

THE EUROPEAN COUNCIL

**LUXEMBOURG
29-30 JUNE 1981**

Documents in the dossier include:

Conclusions

Session of the European Council

Reproduced from *The European Council*

Dossier of the Group of the European People's Party

Luxembourg 1990

Luxembourg European Council

Mandate of 30 May 1980: Commission Report

Reproduced from the Bulletin of the European Communities, No. 6/1981

Meeting of the European Council in Luxembourg

European Community News No. 22/1981

European Community Information Service

Washington DC

Report on the European Council

Statement by Lord Carrington

European Parliament

Strasbourg, 8 July 1981

Session of the European Council

Luxembourg, 29 and 30 June 1981

Conclusions

Economic and social situation

The European Council discussed in depth the present social and economic situation in which the European Community and the Member States find themselves at the time when the first cautious signs of limited improvement in the business cycle are becoming visible, but when the ravages of inflation and unemployment have by no means been brought under control. In the same context the European Council reviewed the Communities' position with regard to the Western economic summit in Ottawa and dealt with the need to preserve and strengthen the Communities' internal market. The European Council discussed these interlocking problems on the basis of a paper presented by the European Commission on the economic and social situation in the Community, the general orientation of which received unanimous approval.

The European Council expressed its firm conviction that by the pursuit of coordinated flexible policies, maintained over a sufficient length of time, the Community will be able to overcome the present social and economic difficulties and return to a situation of economic growth, stability and satisfactory levels of employment. In particular, the problem of mass unemployment, which is a major preoccupation for all the members of the European Council, should not be approached in any spirit of fatalism.

In this light the European Council reviewed the work done by the Joint Council (Economic Affairs, Finance and Social Affairs) and agreed that a sound foundation had been laid for subsequent action. In particular, there was agreement that the highest priority should be accorded to coordinated action against unemployment and inflation, including efforts aimed at structural adjustment.

The major responsibility for these actions lies with national governments and will need to take account of the different economic situations in each Member State and of their particular possibilities and the constraints with which they are faced. But the effectiveness of such action will be increased by coordination within a Community framework. A major effort should be made both at the national and the Community level, to increase investments aimed at higher growth and employment. Investment should be directed in particular to industries with a high innovative potential and which will secure for the Community in the coming decades the place in the industrial world to which it is entitled. The European Council was convinced that investment in energy conservation

and production is of vital importance. Care should be taken not to waste precious funds on economic activities that are bound to decline in importance. In the same connection it was underlined that considerable growth potential is to be found in the sector of small and medium-sized enterprises.

The European Council took note of the fact that in some Member States the reduction in working time is seen as a significant element in the battle against unemployment. It was agreed that further study to evaluate the effects of such measures would be made at the Community level. In this connection, the competitive position of European industries vis-à-vis other industrialized countries deserves close attention.

It was stressed that optimal use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment. Efforts should also be undertaken to secure a larger economic benefit from the research activities that are under way in the Community and the Member States.

The European Council reaffirmed its commitment to a meaningful social policy by the European Community. It approved the conclusions reached by the Joint Council with regard to the labour market and the problems of unemployment. It took note with interest of suggestions made for the promotion of harmonized working conditions and workers' rights. In this context the term 'espace social' was used. It expressed its conviction that the pursuit of balanced and purposeful social and economic policies requires close consultation with the social partners.

Internal market

The European Council echoed the alarm sounded by the Commission on the state of the internal market, which is increasingly threatened by intentional and unintentional barriers to trade and by the pervasive use of subsidies to ailing industries. The European Council agreed that a concerted effort must be made to strengthen and develop the free internal market for goods and services which lies at the very basis of the European Community and which is the platform from which it conducts its common commercial policy.

Monetary relations with the United States

With regard to the forthcoming meeting of the Western economic summit the European Council stressed the need for a united approach to the problems presented by the level and volatility of interest and exchange rates, as these pose a serious threat to Europe's incipient economic recovery. These issues should be pursued in depth in discussions with the other major monetary powers. Important monetary policy objectives are shared with the USA, but the USA should be urged to take due account of the significant international consequences of its domestic policies. The Community itself should do its part to relieve the strain on monetary policy.

Trade relations with Japan

The European Council also reviewed the Community's relations with Japan, and it was agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth functioning of the open and multilateral world trading system, including excessive con-

centration of exports in sensitive sectors. The European Council stressed the need for effective openness of domestic markets, in particular the Japanese market. These issues should be kept under regular review and in doing so the Community should make the fullest possible use of its bargaining power as an entity.

Steel prices

The European Council discussed the serious situation which faces the European steel industry. While welcoming the outcome of the recent Steel Council, the European Council agreed on the urgent need to see steel prices in the European market raised to a more remunerative level and urged the Commission supported by all the Member States to do all in its power to see to it that the steel industry respects the necessary discipline.

North-South dialogue

The European Council approved the report on North-South policy drawn up by the Council (General Affairs) and recommended its approach for subsequent action. It is of the opinion that co-operation with developing countries and the intensification of international economic relations serve the interests of all concerned and that they are necessary not only in order to strengthen the economies of the developing countries but also to promote the recovery of the world economy. It considers it intolerable that widespread poverty and hunger persist in various parts of the developing world.

