

EUROPEAN COUNCIL

ROME

25 MARCH 1977

NOTE OF THE FIRST SESSION AT 1520

1520 B.S.

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Heads of State and Government and Foreign Ministers entered progressively. Journalists ~~at a distance then~~ closed in when most delegations were seated. Lights dimmed and jostling journalists slowly edged out of the room. The Danish delegation arrived at 1532. The Prime Minister opened the meeting.

ORDER OF BUSINESS

The Prime Minister said he had already spoken informally to most of his colleagues about the day's business. He suggested that they should aim to conclude the first session at 7.30, unless there were need to prolong it. This was agreed.

REPORT OF MEETING WITH ETUC

The Prime Minister said it was customary for the President of the Council to start by giving an account of his meeting with the European Trades Union Congress (ETUC). The ETUC President and delegation had called on him that morning in Rome and given him a Memorandum, of which the other members of the Council already had copies. The ETUC were concerned at the economic situation of the Community and in particular that the targets set at the last Tripartite Conference had not been met. In fact they considered that no progress had been made towards them and that concrete and tangible progress was now needed. They were preparing for a new Tripartite Conference in June. They had emphasised that in the

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eyes of many of their members it had not been easy to start on a path of institutionalised cooperation with Government and management and they must have some progress to show for it. They considered economic growth to be the key. They had specified the problem of unemployment among school leavers. They considered that current unemployment problems were partly structural and needed special treatment. ^{The Prime Minister} ~~Mr. Callaghan~~ had replied that the Community Governments did not intend to use unemployment as a road out of recession and would not be content to live with unemployment as a permanent feature. This seemed to be the main point the ETUC wanted to hear.

COMMUNITY REPRESENTATION AT DOWNING ST. SUMMIT

The Prime Minister then referred to the Agenda, for which the Presidency had circulated an annotated list of suggestions. Before discussing this, however, he recognised that some members would wish to refer to matters connected with the summit conference to be held at Downing Street in May. There were questions of substance but also of the participation of the Commission. He would like to propose that the Council should agree that they would take a decision about the Commission's participation before the end of their meeting in Rome; but that, in order that they should not give the press occasion to say that the whole afternoon had been spent on discussion and possibly disagreement about this, they should have a brief opportunity to register comments now and return to the question in private discussion after dinner.

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1540

Mr Den Uyl (Netherlands Prime Minister) said that the Netherlands Government among other governments regarded ^(the question of the Commission's participation) ~~at~~ as one of extreme importance and the Netherlands Parliament had expressed itself in clear terms. A solution must be found at this Council. He could agree with Mr Callaghan's suggestion for procedure, on the assumption that a solution would be reached which would allow the views of the Community to be properly expressed at the London conference. The decision taken tonight should be formally registered at the Saturday morning session.

1543

Mr Tindemans (Belgian Prime Minister) agreed to the proposed procedure. As Mr Den Uyl had spoken of the substance he must also say that the Belgian Government attached great importance to the representation of the Community (it was the Community, not the Commission, which was at issue) at a conference where subjects proper to the Community were being discussed.

Mr. Thorn (Luxembourg Prime and Foreign Minister) said that the Community must be represented and subordinately the Commission. It was important to reach a decision this evening and other agreements might be called in question, depending on the nature of that decision.

Mr Cosgrave (Prime Minister of Ireland) agreed with what had ~~already~~ been said.

Mr Joergensen (Prime Minister of Denmark) agreed with the procedure. He would prefer both the Commission and the Presidency to be represented at the London conference.

Mr Andreotti (Prime Minister of Italy) agreed. It was important for the Heads of State and Government to talk informally together and this was not the only problem they had to tackle.

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The Prime Minister summed up that it was agreed to discuss the question ^{for the} ~~this~~ evening and that the Council would (not merely endeavour to) reach a conclusion. Many of those who had spoken wished both the Community and the Commission to be represented at the London conference. The decision would be confirmed at tomorrow's meeting.

The Prime Minister then asked if the Presidency annotated agenda was agreeable, and this was agreed. He suggested that Mr Den Uyl might like to open the discussion on the first item, the World Economic and Monetary Situation.

WORLD ECONOMIC AND MONETARY SITUATION

Mr Den Uyl ^{the} said the recovery from world recession had slowed down in the second half of 1976 and unemployment increased: only in one country had inflation been kept within healthy limits. But we should be cautious about calls for expansion. A revival of inflation would be dangerous for all. Oil prices were still increasing and enormous oil producer surpluses were not yet being invested in the right places. His conclusions were that: firstly, there should be discussion with the oil producers about investment; secondly, IMF new facilities should be extended, especially to increase the purchasing power of southern Europe and Latin America; thirdly, ~~that~~ the success of the North/South dialogue was essential to world economic recovery. On unemployment, Mr Den Uyl found the Presidency ^{very} useful. Since unemployment was structural, investment must be new and selectively directed to job creation. If there were another Tripartite Conference, the unions would be certain to ask for a brake on labour-saving technology, and intensification of labour creation. Commission proposals should concentrate on better distribution of labour; for example, reduction of retirement age. They should also seek improvements in sectors where there was over-capacity, such as steel and shipbuilding. He regretted that President Giscard's proposals on energy saving had not been followed up. Finally, he commended Mr Duisenberg's ideas on closer economic and monetary cooperation.

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Mr Jenkins (President of the Commission) said he had deliberately produced a short paper and would give it a short introduction. Unemployment was more uniform in Community countries than inflation or balance of payments problems and co-ordinated effort was needed to deal with it. In all countries investment was lagging behind the need for job creation. Confidence must be restored and the Commission believed the Community could assist through instruments it already possessed, especially by making use of its high credit rating for raising and lending money. At present Community lending was either for general balance of payments reasons, or for specific but limited sectors such as those provided by the ECSC. In future the Commission hoped there could be a middle course, combining balance of payments assistance to weaker currency countries and well thought out investment - eg in manufacture and infra-structure - in specific sectors. These would be accompanied by the general macro-economic disciplines that go with balance of payments loans. In this context he would wish to suggest that the reference in the penultimate paragraph of the Presidency draft ~~for a~~ statement should be widened to ask the Commission to consider how all the Community instruments could be used. At present it referred only to the European Investment Bank, which was limited by its 2.5 : 1 gearing ratio: he understood that there was some opposition to ^{any} ~~the~~ significant increase in its capital in the near future. The Community needed ways to use its credit rating to develop within itself something like Marshall Fund

financing. In the North/South Dialogue, the Community's approach should ^{need} be ~~to find~~ a non-inflationary stimulating effect on world trade: this was the only way to win the battle against protectionism.

1617

The Prime Minister said the Presidency draft statement had been primarily intended to stimulate comment, though he personally felt public opinion would expect the Council to say something about inflation and unemployment. He would be grateful if each of those who spoke could comment on this point. Officials might then consider the draft ~~this evening~~, so that the Council could look at it again ^{later} ~~tomorrow~~.

