



Text of Public Statement
made by the Taoiseach
Mr. Liam Cosgrave, T.D.
at the conclusion of the
meeting of
Heads of Government
of the European Communities
and Text of Declarations
agreed by the
Heads of Government

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Statement by the Taoiseach

I must first say, on behalf of my colleagues, and myself, how sorry I am that we have kept you waiting. The issues before the meeting were complex. They certainly kept us occupied a great deal longer than we had originally anticipated. However, I think that the outcome justified the delay.

This was the first meeting of Heads of Government under the new arrangements agreed in Paris last December. A characteristic of these arrangements is that there should be no formal communiqué after the meetings. Nevertheless, a number of issues before the present meeting are of such importance and such complexity that my colleagues and I found it necessary to incorporate decisions of the meeting in formal declarations or statements.

On the budgetary question the Council agreed on the correcting mechanism outlined by the Commission in its Communication entitled "The unacceptable situation and the correcting mechanism"* with the following modifications:

1. The criterion concerning the *balance of payments deficit*, and the *two-thirds ceiling* are dropped.
2. The following provisions will be incorporated into the agreed mechanism:
 - a. The amount of the correcting mechanism shall be up to a ceiling of 250 million units of account. However, as soon as the amount of the Community budget exceeds 8,000 million units of account, the ceiling shall be fixed at an amount representing 3% of total budget expenditure.

*See Appendix.

- b. When a moving average drawn up over 3 years indicates that the balance of payments on current account of the country in question is in surplus, the correction shall only affect any difference between the amount of its VAT payments and the figure which would result from its relative share in the Community GNP.

A statement affecting British membership of the Community deals with the question of the review of the importation of quantities of New Zealand dairy products to the Community, in accordance with Protocol 18 of the Accession Treaty. The Protocol permits of the importation, free of levy, of certain specified quantities of these products in the years up to and including 1977. Under the terms of the Protocol, these arrangements are to be reviewed before the end of 1975. Our meeting decided on certain guidelines to be given to the institutions of the Community in carrying out this review. You will note that the Commission's proposals on the subject are to be ready as soon as practicable and are to provide for special import arrangements as provided for in Article 5 of the Protocol after 1977. The proposals will provide for price reviews having regard to certain defined criteria. A copy of this declaration is available.

We also had a useful discussion on the Conference on Security and Co-operation in Europe which is currently taking place in Geneva. We have agreed on a statement on this subject the text of which is being distributed.

The subject of Energy and the price of Energy occupied the attention of the meeting for a considerable time today. It was agreed that under the authority of the Council (Foreign Affairs) a special high level ad hoc Committee composed of representatives of the member States and of the Commission should be established so as to co-ordinate the approach to this problem in the interests both of consumers and producers, and of economic stability in the entire world. The first meeting of this Committee is being arranged for 19th March. The Heads of Government have incorporated their views on this also in a declaration of which copies are also available.

We also discussed the world economic situation with particular reference to the problems of unemployment and inflation

following the steep increase in oil and other raw material prices. There was general agreement that this issue and the views of Heads of Government on it, should be referred to the meeting of Council of Ministers of the Community (Finance) to be held on 18th March.

On raw materials, there was an extremely useful discussion. It was decided that this matter, which was coming before the Heads of Government for the first time, should be referred to the Council of Foreign Ministers on the basis of the proposals put before the Council by the Commission.

On Cyprus, the Heads of Government and Foreign Ministers, recalling the statement issued by the Foreign Ministers following their meeting in Dublin on 13th February, expressed the hope that in the context of the discussions currently being held at the United Nations in New York, there will be an early resumption of negotiations on the question of Cyprus. The Nine will of course continue to keep in close touch with developments as regards the situation in Cyprus.

In conclusion I should like to say how gratifying it has been for me, to have had the opportunity to preside over this Heads of Government meeting which in addition to dealing successfully with the other items on the agenda, has brought to a conclusion the prolonged discussion of the issues raised by the question of British membership—a conclusion which we naturally hope that the British Cabinet will feel it can recommend to the British people at the forthcoming referendum.

Statement on New Zealand dairy imports

The Heads of Government, meeting in Council at Dublin the 10th of March, underline the importance which they attach to Protocol 18 of the Act of Accession, as regards the relations of the Community with New Zealand, a traditional supplier of dairy products to a substantial part of the enlarged Community.

