

EUROPEAN COUNCIL

26 MARCH 1977

Rome

NOTE OF THE Second Session AT 1015 on 26 March 1977  
RECORD OF DISCUSSION

1015

~~Second~~ The Prime Minister  
~~The second session opened at 10.15 a.m.~~  
Mr Callaghan suggested the following agenda: for  
~~the morning:-~~

First, Enlargement; on which President Giscard had said he wished to make a statement; second, the organisation of the work of the European Council; third, examination of the various <sup>draft</sup> statements in the following order:

Unemployment

Japan

Community <sup>participation in</sup> ~~reception~~ at the Downing Street summit

Steel

<sup>dialogue on</sup> ~~President's~~ Statement on the North/South issue/which  
~~he hoped to be able to obtain the~~  
~~assent of his colleagues.~~

Finally, the European Foundation, which the President of the Commission wished to raise. <sup>The President</sup> Mr Callaghan expressed the hope that proceedings would finish by <sup>1300</sup> ~~one o'clock~~.

ENLARGEMENT  
President Giscard referred to the candidature of Greece and the visits which all had received from the Portuguese Prime Minister. There would probably be an application from Spain before the Spanish election. To take Portugal first, the level of agricultural and industrial development there was very far from that in the present member countries. We should therefore consider whether accession to the Community in the classic sense was the right way forward, or whether it would lead in practice to a system of permanent exceptions

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/and derogations



and derogations. <sup>Such permanent derogations would be</sup> ~~The~~ Commission should therefore be <sup>more acceptable</sup> asked to make an extremely thorough study of all the problems. Would it really be realistic to look forward to full membership, with all that it entailed, or rather to consider some other solution?

President Giscard said that the Community's agricultural regulations were tailored to the present circumstances of the Community. The accession of new and poorer members would tend to interfere with fair competition. Accession would only be possible after regulations had been defined to ensure complete freedom of competition. Then again the views of national parliaments would be ~~not~~ <sup>need to be sought</sup>. The French Parliament would certainly have considerations to put forward over enlargement. Again, the Community institutions had been established for a Community of six. Those who were members of the Community of six remembered that they worked fairly well in that period. Even now, with nine members, the procedure for reaching conclusions was undesirably cumbersome. It would be impossibly so and quite ineffective in a Community of twelve. He did not suggest changes in the relations between the Community institutions ~~or changes~~ <sup>or</sup> in their competences. What would be needed were changes in the way they worked in practice, for example the rotation of the Presidency, <sup>of</sup> the question of adding to the size of the Commission.

President Giscard therefore argued that before the Community gave a verdict on the question of new /accessions



accessions there should be extremely thorough studies carried out. The French position was nevertheless entirely friendly, particularly in <sup>relation to</sup> connection with the accession of Mediterranean countries which would strengthen the Latin presence in the Community.

<sup>The P-11</sup>  
Mr Callaghan said that Foreign Ministers were to meet at Leeds Castle on 21/22 May. The atmosphere there would be particularly conducive to an amicable general discussion on the whole question of enlargement.

<sup>Mr</sup>  
Andreotti said that even without the prospect of enlargement it was necessary to have a fresh look at the agricultural regulations which, as he had said the day before, were very favourable to certain products but did not provide proper safeguards for the so-called Mediterranean products. If this problem was not reviewed soon, serious obstacles would arise for the future working of the Community, particularly in the context of enlargement. He agreed with President Giscard about the functioning of the institutions and the need for an overall examination of all the problems of enlargement.

<sup>The P-11</sup>  
Mr Callaghan repeated his suggestion that the Foreign Ministers should take note of the present discussion and take up the subject at Leeds Castle. The European Council could then come back to it at its next meeting.

Chancellor Schmidt agreed with that proposal but made a plea that all member Governments should be careful not to arouse hopes of concrete and immediate progress on the part of countries which wished to join the Community. The problems raised by President Giscard,

/to which



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to which <sup>Mr.</sup> ~~Mr.~~ Andreotti had also referred, needed to be looked at in much greater depth.

~~Mr.~~ Andreotti said that it was necessary to reconcile this requirement for further examination of the problems with the political requirement to forward the development of democracy in the candidate countries, ~~concerned~~. He suggested ~~the~~ best way to reconcile these ~~requirements~~ was to keep in closest contact with the candidate countries and not to appear too remote from them. A friendly attitude of this kind would also <sup>help</sup> hold them politically. The problem was partly psychological. Particularly in the case of one <sup>country</sup> concerned, it was most important not to discourage the democratic forces present there. Members of the Community had already <sup>publicly</sup> declared their favourable attitude to enlargement, so that what he was suggesting was nothing new. ~~The~~ presentation was important.

