

D. Spreckley

55



Office of the United Kingdom Permanent Representative  
to the European Communities

Rond-Point Robert Schuman 6  
1040 Brussels  
Telephone 736 99 20

J N T Spreckley Esq  
ECD(I)  
FCO

MWC 011/10

DEC 1982

Dear Nick,

## RECORDS OF EUROPEAN COUNCIL MEETINGS

1. I notice that the enclosure to your letter of 17 December circulating our record of the European Council is virtually unchanged from that which I sent you 10 days earlier. Indeed, apart from an occasional decision not to circulate the record of dinner conversations, there rarely are changes. The original idea that others who had received de-briefing from the Prime Minister and the Secretary of State would contribute to the record seems never to have borne fruit.
2. I know that we have been over this ground before, but Michael Butler and I were wondering whether it would not be simpler for us to send copies direct to Community posts on the usual personal basis. Posts would thus get the benefit of the record much sooner after the event. Its usefulness after 10-12 days must be much reduced.

Yours ever

Th. Hanning

John

The fact that there are few changes does not mean that nobody checks it through, just that Th. S. does a good job. I also feel that we must keep control of circulation, in case there are any passages which should not go round.

J A Shepherd

Copy to:-

Mr. Hancock (Cabinet Office)

Sir J. Bullard  
J.E.L. 29/12

PERSONAL AND CONFIDENTIAL

Your reference

Our reference

Date

22 December 1982

I agree with you. I suspect D. Shepherd's system would work alright for a bit. But, when something went wrong, there would be a row; and we (and posts) would end up with something less satisfactory than we have now. But I think we could get down the time - by using a negative clearance system with a cut-off date.

D/29/12

H. Spreckley  
29/12



PA ~~100~~ 25/12 (54)

BRITISH EMBASSY

COPENHAGEN

R P Osborne Esq  
WED  
FCO

14 December 1982

MWG 011/10  
 RECEIVED  
 27 DEC 1982  
 L, 3-4 DECEMBER and

47

1. As instructed in Heald's letter of 9 December to David Ratford (whom Richard Dales has now replaced) we delivered the two letters from the Prime Minister to Queen Margrethe and the Danish Prime Minister. This is just to note - for the future - that Mr Schlüter's first name is Poul (ie. o not a). We made a near-invisible correction to the letter.

F Gallagher

cc:  
P A Heald Esq  
ECD(I), FCO





Foreign and Commonwealth Office

London SW1A 2AH

Telephone 01- 233-3594

Your reference

J A Shepherd Esq  
UKRep  
BRUSSELS

Our reference

MW9 011/10

Date 20 December 1982

Dear John,

EUROPEAN COUNCIL/PRESIDENCY ENTERTAINMENT OF  
COREPER AND ANTICI GROUP

74

1. You wrote to John de Fonblanque about this on 15 November.
2. I assume you received the telephoned message we sent you just before the Copenhagen Council that approval had been given for the payment of Jessica's and Lady Butler's travel expenses and subsistence (as appropriate) for this Council.
3. Because of impending changes in the procedures for authorising local and regional travel, PSD are unable to approve a standing arrangement for these trips. Apparently sponsoring FCO Departments are in future to have their own departmental budget, and it will be for the appropriate AUS (ie David Hannay) to authorise such expenditure. The new arrangements are expected to be introduced shortly.

Yours sincerely,

P A

P A Heald  
European Community  
Dept (Internal)





Foreign and Commonwealth Office

London SW1A 2AH

17 December, 1982

HE Sir John Fretwell KCMG  
British Embassy  
PARIS

MWG 011/10

*Dear John,*

EUROPEAN COUNCIL, COPENHAGEN:  
3/4 DECEMBER

I enclose an informal record of the proceedings  
of the Council.

2. The record does not purport to be exhaustive,  
and the usual caveats apply, ie it is strictly  
for your own background information (and that of  
your senior staff) and should not be quoted directly.

