

RECORD OF A MEETING OF THE EUROPEAN COUNCIL HELD AT LANCASTER HOUSE, LONDON ON 29 AND 30 JUNE 1977

Present

BELGIUM                    Monsieur Leo Tindemans -  
                                 Prime Minister

                                 Monsieur Henri Simonet -  
                                 Minister for Foreign Affairs

DENMARK                    Mr Anker A Jørgensen -  
                                 Prime Minister

                                 Mr K B Andersen -  
                                 Minister for Foreign Affairs

FEDERAL GERMAN  
REPUBLIC                    Herr Helmut H Schmidt -  
                                 Federal Chancellor

                                 Herr Hans Dietrich Genscher -  
                                 Foreign Minister and Vice-Chancellor

FRANCE                      Monsieur Valery Giscard d'Estaing -  
                                 President

                                 Monsieur Louis de Guiringaud -  
                                 Minister for Foreign Affairs

REPUBLIC OF  
IRELAND                      Mr Liam Cosgrave -  
                                 Prime Minister

                                 Dr Garret FitzGerald -  
                                 Minister for Foreign Affairs

ITALY                        Signor Giulio Andreotti -  
                                 Prime Minister

                                 Signor Arnaldo Forlani -  
                                 Foreign Minister

LUXEMBOURG                Monsieur Gaston Thorn -  
                                 Prime Minister

                                 Monsieur Pierre Wurth -  
                                 Secretary-General, Ministry of  
                                 Foreign Affairs

NETHERLANDS                Mr Joop den Uyl -  
                                 Prime Minister

                                 Mr Max van der Stoel -  
                                 Minister of Foreign Affairs

UNITED KINGDOM            The Rt Hon James Callaghan, MP -  
                                 Prime Minister

                                 The Rt Hon David Owen, MP -  
                                 Foreign Secretary

EUROPEAN COMMISSION    The Rt Hon Roy Jenkins -  
                                 President

                                 Monsieur Francois Xavier Ortoli -  
                                 Vice-President

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EUROPEAN COUNCIL, LONDON  
29 JUNE 1977  
FIRST SESSION

1. The first plenary meeting, originally scheduled to begin at 1500 hours, opened at 1705 hours.
2. The Prime Minister, in the Chair, said that the Heads of State and Government owed their Foreign Ministers an apology for keeping them waiting while they had had a very useful discussion. However, he understood that the Foreign Ministers had not been idle, since they had reached agreement on a draft statement on the Middle East.

#### ORDER OF BUSINESS

3. The Prime Minister referred to the annotated agenda which had been circulated. The suggested order of business was to enable collaborators to do any necessary drafting that evening, after first discussion of the papers on Growth, Inflation and Employment and on the Middle East. Did the Council agree that they should try to have their first discussion on growth, etc, and to issue the Middle East statement today?
4. President Giscard (France) said "Yes, to both"; and it was so agreed.

#### GROWTH, INFLATION AND EMPLOYMENT

5. The Prime Minister referred to the papers that had been circulated and invited the Commission to speak on theirs.
6. Mr Jenkins (President of the Commission) said the Commission paper on general economic trends showed that there was not much change in a not very satisfactory situation; growth targets were

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not being met, inflation was abating slightly but unevenly. This argued the need for further action. The draft statement prepared by the Presidency was useful in indicating some possibilities, but could be strengthened. The EIB proposals were sensible and straight-forward, but inevitably limited in relation to the scale of the problem. The Commission's proposals were not intended to duplicate EIB activity, but to provide additional funds which could be used in deliberate pursuit of policy aims, particularly in improving the scope and efficiency of sectoral policies (energy, industrial reconversion and infrastructure, including regional).

Mr Jenkins believed that he could claim to have been as conservative a Finance Minister as anyone around the table, and he was sure that the Commission's proposals were financially sound and far from over-ambitious. But in order that the Commission could play their small part he hoped that the Council would be able to give them the necessary authority.