~~Mr.~~ <sup>The P-11</sup> Callaghan recalled that the Community had been over this ground on a number of occasions. He remembered covering it when he was Foreign <sup>Secretary</sup> Minister. In his view - and he was not now speaking as the Presidency - because the Member States had not yet decided the final shape of the Community, each application for membership had to be taken <sup>ad hoc</sup> ~~piecemeal~~ on its merits. It was quite right to avoid raising illusory hopes on the part of the candidates, but the fact was that as long as the Community remained an avowedly open Community, no one wanted to say no. Whenever each of the Member governments had a visitor from a candidate country members of the Government concerned were bound to make positive /declarations



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declarations in order to help the visitor <sup>back at</sup> ~~back~~ home. As long as the ultimate shape of the Community was not settled, <sup>applications from</sup> new members must necessarily be <sup>received positively</sup> ~~let in with~~ each case being considered pragmatically. ~~on its merits~~. But perhaps with the prospect of three more Members, it would be right to have a proper look at the state of the Community, at this intermediary stage, and consider again what its ultimate shape should be.

Chancellor Schmidt ~~agreed with what had been said,~~ but ~~added as a footnote~~ <sup>said</sup> that in many long discussions with the Greek and Portuguese Prime Ministers he had repeatedly warned them that formidable problems were sure to arise and that they should not expect quick solutions. He had put to them an idea suggested by the French Foreign Minister that candidate countries needed to be aware of the considerable burdens which membership would entail and <sup>had pointed</sup> ~~point~~ out to them that it would be wrong to expect them to assume these burdens too soon. He believed that the Portuguese Prime Minister was thinking of a transitional period lasting a decade, even after negotiations had been concluded. He agreed with Mr Callaghan's procedural proposal for future discussions.

Mr Joergensen said that Denmark had a positive attitude towards enlargement, in <sup>conformity</sup> ~~accordance~~ with the Treaty of Rome, but that there was a degree of concern and that it would certainly be right to move slowly. Denmark's own close relations with the other Nordic countries /might



might suffer if the Community was enlarged only in one direction, to the South. A proper balance must be established for an enlarged Community.

Mr Jenkins said that when the Portuguese Prime Minister had come to Brussels he had warned him of the economic and institutional problems which needed to be overcome. He had told him that the Commission would have to study these in depth, and would hope to produce its Opinion by Christmas, but that it might not be ready until the end of January, or even February. The Portuguese Prime Minister, he thought, had <sup>accepted</sup> ~~expected~~ this and he hoped that member states would not encourage any manifestations of impatience for a quicker timetable.

X  
Secondly, Mr Jenkins said that he did not believe that "globalisation" was a correct concept if it meant putting off the Greek negotiations and holding back on Portugal so as to hold all three negotiations at once. Such a procedure would undermine the political welcome which the Community was extending to new members. But it would nevertheless be right for the Community itself to make a global assessment of the consequences of enlargement to twelve as it embarked on each set of negotiations. The likely outcome would be that the Community would have increased from six to twelve in a very short time.

<sup>The P-N-</sup>  
Mr Callaghan repeated again his suggestion that Foreign Ministers should discuss this issue at Leeds Castle, and that the European Council should take it up again in June, *this was accepted*

[ACTION]

10.40

European  
Council  
Procedure



J. [unclear]

[ Was there a gap here? Martin came out a minute before I went in ]

EUROPEAN COUNCIL PROCEDURES

[ JTB ]

The P.M. then turned to consideration of the procedures of the European Council and referred to the exchange of correspondence initiated by President Poind. He suggested that <sup>the</sup> ~~The Prime Minister referred to the Presidency~~

1045

document, summarising the ideas so far put forward, Would ~~this~~ make the right basis for further discussion?

President Giscard said he thought detailed discussion could be remitted to the Foreign Ministers on the basis of the Presidency document, for a report to the next Council if agreement had not been reached in the meanwhile. The Foreign Ministers should be asked to consider in particular the questions what documents should be prepared for discussions; <sup>whether the</sup> ~~was in the competence of the Commission or the Secretariat;~~ and whether there should be permanent items on the agenda.

[ ACTION ]

The respective roles of the Commission and the Presidency in these preparations; and

This was agreed.

ORDER OF FURTHER BUSINESS

~~The Prime Minister said he intended to take in the following order the drafts for statements or oral use by the Presidency: growth, inflation, unemployment etc; EEG/Japan; Community representation at the Downing Street summit; steel; and the Common Fund.~~

REVIEW OF DRAFT STATEMENTS

GROWTH, INFLATION AND UNEMPLOYMENT  
In discussion of the draft statement on growth, inflation and employment, <sup>the Prime Minister</sup> ~~The Prime Minister~~ said he could agree to the deletion of <sup>the bracket</sup> ~~around~~ the reference to a further look at EMU at the end of the year. <sup>we</sup> ~~The Community~~ frequently spoke of the need for convergence and this was one area in which it would <sup>be right to</sup> take further stock. It was agreed that the statement should be issued to the press. <sup>and drafted.</sup> ~~in that~~ form.