*Yours etc,**Nick*

J N T Spreckley  
European Community Dept (Internal)





|     |                                 |                |
|-----|---------------------------------|----------------|
| cc: | HE Mr J E Jackson CMG           | Brussels       |
|     | HE Dame Anne Warburton DCVO CMG | Copenhagen     |
|     | HE Sir Jock Taylor KCMG         | Bonn           |
|     | HE Mr P A Rhodes CMG            | Athens         |
|     | HE Sir Leonard Figg KCMG        | Dublin         |
|     | HE Sir Ronald Arculus KCMG KCVO | Rome           |
|     | HE The Hon Humphrey Maud CMG    | Luxembourg     |
|     | HE Mr Peter Mansfield CMG       | The Hague      |
|     | HE Sir Michael Butler KCMG      | UKREP Brussels |
|     | HE Sir Richard Parsons KCMG     | Madrid         |
|     | HE Mr H C Byatt CMG             | Lisbon         |
|     | HE Sir Oliver Wright            | Washington     |
|     | HE Sir Iain Sutherland KCMG     | Moscow         |
|     | HE Sir Hugh Cortazzi KCMG       | Tokyo          |

PS

PS/Mr Hurd

PS/Lord Belstead

PS/PUS

Sir Julian Bullard

Mr Evans

Mr Goodison

Mr Wood

WED

Mr Wilson

SED

Mr Evers

RID

Mr Appleyard

ERD

Mr Crowe

ECD(E)

Mr Laver

Research

Mr Hancock

Cabinet Office

Sir Kenneth Couzens

HM Treasury

Sir Brian Hayes

MAFF

Sir Donald Maitland

DOEnergy

Sir Peter Carey

DOI

Mr Franklin

DOTrade

Mr Derx

DOEmployment



EUROPEAN COUNCIL COPENHAGEN 3/4 DECEMBER 1982

INFORMAL RECORD

MWG 011/10

First session: afternoon of Friday 3 December at 1530A. Introduction: order of business1. Schlüter (Denmark, President) suggested the following order of discussion:

- First session      (a) Economic and Social Situation  
                      (b) Enlargement  
                      (c) Relations with industrialised countries  
                      (d) Oral report from President of Foreign Affairs Council on negotiations on UK Budget problem.
- Second session    (e) Texts on Community matters  
                      (f) Texts on Political Cooperation matters (East-West and Middle East)  
                      (g) Reports on European Union  
                      (h) Genscher-Colombo proposals

Heads of Government might discuss East-West relations, including an assessment of the post-Brezhnev regime in the Soviet Union. Foreign Ministers might discuss the Middle East and possibly also relations with the East. Finally, he understood that fisheries might be raised: he suggested this be taken before the end of the first session. These suggestions were agreed.

B. Economic and Social Situation

2. Schlüter said that the Commission's communications would make the discussion easier. He suggested that the European Council should endorse the conclusions of the 15 November Ecofin and 16 November "Jumbo" Councils and then concentrate on guidelines for practical action in priority areas - the internal market, investment, the New Community Instrument (NIC), vocational training and the re-organisation of working time. The keynote of the conclusions should be a timetable for rapid action in those fields where Community initiative was called for in parallel with national strategies.

3. Thorn (President of Commission) said that the crisis, which the European Council was discussing for the third time in the same framework, was getting worse. There were some positive signs: a good agreement with the USA on steel; the lifting of US sanctions against the pipeline. The Community had done all it could have at the GATT Ministerial. On the essential points there had been good cooperation within the agreed guidelines, and the final results had been along the lines hoped for. Free trade had not been called in question. But Japan had to be kept under close surveillance and close consultation had to be maintained with the USA.



