

## DRAFT RECORD

EUROPEAN COUNCIL LUXEMBOURG 29 AND 30 JUNE 1981

## A. FIRST SESSION: AFTERNOON OF MONDAY 29 JUNE

Introduction*(half an hour late)*

1. Opening the meeting (at 15.32) Mr Van Agt welcomed the three new members of the European Council, President Mitterrand, Signor Spadolini and M Eyskens. He suggested that the discussion should begin by taking together the economic and social situation and preparation for the Ottawa economic summit. That would be followed by the Mandate, Middle East problems and, on Tuesday morning, North/South relations.
  
2. Mr Van Agt, who had seen ETUC leaders in the morning, said that he proposed to see them again in the evening. He hoped that no member of the European Council would feel obliged to see the leaders of the demonstration (outside the Kirchberg) but that they would leave it to him, as President. (Herr Schmidt asked whether the demonstrators represented Community staff.) The Prime Minister said that she was happy with the order of business and agreed that Mr Van Agt alone should meet the demonstrators.  
President Mitterrand and others agreed.

Economic and Social Situation

3. M Thorn introduced the Commission paper. He thought that the economic part of the Community was in danger of collapsing. Investment was not coming forward from  
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industrialists who seemed no longer to believe in the European Community as an operating entity. M Ortoli said that the moment for risk-taking and imagination had come. He detected signs of recovery. But recovery was proving more difficult to achieve than had hitherto been expected. Europe was not well placed in comparison with other industrialist countries. Rates of inflation were high, but they varied widely as between one country and another. Each also had varying degrees of unemployment and balance of payment deficits. Europe would have to live with this situation for some time. Balance of payments deficits could not be put right overnight. There was some budgetary room for manoeuvre, but again this varied between member states. In general it was still necessary to improve control over budgets. Exchange rates were a further problem: it remained to be seen whether the USA would seek to avoid excessive fluctuations. American interest rates were also very difficult for Europe. The Community must explain to the Americans how vital to Europe were US interest and exchange rates. A balance needed to be found between monetary control and taxation techniques. EC countries were responsible for solving their own problems. But a common strategy could help:

- (a) The internal market which was in danger needed to be consolidated and deepened.
- (b) Budget deficits needed to be controlled but not too fast, as that would run counter to the recovery.
- (c) A common interest rate policy was needed in the face of inflation.

- (d) Investment in research and new industries should be encouraged.

4. M Ortolí continued that investment in Europe represented only 22% of GDP as against 32% in Japan. Investment in energy was particularly low by comparison with the levels in the USA and Japan. On recycling, he thought that the Community should use all its influence to encourage multi-lateral organisations to help and should press forward with the creation of an energy bank [?World Bank energy affiliate.] Domestically, common action on eg loans, the New Community Instrument (NIC or "Ortolí facility") was under consideration. Costs must be kept down (wages, social security, indexation). An active employment policy was needed covering training etc. Problems associated with overtime, part-time working and early retirement, as discussed at the Jumbo Council, should also be examined. If the European economy was to have a chance of improving a common diagnosis was required.

5. Mr Jørgensen said that unemployment levels were so bad that the Community could not simply wait for an up-turn to arrive. A Community initiative was required. He also stressed the importance of problems associated with energy, recycling and raw materials. In spite of the gloomy outlook he thought that it was important to achieve the 0.7% of GNP aid target. Amongst other things this would increase the market for European exports.

6. M Eyskens said that the Community had succeeded in holding together in spite of its difficulties. He warned

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against seeing the Community in terms of a juste retour. In matters of economic policy time was wasted in indecision between monetarist and Keynesian theorists. The differences between the theories were false and would disappear. It was important to act. Because of its rate of inflation Belgium had no margin of manoeuvre. The larger member states should increase demand in order to help others. There was a link with the encouragement of the growth of demand in third countries. He spoke of a "solidarity-growth pact" involving triangular financing, recycling and interest rate subsidies. Proposals were needed on interest rates for Ottawa. Belgium would develop proposals on the multilateralisation of swap arrangements. (M Eyskens spoke for 40 minutes)

7. At this stage Mr Van Agt pointed out that half the time available for the afternoon session had gone and the first item had still not been dealt with. He pleaded for brevity (in vain).