(a) Growth, Inflation + Unemployment

[ ACTION AS DESCRIBED IN STATEMENT ]

EEC/Baron



The Prime Minister

(b) 85c/5 am

EEC: JAPAN

Mr Callaghan asked whether there were any <sup>comments on</sup> ~~objections to~~ the draft statement <sup>on relations with Japan</sup> which had been worked out by officials. Mr Van der Stoel said he thought that, as the statement added nothing to what the Council had said in November, it would be more appropriate for the President to use it in briefing the press. Mr Tindemans thought it might usefully include a reference to what President Giscard had said the previous day about <sup>the related questions of international</sup> ~~the risks of~~ <sup>growing</sup> increasing protectionism. President Giscard said he did not think this would be appropriate in the statement on Japan, but Mr Callaghan might explain that this was part of the spirit in which the various statements by the Council had been adopted. Mr Andreotti thought the Council should stress the need for strict observance of the rules of competition; Japanese barriers to trade were erected in areas where Europe was competitive. Mr Jenkins thought the basic problem was that the Community was not competitive with Japan in many sectors, though it was true that we did require more open policies by the Japanese. It was agreed that it should be left to the President to include these points as appropriate in ~~background~~ briefing of the press; and that the statement would be issued as drafted, except for a minor emendation ("Japanese imports from the Community" to read "~~in which~~ <sup>Community</sup> exports to Japan").

competitiveness and the danger of

[New caps]

(c) COMMUNITY PARTICIPATION AT THE DOWNING STREET SUMMIT

Mr Callaghan The Prime Minister The Prime Minister

read out the consensus reached the previous evening and it was adopted as follows:



[ACTION]

"The President of the Council and the President of the Commission will be invited to take part in those Sessions of the Downing Street Summit at which items which are within the competence of the Community are discussed. Examples of such items are negotiations about international trade and the North/South Dialogue."

(d) Steel

STEEL The Prime Minister  
~~The Prime Minister~~ invited Mr Jenkins to introduce the draft declaration <sup>on steel</sup> agreed by experts. Mr Jenkins said <sup>that</sup> the Community steel industry was now in its third year of real crisis. In 1976, steel-making capacity was nearly ~~200,000~~<sup>200</sup> million tons, compared <sup>with</sup> to 70 million tons in 1973; ~~the~~ actual production was only 134 million tons. The prices of several products were 60% down on 1974. Unemployment was particularly heavy in eastern France, southern Belgium, Luxembourg and Saarland, where half the labour force was on short time and there were plans for even further reductions. Governments could not stand idly by; <sup>but</sup> ~~the possibility of~~ <sup>the possibility of</sup> measures of massive help or of national protectionism ~~in each country~~ would break up Community cooperation. The solution must be a Community, not a national, one. The Treaty of Paris gave the necessary powers to the Commission to plan for a major reorganisation which ideally would produce a Community steel industry that was thoroughly modern in its equipment and competitive anywhere in the world. The Commission would be considering  
 /four



four main <sup>approaches:</sup> ~~objectives:~~

- a. To restore normal market conditions by means of minimum prices for reinforcing steel bars and by minimum indicative reference prices for other products. ~~Voluntary arrangements were not sufficient.~~ There should be automatic import licences for ~~second countries~~, to be exercised as a form of control, rather than limitation.
- b. There should be an understanding with certain third countries on voluntary restraints. This already worked in the case of Japan, South Africa, South Korea, Spain and Brazil; and others should follow. Trade with COMECON countries was controlled by annual agreements with individual member governments. The Commission would continue discussions with third countries to keep equilibrium in the market.
- c. Substantial finance would be required for reorganisation. The Commission would subsidise interest on certain loans, with particular emphasis on regional requirements.
- d. The Social Fund might be more extensively used for retraining workers.

Mr Jenkins said <sup>that</sup> the Commission would take the necessary measures within the treaties and would discuss them with the Council. He hoped they could count on the general sympathy of the European Council.

/ Charulha  
Schmidt



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Chancellor Schmidt said he could accept the Draft Statement as it stood.

President Giscard said the need for Community action was urgent. If within a few weeks no Community measures had been taken, Governments would be bound to take their own national measures. Mr Jenkins ~~found the points were on the right line~~ <sup>Said that he</sup> and he could accept the Draft Statement. But Ministers responsible for industry should be instructed to agree soon on specific measures before it was too late.

Mr Thorn thought the Draft Statement did not have enough teeth but he could accept it. Industry Ministers should discuss immediate steps: the choice was not an academic one of dirigisme against liberalism; but of Community measures <sup>as</sup> ~~or~~ <sup>opposed to</sup> national measures which would disrupt the Community market.

The Prime Minister said he had personal experience in his own constituency of the seriousness of the problem. When an industry like the steel industry had to contract, the cost <sup>great</sup> was in human terms; it was difficult to find alternative employment and he liked the Commission's suggestion of using the Social Fund for retraining. He hoped the Commission would come forward soon with their ideas. The UK was willing to cooperate as far as possible.