The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasized the crucial importance of a positive impetus to be given to this effect by the summit conferences in Ottawa and Cancun.

Implementation of the 30 May 1980 mandate

The European Council had a discussion of the procedure for dealing with the Commission's paper. They confirmed that the implementation of the 30 May 1980 mandate would be a major topic for the meeting in London on 26 and 27 November where appropriate conclusions are to be reached. The European Council asked the General Affairs Council to make thorough and timely preparations for their meeting in November.

The Council will be assisted by a group consisting of one representative of each Member Government who shall be at least of ambassadorial rank. The Commission was invited to continue its contribution and to make appropriate formal proposals in good time.

Declaration on Afghanistan

The European Council notes with deep concern that the situation in Afghanistan remains an important cause of international tension, that Soviet troops remain in Afghanistan and that the sufferings of the Afghan people continue to increase.

The European Council recalls its earlier statements, notably those issued at Venice on 13 June 1980 and Maastricht on 24 March 1981, which stressed the urgent need to bring about a solution which would enable Afghanistan to return to its traditional independent and non-aligned status free from external interference and with the Afghan people having the full capacity to exercise their right to self-determination. In keeping with the resolutions voted by the United Nations, the Islamic Conference and the New Delhi Conference of the Non-Aligned Movement, the European Council has made it clear on several occasions that it will support any initiative which could lead to the desired result.

The European Council considers that the time has come for a fresh attempt to open the way to a political solution to the problem of Afghanistan. They therefore propose that an international conference should be convened as soon as possible, for example in October or November 1981, and that the Conference should consist of two stages, each stage being an integral part of the conference.

The purpose of Stage One would be to work out international arrangements designed to bring about the cessation of external intervention and the establishment of safeguards to prevent such intervention in the future and thus to create conditions in which Afghanistan's independence and non-alignment can be assured.

The European Council proposes that in due course the Permanent Members of the United Nations Security Council, Pakistan, Iran and India and the Secretary-General of the United Nations and the Secretary-General of the Islamic Conference, or their representatives, be invited to participate in Stage One of the Conference.

The purpose of Stage Two would be to reach agreement on the implementation of the international arrangements worked out in Stage One and on all other matters designed to assure Afghanistan's future as an independent and non-aligned State.

Stage Two would be attended by the participants in Stage One together with representatives of the Afghan people.

The Member States of the European Community will be ready at a later stage to make further proposals on the detailed arrangements for the proposed conference.

The European Council firmly believes that the situation in Afghanistan continues to demand the attention of the international community. It is convinced that this proposal offers a constructive way forward and therefore calls on the international community to support it fully with the aim of reducing international tension and ending human suffering in Afghanistan.

Middle East

The European Council noted the report of the Presidency as well as Mr van der Klaauw's oral comments on his contacts with the parties concerned with the Middle East conflict.

It concluded that the efforts undertaken by the Ten to promote the conclusion of a peaceful settlement should be continued energetically and without respite, taking account of the results of the missions decided upon in Venice.

Accordingly, the European Council decided on the basis of the results of the mission just completed by the President-in-Office, to instruct ministers to elaborate further the practical possibilities available to Europe to make an effective contribution towards a comprehensive peace settlement in the Middle East, through internal reflection, appropriate contacts being maintained with all parties concerned, including the United States.

As regards the attack by the Israeli air force on the Iraqi nuclear plant on 7 June 1981 the European Council can only endorse the resolution adopted unanimously by the UN Security Council.

Lebanon

Recalling its earlier statements concerning Lebanon, the European Council noted with interest the results of the work of the Arab Quadripartite Committee. The Council earnestly hoped that positive results would be obtained at the Committee's next meeting in Beit-ed-Dine, so as to achieve a genuine national reconciliation, which can give Lebanon internal security and foster its stability in peace with its neighbours.

Cambodia

The European Council recalls the position it has adopted in favour of an independent and neutral Cambodia with a genuinely representative government, free from any foreign military presence and maintaining friendly relations with all the countries of the region.

Convinced that a genuine solution to the problem of Cambodia will be possible only on the basis of the United Nations General Assembly Resolution 35/6, the Ten declare their readiness to contribute to the success of the International Conference on Cambodia called by the UN Secretary-General.

The European Council noted the future Presidency's intention to be represented there by its Foreign Minister.

Namibia

The European Council discussed the question of Namibia. It reaffirmed its resolve to do what lies in its power to promote an early peaceful settlement through negotiations on the basis of Resolution 435 of the UN Security Council. In this context, it continues to encourage the efforts of the group of five Western powers.

1. Luxembourg European Council

1.1.1. The European Council met in Luxembourg on 29 and 30 June with Mr Andries van Agt, Prime Minister of The Netherlands and President of the European Council and of political cooperation, in the chair. The Commission was represented by Mr Gaston Thorn and Mr François-Xavier Ortoli. This was the first European Council to be attended by Mr François Mitterrand, President of the French Republic, and by Mr Giovanni Spadolini and Mr Mark Eyskens, the Italian and Belgian Prime Ministers.

