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Documents in the dossier include:

*Conclusions*

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*The Luxembourg European Council*

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## Session of the European Council

Luxembourg, 27 and 28 April 1980

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### Conclusions

#### Economic and social situation

#### Prospects for the Community economy

The European Council considered developments in the Community countries' economies and discussed their prospects for 1980, paying particular attention to the impact which the destabilizing effects of the sharp increase in oil costs would continue to have on growth and employment, on inflation and on the balance of payments.

The struggle against inflation and the correction of external imbalances continue to be basic priorities. This struggle calls for vigorous monetary and budgetary policies and price and income trends consistent with such policies.

Efforts will also have to be made to ensure that the growth rate remains as high as possible while still being compatible with the fundamental objective stated, in order to allow the investment necessary for the process of adjustment and restructuring of production capacity.

The European Council asked the Council (Economic and Financial Affairs) and the Committee of Governors to maintain close coordination of interest-rate policies in order to bring interest rates down from their present very high levels once circumstances permit.

The Council paid particular attention to the growing deficit in the developing countries' external accounts, the extent of the petroleum-producing countries' surpluses, the volume of international liquidity and the effects which these factors in combination might have on the stability of the international economic and financial system and on trade. The Council took the view that to deal with these problems it would be necessary to step up cooperation in appropriate forms between States and with the relevant international institutions. It invited the Council (Economic and Financial Affairs) to give particular attention to these problems.

With regard to employment, the Council agreed that the reduction of inflation was an important means of combating unemployment but that efforts within the Community to reduce structural unemployment should be stepped up and better coordinated, taking into account the proposals which the European Council had at its previous meeting asked the Commission to submit.

## European Monetary System

The European Council examined developments on the exchange market in the first year of operation of the EMS and noted with satisfaction the System's resilience. It observed that despite severe economic and monetary disruption resulting in a general rise in interest rates, an increase in the average rate of inflation in the Community and a widening gap between the inflation rates of individual Member States, accompanied by renewed imbalances in international payments, the currencies participating in the System had proved to have a greater degree of cohesion than at any time since 1972.

The European Council pointed out that a reduction in economic disparities and the strengthening of the weaker economies were prerequisites for the development of the European Monetary System.

It reaffirmed the importance it attached to progress regarding coordination of Member States' economic policies. It therefore asked the relevant institutions to look into means of reducing economic disparities, particularly as regards inflation.

The European Council took note of the progress of studies concerning transition to the second stage of the System, confirmed its resolve to see the Community progress towards the objective of monetary integration and invited the relevant Community bodies to press ahead with work in order to move on to the institutional stage, involving definition of the ECU's role and the creation of the European Monetary Fund.

## Energy

1. The European Council notes that the progressive deterioration of the oil market, the uncertainty of supplies and the high prices of crude oil are causing increasing difficulties for the economies of all the oil-consuming countries.
2. The European Council considers that the Community should closely coordinate its response to the immediate problems of oil supplies and invites the Council and the Energy Ministers to consider what further action is required taking into account the undertakings given by the Member States in the framework of the agreements on supplies in the event of a crisis, and with special reference to the possibility of increasing indigenous production of hydrocarbons.
3. In the longer term, the Community and the Member States must press ahead with action to reduce the Community's dependence on oil imports, making the most of the Community's own energy resources and taking further steps to develop a coordinated policy on the conservation and rational use of energy.

4. The Commission urged Member States to increase their efforts to develop nuclear programmes.
5. The European Council considers it essential that the Community pursue a policy of structural changes directed towards greater use of alternative sources of energy. Agreement on a strategy for 1990 is of the utmost importance in this connection.

The European Council reaffirmed its intention of making appreciable progress along this path at its next meeting in Venice.

6. The European Council accordingly invited the Council of Energy Ministers to review the energy programmes of the Member States so as to ensure coordinated attainment of the following objectives:
  - (a) the replacement of oil by alternative sources, and especially by coal and nuclear energy, should over the decade bring about a progressive reduction in the proportion of the Community's energy balance represented by oil;
  - (b) through energy-saving and the rational use of energy, the aims of economic development should be achieved with as little reliance as possible on a continued increase in energy consumption;
  - (c) the use of oil by industry, and particularly in electricity generation, must be reduced.
7. These structural changes could be speeded up by support at Community level, for a set period and subject to the financial constraints which the Community sets itself. The European Council invited the Council of Ministers to consider as a matter of urgency the steps proposed by the Commission to formulate the development of a coherent energy policy within the Community.
8. The European Council affirmed its conviction that moderation in oil price increases is essential for the economic equilibrium of the world.

It reiterated the importance of international cooperation on energy matters. The Community is open to any constructive dialogue with the oil-producing countries. It is also ready to continue to play its own important part in helping to solve the problems suffered by the developing countries as a result of energy shortages.

## Fisheries

The European Council - while noting that an agreement exists on the need for adoption as swiftly as possible of the decisions necessary for the introduction of a common fisheries policy,

together with a number of basic features of such a policy - found that there was still disagreement on the questions concerning the principle of equal access.

It agreed that the examination of this matter would be resumed by the Council composed of Ministers for Fisheries.

## Agriculture

The European Council examined the conclusions which the Agriculture Council at its meeting on 27 and 28 April reached with regard to the points which are to form the basis of the decisions to be taken on agricultural prices and related measures for the 1980/81 marketing year.

It became apparent that opinions differed on this subject and the Council therefore agreed that the comments made by the various delegations, and the points of agreement and disagreement, would be communicated to the Agriculture Council which would resume its examination of all these matters at its next formal meeting with the aim of reaching an agreement as soon as possible.