Chancellor Schmidt agreed with what had been said about the gravity of the situation but pointed out that the European Council had not seen any previous studies by the Council of Ministers. ~~The~~ Economic or Industrial Ministers should be asked to follow this up soon.

The text of the Statement was then agreed, after President Giscard had suggested the word "urgent" for "diligent" in the French text.

(e) ~~NORTH/SOUTH DIALOGUE~~ (SW)



(e) North / South Dialogue

## NORTH/SOUTH DIALOGUE

*Trinity to the draft note on the North/South* (text)  
*dialogue, The Prime Minister*  
 The Prime Minister explained that the ~~draft text~~ <sup>text which</sup> which he had just circulated was a form of words for him to use as President at his press conference, rather than a statement by the Council. Though he would say that it carried the agreement of all members.

Chancellor Schmidt said that the Presidency paper (which he attributed to M. Hommel) reflected the agreement reached <sup>the previous day's</sup> in yesterday's discussion. He thought however that the reference to Commodity Agreements ought to appear in the first paragraph, since a Common Fund would not <sup>need to</sup> exist <sup>if</sup> until there were <sup>no</sup> Commodity Agreements. After some discussion it was agreed to re-cast the order of the sentences to meet this point. Chancellor Schmidt then said (in English) that he would like to have some clarification - not for inclusion in the Statement - of what the European Council members envisaged as regards the number and nature of Commodity Price Stabilisation Agreements. He would not wish to be faced at a later date with a proposal for 25 Agreements; or for Agreements covering certain major products such as minerals. If this clarification was not possible he would prefer to add the phrase "where possible and ~~when~~ appropriate" to the text.

*to re-open*  
~~The Prime Minister~~ The Prime Minister said it would not be a good idea to try ~~and open up~~ the agreed text, though the underlying disagreements could be explored. Mr Den Uyl said he understood Chancellor Schmidt's reservation but agreed with the Prime Minister's comment.

Chancellor Schmidt (still speaking in English) emphasised that if Mr Den Uyl wanted there to be a large number of Commodity Agreements no Community <sup>Common</sup> ~~Commission~~ policy would be possible. It would not be the first time that one country <sup>/differed</sup>



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differed from the rest on this point: but it would be intellectually dishonest to give ~~the~~ Foreign Ministers instructions on the basis of a disagreed ambiguity. He accepted that the Netherlands Government and others might have entered into commitments at Nairobi: but seven countries acting on their own could not commit the Community. Those who had been more cautious at Nairobi could now make some concessions, as the FRG had already agreed to do. He now looked to those whose position at Nairobi had been more liberal to make some concession to him.

President Giscard supported Chancellor Schmidt's suggestion for an addition to the text. Mr Den Uyl said that he was not thinking of Commodity Agreements over the whole field, but only where appropriate. It was agreed to add the words "where appropriate" to the Draft Statement.

Chancellor Schmidt ~~then~~ said he would like to clarify the phrase "export earnings stabilisation measures" by adding the words "for developing countries". This was accepted.

Chancellor Schmidt then said that the Statement required one further paragraph to the effect that the results of the North/South Dialogue must provide greater stability and (in world trade.) continuity. This would be the minimum return which the Community should expect for their concessions in the Dialogue.

President Giscard said that a reference of this kind in the statement would sound like imposing a pre-condition on the developing countries and especially the oil/producers. He agreed with the ~~suggestion~~ substance but thought it better not to make it part of the statement. The Prime Minister suggested that he should keep such a remark for use if asked at his press conference. Mr Jenkins agreed strongly with the



thought behind Chancellor Schmidt's words but considered it tactically better not to include it in the Statement. ~~Chancellor Schmidt~~ said he would accept the tactical advice of the French and the Commission but would like the latter to accept two points as clear guidelines in future North/South discussions:

- a) that it was in the basic interest of the developing countries to provide stability for investment, which they would otherwise not receive; and
- b) that <sup>the oil producers must</sup> ~~a~~ contribution to continuity in economic progress in the interests of the world economy as a whole. ~~must come from the oil producers.~~ ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~

On this understanding he was prepared to accept the text as it now stood.

The text for the President's Statement was accordingly agreed. ~~(for text see ECO telno )~~.

~~Invited by Mr. Giscard d'Estaing to speak at the European Foundation,~~  
EUROPEAN FOUNDATION

Mr Jenkins referred to the proposal in Chapter 4 of Mr Tindemans' Report, which the Ministers of Foreign Affairs had considered <sup>to be</sup> ~~worth~~ careful study. A preliminary study by the Commission had persuaded them that it ~~was~~ <sup>deserved</sup> worth further examination. ~~on a realistic and practical basis.~~ The existing organisations might have left gaps that should be filled, though duplication should be avoided. The Commission's study would concentrate on the scope, character and financing of a possible European Foundation (they hoped it could largely be financed by private funds). They would probably convene a small group of experts, to be serviced by the Commission; and would aim to report to the European /Council



Council in November or December.