EUROPEAN COUNCIL COPENHAGEN 3/4 DECEMBER 1982

INFORMAL RECORD

MWG 011/10

First session: afternoon of Friday 3 December at 1530A. Introduction: order of business1. Schlüter (Denmark, President) suggested the following order of discussion:

- |                |   |
|----------------|---|
| First session  | (a) Economic and Social Situation   |
|                | (b) Enlargement   |
|                | (c) Relations with industrialised countries   |
|                | (d) Oral report from President of Foreign Affairs Council on negotiations on UK Budget problem. |
| Second session | (e) Texts on Community matters  |
|                | (f) Texts on Political Cooperation matters (East-West and Middle East)                          |
|                | (g) Reports on European Union   |
|                | (h) Genscher-Colombo proposals  |

Heads of Government might discuss East-West relations, including an assessment of the post-Brezhnev regime in the Soviet Union. Foreign Ministers might discuss the Middle East and possibly also relations with the East. Finally, he understood that fisheries might be raised: he suggested this be taken before the end of the first session. These suggestions were agreed.

B. Economic and Social Situation

2. Schlüter said that the Commission's communications would make the discussion easier. He suggested that the European Council should endorse the conclusions of the 15 November Ecofin and 16 November "Jumbo" Councils and then concentrate on guidelines for practical action in priority areas - the internal market, investment, the New Community Instrument (NIC), vocational training and the re-organisation of working time. The keynote of the conclusions should be a timetable for rapid action in those fields where Community initiative was called for in parallel with national strategies.

3. Thorn (President of Commission) said that the crisis, which the European Council was discussing for the third time in the same framework, was getting worse. There were some positive signs: a good agreement with the USA on steel; the lifting of US sanctions against the pipeline. The Community had done all it could have at the GATT Ministerial. On the essential points there had been good cooperation within the agreed guidelines, and the final results had been along the lines hoped for. Free trade had not been called in question. But Japan had to be kept under close surveillance and close consultation had to be maintained with the USA.



# CONFIDENTIAL

4. The situation in the internal market was not so satisfactory. OECD forecasts for 1983 showed that economic performance would deteriorate. The Unions were against fighting inflation - they had no faith in governments' will to create jobs. There was a risk of a deflationary spiral with continuing poor employment prospects and discontent among the unions. The upswing in economic activity in the USA was slow to appear. The financial difficulties in the third world resulted in low demand there too, making matters worse. Selective action was needed on:

- (a) productive investment;
- (b) innovation and technology (it would take 5 years to catch up again with Japan);
- (c) consolidation and extension of the internal market to make up for the lack of external markets; no member state was blameless;
- (d) adjustment of working time; this was a delicate matter, where different member states had different approaches, but a certain degree of harmonisation at Community level was desirable.

5. There were procedural problems. The Foreign Affairs Council was perhaps not the most suitable place to break the logjam. A group of state secretaries could be appointed to examine the blocked internal market issues, after informal preparation.

6. Ortoli (Vice-President of the Commission) said that the economic situation was less favourable than had been expected at Versailles. There would be no growth in 1982, and 1983 would be worse than forecast: the OECD estimate of 1½% growth looked very doubtful. But inflation was falling and that must be kept up. A return to normal budgets must be sought. Demand was slack everywhere, including the USA, and developing countries had huge debts made worse by the drop in the dollar price of their products. He could see no sign of economic recovery in any country. Investment would be the key point, but there must be confidence for that. The present climate was pessimistic. The problem began to look structural rather than cyclical. A long term crisis mentality was developing. The Community must act together to prevent a further downward spiral. There could be no investment without an upswing. Financial stringency must not be carried to the point where it engendered competitive devaluations and growing protectionism.

7. The first line of action was to ensure monetary stability. Excessive real interest rates discouraged productive investment and the present exchange rates, particularly that of the dollar, discouraged the upswing and disorganised international trade. There should be monetary cooperation not mutual confrontation with the US and Japan over the dollar and the yen. Developing countries should be helped by increasing the IMF quotas and shoring up the banking system. The EMS should be strengthened. It was the essential bond which held the Community together. The Community should use it as the basis for a more active approach. The second line of action was through economic policies to restore competitiveness: strict budgetary policies and a real transfer of resources to investment. Investment should be encouraged along the lines suggested by the ECOFIN Council and by introducing NIC III. The internal market must be developed. The Community was falling behind in new technologies while because of its size it ought to be able to do better. Requests for finance from small and medium sized firms tended wrongly to be rejected.