## Sheepmeat

The European Council took note of the discussions of the Agriculture Council on this topic. Differences of opinion became apparent and the Council accordingly agreed that delegations' comments would be communicated to the Agriculture Council and that the latter would resume its examination of the whole matter at its next meeting with the aim of reaching an agreement as soon as possible.

## Report from the Committee of Three

The European Council took note of the work done to date by the Ministers for Foreign Affairs concerning the report on the adjustments to the machinery and procedures of the Community's institutions prepared by the Committee of Three pursuant to the mandate handed down by the European Council meeting in Brussels in December 1978.

The European Council dwelt particularly on the proposals put forward by the Three Wise Men concerning the composition of the Commission and the procedure for choosing its President.

The European Council agreed that the choice of the President of the Commission should continue to be the responsibility of the European Council and be made at least six months before his term of office begins.

Greece will be associated with this procedure.

The European Council invited the Ministers for Foreign Affairs to conclude examination of the report from the Committee of Three in good time for the next meeting of the European Council.

## Brandt Report - North-South dialogue

The European Council took note of the Brandt Commission's report on relations between industrialized and developing countries and expressed its appreciation of the contribution which it had made in terms of both analysis and proposals.

The European Council noted that the position worked out by the European Community at the preparatory phase of the overall negotiations within the United Nations was very much in line with some of the proposals contained in the Brandt Report.

It is the Council's view that this report might usefully be taken into consideration in the drafting of the European position in the context of North-South relations.

## Measures to combat pollution

The European Council, having heard a statement by the French delegation presenting a memorandum from the French Government on the safety of shipping and measures to combat pollution from hydrocarbons transported by sea, in particular in the English Channel, and bearing in mind the measures already taken in the area of prevention and control of marine pollution since its meetings in Copenhagen on 7 and 8 April 1978 and in Bremen on 6 and 7 July 1978, took note of the memorandum and asked the Community institutions to study it.

Conscious of the need to seek constant improvement in the quality of life and hence the environment by appropriate measures, the Council stresses the importance of undertaking concrete action to clean up the waters of the Rhine.

## Declaration on the international situation

1. The Heads of State and Government and the Foreign Ministers examined the international situation. They expressed grave concern at the trend of recent events, especially in Afghanistan, Iran and the Middle East. They considered that these events now more than ever require of the Member States of the European Community that they show cohesion.
2. The European Council noted with deep concern that Soviet military forces have not been withdrawn from Afghanistan despite the condemnation of the international community expressed by the General Assembly of the United Nations and despite the repeated calls of the Nine and of the Islamic Conference and the ASEAN countries. The European Council reaffirmed the view of the Nine that a solution in accordance with the resolution of the United Nations General Assembly could be found in an arrangement which allowed Afghanistan to remain outside competition among the powers and to return to its traditional position as a neutral and non-aligned State.

Respecting the right of the Afghan people freely to determine their own future, they believe that to this end the great powers and the neighbouring States should undertake to respect the sovereignty and integrity of Afghanistan, to refrain from interference in its internal affairs and to renounce all forms of military presence or association with it.

The Nine are ready to support, in concert with friendly and allied countries, any initiative designed to promote such a solution, emphasizing that their own proposal is neither rigid nor exclusive. In this connection they believe that the Islamic and non-aligned countries have a particularly significant role to play.

3. Since the occupation of the United States Embassy in Teheran and the seizure of its staff as hostages, the Nine have repeatedly condemned this inadmissible violation of international law. They reaffirm their solidarity with the Government and people of the United States in their present time of trial.

They consider that the situation created by this violation opens the door to developments fraught with serious consequences. A return to a state of legality is the only way to ensure peace and security.

The European Council reaffirms the decisions taken by the Foreign Ministers of the Nine on 22 April in Luxembourg.

The Nine declare their full support for the steps which the Secretary-General of the United Nations intends to take to secure the release of the hostages.

4. The Nine reiterated their belief that only a comprehensive, just and lasting settlement can bring true peace to the Middle East.

The European Council, conscious that Europe may in due course have a role to play, instructed Foreign Ministers to submit a report on this problem on the occasion of its next session in Venice.

5. The European Council denounces the acts of violence committed in southern Lebanon against members of Unifil and demands that they should cease immediately, and that the Force be permitted to carry out in full its mandate from the Security Council.
6. At this time of crisis in world affairs the European Council believes that it is vital that international procedures for the management of the crisis and the easing of tension be used to the full and that the UN Charter and international law be fully upheld.

# 1. The Luxembourg European Council

European Council

1.1.1. Despite the efforts by its President, Mr Cossiga, and by the representatives of the Member States and by the Commission, the European Council in Luxembourg on 27 and 28 April broke up without finding solutions to the basic problem on its agenda: the British contribution to the Community budget. The result was that the reservations made at the Council meeting on agriculture concerning other dossiers (notably the fixing of the agricultural prices for 1980/81) were not withdrawn.

## The background to failure

1.1.2. This dossier, often called 'convergence and budgetary questions', has been appearing on the agenda under different names for a number of years. The communiqué issued at the end of the meeting of Heads of Government in Paris on 9 and 10 December 1974<sup>1</sup> invited the institutions of the Community 'to set up as soon as possible a correcting mechanism of a general application, which, in the framework of the system of "own resources" and in harmony with its normal functioning, based on objective criteria and taking into consideration in particular the suggestions made to this effect by the British Government, could prevent during the period of convergence of the economies of the Member States, the possible development of situations unacceptable for a Member State and incompatible with the smooth working of the Community' (this being in accordance with the declaration made by the Community during the accession negotiations with the three new Member States).