The Prime Minister said that there was a majority of the House of Commons in favour of the Foundation and he would like to see it given favourable consideration. Mr. Thorn suggested that the proposals ought to be further clarified, perhaps by discussion at the June European Council, before a study was started which might raise false hopes. In any case use should be made of existing organisations, or <sup>there shall be</sup> better coordination of them, before ~~creating~~ <sup>new ones created.</sup>

President Giscard supported the proposal for a Commission study, which was modest, and which showed that the European Council had cultural as well as mercantile perspectives. <sup>(There would better)</sup> ~~corresponding better~~ to the European personality, Mr. Tindemans recalled that his proposal envisaged the use of private funds. He hoped, perhaps sentimentally, that the 20th anniversary could be fittingly commemorated by agreement to study the proposal. Mr. Andreotti agreed strongly. Italy was in favour of creating a Foundation and hoped that detailed proposals would be put forward. The Prime Minister agreed that the symbolism was important and that the Commission <sup>(be invited to undertake)</sup> should ~~note~~ the study. <sup>It was not decided.</sup>

OTHER BUSINESS

There being no Other Business <sup>As called for by the Prime Minister</sup> ~~the Prime Minister~~ <sup>Leone</sup> formally thanked the Italian Government and President for their hospitality to the European Council and brought the meeting to an end at 12.15 pm.

A press conference was later held at 1300.



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10 DOWNING STREET

MWE 021/4  
~~11/04/77~~  
31 MAR 1977  
RECEIVED IN  
REGISTRY NO. 77

From the Private Secretary

29 March 1977

Dear Ewh.

PEW 4/4

European Council : Records

I have already returned to you today the note of the first session of the European Council on 25 March.

I now enclose the note of the second session on 26 March, and am content that it should be typed in final form and distributed within the Foreign and Commonwealth Office, to the Chancellor of the Exchequer's Private Secretary and to Sir John Hunt and Sir Roy Denman. Copies can also be sent, but again strictly for information only, to Heads of Mission in EEC and other posts as appropriate. Selected passages may be distributed to the Secretary of State for Trade (EEC/Japan, steel and North/South dialogue); and to the Secretary of State for Industry (steel).

✓ So far as other records are concerned, I have already distributed the note of the Prime Minister's meeting with the ETUC on the morning of 25 March to the Foreign and Commonwealth Office, the Treasury, the Department of Employment and the Cabinet Office. The note of the Prime Minister's account of the discussion over dinner that evening on Community Representation at the Downing Street Summit has already been copied to the Foreign and Commonwealth Secretary, Sir John Hunt and Sir Roy Denman, and I am now sending a copy on a personal basis to the Chancellor of the Exchequer's Private Secretary. I should be grateful if you would please ensure that it is given limited distribution.


Yours aw.

*Paishinger*

E.A.J. Fergusson, Esq.,  
Foreign and Commonwealth Office.

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NOTE OF THE SECOND SESSION AT 1015 ON 26 MARCH 1977

The Prime Minister suggested the following agenda:-

First, Enlargement, on which President Giscard had said he wished to make a statement; second, the organisation of the work of the European Council; third, examination of the various draft statements in the following order:

Unemployment

Japan

Community participation in the Downing Street summit

Steel

Presidency Statement on the North/South dialogue

Finally, the European Foundation, which the President of the Commission wished to raise. The Prime Minister expressed the hope that proceedings would finish by 1300.


ENLARGEMENT

President Giscard referred to the candidature of Greece and the visits which all had received from the Portuguese Prime Minister. There would probably be an application from Spain before the Spanish election. To take Portugal first, the level of agricultural and industrial development there was very far from that in the present member countries. We should therefore consider whether accession to the Community in the classic sense was the right way forward, or whether it would lead in practice to a system of permanent exceptions and derogations. Permanent derogations would be unacceptable. The Commission should therefore be asked to make an extremely thorough study of all the problems. Would it really be realistic to look forward to full membership, with all that it entailed, or rather to consider some other solution?

/President

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President Giscard said that the Community's agricultural regulations were tailored to the present circumstances of the Community. The accession of new and poorer members would tend to interfere with fair competition. Accession would only be possible after regulations had been defined to ensure complete freedom of competition. Then again the views of national parliaments would need to be sought. The French Parliament would certainly have considerations to put forward over enlargement. Again, the Community institutions had been established for a Community of six. Those who were members of the Community of six remembered that they worked fairly well in that period. Even now, with nine members, the procedure for reaching conclusions was undesirably cumbersome. It would be impossibly so and quite ineffective in a Community of twelve. He did not suggest changes in the relations between the Community institutions or in their competences. What would be needed were changes in the way they worked in practice, for example the rotation of the Presidency, and the question of adding to the size of the Commission.

