

THE EUROPEAN COUNCIL

**THE HAGUE
29-30 NOVEMBER 1976**

Documents in the dossier include:

Conclusions

Session of the European Council
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The European Summit

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Relations between the Community and Japan

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Session of the European Council

The Hague, 29 and 30 November 1976

Conclusions

Economic situation in the Community

1. There has been no further improvement in the economic situation in most of the Member States during the last few months.
 - With the weakening of special factors (such as stockbuilding), the rather slack increase in private consumer demand, as well as the continuing weakness of investment demand, industrial production has - with a few exceptions - levelled off.
 - Since the summer the balance of payments situation of the deficit countries has deteriorated appreciably as a result of seasonal factors and the depreciation of certain currencies.
 - As a result of the levelling-off of production, there has been little significant fall in cyclical unemployment. Indeed, in some member countries the number of unemployed has actually risen again.
 - Inflation rates have accelerated again in many member countries.
2. The slowdown in recovery has affected almost all the industrial countries. This has been accompanied by a considerable deceleration in the growth of the volume of world trade. An increase in oil prices could cause a further deterioration in the world economic situation and seriously endanger the economic upswing in the industrial countries.
3. Faced with these developments, there is a growing belief, in all the Member States of the Community, that only a greater and more uniform degree of price stability can in the long run ensure sustained economic growth, a reduction in unemployment and greater stability in international monetary relations.

4. There is still, however, a threat to the Community's cohesion. Divergences in prices, costs and balances of payments persist. Changes in exchange rate relationships are once again making it more difficult for some Member States than for others to contain cost and price inflation. The dangers for the Community raised by the persistence of these disparities can only be countered by greater solidarity between the Member States.
5. The realization of the objectives for 1977, approved by the Council of Ministers on 22 November 1976, will be possible only if:
 - the positive factors predominate and, especially, the expansion of world trade continues, without the introduction of protectionist measures;
 - further efforts are made to coordinate economic and stability policies at Community and international level;
 - in collaboration with the two sides of industry at national and Community level, future wage agreements take account of what is economically possible. The dialogue with the two sides of industry, called for by the last European Council, should be continued;
 - there is no increase or only a moderate increase in oil prices.
6. The data available at present do not justify a general change of the short-term economic policy being pursued at the moment. A careful watch must, however, be kept over the evolution in the weeks and months ahead, so as to prevent, through prompt action, any weakening of domestic and foreign expansionary forces.

Short-term economic policies must continue to be differentiated according to the situation of the individual Member States.

The deficit countries must follow a vigorous policy in the monetary, fiscal and incomes field, so as to reduce the high level of balance of payments deficits and inflation rates, cut the spiral of exchange rate deteriorations and price rises, and thus restore confidence as quickly as possible.

Those countries which are not subject to external constraints and which can anticipate a further reduction in price increases, must ensure that domestic demand expands. Thus they will support the efforts of the deficit countries which, unless there is a recovery in external demand, could achieve success only at the price of a distinct downturn in activity and growing unemployment.

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BACKGROUND NOTE

No. 53/1976

November 30, 1976

THE EUROPEAN SUMMIT

The European Community's economic outlook remains uncertain, and both its own recovery and its capacity to contribute to the success of the "North/South" dialogue depends to some extent on stable or only moderately increased oil prices.

These were among the conclusions reached at the November 29-30 meeting of the "European Council" in The Hague. The European Council, consisting of the Community members' heads of state or government, meets three times a year to set the broad lines of Community policy at the highest political level.

Agenda items were the Community's economic situation, relations with Japan, the Community's position at the North/South dialogue (officially known as the Conference on International Economic Cooperation now underway in Paris), and the "Tindemans report" on ways of forging European Union. (The report was named for its author Belgian Prime Minister Leo Tindemans who was Foreign Minister when he wrote it at the request of the European Council.)

On relations with Japan, in a declaration issued at the close of the meeting, the European Council "notes with concern the effects of import and export practices followed hitherto in Japan as well as the rapid deterioration in the trade situation between the Community and Japan and the problems which have arisen in certain important industrial sectors."

