSIBILITY OF USING HIS RELEASE AS A TOOL TO HAMPER THE OUTBURST OF RENEWED DEMONSTRATIONS. THE AUTHORITIES HAVE NO DOUBT A KEEN INTEREST IN AVOIDING MAJOR DEMONSTRATIONS IN DECEMBER.

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9. SPECULATIONS ON THE FUTURE ROLE OF MR. WALESIA AT THIS STAGE SEEM SHROUDED IN CONJECTURES. HOWEVER, THE REGIME SEEMS LIKELY TO PREFER TO SEE MR. WALESIA DISAPPEAR INTO OBLIVION AS A PRIVATE PERSON. ACCORDING TO AVAILABLE REPORTS THE AUTHORITIES, IN FACT, APPEAR DETERMINED TO DENY THE EXISTENCE OF ANY PLATFORM OR MANDATE TO WHICH MR. WALESIA MIGHT WISH TO REFER.

10. THE DWINDLING MANIFESTATIONS, THE GRADUAL DISINTEGRATION OF UNDERGROUND SOLIDARITY AS WELL AS THE RELEASE OF MR. WALESIA SEEM TO HAVE STRENGTHENED THE POSITION OF GENERAL JARUZELSKI. THUS, RECENT RUMOURS THAT GENERAL JARUZELSKI MIGHT FACE THE RISK OF BEING OUSTED REPORTEDLY HAVE SUBSIDED.

11. ON NOVEMBER 13, THE MILITARY COUNCIL (WRON) HAD A MEETING CHAIRED BY GENERAL JARUZELSKI. AS A RESULT, AND MAYBE IN AN ATTEMPT TO AVOID NEW DEMONSTRATIONS, THE POLISH PARLIAMENT, SEJM, HAS BEEN SUMMONED FOR A MEETING ON DECEMBER 13. IT IS PROBABLE THAT THE POLISH LEADERS WILL TAKE THIS OPPORTUNITY TO SUSPEND OR LIFT MARTIAL LAW BEFORE CHRISTMAS. HOWEVER, IT IS ASSESSED THAT THE RESTRICTIONS WILL PROBABLY BE CONTINUED IN ORDER THAT THE AUTHORITIES CAN MAINTAIN THEIR FIRM GRIP ON THE INTERNAL SITUATION. MOST LIKELY MARTIAL LAW WILL BE REPLACED BY SPECIAL POWERS VESTED IN THE GOVERNMENT OR BY SIMILAR PROVISIONAL REGULATIONS UNTIL NORMALIZATION HAS BEEN FULLY ACHIEVED. THE REGIME HAS ALREADY TAKEN SOME STEPS TO ENSURE ITS CONTROL AFTER MARTIAL LAW IS ENDED. RECENT LEGISLATION PROVIDES THE LEGAL MEANS TO THWART PROTESTS. THE NEW TRADE UNION LAW, FOR EXAMPLE, SEVERELY RESTRICTS STRIKES AND PROTESTS. OTHER LAWS ON FORCED LABOUR, JUVENILE DELINQUENCY AND ALCOHOL ABUSE ALLOW THE AUTHORITIES CONSIDERABLE LATITUDE IN PUNISHING DISSENTERS. FURTHERMORE, IT IS ASSUMED THAT, FOR SECURITY REASONS, THE MILITARY WILL REMAIN HEAVILY INVOLVED IN ADMINISTERING THE COUNTRY.

12. IT IS ALSO BELIEVED THAT FURTHER CONCESSIONS WILL HAVE TO BE MADE IF THE REGIME WANTS TO CREATE A CREDIBLE BASIS FOR A RESUMPTION OF THE DIALOGUE WITH THE POPULATION. SUCH CONCESSIONS MUST AS A MINIMUM ENCOMPASS THE RELEASE OF ALL INTERNEES AND AMNESTY FOR THOSE IN PRISON. THE POSSIBILITY OF A "CHRISTMAS-PARCEL" INCLUDING RELEASE AND AMNESTY, MAYBE PARTIAL, CANNOT BE ENTIRELY EXCLUDED IN THE LIGHT OF RECENT OFFICIAL STATEMENTS TO THIS EFFECT.

13. SOVIET COMMENTARIES ON DEVELOPMENTS IN POLAND HAVE LATELY BEEN RELATIVELY SCARCE. THIS MAY INDICATE SOVIET ACQUIESCENCE BY GENERAL JARUZELSKI'S PRESENT POLITICAL COURSE. THE RESTORATION OF GOVERNMENT CONTROL OVER THE SITUATION IS PROBABLY TAKEN BY THE SOVIET UNION AS A SIGNAL THAT GENERAL JARUZELSKI'S POLICY IS WORKING. THIS MAY HAVE INCREASED JARUZELSKI'S ROOM FOR MANOEUVRE.

CPE/MUL ETR 4362 PART 3 OF 3

14. THE RELEASE OF LECH WALESZA MAY CONSTITUTE A POSITIVE DEVELOPMENT. AT THE SAME TIME IT SHOULD BE NOTED, HOWEVER, THAT A LARGE NUMBER OF PERSONS REMAIN INTERNED, THAT MARTIAL LAW CONTINUES AND THAT THE FREE TRADE UNION SOLIDARITY HAS RECENTLY BEEN DISSOLVED.

15. FURTHERMORE, THE POSSIBILITY CANNOT BE IGNORED THAT THE RELEASE OF MR. WALESZA IS PART OF AN OFFICIAL, COMPREHENSIVE PLAN THE AIM OF WHICH IS TO CREATE A SITUATION IN POLAND THAT COULD BE PRESENTED AS A FORMAL FULFILMENT OF THE THREE DEMANDS: LIFTING OR SUSPENDING MARTIAL LAW IN DECEMBER, RELEASE AND AMNESTY FOR THOSE DETAINED, ESTABLISHMENT OF CONTACTS, WHICH ALLEGEDLY CONSTITUTE A SOCIAL DIALOGUE.

16. THESE FACTORS INDICATE THE FOLLOWING ATTITUDE OF THE TEN IN SHORT TERM:

- A. THE THREE DEMANDS SHOULD BE MAINTAINED. THE REFERENCE TO SOLIDARITY SHOULD NOT, AT THIS STAGE, BE LEFT OUT.
- B. THE TEN SHOULD EXPRESS THEIR WISH TO SEE FURTHER SUBSTANTIAL STEPS TOWARDS AN ACCEPTABLE SITUATION IN POLAND. THEY SHOULD BE READY TO SHOW FLEXIBILITY IN CASE SUCH STEPS WERE TO OCCUR.
- C. THE TEN SHOULD STRESS THEIR COMPASSION FOR THE POLISH PEOPLE, AND REITERATE THEIR WISH TO RETURN TO NORMAL RELATIONS WITH POLAND. IN EVALUATING THE POLITICAL IMPLICATIONS OF THE LIFTING OF MARTIAL LAW THE TEN SHOULD PAY ATTENTION TO THE FOLLOWING QUESTIONS (''YARD-STICKS''):
 - 1) WILL A NUMBER OF ''TEMPORARY EMERGENCY POWERS'' OR OTHER MEASURES REPLACE MARTIAL LAW REGULATIONS?
 - 2) WILL ALL INTERNEES BE RELEASED?
 - 3) WILL AMNESTY FOR SOME POLITICAL PRISONERS BE IMPLEMENTED AND WHEN?
 - 4) WILL ENTERPRISES BE DEMILITARIZED (INCLUDING THE MINING AND TRANSPORTATION SECTORS)?
 - 5) WILL PRESS CENSORSHIP CONTINUE AND FOR HOW LONG?
 - 6) WILL CHECKS ON PRIVATE TELEPHONES CEASE?

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7) WILL SOME RESTRICTIONS ON STREET GATHERINGS AND FOREIGN
TRAVEL BE MAINTAINED?

END OF PART 3

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ECD (E)
SIR J BULLARD
MR GOODISON
MR HANNAY

THIS TELEGRAM
WAS NOT
ADVANCED

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ANNEX C EAST-WEST RELATIONS: RELATIONS WITH THE SOVIET UNION

OBJECTIVE

1. While standing firm on principles, the Ten should signal that a more constructive relationship is available, if Soviet Union is willing to adopt a new approach.

POINTS TO MAKE

2. Andropov has hinted at a less confrontational relationship with West, but has not shown hand on specific issues.

3. West has no reason to change our policies. But we should not let opportunity slip if new Soviet leadership is prepared to move towards some accommodation on strategic balance and other major issues.

BACKGROUND

References

A FCO tel 157 to Copenhagen (Meeting of Foreign Ministers: Brussels 23 November)

B CPE MUL ETR 4368: East European Working Group Paper on the Implications of the Leadership Change in the Soviet Union

Internal

4. Smooth transition after Brezhnev's death, but decision not to elect new President at Supreme Soviet meeting on 23-24 November probably due to inability to agree candidate: conveys inevitable impression of political uncertainty.

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5. No sudden changes expected. Stress on continuity and collectivity. Andropov appears assured and forthright. Familiar with internal issues. Dealt with economic issues bluntly and candidly in speech to Central Committee on 22 November.

6. Basic economic problems remain. Declining growth, less productivity, high military expenditure and fourth successive bad harvest will probably necessitate imports of about 40 million tons of grain in 1982/3.

Foreign Policy

7. Foreign Policy section of Andropov's Central Committee on 22 November speech was well constructed and moderately phrased tour d'horizon. Emphasised continuity of Soviet policy and commitment to detente (on Soviet terms).

Indicated readiness to improve East-West relationship, but put blame on West for present deterioration and could be no question of making improved relations with West conditional on preliminary concessions by Soviet Union. Maintained that Soviet Union not prepared to make unilateral concessions or alter behaviour in attempt to buy improved relations. No sign so far of any change of approach on specific issues: arms build-up, Afghanistan, etc.

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TO IMMEDIATE COPENHAGEN

TELEGRAM NUMBER 157 OF 23 NOVEMBER

INFO ROUTINE OTHER EC POSTS, WASHINGTON, MOSCOW, WARSAW,
UKDEL NATO, UKMIS NEW YORK, LISBON, MADRID, OSLO, UKDEL MADRID,
TOKYO, OTHER NATO POSTS, BUDAPEST, BUCHAREST, PRAGUE, EAST
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INFO SAVING CANBERRA, WELLINGTON, HELSINKI, MEXICO CITY,
UKDEL STRASBOURG

EUROPEAN POLITICAL COOPERATION

MEETING OF FOREIGN MINISTERS: BRUSSELS, 23 NOVEMBER 1982.

RELATIONS WITH THE SOVIET UNION

1. ELLEMAN-JENSEN (PRESIDENCY) SAID THAT THE CHANGE OF LEADERSHIP IN MOSCOW MADE IT NECESSARY TO CONSIDER WHAT SHOULD BE THE ATTITUDE OF THE TEN TOWARDS THE SOVIET UNION. THERE WAS A DEARTH OF EVIDENCE AT PRESENT, AND A STRONG CONTINUITY: 'BREZHNEVISM WITHOUT BREZHNEV'. POLITICAL DIRECTORS HAD STARTED WORK ON AN ANALYSIS, AND THE FIRST DRAFT COULD BE READY IN TIME FOR THE EUROPEAN COUNCIL ON 3/4 DECEMBER.
2. GENSCHER (FRG) SAID THAT THE CHANGE OF LEADERSHIP HAD CLEARLY BEEN WELL-PREPARED. ON 5 NOVEMBER BREZHNEV HAD DESPATCHED A LETTER TO CHANCELLOR KOHL WARNING THE FRG AGAINST ACCEPTING NEW MISSILES AND AGAINST DEADLINES, ESPECIALLY AUGUST 1983. THIS HAD ALSO BEEN THE LINE TAKEN BY ANDROPOV WITH CARSTENS AND HIMSELF IN MOSCOW. ANDROPOV'S MANNER AT THIS MEETING HAD SUGGESTED THAT HE WANTED IT CLEARLY UNDERSTOOD THAT HE WOULD TAKE THE LEAD IN ALL MATTERS, INCLUDING FOREIGN POLICY. GROMYKO HAD AGREED TO VISIT THE FRG IN THE THIRD WEEK OF JANUARY.
3. GENSCHER ADVISED AGAINST SPECULATION AS TO POSSIBLE CHANGES IN SOVIET POLICY. IT WOULD BE BETTER TO WORK OUT OUR OWN IDEAS AND BE CLEAR ABOUT OUR OBJECTIVES. IT WAS SATISFACTORY THAT WE DID HAVE A COMMON APPROACH IN MADRID AND ON INF AND START.

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THE PRESENT PERIOD WAS ONE OF TRANSITION IN MOSCOW. WESTERN POLICY SHOULD COMBINE FIRMNESS WITH 'AN OUTSTRETCHED HAND' (GENSCHER REPEATED THIS PHRASE TWICE). PRESIDENT REAGAN'S SPEECH OF 22 NOVEMBER HAD RIGHTLY INDICATED WILLINGNESS FOR DIALOGUE. THE RIGHT POSTURE WAS ONE OF CALMNESS, FIRMNESS AND DECLARED INTEREST IN DEVELOPING RELATIONS.

4. GENSCHER DREW ATTENTION TO RECENT SIGNALS BETWEEN MOSCOW AND PEKING. HE DETECTED NO SUBSTANTIAL CONVERGENCE OF POSITIONS SO FAR, BUT THERE WAS A SUBSTANTIAL DISMANTLING OF THE 'ENEMY' IMAGE. MOSCOW AND PEKING WERE NOW READY TO SEE EACH OTHER AS A PARTNER IN TALKS. THIS CREATED THE OPPORTUNITY FOR FURTHER PROGRESS, ALTHOUGH THIS PROBABLY WOULD NOT OCCUR JUST YET.

5. I AGREED WITH GENSCHER'S ANALYSIS AND RECOMMENDATIONS. GROMYKO HAD TAKEN A VERY HARD LINE WITH ME IN MOSCOW, ESPECIALLY ON ARMS CONTROL, BUT THIS WAS TO BE EXPECTED. I HAD NO IMPRESSION THAT ANYTHING IN MOSCOW WAS CHANGING YET. WE SHOULD NOT RECONSIDER OUR PRESENT ATTITUDE, BUT WE SHOULD PUT OURSELVES IN A POSITION TO DO SO IF EVENTS MADE IT DESIRABLE. THE NATO FOREIGN MINISTERS MEETING AND ITS COMMUNIQUE WOULD BE OF GREAT IMPORTANCE. WE MUST MAINTAIN OUR STRENGTH BUT SIMULTANEOUSLY SHOW READINESS FOR DIALOGUE. ANDROPOV'S SPEECH OF 22 NOVEMBER WAS THE SPEECH OF A THOUGHTFUL MAN. OUR OWN PUBLIC OPINION WOULD EXPECT US TO EXPLORE THE POSSIBILITIES, AND WE MUST DO SO. BUT THEY SHOULD ALSO BE PREPARED FOR THE POSSIBILITY OF THE SITUATION GETTING WORSE RATHER THAN BETTER: FALSE HOPES MUST NOT BE RAISED.

6. I AGREED THAT THE SOVIET-CHINESE TALKS WERE IMPORTANT. I DID NOT EXPECT EARLY CHANGES, BUT IT MUST BE AN OBJECTIVE FOR THE SOVIET UNION TO THAW THE RELATIONSHIP.

7. COLOMBO (ITALY) CONCURRED.

8. THERE WERE NO OTHER COMMENTS AND NO PRESIDENCY SUMMING UP.

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CPE/MUL ETR 4368 PART 1 OF 2
30.11.82 17.18 HRS.

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SUBJECT: MEETING OF THE EAST EUROPEAN
WORKING GROUP, NOVEMBER 26, 1982
AGENDA ITEM II: IMPLICATIONS OF THE LEADERSHIP CHANGE
IN THE SOVIET UNION.

THE PRESIDENCY FORWARDS THE WORKING PAPER ON THE
IMPLICATIONS OF THE LEADERSHIP CHANGE IN THE SOVIET
UNION, REVISED IN THE LIGHT OF COMMENTS FROM PARTNERS
AT THE ABOVE MEETING. THE PAPER MIGHT BE USED AS BACK-
GROUND MATERIAL FOR THE MEETING OF THE EUROPEAN COUNCIL,
DECEMBER 3-4, 1982.

I. I N T R O D U C T I O N

1. THE CHANGE OF LEADERSHIP IN THE SOVIET UNION FOLLOWING
THE DEATH ON NOVEMBER 10, 1982, OF PRESIDENT LEONID ILICH

BREZHNEV MUST BE OBSERVED WITH ATTENTION.

AN EXACT ASSESSMENT OF THE SITUATION IN THE RULING BODIES
OF THE SOVIET UNION IS, SO FAR, VERY DIFFICULT. THE POSSIBLE
IMPLICATIONS FOR INTERNAL AND EXTERNAL SOVIET POLICY ARE
NOT CLEAR. THE NEW LEADERSHIP STRESSES THE CONTINUITY
AND ON A SHORT TERM BASIS NO MAJOR CHANGES ARE TO BE
EXPECTED.

II. T H E N E W L E A D E R S H I P

2. THE ELECTION OF YURY ANDROPOV WAS MADE SPEEDILY,
INDICATING THAT THE LEADERSHIP ATTACHED IMPORTANCE TO
MR. BREZHNEV'S SUCCESSOR BEING IN PLACE BEFORE GUESTS
ARRIVED BEFORE THE FUNERAL, AND THAT THERE WAS NO SERIOUS
OPPOSITION TO THE CHOICE OF ANDROPOV. KONSTANTIN CHERNENKO,
AS THE NEXT SENIOR PARTY SECRETARY, WAS THE NATURAL CHOICE
TO NOMINATE ANDROPOV. HIS SPEECH GAVE FULSOME PRAISE TO
THE LATTER, BUT WARNED IMPLICITLY THAT HE WOULD BE EXPECTED
TO OBSERVE COLLECTIVITY AS BREZHNEV HAD DONE AND MIGHT
BE READ AS A KIND OF CORONATION CHARTER TO ANDROPOV. THE
FAILURE TO ELECT A NEW CHAIRMAN OF THE PRESIDUM AT THE
SUPREME SOVIET SESSION DETRACTS FROM THE IMPRESSION OF A
SMOOTH TRANSITION THAT THE LEADERSHIP HAD GIVEN UP TO
THEN AND MAY SHOW SIGNS OF LIMITS TO ANDROPOV'S ROOM FOR
MANOEUVRE.

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3. AT THE CPSU CENTRAL COMMITTEE PLENUM ON NOVEMBER 22, 1982, A LIMITED NUMBER OF CHANGES TOOK PLACE. CANDIDATE MEMBER G.A. ALIEV WAS MADE FULL MEMBER OF THE POLITBURO AND KIRILENKO - POLITBURO MEMBER AND PARTY SECRETARY - WAS RELEASED FROM BOTH POSTS. AS NEW PARTY SECRETARY WAS ELECTED CENTRAL COMMITTEE MEMBER RYZHKOV AND IT IS ASSUMED THAT HE WILL BE IN CHARGE OF THE DEPARTMENT FOR DEFENCE INDUSTRY.

IT IS DIFFICULT TO APPRAISE WHETHER THESE CHANGES IN FACT MEAN A MORE FIRM POLITICAL BASE FOR ANDROPOV. THE APPOINTMENT AT THE SUPREME SOVIET MEETING OF ALIEV AS FIRST DEPUTY CHAIRMAN OF THE COUNCIL MINISTERS MAY INDICATE AN INCREASED STRUGGLE AGAINST CORRUPTION.

4. THE AGE (AND HEALTH) OF ANDROPOV AND OTHER MEMBERS OF THE LEADERSHIP LIMITS THE SPAN OF YEARS FOR THEIR RULE. THE TAKE OVER BY ANDROPOV CAN BE DESCRIBED AS A TRANSITION PHASE GRADUALLY GIVING ROOM FOR REPRESENTATIVES FROM A YOUNGER GENERATION.

5. RELATIVELY FEW FACTS ARE AVAILABLE ABOUT ANDROPOV'S MAIN VIEWS AND MANAGEMENT STYLE. HIS EXPERIENCE IN THE CC APPARATUS, AS AMBASSADOR TO HUNGARY DURING THE 1956 UPRISING, AND AS CHAIRMAN OF THE KGB FOR THE LAST 15 YEARS, HAVE INVOLVED HIM CLOSELY IN ALL MAJOR CRISES ON THE SOVIET BORDERS OF THE LAST 25 YEARS. HIS RECORD SHOWS HIM TO BE NO LIBERAL IN THE WESTERN SENSE, BUT THERE SEEMS TO BE AGREEMENT THAT ANDROPOV IS A SKILLED OPERATOR AND THAT HE TAKES AN INTELLIGENT INTEREST IN EXPERIENCE OUTSIDE THE SOVIET UNION - E.G. IN THE PROGRESS OF THE HUNGARIAN REFORMS.

III. P O L I C Y I M P L I C A T I O N S

6. OFFICIAL STATEMENTS AFTER THE DEATH OF BREZHNEV STRESS THE CONTINUITY OF THE GUIDELINES LAID DOWN IN THE BREZHNEV ERA. REFERENCE IS MADE TO THE LATEST PARTY CONGRESSES. A COMPARISON BETWEEN THE SPEECHES MADE AFTER NOVEMBER 10 AND THE LATEST GREATER SPEECHES BY BREZHNEV AND OTHER MEMBERS OF THE LEADERSHIP SHOW SOME NUANCES. HOWEVER, THESE SLIGHT DIFFERENCES MIGHT BETTER BE EXPLAINED BY THE OCCASION OF THE SPEECHES THAN BY INDICATIONS OF A CHANGE IN POLICY. ON A SHORT TERM BASIS
CPE/MUL ETR 4368 PART 2 OF 2

CONTINUITY IS EXPECTED TO PREVAIL IMPLYING "A BREZHNEVISM WITHOUT BREZHNEV". HOWEVER, A MORE OPERATIONAL ATTITUDE MAY FLOW FROM THE QUALITIES ASCRIBED TO ANDROPOV.

7. THE NEW LEADERSHIP IS FACED WITH MAJOR AND INCREASING ECONOMIC PROBLEMS IN THE SOVIET UNION. IN HIS SPEECH TO THE CC PLENUM ON NOVEMBER 22 ANDROPOV SHOWED SIGNS OF A FLEXIBLE APPROACH TO ECONOMIC MANAGEMENT, BUT HE GAVE NO INDICATION THAT MAJOR REFORM OF THE ECONOMIC SYSTEM IS CONTEMPLATED. CRITICISING MAJOR DEFICIENCIES IN PLAN FULFILMENT OVER THE LAST 2 YEARS, HE INDICATED THAT LIVING STANDARDS COULD ONLY IMPROVE IF ECONOMIC PROBLEMS WERE SOLVED QUICKLY. EXISTING POLICIES AIMED AT IMPROVING ECONOMIC EFFICIENCY SHOULD BE MORE SPEEDILY AND EFFECTIVELY IMPLEMENTED, IN PARTICULAR THE FOOD PROGRAMME. ANDROPOV SAID THAT IT WAS TIME TO TACKLE THE QUESTION OF GIVING GREATER INDEPENDENCE TO ENTERPRISES AND FARMS, BUT URGED A CAUTIOUS APPROACH. ON RESOURCE ALLOCATION THERE WAS NO SIGN OF A CHANGE OF LINE: CONSUMER GOODS WOULD CONTINUE TO BE GIVEN PRIORITY IN ACCORDANCE WITH THE 5 YEAR PLAN BUT THE ARMED FORCES WOULD CONTINUE TO RECEIVE ALL THAT THEY NEEDED.