President Giscard therefore argued that before the Community gave a verdict on the question of new accessions there should be extremely thorough studies carried out. The French position was nevertheless entirely <sup>friendly</sup> particularly in relation to the accession of Mediterranean countries which would strengthen the Latin presence in the Community.

The Prime Minister said that Foreign Ministers were to meet at Leeds Castle on 21/22 May. The atmosphere there would be particularly conducive to an amicable general discussion on the whole question of enlargement.

/Mr Andreotti

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Mr Andreotti said that even without the prospect of enlargement it was necessary to have a fresh look at the agricultural regulations which, as he had said the day before, were very favourable to certain products but did not provide proper safeguards for the so-called Mediterranean products. If this problem was not reviewed soon, serious obstacles would arise for the future working of the Community, particularly in the context of enlargement. He agreed with President Giscard about the functioning of the institutions and the need for an overall examination of all the problems of enlargement.

The Prime Minister repeated his suggestion that the Foreign Ministers should take note of the present discussion and take up the subject at Leeds Castle. The European Council could then come back to it at its next meeting.


Chancellor Schmidt agreed with that proposal but made a plea that all member Governments should be careful not to arouse hopes of concrete and immediate progress on the part of countries which wished to join the Community. The problems raised by President Giscard, to which Mr Andreotti had also referred, needed to be looked at in much greater depth.

Mr Andreotti said that it was necessary to reconcile this requirement for further examination of the problems with the political requirement to forward to development of democracy in the candidate countries. The best way to reconcile these was to keep in closest contact with the candidate countries and not to appear too remote from them. A friendly attitude of this kind would also help them politically. The problem was partly psychological. Particularly in the case of one country concerned, it was most important not to discourage the democratic forces present there. Members of the Community had already publicly declared their favourable attitude to enlargement, so that what he was suggesting was nothing new. Presentation was important.

/The

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The Prime Minister recalled that the Community had been over this ground on a number of occasions. He remembered covering it when he was Foreign Secretary. In his view - and he was not now speaking as the Presidency - because the Member States had not yet decided the final shape of the Community, each application for membership had to be taken ad hoc, on its merits. It was quite right to avoid raising illusory hopes on the part of the candidates, but the fact was that as long as the Community remained an avowedly open Community, no one wanted to say no. Whenever each of the Member governments had a visitor from a candidate country members of the Government concerned were bound to make positive declarations in order to help the visitor back at home. As long as the ultimate shape of the Community was not settled, applications from new members must necessarily be received positively with each case being considered pragmatically. But perhaps with the prospect of three more Members, it would be right to have a proper look at the state of the Community, at this intermediary stage, and consider again what its ultimate shape should be.

Chancellor Schmidt said that in many long discussions with the Greek and Portuguese Prime Ministers he had repeatedly warned them that formidable problems were sure to arise and that they should not expect quick solutions. He had put to them an idea suggested by the French Foreign Minister that candidate countries needed to be aware of the considerable burdens which membership would entail and had pointed out to them that it would be wrong to expect them to assume these burdens too soon. He believed that the Portuguese Prime Minister was thinking of a transitional period lasting a decade, even after negotiations had been concluded. He agreed with Mr Callaghan's procedural proposal for future discussions.

Mr Joergensen

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Mr Joergensen said that Denmark had a positive attitude towards enlargement, in conformity with the Treaty of Rome, but that there was a degree of concern and that it would certainly be right to move slowly. Denmark's own close relations with the other Nordic countries might suffer if the Community was enlarged only in one direction, to the South. A proper balance must be established for an enlarged Community.

Mr Jenkins said that when the Portuguese Prime Minister had come to Brussels he had warned him of the economic and institutional problems which needed to be overcome. He had told him that the Commission would have to study these in depth and would hope to produce its Opinion by Christmas, but that it might not be ready until the end of January, or even February. The Portuguese Prime Minister, he thought, had accepted this and he hoped that member states would not encourage any manifestations of impatience for a quicker timetable.

Secondly, Mr Jenkins said that he did not believe that "globalisation" was a correct concept if it meant putting off the Greek negotiations and holding back on Portugal so as to hold all three negotiations at once. Such a procedure would undermine the political welcome which the Community was extending to new members. But it would nevertheless be right for the Community itself to make a global assessment of the consequences of enlargement to twelve as it embarked on each set of negotiations. The likely outcome would be that the Community would have increased from six to twelve in a very short time.

The Prime Minister repeated again his suggestion that Foreign Ministers should discuss this issue at Leeds Castle, and that the European Council should take it up again in June, and this was accepted.

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EUROPEAN COUNCIL PROCEDURES

The Prime Minister then turned to consideration of the procedures of the European Council and referred to the exchange of correspondence initiated by President Giscard. He suggested that the Presidency document, summarising the ideas so far put forward, would make the right basis for further discussion.