1619

M. Giscard d'Estaing (President of France) said that on the last point he agreed that experts should examine the draft this evening so that the Council could decide tomorrow whether to adopt it. He welcomed the first appearance at the Council of Mr Jenkins, who, with Community tact, had been placed next to the French delegation. On the economic situation he shared the views expressed by Mr Den Uyl and Mr Jenkins and could therefore be brief. Since their last meeting, it had become even clearer that the 1976 growth rate had been lower than predicted, and unemployment was still high: in monetary terms, good years seemed to alternate with bad ones and there were signs that 1977 would be better than 1976. However, economic forecasts were as fragile as ^{election} ~~opinion~~ polls ~~[in predicting the results of elections]~~ Uncertainties still hung over the scene: particularly over energy, and the rise in raw material prices - especially tropical products, which together

amounted to a quarter of the oil bill. Entire sectors, such as steel and shipbuilding, were threatened: in France a one per cent drop in the steel price involved the laying off of 6,000 workers. What conclusions should be drawn for Community action? Firstly, although surplus countries, such as the FRG, should not be pushed into arbitrary expansion, the Community needed growth. Secondly, the Community should reduce its dependence on outside sources of energy. He had written at length on this subject to President Carter, who had replied agreeing that this was essential to the stabilisation of the world economy. (In a digression, President Giscard said it was not a question of the form of participation of the Community in international conferences that mattered, but what they should say.) Thirdly, the Community required a policy on employment, particularly affecting the young and women. He had taken note of the Presidency document and agreed that we should study carefully action that could be taken at the Community level: for example, by use of the Social Fund. Fourthly, confidence must be restored and to this end we should ^{revive} ~~revisit~~ the target of Economic and Monetary Union (EMU). This could not be the immediate target but should be taken up again at a suitable moment in the not too distant future. Beyond this President Giscard suggested the Community should study the re-cycling of balance of payments surpluses; and should consider how the Commission's power to regulate competition could be ensured: there was an increasing risk of internal

/protectionism

protectionism as individual Community countries took their own measures in the absence of Community policies. In energy questions, the Community should be more responsive to the moderate OPEC countries: the Saudi Arabians had told him of their disappointment at consumer country reactions, particularly the fact that the western oil companies had ^(then allowed to) based their prices on the highest producer prices. He underlined the dangerous consequences of failure in the North/South dialogue, ^{including} particularly the probable hardening of the OPEC position in July. In conclusion he thought ~~the suggestions~~ in 1977 would be more like 1975 than 1976, with a prospect of oil price rises and balance of payments deficits in consumer countries. We should not make things worse by speculating aloud, but the Community might have to be ready to take decisions at short notice.

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Mr Joergensen (Prime Minister of Denmark) supported the Presidency draft statement. Deficits on oil account could only be overcome by common action, of which conservation and development of alternative sources were the most important. Projects like JET should be pressed ahead. Some countries (eg UK and France) had made good progress in reducing inflation: in Denmark they had just concluded wage/~~price~~ agreements covering the next two years. Agreement between the social partners was important, but the real danger was that unemployment was giving rise to a new mercantilist policy and protectionism. Intermediate steps, such as the increase in IMF quotas, were needed to return to

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stable exchange rates. Expansion should not be too rapid, but growth was essential and the stronger countries could afford some stimulus to their economies. Fortunately there were signs that they were beginning to realise this.

1645

~~The Prime Minister said that the Federal Chancellor had been dodging his eyes, but ought to have the next word.~~

Herr Schmidt (Chancellor of the FRG), beginning in English, said he had little comment on the papers that had been circulated; but with regard to what had been said we must beware of self-deception. Our economies were in a "chameleon situation", with a balance at high unemployment level: it was different from the 1930's because it resulted from inflation, not deflation. Continuing in German, Chancellor Schmidt said there were four basic causes that must be understood. Firstly, the American inflation generated by the Vietnam war, which had spread throughout the world and was still affecting many economies. Secondly, the collapse of the system for fixed parities, which had bankrupted many trading companies and contributed to recession. Thirdly, the politically-induced oil price explosion, which shifted the terms of trade and relative monetary parities, and further deepened recession. It was no coincidence that countries with the highest inflation rates had major balance of payments problems. Fourthly, democratic societies had expectations which exceeded economic possibilities. Electorates were not told that the world had changed and the resultant disappointment

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and lack of confidence affected investment, workers and politicians alike. These social and political effects ^{and} of the loss ^{of} confidence in the future were the most alarming symptom in all Community countries except perhaps Luxembourg. The answer was that ~~is~~ "effective demand" (in Keynesian terms) must be revived: not ~~to be~~ ^{as} an inflationary spiral, but by direction to investment, especially in ^{the} construction industry.

Chancellor Schmidt briefly recounted the measures taken in the FRG, including the 16,000 million DM investment programme, reduction in pensions and social benefits; expected increase in GDP of 5% and the fact that the FRG was the only country which had increased its imports in real terms. The success of the North/South dialogue was essential to the improvement of ~~the~~ world economy, which in turn would only recover if protectionist trends were reversed. In a footnote to this, however, Chancellor Schmidt said that the Community should not reproach Japan for offering competition and lower prices because its industrial plant was more modern and its wages and social costs had not risen so fast as in Europe. We might reproach some of their practices, but primarily we must adjust ourselves. In the FRG the shipbuilding unions were beginning to understand this.

The Prime Minister ^{had} said the Chancellor had not quite finished the point. It was not just a question of adjusting social and wage costs. The problem was of too much productive capacity and not enough demand.

/Chancellor

Chancellor Schmidt, in English, said he had not meant to concentrate on shipbuilding, though it was a major interest in his constituency of Hamburg. The reason for the fall in demand was that less oil was being transported by sea than anticipated in the early 1970's: it would be several years before tanker capacity was fully utilised, let alone increased. Orders for other ships might come sooner as world trade revived, but most of these would go to Japan.

The Prime Minister said that shipbuilding was only an example of the main problem of adjusting capacity to declining demand, which they ought to examine in greater detail.

President Giscard intervened to say that he thoroughly disagreed with Chancellor Schmidt about Japan. In several fields (nuclear, computers, aviation) European firms were more competitive than Japanese but were unable to overcome protectionist barriers erected in Japan. Moreover there was no reason why we should accept an over-capacity in Japan which gave them a virtual monopoly of shipbuilding. We did not accept other monopolies in the world or in the Community, where we had the Commission to enforce anti-monopoly rules; there was no reason why we should accept one deriving from Japanese over-capacity.

Mr Cosgrave said that a basic problem in managing Community economies was that the younger age groups had high expectations which exceeded the realisable prospects. Short term job creation schemes would only be

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successful if steady long-term growth were assured.

It was possible to exaggerate the reasons^{for} of inflation: there was plenty of spare capacity in western industrial countries, and non-inflationary growth should be possible at a higher level than so far achieved. We should distinguish carefully between inflation and re-flation, which was desirable. He agreed about the importance of the North/South dialogue in restoring world confidence.

/ M. Adornetti

Mr. Andreotti ^{referred to} mentioned economic and monetary union and the energy crisis. Italy had taken ^{severe measures} ~~several steps~~ to deal with the situation, the gravity of which was not generally admitted.

He ~~xxx~~ was in favour of joint Community initiatives and Community investment projects. But Community action must go beyond the limited number of sectors at present covered. A joint policy was necessary across the board. Above all, it should cover energy. A Community energy policy should be a fundamental point of reference for the Community's activity in the North/South Dialogue and in relations with the ~~East~~ Europeans. Still in the field of energy, the campaign against nuclear power programmes was a new and worrying feature. Italy's programme was being held up by ecological and other protest

Different ^(Community) policies needed to be harmonised. It was a step forward that a single Commissioner had been given the task of coordinating intervention in several different fields, although these did not amount to a big share of Community expenditure. The balance of Community expenditure should be shifted away from ^{agricultural} ~~prices~~ support. ~~In particular~~ It was wrong that northern agricultural products should be so completely protected and Mediterranean products ^{neglected} ~~left out~~. Enlargement would aggravate the effects of present policies which would have to be changed. The net effect on Italian agriculture, the poorest in the Community, was negative.

Andreotti

Mr. Andreotti favoured the greatest possible efforts to reach agreement between government, employers and the unions on the economic crisis. If it took hundreds of hours of discussion, as Chancellor Schmidt had said, they were well worthwhile. It was right to bring in the ^{social} ~~essential~~ partners to discuss the economic models considered in the Community. Such discussion might help solve the problem of unemployment among the young, which was particularly grave in Italy and a dangerous cause of instability. He ~~concluded that a ritual reflection~~ ^{ended with an affirmation that} economic and monetary union was an attainable goal.