8. IN FOREIGN POLICY NO DEVIATIONS FROM THE BREZHNEV LINE HAVE SO FAR BEEN OBSERVED. THE STATEMENTS AND SPEECHES AND ALSO THE AVAILABLE INFORMATION ABOUT THE BILATERAL MEETINGS IN CONNECTION WITH BREZHNEV'S FUNERAL GIVE NO SUBSTANTIAL SIGNS OF NEITHER A 'HARDENING' NOR A 'SOFTENING' OF BASIC SOVIET POSITIONS. IT IS EVIDENT THAT FOREIGN POLICY HAS A HIGH PRIORITY WITH ANDROPOV, WHO SEEMS TO HAVE A DETAILED KNOWLEDGE OF THE DIFFERENT ISSUES AS A RESULT OF HIS KGB POST AND HIS RESPONSIBILITIES IN THE PARTY SECRETARIAT.

9. IN EAST-WEST RELATIONS NO NEW SIGNALS OF SUBSTANCE HAVE BEEN OBSERVED. THIS GOES FOR THE SITUATION IN POLAND, THE MADRID MEETING AND ARMS CONTROL ISSUES. THE STRESS ON THE ROLE OF THE MILITARY HAS BEEN CONTINUED. ANDROPOV'S EMPHASIS ON DETENTE IN HIS SPEECH ON NOVEMBER 22, 1982, COULD INDICATE THAT THE NEW LEADERSHIP SEEM TO ATTACH GREATER IMPORTANCE TO THIS ASPECT. HOWEVER, THIS IS SEEN AS A CHANGE IN PRESENTATION AND NOT IN SUBSTANCE AND IS COUNTERBALANCED BY CONTINUING EMPHASIS ON STRONG DEFENCE.

10. THE RECENT TALKS WITH PRESIDENT ZIA OF PAKISTAN, BABRAK KARMAL AND OTHERS ON AFGHANISTAN COULD INDICATE SOVIET REEXAMINATION OF THE AFGHANISTAN ISSUE. THERE IS NO EVIDENCE ON ANY MOVEMENT AND THE OBJECTIVE MAY SIMPLY BE TACTICAL.

11. RELATIONS TO CHINA HAVE BEEN MENTIONED AS AN AREA WHERE THERE WERE INDICATIONS OF SOME MOVEMENT. MR. ANDROPOV HAS REPORTEDLY ALREADY BEEN ACTIVE IN THE PLANNING OF THE SOVIET OVERTURES TO CHINA. THE MEETING BETWEEN THE COUNTRIES' FOREIGN MINISTERS IN MOSCOW IMPLY A CONTINUATION OF THE LINE PURSUED BY BREZHNEV AND TALKS ARE LIKELY TO RESUME IN MOSCOW IN THE NEW YEAR.

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ANNEX D: MIDDLE EAST

OBJECTIVE

1. To consider Ten's role in promoting progress on Arab/Israel and Lebanon.

POINTS TO MAKE

2. Arab/Israel: Important for Ten to maintain dialogue with all parties, including Israel. Useful that Presidency raised settlement issue. Firm US response to Israeli defiance on settlements crucial for Arab confidence. Presidency should confirm Ten's views to US.
3. Balance of Ten's policy right. PLO has so far missed opportunity to meet US conditions for dialogue. No change in Ten's relationship with PLO justified until PLO show willingness to make progress.
4. Concerned that momentum of Reagan initiative beginning to fade. Ten should use contacts with Arabs to urge importance of seizing opportunity, while US opinion (including Congress) favourable. King Hussein needs Arab, including PLO, support to enter negotiations.
5. [If raised] Measures against Israel. Imposed to show strength of feeling at Israeli policy in Lebanon. Should remain in force until Israel shows interest in progress (eg withdrawal from Lebanon).
6. Lebanon. Lebanese and US see multinational force as vital to secure withdrawal of foreign forces. Accept this is realistic, although difficult question of British participation remains under consideration. Hope to help with training.

7. UNIFIL has important role: more thinking needed on how it might fit in to overall peacekeeping arrangements.

8. Iran/Iraq. (If raised) Prospects for mediation by Ten remain poor. Uncritical support for Iraq will not bring peace nearer; would also risk provoking ill considered Iranian reaction. Believe Ten should stick to line agreed by Political Directors on 23 November.

BACKGROUND

Reference

A FCO telegram no. 199 to Copenhagen: Ministerial meeting of 23 November.

9. Arab/Israel. Elleman-Jensen will presumably report on his visit to Israel (due to take place on 27 November). Foreign Ministers agreed that he should speak on Ten's behalf in stressing the damaging effect of Israeli policies in the occupied territories, and particularly the continuing settlements programme. The UK initially suggested that the Presidency should make these points to the Americans, and it would still be useful for the Presidency to underline with the Americans our concern that failure to take action over settlements is undermining Arab confidence in US determination.

10. In earlier discussions in the Ten, some partners (French, Italians, Greeks) have argued that Ten should develop closer contacts with the PLO in order to encourage them to make a move on acceptance of Israel. They have not so far pressed this view hard, and seem to have accepted that it would not be right to make any gesture towards the PLO until the PLO's policy is defined at the Palestine National Council meeting (expected late December or January).

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11. Measures against Israel. Elleman-Jensen will have come under pressure in Israel to end the measures taken by the Community against Israel in June (suspension of signature of Second Financial Protocol, and postponement of EC/Israel Ministerial meetings - the suspension of arms sales in Israel is in a different category as it was not a formal decision by the Ten). In our view the Ten should not simply drop their measures against Israel without evidence of Israeli willingness to make progress: Israeli agreement to a timetable for withdrawal from Lebanon would be the obvious peg on which to hang a decision to end these measures. No deadline or conditions should be set now.

12. Lebanon. At the Foreign Ministers meeting on 23 November, there was some discussion as to whether the multinational force (MNF) or UN forces should take the leading role for peace-keeping. Both the Lebanese and the US consider that in practice only the MNF can take on the vital job of helping the Lebanese army ensure security in the period immediately after the withdrawal of foreign forces (if the UN attempted to take on this role, it would effectively give the Russians a veto over the withdrawal process. If there is to be a continuing role for UNIFIL, work will need to begin soon on a new mandate (the present mandate expires on 19 January). It will be important to ensure that coordination between the MNF and UNIFIL by the use of UN observers continues.

13. Habib returned to the region on 18 November to take charge of both the Israel/Lebanon negotiations on withdrawal of forces, and wider discussions on Arab/Israel. This may

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speed up progress in the withdrawal talks, which have recently been bogged down in procedural discussions. The Israelis have made clear their intention to withdraw, but will hold out for maximum concessions, including both satisfactory security arrangements and full normalisation (trade, travel etc) with Lebanon. Pressure on the Israeli government has increased following the explosion at the Israeli military HQ in Tyre in which 75 Israelis died, even though this is said to have been an accident.

14. Iran/Iraq: Mediation by Ten. The Ten have recently been asked by the Iraqis, the Kuwaitis and the Arab League to take action to end the war. On 23 November the Political Directors agreed on the following common line in reply:

'The Ten should tell interlocutors that we share their concern, that we have expressed our hope for peace on a number of occasions, but that unfortunately we are not in a position to intervene effectively with the parties. The Ten support the efforts of those better placed, for example the UN Secretary General, the Islamic Conference, the non-aligned movement, Algeria, Turkey and Pakistan.'

15. Current Military Situation Both sides re-grouping Amara sector following Iranian offensive launched on 1 November. Small scale Iranian raid on Mandali on 14 November, with probable objective of maintaining pressure on Baghdad, beaten off. On 21 November, Iraqis claimed to have sunk 5 tankers moored off Kharg Island. In fact three ships (including one tanker) were hit and badly damaged some distance from Kharg. No apparent damage to oil exporting facilities at Kharg.

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TO IMMEDIATE COPENHAGEN

TELEGRAM NUMBER 159 OF 24 NOVEMBER

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EUROPEAN POLITICAL COOPERATION MINISTERIAL MEETING BRUSSELS
23 NOVEMBER MIDDLE EAST

SUMMARY

1. EXTENSIVE EXCHANGE OF VIEWS. AGREED THAT PRESIDENT IN OFFICE SHOULD VISIT ISRAEL IN ORDER TO EXPRESS CONCERN OF TEN, IN PARTICULAR ON SETTLEMENTS AND EXPULSION OF LECTURERS. THIS VISIT TO IMPLY NO CHANGE TO BASIC EUROPEAN POSITION OR TO OUR SUPPORT FOR THE REAGAN INITIATIVE.
2. DIVIDED VIEWS ON WHETHER IN THE LONG TERM AN ENLARGED UNIFIL OR AN EXPANDED MNF SHOULD TAKE RESPONSIBILITY FOR PEACEKEEPING

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38048 - 1

IN THE LEBANON.

DETAIL

3. ELLEMANN-JENSEN (DANISH PRESIDENCY) INFORMED PARTNERS ABOUT HIS RECENT VISITS TO THE LEBANON AND JORDAN.

4. HE PROPOSED THAT HE SHOULD VISIT ISRAEL IN THE NEAR FUTURE BOTH TO MANIFEST THE DESIRE OF THE TEN TO STAY IN CONTACT WITH BOTH PARTIES IN THE DISPUTE AND TO STRESS THE DAMAGING EFFECT OF ISRAELI POLICIES IN THE OCCUPIED TERRITORIES. (NEITHER ELLEMANN-JENSEN NOR OTHERS REFERRED TO THE FACT THAT A VISIT BY HIM TO ISRAEL HAD ALREADY BEEN ANNOUNCED AS DUE TO BEGIN ON 27 NOVEMBER - YOUR TEL 405.)

5. FOR THE UK, I SAID THAT ANY ACTION TAKEN ON BEHALF OF THE TEN MUST BEAR FULLY IN MIND THE REAGAN INITIATIVE WHICH WE HAD STRONGLY ENDORSED. ON MY RECENT TRIP TO JORDAN IT HAD BEEN CLEAR THAT THE MOMENTUM BEHIND THIS INITIATIVE WAS FADING. THE ARABS WERE NOT CONVINCED THAT REAGAN WAS GOING TO PUT HIS FULL WEIGHT BEHIND HIS OWN PLAN. IN PARTICULAR ISRAELI INTENTIONS TO EXPAND SETTLEMENTS MUST BE PUT INTO REVERSE, OR ARAB CONFIDENCE IN THE PLAN WOULD EVAPORATE. IN JORDAN I HAD BEEN SHOWN AN ISRAELI MAP OF THE WEST BANK WITH THE BORDER OMITTED AND THE PLACE NAMES CHANGED. ON THE PROPOSED PRESIDENCY VISIT TO ISRAEL I SAID THAT THIS MUST BE SEEN TO BE IN ACCORD WITH EXISTING POLICY, AND IN PARTICULAR SHOULD NOT CUT ACROSS US ACTIVITIES IN THE REGION EITHER IN SUBSTANCE OR TIMING.

6. IN LEBANON, I WAS CONCERNED THAT WITHDRAWAL OF FOREIGN FORCES MIGHT BE HARDER TO ORGANIZE THAN WAS SOMETIMES SUGGESTED, AND THAT UNIFIL'S CURRENT MANDATE MIGHT EXPIRE ON 19 JANUARY WITH THE SITUATION UNCHANGED.

7. COLOMBO (ITALY) SAID THAT THE SITUATION IN THE LEBANON HAD IMPROVED GREATLY BY COMPARISON WITH A FEW MONTHS AGO. THERE WAS

NOW A GOVERNMENT DETERMINED TO REIMPOSE THE RULE OF LAW AND THE PRESENCE OF THE MNF WAS HAVING A USEFUL EFFECT. THE LEBANESE GOVERNMENT WAS KEEN THAT THIS BE STRENGTHENED AND HAD ASKED A NUMBER OF COUNTRIES TO CONTRIBUTE, WITH VARYING RESPONSES.

8. THE CENTRAL PROBLEM REMAINED THE WITHDRAWAL OF ISRAELI AND SYRIAN FORCES. ITALY WAS CONCERNED THAT THIS WAS BECOMING ENTANGLED IN THE GENERAL PROCESS OF NEGOTIATION, AS ALL PARTIES MADE CONDITIONS. EUROPE MUST HELP TO SORT THIS OUT. WE SHOULD TELL THE UNITED STATES TO PRESS THE ISRAELIS TO WITHDRAW FROM THE LEBANON.

9. ON THE ARAB/ISRAEL PROBLEM COLOMBO NOTED A CONVERGENCE OF VIEWS ON THE PRINCIPLES SET OUT IN THE VENICE DECLARATION. WE SHOULD CONTINUE TO PUSH THESE PRINCIPLES. IF THE PRESENT OPPORTUNITY WAS MISSED THERE WAS A DANGER THAT WE WOULD BE LEFT ONCE AGAIN WITH AN ISRAELI IMPOSED STATUS QUO.

10. COLOMBO SUPPORTED THE IDEA OF A PRESIDENCY VISIT TO ISRAEL, BUT URGED ELLEMANN-JENSEN NOT TO STRESS THE DIFFERENCES BETWEEN THE EUROPEAN AND US POSITIONS. THE TEN SHOULD ALSO PRESS ON THE PLO THE NEED FOR THEM TO MOVE IN A POLITICAL DIRECTION, AND SHOULD CONSIDER MAKING A STATEMENT OPENING THE WAY TO MUTUAL RECOGNITION. THIS MIGHT THEN HELP TOWARDS THE EVENTUAL ESTABLISHMENT OF PLO/ISRAELI LINKS. (THIS SUGGESTION OF A STATEMENT ON THE PLO WAS NOT TAKEN UP BY OTHER SPEAKERS NOR PRESSED BY COLOMBO.

11. LAUTENSCHLAGER (FRG) SAID ON GENSCHER'S BEHALF SAID THAT THE TEN SHOULD USE THEIR INFLUENCE WITH ISRAEL TO THE MAXIMUM. THE IDEA OF A PRESIDENCY VISIT WAS COURAGEOUS AND SHOULD BE ENCOURAGED. THE TEN SHOULD ALSO RE-EXAMINE IN THE COMMUNITY MACHINERY THE QUESTION OF A FUTURE COOPERATION COUNCIL WITH ISRAEL AND THE SIGNATURE OF A FINANCIAL PROTOCOL AND LET ISRAEL KNOW THAT THIS WAS HAPPENING.

12. HARALAMBOPOULOS (GREECE) EMPHASISED THAT THE TEN HAD PROGRESSED FAR BEYOND THEIR POSITION ADOPTED AT VENICE. HE QUOTED

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EXTENSIVELY FROM THE MINISTERIAL STATEMENT OF 20 SEPTEMBER. THE RIGHT OF THE PALESTINIANS TO SELF-DETERMINATION 'WITH ALL THAT THIS IMPLIES' IMPLIED THE RIGHT TO A SEPARATE STATE. IF THERE WAS NO PROGRESS TOWARDS THE SATISFACTION OF THEIR LEGITIMATE ASPIRATIONS, HE FEARED THAT THE PALESTINIANS, A DISPERSED AND BITTER PEOPLE, MIGHT TURN TO DESPERATE METHODS. HE AGREED WITH

MY POINT

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TEN SHOULD CALL ON THE UNITED STATES TO USE ITS FULL INFLUENCE. HE HOPED THAT THE PRESIDENCY VISIT TO ISRAEL WOULD CONTRIBUTE TO THIS AND WOULD ENABLE THE TEN TO BE SEEN AS A POSITIVE FACTOR. THE MIDDLE EAST WAS A SENSITIVE REGION AND EVENTS THERE COULD HAVE SERIOUS REPERCUSSIONS IN NEARBY COUNTRIES SUCH AS GREECE AND THE COMMUNITY AS A WHOLE.

13. CHANDERNAGOR (FRANCE) SAW NO OBJECTION TO A PRESIDENCY VISIT USING ALL INSTRUMENTS OF PRESSURE AT THE DISPOSAL OF THE TEN TO PERSUADE ISRAEL TO SHOW GREATER UNDERSTANDING. IN THE LEBANON THE SITUATION ON THE GROUND WAS DETERIORATING, AND THEREFORE THE CREDIBILITY OF THE GOVERNMENT.

14. HE NOTED THE GREAT COMPLEXITY OF US PLANS FOR AN EXPANDED MNF. IT WAS FOR CONSIDERATION WHETHER THE MNF SHOULD NOT STAY IN PLACE AND PERFORM ITS PRESENT FUNCTIONS, WHILE IN THE LONGER TERM THE RECONSTRUCTION OF THE LEBANESE STATE PROCEEDED UNDER THE PROTECTION OF THE UN. THIS HAD IMPLICATIONS FOR THE FUTURE ROLE AND MANDATE OF UNIFIL.

15. ISRAEL WAS BEHAVING MORE AND MORE AS IF THE WEST BANK AND GAZA WERE ANNEKED, NOT JUST OCCUPIED. FRANCE WAS PARTICULARLY CONCERNED ABOUT THE REFUSAL TO RENEW THE VISAS OF CERTAIN FOREIGN LECTURERS. THIS WAS A FLAGRANT ATTACK ON HUMAN RIGHTS. CERTAIN PARTNERS HAD ALREADY PROTESTED AND THE QUESTION HAD BEEN RAISED IN THE EUROPEAN PARLIAMENT'S POLITICAL AFFAIRS COMMITTEE. THE PRESIDENCY SHOULD PROTEST ON BEHALF OF THE TEN AS SOON AS POSSIBLE.

16. MACKERNAN (IRELAND) SUGGESTED THAT AS WELL AS VISITING ISRAEL

THE PRESIDENCY MIGHT CONTACT OTHER PARTIES INVOLVED SUCH AS THE SAUDIS AND THE SYRIANS.

17. THE PRESIDENCY VISIT RAISED PRESENTATIONAL PROBLEMS. ISRAEL MIGHT REPRESENT IT AS A SOFTENING OF THE EUROPEAN POSITION. TO PREVENT THIS THE TEN SHOULD MAKE A CLEAR STATEMENT OF THEIR ESSENTIALLY UNCHANGED APPROACH TO THE MIDDLE EAST PROBLEM, TAKING ACCOUNT OF THE REAGAN INITIATIVE BUT NOT ONLY OF THAT. IN PARTICULAR, THE TEN SHOULD MAKE CLEAR THE CONTINUING UNACCEPTABILITY OF THE ISRAELI PRESENCE IN THE LEBANON, RECALLING UN SCR 509. WHILE IN ISRAEL THE PRESIDENCY SHOULD MAKE CONTACT WITH WEST BANK LEADERS SUCH AS ELIAS FREIJ.

18. ON THE QUESTION OF THE FUTURE OF UNIFIL HE AGREED WITH CHANDERNAGOR'S ANALYSIS. THE QUESTION OF COORDINATION BETWEEN THE MNF AND UNIFIL RAISED SERIOUS PRACTICAL AND POLITICAL PROBLEMS. IRELAND BELIEVED THAT PEACE KEEPING IN THE LEBANON SHOULD BE CONDUCTED UNDER THE UN FLAG. HE HOPED THAT PARTNERS WHO AGREED WOULD MAKE THIS CLEAR TO THE PARTIES CONCERNED.

19. PISANI (COMMISSION) SUGGESTED THAT EUROPE SHOULD ADOPT A COHERENT SYSTEM OF SIGNALS AND GRADUATED ACTIONS IN THE MIDDLE EAST. IN OUR RELATIONS WITH ISRAEL WE HAD A LIMITED RANGE OF INSTRUMENTS, VIZ THE FINANCIAL PROTOCOL AND THE COOPERATION COUNCIL. ON THE ARAB SIDE OUR RANGE WAS WIDER. PISANI HAD RECENTLY HAD A LONG DISCUSSION WITH THE SECRETARY GENERAL OF THE ARAB LEAGUE AND HAD REACHED THE FOLLOWING CONCLUSIONS.

- A) IN ITS PUBLIC STATEMENTS THE TEN SHOULD AVOID ANY REFERENCE TO CAMP DAVID.
- B) THE TEN SHOULD CONSIDER RESUMING THE EURO-ARAB DIALOGUE. THE POLITICAL PRE-CONDITION NO LONGER EXISTED.

AS TO THE LEBANON, PISANI WOULD VISIT BEIRUT IN DECEMBER AND WOULD REPORT BACK. THERE WAS A NEED FOR COORDINATION BETWEEN THE COMMUNITY AND MEMBER STATES ON THEIR CONTRIBUTIONS. HE SUG-

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GESTED THAT THERE BE A MEETING FOR THIS.

20. ELLEMANN-JENSEN INTERVENED TO SAY THAT DURING HIS RECENT VISIT THE JORDANIANS HAD EXPRESSED CONCERN THAT THE COMMUNITY HAD REDUCED FOOD AID TO THE PALESTINIAN REFUGEE CAMPS. THE COMMISSION SHOULD LOOK INTO THIS.

21. VAN DEN BROEK (NETHERLANDS) EMPHASISED THAT THE TEN SHOULD STICK BY PREVIOUS STATEMENTS, PARTICULARLY ON ISRAELI SETTLEMENT POLICY AND OUR SUPPORT FOR THE REAGAN INITIATIVE. THIS SHOULD BE MADE CLEAR TO THE ISRAELIS.

22. THE NETHERLANDS HAD REGRETFULLY DECLINED THE REQUEST THAT THEY CONTRIBUTE TO THE MNF. THEY WERE ALREADY PARTICIPANTS IN UNIFIL AND WOULD IN ANY CASE PREFER THAT PEACE-KEEPING IN THE LEBANON BE CARRIED OUT IN THE UN FRAMEWORK. THE FUTURE OF UNIFIL COULD PERHAPS BE DISCUSSED WITH THE ISRAELIS. THE TEN SHOULD ALSO BE CONSIDERING THE LINE THEY MIGHT TAKE WHEN THE UNIFIL MANDATE CAME UP FOR RENEWAL IN JANUARY.

23. ELLEMANN-JENSEN, SUMMING UP, SAID THAT DISCUSSION COULD CONTINUE AT THE EUROPEAN COUNCIL. HE WOULD GO TO ISRAEL ON 27 NOVEMBER AND WOULD DELIVER THE DEMARCHES ON BOTH SETTLEMENTS AND LECTURERS.

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1 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Addendum to Annex D: Middle East

Statement on Lebanon

OBJECTIVE

1. To agree the terms of a statement by the Ten.

POINTS TO MAKE

2. No objection to general terms of French proposal for a statement. Useful to underline Ten's support for Lebanon. But must make clear that Member States can only help Lebanon within the limits of their resources.