President Giscard said he thought detailed discussion could be remitted to the Foreign Ministers on the basis of the Presidency document, for a report to the next Council if agreement had not been reached in the meanwhile. The Foreign Ministers should be asked to consider in particular what documents should be prepared for discussions; the respective roles of the Commission and the Presidency in these preparations; and whether there should be permanent items on the agenda. This was agreed.

REVIEW OF DRAFT STATEMENTS

(a) Growth, Inflation and Unemployment

In discussion of the draft statement on growth, inflation and unemployment, the Prime Minister said he could agree to the deletion of the brackets around the reference to a further look at EMU at the end of the year. We frequently spoke of the need for convergence in the Community and this was one area in which it would be right to take stock. It was agreed that the statement should be issued to the press.

(b) EEC/Japan

The Prime Minister asked whether there were any comments on the draft statement on relations with Japan which had been worked out by officials. Mr den Uyl said he thought that, as the statement added nothing to what the Council had said in November,

/it

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it would be more appropriate for the President to use it in briefing the press. Mr Tindemans thought it might usefully include a reference to what President Giscard had said the previous day about the related questions of international competitiveness and the danger of protectionism. President Giscard said he did not think this would be appropriate in the statement on Japan, but Mr Callaghan might explain that this was part of the spirit in which the various statements by the Council had been adopted. Mr Andreotti thought the Council should stress the need for strict observance of the rules of competition; Japanese barriers to trade were erected in areas where Europe was competitive. Mr Jenkins thought the basic problem was that the Community was not competitive with Japan in many sectors, thought it was true that we did require more open policies by the Japanese. It was agreed that it should be left to the President to include these points as appropriate in briefing of the press; and that the statement would be issued as drafted, except for a minor emendation ("Japanese imports from the Community" to read "Community exports to Japan").

(c) Community Participation at the Downing Street Summit

The Prime Minister read out the consensus reached the previous evening on                      and it was adopted as follows:

"The President of the Council and the President of the Commission will be invited to take part in those Sessions of the Downing Street Summit at which items which are within the competence of the Community are discussed. Examples of such items are negotiations about international trade and the North/South Dialogue."


(d) Steel

The Prime Minister invited Mr Jenkins to introduce the draft declaration on steel agreed by experts. Mr Jenkins said that

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the Community steel industry was now in its third year of real crisis. In 1976, steel-making capacity was nearly 200 million tons, compared with 70 million tons in 1973; actual production was only 134 million tons. The prices of several products were 60% down on 1974. Unemployment was particularly heavy in eastern France, southern Belgium, Luxembourg and Saarland, where half the labour force was on short time and there were plans for even further reductions. Governments could not stand idly by; but adoption of measures of massive help or of national protectionism would break up Community cooperation. The solution must be a Community, not a national, one. The Treaty of Paris gave the necessary powers; to the Commission to plan for a major reorganisation which ideally would produce a Community steel industry that was thoroughly modern in its equipment and competitive anywhere in the world. The Commission would be considering four main approaches:-

- a. To restore normal market conditions by means of minimum prices for reinforcing steel bars and by minimum indicative reference prices for other products. There should be import licences, to be exercised as a form of control, rather than limitation.
- b. There should be an understanding with certain third countries on voluntary restraints. This already worked in the case of Japan, South Africa, South Korea, Spain and Brazil; and others should follow. Trade with COMECON countries was controlled by annual agreements with individual member governments. The Commission would continue discussions with third countries to keep equilibrium in the market.

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- c. Substantial finance would be required for reorganisation. The Commission would subsidise interest on certain loans, with particular emphasis on regional requirements.
- d. The Social Fund might be more extensively used for retraining workers.

Mr Jenkins said that the Commission would take the necessary measures within the treaties and would discuss them with the Council. He hoped they could count on the general sympathy of the European Council.

Chancellor Schmidt said he could accept the Draft Statement as it stood.

President Giscard said the need for Community action was urgent. If within a few weeks no Community measures had been taken, Governments would be bound to take their own national measures. Mr Jenkins said that he could accept the Draft Statement. But Ministers responsible for industry should be instructed to agree soon on specific measures before it was too late.

Mr Thorn thought the Draft Statement did not have enough teeth but he could accept it. Industry Ministers should discuss immediate steps: the choice was not an academic one of dirigisme against liberalism; but of Community measures as opposed to national measures which would disrupt the Community market.

The Prime Minister said he had personal experience in his own constituency of the seriousness of the problem. When an industry like the steel industry had to contract, the cost was great in human terms; it was difficult to find alternative employment and he liked the Commission's suggestion of using the

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Social Fund for retraining. He hoped the Commission would come forward soon with their ideas. The UK was willing to cooperate as far as possible.

Chancellor Schmidt agreed with what had been said about the gravity of the situation but pointed out that the European Council had not seen any previous studies by the Council of Ministers. Economic or Industrial Ministers should be asked to follow this up soon.