CONFIDENTIAL



CONFIDENTIAL

8. Papandreou (Greece) agreed with Ortoli. He remained pessimistic. The crisis of the 1930s had been overcome by increasing demand. With the present combination of inflation, stagnation and unemployment the same remedies did not apply. The increase in activity from 1945 to 1975 had been based on the reconstruction of Europe. But now Keynes' policies no longer offered a solution. Nation states were too small. Economic interdependence was such that states could not affect the economy on their own. Purchasing power in the third world would have to be increased: we should lend to them in such a way as to help our own economies towards dynamic development. The Community was an economic power and could do much.

9. Kohl (FRG) thought European countries themselves were responsible for the last three years of stagnation. Thorn and Ortoli had been realistic. The structural problems must be tackled, especially that of youth unemployment. Unemployment had become the top priority for his people: its relative newness caused a psychological problem. Both private and public sector investment needed to be encouraged. Job sharing and reduction of working time had been discussed. But they were only secondary measures. The demographic trends in the FRG were unhelpful. For the next eight years there would be no demand on the labour market for school leavers. Thereafter there would be a shortage of them.

10. In Kohl's view an employment policy, using the resources of the state was needed. Cooperation with the social partners should be as good at the national level as it was at the local level. In spite of the imminence of the elections the new government was reducing consumption; the budget would cut back public expenditure - the public sector had placed too heavy demands on the money market - including things like student grants. Monetary stability was needed. The EMS had helped and had encouraged cohesion between Community partners. But interest rates should be reduced and the US urged to do likewise. The drift to protectionism must be stopped. Within the Community, barriers should be dismantled rather than erected. The IMF should be supported in keeping indebtedness under control. The Community had a responsibility to ensure that the next economic summit supported such policies and did everything possible to restore confidence.

11. Kohl said that, faced with an early election, he was keen to see rapid progress. He liked the Commission's procedural proposal for getting rid of the backlog of decisions in the Foreign Affairs Council in an undogmatic way. It would take place in the German Presidency which would be preoccupied with elections. Maybe someone present could chair the group, H. E. Ellemann-Jensen.

12. In conclusion Kohl emphasised the need for training for young people who otherwise faced a bleak future. That was a task for the Community, especially given the need for the Community to present itself in a positive light as the 1984 elections to the European Parliament approached.

/13. Fanfani



13. Fanfani (Italy) said the new government would adopt a new approach. In Italy the public sector had grown, and government was expected to do more and more. Public and private indebtedness were far too high. There was disequilibrium between consumption and production; supply of and demand for labour; in the external account; between regions. The structure of the political parties no longer coincided with the views of the people voting for them. The trade unions aggravated every cause for complaint. An election would have to be held in 15 months.

14. The new government had entered into certain commitments on taking office. It would reduce inflation to 13% in 1983 and 10% in 1984. To achieve this labour costs had to be brought down, which meant getting away from indexation. This would be done by reducing taxes on employees and the charges on employers. Charges for services must be held down. To counter the fear of unemployment investment must be increased, but that was difficult for Italy. The Community could help with finance through the EIB for infrastructure in some cities in poorer regions. In addition 1 million public housing units (10%) could be sold in two years to provide resources. [Comment from Italian delegation: "nuovo piano casa Fanfani alla 1948".] A tax on the black economy would also help. There should be investment in small and medium businesses, better vocational training and cooperation between social partners. The public sector deficit would need to be reduced by \$15 billion from the present \$63 billion in the coming year, and that would affect social as well as other spending. Finally, national and Community measures should together be used to improve competitiveness by facilitating the introduction of new techniques.

