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Record of a Meeting of the European Council
Palazzo Barberini, Rome on 1/2 December 1975
(transcribed from notes taken by the Foreign
and Commonwealth Secretary)

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 9/12

Present:

Italy (in the chair)	Mr Aldo Moro Mr Mariano Rumor
Belgium	Mr Leo Tindemans
Denmark	Mr Anker Joergensen Mr K B Andersen Mr I Norgaard
F.R.G.	Herr Helmut Schmidt Herr H Genscher
France	M. V. Giscard d'Estaing M. J. Sauvagnargues
Ireland	Mr Liam Cosgrave TD Mr Garret FitzGerald TD
Luxembourg	Mr Gaston Thorn
Netherlands	Mr J M Den Uyl Mr van der Stoep
UK	The Rt. Hon. Harold Wilson MP The Rt. Hon. James Callaghan MP
European Commission	M. F X Ortoli Mr. H Haferkamp

c (extracts)

Trade Pt 2 (Intro Control)

Euro Pol Oct 75 (mtg. of Home Secretaries)

Euro Pol Pt 2 (Energy)

Euro Pol June 75 (Direct Election)

Euro Pol Pt 2 (Financial Control)

Euro Pol Nov 74 (Passport Union)

Euro Pol June 75 (Main File)

The meeting began at 11.00 am

1. Agenda

It was agreed that during the afternoon's session the first two items would be:

- a. The economic Summit Meeting at Rambouillet on 18/19 November and
- b. The economic and social situation of the Community.

It was not intended that there should be any substantive discussion after the dinner party given by the President of the Republic of Italy.

The Economic Summit at Rambouillet

President Giscard d'Estaing explained that the composition of the meeting had been determined by the economic weight of the participants. The selection had not been arbitrary or haphazard in that the participants were the Group of 5 plus Italy. He explained the reasons why in the French view it had been necessary to exclude Canada. It had been a 'meeting' and not a 'conference', in that it had not taken the place of the necessary decision-making by the competent authorities. It had been informal. However, he was willing to answer any questions which the other members of the Community who had not been present wished to put. President Giscard went on to say that if the economic situation next Spring were still a cause for worry he thought that one or other of the participants might feel it necessary to take the initiative in calling for a further meeting. Those present had confirmed the principles of the trade pledge which he was ready to renew in the Spring of 1976. The only important new decision was one which concerned the US in respect of their agreement to intervention by the central banks to bring about greater stability of exchange rates. President Giscard would up by outlining the main provisions of the communiqué.

Chancellor Schmidt said that he had been impressed by the extent of the US's willingness to cooperate with Europe especially in monetary questions. The Japanese also had shown a desire to cooperate and did not take a very different line from that of the rest of the participants. This had been a happy surprise to him.

Mr Joop Den Uyl said that an important outcome of the meeting had been that the participants had agreed to confirm the principles of the trade pledge, in view of the possible threat that some countries might need to introduce tariff protection unilaterally. He commented that there had been reports of the widespread irritation of the smaller countries who had not taken part. For his part he attached great importance to the good functioning of the Community and to adherence to its procedures. This was especially important to the smaller countries. He recognised that the meeting had been useful though he was glad that there was no intention to "institutionalise" it.

Mr Jorgensen said that it was constructive that the larger countries should try to reconcile their differences. But it was essential that the forum in which they chose to do so should be an informal one and that decisions should only be taken in the relevant international bodies. The Community must coordinate and implement a common policy to defeat the present crisis of inflation and recession.

Mr Cosgrave lamented that the Community was drawing apart instead of coming together; the arrangements established at Rambouillet were an example of this. And now even the Customs Union and the Common Agricultural Policy were under pressure. The Community ought to try to eliminate monetary compensatory amounts. It should make firm plans to establish Economic and Monetary Union within a measurable time. The role of the Presidency should be strengthened. He asked whether, on matters lying within the Community's competence such as trade, the member states were prepared not to discuss such questions with third countries. Moreover the member states should not lay down guidelines on any matters unless they had been put forward to the Council/
European Council by the Commission.

President Ortoli backed him up, saying that at meetings of the Rambouillet type the participants must not infringe the competence of the Community, neither formally nor informally.