BACKGROUND

Reference

A: CPE MUL ETR 4382

3. The French have proposed that in the light of lack of progress in the negotiations for the withdrawal of foreign forces from Lebanon, and signs of renewed internal divisions, the Ten should make a statement in support of the Lebanese Government. We have not yet received the proposed text, but the French have told us that its basic elements will be:

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- (1) The Ten's continuing interest in Lebanon.
- (2) The importance the Ten attach to strengthening the authority of the Lebanese Government.
- (3) The need for a rapid withdrawal of all foreign forces.
- (4) The willingness of the Ten to contribute to the solution of Lebanese problems.

4. We have no difficulty with these points but will need to ensure that point 4 is drafted in a way that makes it clear that the Ten can only contribute within the limits of their resources. The French and Italians are already contributing to the Multi-national Force and the Italians have agreed to increase their contingent. The French are more reluctant but will probably provide a few hundred extra men if necessary. They may urge other Members of the Ten, including the UK, to do more.

Foreign and Commonwealth Office

1 December 1982

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OBJET: CONSEIL EUROPEEN LIBAN

COMPTE TENU DE L'ETAT DES NEGOCIATIONS SUR L'EVACUATION
DES FORCES ETRANGERES DU LIBAN ET DES SIGNES DE DETERIORATION DE LA
SITUATION SUR LE TERRAIN, LA FRANCE SOUHAITE QUE LA QUESTION DU LIBAN
SOIT EXAMINEE PAR LES CHEFS D'ETAT ET DE GOUVERNEMENT LORS DU CONSEIL
EUROPEEN DES 3 ET 4 DECEMBRE.

ELLE ESTIME EN EFFET QUE L'EXPRESSION DE L'INTERET ACTIF DES DIX
POUR LA RECHERCHE DES SOLUTIONS QUI PERMETTRAIENT D'AIDER LE DEPART
DES TROUPES ETRANGERES, DE RENFORCER LA SOUVERAINETE DU LIBAN ET DE
CONTRIBUER A SA RECONSTRUCTION, REPONDRAIT AUX ASPIRATIONS DU
GOUVERNEMENT LIBANAIS, CONSOLIDERAIT SA POSITION TANT VIS-A-VIS DES
DIVERSES FORCES INTERNES QUE PAR RAPPORT A ISRAEL ET SERAIT EGALEMENT
DE NATURE A AIDER INDIRECTEMENT LES EFFORTS DU GOUVERNEMENT AMERICAIN
EN VUE DE LA SOLUTION DE CE PROBLEME.

LA FRANCE FERA PARVENIR AUX PARTENAIRES, DANS LA JOURNEE, UN
AVANT PROJET D'UNE EVENTUELLE DECLARATION DU CONSEIL EUROPEEN SUR LE
LIBAN./.

COREU DIPLO PARIS.
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ANNEX E LATIN AMERICA

OBJECTIVE

1. To agree that the conclusions should contain a passage on Latin America.

POINTS TO MAKE

2. Important for Ten to continue to develop their relations with Latin America and to demonstrate their willingness to do so. Welcome agreement at Foreign Affairs Council on 22 November on special Community aid package for Central America. Welcome suggestion of reference to Latin America in conclusions of meeting.

3. From recent British ministerial visits, UK's clear impression that most Latin American countries wish for 'business as usual' with the Ten.

Anglo/Argentine Relations

4. UK willing to get back to a normal relationship. Have taken a number of steps to that end. Hope Argentine response to Community démarche can provide a basis for normalisation of commercial relations.

BACKGROUND

5. The aid package for Central America was agreed at the Foreign Affairs Council on 22 November. Although the Council conclusions obscure the details, the UK view that only Costa Rica, Honduras and the Dominican Republic should benefit from the 30 mecu special aid was accepted. Nicaragua is not being singled out for special aid, but will be eligible, like other

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countries, to benefit from the recently increased programme of aid to non-associated developing countries (Asia and Latin America).

UK Relations with Latin America

6. Satisfactory relations with most countries in Latin America confirmed by recent successful visits by Mr Onslow to Mexico and Brazil; Mr Rees, Minister of State for Trade, to Ecuador, Chile and Paraguay; Mr Garel-Jones MP to Bolivia, Colombia and Ecuador; Lord Skelmersdale to Colombia, Costa Rica and the Dominican Republic and the PUS to Colombia for the bilateral talks and the Secretary of State's contacts at the UN in New York. The Secretary of State for Scotland also paid an unofficial visit to Venezuela.

Anglo/Argentine Relations: Community Démarche

7. A Community démarche proposing the reciprocal lifting of all remaining commercial and economic restrictions between the Community and Argentina arising from the Falklands conflict was made by the Danish Ambassador in Buenos Aires on 29 October. The Argentine reply of 16 November, while denying the continued existence of Argentine restrictions against Member States, welcomed the Community's desire to regularise economic and commercial relations; expressed readiness to hold immediate talks on this matter and invited the Community and its Member States to exchange information on any restrictions still in force. We are urging the Community to take up the Argentine offer, which we believe provides a useful basis for the normalisation of relations between the Community and Argentina.

FOREIGN AND COMMONWEALTH OFFICE

1 December 1982

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EHG(C)(82)7 Revise 1 Addendum 2

COPY NO.

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2 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Annex F AFGHANISTAN

OBJECTIVE

1. To include a reference to Afghanistan in the European Council conclusions which draws attention to:

- a) latest overwhelming vote at UNGA 37
- b) lack of movement from new Soviet leadership
- c) validity of proposals made by the Ten in June 1981.

We have circulated a draft text (ref. E).

POINTS TO MAKE

- 2. Another resounding UN vote. Will re-focus international concern undiminished after three years.
- 3. Key to problem lies with Russians. Despite recent press speculation, no evidence of real movement from Andropov. Look to Russians for convincing demonstration of readiness to withdraw.
- 4. UK sceptical of UN claim of progress in mediation process which can only succeed if based on four UN principles.
- 5. EC proposals on the other hand remain valid and provide a reasonable and practicable way forward if ever Russians showed genuine commitment to withdraw.

/BACKGROUND

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BACKGROUND

References

- A : Afghanistan UNGA 37: UKMIS New York tel 1965 of 29 November.
- B : Afghanistan and Brezhnev's Funeral: Islamabad Tel. 502 of 24 November.
- C : Proposal made by the European Council on 30 June 1981.
- D : European Council Statement March 1982.
- E : UK COREU of 2 December.

6. The UNGA Debate took place 24-29 November. As before, Pakistan and the Islamic Conference countries took the lead and tabled another strong resolution reiterating the four fundamental principles of a political settlement (Reference A). The Presidency and other members of the Ten including UK read speeches. There were no major changes of position in the final vote (114-21-13). Only two votes fewer, for and against, than last year (116-23-12).

7. The UN Mediation has made little progress since the Geneva talks last June. De Cuellar and Cordovez remain optimistic about Soviet intentions. We are sceptical and have seen no evidence to substantiate recent press speculation that Andropov ^{istan} be more flexible over Afghan^y. Pakistan's resolute stand on principle remains firm and Zia although has referred to certain 'freshness' in the Soviet position does not detect any change on substance. (Reference B). Cordovez plans to re-visit the area in early 1983.

8. European Position: The European Council of 30 June 1981 proposed a two stage conference to resolve the problem (reference C). Since then the Ten have made a number of statements calling on the Soviet Union to withdraw and affirming that our conference proposal remains on the table. The last of these was by the European Council in March 1982 (ref D).

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9. Current Situation. Deadlock continues in Afghanistan. Soviet forces/Afghan Army cannot suppress resistance spirit. Despite approach of winter, resistance activity continues in the north east and in major cities, including Kabul. Sixth Soviet/DRA offensive in strategic Panjshir valley ended inconclusively (September). Russians have failed to establish a credible and effective central government: Karmal depends on Soviet troops (some 100,000). Now more than 2.7 million Afghan refugees in Pakistan with a further 400,000 or so in Iran. Mr Hurd announced a further £1 million aid during his visit to Pakistan, 13-16 November, which brings the total since January 1980 to more than £11 million (including £4.3 million through the EC).

FOREIGN AND COMMONWEALTH OFFICE

2 December 1982

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FM UKMIS NEW YORK 300115Z NOV 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 1965 OF 29 NOVEMBER

INFO PRIORITY ISLAMABAD, KABUL, TEHRAN, WASHINGTON, MOSCOW, NEW DELHI

PEKING, UKDEL NATO

INFO SAVING JEDDA, UKMIS GENEVA, TOKYO, ATHENS, BONN, BRUSSELS, UKREP
BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, PARIS, ROME, LUXEMBOURG.

MY TELNO 1957: AFGHANISTAN: UNGA 37 DEBATE

SUMMARY

1. THE RESULT OF THE VOTE ON THE AFGHANISTAN DRAFT RESOLUTION THIS MORNING (29 NOVEMBER) WAS 114 - 21 - 13. THIS WAS TWO FEWER VOTES BOTH FOR AND AGAINST COMPARED WITH LAST YEAR (116 -23 - 12).

DETAIL

2. THERE WERE FOUR FURTHER SPEAKERS IN THE DEBATE THIS MORNING (INCLUDING GHAZALI SHAFIE, FOREIGN MINISTER OF MALAYSIA), AND A HANDFUL OF EXPLANATIONS OF VOTE.

3. THE CHANGES FROM LAST YEAR'S VOTE WERE AS FOLLOWS:

(A) BELIZE, BOLIVIA, MAURITIUS AND VANUATU WHICH VOTED YES IN 1981 WERE ABSENT.

(B) EQUATORIAL GUINEA WHICH VOTED YES IN 1981 ABSTAINED.

(C) CHAD WHICH ABSTAINED IN 1981 VOTED YES.

(D) DOMINICA AND ST VINCENT WHICH WERE ABSENT IN 1981 VOTED YES.

(E) YEMEN WHICH WAS ABSENT IN 1981 ABSTAINED.

(F) SAO TOME AND SEYCHELLES WHICH VOTED NO IN 1981 WERE ABSENT.

4. THE REPRESENTATIVE OF BELIZE MISSED THE VOTE BECAUSE HIS PLANE FROM WASHINGTON WAS LATE. HE IS MOST APOLOGETIC AND IS NOTIFYING THE SECRETARIAT THAT HAD HE BEEN PRESENT HE WOULD HAVE VOTED YES.

WE SUSPECT THAT VAN LIEROP, THE REPRESENTATIVE OF VANUATU, DELIBERATELY STAYED AWAY. THE AUSTRALIANS SPOKE TO HIM PERSONALLY ON FRIDAY ABOUT THE VOTE. HE HAS SINCE CLAIMED THAT HE WAS DETAINED BY AN IMPORTANT LAW CASE. (HE IS A RADICAL LAWYER WHO REPRESENTS VANUATU ON A PART-TIME BASIS). BOLIVIA'S ABSENCE WAS APPARENTLY A MISUNDERSTANDING SINCE IT HAD INTENDED TO VOTE YES, BUT THOSE OF MAURITIUS AND (MORE HELPFULLY) SEYCHELLES WERE PROBABLY DELIBERATE.

COMMENT

/5.

5. IT IS DISAPPOINTING THAT FOR THE FIRST TIME THE VOTE FOR THIS RESOLUTION FAILED TO MAINTAIN ITS UPWARD TREND. BUT THE DIFFERENCE BETWEEN THE VOTES FOR AND AGAINST REMAINS UNCHANGED SO THE RUSSIANS HAVE NO GROUNDS FOR COMFORT. ONCE AGAIN THE RESOLUTION HAS BEEN CARRIED BY AN OVERWHELMING MAJORITY.

6. THE DEBATE ITSELF WAS A DESULTORY AFFAIR AND ATTENDANCE WAS SPARSE ON THE SECOND DAY. WE BELIEVE THAT HOLLAI, THE HUNGARIAN PRESIDENT OF THE GENERAL ASSEMBLY SCHEDULED THE DEBATE ON THE EVE OF THE THANKSGIVING HOLIDAY WEEKEND IN THE HOPE THAT A FRIDAY EVENING VOTE WOULD FIND SEVERAL DELEGATIONS ABSENT. THE PAKISTANIS MANAGED, HOWEVER, TO DRUM UP ENOUGH SPEAKERS TO KEEP THE DEBATE GOING UNTIL THIS MORNING. BUT APART FROM THIS SLEIGHT OF HAND THE RUSSIANS PULLED NO TRICKS OUT OF THE BAG.

FCC PLEASE PASS SAVING ADDRESSEES

THOMPSON

(REPEATED AS REQUESTED)

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TO ROUTINE F C O

TELEGRAM NUMBER 502 OF 24 NOVEMBER 1982

INFO ROUTINE MOSCOW, KABUL, BIS TEHRAN, UKDEL NATO, NEW DELHI,
PEKING, WASHINGTON, AND UKMIS NEW YORK.

MOSCOW TEL NO. 761 : AFGHANISTAN AND BREZHNEV'S FUNERAL

1. I HAVE HAD AN ACCOUNT IN THE LAST TWO DAYS OF THE ZIA-ANDROPOV MEETING, BOTH FROM ZIA HIMSELF AND FROM NIAZ NAIK, FOREIGN SECRETARY, WHO WAS IN MOSCOW BUT NOT AT THE MEETING. ZIA CONCENTRATED ON THE ATMOSPHERICS AND NAIK ON THE SUBSTANCE. BOTH ACCOUNTS TALLIED WITH THAT IN TUR.
2. ANDROPOV'S LINE ON AFGHANISTAN WAS A VERY SOFT AND WELL REASONED ONE, WITH NO THREATS OR POLEMICS. THE RUSSIANS WANTED TO WITHDRAW THEIR TROOPS: THE PAKISTANIS WANTED THEM WITHDRAWN: THEREFORE BOTH COUNTRIES SHARED A COMMON OBJECTIVE AND IT SHOULD NOT BE BEYOND THE WIT OF MAN TO DEVISE A METHOD OF ACHIEVING IT. ALL THAT WAS NEEDED WAS FOR PAKISTAN TO CREATE THE CONDITIONS IN WHICH THE RUSSIANS COULD WITHDRAW. NAIK CONFIRMED THAT THERE HAD BEEN NO COMMITMENT TO CONTINUING BILATERAL TALKS. ZIA SIMPLY SAID THAT THERE WERE ALREADY MANY CONTACTS (TALKS WITH THE RUSSIAN AMBASSADOR HERE, THE ANNUAL PAKISTAN-SOVIET TALKS, ETC), BUT THAT THE PAKISTANIS WERE ALWAYS READY FOR ADDITIONAL TALKS IF THE RUSSIANS WANTED THEM: THE BALL WAS LEFT WITH THE RUSSIANS.
3. ON ATMOSPHERE, ZIA SAID THAT THEY HAD BEEN IN TWO MINDS ABOUT WHETHER HE SHOULD GO TO MOSCOW AT ALL (THE NEWS OF BREZHNEV'S DEATH REACHED HIM IN SINGAPORE), BUT AFTER CHECKING WHO ELSE WAS GOING IT WAS DECIDED THAT THERE WAS NOTHING TO BE LOST (I SUSPECT THAT THE NEWS THAT MRS GANDHI WAS GOING TIPPED THE BALANCE). THEY HAD NOT ASKED FOR A MEETING WITH ANDROPOV, BUT ON ARRIVAL WERE GREETED WITH THE NEWS OF AN APPOINTMENT FIXED FOR THE NEXT DAY. THEY WERE GIVEN THROUGHOUT WHAT THEIR EXPERTS TOLD THEM WAS FAVOURED TREATMENT (E.G. ACCOMMODATED IN THE SAME GUESTHOUSE AS KREISKY). ZIA WAS MUCH STRUCK BY ANDROPOV'S SOFT, THOUGHTFUL AND SWEETLY REASONABLE APPROACH: HE HAD EXPECTED A TOUCHER LINE. ONLY YAQUB KHAN, GROMYKO AND AN INTERPRETER WERE PRESENT AND GROMYKO SAID VERY LITTLE. ANDROPOV APPEARED VERY FAMILIAR WITH THE WHOLE AFGHAN PROBLEM. ZIA FORMED AN IMPRESSION THAT HE WAS NOT A VERY FIT MAN: HE LOOKED DRAWN AND RATHER FRAIL COMPARED TO THE ROBUST GROMYKO.
4. ZIA WAS OBVIOUSLY VERY FLATTERED BY THIS VIP TREATMENT AND HAS BEEN TALKING IN PUBLIC IN BULLISH TERMS ABOUT THE POSSIBILITIES OF A "FRESH" RUSSIAN APPROACH TO THE PROBLEM. IN PRIVATE TO ME, AND EARLIER TO MR HURD, HE WAS MUCH MORE REALISTIC AND

/ ADMITTED

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ADMITTED THAT, DESPITE THE GOOD ATMOSPHERE IN MOSCOW, THERE WAS NO CHANGE IN SUBSTANCE AND THAT AT THE END OF THE DAY HE COULD STILL SEE NO WAY IN WHICH THE MINIMUM RUSSIAN REQUIREMENTS COULD BE ACCEPTABLE TO THE MUJAHIDEEN.

5. NAIK, STILL MUCH UNDER THE INFLUENCE OF THE GENEVA TALKS, REMAINS MORE OPTIMISTIC, EVEN IN PRIVATE, AND HAS REASONABLE HOPES THAT THE NEXT CORDOVEZ ROUND MAY BEGIN TO ACHIEVE SOMETHING, THOUGH HE TOO ADMITS THAT THE GULF IS VERY WIDE. BOTH, HOWEVER, BELIEVE THAT THE RUSSIANS ARE ACTIVELY LOOKING FOR A WAY OUT OF THE AFGAN IMPASSE AND ZIA SAID THAT THIS WAS ALSO THE VIEW OF OTHERS, LIKE GENSCHER, WITH WHOM HE HAD DISCUSSED THE MATTER IN MOSCOW.

6. IT SEEMS UNLIKELY THAT THERE WAS MORE TO THE ZIA / ANDROPOV TALK THEN WE HAVE BEEN TOLD. DESPITE THEIR CURRENT OPIMISM, BOTH ZIA AND NAIK MADE IT CLEAR THAT THERE IS NO QUESTION OF COMPROMISE ON THE FOUR PRINCIPLES.

FORSTER

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TEXT OF STATEMENT ON AFGHANISTAN MADE BY EUROPEAN COUNCIL
ON 30 JUNE

1. The European Council notes with deep concern that the situation in Afghanistan remains an important cause of international tension, that Soviet troops remain in Afghanistan and that the sufferings of the Afghan people continue to increase.
2. The European Council recalls its earlier statements, notably those issued at Venice on 13 June 1980, and Maastricht on 24 March 1981, which stressed the urgent need to bring about a solution which would enable Afghanistan to return to its traditional independent and non-aligned status free from external interference and with the Afghan people having the full capacity to exercise their right to self-determination. In keeping with the Resolutions voted by the United Nations, the Islamic Conference and the New Delhi Conference of the Non-Aligned Movement, the European Council has made it clear on several occasions that it will support any initiative which could lead to the desired result.
3. The European Council considers that the time has come for a fresh attempt to open the way to a political solution to the problem of Afghanistan. They therefore propose that an international conference should be convened as soon as possible, for example in October or November 1981, and that the Conference should consist of two stages, each stage being an integral part of the Conference.
4. The purpose of Stage One would be to work out international arrangements designed to bring about the cessation of external intervention and the establishment of safeguards to prevent such intervention in the future and thus to create conditions in which Afghanistan's independence and non-alignment can be assured.

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5. The European Council proposes that in due course the Permanent Members of the United Nations Security Council, Pakistan, Iran and India and the Secretary-General of the United Nations and the Secretary-General of the Islamic Conference, or their representatives, be invited to participate in Stage One of the Conference.
6. The purpose of Stage Two would be to reach agreement on the implementation of the international arrangements worked out in Stage One and on all other matters designed to assure Afghanistan's future as an independent and non-aligned state.
7. Stage Two would be attended by the participants in Stage One together with representatives of the Afghan people.
8. The member states of the European Community will be ready at a later stage to make further proposals on the detailed arrangements for the proposed Conference.
9. The European Council firmly believes that the situation in Afghanistan continues to demand the attention of the international community. It is convinced that this proposal offers a constructive way forward and therefore calls on the international community to support it fully with the aim of reducing international tension and ending human suffering in Afghanistan.

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III. AFGHANISTAN

With the recent International Day of Afghanistan in mind, the European Council considers it right to draw particular attention to the tragic situation of that country, now in its third year of military occupation. The Soviet expeditionary force has recently been strengthened; repression of the civilian population continues without respite; and every day adds to the total of refugees, who already number some 3 million, or one in five of the population.

In the view of the European Council, it is more necessary than ever to hasten the search for a political solution to the Afghanistan problem. This can only be on the basis of the complete withdrawal of the Soviet troops and respect for the independence, sovereignty and non-alignment of Afghanistan. The Council strongly reaffirms the position taken by the European Council of Luxembourg and London, and the desire of the Ten to contribute up to the limit of their powers to an acceptable settlement. It denounces the negative attitude of the Soviet Union in rejecting successively the proposals made by the Ten, the Non-Aligned Movement, the Islamic Conference and the General Assembly of the United Nations.

The Council welcomes the nomination by the Secretary-General of the United Nations of a personal representative for the Afghan question, and hopes that this initiative will contribute to a solution in accordance with the principles of the resolutions adopted by the General Assembly.

FROM LONDON COREU
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SUBJECT: EUROPEAN COUNCIL - AFGHANISTAN

1. IN VIEW OF PRESS SPECULATION ABOUT MOVEMENT ON THE AFGHANISTAN PROBLEM FOLLOWING THE DEATH OF PRESIDENT BREZHNEV, THE UNITED KINGDOM SUGGESTS THAT THE CONCLUSIONS OF THE EUROPEAN COUNCIL MIGHT USEFULLY CONTAIN A PASSAGE REAFFIRMING THE VIEWS OF THE TEN.

2. THE UNITED KINGDOM PROPOSES THE FOLLOWING DRAFT TEXT:

'THE HEADS AND GOVERNMENT STRONGLY REAFFIRM THE WILLINGNESS OF THE TEN TO CONTRIBUTE TO AN ACCEPTABLE SOLUTION TO THE AFGHANISTAN PROBLEM.

THE SOVIET UNION'S CONTINUED OCCUPATION OF THAT COUNTRY, NOW APPROACHING ITS THIRD DISMAL ANNIVERSARY, HAS JUST BEEN CONDEMNED FOR A FOURTH TIME BY AN OVERWHELMING MAJORITY OF OF THE UNITED NATIONS GENERAL ASSEMBLY. THE TEN HAVE FOLLOWED WITH INTEREST THE TALKS WHICH HAVE TAKEN PLACE UNDER THE AEGIS OF THE UN SECRETARY GENERAL AND HIS PERSONAL REPRESENTATIVE BUT HAVE SO FAR SEEN NO EVIDENCE OF ANY READINESS ON THE PART OF THE SOVIET UNION TO WITHDRAW ITS TROOPS.

THE TEN BELIEVE THAT PROGRESS TOWARDS A SOLUTION CAN ONLY BE ACHIEVED THROUGH NEGOTIATIONS ON THE BASIS OF THE FOUR PRINCIPLES CONTAINED IN THE RESOLUTIONS OF THE GENERAL ASSEMBLY ON THIS SUBJECT. THEY STRONGLY URGE CONSIDERATION OF THEIR PROPOSALS OF 30 JUNE 1981, WHICH PROVIDE A FRAMEWORK FOR SUCH NEGOTIATIONS.'