7. Mr Ortoli (European Commissioner) spoke in greater detail of the economic background. Expectations of growth had moderated from 5% to  $3\frac{1}{2}\%$  in March this year and were now only around 3%. This was not sufficient to reabsorb the unemployed, who were still around 5 million in the Community. Inflation had moderated slightly (from 10% in 1976 to  $9\frac{1}{2}\%$  in 1977, assuming there was a better trend in the second half of this year). Balance of payments were better in 1977 than last year, when they had been particularly uneven between Member Countries: this could partly be claimed as a success for Community policies. Mr Ortoli's conclusions were that further improvement was possible in the months to come: but the deficit countries must give priority to counter-inflationary measures and others must find new policies to sustain economic growth, since efforts made so far were not having enough effect. So far as economic convergence was concerned, Commission proposals for stricter coordination would give the Finance Ministers an opportunity to review the possibilities. Investment was the key sector, since the level

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was now down to 20% of GNP (as against 23% in the early '70's). The first priority was a general return to economic stability. As regards Community action the EIB Proposals, made in close collaboration with the Commission, would help; and the Commission proposals, made after most serious studies by experts in the United States and Europe, would offer further openings. They were modest and reasonable and political control would still be exercised by Member States over the specific projects.

8. The Prime Minister suggested that the Council should continue with general observations on the economic situation, with particular reference to the proposals by the EIB and the Commission. As no-one else offered to speak next, he said he would put himself into the breach.

9. The Prime Minister said it had been agreed at lunch he should give a brief report on the Downing Street Summit, though there would not be much to add to the account which the Secretary of State had given his colleagues at the time. The Prime Minister then gave a short account on the lines of Brief No 3. He referred to the follow-up action which was already taking place (speaking in terms of para 8 of the brief) and stressed that he was not aware of any proposal yet regarding further economic summits. In spite of these high level discussions, however, the problems were still far from solution, and the Prime Minister welcomed the proposals made by the Commission and the EIB. The basic problem for Community Governments was that their economies were running below (some said 20% below) their maximum level. In these conditions unemployment was bound to continue. But the democratic system required a goal of full employment and we could not afford to lose sight of this objective simply because we did not know how to get there. Inflation was being tackled. The worst cases (which included the UK) were on the threshold of substantial improvement: in the

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UK inflation should start going down very fast in the autumn and the UK position in the spring next year should at least be as good as a number of other EEC countries. This of course partly depended on good wage settlements in the autumn, of which there was reasonable prospect even if the arrangements might not be as tight as they had been in the past.

10. Regarding new investment, the Prime Minister said he was worried both by the low level and by the fact that even if it were higher it would not necessarily affect unemployment. Experience in several sectors (textiles, footwear, shipbuilding, electronics, steel) suggested unemployment was a structural not a cyclical problem. The Prime Minister was sorry that some countries that had started the year with good hopes regarding growth had been unable to achieve it. In some cases this was not a question of governmental will, but the general lack of confidence in the economy.

11. The Prime Minister then outlined the measures recently decided by the British Government to deal with youth unemployment. The aim was to provide training for every young person leaving school who had been unable to find a job within a specified time. More than £160 million a year had been set aside.

12. Mr Jergensen (Prime Minister of Denmark) said there was no quick way to full employment. Because of the dangers of inflation many countries were hesitant to expand: this was true of the whole of OECD, as the recent Ministerial meeting had shown. Denmark's problem was a tendency to excessive balance of payments deficits: they had succeeded in the last two years in keeping their prices lower than the OECD average thanks to a strict and politically difficult incomes policy. But the expansion of exports required someone to buy them: although both the Downing Street Summit and OECD had favoured expansion, it was not yet assured. There must be a more equal distribution of payments deficits. Some countries must accept a lower growth rate than others if

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unemployment was not to increase. The social partners must continue to participate in economic policy discussions and there should be a further Tripartite Conference resulting in proposals for Ministers of Finance to consider. Denmark agreed with the suggestions made for expanded lending by the EIB and would like to see favourable consideration given to the Commission's proposals. They thought there was room for expansion of the Social Fund.