Mr Wilson said that the participants at Rambouillet had specifically decided that they should not take decisions. There was an important agreement on monetary matters, but that was a bilateral agreement. They had specifically avoided any institutionalisation of the meeting and further action was to be pursued through the relevant international organisations. He had been impressed at Rambouillet by what the "causative countries" (Germany, Japan and the US) had had to say on "bottoming out". If there were to be another hiccup in world economic recovery he could see the need for another Rambouillet type meeting but no decision was taken on that score and there had been general agreement on the part of the four Community participants that they should work through the Community.

Chancellor Schmidt said that he wished to state very formally that none of the 17 points in the communique had infringed the Community's field of responsibility.

Economic and Social Situation in the Community

Mr Moro said that earlier that day he had met the President of the European Trades Union Confederation, who had expressed great concern at the level of unemployment in the Community. It was important that more should be done to "re-cycle" unemployed workers. There ought to be a further Tripartite meeting next Spring. The member states in the Community should take further measures against unemployment, in particular that of young people.

Mr Joop Den Uyl asked why, if the US economy was showing such signs of recover, the European recovery seemed to be falling short of expectations. In particular he expected there would be a further decline in the level of ship-building in Europe. The Rambouillet Conference had not been very successful. The discussions had been unstructured and more coherent policies were needed. Measures to restore and to restructure the economy were needed at the European level if unemployment resulting from shifts in demand was to be combatted. The Commission should take the initiative in putting forward proposals now. He would be happy if agreement on that could be reached today.

Mr Wilson said that the Rambouillet meeting had been useful though rather diffuse. He agreed that the ship-building industry was in a serious situation. He went on to say that, compared with the situation at their last European Council meeting in Brussels on 16/17 July, he was in a stronger position now to give a satisfactory report on the way in which British policy to combat inflation was going. The agreement with the Trades Unions seemed to be holding - the turning point seemed to have been the acceptance by the NUM at their conference of the £6.00 pay limit. This had then been accepted in Parliament and at the Trades Union Congress. The policy was paying off and every wage settlement since 11 July had been within the guidelines laid down in the Government's policy. A radical change was now taking place in the rate of inflation, from its highest level of 26%, itself partly a consequence of grievances arising from a statutory policy of wage restraint. The success of the Government's policy of reducing the rate of inflation first to 10%, and to single figures by the last quarter of 1976, was confirmed by the current figures. They were bang on target despite some disappointments about the behaviour of prices. The UK was not in as serious a situation as Germany and Japan in terms of unemployment figures and our unemployment rate was rising at a less rapid rate than theirs. The decline in industrial production was bottoming out though the signs of greater employer confidence had yet to be translated into higher levels of investment.

Chancellor Schmidt said that what Mr Moro reported to the Press the next day about their discussion would be important in its impact on trades union leaders and employers. He did not wholly agree with Mr Den Uyl; he thought that there was cause for "conditioned optimism". If the Conference on International Economic Cooperation could work out compromises between the developed countries, the developing countries and the oil producers, which would last over a more or two year period, there would be light ahead of the tunnel and they could even look to controlling cyclical recessions and warding off the effects of structural decline. In his view the causes of recession were:

- a. inflation
- b. floating rates
- c. oil prices.

a., inflation, had passed its zenith even in the UK. On b., floating rates, the fluctuations were flattening out and on c., oil prices, the major price increases ought to be a thing of the past, unless the western industrialised countries were very unskilful in playing their hand with the oil producers.

Chancellor Schmidt added that stocks were not right down; for instance in the FRG a buyer had to wait three months for a new motor car. The Commission's latest figures for 1976 forecast a change in GDP from minus 2½% to plus 3%. That was a very large swing. The UK would lag some way behind her Community partners and he agreed that ship-building would continue to be in serious recession. With respect to Mr Den Uyl's suggestion that the Commission should put forward proposals, he commented that he would not be very enthusiastic if the Community were only to undertake further talks. The task was to stimulate further investment. All their deficit spending (following the classical methods of Maynard Keynes) had gone to reduce taxes, in order to increase private saving which governments then used to finance further deficit spending. But deficits ought not to be further extended and in particular deficit spending must not be allowed to go to increasing consumer expenditure.

Mr Jorgensen said that US external trade accounted for only 4% of their GNP. This laid the onus on the Europeans to revive world trading activity. They were doing their part. The balance of payments deficit in 1974 in Denmark had been 6 billion and in 1975 1 billion Danish crowns. The increase in the cost of living had gone from 9% in 1972/73 to 15% in 1973/74 and then down to 7% in 1975. So far as Denmark was concerned the main objective was to revive employment. He recognised that Mr Wilson had succeeded with the miners, but what had brought success was the way in which economic policy as a whole had been handled. The Community countries needed to have a wages policy but they must not only be concerned with relatively marginal aspects of how wages were determined. He believed that there should be much more industrial partnership or co-ownership.