Mr Callaghan summed up the discussion so far. There was general agreement on the problems and the need to take action on inflation and unemployment. The aim should be to work for the growth of effective demand. The Community's ^{social} ~~essential~~ fund and the EIB were promising instruments for this purpose. Further studies as proposed by the Commission would be most valuable. There had been some discussion of energy saving. Here one had to wait for the US Government statement due on 20 April. But there was a role for the Community which had not yet begun to play its full part.

On the world economy generally, the main emphasis had been on the need to avert any increase in protectionism, and promote a steady growth. For many countries such growth depended on the growth of world trade, on increasing efficiency and the avoidance of new restrictions.

Mr Callaghan then suggested that officials should look at the draft statement in order to finalise it, if possible, by ^{the} this evening. President Giscard suggested the

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it would be better to look at it again ^{the 2nd morning} tomorrow morning,
together with the texts on Japan and on Steel.

It was so agreed.

NORTH / SOUTH DIALOGUE

The Prime Minister then suggested that discussion
should turn to the CIEC and the Common Fund.

Mr Jenkins said that it was a good moment for the
European Council to provide guidance for a Community
position for the CIEC Ministerial Meeting ~~to take place~~
~~in Paris~~ and on the specific question of the Common Fund,
where difficulties had already arisen in Geneva and where
there was a risk that the position of the Nine would
fall apart. He then outlined the Commission's
proposals ^{for} on the CIEC dated ~~17~~ March on ~~the source~~ ^{resource}
transfers and on commodities. He ~~then~~ paid tribute
to the German paper on Stabilising Export Earnings
(Stabex). It might well produce solutions for the
specific problems of raw materials but it would need to
be complemented by other action, particularly in the
field of ^{resource} ~~source~~ transfers.

The ~~First~~ ^{former} Commonwealth Secretary
Dr Owen said that the Community had spent much time
and energy on discussing the Common Fund, and a split
must be prevented now. A real break-down in the
Common Fund negotiations would have a most damaging
effect on the CIEC itself. He believed that it should
be possible to reach agreement on some kind of a Common
Fund. The Common Fund Conference would probably have to
meet again in order to reach agreement. It was most

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important that the Community itself should cling to a Common position so as to permit Group B to maintain one. The Community's position was not too far from that of the United States, and the Community were keeping on good terms with the developing countries. The prospects for the CIEC itself were reasonably good and the high level group were in a position to tackle the other main issues. But a failure over the Common Fund could ruin the whole enterprise.

The Prime Minister
Mr Callaghan then called on Chancellor Schmidt to speak. Chancellor Schmidt asked jokingly if the Prime Minister was changing the rules of the European Council so that he could force people to speak. The Prime Minister
Mr Callaghan replied that, of course, he was not.

President Giscard then said that perhaps he could provoke Chancellor Schmidt to take the floor by saying something himself. It was indeed true that a positive result from the CIEC was important both for political and economic reasons for the commodity producing countries as much as for the others. Time was short. The CIEC would come to an end with a Ministerial Meeting planned for the end of May. The impression was that the United States was taking a positive attitude but that Europe was dragging its feet. It was therefore highly desirable that the European Council should demonstrate a positive move forward.

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On commodities the new German document was an important step forward. But the Stabex system proposed might well be extremely expensive. Moreover Stabex alone was not enough. After Nairobi and ^{subsequent} ~~various other~~ declarations, the developing countries ^{would} ~~will~~ consider a Common Fund ~~to be~~ essential. The German and indeed the British governments should understand the passionate feelings which this issue aroused. The modalities and the method of financing the Common Fund could take a variety of forms. It might, for instance, be financed by the World Bank. But the Community must reach a position to support such a fund which would be an essential for the satisfactory conclusion of the CIEC. On debt and resource transfer, President Giscard said that it would be dangerous to mention too many figures. The Commission's proposals for a figure of \$ 3 billion over several years was excessive. A figure of \$ 1,000 million might be acceptable. We should avoid allowing ^{a situation to arise in which} (member states ^{might be tempted} to bid up against each other

Mr den Uyl said that a successful conclusion to the CIEC was vital and that failure after so many years would be quite unacceptable. Special action to help the poorest countries would be an effective means of contributing towards success. The oil price increase had highlighted their plight. It was right to ~~xxx~~ link such special action with a reduction of their indebtedness. It was difficult to hit on the right figure but \$ 2,000 million might be about right.

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On the Common Fund, the situation in Geneva was worrying. Most members of the Community had ~~pledged themselves~~ ^{assumed a commitment} at Nairobi. The Community must now accept the principle of the Fund. It would be quite right, as Dr Owen had suggested, to establish a link between the size of the Fund and the use to which it was to be put. Failure to accept the principle ⁱⁿ of Geneva would cause a clash there and then block progress in the CIEC context too.

The German document on Stabex was useful, particularly in pointing out the dangers of blanket support for commodities which would favour rich producers as well as poor. Selection was essential. It was also right to avoid upsetting the balance of supply and demand, as bitter experience in the CAP had shown. He understood German reservations about using a Common Fund to bolster up commodity agreements with possibly unsatisfactory results. But Stabex by itself would not ensure that necessary commodity agreements would be established. Stabex should be carefully studied and included in the general programme. But it could not relieve us of the duty to approve the principle of a Common Fund.

Mr. Andreotti ^{the} said it was necessary for the Nine to establish a common position for the conclusion of the CIEC. It was politically right to do something more to help the poorest countries, particularly in Africa. He was against a general debt ^{moratorium}, but in favour of selected ^{we} assistance. On commodities, he suggested that the meeting should avoid technical discussion of the

/German

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German proposals. The aim should be to give producers a secure market ^{with} at a reasonable price ^{levels for} but also to secure steady supplies to consumers without today's enormous fluctuation in prices. The recent rise in the coffee price, for example, was disastrous for Italy. He hoped that Italians would stop drinking coffee, otherwise in six months they would spend ^{in coffee imports} the entire year's share of the IMF loan currently being negotiated. Price discipline was essential.

Chancellor Schmidt said that his aim in seeking a successful conclusion to the CIEC was to promote general confidence in the world economy and to produce conditions for its stable and continued growth. All this was equally important for the developing countries. It was ~~therefore~~ essential that in CIEC and UNCTAD due account be taken of what the industrial countries had already done to help. He then gave figures contrasting the absolute size and growth in Western aid ~~abroad~~ with ^{the} absolute paucity and reduction in aid from Comcon countries for ^{one year} 1974 and 1975; and he instanced help given by the West under GATT, the Lomé Convention, the IMF extra credit scheme and the establishment of IFAD. All this needed to be spelt out publicly. The Soviet Union, not the West, should be in the dock. He was against a general moratorium on debt ^{relief}. On the Common Fund, he opposed the UNCTAD Secretary's proposal which would bring great windfall profits to rich producers like the USA, /the

the Soviet Union and South Africa. Only a small number of developing countries would benefit. The German scheme on the other hand would, first, direct aid to the most needy; secondly, there would be a ceiling on expenditure; thirdly, it would not interfere with the price mechanism. It would consist of a Stabex scheme, agreements for single commodities where appropriate, and a Common Fund as a clearing house for certain commodity agreements where these included provision for buffer stocks. It might cost more than the proposed UNCTAD integrated programme but it would increase stability, and the sacrifices made by the industrialised countries would produce some return. It would apply to all developing countries and not to the developed. It could cover the 25 core commodities. It would take account of developing countries' exports to all markets and not just to the industrialised countries. It proposed that all industrialised countries and all OPEC countries would contribute. There would be a ceiling on expenditure - for model A, \$ 5 billion; for model B, \$ 10 billion.