13. Herr Schmidt (Federal German Chancellor) endorsed the Prime Minister's report of the Downing Street Summit. He gave a brief account of the economic situation in the Federal Republic. The traditional German inflation neurosis had been overcome. Money was sufficiently plentiful (short-term credit at 3.5%; long-term capital at 6.5%) and there was no need to print any more. Consumer saving was still too high at 14% of real income. GDP had risen 5.7% in the past year and would rise by 4.5% in real terms this year. Imports had risen by 17% in real terms in the past year: exports had also increased but by less, in spite of revaluation, because internal prices had remained stable. Payments were developing towards a balance because of the increase in imports, foreign travel (60% of German workers took their annual holidays abroad) and transfers abroad by foreign workers. The only major anxiety was unemployment, which was 4% and might (though he would not say this publicly) go higher before the end of the year. The Federal Government had reduced taxation on companies and ran a budget deficit of 3.25% of GDP. By the autumn they would have created 100,000 more apprenticeships since last year, and if these did not work they had powers (which they hoped would not be necessary) to finance further posts by a levy on industry.

14. Turning to the Presidency draft statement, Chancellor Schmidt said there were too many papers: he hoped that future European Councils would have less, since there was no value in papers one did not have time to read oneself. However, he could agree to the Presidency draft, subject to two comments. He saw



no need to increase the Social Fund at this point, and accordingly in paragraph 3 of the draft would like to see the word "increase" changed to "concentrate". As regards proposals for increased investment, he could not agree that the Community should issue loans from which supplementary budgets might arise. He would therefore prefer the last sentence to urge "the Ministers of Finance to examine the proposals", rather than "the Governors of the EIB to pursue them." Chancellor Schmidt said he had no other drafting amendments to propose but was somewhat doubtful whether the other instruments referred to in the draft were sufficient to deal adequately with the problem.

15. Continuing his general comments, Chancellor Schmidt said that he had been disappointed in the results of the CIEC conference in Paris: in future he thought the Community should have the same representation throughout, since its interests suffered from multiple representation. He found the US situation very disturbing. Prospects of a large balance of payments deficit for the rest of the decade implied a flood of US dollar liquidity and export of inflation to other countries. Moreover, half the US balance of payments deficit stemmed from unchecked oil imports. At the same time as the Americans were increasing world dependence on oil, they were preventing others from building up nuclear energy capacity. This implied serious risks of blackmail and the possibilities of a western oil cartel growing up that would side with OPEC.

#### MIDDLE EAST STATEMENT

1815 hrs 16. The Prime Minister observed that there was only a short time before the Council would have to adjourn for dinner. Could they issue the Middle East statement without further discussion? This was agreed, after Monsieur de Guiringaud, (French Minister for Foreign Affairs) at President Giscard's invitation, made a brief remark to the effect that it would have been better issued **much earlier** and not held up at US request. The Prime Minister congratulated the Foreign Ministers on producing a text that

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could issue without further discussion. He said that the opportunity would no doubt arise during general discussion of the world political situation next day for any further comments on the Middle East.

GROWTH, INFLATION AND EMPLOYMENT (CONTINUED)

1820 hrs

17. Mr Cosgrave (Prime Minister of Ireland) said it was clear that there would be greater unemployment in the 1980s. We had all underestimated the magnitude of the problems. The Commission indeed suggested that the reason for lack of progress was that the problems were more serious than originally thought. This meant that solutions put forward so far had not gone far enough. The Commission should draw together all the threads of the many international discussions which had taken place so far and suggest a coherent approach. He welcomed the Commission proposals for structural investment but they were small compared with the need. Since this was so, effort must be directed toward the areas of greatest need. The Commission proposal for investment and borrowing should be given to Finance Ministers to consider. Finally it was not possible for the weaker economies to provide the stimulus for growth. The larger economies had a duty to do so.