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23 NOVEMBER 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

GENSCHER/COLOMBO PROPOSALS

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. If necessary, to reassure those who attach importance to these proposals of our willingness to contribute constructively to future work.

POINTS TO MAKE [if necessary]

2. Agree it is important for Community not to lose sight of its wider objectives. We remain willing to play a constructive part in efforts to reach agreement on a final text.

BACKGROUND

3. The Danish Presidency intend to make a brief progress report. The Germans may also say something about their intentions for handling this subject during their Presidency. No discussion of the text is expected.

4. When Foreign Ministers discussed the proposals on 20 June, they agreed that the ad hoc group of officials should continue its work under the Danish Presidency. The group

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resumed its work on 13 September and met again on 5 November. Rapid progress has not been made under the Danish Presidency, but the Germans will seek early adoption of a final text when they take over the Presidency on 1 January 1983. (The new German Government have given some prominence to the proposals in their statements on Community policy.)

5. A number of important points remain to be resolved including the title, the text of the section on majority voting, a number of points concerning the role of the European Parliament, and the provisions for a review of progress after 5 years.

FOREIGN AND COMMONWEALTH OFFICE

23 NOVEMBER 1982

Inserting Germany
- opinions differed
Foreign Policy -
European Parliament -
Participation in
President
- Investment in
Constitution procedure
- Treaty - ?

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COPY NO 1

24 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

PROGRESS TOWARDS EUROPEAN UNION

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To have Foreign Ministers' annual report on progress towards European Union accepted without discussion.

POINTS TO MAKE [if necessary]

2. Can agree to the note of Foreign Ministers' report on progress towards European Union.

BACKGROUND

Reference:

A: latest draft of Foreign Ministers' Report on progress towards European Union

3. At its meeting on 29/30 November 1976, the European Council asked the Foreign Ministers and the Commission to report to it once a year on progress which had been made towards European Union. These reports, in practice, amount to little more than a summary of developments in each area of Community

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activity and their adoption is regarded as a formality. The latest Foreign Ministers' report is attached. The Presidency will be producing a final version which should circulate before the European Council. The Commission's report has not yet been circulated.

Foreign and Commonwealth Office

24 November 1982

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Sir M. Butler
cc. Mr. Shepherd

11/20

Draft report of the Ministers
for Foreign Affairs to the European Council
on European Union

1. At its meeting on 29 and 30 November 1976 the European Council asked the Ministers for Foreign Affairs and the Commission, in its areas of competence, to report to it annually on the results achieved and feasible progress in the short term in the various fields of the Union giving tangible form to the common conception of the European Union.
2. The Ministers for Foreign Affairs will find annexed a draft of the abovementioned report.

REPORT
from the Ministers for Foreign Affairs
to the European Council
on EUROPEAN UNION

The year 1982 marked the twenty-fifth anniversary of the signing of the Treaties of Rome and the thirtieth anniversary of the entry into force of the Treaty of Paris. On the occasion of the celebration of the first of these anniversaries the President-in-Office of the Council stated that "Since first being given institutional form in the European Coal and Steel Community in 1952, Europe has acquired a tangible reality ...; it has become a reality and has reached out to encompass new fields and new States ...".

Action in 1982 both in the framework of the Treaties establishing the European Communities and in that of political co-operation takes the same line; it has enabled progress to be achieved in the various fields of the Union and the common conception of European Union to be translated into reality. The purpose of this report is to recall the main results of that action. These results have been marked by solidarity in the face of the challenges, both internal and external, which have confronted the Community, and this in turn has enabled progress to be made in laying the foundations of ever-closer union between the peoples of Europe.

Very considerable interest was aroused among the peoples of the Member States as Europe was being constructed. In order to maintain this interest, it seemed necessary to design an instrument which, alongside Community and intergovernmental action, would bring this Europe, which is so little appreciated, closer to the citizens for whom it was brought into being. With this in mind, the Member States concluded an agreement establishing a European Foundation whose task it will be to improve mutual understanding among the peoples of the European Economic Community, to promote a better understanding of the European cultural heritage, both in its rich diversity and in the points it has in common and to foster a greater understanding of European integration.

In furtherance of this same end, the Representatives of the Governments of the Member States meeting within the Council adopted on 30 June 1982 a supplementary Resolution to the Resolution adopted on 23 June 1981 concerning the adoption of a passport of uniform pattern.

In response to a request from the European Council at its meeting on 26 and 27 November 1981, the Ministers for Foreign Affairs of the Member States of the European Community, in co-operation with the Commission, began examination of a joint German and Italian initiative on European Union and progress has been made in that examination.

I

Activity within the framework of the Treaties establishing the European Communities

1. Economic and social situation

In common with all the industrialized countries, the Community has been faced with a worrying economic and social situation. The recession is also making itself felt in the growing economic difficulties encountered by the developing countries. These must cope with an economic recession which began in the mid-seventies and has since been assuming the proportions of a world crisis. The short-term effects of this recession are not hard to calculate. They are a lower level of production, which leads in turn to lower living standards. The longer-term social effects are also beginning to be felt. Unemployment is rife and young people entering the labour market are unable to understand that the society which has trained them does not need them. Older persons who have served society for many years suddenly find that they are superfluous. This situation leads inevitably to the questioning of traditional values and of the very foundations on which the society constructed twenty or thirty years ago is based.

In the face of this situation, the Council of Ministers for Economic and Financial Affairs and Ministers for Labour and Social Affairs, meeting on 16 November 1982, pinpointed measures to deal with the various negative aspects of the crisis. These measures relate to:

- international economic and financial stability;
- convergence and economic stability within the Community;
- investment;
- the internal market;
- industrial policy;
- young people and the labour market;
- adjustment of working time.

The Council has noted that the European Monetary System has operated smoothly over the last three years and has made an essential contribution to bringing about more stable and ordered exchange relations in the Community and economic and monetary policies more geared to achieving stability and economic development.

The Council nevertheless considers that efforts to bring about the convergence of economic policies must be stepped up, if the aim of creating a zone of monetary stability in Europe is to be attained. The Council has called on the Monetary Committee and the Committee of Governors of Central Banks to continue examining any possible technical improvements to the system.

In view of developments in the monetary situation, the Ministers for Finance decided to realign the central rates of certain currencies within the European Monetary System.

The Council devoted particular attention to investment policy. Having adopted in March 1982 a second Decision empowering the Commission to contract loans for the purpose of promoting investment within the Community, the Council noted on 15 November 1982 that any lasting rise in investment depended largely on an improvement in the situation and on the economic outlook as well as increased self-financing.

2. Iron and steel

One of the worrying aspects of the socio-economic situation is the problem of those sectors seriously hit by the crisis, in particular iron and steel.

As regards external relations under this heading, the Council welcomes the solidarity shown by Europe when concluding the Arrangement with the United States of America and is confident that its proper mutual implementation can remove the difficulties that have arisen.

As to the internal aspect, the Council gave its assent under Article 58 of the ECSC Treaty to the draft Commission Decision concerning the extension of production quota arrangements in the steel sector for one year from 30 June 1982. In addition to products covered hitherto, the new arrangements also include wire rod. Furthermore, the changes involve provisions for updating reference output, in particular for reinforcing bars and merchant bars; higher thresholds in the event of exceptional difficulties, adjusting a company's references in order to take account of changes in production capacity as part of a restructuring programme and provisions covering the cases of merger, separation or formation of a new company.

As far as price policy is concerned, the Council also gave its assent concerning trade obligations.

As regards the social aspect of this dossier, the Council adopted a Decision concerning a contribution for 1982/1983 to the ECSC financed by a transfer from the EEC budget to the ECSC.

Pursuant to this Decision, an additional contribution of 100 MEUA is granted to the ECSC out of the general budget of the Communities for the financial years 1982 and 1983 to allow implementation of the 1981/1984 special temporary aids programme.

This amount is to contribute towards ensuring the continuation of Community financing of special temporary allowances in favour of workers in iron and steel firms and iron ore mines in the Community whose jobs are directly or indirectly abolished or threatened in consequence of a restructuring plan adopted by the undertaking, group of undertakings or public authorities in accordance with general objectives for steel.

3. Social affairs

The Council adopted an important Directive on the protection of workers from harmful exposure to metallic lead and its ionic compounds at work. This Directive is of particular significance in view of the range and importance of the sectors and the considerable number of workers concerned. It is the first individual Directive within the meaning of the Directive adopted on 27 November 1980, which introduced a set of framework provisions for future regulations at national and Community level in the field of the protection of workers against harmful agents.

Analysing the situation of women in modern society, the Council adopted a Resolution on the promotion of equal opportunities for women.

In October 1982 the Commission sent the Council its proposals on the revision of the European Social Fund. These proposals would involve far-reaching changes in the structure of the Fund by providing for Fund intervention in the areas hardest hit by unemployment in industrialized regions, by enhancing the Commission's guiding function in this area and by putting an end to legal protection of regions which enjoy absolute priority.

4. Environment

At its meeting in June 1982, the Council approved several acts marking a further stage in the introduction of a Community policy of environmental protection and improvement of the quality of life. Of note in this connection are:

- the Regulation on the implementation in the Community of the Washington Convention on International Trade in Wild Fauna and Flora;
- a Directive laying down air quality standards for lead;
- a Directive laying down methods for the surveillance and monitoring of environments affected by waste from the titanium dioxide industry;
- a Decision on the consolidation of precautionary measures concerning chlorofluorocarbons in the environment.

At international level, the Community also played an active part in the "special meeting" of the Governing Council of the United Nations Environment Programme which took place in Nairobi in June 1982.

5. Transport

The Council held an important meeting in June, when it adopted a number of Decisions.

The Council reached agreement in the field of inland waterway transport on a Directive laying down technical requirements for inland waterway vessels.

In rail transport the Council adopted a Decision concerning price formation in respect of the international carriage of goods by rail.

In addition, the Representatives of the Governments of the Member States of the European Coal and Steel Community, meeting within the Council, approved a Decision authorizing the Commission to enter into negotiations with Yugoslavia on the carriage of coal and steel by rail.

The Council adopted two new provisions designed to promote combined transport.

In the sphere of road transport, the Council adopted a Decision on the conclusion of the Agreement liberalizing in certain cases the international carriage of passengers by road by means of occasional coach and bus services (ASOR). The Council subsequently deposited the instrument of Community approval of the ASOR Agreement with the European Conference of Ministers of Transport.

With regard to air transport, the Council adopted a Directive constituting an updated version of Directive 80/51/EEC on the limitation of noise emissions from subsonic aircraft.

Finally, the Council adopted:

- the second Directive on summertime arrangements for 1983, 1984 and 1985;
- a Directive on measures to facilitate the effective exercise of freedom of establishment and freedom to provide services in respect of activities of self-employed persons in certain services incidental to transport and travel agencies and in storage and warehousing.

6. Energy

Having noted a fall in energy consumption and in demand for petroleum products, the Council felt that there was a need not only for further progress towards attaining the objectives which the Community had set itself, which were to restructure demand in order to achieve more efficient use of energy and to develop energy sources other than oil, but also to keep a constant watch on the results obtained in the Community.

It noted that the Commission intended paying special attention, in future examinations, to the priority areas defined in its communication on the development of a Community energy strategy and which the Commission felt called for Community action.

The Council also stressed the need for Member States to develop gradually a common approach on price formation. In this connection, the Council considered that government policies must aim to reduce gradually the artificial obstacles preventing reliable information from reaching the market.

7. Research

The Council took two important decisions in this area. It adopted a programme of research and development in raw materials. This programme comprises the following basic features:

- continuation and extension in an integrated framework of a number of research activities hitherto undertaken as separate programmes;
- incorporation of two programmes already adopted and under way (secondary raw materials and uranium);
- execution by either indirect action (shared-cost contracts between the Commission and public or private research organizations in the Member States) or by action on the part of the Member States, co-ordinated at Community level;
- funding for the programme of 54 MECU.

It also adopted a research and teaching programme (1982-1986) in the field of controlled thermo-nuclear fusion.

The Council also adopted:

- a multiannual research and training programme in the field of biomolecular engineering, taking the form of indirect action;
- a sectoral research and development programme of the European Economic Community in the field of medical and public health research - concerted action - (1982-1986)
- a European Economic Community research and development programme for a machine translation system of advanced design

8. Agriculture

During the period under review, the Council fixed farm prices for the 1982/1983 marketing year and related measures. Its decisions (62 Regulations) have produced an average increase in ECU amounting to 10.4%.

In so doing, the Council was concerned to bring about better price relativities (which led, inter alia, to the adoption in the case of cereals of an increase below the level of the average figure aforementioned) and to take steps to ensure better market management.

At the same time, the Council adopted Regulations on the adjustment of the "acquis communautaire" in the wine sector aimed at maintaining a desirable market balance and at helping to rationalize the situation in this sector.

The Council also agreed to speed up examination before the end of 1982 of proposals and communications regarding the "acquis communautaire" in the fruit and vegetables and olive oil sectors, with a view to enlargement.

9. Regional policy

In October 1981 the Commission forwarded to the Council a proposal amending the Regulation establishing the European Regional Development Fund. At its meeting in April 1982 the Council held an initial policy discussion on two fundamental features of this dossier, viz. the geographical concentration of the quota system and the co-ordination of regional policies.

10. Approximation of laws

The Council adopted a Directive on information to be published on a regular basis as a follow-up to the Directive on "conditions for admission to official stock exchange listing" and "conditions for distribution of the listing particulars to be published for such admission", adopted in March 1979 and March 1980 respectively.

The Council also adopted a Directive on the approximation of the laws of the Member States relating to cosmetic products.

11. Compensation to the United Kingdom

The Council discussed the budgetary solution to be found for the United Kingdom for 1982 on the basis of a Commission proposal. The Foreign Affairs Ministers reached an agreement in principle at their informal meeting on 24 and 25 May, and the final conclusions as to compensation were worked out by the Ministers on 26 October 1982.

Ministers will now have to take a decision on the solution to be found for the ensuing problems.

12. Greek memorandum

In March 1982 the Greek Government submitted a memorandum on relations between Greece and the European Communities. In a reply dated 10 June, the Commission stressed the need to tackle the particular problems facing Greece and to take them into account in the framework outlined by the Commission. The Council then asked the Commission to remain in contact with Greece in order to obtain maximum information on the various aspects of this problem. These contacts began in September 1982 and have been particularly active.

13. Relations between the Institutions

The Presidents of the European Parliament, the Council and the Commission signed a joint declaration on 30 June on various measures to improve the budgetary procedure. On that occasion the President of the Council stated his opinion that the signing was a major event in relations between the Community Institutions as they needed to be able to co-operate in the joint task of building Europe.

It was in the same spirit that the Council sent a letter to the European Parliament on 6 April 1982 clarifying and making certain improvements to relations between the European Parliament and the Council, regarding for instance programme speeches by the Presidency, Written and Oral Questions, appearances of the Presidents of the various specialized Councils before Parliamentary Committees and optional consultation and fresh consultation of the European Parliament.

In a letter dated 25 October 1982 the European Parliament was informed that, as far as possible, the President-in-Office was prepared to take part in urgent debates on Community subjects.

The Council has begun examining the Resolution adopted by the European Parliament on 10 March 1982 on a draft uniform electoral procedure for electing the members of the European Parliament.

The Council has also begun examining:

- the Commission proposals for improving the conciliation procedure between the European Parliament, the Council and the Commission;
- the Commission communication on the role of the European Parliament in the preparation and conclusion of international agreements and accession treaties.

14. Enlargement

The accession negotiations have made important strides forward during 1982 in line with the wish expressed by the European Council on a number of occasions - most recently in June 1982 - for progress to be made in this area.

A first series of chapters was settled with Portugal in February, viz.: capital movements, transport, regional policy, economic and financial questions and Euratom. The Community has defined its position on certain chapters in a second series, and these are now being negotiated. The chapters involved are those relating to the industrial sector - customs union, ECSC, external relations - and the chapters on the right of establishment and taxation. The most recent Ministerial meeting of the conference was held at the end of November.

A series of chapters has also been settled with Spain, viz.: capital movements, transport, regional policy, right of establishment, economic and financial questions and approximation of laws. The search for solutions in respect of another series of chapters is now at the stage where negotiations should be concluded in the very near future. The chapters concerned are those relating to the industrial sector - customs union, ECSC, external relations - and the chapters on taxation and patents. The next Ministerial meeting of the Conference is scheduled for December next.

The inventory, accompanied by appropriate proposals on the problems posed by enlargement for Community policies and for each of the Member States, which the June European Council asked the Commission to compile, has now been forwarded by the latter.

15. External relations

Community policy on external relations has always been marked by solidarity and many examples have been given. The Community and the Member States again demonstrated this solidarity in many areas during 1982, but in particular:

- by supporting the United Kingdom through the adoption of common measures during the Falklands crisis;
- by undertaking purely humanitarian action in the form of gifts to the poorest sections of the Polish population;
- by continuing to give priority attention to the problem of world hunger.

At trade-policy level, measures to combat protectionist tendencies aimed at safeguarding the international trading system and relations with the other major industrialized countries have continued to be a major source of concern to the Community.

In this connection the Community would emphasize that despite the constantly growing worldwide economic crisis and the various problems pointed out in this report, the basic rules of GATT trading principles have been complied with and the Community is continuing its efforts to see that those principles continue to be followed.

The advent of a growing dispute with the United States, which has deepened following the Versailles Summit, at which the Communities were represented by the President of the European Council and the President of the Commission, prompted a vigorous reaction from the Council, which regretted the practice of unilateral measures and emphasized the need for disputes to be settled with strict regard for approved international commitments, while indicating its readiness for a dialogue.

The continuing considerable imbalance in trade with Japan to the detriment of the Community, despite the many consultations with that country over a number of years, has led to the Council decision to initiate the procedure under Article XXIII of GATT, which covers measures by one party which are likely to cancel out or to jeopardize the advantages deriving for the other party from the Agreement. In the Community's view, such is the case with Japan, whose exports of manufactured products have developed on a major scale over the last 20 years, whereas the level of penetration of the Japanese market by manufactured products from the Community has remained practically the same.

On the occasion of the tenth anniversary of the signing of the free-trade agreements linking the Community with the EFTA countries, which are among the Community's major trading partners, the Council adopted a statement expressing satisfaction at the excellent way in which these agreements had operated and confirmed the Community's interest in improving and intensifying co-operation with its EFTA partners.

The Council laid down the main lines of Community participation in the GATT Ministerial meeting.

Negotiations for the renewal of the Multifibre Arrangement were concluded on terms which covered the basic concerns of the Community, and the Council was thus able to notify the Community's acceptance of MFA III. The Council therefore took a decision at the same time providing for denunciation of the Multifibre Arrangement by the Community no later than 31 December 1982 should the Community be unsuccessful in negotiating satisfactory bilateral agreements. Some of these agreements have already been negotiated.

Following the imposition of martial law in Poland in December 1981, the Council terminated sales of food products to that country on exceptional terms and initiated the above-mentioned humanitarian measure. In the same connection, the Council adopted measures to reduce imports of certain products originating in the USSR.

In the field of relations with the developing countries, it should first of all be noted that the Commission has recently submitted to the Council and the European Parliament an important memorandum calling for overall thinking on trends in Community development policy, both autonomous and contractual, with a view to identifying the principles and guidelines which should direct the course of this policy during this decade. The Council has begun its examination of this memorandum.

The accession of Zimbabwe, Antigua, Barbuda and Belize brings the number of ACP Member States of the Lomé Convention to 63. The Convention, to which the Community is known to attach special importance, has continued to be implemented smoothly. The meeting of the ACP-EEC Council of Ministers in Libreville on 13 and 14 May 1982 led to a review of co-operation and, in particular, to the solution of a problem concerning the application of the STABEX system, thanks to exceptional and additional finance granted by the Community for 1982. Prior to that, a solution had also been found to the dispute over the level of guaranteed prices for ACP sugar.

The Council began examination of another important Commission communication on the implementation of a Mediterranean policy by the enlarged Community to take account of the foreseeable effects of enlargement. Relations with the Mediterranean countries were also marked by the positive conclusion of all negotiations for the renewal of the Financial Protocols with the Maghreb and Mashreq countries, involving an overall budget of some 1 thousand million ECU made available to the countries in question by the Community in the form of grants or loans for the next 5 years.

A Ministerial meeting with Egypt led to a strengthening of the co-operation ties based on the 1977 Agreement. At the Ministerial meeting with Cyprus on 25 October, the Community told Cyprus that the Council had adopted negotiating directives for the Commission with a view to defining mutual trade arrangements between the Community and Cyprus for 1983. The conclusion of the Protocol of adjustment to the Co-operation Agreement with Yugoslavia following Greek accession signalled a revival in relations, thanks also to the short-term solution unilaterally arrived at by the Community on the "baby-beef" problem.

The Council has recently made a start on discussion of the Commission proposals concerning relations the Community and Malta.

In the sphere of basic products the Community continued its policy of active participation in international commodity agreements, in particular by signing the sixth Tin Agreement, ratifying the Rubber Agreement and making further efforts to accede to a new improved Sugar Agreement.

Co-operation with India, ASEAN and other partners in Asia continued normally. The extension of co-operation with Latin America continues to be of major importance to the Council. The framework co-operation agreement with Brazil, which entered into force on 1 October will give a new dimension to co-operation with that country.

[→ Central America & Caribbean]

The fight against world hunger continues to be a top-priority objective which the Community is endeavouring to promote in all its aid programmes, as well as in its food aid programme. The action plan against world hunger has also continued to be implemented, with the Community being in the process of implementing a new form of action in the form of support for food strategies, starting with a number of African countries. The Council has also undertaken a feasibility study on longer-term encouragement for food production in the developing countries and of thematic measures (re-forestation, campaign against endemic diseases, environment).

The Community has continued to relieve misery, wherever it may have occurred, through its emergency-aid measures and refugee aid. The programme of aid for the non-associated developing countries, the number one priority of which remains the development of food production, has been greatly expanded in 1982. The Community has stated its readiness to extend its co-operation to the energy sector also, in the form of support for energy planning in those developing countries desiring it. The Council has also been concerned with the question of Community aid in relation to the role of women in the developing countries.

The Generalized Scheme of Preferences for 1982 will contain further improvements to the scheme for the previous year; particularly for the poorest countries.

Brussels, 22 November 1982

Addendum No. 1

European Union Report

Page 21 - Between the first and the second paragraph, insert the following text :

At its session on 22 November 1982 the Council (General Affairs) agreed, as a follow-up to the declarations of the European Council of March and June 1982, to increase the Community's technical and financial aid to Central America in 1982.

The Community has been unstinting in its efforts to help find a consensus in favour of the actual launching of global North/South negotiations, to which it remains profoundly attached. The results of the Western Economic Summit at Versailles bear witness to these efforts, since all those attending the Summit held the view that the opening of global negotiations represented a "major political objective". The Community regrets that no agreement has so far been reached on the actual opening of these negotiations.