Chancellor Schmidt then repeated his plea to put pressure on the ^{Soviet Union} ~~Russians~~ to increase their aid and for OPEC TO ^{play} ~~PLAY~~ a greater part in solving the economic crisis, which was world wide, and for which OPEC should indeed accept the main responsibility. It was ridiculous for the OPEC countries to say that we had caused this crisis. It was particularly ridiculous to say that

/Holland

Holland had started it. We should ask for a formal pledge from the OPEC countries that they ^{would} will never impose another oil embargo. There should be an investment guarantee as a binding obligation for ~~investment in developing countries;~~

without such a guarantee ~~invest~~ they would ~~anyway~~ fail to secure new investment. Even Portugal was ~~re~~ a case in point.

Chancellor Schmidt then made the point which he repeated many times in the course of the discussion, that it was wrong for Western governments to demand sacrifices from their own people without ^{in exchange securing} any exchange of ~~maintaining~~ ^{an} improvement in world economic stability.

~~The Prime Minister~~ Mr Callaghan said he was glad ^{that} he had provoked this speech by Chancellor Schmidt.

Mr Joergensen echoed what others had said about the importance of a successful conclusion to the CIEC. The degree of consensus reached by the Community on the Common Fund was a valuable start but ~~was~~ not enough: Such a fund must be ^{tightly controlled} ~~tough~~ so as to avoid giving windfall profits to the rich. On debt relief, the Danish position was flexible. He pointed out that, on aid, the 0.7% target was of great importance. Danish aid had already reached 0.6%. Denmark was also in favour of special action for the poorest countries and thought the Community should make a proposal on this in G8. A joint Community position in the CIEC was of the greatest importance.

President Giscard then ~~(in a speech)~~ ^{attempted} ~~advised~~ to sum up the discussion so far. He said that in the /course

course of it the British had taken a step forward. He detected definite progress in ~~the~~ developing a common attitude. All had agreed that there should be certain commodity agreements. He shared Chancellor Schmidt's view that their benefits should be directed to the developing countries. Even if it were decided not to set up a Common Fund as such, there should be communication between the funds ^{created} ~~drafted~~ under separate commodity agreements. The whole question needed further study by the Community, particularly of the establishment of a Stabex scheme as a complementary measure.

He was most interested in Chancellor Schmidt's suggestion that the Eastern countries should be pressed to help with financing such schemes. Might this form ^{an} ~~an~~ European initiative? ^{He did not believe it had been said} ~~He did not believe it had been said~~ He ^{thought} ~~agreed~~ that it would be dangerous to agree any figures for use in the discussion of the Common Fund and related measures until the final meeting at Foreign Ministers' level.

Mr Cosgrave ^{in microscopic intervention} ~~in microscopic intervention~~ said that he hoped agreement could be reached on a Common Fund.

Mr Jenkins said that he agreed generally with Chancellor Schmidt's remarks. Perhaps ^{the Chancellor} ~~he~~ would accept the ^{usage} "a Common Fund" rather than the Common Fund. At first sight the German Stabex proposals were well worth studying. They might, however, turn out to be extremely expensive. Some of the figures seemed to be in prices of the 1960s rather than of the 1970s. He agreed, however that it was important that ^{the} benefit should be restricted

to the developing countries and not go to rich countries which happened to be exporters of basic commodities. He agreed that it was right to mount a propaganda campaign against the Eastern European countries, but not to make their contribution a prior condition to that of the West. That would only make the North/South ^{dialogue founder} flounder.

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Chancellor Schmidt ^(speaking in English from now on on this subject) repeated the outline of the German proposal. Decisions about a Common Fund should only be taken after those on protection for individual commodities. Mr Jenkins observed that this meant that you should not put the roof on before you built the walls, but that when you built the walls, you should make it clear that there was going to be a roof. Chancellor Schmidt said that the roof should also constitute a ceiling.

Mr den Uyl made a long intervention in reaction to Chancellor Schmidt. He began by conceding many of his points. General approval of Stabex; exclusion of rich beneficiaries from any scheme; need for contributions by Eastern ^{Egypt} ~~countries~~ and OPEC. But a Stabex system would operate only ^{after the event} ex post facto, and was no alternative to an integrated commodity policy as proposed by UNCTAD, including the Common Fund. The integrated policy should contribute to the stabilisation of the whole economy. It was not enough to ^{let} have the market system prevail and then to compensate those who lost through that system. A Stabex scheme ^{alone} would not face consumers and producers with their responsibilities for maintaining an orderly market. The possibility of

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abuses did not ^{violate} the idea of ^{an} integrated policy.
Could not Chancellor Schmidt agree that a Stabex scheme
would constitute the most important instrument
of such a policy? The developing countries wanted
agreement in principle for a Common Fund as a catalyst to
produce commodity agreements.

Chancellor Schmidt repeated his point about the
need to get some return for sacrifices made by the West.
A Stabex scheme could include pre-finance and ^{would therefore} was not
^{necessarily} just operated ^{only after the event} on ex post facto. The integrated
programme proposed by UNCTAD would inevitably have its
decisions taken by a majority vote. This would
certainly lead to surpluses and increasing cost for the
West. One fine day it would break down and the
developing world would ^{press the industrialized countries} be at again to increase their
direct aid. Chancellor Schmidt then repeated ^{at length}
his argument about windfall profits for six rich
producer countries (USA, USSR, South Africa, Canada,
Sweden and Australia). He said he would agree to
commodity agreements in a limited number of cases with
perhaps a Common Fund on top. ^{All} Those around the table
were interested in stabilising the economy of the West
in order to get over ^{the} ~~one~~ grave unemployment problem, not
just in ^{doing} ~~doling~~ out a little bakshish.

Mr Callaghan said that he believed the Dutch
and German positions were closer than at first appeared.
Surely Mr den Uyl would not want a scheme which would
bring windfall benefits to the United States and Canada?

Mr den Uyl said that Chancellor Schmidt's

interpretation of the Nairobi resolution was wrong. There would be provisions against windfall profits and no commodity agreement for certain products, such as uranium, ^{where it would be particularly hard to prevent such profits.} Integration was important because agreements on single commodities did not take account of the fact that one commodity could be substituted for another. Unless ^{groups of} ~~all~~ commodities where substitution could occur were ^{all} ~~L~~ covered, a scheme would fall down. But he feared that neither Chancellor Schmidt nor he could convince the others ^{across} ~~agross~~ the table. The German proposal should be seen as no more than a valuable instrument of the wider policy agreed at Nairobi to which the Dutch Government was firmly committed.

President Giscard said that he believed that it would now be right to pass this question over to Foreign Ministers. There was a risk that discussion would get lost in technical details and different interpretations of words.

^{The P-N}
Mr Callaghan said that he believed that they had taken a definite step forward in this discussion.

It was most important to consolidate and maintain a ^{common position} ~~Common Fund~~ on these questions. The developing countries at the CIEC would have a very different ^{these} perception of ~~what~~ ^{these} problems, ~~concerned them~~ but that did not mean that there was any harm in ~~formally~~ ^{deploying} ~~studying~~ the position of the West. The various views expressed about the Common Fund were not perhaps irreconcilable. President Giscard had said

that the system must be realistic. Mr den Uyl had made the point that the system must cover the problem of substitution. All concerned were most interested in the German Stabex idea, which he believed the Germans had first put forward two years ago. It would, nevertheless, be a very expensive exercise. It was best, (as Mr Jenkins had suggested), to refer to "a Common Fund" which would have to be set up and not the "the" Common Fund."