8. Herr Schmidt agreed with M Ortoli's analysis. The world economy was in a mess. He was worried by the course of the debate on developing countries. Development aid was hopelessly inadequate. The problem was that any increase in it would not necessarily lead to more European exports. It would probably only be spent on more oil. Many member states had balance of payments deficits. That of the Federal Republic was appalling. Reducing it was a high priority. It limited German room for manoeuvre. He agreed with M Ortoli about American interest rates. But he did not believe that American policy would change before next Easter. Things would only be made worse by Middle East

problems, which he described as a Damocles' sword: the bombing of the Iraqi nuclear power plant might for instance result in a further increase in the price of oil or a reduction in the supply. The economic summit at Ottawa was likely to prove difficult. One <sup>(sic)</sup> participating government was monetarist, the others Keynesian. The Federal German Government had used mixed remedies and had relied on the help and cooperation of both unions and employers.

9. Turning to Japan Herr Schmidt warned against criticising the Japanese simply because they were more successful. If Europe wanted to export more it should improve its own competitiveness and become better than Japan. He doubted whether that was possible with current European levels of wages and social security. He stressed the danger of adopting nationalist economic policies in the Community and criticised the persistence of non-tariff barriers to trade within the Community. The EEC covered a great part of internal Community trade: it must be preserved. In the steel sector particularly, government subsidies were madness. Price increases were necessary to protect the market: if it were damaged things would only get worse. The countries participating in the Ottawa summit should pledge themselves to protect the open trading system and inter-nationalism: they should not take advantage of each other through their interest rate policies or by competitive devaluations.

10. The Prime Minister agreed with Herr Schmidt and said that she thought that M Ortolli's analysis was good. The countries of the Community did indeed face a wide variety of

economic problems in differing degrees. These could not be dealt with by some simple financial formula. For example in the UK inflation was the paramount problem. Unemployment was caused by three factors: world recession, the changing pattern of world trade and lack of domestic competitiveness. New jobs could only come from increased competitiveness. Small businesses should be encouraged. One way was through help from the EIB to promote investment.

11. Public spending was responsible for a large part of the problem facing European countries. She firmly believed that monetarist policies were right, but they were not in themselves adequate. Public expenditure control was essential. Only in this way would resources for investment in adaptation of the private sector be realised. A shorter working week would merely lead to more overtime. It did not offer a way out. But there were some hopeful signs: there had been no recent oil price increases and this stability could give time to cope with the problems of structural change, curbing public expenditure and encouraging investment. She agreed with Herr Schmidt about aids to the steel industry.

12. Signor Spadolini said that he had appealed to the trade unions to help the government to beat inflation. Italy was also in a wage-price spiral largely because of excessive public expenditure. Uncontrolled public spending had to be curbed. Internal demand would need to be controlled. The balance of payments deficit was serious. 1981 was going to be a bad year. Harmonisation of economic policies in the Community was therefore essential. He ended with a plea for common action to promote Community spending on research.

13. Mr Lenihan hoped that the Community would go to Ottawa with a united stance and stressed the importance of employment promotion policies.

14. President Mitterrand said that French policy would play its part: the promotion of Community solidarity was a primary French objective. He did not wish to judge the policies of others. Many problems were shared in common but national temperaments differed. He did not seek an ideological debate, but the reconciliation of different policies and approaches was both necessary and possible. (The French election had proved that reason had triumphed over passion.) In France the number of bankruptcies and the level of unemployment were both rising. He did not believe that inflation was a cause of unemployment; this was shown by the Belgian experience. The problems of inflation and unemployment and the prevailing level of social inequality meant that the French Government had to act. He agreed with the main lines of the Commission Report. Nonetheless France had decided to practise a policy of revival. They believed that growth was possible. This revival would be pursued in four ways:

(a) by the selective encouragement of consumer demand (with the emphasis on buying French products such as textiles, cars and foodstuffs);

(b) by encouraging investment, largely through decisions in the public sector. He claimed that public ownership was not incompatible with competitiveness:

Renault, SNIAS and Elf-Aquitaine were all

highly competitive;

- (c) The state would also encourage investment in small and medium enterprises;
- (d) Finally French investment policy would be targetted towards adaptation to the third industrial revolution, harnessing science and technology rather than protecting society from them. This would all be done avoiding excessive public expenditure.