They invite the Commission to present a report in order to prepare the review provided for in Article 5 of the Protocol and to submit as soon as practicable a proposal for the maintenance after 31st December 1977 of special import arrangements as referred to in that Article. They observed that the Institutions of the Community have already carried out certain price adjustments in the framework of the Protocol. In the same spirit, the Community, which remains attached to a fair implementation of the Protocol, is ready to review periodically and, as necessary, to adjust the prices having regard to the supply and demand developments in the major producing and consuming countries of the world, and also to the level and evolution of prices in the Community—including intervention prices—and in New Zealand, taking moreover into account cost developments in New Zealand and trends in freight charges.

As regards the annual quantities to be established by the Community institutions in the framework of the special arrangements after 1977, these should not deprive New Zealand of outlets which are essential for it. Thus for the period up to 1980, these annual quantities depending upon future market developments, could remain close to effective deliveries under Protocol 18 in 1974 and the quantities currently envisaged by New Zealand for 1975.

They note that Protocol 18 provides that the exceptional arrangements for the import of cheese cannot be maintained after 31 December 1977, and that this situation and the problems which may arise from it will be given due attention with appropriate urgency, taking into account also the considerations in the following paragraph.

The Heads of Government note, moreover, that New Zealand and the Community together provide the major part of world

exports of dairy products. They, therefore, express the wish that, in the same spirit with which the Community approaches the application of Protocol 18, an ever closer cooperation be developed between the Institutions of the Community and the New Zealand authorities with the objective of promoting in their mutual interest an orderly operation of world markets. Such a cooperation, apart from its intrinsic value, should provide a basis from which to achieve, in a wider framework, the conclusion of an effective world agreement such as is envisaged in Protocol 18.

Statement on Energy

The Heads of Government, meeting in Council in Dublin, examined the problems connected with the International Energy Conference. They agreed that the Community should undertake intensive preparation for this Conference without delay. Preparation will involve listing the various problems, concerning both matters specifically relating to energy and directly connected questions concerning economics, finance and the developing countries, to be dealt with at the Conference and the preparatory meeting for it. Preparatory work will also attempt to define the joint responses to be made depending on the positions adopted by the other participants at the Conference.

The preparatory work will be carried out under the authority of the Council (Foreign Affairs) by a high-level ad hoc Committee composed of representatives of the Member States and the Commission. It will be based on the inventory, to be drawn up by the Commission, of problems to be dealt with at the Conference and the preparatory meeting, any proposals which the Commission submits to the Council on these problems and suggestions and requests made by the Member States.

The Council will take the appropriate decisions on this basis and in particular will determine the content of and arrangements for the dialogue to be conducted with the other consumer and producer countries.

The Council has agreed to meet at the level of Heads of Government in good time to prepare for the Conference.

Statement on the CSCE

“The Heads of Government reaffirmed the determination of the Nine to pursue and develop their policy of détente and cooperation in Europe.

They expressed the hope that this policy will encourage ever-increasing understanding and trust among peoples, which is the basis for a genuine improvement of the political climate on the continent. This objective will find particular expression in the development of relations between States and peoples in which an important part should be played by the individual.

In this context, the Conference on Security and Cooperation in Europe, and the implementation of its decisions, are destined to play an important part.

The Heads of Government expressed their satisfaction with the constructive role which, due to their concerted diplomacy and the common positions they have adopted, the Nine have been able to play in the course of this Conference, which is closely related to the interests of the European Community.

The Heads of Government reviewed the development of the work which is currently under way in Geneva; they noted that substantial progress had already been made, but also that some important points remained to be settled.

They pronounced themselves in favour of as rapid a conclusion as possible to this work. To this end, they intend to continue and intensify their efforts to seek, in an open and constructive spirit, positive solutions to the problems which are still under discussion or outstanding.

The Heads of Government hope that all participating States will, as they have decided to do themselves, make every effort necessary to obtain balanced and satisfactory results on all the subjects on the agenda. This would make it possible to envisage the conclusion of the Conference at an early date and at the highest level”.

Statement on Cyprus

“The Heads of Government and Foreign Ministers, recalling the statement issued by the Foreign Ministers following their meeting in Dublin on 13th February, hope that in the context of the discussions currently being held at the United Nations in New York, there will be an early resumption of negotiations on the question of Cyprus. The Nine will of course continue to keep in close touch with developments as regards the situation in Cyprus”.

Appendix

THE UNACCEPTABLE SITUATION AND THE CORRECTING MECHANISM (Commission communication to the Council)

In the communiqué issued following the Summit meeting in Paris on 9/10 December 1974, the Community Institutions (the Council and Commission) were invited "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".

