

**THE EUROPEAN COUNCIL**

**LUXEMBOURG  
17-18 APRIL 1980**

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

*The Luxembourg European Council*

Reproduced from the Bulletin of the European Communities, No. 4/1980

## 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.

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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.

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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