Political co-operation

1. Growing international and regional conflicts and tension of concern to Europe have once more underlined the need for close political co-operation amongst the Ten. Only frequent and thorough consultations can enable the Ten to bring their common positions and joint action to bear with the necessary vigour and thereby contribute to finding solutions to international conflicts and to the preservation of peace and stability in Europe and in the world.

2. The report of the Foreign Minister on political co-operation (EPC) adopted on 13 October 1981 in London (the London Report) provided for a strengthening political commitment and for a strengthening of the existing procedures and mechanism of the political co-operation through a number of innovations which have been carried out successfully. Thus the crisis-procedure has been applied on a number of occasions. The support given to the Presidency from preceding and succeeding Presidencies has proven to be most valuable in securing continuity within the EPC. As also laid down in the London Report the Commission has been fully associated with political co-operation and represented at EPC meetings at all levels.

3. The significance of the co-operation with the European Parliament is underlined in, inter alia, the London Report in which the close relations between the EPC, and the Parliament are described in detail. In addition to the already existing procedures, the Foreign Ministers have recently expressed their readiness to keep the Parliament, if it so desires, informed on the outcome of the special EPC crisis meetings provided for in paragraph 13 of the London Report.

4. As laid down in the London Report, the Ten have noticed an increased desire from a number of third countries to enter into closer contact with them. The Ten have responded effectively to these requests, particularly vis-à-vis countries of special interest to them. Regular contacts within the framework of the EPC have been established with the applicant countries, Spain and Portugal. These procedures should be seen as a preparation for the two countries' full participation in the EPC once they become members of the EC.

5. The Ten attach great importance to the relations with the United States and emphasize the continuous need for close consultations. To this end the President of the EPC has met with his American colleague. Furthermore, a first meeting between the political director of the Presidency assisted by the political directors of the preceding and succeeding Presidencies and high level officials from the United States took place in September 1982 to substantiate the dialogue across the Atlantic. At that occasion both sides stressed the importance of and the need for close consultations and co-ordination.

East-West relations

6. Serious setbacks in East-West relations have been a major element in the deteriorating international situation during recent years. The past years have brought new and disturbing violations of the principles on which the United Nations is based. The continued occupation of Afghanistan with the evident willingness of the Soviet Union to pursue its aims by use of its massive military potential have contributed to create a climate of distrust and tension. The tragic events in Poland since last December which took place under pressure have also had a major negative impact on overall East-West relations. These events, taking place in the heart of Europe, cause deep concern among the Ten.

7. To halt the present negative trend and to develop substantial and balanced East-West relations aimed at genuine detente, the causes underlying the negative developments in East-West relations should be removed in order to restore respect for the principles of the United Nations' Charter and the Helsinki Final Act and to ensure mutually advantageous co-operation through dialogue and negotiations. The Ten have already shown their readiness to contribute to a positive development of East-West relations and they have urged the Soviet Union to demonstrate a similar inclination.

CSCE

8. The Ten attach particular importance to the co-ordination of their views on CSCE. Intensive consultations continued throughout the year and served to enhance the contribution made by the Ten at the Madrid meeting which was resumed on 9 November 1982. The Ten now as before view the CSCE process as a useful tool for furthering their objectives in the East-West dialogue. The Ten hope that it will be possible at the resumed session of the Madrid meeting to reach agreement on a balanced and substantial concluding document. Such a document should mark tangible progress within the human dimension of the Helsinki Final Act and contain a precise mandate for a conference on disarmament in Europe. In the opinion of the Ten the draft concluding document submitted in December 1981 by eight neutral and non-aligned countries remains a good starting point for the negotiating process in Madrid. The Ten have submitted some essential and reasonable draft amendments to this document.

Poland

9. Ever since the imposition of martial law in December last year the Ten have followed developments in Poland with profound concern. In sincere compassion with the Polish people the Ten have, on several occasions, reiterated their requests to the Polish authorities to lift martial law, free those arrested and restore a genuine dialogue with the Catholic Church and Solidarity. Although the recent release of Lech Walesa may indicate a step in the desired direction the Ten regret that the prospects for an early improvement of the situation in Poland remain bleak.

Middle East

10. The Ten have continued their active diplomacy with a view to promoting a comprehensive peace settlement in the Middle East. As confirmed by the declaration of 20 September 1982 on the Middle East, such a settlement to be concluded with the participation of all parties, which means that the PLO will have to be associated with negotiations, should be based on the principles of security for all States in the region including Israel's right to exist, justice for all peoples, including the right of self-determination for the Palestinians with all that this implies, and mutual recognition by all the parties involved.

11. During the first months of the year efforts were concentrated on securing Israeli withdrawal from the remaining part of Sinai. The Israeli evacuation took place on schedule and was completed on 25 April. In its statement on the Middle East of 30 March the European Council noted that the participation of four Member States of the European Community in the multi-national force and observers in Sinai (MFO) was a positive contribution in connection with the completion of the Israeli withdrawal from Sinai.
12. During Spring the then President of the Council of Ministers, Mr Leo TINDEMANS, held a series of contacts with the parties concerned to explore their attitude further. Mr TINDEMANS reported to his colleagues on 21 June. In his comprehensive report Mr TINDEMANS, among other things, pointed out the need for continuity in the endeavours of the Ten.
13. The development of the Arab-Israeli conflict took a dramatic turn with the Israeli invasion of Lebanon in June. The Ten vigorously condemned the invasion in their declarations of 9 and 29 June, and called for the complete and prompt withdrawal of Israeli forces as well as the departure of all foreign forces except those which may be authorized by a legitimate and broadly representative Government of Lebanon.

14. However, following the dramatic and tragic events in Lebanon, there were signs of a positive development in the area. In his speech to the UN General Assembly on behalf of the Ten on 28 September 1982, Mr Uffe ELLEMANN-JENSEN, the current President of the Council of Ministers stressed that the Ten are encouraged that the essential principles which in their view must be accepted and reconciled as the basis for a comprehensive, just and durable settlement are commanding increasing acceptance. In the same speech Mr ELLEMANN-JENSEN welcomed the new American initiative contained in President Reagan's speech on 1 September 1982. It offers an important opportunity for peaceful progress on the Palestinian question and a step towards the reconciliation of the parties' conflicting aspirations. All parties should seize the present opportunity to initiate a process of mutual rapprochement leading towards a comprehensive peace settlement. In this connection, Mr ELLEMANN-JENSEN emphasized the importance of the statement adopted by Arab Heads of State and Government at Fez on 9 September, which is seen by the Ten as an expression of the unanimous will of the participants, including the PLO, to work for the achievement of a just peace in the Middle East encompassing all states in the area, including Israel. In the speech Mr Uffe ELLEMANN-JENSEN also called for a similar expression of a will to peace on the part of Israel.

15. The Ten believe that discussions of the Franco-Egyptian draft resolution by the Security Council could play a useful part in establishing a common basis for a solution of the problems of the area.

16. In New York Mr ELLEMANN-JENSEN met with Mr Faruq KHADDOUMI, Head of the PLO Political Department. Mr ELLEMAN-JENSEN in this context expressed the wish of the Ten to see the Palestinian people in a position to pursue their demands by political means and that the achievement of these should take account of the need to recognize and respect the existence and security for all.
17. Mr ELLEMAN-JENSEN visited Beirut on 4-6 November 1982, to express the Ten's support of the Lebanese Government and the unity and independence of Lebanon and to discuss assistance for reconstruction. Mr ELLEMANN-JENSEN also visited Amman (6-8 November) as Jordan plays a crucial part in ongoing peace efforts.
18. The Ten have on various occasions pointed out the danger which the conflict between Iran and Iraq continues to cause to the stability in the region. They have in their declarations called for a peaceful solution to the conflict on the basis of the relevant United Nations' resolution.

Afghanistan

19. The Soviet military occupation in 1979 of Afghanistan, a former non-aligned and independent country, remains a source of grave concern to the whole world and continues seriously to affect the stability of the region. More than 20 per cent of the Afghan population have had to flee their home country and unbroken resistance in Afghanistan clearly shows that the Afghan people reject the political system forced upon them. In their joint statement at the opening

of the 37th UN General Assembly the Ten strongly urged consideration of the European Council proposal of 30 June 1981 for a comprehensive political settlement. Through a two-stage international conference the proposal seeks to bring about the cessation of external intervention and the establishment of safeguards to prevent such interventions in the future, taking into full account the legitimate interests of the countries in the area. The Ten note with interest the efforts undertaken by the Secretary-General and his personal representative aiming at a political solution. Any solution should be reached between all parties concerned, should be based upon the principles of the United Nations resolutions, and should include the withdrawal of foreign troops. At its meeting on 29-30 March 1982, the European Council denounced the negative attitude of the Soviet Union which has successively rejected proposals made by the Ten, the non-aligned movement, the Islamic Conference and the UN General Assembly. The Ten also supported the initiative by the European Parliament making 21 March 1982 "Afghanistan Day".

South East Asia

20. Like Afghanistan, Kampuchea has been invaded and occupied by a foreign power. All efforts to bring about a solution to the Kampuchea problem have foundered so far by the refusal of Vietnam to accept the relevant United Nations resolutions as the basis for a genuine political settlement. The Ten have continued to develop their relations with the association of South East Asian countries (ASEAN) and the Belgian Foreign Minister, Mr TINDEMANS, attended the annual ASEAN ministerial meeting

in Singapore in June on behalf of the Ten. The Ten note with interest new developments which could contribute towards a comprehensive political solution. Resistance forces have come together and announced the formation of a coalition. There have also been contacts recently between Vietnam and other Governments in the region. The Ten note with satisfaction that the resolution on Kampuchea at the 37th UN General Assembly was adopted by an overwhelming and even increased - majority. They remain prepared to support any initiative which aims at establishing a truly representative government in a neutral and independent Kampuchea.

Africa

21. The Ten have continued to consult on a wide range of African issues.
22. They have in particular repeated their unequivocal condemnation and rejection of the policy of apartheid in South Africa. They have continued their efforts to promote peaceful change. To this end the Ten have continued to study how to best use the collective weight of the European Community and they have continued a critical dialogue with South Africa.
23. The Ten remain convinced of the need for early independence for Namibia in accordance with Security Council Resolution 435. They have commended the Western Five for their untiring efforts to this end. They have expressed support for all parties who have striven to bring about independence for Namibia.

Latin America

24. The Ten have on several occasions reaffirmed the importance they pay to their relations with Latin America. They have, therefore, both collectively and as individual States, aimed at strengthening the relations with the States in Central America, the Caribbean region and South America. At its meeting on 29-30 June 1982 the European Council instructed the Foreign Ministers to study the appropriate means to strengthen co-operation between the Ten and this region. At their meeting on 20 September, the Foreign Ministers agreed on a number of steps to be taken with that purpose.
25. The Ten have expressed their serious concern about the growing tension in Central America which in their view is mainly caused by longstanding and grave economic and social problems. They are convinced that only the implementation of a political dialogue and negotiations with the participation of all the parties concerned will bring about a peaceful settlement. The necessary political solutions should be sought and found by the parties to the conflict themselves.
26. The Ten deplored the invasion of the Falkland Islands by Argentina, where force was used against a Member of the Ten. They are, however, optimistic that this issue will not be an obstacle to the further development of their relations with the countries of Latin America.

Cyprus

27. The Ten continue to take the greatest interest in the Cyprus problem. They have stated their policy on many occasions, most recently in the general debate of the 37th United Nations General Assembly, when the President of the Ten expressed support for the efforts of the Secretary-General of the United Nations to bring about a just and lasting solution, that will effectively maintain the unity, territorial integrity and independence of the Republic of Cyprus.

The United Nations

28. The Ten have strengthened further their already close co-operation in the United Nations system. Regular consultations have become the norm not only in the General Assembly and its various bodies, but also in the specialized agencies, international conferences and other organs of the United Nations. In all these fora the Ten have endeavoured to harmonize their voting positions as well as to reach agreement on common statements and common explanations of vote with a view to presenting the common positions of the Ten on as many subjects as possible.

Disarmament

29. At the United Nations second special session devoted to disarmament (7 June to 10 July 1982) the Ten Member States of the European Community were represented at a high political level and participated actively in the work of the special session. Besides giving their views in common general statements in the plenary and in the main committees of the special session, the Ten also contributed with common replies to enquiries from the Secretary-General of the United Nations concerning the subjects "the relationship between disarmament and development" and "the relationship between disarmament and international security".
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EHG(C)(82)9 ADDENDUM

COPY NO.

1

30 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

ADDENDUM TO EHG(C)(82)9

The Commission's report, referred to in paragraph 3 is
now attached.

Foreign and Commonwealth Office

30 November 1982

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 783 final

Brussels, 25th November 1982

COMMISSION REPORT ON THE EUROPEAN UNION

(Communication from the Commission to the European Council,
Copenhagen, 3 and 4 December 1982)

COM(82) 783 final

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COMMISSION REPORT ON THE EUROPEAN UNION

1. This report on the progress of the Community towards European Union is the sixth (1) of its kind from the Commission to the Council and the Member States since the TINDEMANS' report (2) in 1975.
2. During 1982, the European Community has been severely tested by events. Trade disputes and monetary disturbances have confronted the Community with an imperative need to act together in defense of the common interest. By and large, the Community has responded well to these challenges.
3. However solidarity in the face of external events has not been matched by internal reform. In particular, the adaptation of the Common Agricultural Policy and the financing of the Community have threatened more than once to block the decision-making process as a whole, at critical moments. They are endangering the negotiations on the Third Enlargement, to include Spain and Portugal in the Community.

Some progress has been possible in economic and social policies, but not enough to offer the firm prospect that, in 1983, the Community will be able to make a decisive advance towards economic recovery, and reducing unemployment. It is essential to make possible a macro-economic strategy based on a genuinely integrated internal market, on industrial, energy and research and development policies that are fully consistent at a European level, and supported by structural financial instruments capable of exerting a greater influence.

(1) Suppl. 8/77, 1/79 and 9/79, 4/80, 3/81 - Bull. EC

(2) Suppl. 1/76 - Bull. EC

4. Nevertheless, in 1982, valuable groundwork has been done which could enable progress to be made towards a European Union. In this respect, the Commission believes that the Community's success in meeting external challenges is a timely reminder. In steel, for example, it has been demonstrated, once again, that external solidarity is most effective when based on a developed common policy for internal as well as external aspects of the question. In contrast, the lack of common policies, or their weakening by long-standing and unresolved disagreements, is a constant impediment to external solidarity, as it is, more broadly, to economic recovery within the Community.
5. This report now examines in more detail the principal developments within the Community in 1982, relating to progress towards European Union.

Political and institutional Europe

6. In June 1982, tripartite discussions between the Presidents of the Council, the Commission and the European Parliament were brought to a successful conclusion (3) with the signing of an agreement on budgetary questions. This agreement is designed to improve the operation of the budgetary procedure and thus to avoid, to the extent possible, recurrent delays in the adoption of the Community's budget. The agreement covers, in particular, the classification of expenditure and its division between compulsory, and non-compulsory categories. It provides a clarification of the procedures to be followed, and of the Parliament's role.

This agreement inaugurates, it is to be hoped, a period in which there can be a more harmonious functioning of the budget procedures of the Community.

7. As regards the European Union more broadly, two major initiatives have been taken :

(3) Bull. EC 6-1982, pt. 1.1.1 et seq.

The first of these is the proposal for a European Act (4), jointly made by the Foreign Ministers of the Federal Republic of Germany and the Republic of Italy, in November 1981. It includes a declaration relating to economic integration. The proposal is designed to bring together the present Community process and the European political co-operation process, and, at the same time, to extend intergovernmental co-operation to new areas. It also aims to improve the functioning of the Community's institutions, by making some adjustments to the balance of responsibilities between them, by improving mechanisms for co-ordinating the political and economic arms of the Community, and by a clarification of understandings about voting procedures.

The second is wider-ranging and more ambitious in character. In July 1982, the European Parliament adopted a resolution defining its attitude to the reform of the existing Treaties and the achievement of a European Union. The resolution concerns, in particular, a definition of the tasks of the Union, the financing of the Union, and the definition of a new balance of responsibilities between the Community's institutions. The European Parliament intends to examine a full draft for a new Treaty in 1983, and has announced its desire to see organised a conference on the future of the Treaties at the end of 1983.

8. Finally, the Commission has submitted proposals to the Council and to the European Parliament, concerning the role of the European Parliament in the preparation and conclusion of international agreements and accession treaties. These suggestions represent, in the opinion of the Commission, practical improvements which do not require a change in the division of powers between the Institutions, as laid down in the Treaties.

Economic and social Europe

9. Two realignments have been made within the European Monetary System, in February and in June of 1982, related to an insufficient convergence of economic policies. Nevertheless, these realignments, and the internal policy measures which accompanied them, again confirmed the ability of the system to make orderly adjustments, in accordance with fundamental economic criteria,

(4) Bull. EC 11-1981, pts 3.4.1 and 3.4.2

while preventing erratic or irrational exchange rate movements.

The Commission hopes that its proposals (5) for a strengthening of the European Monetary System will obtain the approval of the Council of Ministers. A wider international stabilisation of exchange rates will be helped by such a strengthening.

10. The economic recovery which was forecast for the second half of 1982 has not materialised. The prospects for 1983 are not encouraging. The Commission has therefore proposed to the Council (6) that the co-ordination of economic policies, and the financial policy mix within the Community, should ensure a better level of activity, while continuing to pursue a return to the essential fundamental equilibria. The Commission has identified three main issues for internal economic policy towards which its policies are directed. They are :

- inadequate investment and insufficient effort for technological development;
- excessive rigidities in wage and price formation and the low profitability of enterprises; and
- an inappropriate structure of public expenditure and a rapid increase in public expenditure relative to gross national product.

11. Measures to strengthen the underlying economic environment, in particular in the field of investment, are essential to economic recovery, and are the basis for a return to more satisfactory levels of employment. However they need to be accompanied by specific measures in the employment field, relating to the reduction and reorganisation of working time under certain conditions, and the improvement of employment opportunities for young people, in fulfillment of guidelines laid down by European Council at its meeting in March 1982. The Commission's proposal to the Council concerning the reform of the European social fund, and its draft of a Council resolution concerning a policy for professional training in the European Community are part of this same plan of action.

The Community has continued its efforts to ensure a coherent approach to industries in need of major restructuring. It has been necessary to

(5) Bull. EC 3-1982, pt. 1.4.1 et seq.

(6) Bull. EC 10-1982, pt.

maintain and adapt the regime of production quotas in the face of a further decline in market prospects for the steel industry. In general, the Commission has continued to play an active role in ensuring the compatibility of state aids with Community objectives, and has taken steps to obtain a more co-ordinated and effective intervention by Community funds, notably the Regional and Social Funds, in aid of the reconversion of regions in industrial decline. Finally, it has proposed measures in support of new industries, particularly information technologies, and in support of innovation in general.

12. The failure to make determined progress towards a genuine Community-wide internal market remains of concern to the Commission. Despite political undertakings at the highest level, the latest being the conclusions of the European Council in June 1982, no significant progress can be claimed. Proposals to develop the internal market are still, for the most part, blocked in the Council, despite efforts to present them as a coherent whole, and in their wider context (7). In addition, it should be noted that proposals about transport policy are also blocked.

Worse, there has been a proliferation of national measures aimed at reducing rather than freeing the movement of goods and services within the internal market. Such actions are a serious threat to one of the main pillars of the Union, and equally to the pursuit of a policy based on the common interest, which is the only basis for an early economic recovery. The Commission is acting with determination to combat them.

13. During 1982, prolonged discussions have continued about the role of the Community budget, in particular as a source of direct assistance to structural adjustment, and about the impact of Community financing on Member States. They have put further difficulties in the way of the development of Community policies.

These questions are also related to the question of the expansion of the Community's Own Resources. They will need to be resolved, if the Community is to be able to finance the existing and the new policies it needs, especially in view of the Third Enlargement.

(7) OJ C 203 of 6.8.1982 and Bull. EC 6-1982, pt. 2.1.10;
Bull. EC 4-1982, pt. 2.1.87

14. The adaptation of the Common Agricultural Policy is one key element in the development of Community policies. Despite a difficult social environment, the Community was able to adopt price proposals for 1982/83 which kept the rate of growth of the EAGGF Guarantee section below the rate of growth in aggregate budgetary resources, which introduced a hierarchy of prices reflecting the desire to close the gap between Community and world market prices for some key products, and which introduced the principle of limiting price guarantees by means of production thresholds for four major products (cereals, colza, milk, processed tomatoes). However, apart from wine, insufficient progress has been made towards strengthening support systems for Mediterranean agriculture.

EUROPE IN THE WORLD

15. 1982 has been a turbulent year. In December 1981, martial law was imposed in Poland. In April 1982, the Falklands crisis broke. In July 1982, Israel invaded the Lebanon. Economic relations with the United States and with Japan are passing through an exceptionally difficult phase. The simmering crisis related to the growing indebtedness of a number of important developing countries reached a new acuity. The European Community has been called to respond to these events. It has shown its ability to maintain its cohesion, and to respond in a timely fashion.

16. As regards the situation in Poland, the Community has taken practical steps in support of its repeated condemnations of the imposition of martial law. Concessionary sales of Community foodstuffs ceased but aid has been made available swiftly to the Polish population, through the intermediary of non-governmental agencies. Restrictions on the export by the USSR of goods to the European Community have been introduced. The European Council, meeting in March 1982, has underlined the grave repercussions that the situation in Poland will have for security and co-operation in Europe, and for East-West relations overall. This has been borne out already by the difficult atmosphere surrounding the Ministerial meetings of the C.S.C.E. in Madrid this year, and by an agreement amongst the major Western industrialized powers to pursue a prudent course in commercial and financial relations with the Warsaw Pact countries. The reclassification of the USSR within the OECD Export Credit Arrangement is intended to reduce the subsidy element in export credits to that country (8).

17. The Falklands crisis posed problems that were particularly delicate for the Community. Nevertheless, the Community agreed with rapidity to the imposition of an embargo on exports from Argentina to the Community (9). Despite the internal political

(8) Bull. EC 7/8-1982, pt. 2.2.17

(9) OJ L 102 of 16.4.1982; OJ L 136 of 18.5.1982;
OJ L 146 of 25.5.1982 and Bull. EC 1/1982, pt. 1.1.1 et seq.

difficulties in some Member States, Community solidarity was adequately maintained for the duration of the military conflict.

18. During 1982, relations between the European Community and the United States were strained, notably by the unilateral decision of the United States to impose economic sanctions on some Community enterprises. These sanctions were applied to enterprises supplying materials using licences or components of U.S. origin for the construction of the trans-Siberian gas pipeline. The European Community has played an active role in intensive consultations between the United States and her main partners. Meanwhile the sanctions have been lifted.

Following the Western Economic Summit held at Versailles in June 1982, consultations are also in progress on interest rates and international monetary co-operation, and on co-operation in the development of high technology. Steps have been taken at the Ministerial meeting of the I.M.F. at Toronto, in September 1982, to consolidate the financing of world trade and development.

19. In the midst of a world recession, trade disputes are inevitably more acute. The Community has pursued difficult discussions with the United States on trade in steel to a successful conclusion (10). Negotiations for the renewal of the Multifibres Agreement have sought a fair balance between the interests of the Community and of the developing world.