Discussions were dominated by the economic and social situation, but the European Council also made preparations for the Western Summit in Ottawa and considered relations with the United States and Japan. At France's request, the Commission's report on the mandate of 30 May 1980 was not considered in detail, but a procedure was agreed and the report will be discussed at the meeting to be held at the end of November. Lastly, the European Council discussed the international political situation, with special reference to the Middle East, Lebanon, Cambodia and Namibia. It made an official declaration on Afghanistan.

1.1.2. As usual, the Commission contributed to the preparations by providing a series of papers. These dealt with the North-South Dialogue, the economic and social situation in the Community, trade relations with the United States and Japan, and its report on the mandate of 30 May 1980, which was sent direct to the Heads of State or Government.

1.1.3. The outcome of discussions on 'Community' subjects dealt with in Luxembourg was summarized by the Presidency. The summary was accompanied by a declaration and documents concerned with European political cooperation.

'Community' problems: the Presidency's summary

1.1.4. The following is the full text of the summary issued by the Presidency to the national delegations and made public after the

meeting. It covers the economic and social situation and prospects, the internal market, relations with the United States and Japan in the context of the forthcoming Western Summit in Ottawa, steel prices, the North-South Dialogue and the mandate of 30 May 1980.

Economic and social situation

1.1.5. 'The European Council discussed in depth the present social and economic situation in which the European Community and the Member States find themselves at the time when the first cautious signs of limited improvement in the business cycle are becoming visible, but when the ravages of inflation and unemployment have by no means been brought under control. In the same context the European Council reviewed the Communities' position with regard to the Western Economic Summit in Ottawa and dealt with the need to preserve and strengthen the Communities' internal market. The European Council discussed these interlocking problems on the basis of a paper presented by the European Commission on the economic and social situation in the Community, the general orientation of which received unanimous approval.

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The major responsibility for these actions lies with national governments and will need to take account of the different economic situations in each Member State and of their particular possibilities and the constraints with which they are faced. But the effectiveness of such action will be increased by coordination within a Community framework. A major effort should be made both at the national and the Community level, to increase investments aimed at higher growth and

employment. Investment should be directed in particular to industries with a high innovative potential and which will secure for the Community in the coming decades the place in the industrial world to which it is entitled. The European Council was convinced that investment in energy conservation and production is of vital importance. Care should be taken not to waste precious funds on economic activities that are bound to decline in importance. In the same connection it was underlined that considerable growth potential is to be found in the sector of small and medium-sized enterprises.

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It was stressed that optimal use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment. Efforts should also be undertaken to secure a larger economic benefit from the research activities that are under way in the Community and the Member States.

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Internal market

1.1.6. The European Council echoed the alarm sounded by the Commission on the state of the internal market, which is increasingly threatened by intentional and unintentional barriers to trade and by the pervasive use of subsidies to ailing industries. The European Council agreed that a concerted effort must be made to strengthen and develop the free internal market for goods and services which lies at the very basis of the European Community and which is the platform from which it conducts its common commercial policy.'

Monetary relations with the United States

1.1.7. 'With regard to the forthcoming meeting of the Western Economic Summit the European

Council stressed the need for a united approach to the problems presented by the level and volatility of interest and exchange rates, as these pose a serious threat to Europe's incipient economic recovery. These issues should be pursued in depth in discussions with the other major monetary powers. Important monetary policy objectives are shared with the USA, but the USA should be urged to take due account of the significant international consequences of its domestic policies. The Community itself should do its part to relieve the strain on monetary policy.'

Trade relations with Japan

1.1.8. 'The European Council also reviewed the Community's relations with Japan, and it was agreed that in Ottawa strong emphasis should be paid to a broad span of questions relating to the smooth functioning of the open and multilateral world trading system, including excessive concentration of exports in sensitive sectors. The European Council stressed the need for effective openness of domestic markets, in particular the Japanese market. These issues should be kept under regular review and in doing so the Community should make the fullest possible use of its bargaining power as an entity.'

Steel prices

1.1.9. 'The European Council discussed the serious situation which faces the European steel industry. While welcoming the outcome of the recent Steel Council, the European Council agreed on the urgent need to see steel prices in the European market raised to a more remunerative level and urged the Commission supported by all the Member States to do all in its power to see to it that the steel industry respects the necessary discipline.'

North-South Dialogue

1.1.10. 'The European Council approved the report on North-South policy drawn up by the Council (General Affairs) and recommended its approach for subsequent action. It is of the opinion that cooperation with developing countries and the intensification of international economic relations serve the interests of all concerned and that they are necessary not only in order to strengthen the economies of the developing countries but also to promote the recovery of the world economy. It considers it intolerable that widespread poverty and hunger persist in various parts of the developing world.

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ible. It emphasized the crucial importance of a positive impetus to be given to this effect by the summit conferences in Ottawa and Cancun.'

Implementation of the 30 May 1980 mandate

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The Council will be assisted by a Group consisting of one representative of each Member Government who shall be at least of Ambassadorial rank. The Commission was invited to continue its contribution and to make appropriate formal proposals in good time.'

European political cooperation

1.1.12. The European Council discussed the overall political situation and paid attention in particular to Afghanistan, the Middle East, Lebanon, Cambodia and Namibia. On Afghanistan they issued a separate formal declaration.