~~Mr P - N -~~
~~Mr Callaghan~~ noted that there was general agreement that the Eastern countries should be asked to contribute. But the difficulties which they would certainly raise over this should not be used as an excuse to hold up progress. He believed that there was general agreement that it was right to avoid specifying figures at this stage, as President Giscard had suggested. All in all, he believed that we were much closer to a common position and that Foreign Ministers should now carry on where the present meeting had left off. It was of the utmost importance to maintain a common Community position. If that failed, the Community would be seen first to be unable to agree ^{internally,} ~~amongst its members~~ and secondly to be the cause of wider disagreement. But he himself was optimistic.

Mr Den Uyl did not express disagreement with this proposal but said that seven out of the Nine members of the Community represented around the table had voted for the Common Fund in Nairobi.

Mr Joergensen asked if there was time to put

off a decision with the Common Fund Conference already under way in Geneva. ^{The P.N.} Mr Callaghan said that the Foreign Ministers would meet on 5 April and that he did not think even another 1½ hours of discussion around the table would result in final agreement.

19.15.
20/3/77

External Relations gave

~~The Prime Minister~~ ^{him} a personal

~~Mr Callaghan~~ gave an account of his visit to

Washington, ^{and his impressions of} President Carter. [was impressive, and

confident; in some ways he still seemed to be

electioneering. He was appealing to the American

people over the heads of Congress, though it was

still to be seen how well this method worked; as

^{in the previous day,} yesterday the Democrats and Republicans had together

voted down a Bill in which the President was

interested. He was well prepared: he said he had

spent \$ 2 million before the election on hiring the

best staff to prepare position papers on the

policies he would follow when elected. His religion

did not obtrude in conversation but it was obvious

that on some issues his action would be based on

"moral" considerations.] ~~He~~ ^{He} Mr Callaghan continued on

the lines of the brief [(EHG(R)(77)4 - omitting only

the reference to Cyprus, and the last two sentences

on Portugal], ^{and} He concluded that President Carter's


[~~might prove occasionally unpredictable but his~~] basic

attitude towards Europe was sound, and It should

be possible to work with him.

End of Session.

The first session adjourned at ^{19.15} 7.25 p.m.

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EUROPEAN COUNCIL

ROME

25 MARCH 1977

NOTE OF THE FIRST SESSION AT 1520

Heads of State and Government and Foreign Ministers entered progressively. Journalists closed in when most delegations were seated. Lights dimmed and jostling journalists slowly edged out of the room. The Danish delegation arrived at 1532. The Prime Minister opened the meeting.

ORDER OF BUSINESS

The Prime Minister said he had already spoken informally to most of his colleagues about the day's business. He suggested that they should aim to conclude the first session at 7.30, unless there were need to prolong it. This was agreed.

REPORT OF MEETING WITH ETUC

The Prime Minister said it was customary for the President of the Council to start by giving an account of his meeting with the European Trades Union Congress (ETUC). The ETUC President and delegation had called on him that morning in Rome and given him a Memorandum, of which the other members of the Council already had copies. The ETUC were concerned at the economic situation of the Community and in particular that the targets set at the last Tripartite Conference had not been met. In fact they considered that no progress had been made towards them and that concrete and tangible progress was now needed. They were preparing for a new Tripartite Conference in June. They had emphasised that in the eyes of many of their members it had not been easy to start on a path of institutionalised cooperation with Government and management and they must have some progress

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to show for it. They considered economic growth to be the key. They had specified the problem of unemployment among school leavers. They considered that current unemployment problems were partly structural and needed special treatment. The Prime Minister had replied that the Community Governments did not intend to use unemployment as a road out of recession and would not be content to live with unemployment as a permanent feature. This seemed to be the main point the ETUC wanted to hear.

COMMUNITY REPRESENTATION AT DOWNING STREET SUMMIT

The Prime Minister then referred to the Agenda, for which the Presidency had circulated an annotated list of suggestions. Before discussing this, however, he recognised that some members would wish to refer to matters connected with the summit conference to be held at Downing Street in May. There were questions of substance but also of the participation of the Commission. He would like to propose that the Council should agree that they would take a decision about the Commission's participation before the end of their meeting in Rome; but that, in order that they should not give the press occasion to say that the whole afternoon had been spent on discussion and possibly disagreement about this, they should have a brief opportunity to register comments now and return to the question in private discussion after dinner.

Mr Den Uyl (Netherlands Prime Minister) said that the Netherlands Government among other governments regarded the question of the Commission's participation as one of extreme importance and the Netherlands Parliament had expressed itself in clear terms. A solution must be found at this Council. He could agree with Mr Callaghan's suggestion for procedure, on the assumption that a solution would be reached which would allow the views of the Community to be properly expressed at the London conference.

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The decision taken tonight should be formally registered at the Saturday morning session.

Mr Tindemans (Belgian Prime Minister) agreed to the proposed procedure. As Mr Den Uyl had spoken of the substance he must also say that the Belgian Government attached great importance to the representation of the Community (it was the Community, not the Commission, which was at issue) at a conference where subjects proper to the Community were being discussed.

Mr Thorn (Luxembourg Prime and Foreign Minister) said that the Community must be represented and subordinately the Commission. It was important to reach a decision this evening and other agreements might be called in question, depending on the nature of that decision.

Mr Cosgrave (Prime Minister of Ireland) agreed with what had been said.

Mr Joergensen (Prime Minister of Denmark) agreed with the procedure. He would prefer both the Commission and the Presidency to be represented at the London conference.

Mr Andreotti (Prime Minister of Italy) agreed. It was important for the Heads of State and Government to talk informally together and this was not the only problem they had to tackle.

The Prime Minister summed up that it was agreed to discuss the question in the evening and that the Council would (not merely endeavour to) reach a conclusion. Many of those who had spoken wished both the Community and the Commission to be represented at the London conference. The decision would be confirmed at tomorrow's meeting.

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The Prime Minister then asked if the Presidency annotated agenda was agreeable, and this was agreed. He suggested that Mr Den Uyl might like to open the discussion on the first item, the World Economic and Monetary Situation.

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WORLD ECONOMIC AND MONETARY SITUATION

Mr Den Uyl said that the recovery from world recession had slowed down in the second half of 1976 and unemployment increased: only in one country had inflation been kept within healthy limits. But we should be cautious about calls for expansion. A revival of inflation would be dangerous for all. Oil prices were still increasing and enormous oil producer surpluses were not yet being invested in the right places. His conclusions were that: firstly, there should be discussion with the oil producers about investment; secondly, IMF new facilities should be extended, especially to increase the purchasing power of southern Europe and Latin America; thirdly, the success of the North/South dialogue was essential to world economic recovery. On unemployment, Mr Den Uyl found the Presidency paper useful. Since unemployment was structural, investment must be new and selectively directed to job creation. If there were another Tripartite Conference, the unions would be certain to ask for a brake on labour-saving technology, and intensification of labour creation. Commission proposals should concentrate on better distribution of labour: for example, reduction of retirement age. They should also seek improvements in sectors where there was over-capacity, such as steel and ship-building. He regretted that President Giscard's proposals on energy saving had not been followed up. Finally, he commended Mr Duisenberg's ideas on closer economic and monetary cooperation.

Mr Jenkins (President of the Commission) said he had deliberately produced a short paper and would give it a short introduction. Unemployment was more uniform in Community countries than inflation or balance of payments problems and co-ordinated effort was needed to deal with it. In all countries investment was lagging behind the need for job creation. Confidence must be

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restored and the Commission believed the Community could assist through instruments it already possessed, especially by making use of its high credit rating for raising and lending money. At present Community lending was either for general balance of payments reasons, or for specific but limited sectors such as those provided by the ECSC. In future the Commission hoped there could be a middle course, combining balance of payments assistance to weaker currency countries and well thought out investment - eg in manufacture and infra-structure - in specific sectors. These would be accompanied by the general macro-economic disciplines that go with balance of payments loans. In this context he would wish to suggest that the reference in the penultimate paragraph of the Presidency draft statement should be widened to ask the Commission to consider how all the Community instruments could be used. At present it referred only to the European Investment Bank, which was limited by its 2.5 : 1 gearing ratio: he understood that there was some opposition to any significant increase in its capital in the near future. The Community needed ways to use its credit rating to develop within itself something like Marshall Fund financing. In the North/South Dialogue, the Community should seek a non-inflationary stimulating effect on world trade: this was the only way to win the battle against protectionism.