15. A necessary element in all this would be the reduction of working hours. French industry was working only at 70% of capacity, and this could be increased to 80% with productivity increases. In general the rich would have to shoulder the burden of increasing the standard of living of poorer workers. The French Government therefore proposed to take certain measures:

- (a) Loans would be raised, either Community loans or joint loans, to finance investment in well-chosen priority sectors of industry with development potential.
- (b) Efforts to give a European dimension to industries with an energy dimension, and modern sectors like telecommunications would be supported.
- (c) An "espace sociale europeenne" would need to be created to improve working conditions.
- (d) Working hours should be shortened.

16. Turning to the Ottawa summit, President Mitterrand said that he agreed that the Community should not beg Japan to change its policies. There should be no protectionism or excessive safeguards. But the Japanese



market was proving impenetrable, and Prime Minister Suzuki had been ambivalent in his response to French arguments. The Japanese made nothing more than general statements and refused to be specific. Discussion with Mr Suzuki had proved impossible. He agreed with Herr Schmidt and the Prime Minister about the manner of the approach to the USA. The American administration pursued its economic policy in spite of an awareness of its disadvantages. The Americans thought that they could beat inflation by pursuing these policies. They recognised their harmful effects but believed they were only temporary. He acknowledged the contradiction between French and US policies. He hoped that the Americans would change before next Easter but accepted that there would be no change at Ottawa. Nevertheless change there had to be: prolonging high interest rates were ruining all the western economies.

17. On North/South relations he stressed the need for a common European position. The Americans were not interested in North/South matters and needed to be encouraged. Revival of the economies in the Third World would help revival domestically, and France intended to promote trade with the Third World, especially in Africa where France had a privileged position. He believed it essential to set up the World Bank energy affiliate.

18. President Mitterrand concluded that the Community needed to pursue policies supported by working people, including reducing working hours, consulting the unions and making full use of the European dimension.

19. Mr Rallis spoke very briefly, and the session ended at 1830.

B. DINNER OF HEADS OF STATE OR GOVERNMENT, 29 JUNE

Iraq

20. Much of the dinner was devoted to a discussion of the Israeli bombing of the Iraqi nuclear power station at Tammuz. After the Prime Minister had asked President Mitterrand whether he intended to help the Iraqis rebuild. The latter had in the course of the conversation said the Iraqis would <sup>not</sup> have been able to make weapons grade fuel for at least another 3 or 4 years. They had had to go to the Italians for help. (Sig Spadolini did not rise to this.) The Prime Minister argued strongly that in the face of the most flagrant possible breach of international law the European Council could not remain silent at its first meeting after the event. President Mitterrand opposed this partly because it might affect the Israeli election, but was finally persuaded to accept a reference to the Security Council Resolution. But Herr Schmidt supported the Prime Minister.

Nuclear Weapons

21. Discussion of non-proliferation and the plutonium economy led Herr Schmidt on to the subject of LRTNF. He complained that the Americans did not seem to realise how their delay in opening negotiations with the Soviet Union was endangering the chances of Pershing II missiles actually being stationed in the FRG. President Mitterrand confirmed that France would maintain its deterrent but argued that the stationing in Europe of cruise missiles

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would upset the East-West balance by adding to the number of warheads that could reach Soviet territory. Mr Rallis thought this a reasonable point. Mr Jørgensen claimed that opinion in the Nordic Council was moving strongly in favour of a (?Nordic) nuclear-free zone.

22. The Prime Minister argued that weakness of this sort only tempted an enemy. The Americans were likely to start negotiating in the autumn, but they would not do so until they had carefully worked out all the steps in the argument. Herr Schmidt doubted if this would be soon enough. He would be unable to hold the line much longer. What was worse was that many US officials were arguing against any negotiation with the Soviet Union.

#### 30 May Mandate

23. The Prime Minister persuaded Mr Van Agt to direct discussion on to the 30 May Mandate. President Mitterrand said that he was not prepared to discuss it, but M Thorn stressed that only procedure needed to be tackled. He thought a special group should be appointed since Permanent Representatives were very busy. The Prime Minister retorted that hard work would do them no harm. They were probably the only people capable of negotiating across the spectrum of problems covered by the mandate. In any case the UK Presidency would be in the chair. Mr Lenihan supported this view and stressed the importance of Foreign Ministers having a thorough discussion in September. Mr Van Agt, after further discussion, noted general agreement that a special group be appointed.