Mr Moro said that Italy hoped to reduce the rate of inflation to 15-16% by the end of 1975.

President Ortoli said that the Commission would be prepared to examine what could be done to improve the situation in the ship-building industry but there were other sectors facing similar

problems on which the Commission would also report.

Chancellor Schmidt said he represented a ship-building constituency but this was not the only problem. What about textiles, footwear and basic industries? He was sceptical about the implications that one sector of industry should be picked out for assistance - almost certainly some kind of subsidy. At best he could only agree to helping over the financing of new investment. That would increase real productivity (he did not mean "the beautification of churches").

Mr Moro said that he would tell the press at his press conference after the Council that they had held an exchange of views about the economic situation. They had agreed that economic recovery was beginning to appear over the horizon. Their discussion had confirmed the need for closer cooperation between the member states of the Community and for a constructive dialogue between the social partners. They had taken note with satisfaction of the results of the tripartite Conference held in November and had agreed that the Commission should keep them informed of the situation and should prepare a further report on it for them. They had agreed to hold a further tripartite conference in 1976.

THE COMMUNITY BUDGET AND MEASURES OF FINANCIAL CONTROL

Mr Wilson invited his colleagues to take a decision of principle to support the United Kingdom's proposals which had been circulated. He thought that the responsibility for follow-up action should be placed on the President of the Council of Ministers and that he should be invited to discuss his proposals with the President of the Assembly. The purpose of the proposed Committee would be the same as that of the Public Accounts Committee in the British House of Commons, now 113 years old. This was a highly prestigious Committee with wide and deep investigatory powers assisted by a skilled staff headed by the Comptroller and Auditor General and capable of striking terror into the hearts of spending Departments. Its purpose was to get value for money and to see that expenditures voted were spent on the subjects for which they were voted - in short, to ensure the avoidance of waste. In addition, his proposed Committee would give a real meaningful task to the members of the European Assembly. He thought that the President of the Council should also discuss with the President of the Commission the proposal to create a Financial Commissioner, taking account of the Commission's recent decision to give the Commissioner responsible for budgets the right at the first reading to oppose a decision proposed by one of his colleagues and to require its re-examination at a second meeting. The President should also discuss the proposal to give senior Commission officials specific accounting responsibilities vis-à-vis the Assembly. In carrying out this task the President of the Council ought to work on the basis of a brief to be prepared by the Committee of Permanent Representatives, submitted as necessary to the Council of Ministers in Brussels.

Signor Rumor said that he agreed that it was desirable that the European Parliament should be given greater responsibility. He also thought that the proposal for a Financial Commissioner was a significant one. The budget was politically important as well as financially important, and he thought therefore that it was important

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that it was important that they should go ahead with the plan for joint meetings of Foreign and Finance Ministers, as they had agreed at Lucca on 18/19 October. He thought that the Community should consider Mr. Schmidt's ideas about not carrying over unexpended portions of the budget from year to year. Moreover, the Council of Foreign Ministers should receive periodic reports about the plans of other Councils so that there could be general coordination.

President Giscard said that he would support the suggestion that these financial control proposals should be remitted for further study by the Council of Ministers. France was the second largest contributor to the budget and there had been a rapid rise in the Community budget: if anything it surprised him that the rise had not been greater since there was no equivalent of a Finance Minister in the Commission. He went on to ask what the powers of investigation of the PAC would be. Would it extend to national spending Ministries who were involved in Community expenditure? He agreed that the proposed Financial Commissioner should have no other duties. He commented that one of the problems was that one country would complain about expenditure as a whole or expenditure on particular items, but would then press for greater expenditure on an item of interest to it. He agreed that there should be joint meetings of Foreign and Financial Ministers to discuss the level of Community expenditure, and he thought that the European Council might have a general discussion each Autumn without their becoming a Court of Appeal from the activities of the other Councils. The financial situation was disorderly, partly because of the continuation of different units of account, and in particular the "green currencies". The Community ought to rationalise its financial machinery.