The text of the Statement was then agreed, after President Giscard had suggested the word "urgent" for "diligent" in the French text.

(e) North/South Dialogue


Turning to the draft note on the North South dialogue, the Prime Minister explained that the text which he had just circulated was a form of words for him to use as President at his press conference, rather than a statement by the Council, though he would say that it carried the agreement of all members.

Chancellor Schmidt said that the Presidency paper reflected the agreement reached in the previous day's discussion. He thought however that the reference to Commodity Agreements ought to appear in the first paragraph, since a Common Fund would not need to exist if there were no Commodity Agreements. After some discussion it was agreed to re-cast the order of the sentences to meet this point. Chancellor Schmidt then said (in English) that he would like to have some clarification - not for inclusion in the Statement - of what the European Council members envisaged as regards the number and nature of Commodity Price Stabilisation Agreements. He would not wish to be faced at a later date with a proposal for 25 Agreements;

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or for Agreements covering certain major products such as minerals. If this clarification was not possible he would prefer to add the phrase "where possible and appropriate" to the text.

The Prime Minister said it would not be a good idea to try to reopen the agreed text, though the underlying disagreements could be explored. Mr den Uyl said he understood Chancellor Schmidt's reservation but agreed with the Prime Minister's comment.

Chancellor Schmidt (still speaking in English) emphasised that if Mr den Uyl wanted there to be a large number of Commodity Agreements no Community common policy would be possible. It would not be the first time that one country differed from the rest on this point: but it would be intellectually dishonest to give Foreign Ministers instructions on the basis of a disagreed ambiguity. He accepted that the Netherlands Government and others might have entered into commitments at Nairobi: but seven countries acting on their own could not commit the Community. Those who had been more cautious at Nairobi could now make some concessions, as the FRG had already agreed to do. He now looked to those whose position at Nairobi had been more liberal to make some concession to him.


President Giscard supported Chancellor Schmidt's suggestion for an addition to the text. Mr den Uyl said that he was not thinking of Commodity Agreements over the whole field, but only where appropriate. It was agreed to add the words "where appropriate" to the Draft Statement.

Chancellor Schmidt said he would like to clarify the phrase "export earnings stabilisation measures" by adding the words "for developing countries". This was accepted.

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Chancellor Schmidt then said that the Statement required one further paragraph to the effect that the results of the North/South Dialogue must provide greater stability and continuity<sup>in</sup> world trade. This would be the minimum return which the Community should expect for their concessions in the Dialogue. President Giscard said that a reference of this kind in the statement would sound like imposing a pre-condition on the developing countries and especially the oil producers. He agreed with the substance but thought it better not to make it part of the statement. The Prime Minister suggested that he should keep such a remark for use if asked at his press conference. Mr Jenkins agreed strongly with the thought behind Chancellor Schmidt's words but considered it tactically better not to include it in the Statement. Chancellor Schmidt said he would accept the tactical advice of the French and the Commission but would like the latter to accept two points as clear guidelines in future North/South discussions:

- a) that it was in the basic interest of the developing countries to provide stability for investment, which they would otherwise not receive; and
- b) that the oil producers must contribute to continuity in economic progress in the interests of the world economy as a whole.

On this understanding he was prepared to accept the text as it now stood.

The text for the President's Statement was accordingly agreed.


EUROPEAN FOUNDATION

Mr Jenkins referred to the proposal in Chapter 4 of Mr Tindemans' Report, which the Ministers of Foreign Affairs had considered to be worth careful study. A preliminary study by the

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Commission had persuaded them that it deserved further examination. The existing organisations might have left gaps that should be filled, though duplication should be avoided. The Commission's study would concentrate on the scope, character and financing of a possible European Foundation (they hoped it could largely be financed by private funds). They would probably convene a small group of experts, to be serviced by the Commission; and would aim to report to the European Council in November or December.

The Prime Minister said that there was a majority of the House of Commons in favour of the Foundation and he would like to see it given favourable consideration. Mr Thorn suggested that the proposals ought to be further clarified, perhaps by discussion at the June European Council, before a study was started which might raise false hopes. In any case use should be made of existing organisations, or there should be better coordination of them, before a new one was created.

President Giscard supported the proposal for a Commission study, which was modest, and which showed that the European Council had cultural as well as mercantile perspectives. These would better correspond to the European personality, Mr Tindemans recalled that his proposal envisaged the use of private funds. He hoped, perhaps sentimentally, that the 20th anniversary could be fittingly commemorated by agreement to study the proposal. Mr Andreotti agreed strongly. Italy was in favour of creating a Foundation and hoped that detailed proposals would be put forward. The Prime Minister agreed that the symbolism was important and that the Commission should be invited to undertake the study. It was so decided.

OTHER BUSINESS

There being no other business the Prime Minister formally thanked the Italian Government and President Leone for their hospitality to the European Council and brought the meeting to an end at 12.15.

A press conference was later held at 13.00





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