18. Mr den Uyl (Prime Minister of the Netherlands) said that the draft statement the Presidency had submitted was a good basis from which to start. He did not want to go into detailed suggestions. But in relation to paragraph 3, he noted that the Federal Chancellor had suggested that the Social Fund budget should not be increased but should concentrate its resources on schemes for young people. Mr den Uyl did not want to put a limit on the Social Fund budget provided that schemes should be judged on their merits. The Commission should make concrete proposals in the light of the Social Council meeting of 28 June. He had the same type of complaint in relation to paragraph 4 about the extension of Community borrowing policies. The Community should decide on new loans to be based on concrete

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proposals for their application. There was no lack of instruments, but the Community was short on activity based on exact analyses of industrial problems sector by sector. The Commission should make concrete proposals and the Council of Finance Ministers should take clear decisions. The situation in the Netherlands was similar to that in the FRG as described by Herr Schmidt, although the Netherlands rate of inflation (at 6.5%) was now down. But the unemployment figure was far too high at 4% and was unlikely to be reduced and could rise in the years to come. This was the real problem. There had to be a new world policy to tackle it. The OECD McCracken Report had gone into the problem in detail and had concluded that in view of the unfortunate coincidence of factors which led to inflation and unemployment, the tendencies of the past which gave rise to growth were still there. Mr den Uyl was not convinced. The Commission should give a brief summary of what they thought of the McCracken Report. They might be able to identify factors which could lead to a different policy and explain why we were faced with over-capacity and why there was so little likelihood of getting rid of it and therefore solving unemployment. In Europe people now spent their money only on cars and foreign travel. Happily from one point of view we no longer had the large arms expenditure of the 60s. In the developing world there was certainly development aid but the level of investment and transfers from national capitals to developing countries was much less than before the war. The Eastern European countries and China no longer provided the outlet they previously had for the West's industrial system.

19. The conclusions he drew were:

- (a) we must pay more attention to the purchasing power of developing countries;
- (b) he agreed that additional funds from the IMF were necessary. They should be earmarked for the non-oil

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- producing third world countries;
- (c) the effects of technological changes should be studied in the EEC and OECD.

20. The Prime Minister said that it was generally agreed that the draft statement should be made shorter. Collaborators should work on it, taking account of comments. He invited the French President to speak for the remaining ten minutes.

21. President Giscard said that the Council should not be bureaucratic and circulate papers which reflected the views of others. He favoured a declaration, but it should be shorter and have greater political significance.

22. We should not be surprised by the continuing problem of unemployment. It was the result of world inflation arising from the energy price rises and, in the West, the fall in demand for household goods. Fortunately there was still a demand for cars, but this was not likely to last.

23. Comprehensive stimulation would not solve unemployment. We must use fine tuning. We must have projects for training in particular sectors, especially for young workers. This should reduce the numbers out of work.

24. He shared the Prime Minister's concern about the use of the Social Fund. It could do more for young people. But before increasing its resources, we should concentrate those available on concrete schemes and then see if an increase was necessary. If so, France would be in favour. The Council should ask the Governors of the Bank to implement the proposals put forward on the Council's behalf by the Presidency. But he was doubtful about the proposal for exchange rate guarantees. The machinery should not be complicated.

25. He had noted this was really a question of loans. The FRG had an abundance of liquidity. Did we need to borrow



from outside the Community? The problem was that it was difficult to use the German capital market because of the conditions attached to it. It should be made easier to do so.

26. He had three further suggestions to make:

- (a) the Commission should monitor the difficulties which arose in trade. If the Commission were to keep a closer eye on problems likely to arise, it could propose appropriate measures in good time;
- (b) he had noted the various schemes in Member States for helping young workers. These would be implemented during the summer. Employment Ministers should meet in December to exchange ideas on the results, when the Social Fund could also be looked at again;
- (c) there should be a reference to energy in the declaration. All economic problems were dominated by energy. Member States' views though different were surely coming closer. Heads of Government should say that they were anxious to reach a common energy policy.

1900 hrs

27. The Prime Minister said that he had to meet the European Trades Union delegates at 8.30 am the next morning and the employers at 9.00 am. He suggested the Council should resume at 9.30 am when M. Tindemans and Signor Andreotti would speak on growth, unemployment and inflation.