The official translation into English of the European Council's declarations on relations with Japan and on the Conference on International Economic Cooperation is annexed to this note together with unofficial translations from the French of the European Council's statement on the Tindemans report and of the Commission's communication to the European Council which served as the basis for the Council's discussion of the Community's economic situation.

STATEMENT ON THE TINDEMANS REPORT

(unofficial translation from the French)

1. The European Council has examined the report on European Union which, at its request, was presented to it by Mr. Tindemans. It heard a statement from the President on the work accomplished and approved the general orientation of comments by the ministers of foreign affairs on the various chapters of the report.
2. The European Council expressed very great interest in the analyses and proposals formulated by Mr. Tindemans. It shared the views expressed by the Belgian Prime Minister on the need to build the European Union by reinforcing the solidarity of the nine member states and of their peoples, both on the internal level and in their external relations, and by endowing the Union progressively with the necessary instruments and institutions for its action. It believes that the European Union should effectively extend into the daily life of individuals striving to protect their rights and to improve their way of life.
3. The European Council had, on this occasion, a broad discussion of the principles which must guide the construction of the European Union during the next few years. The European Union will be built progressively by consolidating and expanding the Community's achievements. The existing treaties could serve as the basis for new policies. The achievement of economic and monetary union is fundamental for the consolidation of the Community's solidarity and for the establishment of the European Union. A priority importance should be given to action against inflation and unemployment as well as to the completion of a common policy for energy and research and a real regional and social policy for the Community.
4. The European construction should also put to best advantage the possibilities for cooperation between the nine member governments in the areas where the States are ready to exercise their sovereignty in a convergent manner. This type of cooperation undertaken in the field of foreign policy should lead to the search for a common external policy.
5. Within the perspective defined by the report on European Union, the heads of state -- agreeing to reach a common, coherent, and global political concept -- reaffirm their will to develop the authority and the efficacy of Community institutions as well as their peoples' allegiance to them and confirm the directing role of the European Council.
6. Starting from the conclusions reached by the ministers of foreign affairs, the Council invites them and the Commission in the areas of their respective competence to report to it once a year on the results achieved and possible short-term progress in the different areas of the Union to bring into reality the common concept of the European Union.

THE ECONOMIC SITUATION IN THE COMMUNITY
(COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL)
(unofficial translation from the French)

1. The economic situation in most of the member states has barely improved for several months:

--- The attenuation of certain exceptional factors (rebuilding stocks), the slow growth of private consumption, as well as the continuing weakness of investment, have occasioned, with the exception of a few sectors, a slowdown in industrial production.

--- Since summer, deficit countries' balance of payments has considerably deteriorated, under the influence of seasonal factors and the depreciation of certain currencies.

--- Following the stagnation of production, the short-term reabsorption of unemployment has scarcely shown any progress, and the number of unemployed has even begun to increase again in several member states.

--- The pace of inflation has again accelerated in several member states.

2. The weakening of the economic cycle affects almost every industrialized country. It is accompanied by a considerable slowdown in the expansion of world trade. A possible increase in the price of petroleum could accentuate the deterioration of the economic situation at world level and seriously compromise the pursuit of economic recovery in the industrialized countries.

3. Given this situation, in every member state, the opinion has been strengthened that only a more pronounced and generalized price stability can assure, in the long term, lasting economic growth, reduction in unemployment, and more orderly evolution of exchange rates.

4. Meanwhile, the Community's cohesion remains threatened. The disparities in the trend of prices, costs, and balances of payments persist. The changes that have taken place in the relationships between currencies create new differences in the member states' situations in their struggle against increases in prices and costs. The resultant dangers to the Community from the permanence of these disparities can only be surmounted by a strengthening of solidarity between member states.

5. The achievement of the objectives for 1977, as they were set by the Council at its November 22, 1976, meeting* is subject to the following conditions:

--- that the positive factors predominate in general and especially that the growth of world trade continues without being restricted by protectionist measures

--- that new efforts be made to coordinate economic policy and action for stabilization -- at the international level as well as at the Community level

--- that in the context of collaboration with the social partners [labor, management, and government], in the member states and at Community level, account be taken of macro-economic possibilities in future salary negotiations. The dialogue with the social partners, recommended by the European Council at its last meeting, must be pursued.