Acting upon this directive from the Heads of Government, on 30 January 1975 the Commission adopted a Communication to the Council entitled 'the unacceptable situation

and the correcting mechanism',<sup>2</sup> which provided for a mechanism which would operate whenever any Member States were, given their economic situation, making a disproportionate contribution to the Community budget. The first European Council, meeting in Dublin on 10 and 11 March 1975,<sup>3</sup> approved, with one or two reservations,<sup>3</sup> the mechanism described by the Commission. On 30 July that year the Commission presented a proposal<sup>4</sup> and finally on 30 January 1976 the Council adopted a Regulation setting up the 'financial mechanism'<sup>5</sup> intended to mitigate, by means of a 'payment' from the Community budget, the consequences of a disproportionate imbalance between the economic situation of a Member State and its contribution to the Community budget.

Experience has nevertheless shown that the 'financial mechanism' was not the complete answer to the problems of the United Kingdom. Since the Paris European Council in March 1979 this issue has — at the request of the United Kingdom and, for other reasons, Italy and Ireland — appeared on the agenda of all European Councils and Council meetings on economic and financial affairs. The Dublin European Council in November 1979<sup>6</sup> devoted almost all its time to it but could go no further than procedural agreement on the next steps to take. The Commission for its part has sent the Council a 'reference paper'<sup>7</sup> and three communications<sup>8</sup> on the subject.

<sup>1</sup> Bull. EC 12-1974, point 1104 (35 to 37).

<sup>2</sup> Bull. EC 1-1975, points 2503 to 2510.

<sup>3</sup> Bull. EC 3-1975, points 1103, 1502 and 2420.

<sup>4</sup> OJ C 201 of 3.9.1975; Bull. EC 7/8-1975, point 2468.

<sup>5</sup> OJ L 131 of 20.5.1976; Bull. EC 5-1976, point 2470.

<sup>6</sup> Bull. EC 11-1979, point 1.1.7.

<sup>7</sup> Bull. EC 9-1979, point 2.3.2.

<sup>8</sup> Bull. EC 11-1979, point 3.4.1; Bull. EC 1-1980, point 3.4.1; Bull. EC 3-1980, point 3.4.1 (complete text of the three communications).

### The Luxembourg meeting

1.1.3. The European Council met in Luxembourg on 27 and 28 April. The meeting was chaired by Mr Cossiga, the Italian Prime Minister and President of the European Council, and attended by one Head of State, Mr Giscard d'Estaing, and eight Heads of Government accompanied by their Foreign Ministers. The Commission was represented by Mr Jenkins and Mr Ortoli.

This meeting—which should have been held four weeks earlier in Brussels on 31 March and 1 April—had been postponed on 24 March by the Presidency, since the European political climate appeared to allow little chance of reaching a worthwhile agreement. After this decision the Commission issued the following statement:

'The Commission understands the reasons which have prompted the Italian Presidency to postpone the European Council. It continues to attach great importance both to an early solution to the problems of convergence and the British budgetary contribution and to the discussion of other matters foreseen for the next European Council, notably energy. It hopes that the European Council will be able to meet as soon as possible.'

The extra four weeks provided by the postponement were put to good use for the final preparations for the European Council. The Commission had, as usual, already drafted several papers or communications on the Community's economic and social situation, the European Monetary Fund, energy, convergence and budgetary questions. The French Government had presented a memorandum on pollution of the sea by hydrocarbons, and a memorandum on the 'principles and rules' governing the functioning of the Community, which it wanted to see confirmed and restated by the Heads of State and Government.

A series of bilateral meetings had taken place between various Heads of State or Government, and the President of the European Council, Mr Cossiga, made a tour of the capitals before the meeting in Luxembourg. At the express request of the French Government, a special meeting of the Council of Agriculture Ministers was convened for 27 April in order to try and reach agreement on the farm prices for 1980/81 and settle the question of organization of the sheepmeat market. The Ministers of Agriculture were thus meeting at the same time as the European Council, which was kept informed of the results of their deliberations.

At the Council meeting on agriculture the Commission presented an overall proposal on farm prices drawn up with the aim of securing a compromise agreement. It offered an average 5% increase (instead of the 2.5% originally proposed). Pointing out that the Commission would rather have taken a stricter line considering the state of the markets for certain products, Mr Gundelach justified the new proposal by the political necessity of securing overall agreement both on the prices themselves and on the other issues before the European Council. Eight delegations were to support the Commission's proposal. The British Delegation upheld a 'political' reservation linked to the other deliberations within the European Council.

1.1.4. The discussions of the European Council focused first on the least 'sensitive' subjects—the economic and social situation, the European Monetary System, the Report of the Three Wise Men, energy, the Brandt Report and North-South relations, marine pollution and safety of shipping—and on matters of international policy. The problem of the British contribution to the Community budget was not tackled until the second day.

The discussion revealed broad understanding of the United Kingdom's difficulties. Several successive offers were made which, for 1980 at least, would have reduced the net British contribution by more than two-thirds. Agreement could not be reached, however, as the British Prime Minister insisted on firm commitments over several years, which her partners were unable to accept.

This failure overshadowed the meeting of the European Council and meant that the British reservation on the agricultural prices still stood.

### **The 'Conclusions of the Presidency'**

1.1.5. The complete text of the 'conclusions of the Presidency' was as follows:

#### **Economic and social situation**

##### *Prospects for the Community economy*

1.1.6. The European Council considered developments in the Community countries' economies and discussed their prospects for 1980, paying particular attention to the impact which the destabilizing effects of the sharp increase in oil costs would continue to have on growth and employment, on inflation and on the balance of payments.