24. Herr Schmidt said that the French Government must have time to reflect. (At no stage did he say anything on substance.) President Mitterrand said that he would not be in a position to nominate the French member of a special group for a couple of months.

#### Afghanistan

25. The Prime Minister raised Afghanistan briefly and said that Foreign Ministers would be preparing a text for consideration the following day.

#### Japan

26. A brief discussion produced general agreement on the need for a Community approach to the question of trade with Japan.

#### Greece

27. Mr Rallis said that he thought his chances in the forthcoming election were quite good in spite of the participation of Communists in the new French Government.

### C. DINNER OF FOREIGN MINISTERS 29 JUNE

#### Middle East

28. M Cheysson argued against the European Council making any further statement on the Middle East. All the people of France thought that the Venice Declaration was "anti-Camp David". The Secretary of State pointed out that it would be incomprehensible to world opinion if there was a full declaration on Afghanistan and nothing on the Middle East. M Cheysson allowed himself to be persuaded that a statement should be made. But he would not accept para 3 of the draft. (The final text, with new wording drafted by Sig Colombo therefore made no reference to the Venice

Declaration.) (Mr van der Klaauw did not make the promised oral comments on his Report.)

29. M Cheysson also agreed to the insertion in the European Council's statement of a condemnation of the Israeli bombing of the Iraqi nuclear power station.

#### Afghanistan

30. The text prepared by Ministers on 22/23 June was confirmed.

#### Seat of Institutions

31. Mme Flesch raised the problem of the places of work of the European Parliament and asked for agreement on a text (Annex A). The Secretary of State suggested that Coreper examine the text in the morning. (This was duly done (see Luxembourg tel no ): an amended text was agreed by the European Council (Annex B) as the final act of the Conference of Member States on the question called at the end of 1980 at French request.)

#### D. SECOND SESSION: MORNING OF TUESDAY 30 JUNE

##### Presidency Conclusions: Community Aspects

32. Mr Van Agt opened discussion of the draft Presidency conclusions prepared on the basis of discussions the previous afternoon and over the two dinners (Annex C).

Mr Jørgensen complained that the draft on the economic and social situation did not reflect the views expressed.

(President Mitterrand asked what was the point of discussing a text still being discussed by officials. Mr Van Agt replied that this was not in fact the case. Only the Political Cooperation texts were still being worked on by

officials.) Mr Jørgensen tabled amendments, including the removal of paragraph 2 and the changing of paragraph 3 to give the highest priority to fighting unemployment rather than inflation. The deepest part of the recession was not yet past. The Prime Minister warned against redrafting every paragraph: it would not be possible to satisfy everyone. Each would need to interpret the conclusion according to his lights. Signor Spadolini, who would also have liked several amendments, agreed with the Prime Minister and disagreed with Mr Jørgensen's approach. M Ortolini also argued against trying to redraft the text (but then tried to do so).

33. In discussion of the 30 May Mandate text, the previous night's agreement to appoint a special group was confirmed. But the Prime Minister reminded the European Council of the decision of the June Foreign Affairs Council about the work required of Coreper in July. M Thorn said that the Commission stood ready to provide any facts and figures Coreper wanted. (No-one disputed the validity of the Council decision. *After the meeting the Sops explained our plans for Poly to M. Chysson who declared himself content.*)

34. Texts on Japan and North/South were agreed with little discussion. At German request a new text on steel prices was tabled and agreed. (Final version of texts at Annex C)

#### Draft Press Statements: Political Cooperation

35. Political Directors having submitted generally agreed texts, there was little discussion, except on the Middle East, where only Signor Colombo supported the Prime Minister's attempts to re-insert a reference to the Venice Declaration. President Mitterrand advocated a step-by-step approach instead of that in the Venice Declaration.

(Final version of text at Annex D)

European Parliament

36. Herr Schmidt warned about the deteriorating state of the Council's relations with the European Parliament. 400 dissatisfied politicians were travelling around Europe giving vent to their frustrations. This should be a subject for discussion at the November European Council.

37. President Mitterrand volunteered that there no longer existed any obstacle to the President of the European Council reporting to the European Parliament. Mr Van Agt regretted that the Parliament was not sitting: he would have gone straight to report.

38. The text on the provisional places of work of the institutions was agreed with the substitution of the word "rappelé" for "constaté" in line . (Final version at Annex E) The text became the final act of the Conference of Member States which first met late in 1980.

39. The meeting ended at 1230.