--- that the price of petroleum not increase or increase only moderately.

*The Annual Report on the Community's Economic Situation, Doc. R/2520/1/76 (Fin. 667 Rev. 1).

6. The facts now available do not suggest that economic policy should be reoriented. It will be important, nevertheless, in the coming weeks and months, to watch developments closely to be in a position to react promptly to a possible paralysis of the driving forces of economic growth, inside as well as outside [the Community].

In addition, future economic policy should remain differentiated according to each member state's position:

--- Deficit countries should pursue a rigorous policy in monetary matters, public spending, and taxation to reduce balance-of-payments deficits and inflation rates, break the chain of monetary depreciations and price increases, and thus reestablish a climate of confidence in the shortest time possible.

--- The countries that are not subject to external restraints and which can begin to count on another slowdown in the rise of prices should take care to encourage internal demand. Thus, they will support the efforts of the deficit countries which, in the absence of an upturn in external demand, could not succeed except at the cost of a distinct weakening of economic activity and aggravation of unemployment.

ANNEX III

EUROPEAN COUNCIL STATEMENT ON EC/JAPAN RELATIONS

(official translation from the French)

The European Council stresses the importance it attaches to maintaining good relations between the Community and Japan and its strong desire that these relations should develop to the advantage of both the Community and Japan.

The European Council notes with concern the effects of import and export practices followed hitherto in Japan as well as the rapid deterioration in the trade situation between the Community and Japan and the problems which have arisen in certain important industrial sectors. Determined efforts are called for to remedy this situation, paying particular attention to the need for rapid expansion of Japanese imports from the Community, with a view to the development of mutually advantageous trade relations.

The European Council accordingly invites the responsible Community institutions to give further urgent consideration to these problems and to pursue vigorously this important aspect of the common commercial policy in discussions with Japan. It expects that substantial progress will have been achieved before its next meeting on the solutions which are urgently needed to realize the Community's objectives.

The European Council notes with satisfaction that the Japanese Government is willing to cooperate with the European Community, on the basis of mutual understanding, in solving the problems which arise.

EUROPEAN COUNCIL STATEMENT ON CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION
(CIEC)

(official translation from the French)

The European Council reaffirms the importance which it attaches to the whole range of problems relating to international economic cooperation, and therefore to the CIEC.

In its view, the nature and composition of the conference and the scope of the matters with which it is concerned bestow upon it a particular significance which justifies the pursuit of the efforts already made.

The European Council considers that further progress must be made by all concerned to reach mutually satisfactory conclusions, which would permit considerable progress to be made in international economic cooperation and would enable an important contribution to be made to the economic development of the developing countries.

The Community, for its part -- conscious of the growing interdependence of world economies and anxious to encourage an atmosphere conducive to international economic cooperation -- is prepared to make as positive a contribution as it can to the extent that developments in its own economy permit.

At the end of its exchange of views on this question, the European Council confirmed the importance which it attaches to the success of the North/South dialogue and requested the competent bodies of the Community to proceed in this light with their work on all of the matters under discussion.

B A C K G R O U N D I N F O R M A T I O N

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CORRIGENDUM

In paragraph three of Background Note No. 53/1976, Leo Tindemans' title, when he wrote his report on European Union, is incorrectly stated as "Foreign Minister." He was Prime Minister.

1. Relations between the Community and Japan

1101. November saw several significant developments for the future of trade relations between the Community and Japan, relations marked by the Nine's widening trade deficit with Japan, and serious problems in certain Community industries as a result of the inroads made on the Community market by Japanese products.