1725

15. Lubbers (Netherlands) said his new government intended (a) to bring down interest rates by reducing the public sector deficit; (b) to stimulate investment by direct support and some de-regulation; (c) to tackle unemployment, especially among young people eg by job sharing schemes. A tough policy would be introduced to reduce consumption. He wanted a wage freeze, ie no automatic cost-of-living increases, to improve competitiveness. The private sector had got the message. Fundamental changes could not be expected from job-sharing, but it would help. All new vacancies would be advertised as 32 hours' pay for a 32-hour week.

16. Objective (a) needed international coordination, expansionist policies at the international level to balance national restrictiveness. The IDA, World Bank etc had a role, but financial disciplines must be maintained. Objective (b) needed international free trade within "our precious Community". The Community "must not crumble". He supported Kohl's procedural proposal. In the wider world free trade should be promoted in conjunction with the newly industrialised countries who could make an important contribution to world growth. They should be helped to ensure the existence of a mutually beneficial trading system. There was not much the Community could do to further objective (c), but the concluding text should show how seriously the problem was being taken. A new approach should be adopted, especially to deal with the young unemployed.

/17. The



17. The Prime Minister congratulated the Commission on their papers and their presentation. The present economic situation was the result of four factors:

- (a) successive oil price rises and the consequent transfer of purchasing power;
- (b) the new pattern of international trade, with many of our traditional products being produced more cheaply by countries with low costs such as Japan, Singapore and the NICs;
- (c) the third industrial revolution of the microchip, which meant that labour-intensive industries such as the service sector needed to be encouraged;
- (d) the fact that the international financial situation had worsened even since the last European Council, with the debt problems of Mexico, Brazil, Eastern Europe and so on.

18. The analysis was easy. It was not so easy to tackle the problems. The Prime Minister suggested four fronts:

- (a) national. The course charted at the Versailles Summit and the Jumbo Council should be followed: controlling money supply, containing inflation and so getting interest rates down. We should avoid exporting our problems to each other. Not all investment was good: it needed to be selective. Billions had been spent building up a steel industry; now billions had to be spent taking it down again. The same was true of shipbuilding. The investment must be productive. There needed also to be schemes to alleviate unemployment amongst the young and to train them. Small businesses should be encouraged: big businesses had little new employment to offer.
- (b) trade. The internal Community market was as yet far from free. Air services, insurance and lorry ~~quotas~~ were examples of this. Internationally the Community had done well at the GATT Ministerial. The Commission was to be congratulated. She hoped the conference's conclusions could be endorsed;
- (c) international finance. The IMF had coped as well as they could, in conjunction with the central banks. The European Council should say so. Discipline was needed in this as in national financial policy;
- (d) public opinion. Expectations had been too high. Public opinion had taken a jolt. But it was capable of taking unpalatable economic truth.

19. Haughey (Ireland) spoke briefly of the need to undertake to guarantee jobs or training to school leavers.

/20. Mitterrand



20. Mitterrand (France) spoke at great length. All member states faced more or less the same problems; all had their difficulties. France had tried to avoid too much political and social upheaval. "Some of you have not been able to deal with unemployment." Events in Germany in 1933 were the consequence of despair over unemployment. France was now adopting a stringent policy, like the UK. He was concerned about "popular consumption". Productive capacity needed improvement: France was less competitive than many. But success with the government's policy would reduce trade.

21. The European Community lacked confidence in itself. France protected where necessary but not if all cards were put on the table: she countered protection with protection. The Commission should make all the facts available. He was hurt by Kohl's talk of retaliation [none recorded]. There were many non-tariff barriers, such as animal health regulations. "You all have policies of protection. I can tell you what I cannot sell in your countries and why." All should examine their consciences. He could put a dossier on the table. France had taken protective measures against Japan but not against Community member states. The Commission should monitor this. The Treaty of Rome had been negotiated to ensure an internal market in which Community industry flourished under Community preference, protected from the outside world. Europe must protect itself by standing together as at Geneva. If absolute free trade were decreed it would rob the Community of any real meaning.

/22.