President Ortoli said that he was very much in favour of the financial control proposals: they needed to be carefully studied. One problem was that some 80% of the Community budget was spent by the member states on behalf of the Community. Another problem

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deserving of study, in Coreper, was the relationship between the Audit Court and the proposed PAC. Any proposals ought also to be discussed with the European Assembly. He thought that it would be reasonable to establish the principle that there should be a second reading of expenditure proposals, though it would be necessary strictly to respect the principles of the Treaties, the Community's competence and the powers of the European Commission.

Mr Cosgrave supported the proposals in general and in particular shared Mr. Wilson's view of the effectiveness of a Public Accounts-type Committee.

Chancellor Schmidt also gave general support to Mr. Wilson's ideas. He went on to suggest that by the beginning of 1976 the Commission should submit a proposal to the European Council, about the re-valuation of the Unit of Account. So far as the Community budget for 1976 was concerned, the European Assembly had made a number of expensive proposed amendments to the budget submitted to them by the Council. He was in favour of rejecting them all. He thought that there should be an annual Autumn review of the Community budget by the Heads of Government. He commented that the level of expenditure in the Community budget was increasing at a much faster rate than the weighted average of national budgets in a ratio of 19% to 10%. The European Assembly must be educated to accept proper financial discipline.

M. Joop den Uyl said that he supported the concept of a Public Accounts Committee as explained by Mr. Wilson, and he also supported the proposal that there should be a Finance Commissioner with responsibility exclusively for financial and budgetary questions. He thought that Chancellor Schmidt's idea that each March the Council of Ministers should have a general debate on a document prepared by the Financial Commissioner, including a financial forecast, was a very useful one. Thereupon it would be possible to get the European Parliament's opinion which would establish the framework for drawing up the next year's budget. But he pointed out that a binding financial framework would not be in accord with the terms of Article 203 of the EEC Treaty. President Ortoli said that the question whether, within the Commission, one of the Commissioners should solely be responsible

financial questions needed further consideration. Until 1978 there was not much leeway for altering the financial arrangements in the Community but they ought from then to consider adopting a completely new Unit of Account. Moreover by then a greater proportion of the Community budget would be coming from the Community's "own resources". The Commission would make new proposals early in 1976.

Mr. Thorn said that all the proposals which had been put forward showed a common desire to improve the effectiveness of the Community's financial arrangements and he thought that the Coreper should examine them. But as a first step, he thought it was essential that they should agree to respect the powers of the European Assembly and in particular their power to increase the maximum rate. He thought that the present Commission ought to try to put forward proposals so that decisions could be taken on them before the end of 1976 in order that the new Commission appointed at the beginning of 1977 could implement them.

Mr. Wilson commented that the problem of the expenditure of Community funds by national Governments must be studied by Coreper and put to the Council of Ministers.

In reply to a question which President Ortoli put to him about the Audit Court, Mr. Wilson explained that the Audit Court would have functions analogous to those of our own British Comptroller and Auditor General, but it would be a collegiate body with some nine members. It would check that the Community's money was properly spent as authorised and would produce reports drawing attention to any irregularities. As indicated in paragraph 2 of the British paper, these reports would go both to the Council and to the Assembly. Its reports would therefore be grist to the mill of a PAC-type Assembly Committee which we envisaged operating like our own, in that it would call Directors General from the Commission (as in our case Permanent Secretaries were called) to give evidence. He repeated that the British PAC struck terror in the hearts of the big spending department, whose Permanent Secretaries had to account for the good use of every penny. As he understood it, the French Com de Comptes did the same sort of job in France as the Audit Court, and its reports got a lot of publicity. But neither the French nor Germans,

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who had a similar system, had found that there was any incompatibility between our ideas for a PAC and the Audit Court.

Mr. Wilson went on to suggest that he should submit a draft statement - he had one available - he would be ready to withdraw it in favour of a better one if anyone else had a better one to submit. Alternatively his proposals could be incorporated in a wider draft including the proposals made by Chancellor Schmidt, President Giscard and others for an annual debate before the beginning of each year's expenditure season.

Mr Wilson then read out the UK draft text on financial control. It was agreed that a fresh text, incorporating points made in the discussion, would be available in the morning.