The struggle against inflation and the correction of external imbalances continue to be basic priorities. This struggle calls for vigorous monetary and budgetary policies and price and income trends consistent with such policies.

Efforts will also have to be made to ensure that the growth rate remains as high as possible while still being compatible with the fundamental objective stated, in order to allow the investment necessary for the process of adjustment and restructuring of production capacity.

The European Council asked the Council (Economic and Financial Affairs) and the Committee of Governors to maintain close coordination of interest-rate policies in order to bring interest rates down from their present very high levels once circumstances permit.

The Council paid particular attention to the growing deficit in the developing countries' external accounts, the extent of the petroleum-producing countries' surpluses, the volume of international liquidity and the effects which these factors in combination might have on the stability of the international economic and financial system and on trade. The Council took the view that to deal with these problems it would be necessary to step up cooperation in appropriate forms between States and with the relevant international institutions. It invited the Council (Economic and Financial Affairs) to give particular attention to these problems.

With regard to employment, the Council agreed that the reduction of inflation was an important means of combating unemployment but that efforts within the Community to reduce structural unemployment should be stepped up and better coordinated, taking into account the proposals which the European Council had at its previous meeting asked the Commission to submit.

#### **European Monetary System**

1.1.7. The European Council examined developments on the exchange market in the first year of operation of the EMS and noted with satisfaction the System's resilience. It observed that despite severe economic and monetary disruption resulting in a general rise in interest rates, an increase in the average rate of inflation in the Community and a widening gap between the inflation rates of individual Member States, accompanied by renewed imbalances in international payments, the currencies participating in the System had proved to have a greater degree of cohesion than at any time since 1972.

The European Council pointed out that a reduction in economic disparities and the strengthening of the weaker economies were prerequisites for the development of the European Monetary System.

It reaffirmed the importance it attached to progress regarding coordination of Member States' economic policies. It therefore asked the relevant institutions to look into means of reducing economic disparities, particularly as regards inflation.

The European Council took note of the progress of studies concerning transition to the second stage of the System, confirmed its resolve to see the Community progress towards the objective of monetary integration and invited the relevant Community bodies to press ahead with work in order to move on to the institutional stage, involving definition of the ECU's role and the creation of the European Monetary Fund.

## Energy

1.1.8. The European Council notes that the progressive deterioration of the oil market, the uncertainty of supplies and the high prices of crude oil are causing increasing difficulties for the economies of all the oil-consuming countries.

The European Council considers that the Community should closely coordinate its response to the immediate problems of oil supplies and invites the Council and the Energy Ministers to consider what further action is required taking into account the undertakings given by the Member States in the framework of the agreements on supplies in the event of a crisis, and with special reference to the possibility of increasing indigenous production of hydrocarbons.

In the longer term, the Community and the Member States must press ahead with action to reduce the Community's dependence on oil imports, making the most of the Community's own energy resources and taking further steps to develop a coordinated policy on the conservation and rational use of energy.

The Commission urged Member States to increase their efforts to develop nuclear programmes.

The European Council considers it essential that the Community pursue a policy of structural changes directed towards greater use of alternative sources of energy. Agreement on a strategy for

1990 is of the utmost importance in this connection.

The European Council reaffirmed its intention of making appreciable progress along this path at its next meeting in Venice.

The European Council accordingly invited the Council of Energy Ministers to review the energy programmes of the Member States so as to ensure coordinated attainment of the following objectives:

- (a) the replacement of oil by alternative sources, and especially by coal and nuclear energy, should over the decade bring about a progressive reduction in the proportion of the Community's energy balance represented by oil;
- (b) through energy-saving and the rational use of energy, the aims of economic development should be achieved with as little reliance as possible on a continued increase in energy consumption;
- (c) the use of oil by industry, and particularly in electricity generation, must be reduced.

These structural changes could be speeded up by support at Community level, for a set period and subject to the financial constraints which the Community sets itself. The European Council invited the Council of Ministers to consider as a matter of urgency the steps proposed by the Commission to stimulate the development of a coherent energy policy within the Community.

The European Council affirmed its conviction that moderation in oil price increases is essential for the economic equilibrium of the world.

It reiterated the importance of international cooperation on energy matters. The Community is open to any constructive dialogue with the oil-producing countries. It is also ready to continue to play its own important part in helping to solve the problems suffered by the developing countries as a result of energy shortages.

## Fisheries

1.1.9. The European Council—while noting that an agreement exists on the need for adoption as swiftly as possible of the decisions necessary for the introduction of a common fisheries policy

together with a number of basic features of such a policy—found that there was still disagreement on the questions concerning the principle of equal access.

It agreed that the examination of this matter would be resumed by the Council composed of Ministers for Fisheries.

### Agriculture

1.1.10. The European Council examined the conclusions which the Agriculture Council at its meeting on 27 and 28 April, reached with regard to the points which are to form the basis of the decisions to be taken on agricultural prices and related measures for the 1980/81 marketing year.<sup>1</sup>

It became apparent that opinions differed on this subject and the Council therefore agreed that the comments made by the various delegations, and the points of agreement and disagreement, would be communicated to the Agriculture Council, which would resume its examination of all these matters at its next formal meeting with the aim of reaching an agreement as soon as possible.

### Sheepmeat

1.1.11. The European Council took note of the discussions of the Agriculture Council on this topic. Differences of opinion became apparent and the Council accordingly agreed that delegations' comments would be communicated to the Agriculture Council and that the latter would resume its examination of the whole matter at its next meeting with the aim of reaching an agreement as soon as possible.<sup>1</sup>

### Report from the Committee of Three

1.1.12. The European Council took note of the work done to date by the Ministers for Foreign Affairs concerning the report on the adjustments to the machinery and procedures of the Community's institutions prepared by the Committee of Three pursuant to the mandate handed down by

the European Council held in Brussels in December 1978.