22. The internal market should be created and defended by doing away with internal barriers. But that would need other Community measures. France could support the New Community Instrument (NIC III). He agreed with the Prime Minister on the need to avoid investing in uncompetitive industries. Efforts should be concentrated on high technology, aviation (eg Airbus) and electronics.

23. International monetary stability was also needed. The US administration's policy amounted to the law of the jungle. There should be serious negotiations with them. He could not accept US demands for an integrated commercial system towards the East. Since the USA had sold wheat to the Soviet Union, it was unacceptable that Europe should be called upon to make more concessions to US policy on trade with the Soviet Union. He could not accept such a humiliating position. The Europeans had been too soft with the Americans. The USA had also been too dominant in managing international debts. IMF quotas should be doubled. Europe must find its proper leadership role, take up the Versailles proposals and the US challenge.

1833

24. Werner (Luxembourg) was prepared to forego making his comments. The Commission and Council reports were acceptable to him. Martenus (Belgium) agreed. He would make only four points:

(a) economic policies should be coordinated: the EMS was the anchor point;

(b) investment must be promoted: NIC III should be approved;

(c) better use should be made of the market of 270 million people. He could agree to the Commission's proposals on simplifying border procedures;

(d) available jobs should be shared, on a voluntary basis, and productive investment encouraged: 25,000 new jobs were needed each year in Belgium. indexation had been snapped.

25. Schlüter said that the Nordic Prime Ministers feared that continuation of present trends would lead to a serious depression. Anti-inflation policy should not stand alone. Reverting to Kohl's suggestion of a "trouble-shooting" group, he thought the idea might be useful. It could be discussed informally over dinner and taken up again in the second session. ~~(It was not.)~~ The afternoon's discussion had in practice covered relations with other industrialised countries (Item (c)). He would therefore conclude the discussion at this point and suspend the session for "three minutes" (at 1845) before resuming on enlargement.



C. ENLARGEMENT

26. Resuming at 1903, Schlüter invited comment on the Commission's inventory document which he described as a useful basis for discussion.

27. Mitterrand (France) said that in his letter to Thorn he had expressed his reservations about Spanish accession. He acknowledged that there would be an effect on Portugal. He had said publicly that he was in favour of Spain joining for political reasons (supporting democracy) and because Spain was culturally part of Europe. But if the economic issues could not be clarified before Spanish accession he would oppose it. There must be no repeat of what happened in the case of the UK. He needed the guarantees before not after accession: things could not be left to evolve afterwards for in that case he would be obliged to veto even minor matters and he did not like to have to veto. He would not accept that there should be a timetable. The main problems to be resolved were on financing and agriculture (he specified wine, fruit and vegetables, olive oil and mediterranean fish). The Community must also decide how much deepening it wanted, before enlargement. The Commission's inventory had been useful in defining the guarantees France would need. He was however still waiting for answers to many of his questions. He would be very happy if he could lift his reserve.

28. Thorn (President of the Commission) suggested three courses of action in order to permit progress:

- (a) conclude work on reform of the Mediterranean acquis by the next European Council;
- (b) ask the Foreign Affairs Council to report to the next European Council on its conclusions on the issues raised by the Commission's inventory document;
- (c) ask the Commission to explore with the candidate countries the question of pre-accession obligations.

29. Kohl (FRG) welcomed what Mitterrand had said about democracy in Spain. It was vital that Europe contribute to stabilising and encouraging Spanish democracy. He understood that a number of agricultural questions needed to be settled first: we needed to know what we were agreeing to. He agreed with Thorn's suggestions, provided the deadlines were respected.