The Heads of Government confirmed that "the system of 'own resources' represents one of the fundamental elements of the economic integration of the Community", and recalled the Community declaration during the accession negotiations that "if unacceptable situations were to arise the very life of the Community would make it imperative for the Institutions to find equitable solutions".

The Commission here sets out, in the light of these texts, the approach it feels should be adopted in devising a correcting mechanism to prevent the possible development of "unacceptable situations incompatible with the smooth working of the Community".

I. WHAT CONSTITUTES AN "UNACCEPTABLE SITUATION INCOMPATIBLE WITH THE SMOOTH WORKING OF THE COMMUNITY"

Paragraph 37 of the Paris Communiqué refers to objective criteria on which the correcting mechanism must be based and which must define the possible development of unacceptable situations.

The Commission has endeavoured to define criteria straightforward enough for their fulfilment to be established without unnecessary discussion, and carrying sufficient meaning to enable an assessment to be made of the risk of an unacceptable situation arising. These criteria would be used as the basis for a decision to put the correcting mechanism into operation.

For it to be apparent that an unacceptable situation is about to arise, there have to be two factors present, the existence of which is itself established as a resultant of several criteria. These two factors are a certain economic situation and a disproportionate contribution to Community financing.

The Commission considers that the risk of an unacceptable situation within the meaning of the Paris Communiqué must depend on an assessment of the simultaneous occurrence for a Member State of a certain economic situation and of a disproportionate contribution to Community financing.

A. Economic situation

The criteria which may be adopted in this regard are of several kinds.

They may be indicators of national wealth, such as Gross National Product per capita, or of economic growth, such as the rate of increase in GNP per capita. These criteria may be evaluated against a Community average. The former shows the extent of the current gap between national economies and the latter gives a good idea of the convergence or divergence between the Member States' respective economic situations and of the effectiveness of their economic policies.

Other criteria give a clearer picture of the overall state of the economy concerned, for example the existence of a current-account balance-of-payments deficit, the size of which must be related to the Gross National Product.

These criteria have to be applied in combination to assess the economic situation with regard to the question at issue; the

definition of such an economic situation in that the following are all present at the same time:

- Gross National Product per capita below 85% of the Community average;
- rate of growth of GNP per capita below 120% Community average;¹
- a deficit on the balance of payments on current account.

These criteria would be calculated on the basis of a moving three-year average, in line with the market rates of exchange, pending the introduction of a theoretically more satisfactory system of assessing rates of exchange in terms of purchasing power.

4. Disproportionate contribution to Community financing

As concerns Community financing, the Commission feels several aspects of the Member States' payments towards the Community Budget have to be taken into consideration, both as to the criteria defining the circumstances liable to lead to an unacceptable situation and, when these criteria are fulfilled, as to the activation of the correcting mechanism.

The first aspect, until such time as the process of convergence has been completed, could be comparison between a Member State's relative share calculated according to the results of the Decision of 21 April 1970 on the replacement of financial contributions from the Member States by the Communities' own resources² and what its share would be if based on the straight relation between its own GNP and the Community's.

Where the Member State's relative share is appreciably higher than it would be if based on relative GNP, and where the other criteria referred to in this communication are operative,

¹ Where the national wealth of a Member State measured by GNP per capita is below the Community average, for the respective economic situations to converge it is necessary that the State's rate of growth should be above the Community average: this would result in its progressively catching up with the others. Where its rate of growth is below the Community average it would only lag further and further behind them.

² This Decision defines the relative share of a Member State as the share of each Member State in the total amounts paid.

corrective action would be called for. Such action would need to take account of the different character of the three classes of Own Resources designated in the Decision of 21 April 1970. Whereas payments from VAT (or based on relative GNP pending agreement on VAT) can be regarded as a burden on the Member State concerned, the same reasoning cannot be applied to the same extent to agricultural levies and customs duties, in consequence of the free movement of goods within the Community. Hence, having regard to the nature and purposes of the Own Resources system, the correcting mechanism should not be set in motion every time that any disparity, no matter how small, develops, and for the same reason, even where it is set in motion, the disparity should not be compensated in its entirety.

Accordingly, it would appear best that application of the correcting mechanism should be confined to cases where the relative share is over 110% of the relative GNP of the Member State concerned; also, the correction should not apply to the whole of the disparity but should be limited to two-thirds of it.