Declaration on Afghanistan

1.1.13. 'The European Council notes with deep concern that the situation in Afghanistan remains an important cause of international tension, that Soviet troops remain in Afghanistan and that the sufferings of the Afghan people continue to increase.

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a political solution to the problem of Afghanistan. They therefore propose that an international conference should be convened as soon as possible, for example in October or November 1981, and that the Conference should consist of two stages, each stage being an integral part of the conference.

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The Member States of the European Community will be ready at a later stage to make further proposals on the detailed arrangements for the proposed conference.

The European Council firmly believes that the situation in Afghanistan continues to demand the attention of the international community. It is convinced that this proposal offers a constructive way forward and therefore calls on the international community to support it fully with the aim of reducing international tension and ending human suffering in Afghanistan.'

Other matters

Middle East

1.1.14. 'The European Council noted the report of the Presidency as well as Mr van der Klaauw's oral comments on his contacts with the parties concerned with the Middle East conflict.

It concluded that the efforts undertaken by the Ten to promote the conclusion of a peaceful settlement should be continued energetically and without respite, taking account of the results of the missions decided upon in Venice.

Accordingly, the European Council decided on the basis of the results of the mission just com-

pleted by the President-in-Office, to instruct Ministers to elaborate further the practical possibilities available to Europe to make an effective contribution towards a comprehensive peace settlement in the Middle East, through internal reflection, appropriate contacts being maintained with all parties concerned, including the United States.

As regards the attack by the Israeli air force on the Iraqi nuclear plant on 7 June 1981 the European Council can only endorse the Resolution adopted unanimously by the UN Security Council.'

Lebanon

1.1.15. Recalling its earlier statements concerning Lebanon, the European Council noted with interest the results of the work of the Arab Quadripartite Committee. The Council earnestly hoped that positive results would be obtained at the Committee's next meeting in Beit-ed-Dine, so as to achieve a genuine national reconciliation, which can give Lebanon internal security and foster its stability in peace with its neighbours.'

Cambodia

1.1.16. 'The European Council recalls the position it has adopted in favour of an independent and neutral Cambodia with a genuinely representative government, free from any foreign military presence and maintaining friendly relations with all the countries of the region.

Convinced that a genuine solution to the problem of Cambodia will be possible only on the basis of the United Nations General Assembly Resolution 35/6, the Ten declare their readiness to contribute to the success of the International Conference on Cambodia called by the UN Secretary-General.

The European Council noted the future Presidency's intention to be represented there by its Foreign Minister.'

Namibia

1.1.17. 'The European Council discussed the question of Namibia. It reaffirmed its resolve to do what lies in its power to promote an early peaceful settlement through negotiations on the basis of Resolution 435 of the UN Security Council. In this context, it continues to encourage the efforts of the group of five Western powers.'

Statements and comments

1.1.18. The European Council closed with the usual press conference given by the Presi-

dent of the Council and the President of the Commission. Other heads of government made separate statements.

Mr Andries van Agt, Prime Minister of The Netherlands and President of the European Council, emphasized the unusual nature of this meeting, which should have been devoted to restructuring the Community budget but which had spent more time discussing the economic and social situation in preparation for the Ottawa Summit. He considered it vital to encourage investment, particularly in innovative industries and energy projects.

He also stated that from now on there would be no obstacle to the President of the European Council's giving Parliament an account of the proceedings. This development, for which Parliament had been pressing,¹ was due largely to the efforts of Mr Thorn.

Mr Gaston Thorn, President of the Commission, also noted that the European Council had met at a moment which was critical both because of the changes of leadership in some countries and because the Community was suffering from very low production coupled with very high unemployment. He also referred to the 30 May 1980 mandate, the Ottawa Summit and the North-South Dialogue. On the May mandate, he noted that all the Member States had found the Commission's document useful and had decided to remit it to an *ad hoc* body which would dedicate itself almost exclusively to considering the report. He underlined the gravity of the economic and social situation and the need for a Community reaction: all were aiming at the same goal, but it might be reached by different paths. As the Ottawa Summit, the Community would have to ask the United States to consider the devastating consequences of its financial policies on other countries, though without setting its hopes too high. It also needed a common position on the North-South Dialogue, which he described as one of the key issues of our day.

Mr François Mitterrand, the French President, said: '... Europe is more necessary than

¹ Bull. EC 4-1981, point 2.3.7.

ever. It must widen its horizons. It is an ambitious construction which is in tune with the needs of our time. France has a role to play there, and it will play it. It is possible to respect European solidarity and assert one's own role at the same time. That is what I have tried to do these two days... Europe needs a fresh initiative.' After stating his commitment to Europe, Mr Mitterrand went on to say that he had paid particular attention to economic policy and therefore to social policy and that in approaching European affairs as a whole he wished more account to be taken of the *espace social européen*. Turning to the Middle East, he drew a distinction between the basic problem itself and the problem of how to solve it. France had always favoured proposing 'comparable prospects' in an attempt to solve the former, and he confirmed his previous public statements on the way to go about solving it. Although he did not reject

overall solutions, he favoured step-by-step negotiations and agreements of the Camp David type.