30. The Prime Minister said that Spain and Portugal would be looking to the European Council for a signal of encouragement and of strong support for enlargement. She agreed with the Commission's approach of agreeing the terms of accession in advance, and dealing with problems through transitional arrangements and any necessary specific derogations. She also agreed that enlargement need not place an intolerable burden on the Community's budget. But, for that very reason, she did not



agree that enlargement <sup>would</sup> ~~will~~ make an increase in own resources necessary. We should not know exactly what enlargement would cost the Community budget until the accession negotiations were over. A good deal would depend upon the existing Community taking the right decisions to control expenditure on the Mediterranean agricultural régimes. By itself, enlargement would 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 all. Immediate action was needed to stop any further growth of agricultural surpluses and thus to restrain the growth of FEOGA to well below that of the Community's revenues. It would be 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.

31. She regretted that a problem to which she had drawn attention in her own letter to M. Thorn on the inventory exercise did not feature in Commission paper. Spain had, in expectation of accession, attracted foreign capital to build up highly modern and competitive industries, heavily orientated towards exports. These took advantage of low Community tariffs while enjoying a domestic market sheltered by high tariff walls. These tariffs were reinforced by administrative practices hard to reconcile with the terms of Spain's 1970 Agreement with the Community. It was quite wrong that Community should continue to tolerate this situation; the UK had asked the Commission to advise the Council on remedies, and she looked for quick and effective action. She could agree to Thorn's suggestions.

32. Fanfani was politically in favour of Spain joining the Community, but the economic problems had to be examined calmly and in depth.

33. Thorn was aware of the UK's concerns about the 1970 Agreement and the Commission would need to talk to the Spaniards about them. Responding to the Prime Minister on own resources he said that the figures in the inventory were simply extrapolations on the statistics for 1980. The 1% ceiling was close on those assumptions (0.96%). But in fact the margin for the 1983 looked like being larger than expected. Because UK refunds were being paid in 1982 and because the rate of exchange between the dollar and the ecu had changed from that used in earlier calculations the margin in 1983 <sup>draft</sup> budget was 3.3 billion ecus. If the Parliament had its way that would be reduced to 3 billion. The Commission's price proposals would add only a further 320 million ecus (FEOGA guarantee spending at 14,050 million ecus). There was therefore no risk of hitting the 1% ceiling in 1983.

34. Schlüter concluded the discussion by asking that no comment should be made to the press that night. The Presidency would prepare draft conclusions overnight.



## D. UK BUDGET PROBLEM

35. Ellemann-Jensen (President, Foreign Affairs Council) reported that the Council had agreed that Coreper would examine the Commission's proposals as soon as possible and report to the Council in January. The subject was on Coreper's agenda on 9 and 16 [in fact 15] December.

36. The Prime Minister said that she hoped for speedy progress and a conclusion by the next European Council in March. If not the matter would need to be discussed then. There was no dissent, and Schlüter concluded that there was agreement.

## E. FISH

37. Schlüter said that with the Fish Council meeting next on 21 December there was a little time which could be used to obtain agreement on a CFP. He hoped that some, not too important matters could be clarified. Danish demands had been cut down almost to nothing. But he had to be able to present the outcome to the Folketing Market Committee. He wanted to be able to conclude the matter in a positive manner and hoped that would be possible on 21 December.

38. The Prime Minister said that all were very much aware of Denmark's difficulties, both because of the Presidency and politically. The British Government had had to take very courageous decisions and others had too. We had reached the limit of concessions: she wanted to make that clear. Haughey (Ireland) agreed. Lubbers said that he thought he could draw the conclusion that the Danish government would try to bring about a solution by the end of December. It was important to give the public confidence in the way the Community took its decisions. If no satisfactory conclusion was reached all member states would have political problems.

39. Schlüter said that if he were required to say "yes" or "no" on the spot it would have to be "no". He hoped matters could be clarified positively by 21 December. Though they accepted the need to take a severe cut in catches, Denmark had taken the largest cut of all. Thorn said a CFP by the end of the year was essential. Three countries had taken more of a cut than Denmark. Schlüter closed the discussion and the session (at 1920).



Dinner Discussions

A.