Having approached Japan several times on this matter in recent years and again just lately, the Community informed the Japanese Government that it might have to impose restrictions unless Japan took effective steps to achieve a better balance in its trade with the Community and, in particular, allow Community sales to develop on the Japanese market. The Community's position—already made clear in October when Mr Doko,¹ President of the Japan Federation of Economic Organizations (Keidanren) came to Brussels and a Commission delegation visited Tokyo for talks²—was reiterated at a meeting of the ECSC-Japan Contact Group on 11 and 12 November³ and during high-level consultations between the EEC and Japan⁴ on 15 and 16 November.

Following these discussions, the Japanese Government informed the Commission of the steps it intended to take to 'rebalance' its trade with the Community and deal with the problems which exist in several sectors.

Meanwhile, the European Council, meeting in The Hague on 29 and 30 November,⁵ issued a statement in which it acknowledged the Japanese Government's willingness to cooperate, but stressed that determined efforts were called for to remedy the situation and invited the responsible Community institutions to give further urgent consideration to these problems and concentrate all their efforts, during discussions with Japan, in order to establish mutually advantageous trade relations.

The background

1102. The problems arising from trade relations between the Community and Japan—which, with the United States, are the three leading market-economy industrialized powers—are not new.

Negotiations in 1970 and 1971⁶ for a trade agreement between the Community and Japan failed because the Japanese authorities objected, on principle, to the inclusion of a Community safeguard clause in the draft agreement. It was then agreed that the two parties would seek a solution to this matter within the framework of the multilateral trade relations in GATT. In June 1973,⁷ the Community and the Japanese Government embarked on a series of regular, half-yearly, high-level consultations bearing on bilateral questions and major multilateral economic issues; nine such meetings have since taken place.

Over the last few years, however, the Community's mounting deficit in trade with Japan has grown from an economic problem into a major political one; similarly, the particularly serious difficulties affecting certain industries have political implications because of their impact on the economic situation and employment.

The deteriorating trade balance

1103. Although in 1970 trade between the Community and Japan was roughly in balance, the Nine thereafter began to run up a deficit, which rose from \$1 200 million in 1973 to \$2 000 million the following year, \$3 200 million in 1975

¹ Bull. EC 10-1976, point 2345.

² Bull. EC 10-1976, point 2346.

³ Point 1112.

⁴ Point 1113.

⁵ Point 1114.

⁶ Bull. EC 9/10-1971, point 131.

⁷ Bull. EC 6-1973, point 2324.

and, according to estimates, will reach \$4 000 million in 1976. Over the same period, the coverage of imports by exports declined from 67 % to less than 50 %.

The reactions in the public and industry sectors in Europe are all the sharper as Japanese imports are concentrated in a few sectors where they attain such a volume that they disrupt the market and cause unemployment. By contrast, for various reasons and because of administrative obstacles and various non-tariff measures, European products find it difficult to penetrate the Japanese market.

The industries hardest hit

1104. The sectors hit by Japanese exports are, principally, steel, motor vehicles, shipbuilding, electronics and ball-bearings.

Steel

1105. Imports of steel products from Japan have generally tended to move in the opposite direction to the business cycle. They reached peaks during the recessions of 1966, 1972, 1975 and 1976, while the lowest points were recorded during the booms of 1964, 1970 and 1974. In the recessions, these imports added to the difficulties on the steel market in regard to both quantities and prices. For instance, steel consumption in the Community rose by only about 2 % in the second quarter of 1976 compared with the first quarter, while imports from Japan went up by 45 % (from 285 000 to 415 000 tonnes).

As in previous recessions, the Japanese producers are exerting downward price leadership and steel firms are often compelled to align on the very low Japanese prices. Things are made worse by the fact that exports are concentrated on certain products, which have now become very sensitive. At the same time, Community steelmakers have found that Japanese exporters, with their ex-

tremely low prices, have been launching a broad offensive on the traditional markets for European steel in the rest of the world. Despite the voluntary restraints applied by the six major Japanese producers in 1975, imports from Japan have grown steadily, the smaller producers being mainly responsible.