The second aspect to be considered is the existence of a potential net foreign-exchange burden due to the implementation of the Community Budget. So long as the process of convergence has not produced a true monetary union, payments towards the Community Budget represent a potential foreign-exchange burden on the Member States. The Community Budget is implemented through convertible accounts held by the Commission in Each Member State. Under the regulations in force, to avoid unnecessary exchange transactions, the Commission, to whose account are credited Member States' Own Resources payments, gives priority in drawing on this account to payments corresponding to its expenditures in the Member States concerned. In accordance with its requirements, the Community may then make transfers for the purpose of financing operations outside that State. As a result there is a potential net foreign-exchange burden on the Member States concerned, once its national currency has been paid outside its borders and can be the subject of conversion. Unless there is such a potential foreign-exchange burden, Member States should not be able to call in question the consequences of the Own Resources system.

Also, the amount of the potential net foreign-exchange burden would be a second ceiling on the operation of the correcting mechanism.

Thirdly, the correcting mechanism should take account of the different nature of the three classes of Own Resources designated in the Decision of 21 April 1970: whereas payments from VAT (or those based on relative GNP pending agreement on VAT) can be regarded as a burden on the Member States concerned, the same reasoning cannot be applied to the same extent to agricultural levies and customs duties, because of the free movement of goods within the Community. Hence operation of the correcting mechanism could appropriately be limited to the total payments in respect of VAT by the Member State concerned.

The foregoing comparisons and calculations would need to be effected on the basis of market rates of exchange pending the introduction of a theoretically more satisfactory system of evaluating rates of exchange in terms of purchasing power.

C. Procedure

The Commission considers that where the criteria for the possible development of an unacceptable situation are operative this entitles a Member State to apply for the correcting mechanism to be put into operation. It would be for the Commission to assess the reality of the situation by reference to the pre-established criteria, and if appropriate to enter the necessary amount, determined as below, in the next preliminary draft Budget. The Council would decide on the amount so entered under the Budget procedure.

In practice the Member State concerned would have to act at the end of the first half-year. In doing so, it would indicate to what extent it considered the above criteria applied to its case in the context of the process of convergence of the Community economies. The criteria as to the economic situation would be considered in the light of the figures for the past three years expressed as a moving three-year average, and the criteria as to contribution to Community financing in the light of the forecasts for the current year. The amount required

would be entered as "expenditure necessarily resulting" in the Budget for the following year; it might if necessary be adjusted on the basis of the correcting mechanism according to the outcome of the forecasts of the contribution to Community financing.

II. SUGGESTED CORRECTING MECHANISM

To achieve the desired end, the Commission considers the correcting mechanism to be used should be based on Budget refunding.

For this purpose, any excess payment of Own Resources, on the basis of Own Resources actually transferred and Own Resources which have been transferred, had a GNP-based financing scale been used, would give entitlement to a refund from a new Budget line, the amount of the refund being determined by reference to the excess payment.

For this purpose the amount would be calculated as follows :

- (i) with respect to the tranche of the relative share between 100% and 105% of the relative GNP, there would be no refund;
- (ii) with respect to the tranche of the relative share between 105% and 110% of the relative GNP, the refund would be 50% of the payment corresponding to this tranche.

Similarly, for the tranches beyond, the refund would be :

110%-115%	60%
115%-120%	70%
120%-125%	80%
125%-130%	90%
130% and over	100%

As noted above, the amount of the refund would be subject to a ceiling of (i) two-thirds of the total excess payment, (ii) the amount of the net potential foreign-exchange burden which the implementation of the Community Budget imposed on the Member State concerned or (iii) the amount of VAT Own Resources paid, whichever was the lowest. Notwithstanding the Budget rules in force, all the foregoing calculations are at market exchange rates; Budget entry would be calculated at the Budget exchange rate.

The fact that a Member State has benefited from the correcting mechanism for three consecutive years could indicate a chronic divergence between Member States' economic situations. The Community authorities would then make a special examination of the situation of the State in question and take the appropriate measures to give effect to Community solidarity in the light of the assessment made of the convergence of economic situations and policies.

III. CONCLUDING REMARKS

As there is no Treaty provision for specific means of action on which the correcting mechanism thus outlined could be based, the Commission considers it would be necessary to have recourse to Article 235 EEC.

The arrangements suggested by the Commission could be operated for a trial period of seven years. At the end of that time the Community authorities would consider the conditions of application of the mechanism and take steps accordingly.

Please note: Modifications in this document in relation to criteria and the ceiling figure are explained in the Taoiseach's remarks at the beginning of this booklet.