Heads of Government - Relations with Soviet Union and Eastern Europe

1. Much of the dinner discussion was taken up with somewhat anecdotal exchanges, mainly between Kohl, Mitterrand and Papandreou on meetings with Eastern European leaders. Towards the end discussion turned to the situation in Poland. A number of speakers argued that Jaruzelski deserved support as a Pole who wanted to limit Russian influence. Both Mitterrand and Kohl thought that an attempt was being made to discredit Walesa and that the lifting of martial law would make no practical difference. Kohl reiterated what he had said at the recent Anglo-German bilateral meeting about food for Poland. He also argued that the Soviet Union could never allow Poland to escape from its grasp because it was their corridor to Germany.

2. After dinner discussion turned to the new regime in the Soviet Union. Schlüter said that he had discussed Andropov with the Finnish Prime Minister, who had warned against expecting any radical departures. Andropov's approach might be different, he might be personally worried by the lack of success in the economy and keen to decentralise decisions. But externally little difference would be detectable.

3. Mitterrand advanced the thesis that the Soviet regime was absorbed by the stationing of Pershing missiles in Europe which could reach the Soviet Union in very much less time than Soviet long-range missiles could reach the United States. He thought they would therefore do anything to stop the stationing of these missiles and were now clearing the decks in order to concentrate on the negotiations in Geneva. He therefore thought that Andropov might be prepared to make some sort of withdrawal from Afghanistan. As a new man he had the freedom which Brezhnev lacked. The Soviet Union was already trying to clear up its relations with China; they had abandoned Syria and were drawing in their horns from the Middle East. The Prime Minister questioned this thesis. If it were true, it was strange that the Soviet Union was not making more effort in Geneva. She doubted whether withdrawal from Afghanistan would be so easy. The general impression from the discussion was of an appreciation of the importance of the Geneva discussions.

B.

Foreign MinistersPoland

4. Most of the Foreign Ministers agreed that little should be said in the European Council's conclusions about Poland, since the lifting of martial law or its replacement with something else were a mere ten days away. Genscher said that he had received from President Reagan a request for a positive response to the lifting of martial law on 13 December. He and the Secretary of State argued against giving any such commitment. It was necessary to see first what it all amounted to in practice. The message to the press and elsewhere should simply be that the subject had been discussed.

/5. East-West



CONFIDENTIAL

East-West

5. The Secretary of State argued against those who wanted nothing said about the new Soviet regime. The death of Brezhnev had been a major event and something needed to be said. Genscher had wanted any comment to be placed in the context of the CSCE, but the Secretary of State argued against this.

Latin America

6. It was quickly agreed that no declaration should be issued.

CONFIDENTIAL



~~CONFIDENTIAL~~

Second Session: Morning of Saturday 4 December at 1030

1. Discussion of the draft texts took a little over three hours. The drafts presented by the Presidency and the Political Committee are at Annex A.
2. The draft text on the economic and social situation gave rise to little discussion of substance, although it was substantially amended. There was however further discussion of the suggestion that a group of state secretaries be appointed to unblock internal market problems, but the Prime Minister argued that the issues should be left to Coreper to handle in preparation for normal Council decisions.
3. The draft text on enlargement was subjected to a number of proposed amendments and counter-amendments. Cheysson pressed for the inclusion of a reference to the need for new own resources in order to permit enlargement, but along with other amendments this fell when the Prime Minister suggested that most of the changes proposed more or less cancelled each other out, and the excellent Presidency draft should be left as it was.
4. The text on relations with other industrialised countries gave rise to no discussion of substance.
5. Before the start of the session the UK had circulated a draft text on fish (Annex B). The Danish Presidency was unable to accept the middle sentence, but the shortened text was quickly agreed.
6. After discussion of the political cooperation texts, Ellemann-Jensen made a short oral report on work on the Genscher-Colombo proposals for a European "Act". A draft German/Italian text was not considered, and there was no discussion. Papandreou said that he had been going to make a statement on Cyprus, but because of shortage of time he would circulate the text of what he would have said. (Annex C).
7. The European Council closed at 1320 with agreement on the conclusions at Annex D.

CONFIDENTIAL