Direct Elections

Mr Wilson introduced the discussion. He said that he fully accepted the principle of direct elections. There was a Treaty commitment in favour of direct elections which the British people, when they voted decisively in the referendum, endorsed and accepted. A year ago he had told his colleagues that with the referendum impending he could not take up a position on progress towards that aim. There was no reserve of principle and indeed the Foreign and Commonwealth secretary had told the Council of Ministers so. The referendum was now happily behind us and we were very ready with our partners to work towards a consensus on the issues which remained to be settled before agreement could be reached on the method and timing of the first direct elections. We expected them to take place and he wanted to disabuse the minds of his colleagues about inaccurate reports in the British press and perhaps in their own press - namely that we should not be able to make progress on direct elections because of the problems of devolution, ie, the establishment of Scottish and Welsh Assemblies. This was not so. There was no impediment. There would continue to be a United Kingdom Parliament which would be responsible for all matters of this kind.

He went on to say that given the constitutional importance of the question there would need to be full consultation in the United Kingdom with Parliament and the various political parties. The Government were about to undertake this and in the circumstances it seemed possible to think in terms of looking towards a broad consensus between the members of the Community at the next meeting of the European Council. He knew that other member states had their problems and that there were procedural questions to be settled. Nevertheless he thought that such an aim could be accepted at that time. The United Kingdom were willing to join in an attempt to make progress while they recognised that the need for consultation with Parliament and the political parties made it impossible to be categorically sure how quickly the Government could move towards decisions about arrangements to be applied to direct elections. Even if such arrangements were agreed on during 1976 he doubted whether it would be possible to introduce direct elections by 1978. In view of the uncertainties it would be unreasonable for the Government to

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commit themselves to this now. He did not in practice expect that the British would cause more delay than other countries and they were ready to take part in further work but there were a number of stages to be gone through before elections were held. The report from the Council of Ministers and our own studies had shown clearly that even if the greater part of the arrangements were left for national decision there were a number of problems to be solved before direct elections could be introduced.

M. Thorn asked whether it would be possible to reach agreement about the date on which direct elections would be introduced. Was it worth their discussing this question during the present European Council?

President Giscard said that he could agree on there being a European election day or days, since some flexibility would be necessary. However, in the French view, representation at the European Assembly should be far more nearly proportional to the total number of electors than was apparent from the European Assembly's plan. To take account of the needs of the smallest members there should be a basic minimum representation in the Assembly but the fundamental principle should be something approaching equality in the relationship between number of members and number of voters. Nevertheless this was not the forum in which to discuss these detailed numerical questions. It would be an irritating discussion for the Heads of Government and he thought that the problems should be remitted to the Council of Ministers. Nevertheless the European Council should take a decision in favour of instituting direct elections. They could not go back on what they had said in Paris on 9-10 December 1975.

Mr Joergensen made an appeal that the Council should accept that in Denmark it should be mandatory for members of the European Assembly also to be members of the Danish Parliament. Furthermore, the Danes wished to be able to insist that the European elections day should be the same day as that of their elections. If these two proposals could be accepted it would be possible to make rapid progress.

Sig. Rumor wondered whether it would be possible to make specific exceptions for one or two members of the Community which faced specific difficulties. The remainder could then go ahead and institute direct elections on the date proposed 1978. Italy could agree to the proposal

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put forward by President Giscard for a greater degree of proportionality in calculating the number of seats for the Assembly but they ought nonetheless to take account of the proposals put forward by the European Assembly for a weighted form of proportionality.

Mr Cosgrave said that the Irish hoped that direct elections could take place in 1978. The question of the dual mandate, raised by Mr. Joergensen, could be left to the discretion of the individual state. He thought also that there should be flexibility on the date on which elections were held.

Chancellor Schmidt insisted that the European elections should take place on a single day throughout the Community to avoid the risk that results declared in one country on the first or second day could have an impact on those voters voting on subsequent days. He also thought that it might be possible to make some arrangement whereby MPs from national Parliaments would be entitled to speak at the European Parliament even if they were not members. The risk was that otherwise only third-rate people would go to the European Assembly.

Mr. Joop den Uyl said that he would not like to go further than the Assembly had gone in allocating numbers of seats to the smaller countries of the Community. So far as the date on which elections should take place, he thought that there should be some flexibility but votes should be counted and results declared on an identical day throughout the Community to avoid the risk that one result might influence another. If 1978 were to be the year in which elections were introduced it was essential that decisions should be taken by 1 March 1976.

M. Thorn said that he disagreed with the idea of deferring the count until the end of the voting period because, he said, after all everyone knew during the course of the election day how the results were going. Furthermore, he could not accept any change in the basis on which numbers were calculated from that put forward by the Parliament, nor a reduction in the numbers allocated to Luxembourg. Sovereignty was a sensitive question for a small country like his.