The Community has been able, in 1982, to adopt a global common strategy for the development of trading relations with Japan. At a meeting in March 1982, a programme of action was begun, aiming to tackle the problem at its source, namely the low import propensity of the Japanese economy, and the need for Japan to reflect its international responsibilities in the conduct of its macro-economic policy.

This year, the Community celebrated the 10th anniversary of the signature of the free trade agreements with E.F.T.A. Relations with these countries continue to develop very satisfactorily.

(10) OJ L 307 of 1.11.1982 and Bull. EC 10-1982, pt. 1.1.1 et seq.; Bull. EC 10-1982, pt. 1.3.1 et seq.

20. Relations between the European Community and the developing world as a whole have continued to progress. In particular, the Community has made major efforts in 1982 to strengthen its action to combat hunger in the world. A new form of action, the food strategy (11), is being introduced in partnership with a number of countries in Africa.

The Community is actively preparing, on the basis of communications from the Commission, a general review of the Community's relations with the developing world. Discussions have begun on relations with the Mediterranean Basin as a whole (12), in view of the forthcoming Enlargement. Discussions are also beginning on a Memorandum on the Community's Development Policy (13), in view of the forthcoming renegotiation of the LOME Convention. However, the failure to launch global negotiations between the North and the South despite the progress achieved in this respect during the Western Economic Summit at Versailles, is a continuing disappointment.

21. Negotiations on the Third Enlargement of the Community to include Spain and Portugal have continued to advance. They have now reached a point at which the Community must prepare to examine the few remaining, but most difficult matters. In response to a request from the European Council, the Commission has prepared an updated review of the most important outstanding issues. The Community remains fully aware of its obligations towards the newly-established democracies. Nevertheless, this aspect of its external policy, more even than any other, would be helped by the adaptation and development of a number of Community policies.

(11) Bull. EC 6-1982, pt. 1.3.1 et seq.

(12) Bull. EC 6-1982, pt. 1.2.1 et seq.

(13) Bull. EC 9-1982, pt. 1.1.1 et seq.

EUROPE AND THE EUROPEANS

22. Much attention has been focussed on the debates within the European Parliament on the proposed directive on company law concerning employee information and consultation procedures. The European Parliament is completing its examination, and discussions may soon start in Council.

23. The Council has agreed on the creation of a European Foundation, which is designed to increase understanding between European peoples, and facilitate their participation in the development of a European Union. A further step has also been taken towards the creation of a uniform passport. However, despite renewed calls for action from the Commission (14), and from the European Parliament, there is no progress towards the simplifying of checks at internal Community frontiers : indeed, in some cases, such checks are being reinforced.

* * * * *

24. Once again, this has not been a good year as regards public opinion. Clearly public opinion is more influenced by internal dissension, and by its inability to see the European Community as a force for internal economic recovery, than by the Community's undoubted role in external affairs.

25. The Commission views with concern a tendency in public life to emphasize that which separates nations, rather than that which binds peoples together. The European Parliament, the Council, and the Commission, stand to remind Europeans of their common interest and identity in an increasingly dangerous world. There can be no more practical way to do this than to make 1983 a year for progress towards European Union.

(14) OJ C 197 of 31.7.1982 and
Bull. EC 6-1982, pt. 2.1.10

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COPY NO

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26 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

FISHERIES

Brief by Cabinet Office

OBJECTIVE

1. To reach agreement that the "package" on the table be adopted by Fisheries Ministers forthwith.
2. [Failing that] To ensure that a remit is given to Fisheries Ministers which does not imply any further concessions on the part of the United Kingdom. If possible this should be an instruction to them to reach agreement before the end of the year on the basis of the Commission's proposals. If the Danes will not accept this, we should seek conclusions to the effect that the Heads of Government note the position reached by Fisheries Ministers and instruct them to take decisions by the end of the year.

SUGGESTED OPENING STATEMENT

3. European Council cannot ignore the position now reached on fish. Continuing failure to agree is damaging Community.

4. Do not underestimate the political difficulties faced all round the table in negotiating a Common Fisheries Policy. All European fishing industries in great trouble: all represent acute political as well as economic problems. Great political courage has already been shown by all member states in making sacrifices to bring Community within an ace of a settlement. Nine countries have agreed on a package, and faced the political penalty their concessions to a common position entailed. One country seeks more for herself in the package. Just a little more. But the concessions sought are of a kind which undermine the basis upon which the package has been drawn up - respect for historic fishing patterns. And the other nine are at the limit of their capacity to make concessions.

5. The Danish Prime Minister must understand that I have no concessions to offer. Feeling in the far North, and extreme South-West, is intense. We have to stop where we stand. I believe other governments are in a similar position. Indeed, the nine reaffirmed at the Fisheries Council last Monday that they were not prepared to reopen the package. We are asking Denmark to make one small, but final step to join us.

6. Must not underestimate the political setback failure to agree would cause. There would be continuing uncertainty for our fishing industries. The pathway to enlargement of the Community would have a further obstruction. Another initiative to build and bind Europe would have failed, at the very edge of success. But if we could reach agreement, it would be a tremendous achievement for this Council, Danish Presidency and Europe.

POINTS TO MAKE IN FURTHER DISCUSSION

7. If there is detailed discussion, the Prime Minister might draw on the following points to reinforce her opening remarks:

- i. The whole negotiations have been based on the principle of historic rights. Yet Denmark is requesting 20,000 tonnes of West Coast mackerel, when they have no historic tradition of fishing there

whatsoever. They would also want a handful of licences for fishing in the North of Scotland box for edible fish yet they have no previous tradition of this sort of fishing here. These two demands have no historic justification. Any change in these points would conflict with the principles on which the package is based and would unbalance it and create new difficulties for other Governments which would jeopardise its chances of achievement.

ii. What is more, these demands are minute compared with the totality of Danish fishing. The whole of their fishing for human consumption represents only 18 per cent, by weight, of the totality of their fishing, the rest (over 1 million tonnes) being fish caught for industrial uses, most of which they can fish free of quota controls. No other Member State catches even 100,000 tonnes of fish for industrial use. So far as the fish for human consumption is concerned, they have a large share of the Community's herring, over one-third of the "other species" and a fair share of the seven main species to which the extra mackerel they are requesting would be only a very small addition."

iii. The final package reached on 8 November embodies a series of major concessions by the United Kingdom on the position supported earlier by all the parties in Parliament. We have faced intense domestic criticism on this score: nevertheless, we are prepared to accept the package if others will.

iv. A failure to settle the matter now would be a very serious setback for the Community. Member states would be forced to adopt some form of national measures which would show in the worst possible way that the Community was unable to settle its affairs properly.

BACKGROUND

8. There is no problem over national measures other than with France. They are willing to express in general their support, but in detail there would be difficulty in reaching agreement with them, as they prefer the flag state to retain its sovereignty and not to have terms imposed upon it in the waters of other countries. It is advisable therefore to speak in favour of national measures in general rather than specific terms at this stage.

9. Nine Member States accepted a fisheries 'package' on 25/26 October and further efforts were made to secure Danish agreement at the Fisheries Council on 8 November. A note on the main components of a settlement is at Annex A. Nevertheless the Danes have remained obdurate despite appeals by the United Kingdom and other Member States. At the Fisheries Council on 29 November, nine Member States reaffirmed their agreement to the package and made clear that there could be no alteration to it. The United Kingdom position has made abundantly clear to the Danes by the Prime Minister and the Minister of Agriculture, Fisheries and Food.

10. The Danes should now realise that it will be very difficult if not impossible for them to secure any further concessions. Hitherto their strategy has no doubt been to keep on 'negotiating' until such time as concessions in their favour cease to be made. That time has now arrived. Other Member States also have an interest in rejecting the remaining Danish demands, notably Ireland, the Netherlands, Germany and France on mackerel and France on the Shetland box.

11. If overall agreement cannot be found before the end of the year we will need to apply to take national measures to implement so far as possible the 'package' agreed by nine Member States. However, this presents many problems and it would clearly be very much better to achieve a Community-wide agreement.

12. There are distinct disadvantage for Denmark in not settling a CFP. In the fishing sector their industry would face an uncertain future with the threat of national measures being taken against them by the other Member States which could lead, for example, to prosecutions for illegal fishing. It would be open to us to change our quota management arrangements for mackerel so that fewer United Kingdom catches were landed in Denmark. In the event of continued disagreement the Norwegians would not make available to the Community the extra fish in 1982 that they would do if there were agreement among the 10, which would particularly hit Denmark. The greater disadvantage, however, is political in that it must be difficult for a small country like Denmark to remain isolated on a major issue within the Community. Certainly Danish interests would not be well served if because of her stand on fisheries Denmark became very unpopular elsewhere. This is especially the case with the United Kingdom as is shown by the very great extent to which Danish exports and most particularly food exports are dependent on the United Kingdom market.

13. It may be that, in the hope of securing further concessions, the Danes will suggest that Fisheries Ministers should simply be instructed to produce a solution quickly. This would not be good enough. The present 'package' needs to be clearly identified as the form that agreement should take.

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14. At Annex B is a note on the main concessions made to the Danes in recent months. At Annex C is a note setting out the main claims the Danes have made in claiming they have been unfairly treated and the basis for our refutation of it. At Annexes D and E are two 'base' documents Annex VII of the 'Hague' Agreement of 1976 and the 30 May 1980 Declaration of the European Council.

Cabinet Office

26 November 1982

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The package 'on the table' covers the following aspects:-

(i) Access

(a) the continuation of 12 mile limits for at least 20 years from 1 January 1983 with provision for the arrangement to be continued after AD 2002. In the United Kingdom's 12 mile limit the fishing opportunities of other Member States will be significantly reduced; we will retain the right to fish in those sections of the 12 mile limits of other Member States of interest to our fleet;

(b) a 'box' at North Scotland will be established (also for 20 years in the first instance) within which fishing by larger vessels (over 26 metres) will be limited by transferrable licences;

(ii) Quotas

Total allowable catches are set for 1982 for all the main stocks of fish and for most of them these are divided into national quotas. The percentages allocated to each Member State of each stock will normally continue unchanged from year to year;

(iii) Conservation

A Community regime on technical measures such as mesh sizes of nets, and minimum fish sizes will be established on a permanent basis. These measures include many that were first established as United Kingdom national measures.

(iv) Structures

Community aid will be given to the restructuring of the Community's fishing fleet;

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(v) Enforcement

Common rules on national enforcement by each Member State in its own waters will come into force on 1 January 1983. At the same time a Community Inspectorate will be established to ensure the rules are interpreted uniformly;

(vi) Marketing

New and improved marketing arrangements were adopted in 1981 and will come fully into effect on 1 January 1983.

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Note: In the Annexes to this brief comparisons except where otherwise stated are in cod equivalent tonnes. In effect there are a number of agreed ratios which allow comparison to be made (by value) between quotas of different species. Thus in comparison to cod, mackerel = 0.3. i.e. one tonne of mackerel is taken as worth 30% as much as one tonne of cod.

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 CONCESSIONS MADE TO DENMARK SINCE THE PROPOSALS OF THE 21st JUNE 1982
 ACCEPTED BY 9 OTHER MEMBER COUNTRIES

Quotas

(Column A - Danish allocation in tonnes
 Column B - Danish percentage of EC availability)

	<u>Original Proposal</u>		<u>Present Proposal</u>	
	A	B	A	B
Baltic Cod	82,000	72.8	90,000	78.3
West Greenland Cod			TAC reduced and not allocated to meet Danish (Greenland) requirements	
North Sea Cod	44,140	19.8	50,000	20.5
North Sea Haddock	7,000	5.1	11,500	7.7
North Sea Saithe	4,000	6.1	5,940	8.7
North Sea Plaice	20,000	15.4	26,000	20
North Sea Herring	3,000	5.2	5,000	7.4
North Sea Whiting	7,130	8.1	17,300	13.2

In addition Denmark may fish 7,000 tonnes of mackerel from Western waters up to 31 March 1983 as well as 20,000 tonnes they have already caught in 1982 though thereafter Danish catches from this stock would not be permitted. There is also a possibility of a further 2,000 tonnes of North Sea cod being made available for the Danes for 1982 only by the Norwegians.

Access

The size of the North Scotland 'box' has been reduced in an area of interest to Denmark in order to meet their concerns.

Supplies of Mackerel

In order to meet Danish complaints that insufficient mackerel was available to their processing industry we have altered our national

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quota management arrangements with the effect that by 16 November landings of mackerel in Denmark from United Kingdom vessels amounted to 16,000 tonnes compared with 8,000 tonnes in the same period of 1981. We have also indicated willingness to consider the adoption of a premium for mackerel imported into Denmark from other community countries financed by the Community. Very recently the Danish market for mackerel has collapsed.

"Trilateral" (EC/Norway/Sweden) Agreement

To meet Danish demands we have agreed that the trilateral agreement for 1982 will not be put into effect despite the consequent adverse effects on the herring stocks available to other Member States including the United Kingdom.

Financial Arrangements

The other Member States have agreed in principle certain other financial provisions such as Community aid for exploratory voyages which could act as a further financial sop to Denmark.

Conservation

Certain technical adjustments (acceptable but in principle undesirable) have been conceded to Denmark in respect of the conditions under which catches may be taken.

DANISH CLAIMS FOR UNFAIR TREATMENT

11. *Unfair Treatment*

1. The Danish claims of unfair treatment in effect centre on the allocation of quotas of the seven main species (cod, haddock, plaice, whiting, saithe, redfish and mackerel) and on the allocation of licences in the North Scotland 'box'.
2. The Danes have previously, we understand, indicated to the Commission their willingness to forego a claim for licences in the 'box' (which is not surprising given they have no record of human consumption fishing there) and they have probably maintained their claim mainly for tactical reasons. However, there is no doubt that their position on quotas is genuine.
3. Their main claim is essentially that their historic share of the seven main species (which they put at 27%) has been reduced in the proposed allocation to 21% to the benefit of the United Kingdom whose allocation on the same basis has been increased from 32% to 37%. The Danes also claim that the 'extra' fish made available since the Commission's original proposals of June 1982 have gone disproportionately to the United Kingdom (51%) and only to the extent of 21% to Denmark.
4. These claims are misleading and/or spurious for the following reasons:- (a) taking the second claim first,
since June increases in total allowable catches have been proposed mainly for stocks like Western mackerel of which the United Kingdom has a substantial share and Denmark a low one (in this case zero). It is to be expected therefore that the total increase in United

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Kingdom quotas would be greater than the Danish. What the Danes ignore (and what really counts) is what happened to the national percentage shares of individual stocks since these will continue from year to year. As will be seen from the following comparisons of percentage allocations for the main stocks of importance to both Denmark and the United Kingdom, Denmark has done very well.

	<u>% EC allocations</u>		A = June 1982 B = November 1982	
	<u>UK</u>		<u>Denmark</u>	
	A	B	A	B
North Sea cod	47.0	47.0	19.8	20.5
North Sea haddock	79.4	78.0	5.1	6.7
North Sea saithe	16.8	16.9	6.1	8.7
North Sea plaice	35.6	28.5	15.4	20.0
North Sea whiting	51.2	52.8	8.1	13.2

- (b) The Danes implicitly ignore the decision of the European Council in May 1980 that quota allocations should be based not only on historic fishing patterns but also on the extent of losses suffered in third country waters (where the United Kingdom has lost the most of any Member State) and 'Hague Preferences' where the United Kingdom expects to gain from the explicit recognition at the Hague in 1976 that the 'northern parts of the United Kingdom' should be regarded as a preference area. (In the same way Denmark gains from the recognition of Greenland as a special 'Hague' region). It is therefore to be expected that the United Kingdom share of overall quotas would exceed our historic record. In fact it does so only marginally;

(c) figures quoted by the Danes tend to exclude advantages accruing to Greenland; but Greenland is an integral part of Denmark and as yet a part of the Community. Claims that it has been 'agreed' in the Community that Greenland should be considered as in some way outside the process of quota allocation are unfounded;

(d) the Commission themselves argue that the Danish percentage of the seven main species proposed by the Commission for 1982 is virtually the same (-0.04 per cent) as their average catches in 1973-78;

(i) industrial fishing. In 1981 Denmark and the United Kingdom were the only two industrial fishing nations in the Community. The relative importance of the two countries in this area can be seen from a comparison of landings of the main industrial species in 1981. These were:-

Denmark	1,047,000 tonnes	<u>—</u>
United Kingdom	95,000 tonnes	<u>—</u>

(ii) The Danes will have substantial opportunities to fish for herring not only in the North Sea but also in the Baltic and Kattegat and Skagerrak where most other Member States cannot fish and did not fish in the years when herring fishing elsewhere was banned.

73-78 - 3 other countries more than the Danes
3.

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(iii) There are important other species of fish used for human consumption which fall outside the seven main species (and herring) eg sole. The present percentage allocations of these (calculated in cod equivalent tonnes) are:-

United Kingdom : 7% of EC total

Denmark : 35% "

Draft Council Resolution on certain aspects
of the internal fisheries system

The Council considers that the reconstitution and protection of stocks in order to permit an optimum yield from potential Community resources require strict control and Community-wide measures to that end.

The Council recognises that the protection and the control of the fishing zone off Ireland must not result, because of the size of this zone; in a charge, for that Member State, which is disproportionate to the volume of the Community fish resources which can be exploited in that zone by the fishermen of that Member State. It agrees that the implementation of available means of surveillance or those to be foreseen must be accompanied by appropriate measures to ensure that the charges which ensue will be shared equitably.

Having regard to the economic relationships which characterise fishing activity in Ireland, it declares its intention so to apply the provisions of the Common Fisheries Policy, as further determined by the Act of Accession, and adapted to take account of the extension of waters to 200 miles, as to secure the continued and progressive development of the Irish fishing industry on the basis of the Irish Government's Fisheries Development Programme for the development of coastal fisheries.

...../.....

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The Council furthermore recognises that there are other regions in the Community, inter alia those referred to in the Commission's proposal to the Council (1), where the local communities are particularly dependant upon fishing and the industries allied thereto. The Council therefore agrees that in applying the Common Fisheries Policy, account should also be taken of the vital needs of these fishing communities.

The decisions and the guidelines set out in the preceding paragraphs and the directives adopted for negotiations with third countries in no way prejudice the specific provisions which it is necessary to adopt without delay in order to solve the problems of coastal fishing activity, in particular in economically disadvantaged regions, and to regulate fishing activity within a coastal belt.

- (1) The regions referred to are Greenland, the northern parts of the United Kingdom, and Ireland.

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COUNCIL DECLARATION ON THE COMMON FISHERIES POLICY

1. The Council agrees that the completion of the common fisheries policy is a concomitant part in the solution of the problems with which the Community is confronted at present. To this end the Council undertakes to adopt, in parallel with the application of the decisions which will be taken in other areas, the decisions necessary to ensure that a common overall fisheries policy is put into effect at the latest on 1 January 1981.

2. In compliance with the Treaties and in conformity with the Council Resolution of 3 November 1976 (the "Hague agreement"), this policy should be based on the following guidelines :
 - (a) rational and non-discriminatory Community measures for the management of resources and conservation and reconstitution of stocks so as to ensure their exploitation on a lasting basis in appropriate social and economic conditions ;

 - (b) fair distribution of catches having regard, most particularly, to traditional fishing activities, to the special needs of regions where the local populations are particularly dependant upon fishing and the industries allied thereto ⁽¹⁾, and to the loss of catch potential in third country waters ;

 - (c) effective controls on the conditions applying to fisheries ;

 - (d) adoption of structural measures which include a financial contribution by the Community ;

⁽¹⁾ Cf. paras 3 and 4 of Annex VII of the Council Resolution of 3 November 1976.

(e) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements on fishing possibilities, in which the Community - subject to the maintenance of stability on the Community market - could also offer trade concessions.

3. Furthermore, Article 103 of the Act of Accession shall be applied in conformity with the objectives and provisions of the Treaty establishing the European Economic Community, with the Act of Accession, inter alia articles 100-102 and with the Council Resolution of 3 November 1976, in particular Annex VII.

4. The Council agrees to take up again the examination of the proposed regulations under (a) (technical measures of conservation) and (c) (control) at its session on 16 June 1980, and also on this occasion to begin examination of other proposals, including a proposal on quotas for 1980 which the Commission undertakes to present in good time.

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EHG(C)(82)11

COPY NO 1

26 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

BUDGET PROBLEM

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To make it clear that we would regard failure to reach agreement by the time of the next European Council as a serious matter, but, if possible, to avoid a detailed discussion of the Commission's paper in which the French and others would set out their reservations on it.

POINTS TO MAKE

2. We have already missed the original deadline for a decision of 30 November. I understand the reasons - problems over 1982 refunds, Governmental changes - but

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that is still regrettable. Postponing decisions does not make agreement easier. On the contrary, it can worsen the atmosphere and encourage public controversy. Britain's problem is large and increasing; the Community has agreed to find a solution; it should do so with all speed. My Government would be bound to regard failure to reach agreement by the time of our next meeting as a very serious matter.

3. Glad that Foreign Ministers have agreed to treat this subject with urgency. Right that Coreper should get down to work rapidly and that Council should discuss again in January. They should find a lasting solution.

4. [During discussion of the line to take with the press] Think Presidency should also say that Foreign Ministers will deal urgently with the budget problem with the aim of finding a solution before our next meeting.

5. [If raised] Commission paper has good points and bad points but Foreign Affairs Council to discuss - no need for us to do so. [If discussion does develop - see Annex A].

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6. [If raised] A major objective of any review of the Community's financial system must be to find a lasting solution to the problem of budgetary burdens. As for own resources, the essential requirement is effective control over the growth of surpluses and of CAP expenditure. We take the view that the present own resources will be sufficient even after enlargement.

7. [If pressed on own resources] We are certainly prepared to discuss the Commission's proposals for changes to the Community's financial system, but I am not prepared today to agree that, regardless of what is done about CAP expenditure, new money will be needed.

BACKGROUND

8. Annex A contains points to be drawn on as necessary if there is discussion of the substance of the Commission paper. The paper itself is Annex B.

Foreign and Commonwealth Office

26 November 1982

POINTS TO MAKE ON THE SUBSTANCE OF THE COMMISSION PAPER

1. I naturally welcome the Commission's recognition that the reasons which led to the budgetary arrangements of 1980 and 1982 will continue to exist after 1982.

2. New Policies. We of course endorse the need for new policies, which are important in their own right. We have often been told that the budget problem should be solved by the development of new policies. We would be happy if that was achieved. We are keen to see the development of such policies as the Social and Regional Funds and a coal policy, and we shall be watching closely to see what others actually do in the current Council discussions of these. But even if the Council does agree on new policies, such measures cannot have a major effect on our budget problem in the shorter term. To take just one example, the current proposals for the review of the Regional Fund will increase the UK's guaranteed share by only 1% - the Fund would need to be increased to about twice the total size of the present Community budget to give us a net benefit equivalent to our 850m ecu net refund for 1982.

3. Duration. A lasting solution is needed. This is a continuing problem; repeated debates about stop-gap arrangements are damaging to the Community.

