

EUROPEAN COMMUNITY

BACKGROUND INFORMATION

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BACKGROUND NOTE

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EUROPEAN COUNCIL: COOPERATION NECESSARY TO FIGHT ECONOMIC MALAISE

Unemployment and the economic situation in the European Community were the major topics of discussion at the two-day European Council meeting that concluded yesterday. The heads of government of the nine Common Market nations, meeting in London for the concluding session of the British Council presidency, announced no specific action to deal with the continuing economic malaise, but in a joint statement "reaffirmed the importance of cooperative efforts by industrial countries to seek a sustained expansion or world economic activity, consistent with further reduction of the rate of inflation and thereby to help reduce unemployment."

A declaration on the Middle East, issued on Wednesday, the first day of the meeting, aligned the European Community with the policy for that area expressed by the United States. Urging all parties concerned to pursue negotiations promptly "in a constructive and realistic spirit," the declaration asked Israel to pull back within pre-1967 borders, called for "secure and recognized boundaries" for all states in the area, and for the first time called for a Palestinian homeland. The statement added that Palestinian representatives should be included in Mideast peace talks, and the nine nations offered to consider participation in U.N. guarantees for a Mideast settlement.

On other issues, the European Council:

- * agreed to proposals made by the European Investment Bank to increase its capital.
- * failed to agree on a site for Joint European Torus, the 165 million fusion project that Britain wants to locate at Culham near Oxford and Germany wants to put at Garching in Bavaria.

Roy Jenkins, President of the Commission of the European Communities, characterized the summit at a press conference he and British Prime Minister James Callaghan held yesterday at its conclusion as "strong on discussion but not so strong on decisions."

At the beginning of the summit economic discussion, Jenkins presented Commission figures on the Community's gross domestic product, now predicted to reach only 3 per cent;

on unemployment, expected to rise to a rate of 5.2 per cent, from 5 per cent in 1976; and on the consumer price increase, which has fallen to 9.5 per cent, from 10 per cent in 1976. A Commission paper said the average rate of inflation in the Community, based on the first four months of 1977, is now 14 per cent on an annual basis.

A positive feature of the Community's economic situation, the summit leaders were told, was the balance of payments situation. The Community as a whole is expected to move into trading balance with the rest of the world by the end of this year, Jenkins said.

A Council statement dealing with unemployment indicated that the Commission will soon be submitting proposals to use the European Social Fund for a scheme directed to the unemployment problems of women and added that the Social Affairs Council would consider what common action would be necessary to combat youth unemployment.

On world economic issues, the Council statement said that the heads of government were concerned that adequate international financing should be available to support the promised expansion of world economic activity, and expressed hope that additional financing opportunities would be available through the International Monetary Fund and elsewhere.

The Council repeated the Community's strong attachment to an open and liberal commercial policy, but noted "concern" at unemployment linked to that policy in certain sectors. The Community has been particularly hard hit by Japanese products in some sectors and is seeking to persuade the Japanese to buy more European products in its markets. At the press conference, Jenkins stressed the importance of reciprocity in maintaining liberal trade.

Jenkins told reporters at the summit conclusion that he was particularly disappointed that the heads of government had not agreed on a JET site. He added, however, that the member governments recognized the importance of reaching a decision by the end of July and that a satisfactory settlement was still possible. Earlier this month EC Energy Commissioner Guido Brunner predicted that unless a decision on a JET site was reached the project would end and the European Community would lose its advantage in fusion research and the potential production of cheap energy.

In his remarks to the press, Jenkins welcomed the Council decision to extend the European Investment Bank activities, but appealed again for an extension of the Commission's borrowing capability to be used in conjunction with the EIB program.

"The bank's capital restriction and the sectoral restrictions inherent in the Euratom and the ECSC operations place severe limits on spending these funds," Jenkins told the Council at its Wednesday meeting. "We now want to use the untapped resources of the international capital markets to give a stronger push behind Community sectoral policies that remain quite weak." Jenkins said borrowed capital would especially aid in energy, industrial reconversion and regional infrastructure, which he said would be without cost to the member state budgets and would incur no new management costs.

"It would give the Commission the means to do the job in the various sectors of the Community economy which I am sure the Council would like us to do," Jenkins told the heads of government. "If you want us to do our part of the job," he said, "you must give us the tools with which to do it."

In the discussion that followed Jenkins' plea, Britain, Denmark and Ireland supported Jenkins' proposal, but France and Germany were not enthusiastic.

The text of the Council's statement on growth, inflation and employment follows:

1. The European Council reviewed progress and ongoing work on the range of problems which it had identified at its March meeting in Rome, including both action within the Community itself and cooperation at wider international levels.
2. At its March meeting the European Council agreed to seek action on specific labor market problems particularly for young people and women, to encourage high levels of investment in member states, and to halt divergence and promote convergence in their economic performance. The European Council notes the action taken within the Community on all these points.
3. The European Council welcomed the agreement reached on 28 June by the Council (social affairs) to improve the effective operation of the European Social Fund. It noted that the Commission would soon be submitting proposals to use the fund for a scheme directed to the employment problems of women.
4. The European Council attaches particular importance to the problem of structural unemployment among the young. It received a report from the Commission on Community action in the field of the labor market and has called on it to continue its work on the problem. The Council (social affairs) was asked to meet in early autumn to consider, in the light of this work and of the results of national measures, what common action might be necessary.
5. The European Council noted with satisfaction the spirit of cooperation between governments, institutions and the social partners which marked the work of the Tripartite Conference of 27 June. The Council hopes that the joint study program, announced at the end of the conference, may lead to a strengthening of this spirit of cooperation.
6. The European Council noted the responses of the Commission and the Board of Governors of the EIB to the invitation which it made to them on 26 March 1977 to suggest ways in which the Community might increase and intensify its activities to promote convergence, investment and employment in the Community.
7. The European Council invited the Board of Governors of the EIB to implement its proposals.
8. The European Council also invited the Council (ministers of finance and economic affairs) to examine as early as possible the Commission's communication on investment and borrowing in the Community.
9. The European Council affirmed the necessity for the member states to arrive at a common energy policy.
10. The European Council reaffirmed the importance of cooperative efforts by industrial countries to seek a sustained expansion of world economic activity, consistent with further reduction of the rate of inflation and thereby to help reduce unemployment. The European Council expressed its determination that the Community and its member states should play their appropriate part in this worldwide cooperation. In this connection the European Council noted the commitments made by some heads of government to the achievement of specified growth targets in 1977 and to the review of policies and progress to this end. It also noted that other governments have expressed their intention of continuing their stabilization policies. The European Council was concerned that adequate international financing should be available to support this expansion of world economic activity, and expressed the hope that the efforts being made to this end in the IMF and elsewhere would be successful.

11. The European Council expressed its concern at the employment situation in certain sectors adversely affected by structural changes in the economy. It invited the Commission to continue studying all factors whether structural or otherwise and to indicate the conclusions which it draws from these studies. The European Council also concerned itself with the effects on the employment situation of the open and liberal commercial policy of the Community to which the Community, as the world's largest importer and exporter, remains strongly attached.