Mrs Margaret Thatcher, the British Prime Minister, also dealt with these matters, in particular the Middle East, on which she felt there should be closer consultation with the United States, and the economic situation. All the Member States had to fight inflation and unemployment, and each had to use the most appropriate weapons for its own situation. She confirmed that Lord Carrington would meet Mr Gromyko in Moscow the following week to discuss Afghanistan.

Mr Helmut Schmidt, the German Chancellor, emphasized that it would not be acceptable for the Federal Republic of Germany to become the only net contributor to the Community budget while other, equally prosperous, countries got back more than they paid in.

2. Mandate of 30 May 1980: Commission report

1.2.1. On 30 May 1980 the Council settled the problem of the 'unacceptable situation' created by the United Kingdom's contribution to the Community budget for 1980 and 1981.¹ It undertook to solve the problem for 1982 onwards by means of structural changes and gave the Commission a mandate to submit proposals to this end before 30 June 1981:

'For 1982, the Community is pledged to resolve the problem by means of structural changes (Commission mandate, to be fulfilled by the end of June 1981: the examination will concern the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, or the basic principles of the common agricultural policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them). If this is not achieved, the Commission will make proposals along the lines of the

1980 to 1981 solution and the Council will act accordingly.'

1.2.2. The Commission lost no time in starting work on the mandate: by December 1980 it had produced its 'Reflections on the common agricultural policy',² the basis of the final report. From January of this year the new Commission stepped up the pace and spent many meetings examining all the Community policies one by one. The text of the report was finalized at a special meeting at Knokke-le-Zoute on 19 and 20 June and adopted on 24 June. It was immediately transmitted to the Heads of State or Government of the Member States, together with a personal letter from Mr Thorn, who embarked at once on a tour of the Community capitals.

¹ OJ C 158, 27.6.1980; Bull. EC 5-1980, point 1.1.7.

² Supplement 6/80 — Bull. EC.

The Commission's report

A broad approach

1.2.3. The Commission considers that the budgetary aspect does not give the full picture. The budget is neither a reflection nor a measure of Community activity. For this reason it has placed the solution to the problem referred to it in its true perspective, which is the strengthening and development of Community solidarity. The Commission is convinced of two things: first, that its size and capacity to persuade make the Community strong, and second, that the time is ripe for proposals and action. It is not pleading for a strengthening of the Community as an end in itself. It sees it rather as the only course open to Member States on the domestic, Community and international fronts.

The Commission is aware that the present crisis will not yield to half-measures or short-term remedies. This is why its report to the Council is comprehensive and why the various sections—on the future of the institutions, changes to existing policies and guidelines for new ones—are equally important.

Because its suggestions will take time to produce results, the Commission proposes a transitional solution to prevent a recurrence of unacceptable situations within the Community.

The original political alliance and a comprehensive strategy for the future

1.2.4. In the introductory section, the Commission sets out the reasons compelling the Community to use its strength to loosen the external constraints that bind it. Two principles govern its future — solidarity and consistency. The Commission goes on to stress the importance of the institutions' working towards fulfilment of the political alliance entered into by each Member State when it signed the Treaties.

The Commission's report recognizes the importance of two pillars of the European venture—the single internal market and the

common agricultural policy—but in the face of the present problems considers that progress must be made in new areas to make up for lost time.

1.2.5. The Commission believes that a comprehensive Community strategy would open up new prospects for stable, long-term growth and fuller employment. This strategy would be built around the following framework:

(i) Consolidation of the zone of monetary stability which the Community is taking pains to construct, notably by making rapid progress towards a fully institutionalized European Monetary System.

(ii) Development of a modern and dynamic European industry based on full exploitation of the economies of scale and the security provided by a genuine internal market, and on industrial strategies substituting Community cooperation for fragmented and isolated national policies.

(iii) Production of energy, particularly new forms of energy, which with the industries involved in developing them offer an unparalleled opportunity for growth and employment, and a means of reducing the cost of imports. The Commission intends to propose that precise targets be set to achieve energy savings, to diversify production and to provide the necessary infrastructure. To finance these measures, better coordination of national financial resources and more money from the Community are a must.

(iv) An original and probably unique Community contribution to the development of new industries and technologies and an active competition policy to serve as a source of coordination and economic convergence.

1.2.6. Finally, the Commission considers that there will be no expansion of Community activities as long as the Community budget remains artificially hamstrung by the current limit on resources.

'Putting its budgetary house in order'

1.2.7. The Commission believes that Europe cannot make a new start until it puts its house in order—in other words, until it solves its budgetary problems.

Agriculture structures

1.2.8. The Commission reviews the main areas of Community activity—the common agricultural policy, regional policy, social policy, borrowing and lending—and comes up with precise guidelines which would allow rapid Community action in these areas.