The Prime Minister said the Presidency draft statement has been primarily intended to stimulate comment, though he personally felt public opinion would expect the Council to say something about inflation and unemployment. He would be grateful if each of those who spoke could comment on this point. Officials might then consider the draft, so that the Council could look at it again later.

M. Giscard d'Estaing



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M. Giscard d'Estaing (President of France) said that on the last point he agreed that experts should examine the draft this evening so that the Council could decide tomorrow whether to adopt it. He welcomed the first appearance at the Council of Mr Jenkins, who with Community tact, had been placed next to the French delegation. On the economic situation he shared the views expressed by Mr Den Uyl and Mr Jenkins and could therefore be brief. Since their last meeting, it had become even clearer that the 1976 growth rate had been lower than predicted, and unemployment was still high: in monetary terms, good years seemed to alternate with bad ones and there were signs that 1977 would be better than 1976. However, economic forecasts were as fragile as election polls. Uncertainties still hung over the scene: particularly over energy, and the rise in raw material prices - especially tropical products, which together amounted to a quarter of the oil bill. Entire sectors, such as steel and shipbuilding, were threatened: in France a one per cent drop in the steel prices involved laying off 6,000 workers. What conclusions should be drawn for Community action? Firstly, although surplus countries such as the FRG should not be pushed into arbitrary expansion, the Community needed growth. Secondly, the Community should reduce its dependence on outside sources of energy. He had written at length on this subject to President Carter, who had replied agreeing that this was essential to the stabilisation of the world economy. (In a digression, President Giscard said it was not a question of the form of participation of the Community in international conferences that mattered, but what they should say.) Thirdly, the Community required a policy on employment, particularly affecting the young and women. He had taken note of the Presidency document and agreed that we should study carefully action that could be taken at the Community level: for example, by use of the Social Fund. Fourthly, confidence must be restored and to this end we should revive the target of Economic and Monetary Union (EMU). This could not be the immediate target but should be taken up again at a suitable moment in the not too distant future. Beyond this President Giscard suggested

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the Community should study the re-cycling of balance of payments surpluses; and should consider how the Commission's power to regulate competition could be ensured: there was an increasing risk of internal protectionism as individual Community countries took their own measures in the absence of Community policies. In energy questions, the Community should be more responsive to the moderate OPEC countries: the Saudi Arabians had told him of their disappointment at consumer country reactions, particularly the fact that the western oil companies had been allowed to base their prices on the highest producer prices. He underlined the dangerous consequences of failure in the North/South dialogue, including the probable hardening of the OPEC position in July. In conclusion he thought 1977 would be more like 1975 than 1976, with a prospect of oil price rises and balance of payments deficits in consumer countries. We should not make things worse by speculating aloud, but the Community might have to be ready to take decisions at short notice.

Mr Joergensen (Prime Minister of Denmark) supported the Presidency draft statement. Deficits on oil account could only be overcome by common action, of which conservation and development of alternative sources were the most important. Projects like JET should be pressed ahead. Some countries (eg UK and France) had made good progress in reducing inflation: in Denmark they had just concluded wage agreements covering the next two years. Agreement between the social partners was important, but the real danger was that unemployment was giving rise to a new mercantilist policy and protectionism. Intermediate steps, such as the increase in IMF quotas, were needed to return to stable exchange rates. Expansion should not be too rapid, but growth was essential and the stronger countries could afford some stimulus to their economies. Fortunately there were signs that they were beginning to realise this.

/Herr Schmidt

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Herr Schmidt (Chancellor of the FRG), beginning in English, said he had little comment on the papers that had been circulated; but with regard to what had been said we must beware of self-deception. Our economies were in a "chameleon situation", with a balance at high unemployment level: it was different from the 1930's because it resulted from inflation, not deflation. Continuing in German, Chancellor Schmidt said there were four basic causes that must be understood. Firstly, the American inflation generated by the Vietnam war, which had spread throughout the world and was still affecting many economies. Secondly, the collapse of the system of fixed parities, which had bankrupted many trading companies and contributed to recession. Thirdly, the politically-induced oil price explosion, which shifted the terms of trade and relative monetary parities, and further deepened recession. It was no coincidence that countries with the highest inflation rates had major balance of payments problems. Fourthly, democratic societies had expectations which exceeded economic possibilities. Electorates were not told that the world had changed and the resultant disappointment and lack of confidence affected investment, workers and politicians alike. These social and political effects and the loss of confidence in the future were the most alarming symptom in all Community countries except perhaps Luxembourg. The answer was that "effective demand" (in Keynesian terms) must be revived: not as an inflationary spiral, but by direction to investment, especially in the (construction) industry.

Chancellor Schmidt briefly recounted the measures taken in the FRG, including the 16,000 million DM investment programme, reduction in pensions and social benefits; expected increase in GDP of 5% and the fact that the FRG was the only country which had increased its imports in real terms. The success of the North/South dialogue was essential to the improvement of the world economy, which in turn would only recover if protectionist

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trends were reversed. In a footnote to this, however, Chancellor Schmidt said that the Community should not reproach Japan for offering competition and lower prices because its industrial plant was more modern and its wages and social costs had not risen so fast as in Europe. We might reproach some of their practices, but primarily we must adjust ourselves. In the FRG the shipbuilding unions were beginning to understand this.

The Prime Minister said that the Chancellor had not quite finished the point. It was not just a question of adjusting social and wage costs. The problem was of too much productive capacity and not enough demand.

Chancellor Schmidt, in English said he had not meant to concentrate on shipbuilding, though it was a major interest in his constituency of Hamburg. The reason for the fall in demand was that less oil was being transported by sea than anticipated in the early 1970's: it would be several years before tanker capacity was fully utilised, let alone increased. Orders for other ships might come sooner as world trade revived, but most of these would go to Japan.

The Prime Minister said that shipbuilding was only an example of the main problem of adjusting capacity to declining demand, which they ought to examine in greater detail.

President Giscard intervened to say that he thoroughly disagreed with Chancellor Schmidt about Japan. In several fields (nuclear, computers, aviation) European firms were more competitive than Japanese but were unable to overcome protectionist barriers erected in Japan. Moreover there was no reason why we should accept an over-capacity in Japan which gave them a virtual monopoly of shipbuilding. We did not accept other monopolies in the world or in the Community, where we had the Commission to enforce anti-monopoly rules; there was no reason why we

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should accept one deriving from Japanese over-capacity.

Mr Cosgrave said that a basic problem in managing Community economies was that the younger age groups had high expectations which exceeded the realisable prospects. Short term job creation schemes would only be successful if steady long-term growth were assured. It was possible to exaggerate the reasons for inflation: there was plenty of spare capacity in western industrialised countries, and non-inflationary growth should be possible at a higher level than so far achieved. We should distinguish carefully between inflation and re-flation, which was desirable. He agreed about the importance of the North/South dialogue in restoring world confidence.

Mr Andreotti referred to economic and monetary union and the energy crisis. Italy had taken severe measures to deal with the situation, the gravity of which was not generally admitted.

He was in favour of joint Community initiatives and Community investment projects. But Community action must go beyond the limited number of sectors at present covered. A joint policy was necessary across the board. Above all, it should cover energy. A Community energy policy should be a fundamental point of reference for the Community's activity in the North/South Dialogue and in relations with the East Europeans. Still in the field of energy, the campaign against nuclear power programmes was a new and worrying feature. Italy's programme was being held up by ecological and other protests.