The European Council dwelt particularly on the proposals put forward by the Three Wise Men concerning the composition of the Commission and the procedure for choosing its President.

The European Council agreed that the choice of the President of the Commission should continue to be the responsibility of the European Council and be made at least six months before his term of office begins.

Greece will be associated with this procedure.

The European Council invited the Ministers for Foreign Affairs to conclude examination of the Report from the Committee of Three in good time for the next meeting of the European Council.

### Brandt Report — North-South Dialogue

1.1.13. The European Council took note of the Brandt Commission's Report on relations between industrialized and developing countries and expressed its appreciation of the contribution which it had made in terms of both analysis and proposals.

The European Council noted that the position worked out by the European Community at the preparatory phase of the overall negotiations within the United Nations was very much in line with some of the proposals contained in the Brandt Report.

It is the Council's view that this Report might usefully be taken into consideration in the drafting of the European position in the context of North-South relations.

### Measures to combat pollution

1.1.14. The European Council, having heard a statement by the French Delegation presenting a memorandum from the French Government on the safety of shipping and measures to combat pollu-

<sup>1</sup> The conclusions of the Council meeting on agriculture are to be found at points 1.1.18 and 1.1.19.

tion from hydrocarbons transported by sea, in particular in the English Channel, and bearing in mind the measures already taken in the area of prevention and control of marine pollution since its meetings in Copenhagen on 7 and 8 April 1978<sup>1</sup> and in Bremen on 6 and 7 July 1978<sup>2</sup> took note of the memorandum and asked the Community institutions to study it.

Conscious of the need to seek constant improvement in the quality of life and hence the environment by appropriate measures, the Council stresses the importance of undertaking concrete action to clean up the waters of the Rhine.

### **Declaration on the international situation**

1.1.15. The problems raised by the international situation were the subject of the following declaration:

#### **Declaration by the Heads of State and Government and of the Ministers of Foreign Affairs of the nine Member States of the EEC meeting in European Council**

'1. The Heads of State and Government and the Foreign Ministers examined the international situation. They expressed grave concern at the trend of recent events, especially in Afghanistan, Iran and the Middle East. They considered that these events now more than ever require of the Member States of the European Community that they show cohesion.

2. The European Council noted with deep concern that Soviet military forces have not been withdrawn from Afghanistan despite the condemnation of the international community expressed by the General Assembly of the United Nations and despite the repeated calls of the Nine and of the Islamic Conference and the ASEAN countries.

The European Council reaffirmed the view of the Nine that a solution in accordance with the resolution of the United Nations General Assembly could be found in an arrangement which allowed Afghanistan to remain outside competition among the powers and to return to its traditional position as a neutral and non-aligned State.

Respecting the right of the Afghan people freely to determine their own future, they believe that to this end the great powers and the neighbouring States should undertake to respect the sovereignty and integrity of Afghanistan, to refrain from interference in its internal affairs and to renounce all forms of military presence or association with it.

The Nine are ready to support, in concert with friendly and allied countries, any initiative designed to promote such a solution, emphasizing that their own proposal is neither rigid nor exclusive. In this connection they believe that the Islamic and non-aligned countries have a particularly significant role to play.

3. Since the occupation of the United States Embassy in Tehran and the seizure of its staff as hostages, the Nine have repeatedly condemned this inadmissible violation of international law. They reaffirm their solidarity with the Government and people of the United States in their present time of trial.

They consider that the situation created by this violation opens the door to developments fraught with serious consequences. A return to a state of legality is the only way to ensure peace and security.

The European Council reaffirms the decisions taken by the Foreign Ministers of the Nine on 22 April in Luxembourg.

The Nine declare their full support for the steps which the Secretary-General of the United Nations intends to take to secure the release of the hostages.

<sup>1</sup> Bull. EC. 4-1978, point 1.4.3.

<sup>2</sup> Bull. EC. 6-1978, point 1.5.2 (II).

4. The Nine reiterated their belief that only a comprehensive, just and lasting settlement can bring true peace to the Middle East.

The European Council, conscious that Europe may in due course have a role to play, instructed Foreign Ministers to submit a report on this problem on the occasion of its next session in Venice.

5. The European Council denounces the acts of violence committed in southern Lebanon against members of UNIFIL and demands that they should cease immediately, and that the Force be permitted to carry out in full its mandate from the Security Council.

6. At this time of crisis in world affairs the European Council believes that it is vital that international procedures for the management of the crisis and the easing of tension be used to the full and that the UN Charter and international law be fully upheld.<sup>2</sup>

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1.1.16. Surveying the results of the European Council, the President, Mr Cossiga, on the matter of convergence and budgetary questions, stated that the Heads of State or Government did not intend to consider this problem again and that the solution must be sought by way of a further review of the problem within the framework of the Community institutions.<sup>1</sup>

#### **'Conclusions' of the Council meeting on agriculture**

1.1.17. The following 'conclusions' were drawn up by the Presidency following the special Council meeting of Ministers of Agriculture in Luxembourg on 27 April. The text was addressed to the European Council.

#### **Agricultural prices and related measures**

1.1.18. The main features of the compromise are as follows:

1. *Prices.* For most products the Commission proposed price increases of between 3% and 5% but, in particular because of the lower price increase proposed for milk, the weighted average was about 2.5%. It is now intended to add a further 2.5 percentage points so that for most products the increases will be between 5.5% and 7.5% and the weighted average will be about 5%.