1.2.9. For agriculture the Commission advocates action based essentially on the following principles:

- (i) A price policy based on a narrowing of the gap between Community prices and prices applied by its main competitors and a hierarchy of prices designed to improve the balance of production. A corollary to this would be an active export policy designed to stabilize world prices at a more satisfactory level. This would involve the signing of long-term export contracts, which would, in turn, encourage the emergence of a strong, well-organized agri-food industry.
- (ii) The fixing of a production target for each product which would reflect the degree of self-sufficiency of the volume of exports desired. Arrangements to contain output would vary from product to product. The possibilities include a system resembling that now in operation for sugar, payment of a reduced intervention price above a certain threshold (for cereals for instance), and extension of the co-responsibility principle (for milk products for instance).
- (iii) The introduction of income subsidies in certain circumstances for small producers. The problems facing the Mediterranean area, precisely because of the dominance of agriculture in its economy, come in for special attention. Market and structural policies can help, but they cannot deal single-handed with a set of problems which reflect a specific economic context. This is why the Commission is planning to propose medium-term Community programmes combining measures to tackle incomes, markets, production and structures. These would be devised in close collaboration with the Member States concerned to allow incorporation of national and regional objectives. These programmes, which would harness the Community's agricultural and financial instruments to one and the same task, could

be submitted to the Council and Parliament before the end of 1982.

The Commission believes that if these reforms to the common agricultural policy are carried through the growth rate of agricultural spending would fall below the growth rate of resources available to the Community.

1.2.10. On the regional and social fronts, the Community needs to spend more to better effect. The Commission proposes that Regional Fund assistance be concentrated on the most deprived areas, via integrated programmes, but not to the detriment of regions with declining industries. National measures taken to correct the regional disparities which persist in even prosperous Member States must accord with Community terms of reference.

In the social field, the Commission proposes to give priority to Community measures which top up national measures and thus ensure that the Social Fund is focused on areas where Community assistance will be more valuable and more effective than a combination of national measures or the duplication of national and Community measures. This instrument must also allow for the existing and foreseeable economic and social situation in the Community and be used in conjunction with other Community instruments particularly as regards structural policy. The Social Fund's resources must also be concentrated more specifically on job creation and vocational training, via comprehensive programmes, rather than individual projects.

1.2.11. The Commission is also proposing guidelines for improving the operation of the Community's borrowing and lending instruments.

Medium-term solution to the problem of the United Kingdom's contribution to the Community budget: a special financial mechanism

1.2.12. But the Commission feels that the package of agricultural and structural measures which it is proposing, albeit a step in the right direction, will take some time to bear fruit. This is why it is also proposing a

medium-term solution to ensure that the problem of fair returns for Member States does not deadlock the normal decision-making procedure.

After careful analysis, the Commission has decided not to propose a general financial mechanism. Instead it advocates a remedy to the problem caused by the pattern of production and consumption in the United Kingdom, which means that it benefits less than its partners from the common agricultural policy.

The Commission is proposing a special financial mechanism based on a demonstration of solidarity towards the United Kingdom by Member States more fortunate in this respect. Compensation for the United Kingdom would be assessed by comparing its share of the Community's gross national product with the proportion it obtains of EAGGF Guarantee Section expenditure. As this compensation would be provided by the Community itself, it should be financed from the budget on the basis of the own resources system.

However, should this be rendered impracticable either by a delay in taking the decisions needed to create new own resources (exceeding the 1% limit on VAT) or by the current trend in budget expenditure, the Commission would envisage that consideration be given to a subsidiary measure by which the Member States which benefit more from the CAP than their British partner would demonstrate their solidarity. In practice, the compensation could be financed by Member States other than the United Kingdom via abatements on their receipts from the Community, based on the payments they receive under the EAGGF Guarantee Section. In establishing the abatement percentages, account should be taken of the proposals put forward by the Commission in this report, to the effect that Community policies must put emphasis on solidarity between the more prosperous Member States and the less prosperous (particularly Ireland, Greece and Italy).

The funds made available would be used to finance projects in the United Kingdom

which are in line with Community policies and designed to increase economic convergence.

Statement by the President of the Commission

1.2.13. Immediately after the report had been sent to the ten governments on 24 June, Mr Thorn gave a press conference at which he explained the main proposals in the report and the Commission's general approach.

1.2.14. Discussing the approach the Commission had taken, the President said:¹

'We decided to take the broad view, conscious that we were on the threshold of a second-generation Europe, called on to resolve a budgetary problem which, however real it is, must be seen against a backdrop that overshadows the whole debate, compelling us to give thought to the future of the Community. We felt that we had to draw attention to the rebirth of economic nationalism. ... We felt that we had to act to combat a bookkeeper's approach which was deforming the Community. ... We feel that we have to respond to the hopes of the new generation. ...'

1.2.15. On the common agricultural policy:

'We felt that the principles which we had been asked to respect were eminently worthy of such respect but that even so the CAP needed to be reviewed in the light of experience. ... We must have a prices policy based on a narrowing of the gap between Community prices and those charged in our major competitor countries. ... We mean to support a more active export policy. ... We mean to set production targets which take account of the market situation for each product. ... A key element is the modulation of guarantees. ... We feel that if the Member States follow us down this road, agricultural expenditure will grow less rapidly than own resources.'

1.2.16. On the structural funds:

'As regards the Regional Fund, we consider that the resources available to it are inadequate to combat the growing imbalances. ... At present the Regional Fund is too heavily concentrated on national objectives and does not take sufficient account of the Community dimension. ...