Different Community policies needed to be harmonised. It was a step forward that a single Commissioner had been given the task of coordinating intervention in several different fields, although these did not amount to a big share of Community expenditure. The balance of Community expenditure should be

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shifted away from agricultural price support. It was wrong that northern agricultural products should be so completely protected and Mediterranean products neglected. Enlargement would aggravate the effects of present policies which would have to be changed. The net effect on Italian agriculture, the poorest in the Community, was negative.

Mr Andreotti favoured the greatest possible efforts to reach agreement between government, employers and the unions on the economic crisis. It if took hundreds of hours of discussion, as Chancellor Schmidt had said, they were well worthwhile. It was right to bring in the social partners to discuss the economic models considered in the Community. Such discussion might help solve the problem of unemployment among the young, which was particularly grave in Italy and a dangerous cause of instability. He ended with an affirmation that economic and monetary union was an attainable goal.

Mr Callaghan summed up the discussion so far. There was general agreement on the problems and the need to take action on inflation and unemployment. The aim should be to work for the growth of effective demand. The Community Social fund and the EIB were promising instruments for this purpose. Further studies as proposed by the Commission would be most valuable. There had been some discussion of energy saving. Here one had to wait for the US Government statement due on 20 April. But there was a role for the Community which had not yet begun to play its full part.

On the world economy generally, the main emphasis had been on the need to avert any increase in protectionism, and promote steady growth. For many countries such growth depended on the growth of world trade, on increasing efficiency and the avoidance of new restrictions.

Mr Callaghan then suggested that officials should look at the draft statement in order to finalise it, if possible, by the evening.

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President Giscard suggested that it would be better to look at it again the following morning, together with the texts on Japan and on Steel. It was so agreed.

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NORTH/SOUTH DIALOGUE

The Prime Minister then suggested that discussion should turn to the CIEC and the Common Fund.

Mr Jenkins said that it was a good moment for the European Council to provide guidance for a Community position for the CIEC Ministerial Meeting and on the specific question of the Common Fund, where difficulties had already arisen in Geneva and where there was a risk that the position of the Nine would fall apart. He then outlined the Commission's proposals for the CIEC on resource transfers and on commodities. He paid tribute to the German paper on Stabilising Export Earnings (Stabex). It might well produce solutions for the specific problems of raw materials but it would need to be complemented by other action, particularly in the field of resource transfers.

The Foreign and Commonwealth Secretary said that the Community had spent much time and energy on discussing the Common Fund, and a split must be prevented now. A real break-down in the Common Fund negotiations would have a most damaging effect on the CIEC itself. He believed that it should be possible to reach agreement on some kind of a Common Fund. The Common Fund Conference would probably have to meet again in order to reach agreement. It was most important that the Community itself should cling to a Common position so as to permit Group B to maintain one. The Community's position was not too far from that of the United States, and the Community were keeping on good terms with the developing countries. The prospects for the CIEC itself were reasonably good and the high level group were in a position to tackle the other main issues. But a failure over the Common Fund could ruin the whole enterprise.

The Prime Minister then called on Chancellor Schmidt to speak. Chancellor Schmidt asked jokingly if the Prime Minister was changing the rules of the European Council so that he could force

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people to speak. The Prime Minister replied that, of course, he was not.

President Giscard then said that perhaps he could provoke Chancellor Schmidt to take the floor by saying something himself. It was indeed true that a positive result from the CIEC was important both for political and economic reasons for the commodity producing countries as much as for the others. Time was short. The CIEC would come to an end with a Ministerial Meeting planned for the end of May. The impression was that the United States was taking a positive attitude but that Europe was dragging its feet. It was therefore highly desirable that the European Council should demonstrate a positive move forward.

On commodities the new German document was an important step forward. But the Stabex system proposed might well be extremely expensive. Moreover Stabex alone was not enough. After Nairobi and subsequent declarations, the developing countries would consider a Common Fund essential. The German and indeed the British governments should understand the passionate feelings which this issue aroused. The modalities and the method of financing the Common Fund could take a variety of forms. It might, for instance, be financed by the World Bank. But the Community must reach a position to support such a fund which would be an essential for the satisfactory conclusion of the CIEC. On debt and resource transfer, President Giscard said that it would be dangerous to mention too many figures. The Commission's proposals for a figure of \$ 3 billion over several years was excessive. A figure of \$ 1,000 million might be acceptable. We should avoid allowing a situation to arise in which member states might be tempted to bid up against each other.

Mr den Uyl said that a successful conclusion to the CIEC was vital and that failure after so many years would be quite unacceptable. Special action to help the poorest countries would be an

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effective means of contributing towards success. The oil price increase had highlighted their plight. It was right to link such special action with a reduction of their indebtedness. It was difficult to hit on the right figure but \$ 2,000 million might be about right.

On the Common Fund, the situation in Geneva was worrying. Most members of the Community had assumed a commitment at Nairobi. The Community must now accept the principle of the Fund. It would be quite right, as Dr Owen had suggested, to establish a link between the size of the Fund and the use to which it was to be put. Failure to accept the principle in Geneva would cause a clash there and then block progress in the CIEC context too.

The German document on Stabex was useful, particularly in pointing out the dangers of blanket support for commodities which would favour rich producers as well as poor. Selection was essential. It was also right to avoid upsetting the balance of supply and demand, as bitter experience in the CAP had shown. He understood German reservations about using a Common Fund to bolster up commodity agreements with possibly unsatisfactory result. But Stabex by itself would not ensure that necessary commodity agreements would be established. Stabex should be carefully studied and included in the general programme. But it could not relieve us of the duty to approve the principle of a Common Fund.

Mr Andreotti said that it was necessary for the Nine to establish a common position for the conclusion of the CIEC. It was politically right to do something more to help the poorest countries, particularly in Africa. He was against a general debt moratorium but in favour of selective assistance. On commodities, he suggested that the meeting should avoid technical discussion of the German proposals. The aim should be to give

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producers a secure market with reasonable price levels but also to secure steady supplies to consumers without today's enormous fluctuation in prices. The recent rise in the coffee price, for example was disastrous for Italy. He hoped that Italians would stop drinking coffee. Otherwise in six months they would spend in coffee imports the entire year's share of the IMF loan currently being negotiated. Price discipline was essential.

Chancellor Schmidt said that his aim in seeking a successful conclusion to the CIEC was to promote general confidence in the world economy and to produce conditions for its stable and continued growth. All this was equally important for the developing countries. It was essential that in CIEC and UNCTAD due account be taken of what the industrial countries had already done to help. He then gave figures contrasting the absolute size and growth in Western aid with the absolute paucity and reduction in aid from Comecon countries for the years 1974 and 1975, he instanced help given by the West under GATT, the Lomé Convention, the IMF extra credit scheme and the establishment of IFAD. All this needed to be spelt out publicly. The Soviet Union, not the West, should be in the dock. He was against general debt relief. On the Common Fund, he opposed the UNCTAD proposal which would bring great windfall profits to rich producers like the USA, the Soviet Union and South Africa. Only a small number of developing countries would benefit. The German scheme on the other hand would, first, direct aid to the most needy; secondly, there would be a ceiling on expenditure; thirdly, it would not interfere with the price mechanism. It would consist of a Stabex scheme, agreements for single commodities where appropriate, and a Common Fund as a clearing house for certain commodity agreements where these included provision for buffer stocks. It might cost more than the proposed UNCTAD integrated programme but it would increase stability, and the sacrifices made by the industrialised countries would produce some return. It would apply to all developing countries and not to the developed. It could cover the 25 core commodities. It would take account of developing countries' exports to all markets and not just to the industrialised /countries

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countries. It proposed that all industrialised countries and all OPEC countries would contribute. There would be a ceiling on expenditure - for model A, \$ 5 billion; for model B, \$ 10 billion.