4. Refund arrangement. While the present financial system continues, we shall continue to need a solution through refunds. I agree with the Commission that that will need to follow the pattern of the arrangements for 1980, 1981 and 1982. The solution should thus consist of a basic amount of compensation, fixed with reference to a realistic estimate of the UK's net contribution, plus risk-sharing. We need to avoid having annual negotiations about the figures.

5. Alleged "overpayments". As the Commission notes, the agreement of 1980 has been carried out in strict accordance with the text. The UK is not legally obliged to make any repayment. We have however agreed to "take account" of the 1980/81 outturn when discussing the subsequent solution, and we stand by that. We have already taken account of it in accepting the 1982 arrangement. I agree with the Commission that this is a political problem; our attitude will depend on the attitude taken by others to the overall budget solution. I also agree with the Commission that the

two issues must be dealt with simultaneously. How could I justify making any further repayment (for which there is no legal requirement) without a satisfactory overall settlement?

6. Form of payment of refunds. Note that the Commission believes that compensation should be paid in a form closer to "true Community policies". Not too clear what that means, but welcome if idea is to broaden coverage of supplementary measures programmes.

7. [If in bilateral discussion the Germans stress their determination to contribute no more than 25% of their normal VAT share] Given the views expressed by Italian, Dutch and other Governments, do you really think that agreement can be reached on that basis? I am not denying that you have valid reasons for concern about the open-ended nature of your net contribution. But there is a real risk that your present line could bring about a major Community crisis in the middle of your Presidency.

COM(82) 767 final

Brussels, 17 November 1982

Rec 1015
in 1012
Group

Sent by Fed

Copy to Sir T. B. ...

Mr Butt
Mr Currie
Mr Smith

Mr May ECU (I)
Mr Dime Cab. Of.
Mr Edwards Try.

COMPENSATION FOR THE UNITED KINGDOM: THE SUBSEQUENT SOLUTION

Enter (ECOFIN)

(Communication from the Commission to the Council)

JCS
11/11

COM(82) 767 final

Compensation for the United Kingdom: the subsequent solution

Communication from the Commission to the Council

I. Paragraph 7 of the Conclusions of the Foreign Affairs Ministers on compensation for the United Kingdom for 1982 states: "The Ministers undertake to take a decision before the end of November 1982 on the subsequent solution". The present communication sets out the Commission's basic approach for this subsequent solution.

II. The Commission recognises that the reasons which led to the budgetary arrangements of 1980 and 1982 in favour of the United Kingdom will continue to exist after 1982. It believes, as it stated in its Mandate Report, that this problem should be resolved in the long run by the development of Community policies in the non-agricultural field which would introduce a better balance of expenditure into the Community's Budget. In the Mandate Report the Commission made proposals for such policies, including for example, for the substantial development of the Regional Fund.

The Commission believes that in any event it is important that the process of developing new policies which the Mandate Report set in action should continue. It should be pushed ahead in its own right and in the interest of the Community as a whole.

As a complement to its proposals in the Mandate Report on the expenditure side of the Budget, the Commission now intends to conduct a thorough review of the Community's financing system. This too is a matter of general Community interest and should be conducted on that basis. In the light of this review the Commission will, in the spring of 1983, present proposals designed to:

- a) provide the Community with the necessary resources and with the necessary financial flexibility and autonomy to respond to the increasing budgetary demands of its policies;
- b) develop the Community's financing system in such a way as to stimulate the further development of these policies;
- c) establish a financial framework which allows enlargement by Spain and Portugal to take place without prejudice to the *acquis communautaire* as it now exists and as the Commission has proposed it should be developed in the context of enlargement;
- d) reinforce the Community's internal cohesion and solidarity.

It is within the context of this new financing system, and the development of Community policies which it should generate, that the British budgetary problem must eventually be resolved.

III. Meanwhile, until the process of developing the Community's Budget yields tangible results, the timing of which is likely in practice to coincide with that of the Community's third enlargement, the Commission proposes, in the light of the conclusions of Foreign Ministers regarding the 1982 solution, a further interim ad hoc arrangement for the United Kingdom.

Such an arrangement should be provided on the basis of a new agreement at the Community level. It should cover a period of two years (1983 and 1984). In the light of the developments in the Community referred to above it could be extended to a third year (1985). In this case, the arrangement for the third year should follow the same principles as that for 1983 and 1984.

The arrangement must also take into account paragraph 2 of the conclusions of the Foreign Affairs Ministers about corrections to be made.

The arrangement should be based on a simple system. In its Mandate Report the Commission proposed a mechanism which directly reflected the problem of the low level of the United Kingdom's receipts from EAGGF Guarantee expenditure. The Council was however not disposed to follow this approach. Hence this interim arrangement is based on the understanding that, as in previous years, the United Kingdom's contribution to the Community Budget will be reduced by the financing through the Community Budget of a basic compensation to the United Kingdom, plus a risk-sharing adjustment.

More precisely the arrangement should in the Commission's view contain the following elements relating to each of the years in question:

- a) as base reference a figure on the contribution of the United Kingdom;
- b) in respect of this base reference figure, an amount of compensation which takes account of corrections to be made for 1980 and 1981 in the light of the actual figures;

- c) a risk-sharing adjustment (upwards and downwards) in the event that the actual figure turns out to be significantly different from the base reference;
- d) the level of appropriations to be entered in the Community Budget in order to implement this compensation.

IV. In accordance with paragraph 2 of the conclusions of the Foreign Affairs Council of 26 October 1982, "corrections to be made for 1980 and 1981 in the light of the actual figures will be taken into account when negotiating the subsequent solution".

A simple comparison between the figures contained in the 30 May 1980 agreement and the actual figures does not provide any single or clear basis for determining the possible magnitude of these corrections. This appreciation is a political, not a legal one.

In fact, if on the one hand the 1980 agreement has been carried out in strict accordance with its text, on the other hand it has not had the generally expected outcome that the United Kingdom, after compensation, would still sustain a certain level of contribution.

The Commission would prefer that the Council should first enter into a discussion of the method of a further compensatory arrangement for the United Kingdom, and then deal simultaneously with the level of such compensation and the level of the corrections to be applied to it. The Commission hopes that, at an appropriate moment, an overall settlement, encompassing both elements, could be reached on the basis of a political understanding acceptable to all Member States. The Commission may in due course provide a reasoned view on what constitutes a fair overall level of compensation in the light of both these elements.

V. In some respects therefore the further interim arrangement in favour of the United Kingdom would follow the pattern of the agreements of 1980 and 1982. But the Commission believes that it should be effected in a form corresponding more closely to true Community policies.

VI. In making these suggestions, the Commission is conscious of the criticisms which have been expressed, not least by the European Parliament, of the system of special measures established under the agreements for the years 1980 to 1982 whose genuine Community character has sometimes been questioned.

For this reason, the Commission is of the view that this further interim arrangement should help promote the development of true Community policies. The Commission would not like to see any further prolongation beyond the present proposed arrangement of ad hoc solutions of this kind. But this means that the Community must make more strenuous efforts to develop a wider array of policies at the Community level and must be prepared to diversify and extend its financing system along the lines described in paragraph II above.

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EHG(C)(82)12

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23 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

GREECE AND THE EC

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE (if raised)

1. Recognise importance of the Greek Memorandum to Greek Government. The Commission's forthcoming report on its discussions with Greek Ministers and officials will need careful study. We will adopt a constructive approach when these issues are considered by the Council.
2. But it is equally important for Greece to comply with her existing Treaty obligations (eg not discriminating against imported cars) and to refrain from introducing new legislation which contravenes them (eg on insurance). It would clearly help Greek case on Memorandum if these problems could be resolved.

BACKGROUND

3. Papandreou Government elected last Autumn on anti-EC platform. Their Memorandum, presented to Community in March 1983, seeks to maximise and accelerate Greece's financial benefits from accession (and thus strengthen arguments for continued membership) through more EC funds to develop agriculture, rural infrastructure and small and medium sized industry; EC competition and export incentive rules should also be waived. We - and

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other Member States - believe appropriate solution to Greece's demands can be found within existing Treaty provisions and funding. Commission's detailed proposals for EC response to Memorandum expected within a couple of months.

4. Significant and growing complaint from UK industry not only about existing Greek legislation and practices, eg 1980 legislation which led to special consumer tax on cars being higher for imported than domestically-produced vehicles, which contravene her Treaty obligations, but also about new and illegal legislation introduced this year establishing a quasi-monopoly for state-controlled insurance companies in public sector business. (This contravenes Article 62 of Rome Treaty). They are also currently considering a draft pharmaceuticals law which would largely exclude foreign firms from her market, to the great concern of UK companies. Although Greece is not legally obliged to implement a VAT system until 1 January 1984, the achievement of that deadline looks unlikely. This would set an unfortunate precedent for Spain, who has currently agreed to implement VAT in full on accession in place of her present discriminatory tax systems.

Foreign and Commonwealth Office
23 November 1982

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EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

GREENLAND

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE (IF RAISED)

1. Not for us to discuss now. Best left for detailed consideration in light of Commission's report expected early next year.

BACKGROUND

2. In a referendum on 23 February 1982, Greenland opted by a small majority for withdrawal from the Community. Consequently, the Danish Government submitted to the President of the Council a proposal for a Treaty amending the Community Treaties which would provide for Greenland's withdrawal from full membership, and her addition to Annex IV to the Treaty, listing the Overseas Countries and Territories (OCTs) covered by the Part IV arrangements.

3. The Danish Government has suggested that the Treaty amendments be agreed by the end of 1982, leaving 1983 clear for ratification by Member States, and the introduction of the new arrangements on 1 January 1984. This timetable is unlikely to be met. The Presidency has asked for the

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opinion of the European Parliament and of the Commission. The Commission's report is not expected until early next year. Our overall objective is to ensure that Greenland remains firmly wedded to the Western Alliance. But Greenland's withdrawal would pose particular problems on fish, aid and in deciding the nature of any future relationship.

4. The Commission appear to be moving towards a special OCT status for Greenland. They are concerned about the need for the Community to avoid any action in the next six months which could adversely affect the prospects for the next Greenlandic elections (to be held next May), which could result in a reversal of the decision to withdraw. The Danes are said to favour efforts by the Community to encourage Greenland to reconsider its decision.

5. The negotiations on fish are likely to be particularly difficult. It is assumed that, in the negotiations to settle her future relationship with the Community, Greenland's aim will be to secure free access for her fish products whilst excluding from her waters fishermen from Member States and third countries who might fish under bilateral arrangements with the Community.

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6. OCT arrangements, which were designed to provide an aid régime similar to that in the Lomé Convention to help developing countries, are not appropriate for Greenland and could create an unfortunate precedent.

Foreign and Commonwealth Office

23 November 1982

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23 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3-4 DECEMBER 1982

ENERGY

BRIEF BY DEPARTMENT OF ENERGY

POINTS TO MAKE (IF RAISED)

Community Energy Matters

1. The UK will continue to play a constructive role in developing realistic Community energy policies.

Coal

2. We attach considerable importance to the development of a Community strategy for coal. Coal has a major and growing role to play in meeting the Community's energy needs. A new coal strategy would not only meet these energy objectives, but would also, by developing new Community policies, be a modest but useful step in the direction of solving the Community's budget problem.

/BACKGROUND

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BACKGROUND

Community Energy Matters

3. At the Council on 9 November, Energy Ministers agreed that a specially convened Council should meet in December to discuss terms of reference and time-scales for specific action on solid fuels. Among items will be Community support for economic production, transport and use of coal.

4. We welcome endorsement by Council of the reassuring and important study on security of natural gas supply. Glad to see further work in hand on transport systems and deep gas. Officials will continue discussion of other items, (financial and management control, Energy Demonstration Projects, draft investment on subsidies for investment in Rational Use of Energy, oil stocks, and energy pricing).

Oil

5. The world oil market remains weak with continuing downward pressure on prices. Demand for OPEC oil fell to a low point of 16 mbd in the second quarter of this year. For 1982 as a whole, we now expect demand to average 19.5 mbd (compared with 30 mbd in 1979). Prices could slide dramatically at the end of the year if the Gulf states act on their threats to cut official prices by up to \$6 a barrel. But we judge that they would find it difficult to carry through such a threat.

/7. Lower

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7. Lower oil prices should aid economic recovery within the EEC.

Adverse effects could include a reduction in EEC exports to financially hard-pressed OPEC countries such as Nigeria.

8. Falling oil prices, if maintained for a long period, would discourage efforts to improve energy efficiency and take conservation measures.

We should need to guard against becoming over-dependent on OPEC oil again.

9. Prospects for oil demand in 1983 are little different from 1982 - only a slight increase is foreseen. The OPEC marker price (\$34 per barrel) is likely to come under increasing pressure. There are signs that the Gulf states may be fed up with bearing the burden of maintaining the marker price. Prices may be cut, which could trigger a downward price spiral. North Sea prices are bound to follow any major cut by the Gulf states; (a cut of \$6 per barrel would reduce North Sea exchequer revenues by some £1.5 billion for the 1983-4 fiscal year).

UK Energy Prices

10. Recent announcements of a freeze by the British Gas Corporation on contract gas prices until October 1983 and of a zero average price rise on electricity prices in 1983 represent no departure from economic pricing principles. In neither case is subsidy involved.

Department of Energy

23 November 1982

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EHG(C)(82)14 ADDENDUM COPY NO. 1
1 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3-4 December 1982

ENERGY

Brief by Department of Energy

Addendum

1 Points to make and a background note on nuclear policy are attached, following the Secretary of State's announcement on fast reactor developments on 29 November.

Corrigendum: Oil Background note

2 Para 5, line 4; the figure of 19.5 mbd should be altered to 18.5 mbd.

Department of Energy
1 December 1982

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NUCLEAR

Points to make (Defensive)

- We consider nuclear power has a vital role to play in safeguarding Europe's energy supplies.
- We are therefore pressing ahead with our own programme. Two further Advanced Gas-Cooled Reactors were ordered in 1980, and a public inquiry has now opened into the CEGB's plan to build its first Pressurised Water Reactor.
- Within the last week we have also made a major policy announcement re-affirming our commitment to a substantial fast reactor development programme.
- The fast reactor is a vital technology for the future. We are determined to harness it successfully, and we look forward to working with our friends in other countries with whom we share a common interest.

Background

1. Nuclear power generating accounted for some 12% of electricity generated in 1981. This could rise to nearer 30% by the end of the century. Future orders will, however, be decided on their individual merits: there is no commitment to a fixed programme.
2. This week's fast reactor policy announcement underlines our commitment to a continuing development programme, though one geared to the longer timescale in which commercial fast reactors now seem likely to be required: (earlier part of next century, 2015/2020 onwards)
3. International collaboration in fast reactor development is an attractive possibility. At both Government and industry level there have been discussions with the Franco/German dominated European "SERENA" partnership, and also with the Americans. No conclusions have so far been reached, though we hope the discussions will continue.

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COPY NO. 1

2 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

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STEEL

Brief by Foreign and Commonwealth Office

—————
STEEL

Points to Make

1. Congratulate Vice-President Davignon on EC/US Steel agreement. An excellent example of effective Community action.

2. Similar need for concerted action on international front. Greatly concerned about current instability in EC Steel market. Welcome measures proposed by Davignon in Elsinor (18 November) and hope that these can be quickly implemented and rigorously enforced.

3. Need is now for Community to face up to vital longer term problems - the need to bring supply more closely into line with demand. At Elsinor there was a clear agreement by nine Member States on the need for capacity productions of the order of 30-35 million tonnes. All Member States agreed on the need to maintain the disciplines of the state aids regime.

4. Welcome the Commission's resolve to administer that regime strictly and fairly. Regret that the extent of capacity cutback so far is inadequate although some partners are now making major contributions.

5. Need a clear commitment by the European council to abide by the disciplines of the State Aids code and carry out cuts in capacity on an equitable basis. Performance of UK industry so far is unchallengable - Vice-President Davignon is on the record as having said that we have made the greatest sacrifice. Essential that everyone bears - and, politically, is seen to bear - his share of the burden.

6. Suggest that the Commission reports to the next European Council on the progress made in cutting capacity.

Foreign and Commonwealth Office

2 December 1982

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23 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

EUROPEAN REGIONAL DEVELOPMENT FUND

Brief by Foreign and Commonwealth Office

POINTS TO MAKE (IF RAISED)

1. Regional Fund a good example of a Community policy in a field other than agriculture which should be developed so as to produce a better balance in the way the Community uses its resources.
2. UK attaches importance to current review and wants to see it completed as soon as possible.

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3. We support Commission objective that the Fund should concentrate its resources more on the areas of greatest need in the less prosperous Member States. Also important that Fund should remain flexible in its operational rules and administration.

BACKGROUND

4. (MAY BE USED) The review of the Regional Fund, which began in December 1981, is making very slow progress. The European Council in London in November 1981 affirmed that the Fund should continue to grow in real terms and concentrate more on the areas of greatest need in the less prosperous Member States. That Council also identified the ERDF as a Community policy which needed to be developed in order to achieve a better balance between agricultural and other policies. We are stressing these points in current negotiations.

5. (NOT TO BE USED) The UK objectives are to obtain the largest possible net benefit to the UK from the Fund whilst minimising aspects of the new Regulation which might lead to increased Commission influence in UK domestic policies.

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6. (MAY BE USED) Agreement has not yet been reached on national quotas under the new Regulation nor on the relative sizes of the quota and non quota sections and a number of operational issues remain unsettled. The Commission wanted the non quota section to be expanded from 5% to 20% of the total Fund, and proposed that the quota section should be concentrated on the four least prosperous Member States (including the UK). We welcomed this proposal, which would increase both the UK's guaranteed share and our overall take; but the other more prosperous Member States, who stood to lose their quota share, opposed it. A compromise proposal, which would involve a smaller increase in the non quota section and retention of at least nominal quota shares by all Member States, is now under consideration.

7. The Fund has grown rapidly since its introduction in 1975. We are the second largest beneficiary (after Italy). We secured £194 million from the Fund in 1981.

Foreign and Commonwealth Office

23 November 1982

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23 November 1982

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3/4 DECEMBER 1982

EUROPEAN SOCIAL FUND

Brief by Department of Employment

POINTS TO MAKE (IF RAISED)

1. Important to ensure that the Fund - whose support is already valuable - continues to grow in order to combat the growing Community-wide problem of unemployment.

2. Hope the current review of the Fund will be completed as quickly as possible. The Community must be seen to tackle unemployment with urgency.

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3. The review should lead to a Fund capable of combating effectively the major employment problems facing the Community as a whole, ie youth unemployment, long-term unemployment and the relatively worsening position of regions with high unemployment (especially those suffering from industrial decline).

BACKGROUND

4. (MAY BE USED) The Fund provides grants towards schemes of training and job creation. It is one of the few Community instruments under which the UK is a net beneficiary. Our average share has been 23.5%; in 1981 we secured £141 million (25%) and seem set to do even better this year (perhaps £240 m - 30%).

5. Negotiations on a fundamental review of the Fund are just underway.

6. (NOT TO BE USED) The UK's objectives is of course to secure a Fund under which our receipts will be maximised.

Department of Employment

23 November 1982

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25 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

EMS

Brief by HM Treasury

POINTS TO MAKE

1. HMG is committed to the aims of the EMS, and in particular the achievement of greater exchange rate stability within the EC.
2. The question of sterling's participation in the exchange rate mechanism is kept under review. Unless the underlying economic conditions were conducive to exchange rate stability, sterling's participation might intensify re-alignment pressures.

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3. A particular point of concern is that both the pound and the deutschemark are widely used in international finance and hence particularly vulnerable to large speculative flows between them if the market were to judge that their exchange rates were inappropriate.

4. Unlike other EMS countries, the UK is an oil producer. At times when oil prices are moving sharply the pound tends to rise and fall in line with oil prices, whereas other EMS currencies show the opposite tendency. This complicates the decision on participation.

5. Further success by all EC countries in combatting inflation and cutting their fiscal deficits will create conditions more conducive to exchange rate stability.

BACKGROUND

6. The UK is a founder member of the EMS and participates in negotiations on its modification and in re-alignment conferences, although the pound does not participate in the exchange rate mechanism.

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7. The fundamental difficulty with participation is that the adherence to an exchange rate target might conflict with achieving domestic monetary aims.

8. After enjoying a relatively tranquil two years since its inception in 1979, the EMS has in the last 18 months encountered more difficult conditions with major realignments taking place in October 1981 and February and June 1982. In September and October the market regarded the French franc and Danish krone as being liable to devaluation against the relatively strong deutschemark and guilder; the krone was particularly affected by the 16% devaluation of the Swedish krona. More recently the Belgian franc has also been notably weak.

9. Between June and October the pound enjoyed a period of relative stability against the deutschemark, with the rate mostly in the range DM 4.26-4.30. However, in mid-November the pound encountered strong downward pressure and by end November had fallen to around DM 4.

HM Treasury

25 November 1982

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24 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

UNIFORM ELECTORAL SYSTEM

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE [IF RAISED]

1. It is clear that a number of difficult questions remain to be resolved. Much more detailed work needed.
2. [If asked about UK position on proportional representation]
This would be a major political decision for the UK, with very considerable domestic implications.

BACKGROUND

3. The European Parliament on 10 March adopted proposals (the 'Seitlinger' proposals) for a uniform electoral system for future elections to the European Parliament. The proposals provide for elections to take place on the basis of a list system of proportional representation based on regional constituencies, and for nationals of a Member State to be able to vote irrespective of their place of residence in the Community.

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4. The proposals have been under examination by an expert working group set up by the Council. It is generally accepted that decisions must be taken before the end of the year if a new system is to be in force in time for the 1984 elections. A number of Member States, including the UK and France, have made clear that this is not likely to be achieved. The Netherlands, Germany and Italy, on the other hand, have argued in favour of a Council commitment to introduce a uniform system in time for the 1984 elections. They have not yet given up hope of achieving agreement by the end of the year, as they made clear when the subject was discussed at the Foreign Affairs Council on 22/23 November. The Council agreed that Coreper should continue its discussions and report back to the December Council. Discussions in the working group have, however, identified a number of difficult problems, apart from the basic question of proportional representation, and it is clear that agreement will not be easily or quickly reached.

5. Our main difficulty with the proposals is the unambiguous commitment to proportional representation. H Committee decided on 14 June that we could not accept this. It was also decided, however, that we should delay revealing this decision to our partners for the time being so as to avoid taking the blame for the failure to introduce a uniform system by 1984. Our representatives on the expert group have, therefore, continued to take the line that they have no instructions on this point.

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6. There have been suggestions from a number of delegations, that, if it becomes clear that no agreement is possible on the Parliament's proposals as a whole, the Council should nevertheless try to do something in time for the 1984 elections, such as to introduce the provisions for extending the franchise separately. However, agreement even on this could be difficult.

7. Ministers have decided not to introduce any electoral legislation during the remainder of this Parliament. So it would anyway not be possible for us to extend the franchise in time for the 1984 elections.