We must scotch the idea that the Social Fund has a licence to print money. ... Not content with

¹ Unofficial translation.

proposing an increase in the resources available, we are determined to improve its operation, ... promote integrated programmes ... and switch the emphasis to job creation, rather than training and little else.'

1.2.17. On monetary matters:

'We feel that we must press ahead on the monetary front, using the EMS. ... We want stricter coordination, a larger role for the EMS, and the ECU as the hub of the system.'

1.2.18. Mr Thorn also announced formal proposals on the customs union, on energy saving and on industrial policy.

Finally, turning to institutional matters, the President declared:

'We intend to present proposals relating to the institutional balance and the functioning of the Community. ... We have undertaken to do this by 1 October. ...'

No:22/1981

June 30, 1981

MEETING OF THE EUROPEAN COUNCIL IN LUXEMBOURG

The European heads of state and government gathered in Luxembourg on June 29-30, 1981 as a European Council discussed the overall political situation and paid attention in particular to Afghanistan, the Middle East, Lebanon, Cambodia and Namibia. They issued a separate formal declaration on Afghanistan.

EUROPEAN COUNCIL DECLARATION ON AFGHANISTAN

1. The European Council notes with deep concern that the situation in Afghanistan remains an important cause of international tension, that Soviet troops remain in Afghanistan and that the sufferings of the Afghan people continue to increase.
2. The European Council recalls its earlier statements, notably those issued at Venice on June 13, 1980, and Maastricht on March 24, 1981, which stressed the urgent need to bring about a solution which would enable Afghanistan to return to its traditional independent and non-aligned status free from external interference and with the Afghan people having the full capacity to exercise their right to self-determination. In keeping with the resolutions voted by the United Nations, the Islamic Conference and the New Delhi Conference of the non-aligned movement, the European Council has made it clear on several occasions that it will support any initiative which could lead to the desired result.
3. The European Council considers that the time has come for a fresh attempt to open the way to a political solution to the problem of Afghanistan. They therefore propose that an international conference should be convened as soon as possible, for example in October or November 1981, and that the conference should consist of two stages, each stage being an integral part of the conference.

4. The purpose of stage one would be to work out international arrangements designed to bring about the cessation of external intervention and the establishment of safeguards to prevent such intervention in the future and thus to create conditions in which Afghanistan's independence and non-alignment can be assured.
5. The European Council proposes that in due course the permanent members of the United Nations Security Council, Pakistan, Iran and India and the Secretary-General of the United Nations and the Secretary-General of the Islamic Conference, or their representatives, be invited to participate in stage one of the conference.
6. The purpose of stage two would be to reach agreement on the implementation of the international arrangements worked out in stage one and on all other matters designed to assure Afghanistan's future as an independent and non-aligned state.
7. Stage two would be attended by the participants in stage one together with representatives of the Afghan people.
8. The member states of the European Community will be ready at a later stage to make further proposals on the detailed arrangements for the proposed conference.
9. The European Council firmly believes that the situation in Afghanistan continues to demand the attention of the international community. It is convinced that this proposal offers a constructive way forward and therefore calls on the international community to support it fully with the aim of reducing international tension and ending human suffering in Afghanistan.

Lebanon

Recalling its earlier statements concerning Lebanon, the European Council noted with interest the results of the work of the Arab Quadripartite Committee. The Council earnestly hoped that positive results would be obtained at the committee's next meeting in Beit-Ed-Dine, so as to achieve a genuine national reconciliation, which can give Lebanon internal security and foster its stability in peace with its neighbors.

Middle East

The European Council noted the report of the presidency as well as Mr. Van Der Klaauw's oral comments on his contacts with the parties concerned with the Middle East conflict.

It concluded that the efforts undertaken by the ten to promote the conclusion of a peaceful settlement should be continued energetically and without respite, taking account of the results of the missions decided upon in Venice.

Accordingly, the European Council decided on the basis of the results of the mission just completed by the president-in-office, to instruct ministers to elaborate further the practical possibilities available to Europe to make an effective contribution towards a comprehensive peace settlement in the Middle East, through internal reflection, appropriate contacts being maintained with all parties concerned, including the United States.

As regards the attack by the Israeli Air Force on the Iraqi nuclear plant on June 7, 1981 the European Council can only endorse the resolution adopted unanimously by the UN Security Council.

Cambodia

The European Council recalls the position it has adopted in favor of an independent and neutral Cambodia with a genuinely representative government, free from any foreign military presence and maintaining friendly relations with all the countries of the region.

Convinced that a genuine solution to the problem of Cambodia will be possible only on the basis of the United Nations General Assembly resolution 35/6, the ten declare their readiness to contribute to the success of the international conference on Cambodia called by the UN Secretary-General. The European Council noted the future presidency's intention to be represented there by its foreign minister.

Namibia

The European Council discussed the question of Namibia. It reaffirmed its resolve to do what lies in its power to promote an early peaceful settlement through negotiations on the basis of resolution 435 of the UN Security Council. In this context, it continues to encourage the efforts of the group of 5 Western powers.