Chancellor Schmidt then repeated his plea to put pressure on the Soviet Union to increase their aid and for OPEC to play a greater part in solving the economic crisis, which was world wide, and for which OPEC should indeed accept the main responsibility. It was ridiculous for the OPEC countries to say that we had caused this crisis. It was particularly ridiculous to say that Holland had started it. We should ask for a formal pledge from the OPEC countries that they would never impose another oil embargo. There should be an investment guarantee as a binding obligation for developing countries; without such a guarantee they would anyway fail to receive new investment. Even Portugal was a case in point.

Chancellor Schmidt then made the point which he repeated many times in the course of the discussion, that it was wrong for Western governments to demand sacrifices from their own people without in exchange securing an improvement in world economic stability.

The Prime Minister said he was glad that he had provoked this speech by Chancellor Schmidt.

Mr Joergensen echoed what others had said about the importance of a successful conclusion to the CIEC. The degree of consensus reached by the Community on the Common Fund was a valuable start but not enough. Such a fund must be tightly controlled so as to avoid giving windfall profits to the rich. On debt relief, the Danish position was flexible. He pointed out that, on aid, the 0.7% target was of great importance. Danish aid had already reached 0.6%. Denmark was also in favour of special action for the poorest countries and thought the Community should make a proposal on this in G8. A joint Community position in the CIEC was of the greatest importance.

/President Giscard

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President Giscard then attempted to sum up the discussion so far. He said that in the course of it the British had taken a step forward. He detected definite progress in developing a common attitude. All had agreed that there should be certain commodity agreements. He shared Chancellor Schmidt's view that their benefits should be directed to the developing countries. Even if it were decided not to set up a Common Fund as such, there should be communication between the funds created under separate commodity agreements. The whole question needed further study by the Community, particularly of the establishment of a Stabex scheme as a complementary measure.

He was most interested in Chancellor Schmidt's suggestion that the Eastern countries should be pressed to help with financing such schemes. Might this form an all-European initiative? He thought that it would be dangerous to agree any figures for use in the discussion of the Common Fund and related measures until the final meeting at Foreign Minister level.

Mr Cosgrave said that he hoped agreement could be reached on a Common Fund.

Mr Jenkins said that he agreed generally with Chancellor Schmidt's remarks. Perhaps the Chancellor would accept the phrase .. "a Common Fund" rather than "the Common Fund". At first sight the German Stabex proposals were well worth studying. They might, however, turn out to be extremely expensive. Some of the figures seemed to be in prices of the 1960s rather than of the 1970s. He agreed, however that it was important that the benefit should be restricted to the developing countries and not go to rich countries which happened to be exporters of basic commodities. He agreed that it was right to mount a propaganda campaign against the East European countries, but not to make their contribution a prior condition to that of the West. That would only make the North/South dialogue founder.

/Chancellor Schmidt

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Chancellor Schmidt (speaking in English from now on, on this subject) repeated the outline of the German proposal. Decisions about a Common Fund should only be taken after those on protection for individual commodities. Mr Jenkins observed that this meant that you should not put the roof on before you built the walls, but that when you built the walls, you should make it clear that there was going to be a roof. Chancellor Schmidt said that the roof should also constitute a ceiling.

Mr den Uyl made a long intervention in reaction to Chancellor Schmidt. He began by conceding many of his points. General approval of Stabex; exclusion of rich beneficiaries from any scheme; need for contributions by Eastern Europe and OPEC. But a Stabex system would operate only after the event, and was no alternative to an integrated commodity policy as proposed by UNCTAD, including the Common Fund. The integrated policy should contribute to the stabilisation of the whole economy. It was not enough to let the market system prevail and then to compensate those who lost through that system. A Stabex scheme alone would not face consumers and producers with their responsibilities for maintaining an orderly market. The possibility of abuses did not vitiate the idea of an integrated policy. Could not Chancellor Schmidt agree that a Stabex scheme would constitute the most important instrument of such a policy? The developing countries wanted agreement in principle for a Common Fund as a catalyst to produce commodity agreements.

Chancellor Schmidt repeated his point about the need to get some return for sacrifices made by the West. A Stabex scheme could include pre-finance and would therefore not necessarily operate only after the event. The integrated programme proposed by UNCTAD would inevitably have its decisions taken by a majority vote. This would certainly lead to surpluses and increasing cost for the West. One fine day it would break down and the developing world would press the industrialised countries again to increase their direct aid. Chancellor Schmidt then repeated his argument about

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windfall profits for six rich producer countries (USA, USSR, South Africa, Canada, Sweden and Australia). He said he would agree to commodity agreements in a limited number of cases with perhaps a Common Fund on top. All those around the table were interested in stabilising the economy of the West in order to get over the grave unemployment problem, not just in doling out a little bakhshish.

The Prime Minister said that he believed the Dutch and German positions were closer than at first appeared. Surely Mr den Uyl would not want a scheme which would bring windfall benefits to the United States and Canada?

Mr den Uyl said that Chancellor Schmidt's interpretation of the Nairobi resolution was wrong. There would be provisions against windfall profits and no commodity agreement for certain products such as uranium, where it would be particularly hard to prevent such profits. Integration was important because agreements on single commodities did not take account of the fact that one commodity could be substituted for another. Unless groups of commodities where substitution could occur were all covered, a scheme would fall down. But he feared that neither Chancellor Schmidt nor he could convince the other across the table. The German proposal should be seen as no more than a valuable instrument of the wider policy agreed at Nairobi to which the Dutch Government was firmly committed.

President Giscard said that he believed that it would now be right to pass this question over to Foreign Ministers. There was a risk that discussion would get lost in technical details and different interpretations of words.

The Prime Minister said that he believed that they had taken a definite step forward in this discussion. It was most important to consolidate and maintain a common position on these questions. The developing countries at the CIEC would have a very different

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perception of these problems, but that did not mean that there was any harm in deploying the position of the West. The various views expressed about the Common Fund were not perhaps irreconcilable. President Giscard had said that the system must be realistic. Mr den Uyl had made the point that the system must cover the problem of substitution. All concerned were most interested in the German Stabex idea, which he believed the Germans had first put forward two years ago. It would, nevertheless, be a very expensive exercise. It was best, (as Mr Jenkins had suggested), to refer to "a Common Fund" which would have to be set up and not the "the Common Fund".

The Prime Minister noted that there was general agreement that the Eastern countries should be asked to contribute. But the difficulties which they would certainly raise over this should not be used as an excuse to hold up progress. He believed that there was general agreement that it was right to avoid specifying figures at this stage, as President Giscard had suggested. All in all, he believed that we were much closer to a common position and that Foreign Ministers should now carry on where the present meeting had left off. It was of the utmost importance to maintain a common Community position. If that failed, the Community would be seen first to be unable to agree internally and secondly to be the cause of wider disagreement. But he himself was optimistic.

Mr den Uyl did not express disagreement with this proposal but said that seven out of the Nine members of the Community represented around the table had voted for the Common Fund in Nairobi.

Mr Joergensen asked if there was time to put off a decision with the Common Fund Conference already under way in Geneva. The Prime Minister said that the Foreign Ministers would meet on 5 April and that he did not think even another 1½ hours of discussion around the table would result in final agreement.

External

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EXTERNAL RELATIONS

The Prime Minister then gave a personal account of his visit to Washington and his impressions of President Carter. He continued on the lines of the brief [(EHG (R)(77)4 attached omitting only the reference to Cyprus, and the last two sentences on Portugall], and he concluded that President Carter's basic attitude towards Europe was sound. It should be possible to work with him.

END OF SESSION

The first session adjourned at 19.25.

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