ANNEXE XIII

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

MEMORANDUM FOR THE EUROPEAN COUNCIL, COPENHAGEN
7/8 APRIL 1978

The four months beginning with the Copenhagen European Council present the Community with an unusual combination of test and opportunity.

We have two European Councils falling unusually close together. The second one will be followed almost immediately by a Western Economic Summit. The authority of this European Council should be used to set the Community institutions - relevant Councils and the Commission - to work with a new intensity of practical purpose to prepare firm and detailed proposals for endorsement at the Bremen European Council. If this is done we can present a common and powerful front at the Western Economic Summit. We can help to steer it towards a constructive outcome. At least we will have our own programme of action. But if it is not done we may have a flabby outcome of the Summit, which would provoke a confidence-weakening cynicism. And in a bad world climate we would be without a clear sense of our own direction.

We should base our action on the following premises:

(1). Our average growth rate remains sluggish. We are well short of our target for this year, and behind the other main industrial units in the world. On anything close to our present performance there is no prospect of making an impact on unemployment, which is a major issue for all our Member States, and which, other things being equal, will be exacerbated by demographic developments over the next five years. Such sluggishness breeds business hesitancy, trade union resentment, and a bad climate for the adaptation and re-structuring of our industry, which is at present particularly necessary because of the decline in competitiveness in so many sectors. It also slows down the full integration of the Community market, and may even endanger what has already been achieved. Intra-Community

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trade grew by only 2% in 1977, compared with an average of 9% in the previous decade. We can no longer blame the 1973 shock. It was severe but it has been a fact of life for nearly five years and if we were fundamentally healthy, we should by now have absorbed it. Nor, when other main countries are expanding faster, can we put the major blame here on the rest of the world. In any event, as the biggest trading bloc, our responsibility is considerable, and we must offer our own solutions. They cannot of course be reckless. Our recent inflationary experiences, and the continuing threat from this direction, are too stark for that.

(2) The international monetary system - or lack of system - is in chaos. Since 1971 we have lived without the rules of Bretton Woods. The experience of this period, compared with that of the preceding decades, does not suggest that the absence of such rules is a rewarding national freedom. But one feature of Bretton Woods does remain, although no longer in a systematized form, and that is the monetary predominance of the dollar. This is something separate from the weight and importance of the United States economy. That is necessarily great, and will continue to be so. But the weight of the dollar is still greater and more pervasive. Its weakness has influences which have little to do with the impact of United States trade. It remains the only effective medium of international exchange. It greatly affects our intra-community relationships and the nexus of the Euro-currency markets as well as our trading position with the rest of the world. There is a fundamental assymetry about the United States having withdrawn from the responsibilities of Bretton Woods, while dollars, like legions without a central command, continue to dominate the currency transactions of the world.

Yet it is not suitable for us merely to complain about such a state of affairs. That will breed more recrimination than result. The Community's collective weight is far greater than its monetary influence. We could quickly and substantially repair this without embracing for the present the full advantages or rigours of economic and monetary union but while at the same time opening up an important avenue towards it. For example there is surely scope for the Community to develop new dimensions to the use of the European unit of account. It could do better service as a point of reference and a unit of account for credit and settlement in our internal exchange rate relationships. We might look again at how to complement the snake system of exchange relations with those of the floating European currencies, and here the

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European unit of account might have a useful role to play. It might also play a greater role in transactions between public authorities and in private operations in Euro-currency markets. This process might perhaps be advanced if the Community could successfully test the use of the European unit of account in certain of its own borrowing and lending operations.

(3) The Community faces acute problems in relation to what is now becoming known as "the international division of labour". Its interest in the maintenance and development of an open world trading system is immense. It is much more dependent upon external trade than the United States (14% of European GDP, compared with 8% of US GDP). Moreover, we have a specially close interest in the Third World. This is true on both the political and the trading levels. We have been in the lead in the North/South dialogue. We have invested a lot of political capital in this relationship. The Lomé Convention has been one of our major successes. We are on the threshold of its re-negotiation. And our trade is proportionately much more with the developing countries than is that of either the United States or Japan. It is from the Third World, together with the non-Community countries of Europe that our surpluses come, and, which put us in approximate balance, in spite of our massive deficits with the other two great industrialised countries, and with OPEC. Yet we are competitively very vulnerable, not only to Japan and to other Far Eastern countries which have developed in its wake, but also to the 'industrialised pockets' in the Third World proper. The bilateral negotiations we have had to conduct to make possible a renewal of the Multi Fibre Arrangement are a striking example, but no more than an example.

The tight-rope that we have to tread is therefore a very narrow one, and like all tight-ropes it cannot be trod indefinitely. The intervals we have won for a number of threatened industries must be used with speed for restructuring, although this in itself involves a loss of jobs. But the alternative is growing and permanent uncompetitiveness. We are in more than proportionate difficulties in stagnant world trading conditions. Yet we cannot easily turn inwards, for the reasons given above. We should therefore aim hard at a successful result to the Multilateral Trade Negotiations, the outcome of which, apart from their direct effects on trading relations in the 1980s will also have a more immediate and 'trigger' effect upon determining whether or not the world, more delicately balanced in this respect than for a generation, turns protectionist. We should look after our own and also after Third World interests in Geneva. With our own industries we should be constantly seeking to identify and

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exploit new growth points. We cannot preserve our industries exactly as they are, but we should make it clear to our Third World partners that our continuing ability to help them depends on security and direction of investment and pattern of trade which enhances our prosperity as well as theirs.

(4) Our dependence on overseas energy, particularly petroleum, remains disturbingly high. For the present it is the mounting external oil demand of the United States which attracts the most attention and exercises the most unbalancing effect upon world trading patterns. We are also substantially more economical in the use of energy than is the United States. But when the market becomes more constricted, as it is bound to do within the next few years, it is we who are the more dependent and the more vulnerable. Energy saving, the development of existing internal sources, and the relentless pursuit of new unconventional sources are therefore all a major Community priority, about which far too little has been done. The Council agenda is littered with unadopted Commission proposals. Urgent action in these directions is not only desirable in the context of the energy prospect itself, but can also provide worthwhile employment growth points of the type mentioned above.

(5) Our other problems have to be seen in the context of imminent enlargement to 10 members and not long-delayed enlargement to 12. The Commission is on the point of completing its general survey (or fresco) of the issues here involved. But what is clear (perhaps indeed obvious) is that enlargement will be a weakening factor unless the Community is in advance given a greater internal coherence, both economically and institutionally. The need for Community resources is bound to be substantially increased by the inclusion of three new relatively poor members, particularly as it would be quite unacceptable to treat the new applicants more favourably than parts of the existing Community where the need is equally great. Moreover, the industrial development of the applicant economies should in their own interests and ours be coordinated from an early stage with that of the existing Community. If we are to make a success of enlargement we must think well in advance and indeed from here forward in terms of 12 and not of 9.

It is against this background that we shall be deliberating at Copenhagen, the first in a series of crucial meetings affecting the world economy. The

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Commission has already put forward ideas and proposals on many of the subjects to which I have referred, but will bring together and complete its work in the light of our discussion. We need to proceed with urgency if we are to retain any control of events.

3 April 1978