2. *Milk.* The changes in the proposal on the co-responsibility levy are:

(a) *Standard rate.* This is set at 2% of the target price and the rate on the first 60 000 kg of milk delivered by farmers in less-favoured areas is set at 1.5%.

(b) *Supplementary rate.* The principle that the cost of disposing of extra milk is to be met by producers must be accepted and the first step towards its implementation must be taken. This implies that, if the total amount of milk delivered to dairies in 1980 increases by more than 1.5% compared with 1979 a supplementary levy for the 1981/82 marketing year will be charged under conditions to be fixed at a later date.

(c) *Aids<sup>2</sup>*

(d) *Butter subsidies.* The general subsidy and the subsidy in the United Kingdom continue unchanged for 1980/81. The situation on short-term actions is to be reviewed in the autumn when the butter stock situation after the main production period is known.

(e) The additional increase in the target price is reflected in the intervention prices for butter and skimmed-milk powder in the current proportion.

(f) The non-marketing premium will cease to be granted on 15 September 1980.

<sup>1</sup> This was in fact the course taken.

<sup>2</sup> Limits on aids were dealt with in a separate paper.

3. *Aids for beef and starch.* The suckler cow premium is set at 20 ECU per cow. The Commission is proposing 20 ECU per cow but the Council could decide, as an alternative, to pay 40 ECU with a 50% contribution from the EAGGF. The calf and slaughter premiums and the additional premium for potato starch will continue for a further year.

4. *Sugar.* The quotas and levies (and the system of national aids in Italy) continue for a further year. Taking account of the wide measure of agreement that the cost of disposal of sugar (other than the quantity required for Community consumption + 1.3 million tonnes) should be borne by producers, provision is made that if the current rate of levy should prove insufficient the extra cost would be recovered in the 1981/82 marketing year under conditions to be defined before 1 November in a new Regulation.

5. *Monetary compensatory amounts.* The positive monetary compensatory amounts in the Federal Republic of Germany and in the Benelux countries are reduced by 1 and 0.2 points respectively.

6. *Structures.* The special programmes for the West of Ireland and for Greenland are adopted. Directive 75/268/EEC is amended as proposed by the Commission, except that the maximum compensatory amount is raised to 80 units of account per adult livestock unit. Measures in the pig sector are to be discussed in the overall negotiations on prices.

For investments in pig production, the aid will be limited to the aid for the volume of investment necessary to reach a specified number of pig places per farm, the number to be decided by the Council in the 1980/81 price package.

7. *Sheepmeat.* The elements of the compromise are annexed.

8. *Fruit and vegetables.* The aid for processed fruit and vegetables is to be reduced by 10%.

9. *Other savings.* Other savings are to be decided in the final price package.

10. *Budgetary cost.* The present proposal for the 1980 EAGGF Guarantee budget is 10 400 million EUA. The compromise above and the various conjunctural changes would result in a budget in 1980 of about 11 500 million EUA, on the basis of no supplementary levy receipts in 1980 (paragraph 2(b) above). The additional cost of this compromise in 1980 is about 500 million EUA by comparison with the Commission's price and related proposals. In a full year the additional cost would be about 1 000 million EUA.

In 1981 the budget for the EAGGF Guarantee Section would be of the order of 13 000 million EUA, without taking account of any possible deterioration in market conditions or any price increases in 1981, and the margin between own resources and the budget as revised would be about 1 100 million EUA.

## Annex

### Sheepmeat

1.1.19. The Council decides that the common organization of the market in mutton and lamb should be based both on aids to producers' revenues (premiums) and on some support in the market through public purchasing. The main elements can be summarized as follows:

#### Internal market

1. A *basic price* would be established on the lines already proposed and discussed. The purpose of the basic price would be to ensure that, through the other market mechanisms, the market price normally lay within the range between the intervention price (if applied) and the basic price.

2. *Aids for revenue (premiums).* The reference prices for various regions of the Community would be set on the lines as proposed by the Commission. If the average market price fell below the reference price, the compensatory aid (premium) would be paid to the producer as proposed by the Commission. The maximum premium payable would be the difference between the reference price and the intervention price (if this were in application).

The intention would be that a single Community reference price would be in effect after the first period of application (five years).

3. *Public purchasing.* If intervention were open in a region of the Community it would be at a level of 85% of the basic price, subject to the setting of derived intervention prices in the surplus areas (United Kingdom, Ireland). The intervention price would be established on a seasonal scale. Intervention purchasing would only be open between 15 July and 15 December. Intervention purchasing would be limited to categories to be determined (technical data already supplied in earlier working documents).

4. *Private storage aid* could be decided, if necessary on a regional basis, if the market prices fell below 90% of the basic price.

#### External arrangements

The Council has already decided on the mandate for negotiation of autolimitation agreements with the principal suppliers and discussions are in train. This approach recognizes that, if such autolimitation agreements are reached but not respected, measures would be taken immediately to restrain the volume of imports from the third country in question.

#### Additional provisions

1. If at other periods of the year a serious situation were to arise necessitating market support through intervention, the Commission after taking the advice of the Management Committee could introduce intervention on a temporary basis at such periods.

2. The Commission shall present to the Council before 1 October 1983 a report on the functioning of the common market organization and in particular on the intervention and premium system, in order to permit the Council to examine the system and to take appropriate measures if required.

If the expenses for the market organization were to exceed the estimates, the abovementioned

examination procedure should begin at the point when these estimates are exceeded.

The Commission's report should take into account the following criteria:

- (i) evolution of the market and income of the mutton and lamb producers in the Community and in each of the Member States
- (ii) evolution of imports from third countries
- (iii) incidences of this evolution on the Community's budget.