Foreign and Commonwealth Office

24 November 1982

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24 NOVEMBER 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

COMMON AGRICULTURAL POLICY

Brief by Ministry of Agriculture, Fisheries and Food

BACKGROUND

The 1983/84 Price-Fixing

1. The Commission are currently preparing their proposals for the 1983/4 price-fixing, against a background of rising surplus production and improving farm incomes across the Community.
2. Community milk production is up 2.6% this year, while consumption will rise only slightly. It will be difficult to dispose of the extra milk products without weakening world prices. The US also has a dairy surplus to dispose of. This year's cereals harvest is once again a record, while the world market is slack and prices have fallen. Competition with the US for export markets will be fierce, and stocks carried over to the next season will be high. Although the beet area was down, sugar yields are high: taking account of carryover stocks, the surplus is similar to last year's, while world market prices are exceptionally low. Further stockholding measures will be necessary. The wine harvest is expected to be high and a sizeable surplus will need to be disposed of (mainly by distillation into alcohol at a considerable

budgetary cost). The implications for CAP expenditure (likely to grow rapidly) are described in Brief No 6 on Enlargement.

3. Farm incomes in most parts of the Community in 1982 are likely to be up in real terms as a result of the increased volume of production and the price increases awarded this year and last. In some countries (including the UK), the improvement is likely to be substantial.

4. The Commission are unlikely to have decided on their price-fixing proposals before the European Council. They are believed to be considering a "norm" increase of 5 to 6%, with less for the surplus commodities. We have urged the Commission to propose zero effective price increases for surplus products and only modest increases for others, particularly the Mediterranean products, whose cost has been growing rapidly. We want to see the production thresholds agreed last year applied effectively, but oppose the use of co-responsibility levies on producers, which merely raise funds to finance surplus disposal, while being less effective than price-restraint in limiting surpluses.

Attitude to CAP

5. In the autumn campaign to convince our partners of our commitment to Europe, we have been emphasising that we recognise the CAP as one of the achievements of European cooperation: we support its principles, but see a need for improvements in its operation; in particular, we regard the present level of surplus production as excessive and alarming, given the gap between Community prices and those elsewhere.

New Zealand Butter

6. France is trying to maintain a link between the arrangements for imports of New Zealand butter in 1983 and the

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resumption of subsidised sales of butter to the USSR. We reject any such linkage: the arrangements for New Zealand were agreed without reservations at the Council in October and their adoption should be a mere formality. We are opposed to subsidised butter sales to the USSR. The Commission have decided to open a tender which would allow exports to the USSR, but this has not yet been held. The New Zealand point should now go to the Environment Council on 3 December for formal adoption, but France may yet block this if sales to the USSR have not been resumed.

Ministry of Agriculture, Fisheries
and Food

24 November 1982

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EHG(C)(82)21
25 November 1982

COPY NO 1

EUROPEAN COUNCIL, COPENHAGEN
3/4 DECEMBER 1982

INDUSTRIAL POLICY/NEW TECHNOLOGY
Brief by Foreign and Commonwealth Office

POINTS TO MAKE (IF RAISED)

General

1. We want to see European industry fostered through completion of internal market, particularly in the services sector, and specific action in certain high technology sectors.

2. Need for urgent action in new technologies: Europe still has the opportunity to catch up with the US and Japan if it works together. It must not squander this opportunity.

Information Technology

3. We welcome the Commission's proposal for a Strategic Programme for Research in Information Technology as an example of the kind of Community initiative that is required. Agreement on telecommunications proposals is now essential.

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Framework Programme

4. Strongly support Davignon's proposal to centralise Community Research and Development by developing a framework programme, in which Community Research and Development activities are clearly identified with the Community's overall objectives especially where these relate to strengthening the Community's industrial base.

Versailles

5. In Versailles Working Group on Technology Growth and Employment, UK has proposed further areas for joint action with the Community, eg. on advanced materials and renewable energy resources.

BACKGROUND (MAY BE USED FREELY)

Information Technology

6. A number of elements of telematics initiatives launched in 1979 have already been agreed including the Four Year Data Processing Programme, Euronet/Diane, IDST (Third Plan of Action in the field of Information and Documentation) and the Microelectronics Regulation. The Microelectronics Regulation was agreed under the UK Presidency and provides 40 m ecu to support the development of key technologies in selected areas of microelectronics.

7. The telecommunications proposals are aimed at harmonising standards, encouraging a freer market in telematic terminals and opening up PTT calls for tenders. Agreement was reached on all aspects during the UK Presidency save the question of whether calls for tenders should be opened to "manufacturers" or "suppliers" in the Community. France and Germany are still unable to agree on this issue. We attach considerable importance to these measures, which are a small but vital step towards a free European market in telecommunication products, in line with our own domestic liberalisation programme.

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8. The ESPRIT proposals are for a number of pilot projects on collaborative pre-competitive research in key areas of information technology identified by industry. The main purpose of the projects will be to give practical experience to provide the basis for a sound management scheme for a full European research programme: it is a test of feasibility for the programme as a whole.

Framework Programme

9. Davignon has made a bold attempt to cut through the suffocating bureaucracy of DG XII by proposing that Member Countries should approve an overall 5-year 'framework programme' of Research and Development and leave the detail to the Commission and its advisory committees composed of Member Countries representatives. This would have the double benefit of linking Community Research and Development to the Communities' general objectives and greatly speeding up the implementation of agreed programmes.

Versailles

10. The UK has been strongly supportive of the French Presidency of the Versailles Working Group and we know that this has been appreciated. The four Community countries and the Community representative on the Working Group have worked closely together to further European interests against those of the USA and Japan.

Foreign and Commonwealth Office
25 November 1982

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COPY NO 1

23 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To limit discussion. If necessary to ensure that Community commitment to the Versailles text for launching Global Negotiations is maintained. To point to need for progress elsewhere on North/South front, eg at UNCTAD VI.

POINTS TO MAKE (if raised)

2. The position on Global Negotiations established at Versailles offers the only realistic chance of launching Global Negotiations with the agreement of all Western countries.
3. Important that Community countries stay united around the Versailles text. Community under no real pressure from G77 to consider new language.

/4.

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4. GNs should not obscure need for progress in other areas eg at UNCTAD VI, next major event on North/South calendar: sound preparation essential if purely defensive posture to be avoided, taking account of outcome of GATT Ministerial.

BACKGROUND

5. The UK should aim to keep discussion to a minimum and to discourage any disposition by Member States to consider alternative wording to the Versailles text. References in the Council conclusions to Global Negotiations should likewise be couched in terms of support for the Versailles text.

6. Despite some progress on the basis of a G77 text tabled in March, agreement on launching Global Negotiations is no nearer. Efforts by the UK, France and Germany to persuade the G77 to accept the amendments agreed at the Versailles Summit to the G77 text proved unsuccessful. The French have since been seeking to persuade Community and other Western governments to modify the Versailles text on lines more acceptable to the G77. More recently firm prompting by the UK and the FRG has succeeded in securing a consensus in favour of the Versailles text.

7. It is important to ensure this consensus is maintained. The Versailles language is central to the protection needed for the International Financial Institutions. It is also the only basis on which the US would be prepared to countenance Global Negotiations. The UK is concerned to

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prevent a split between the Community and the US which would be prejudicial for the whole international community, including the developing countries.

8. There is now considerable doubt whether GNs will take place. The G77 are in any case showing signs of losing interest in GNs and putting greater emphasis on progress in sectoral negotiations. It would nevertheless be tactically wrong to pronounce them dead too soon, for fear of incurring blame for their collapse.

9. GNs are increasingly being eclipsed by preparations for UNCTAD VI (Belgrade, June 1983). The UNCTAD Secretariat are expected to issue some agenda papers by the end of the year. Commodity issues, trade and finance are expected to figure prominently. Discussion of trade matters in particular is likely to be influenced by the outcome of the GATT Ministerial. Group 'B' preparation will take place in OECD in Paris. There will also be working level Community co-ordination in Brussels.

FOREIGN AND COMMONWEALTH OFFICE

23 November 1982

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EHG(C)(82)23 REVISE 1

COPY NO.

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1 December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

EC AID FOR NORTHERN IRELAND

Brief by the Foreign and Commonwealth Office

POINTS TO MAKE (IF RAISED)

1. (To Commission) Grateful for your continued efforts. Encouraged by signs of progress on basis of new ideas proposed by Commission.
2. (To Kohl) Disappointed that you have been unable to agree to housing aid for Northern Ireland. Understand that you will be able to agree to alternative means of bringing special Community assistance to Northern Ireland. We are grateful for this.
3. But we are concerned that the new Regulation that will be necessary may create anxieties for some Member States. Hope you will join us in trying to overcome these.

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BACKGROUND

4. The Commission have indicated that Thorn may raise this with Kohl in the margins of the Council.

5. Former Chancellor Schmidt wrote to the Prime Minister at the end of July confirming that the German Government remained opposed to the principle of housing aid since this would set an undesirable precedent; but suggested that the UK, Germany and the Commission should examine possible alternative means of bringing special Community assistance to Northern Ireland.

6. At official talks on 25 November with representatives of the UK and the Commission the Germans confirmed that this was the position of the new Administration. It also became clear that there was no prospect of starting any programme of special assistance for Northern Ireland in 1982. But in the course of discussion it emerged that the Germans might be able to accept a special regulation enabling assistance to be paid on social infrastructure projects not being funded from elsewhere (eg old people's homes, recreation centres, adult training centres, schools and hospitals). Whilst an approach on these lines would not itself produce direct Community assistance to housing, the Germans are aware, and appear to have accepted, that

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we will use any gain for Northern Ireland to free resources which will themselves then be used to support the housing programme. Although Mr Hurd during his visit to Bonn on 30 November was not given definite confirmation that the Germans could agree to this approach, the Embassy in Bonn have been assured by German officials that agreement will be forthcoming by 3 December.

7. The agreement of other Member States is by no means certain. Whilst all Member States have asserted a wish to give special aid to Northern Ireland some may be displeased to see the emphasis of this aid to move away from housing. Hence the importance of active German support.

Foreign and Commonwealth Office

1 December 1982

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EHG(C)(82)25

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30 November 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 December 1980

EAST/WEST ECONOMIC RELATIONS

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. We welcome lifting of pipeline sanctions and accept Summary of Conclusions.. Intend to play active part in follow up work in OECD, COCOM, and elsewhere, as foreseen in Schultz text. This work is worthwhile in its own right, and to restore transatlantic harmony in this difficult area.
2. Pleased with conclusions of Foreign Affairs Council last week. Particularly glad that Community will participate in studies (without commitment to their outcome). Welcome Presidency/Commission paper on procedures. Useful to have Community momentum on these matters: we must all act together. Community dimension must be respected.
3. Still believe that some form of overall coordination of studies necessary. Would give us chance to influence US thinking by drawing them into broader, as well as specific discussion. Will also ensure full Japanese involvement.
4. (If doubts about value of follow-up are raised). Believe it valuable for West to undergo such an examination of positions and to assess possibilities of a coherent

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approach in economic relations with East. But diverse national interests exist and must be catered for. Most important to avoid overt Western disagreements that would only benefit Soviet Union.

BACKGROUND

References/Annexes

A: Summary of Conclusions

5. Washington discussions of Summit Seven (plus Presidency and Commission) were about a three-part package:

- (i) text of Shultz paper now called Summary of Conclusions;
- (ii) public handling of the text - either publication or an American summary of its contents on lines agreed by Partners;
- (iii) lifting of US oil and gas measures.

France had always refused to see (iii) linked with (i) and (ii).

6. On 13 November President Reagan announced lifting of all US measures, but summarised text in terms not agreed with partners. French (the Elysée) at last moment could not agree to release of text, and queried some language in it. After the President's announcement, they criticised his description of text, announcing France was 'not a party to the agreement'. They now say they do not accept any agreement was reached in Washington; see no need for a further 7 + 2 meeting to organise follow-up work; and will participate only in studies which had begun, or been contemplated before the Washington talks. This leaves out controls on non-COCOM technology (and possibly credit). Progress on these are key American aims.

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7. We should avoid crossfire between USA and France. The Americans themselves must right matters with French. Our position is clear: we accept Summary of Conclusions, and support publication of it. We regard studies in text as intrinsically valuable, and will participate fully in them, without commitment to their results. We consider that NATO should maintain an Alliance overview, unless the French (and/or Germans) veto this. If the Washington Seven-plus-two do not coordinate, some other coordinating forum should be found to bring in US, Canada and Japan.

8. At the Foreign Affairs Council on 22-23 November, it was agreed that Community should participate in follow-up work to Summary of Conclusions, and that Presidency/Commission should prepare a paper on procedures for carrying out the studies. The first draft of this was discussed by Ambassadors on 1 December.

FOREIGN AND COMMONWEALTH OFFICE

30 November 1982

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WASHINGTON DISCUSSIONS ON EAST/WEST ECONOMIC RELATIONS (PIPELINE)SUMMARY OF CONCLUSIONS

During conversations in Washington between the Secretary of State of the United States of America and representatives of Canada, the Federal Republic of Germany, France, Italy, Japan and the United Kingdom on the subject of East/West relations, in which representatives of the EC participated, a certain number of conclusions have been reached on behalf of the governments represented. The summary of these follows.

1. They recognise the necessity of conducting their relations with the USSR and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental security interests. They are particularly conscious of the need that action in the economic field be consistent with that global and comprehensive policy and thus be based on a common approach. They are resolved together to take the necessary steps to remove differences and to ensure that future decisions by their Governments on these issues are taken on the basis of an analysis of the East/West relationship as a whole, with due regard for their respective interests and in a spirit of mutual trust and confidence.

2. The following criteria should govern the economic dealings of their countries with the Soviet Union and Eastern European countries:-

- that they will not undertake trade arrangements, or take steps, which contribute to the military or strategic advantage and capabilities of the USSR,
- that it is not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment.
- that it is not their purpose to engage in economic warfare against the Soviet Union. To be consistent with our broad security interests, trade with the USSR must proceed, inter alia, on the basis of a strict balance of advantages.

It is agreed to examine thoroughly in the appropriate bodies how to apply these criteria, taking into account the various economic and political problems involved, with the view to agreeing on a common line of action in the spirit of paragraph one and the above criteria. They will pay due attention in the course of this work to the question of how best to tailor their economic relations with Eastern European countries to the specific situation of each of them, recognizing the different political and economic conditions that prevail in each of these Eastern European countries.

The overall analysis of economic relations with the USSR and the Eastern European countries will touch in particular on the following areas:-

- strategic goods and technology of military significance (COCOM):
- other high technology items;
- credit policy;

- energy;
- agricultural products.

In their analysis of other high technology items, it is agreed to examine immediately whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment to be jointly determined. This immediate examination of whether their security interests require controls, to be implemented in an agreed and appropriate manner, on the export to the Soviet Union and Eastern Europe of advanced technology and equipment will include technology and equipment with direct applications to the oil and gas sector.

In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD.

3. As an immediate decision and following decisions already made, they have further agreed on the following:-

- (a) Building on the conclusions of the High Level Meeting, they will work together within the framework of the Coordinating Committee (COCOM) to protect their contemporary security interests: the list of strategic items will be evaluated and, if necessary, adjusted. This objective will be pursued at the COCOM Review now under way. They will take the necessary measures to strengthen the effectiveness and responsiveness of COCOM and to enhance their national mechanisms as necessary to enforce COCOM decisions.
- (b) It was agreed at Versailles that the development of economic and financial relations with the Soviet Union and Eastern Europe would be subject to periodic ex-post review. The necessary procedures for this purpose will be established without delay. Having in mind the criteria in paragraph two above, they will work urgently further to harmonize export credit policies.
- (c) They have informed each other that during the course of the study on energy requirements, they will not sign, or approve the signing by their companies of, new contracts with the Soviet Union for the purchase of natural gas.

16 November 1982
Foreign and Commonwealth Office

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1st December 1982

EUROPEAN COUNCIL, COPENHAGEN

3/4 DECEMBER 1982

EC/US AGRICULTURE

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To secure a sensible approach by the European Community to the United States on agriculture.

POINTS TO MAKE

2. Congratulate Commission on securing outcome on agriculture at GATT Ministerial enabling it to participate in the follow-up studies on international trade affecting agriculture while entering a reservation about formal negotiations.
3. Nonetheless the problem of the Community's ever increasing agricultural surpluses is a real and serious one. Causes both heavy burden on Community taxpayer and damaging tension with other agricultural exporters, particularly the United States, who find it increasingly difficult to dispose of their produce at reasonable prices in the face of the Community's export

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subsidies. On both counts need for Community to control and cut back on surplus production becoming ever more urgent. European Council should instruct Agriculture Ministers at the next price fixing to decide on prices and other measures designed to reduce production in sectors in structural surplus.

4. With regard to Commission's meeting with Shultz on 8 December, important to avoid a confrontational stand. Strongly against EC interest to have agricultural trade war with the United States which would be very expensive, would spill over into other aspects of already difficult European/US relations and be very damaging to friendly countries like New Zealand and developing countries.

5. Without pre-judgement of the outcome of the studies following from the GATT Ministerial, Commission should offer to explore ideas to defuse tension, in particular equitable market shares, concept of traditional markets and prices.

BACKGROUND

References: A: Texts on agriculture adopted by the GATT Contracting Parties in Ministerial Session on 29 November.

6. The GATT Ministerial Meeting ended with two texts on agriculture, a short one in the general declaration and a longer section specifically on trade in agriculture (Reference A). In brief Ministers decided to set up a committee on trade in agriculture to study all aspects of international trade in agriculture with a view to achieving greater liberalisation of such trade and bringing agriculture more fully into the multi-lateral trading system. The Community entered a reservation that this did not imply a subsequent GATT negotiation on agriculture (a reasonable position on the grounds that the agriculture study should not be the only one of the studies launched by the GATT Ministerial which was pre-determined to lead to negotiation). This is nonetheless what the US and other major agricultural exporters wanted the text to mean.

7. There may be some pressure at the European Council for the Commission to be instructed to continue

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to take a tough line with the Americans when Shultz visits Brussels on 10 December. There may also be an attempt to coordinate national positions on such a line for Shultz's visits to other capitals. It is essential that the Community should do its best to reduce the level of confrontation with the US. Although USTR Brock is trying to make the best of what was achieved at Geneva ("Regarding agriculture, we moved forward on a new constructive basis. The direction is clear, but the distance is not as far as we would have liked" : press conference on 29 November), the pressures in the Administration and Congress are very strong (and possibly now irresistible) in the direction of an agricultural trade war with the Community. In this the Americans would start directly subsidising their own agricultural exports to undercut the Community's subsidised exports. The cost would be high and the damage could spread more widely into other areas of US/European relations.

8. It follows from the above that any attempt by the French or anybody else to urge new restrictions on agricultural imports from the US (eg soya, maize gluten feed) must be rejected.

Foreign and Commonwealth Office

1 December 1982

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GATT MINISTERIAL DECLARATION: 29 NOVEMBER 1982
TEXTS ON AGRICULTURE

'7. In drawing up the work programme and priorities for the 1980s, the contracting parties undertake, individually and jointly:

.....

- (v) to bring agriculture more fully into the multilateral trading system by improving the effectiveness of GATT rules, provisions and disciplines and through their common interpretation; to seek to improve terms of access to markets; and to bring export competition under greater discipline. To this end a major two-year programme shall be undertaken.

.....

TRADE IN AGRICULTURE

A. With the purpose of accelerating the achievement of the objectives of the General Agreement, including Part IV, and recognizing that there is an urgent need to find lasting solutions to the problems of trade in agricultural products, the CONTRACTING PARTIES decide:

1. That the following matters be examined, in the light of the objectives, principles and relevant provisions of the General Agreement and also taking into account the effects of national agricultural policies, with the purpose of making appropriate recommendations. The examination shall cover all measures affecting trade, market access and competition and supply in agricultural products, including subsidies and other forms of assistance.

- (i) Trade measures affecting market access and supplies, with a view to achieving greater liberalization in the trade of agricultural products, with respect to tariffs and non-tariff measures, on a basis of overall reciprocity and mutual advantage under the General Agreement.

- (ii) The operation of the General Agreement as regards subsidies affecting agriculture, especially export subsidies, with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of the General Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties. Other forms of export assistance will be included in this examination.
- (iii) Trade measures affecting agriculture maintained under exceptions or derogations without prejudice to the rights of contracting parties under the General Agreement.

2. That in carrying out the tasks enumerated above, full account shall be taken of the need for a balance of rights and obligations under the GATT, and of the special needs of developing countries in the light of the GATT provisions providing for differential and more favourable treatment for such contracting parties. Full account shall also be taken of specific characteristics and problems in agriculture, of the scope for improving the operation of GATT rules, provisions and disciplines and agreed interpretations of its provisions.

3. That for the purpose of carrying out this work, an improved and unified system of notifications shall be introduced so as to ensure full transparency.

4. That a Committee on Trade in Agriculture shall be established, open to all contracting parties, for the purpose of carrying out the tasks enumerated above and of making recommendations with a view to achieving greater liberalization in the trade of agricultural products. The Committee will report periodically on the results achieved and make appropriate recommendations to the Council and the CONTRACTING PARTIES for consideration not later than their 1984 Session.

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2 December 1982

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3/4 DECEMBER 1982

FRENCH TECHNOLOGY INITIATIVE

Brief by the Foreign and Commonwealth Office

OBJECTIVES

1. To demonstrate sympathetic interest in the outcome of the Working Group.
2. To indicate approval in principle to giving the follow up a European dimension.
3. To avoid commitment to any proposals before seeing the report, so that we have an opportunity to think carefully about which projects should have a European dimension.

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POINTS TO MAKE

4. Welcome Mitterand's action in reporting the progress of the Versailles Working Group discussion so that all EC countries can be kept informed. Express keen anticipation of reading report after discussions at Versailles Working Group have concluded.

5. Welcome further suggestions of European collaboration by enterprises in Member States in science and technology as a means of strengthening Europe's industrial base in the private and public sectors. Agree that projects mentioned by EC are interesting examples of potential areas for collaboration.

BACKGROUND

6. The Versailles Working Group is meeting under the French Presidency of the Economic Summit. The Secretariat has produced a draft report which the UK has helped to mould through the American member of the Secretariat. The draft is to be discussed at the Versailles Working Group meeting on 2/3 December. The amended draft will then be circulated for comment in Whitehall and subsequently submitted to the Prime Minister for approval of the line to take at the projected final drafting meeting of Versailles Working Group on 21/22 December (this may slip into January). The main

drafting discussion has been between the private sector oriented countries UK/US/Germany and the state oriented countries France/Italy. Canada is on the sidelines and Japan ambivalent. The current draft strongly supports the historical link between advances in technology and economic activity. Although the UK has differed from France on points of substance, we have adopted a generally helpful line to the chair which we know has been appreciated.

7. Annexed to the report will be proposals for about twenty projects where the Economic Summit countries will be either endorsing existing international collaborative activity or proposing new activity. The UK has led in four projects: advanced materials and standards, renewable energy sources, food technology and public acceptance of new technology. We have co-led with France in biotechnology. All five projects are likely to be in the final list in the Community. The UK has been a leading supporter of ESPRIT, the collaborative activity in it which involves twelve major private sector companies in Europe.

8. If all 10 EC countries sought to be involved in every project the mechanics of collaboration would be difficult to

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manage. This is not a point which needs to be made at the European Council table. But the UK will want to ensure that participation in collaborative projects is handled in a reasonable and sensible way.

Foreign and Commonwealth Office

2 December 1982

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