EUROPEAN COUNCIL

(Strasbourg, 8 July 1981)

(Only the spoken text is valid)

*Lord Carrington
Speech at
European Parliament*

EUROPEAN COUNCIL

1. It is my first duty, at the beginning of this UK Presidency to report on the European Council in Luxembourg. This of course marked the end of the Dutch Presidency, and I must therefore also take this opportunity to pay my predecessors the tribute they have well deserved.
2. We in the UK are fortunate that both of our two Presidencies of the Community have followed those of the Netherlands. Under their able chairmanship, the Community has been able to make progress on a wide range of issues. Let me mention just three areas where their Presidency has played a particularly valuable role.
3. First, there was the agricultural price-fixing last March when agreement was reached with a pleasant absence of the delay and acrimony which has occasionally characterised this exercise in earlier years. Secondly, the important progress made on tackling the problems arising from the crisis in the steel industry showed that the Community is capable of responding to the social and industrial problems of the 80s. This augurs well for the future. And in the Middle East the patient and persistent work of Mr van der Klaauw has enhanced the reputation of European diplomacy and kept alive the hope that Europe can contribute to an eventual settlement of the problems afflicting this troubled but vital area of the world. In one other important sector, fisheries, the Presidency's efforts, through no fault of their own, did not bring success. We inherit the task from them and consider it a high priority to conclude the negotiations which have already lasted for longer than is good for the Community or for the wellbeing of our fishermen.
4. The final act of the Dutch Presidency was the European Council which took place in Luxembourg last week. You will already have seen the exhaustive press accounts of this Council, which provided a valuable opportunity for the Heads of Government to make progress on a range of Community matters. I will therefore concentrate on the main points.
5. The discussion of the economic situation provided the occasion for a worthwhile exchange of views between the Heads of Government. The Commission had contributed a useful paper analysing the prospects. The Council saw the first cautious signs of limited improvement in the business cycle but at a time when inflation and unemployment have by no means been brought under control. The Council unanimously agreed on objectives: to overcome inflation and unemployment and to return to a situation of economic growth, stability and satisfactory levels of employment. The Council recognised, however, that the major responsibility for

tackling these problems lies with national governments because action needs to take account of the different economic situations in each member state. The differing levels of unemployment, balance of payments and budget deficits mean differing constraints and opportunities for member countries.

6. However, the effectiveness of action by national governments can be increased by co-ordination within a Community framework. In this context the European Council reviewed the work of the so-called "Jumbo" Council and agreed that it had laid a firm basis for future co-ordinated action to combat inflation and unemployment. The Council was also particularly concerned that full use should be made of the Community's financial instruments and of the facilities of the European Investment Bank to promote the flow of productive investment, including the growth potential in small and medium businesses.

7. The Council also recognised that the changing patterns of world trade mean structural changes in our own industries. The focus should be on investment in industries with potential for the future rather than on economic activities that are bound to decline in importance. There was agreement on the need to improve the Community's internal market for both goods and for services.

8. The Heads of Government also reviewed the matters for discussion at the forthcoming Economic Summit meeting in Ottawa and were agreed on the need for a united front in the face of the current level and volatility of interest and exchange rates, which could retard economic recovery in the Community. They agreed that the Community should do its part to relieve the strain on monetary policy. These questions will be pursued during discussions with the other major monetary powers, including the United States.

9. On trade, the Council discussed the threat to the smooth functioning of the world trading system from the excessive concentration of Japanese exports on sensitive sectors. They stressed the need in particular for the Japanese market to be effectively open to foreign trade. This will need to be pursued within the Community and at Ottawa.

10. The Council approved the recent report of the Foreign Affairs Council on North/South policy. They agreed that co-operation with the Developing World and the strengthening of international economic relations serve the interests of all the countries involved; and that it was intolerable that large areas of the Developing World still suffer from poverty and hunger. The Council therefore took the view that the preparatory work for the new series of Global Negotiations should be completed as soon as possible, and stressed that

the Summits of Ottawa and Cancun should give an impetus to this work.

11. The European Council discussed what action should follow the Commission report on restructuring the Community budget. They agreed that after the necessary clarification of the Commission's document has taken place, a special group would be set up to assist the Foreign Affairs Council in the preparation of this subject. It was agreed that restructuring would be a major topic for the European Council to be held at the end of November, and that appropriate conclusions should be reached on that occasion.

12. On the Political Co-operation side the European Council also discussed the Middle East, Afghanistan, Lebanon, Cambodia, and Namibia, all of which were mentioned in the communiqué issued at the end of the meeting. . On the Middle East they agreed to review the results of the contacts established during the last six months by the Dutch Presidency on the basis of the Venice Declaration of last June and decided that European efforts should be energetically pursued taking account of these results. The Ten, while maintaining their contacts with all parties concerned, including the United States, will now be considering how best this can be done.

13. The European Council approved and published a proposal on Afghanistan which has been in preparation for some time. The purpose is to establish the framework for a political solution acceptable to all the parties concerned. The proposal for an international conference in two stages builds upon earlier proposals, takes account of the objections which these attracted, and has already gained support from a number of the Governments concerned. It offers, we believe, a fair and reasonable basis for the peaceful solution of a problem on which the international community cannot and will not turn its back.