3. The common organization of the market will be financed by EAGGF Guarantee.

## Reactions and comment

### *Community statements*

#### Mr Cossiga, President of the European Council

1.1.20. At a press conference held after the meeting, Mr Cossiga, President of the European Council, expressed his disappointment over the failure to reach a compromise when there had remained but a relatively short way to go.

A tremendous effort had been made all round and they had come very close to agreement. But the 'short way' still to go had proved too much for the Luxembourg meeting. On the farm price issue Mr Cossiga pointed out that a British 'veto' was liable to make the situation very tricky, since it would create even more problems for the approval of the Community budget. In reply to a question he considered that nothing in what Mrs Thatcher had said suggested that the British Government might take 'retaliatory measures'.

Mr Cossiga found that progress had been made on the other issues not directly linked

to the British contribution. But they had failed to secure the overall solution that was wanted. He felt that it would be wrong to say that the Community was now in dire straits. The Italian Presidency would pull out all the stops in order to bridge the gap still separating the United Kingdom from the other Member States, and would do so before the next European Council due to be held in Venice in June. Mr Cossiga stressed that nobody intended to stop negotiating.

Turning to the international problems spoken of in the declaration adopted at Luxembourg, the President of the European Council made it clear that Iran had everything to gain from a peaceful solution to the present crisis, particularly considering the problems it had to solve at home. Mentioning the abortive American raid in Iran, Mr Cossiga—while sharing the distress of the families of those who perished—reaffirmed that the solution to the present crisis must be sought by peaceful means.

#### Mr Jenkins, President of the Commission

1.1.21. Speaking after Mr Cossiga at the joint press conference they gave after the European Council, Mr Jenkins said:

'This was the most tantalizingly disappointing European Council I have attended. It was not a straightforward disappointment—the most disappointing European Council was in Brussels when we thought we had put the EMS in place. My disappointment on this occasion is all the greater because we came so near to agreement, nearer than I had believed possible, but we just failed, and the opportunity was missed. There will now be some understandable reluctance to put the issue back onto the agenda of the next European Council. However, it may well be that we have made enough progress to settle the issue at a more normal Community level in the Council of Ministers. This may now in any event be more appropriate.

It was inevitable, perhaps, that given this concentration, in two successive European Councils, on the British budgetary problems, we were not able to make much progress on other issues such as energy and monetary questions. Nevertheless, we were able to have long, serious and constructive discussions on Iran, Afghanistan and the Middle East. Therefore while the outcome of this European Council was inevitably disappointing and no one can pretend that it was a resounding success, it would be a mistake to regard it as a catastrophe. The efforts that were made and the progress that had been registered provide us with a basis for the further efforts we must make to find a solution to the budgetary issue which has divided the Community for too long.'

#### Commission communiqué

1.1.22. At the end of its meeting on 30 April the Commission issued the following communiqué:

'The Commission heard a report from President Jenkins and Vice-President Ortoli on the recent session of the European Council. Its initial reaction is one of disappointment and concern that the session failed to come up with the answers which are needed to the all-important questions that arise for the development and proper functioning of the Community, on which the well-being of European citizens depends.

In dealing with this crisis, the Commission is resolved to assume its full responsibilities for helping rapidly to find the necessary solutions. It will take all appropriate steps to this end.

The danger of Europe becoming paralysed as a result of the failure to take decisions must be avoided. This means that the various Councils must also assume their responsibilities and thus ensure the proper functioning of the Community. Only in these conditions can the European Council play its proper role of political guidance. As regards the agricultural problems the Commission considers that the proposals it submitted to the Agricultural Council of 27 April are the most suitable basis for the necessary decisions on the next farm year.'

### *Views of the Heads of State or Government*

1.1.23. A number of Heads of State or Government commented on the results of the Luxembourg European Council immediately after the meeting or on their return home.

1.1.24. Mr Valéry Giscard d'Estaing, President of the French Republic, said that the problems left unresolved in Luxembourg ought to be dealt with under Community procedures. He also stated that the European Council must again become the European Council, giving the impetus and not indulging in hours of 'bargaining' or argument which were the business of Ministers in the Council.

A few days later, on 5 May, the French President, speaking on television, commented on the 'Luxembourg crisis':

'There were two subjects under discussion. One was the altogether normal business of fixing the agricultural prices for this year ... The other, quite separate, was the fact that one of our partners, the United Kingdom, was asking for changes in the existing rules, in the ratified rules, establishing the amount of its contribution, which it considered too large and which it wanted us to reduce.

On the first matter, agriculture, we had asked for the ground to be prepared. The Ministers of Agriculture met and a proposal was put to them by the Commission. This involved a 5% increase in farm prices and a number of other provisions. For France this would mean just over 10% since, on the monetary side, we still have the equivalent of a 5% readjustment to make.

The 5% increase was accepted by eight countries out of nine...

So here we are again with an annual problem, where a proposal is approved by eight countries. The normal procedure must now be followed and this proposal be implemented...

What struck me in the British demands at the last meeting was that they were not just for one or two years to get over temporary difficulties. They were

designed to secure a lasting benefit. What they really amount to is a renegotiation of the financial rules. This means that the United Kingdom can choose between two positions: either it considers that the arrangements do not suit her, in which case they must be renegotiated—this must be done in the proper manner, i.e. after careful examination and proposals; or it accepts the arrangements and simply points out that the burden they are imposing will be too heavy during a specific period; then must come proposals like the ones we made. They have since been withdrawn by Chancellor Schmidt. He felt they were very generous. But they were rejected, and so they have been withdrawn. At all events, further negotiations and discussions must now be between the Ministers.'

1.1.25. Having emphasized that the 'international' side of the discussion at the European Council had been extremely positive—as attested by the declaration issued—the British Prime Minister, Mrs Thatcher, explained why the United Kingdom had been obliged to reject the compromise solutions proposed.

As regards the British contribution to the Community budget, Mrs Thatcher noted that the United Kingdom's eight partners had linked this problem to others and were thinking in terms of a 'package deal'. Concessions had been made by both sides. Compromise solutions had been worked out which covered both the amount of compensation and, what was very important, its duration. But when the amount was seen to be almost satisfactory, the duration was reduced to a single year; conversely, if the compensation covered a period of five years, the amount was clearly altogether inadequate.

Mrs Thatcher agreed that at one point agreement seemed to be in sight; but finally they had to admit failure (concerning the compensation in respect of the second year). The 150 million EUA which separated the two positions represented a large sum for the United

Kingdom, but if split between the other eight Member States, it was not all that much. In answer to a question Mrs Thatcher indicated that the possibility of the British contributions of VAT revenue being withheld was seen only as a last resort.

She nevertheless confirmed that the British Government would not accept a compromise agreement on the agricultural prices as long as a satisfactory solution had not been found for the British contribution to the Community budget. It was not a question of obstruction as she saw it; she was ready to help her partners solve their problems, and they must help her to solve hers. It was a question of mutual assistance. Mrs Thatcher also pointed out that some of the proposals had not been adequately prepared (farm prices, sheepmeat, fisheries), and this had prompted some of the British reservations. She stated, however, that even as matters now stood, she was not losing hope.

*1.1.26.* Chancellor Schmidt did not hide his disappointment. He was saddened by the outcome of the meeting. He had the depressing impression that the Community had that day taken a long step backwards, which the present general situation made all the more regrettable.

Reviewing the business before the European Council in Luxembourg he numbered seven issues which had all needed to be settled: the British contribution to the Community budget; the fixing of the agricultural prices; a clear decision on unconditional adherence to the 1% VAT ceiling; sheepmeat; fisheries, or at least a constructive approach concerning the necessary arrangements; lastly, the initiation of an overall policy on energy.

Turning to the discussions on the British contribution to the Community budget, the

Chancellor recapitulated at length on the positions at the outset: the British demands, considered to be unrealistic by the other eight countries, the series of compromise solutions proposed, notably by himself, which had they been adopted would have enabled them to leave Luxembourg with something achieved. But all the arrangements envisaged had been deemed inadequate by the United Kingdom. As for the agricultural prices, the compromise worked out by the Ministers of Agriculture had been 'brushed off' by the British Delegation. It was the same story with sheepmeat.

After this failure it had been agreed not to continue the discussion of these same problems at the Venice European Council in June, which would have the job of preparing the ground for the Western Economic Summit to be held also in Venice a fortnight later. The problems unresolved at Luxembourg would be referred to the Council of Ministers. Mr Schmidt was not particularly hopeful of an agreement merging rapidly from their discussions.

*1.1.27.* The Belgian Prime Minister, Mr Martens, laid the emphasis on two points: the lack of Community spirit at the Luxembourg European Council and the need to change certain institutional procedures, on which he had this to say:

'The fact that we failed to preserve the cohesion of the Community at a time when the tense international situation more than justified it is in itself a very serious matter...

There must be a basic change in institutional procedure so as to avoid issues as delicate as the British contribution to the budget and the fixing of the agricultural prices being referred to the European Council...

All through the discussions Belgium showed its determination to find a solution to the problems before us despite our own difficulties (the Govern-

ment crisis and national budgetary difficulties). We set great store by European cohesion but we cannot endanger the basic mechanism of the Community, namely the system of own resources.'

1.1.28. Describing the debacle of the meeting of Heads of State or Government as a major setback for European integration, the Dutch Prime Minister, Mr Van Agt, spoke of a 'bad day'. He was all the more disappointed over the failure because what had been offered was surprisingly generous. But he had not given up all hope when he said that the situation could still be saved. Nor did Mr Van Agt seem to fear that the British would suspend their contributions or turn their backs on the process of Community decision-making if their budgetary demands were not entirely satisfied. From what Mrs Thatcher had said he did not believe that the British were contemplating such drastic steps.

1.1.29. The Luxembourg Prime Minister, Mr Werner, felt more or less the same way as he spoke of a 'black day' for Europe that would be hard to get over without bitterness, his disappointment being so much keener in that the day before he had said that it was hard to imagine how the Community could afford failure after everything that had just been happening on the world scene. Mr Werner indicated that he had never expected such a turn of events, especially since the European Council had been carefully prepared by the Italian Presidency, and all the signs were that agreement was within their reach. The Prime Minister went on to say that as far as the British budget contribution was concerned the United Kingdom's partners had gone as far as they possibly could. Mrs Thatcher would be very hard put to it to justify her attitude convincingly.

1.1.30. For his part, the Danish Prime Minister, Mr Jørgensen, could see nothing at

all positive in the European Council meeting and expressed his concern for the future.

1.1.31. The Prime Minister of Ireland, Mr Haughey, in a statement to the Irish Parliament on the European Council, said that he regarded the outcome on the 'summit' with disappointment. He did not think anyone had gained. 'There was real and serious damage done to the morale of the Community and the effectiveness of its institutions.'

Above all, he said, its members should not seek solutions separately or nationally. Speaking of the positions taken by the Heads of State or Government on the international problems, Mr Haughey emphasized that the Community's main concern must now be how to help maintain world peace.