Motor vehicles

1106. In 1974 Japan exported 250 000 cars to the Community compared with the 25 000 which the Community sold to Japan. The imbalance was even more marked in the first half of 1976 when 243 000 cars came from Japan as against 13 000 sold there by the Community. In 1975, the Japanese held a 4.38 % share of the Community car market, with deeper penetration in the non-producing Member States—Belgium (16.7 %), the Netherlands (15.5 %) and Denmark (14.7 %)—than in those which produce cars—Germany (1.7 %), France (1.6 %) and Italy, where imports are subject to quota (0.05 %); but Japanese imports reached 9 % in the United Kingdom where the industry is going through a very difficult time.

Shipbuilding

1107. Present overcapacity in this crisis sector is in large part due to the brisk expansion of Japanese shipyards in recent years. In addition to the OECD initiatives for reducing production capacity, the Commission has requested the Japanese authorities to resume bilateral discussions on this subject.

Ball-bearings

1108. Between 1974 and 1976, Japan increased exports to the Community of ball-bearings and tapered roller bearings by 40 % and 100 % respectively. Since 1974, the numbers employed in the

Community industry have dropped by 5 000. Information available to the Commission suggests that Japanese exporters may be engaging in dumping practices. On 10 November,¹ the Commission therefore opened an anti-dumping procedure in respect of Japanese exports of ball-bearings to the Community.

The Community reaction

1109. Towards the end of 1975 and especially since the beginning of 1976, the Commission has stepped up its representations to the Japanese authorities to alert them to the dangers of the present situation and the need to restore better balance in trade between the Community and Japan.

Action by the Commission

1110. The problems arising from the deteriorating trade situation were brought up during the high-level consultations in Brussels in December 1975² and in Tokyo in June 1976,³ by Sir Christopher Soames at a ministerial meeting of the OECD in June 1976, by Mr Gundelach when he went to Japan in July,⁴ again more recently in October when Mr Doko, President of the Japan Federation of Economic Organizations (Keidanren) came to Brussels and lastly during talks held in Tokyo by a Commission delegation.⁵ The Commission has also repeatedly approached the appropriate Japanese authorities concerning access for Community exports. This has yielded some positive results for the motor industry,⁶ textiles,⁷ pharmaceuticals, farm products, etc. Discussions are still going on in respect of a series of other official steps to secure the removal of various obstacles or non-tariff measures impeding the entry of Community products into Japan, including footwear, manufactured tobacco, processed farm products, etc.

The discussions in November

1111. During November, the discussions between the Community and Japan moved into a new key with the meeting of the ECSC-Japan Contact Group, the high-level consultations, the European Council meeting and, on 25 November, the letter from the Deputy Foreign Minister, Mr Yoshino to Mr Gundelach, Member of the Commission. In the letter the Japanese Government agrees to open bilateral talks with the Community on shipbuilding, offers a number of concessions in agriculture and indicates that on the problem of cars the Japanese and British industries will have to meet for bilateral discussions.

Meeting of the ECSC-Japan Group

1112. The ECSC-Japan Contact Group met in Brussels on 11 and 12 November. The points discussed were the general economic situation, the trend of the steel market and investment in the coal and steel industries.

The Japanese Delegation was confident that in 1977 Japan's steel exports to the Community would cause less trouble than in 1976. It also expressed concern about the alleged unfair trade practices. The Commission delegation was pleased with this response.

The group will next meet in Tokyo during the first half of 1977.

High-level consultations

1113. The ninth meeting in the series of regular high-level consultations between the Community

¹ OJ C 268 of 12.11.1976.

² Bull. EC 12-1975, point 2344.

³ Bull. EC 6-1976, point 2365.

⁴ Bull. EC 7/8-1976, point 2355.

⁵ Bull. EC 10-1976, points 2345 and 2346.

⁶ Bull. EC 5-1976, points 2110 and 2345.

⁷ Bull. EC 12-1975, point 2315.

and Japan was held in Brussels on 15 and 16 November. The Japanese Delegation, led by Mr Bunroku Yoshino, Deputy Minister of Foreign Affairs, had talks with Mr Gundelach (in Sir Christopher Soames's absence, the Member of the Commission responsible for external relations) and senior Commission officials.

The talks, which revealed much in the way of common interest and views, covered both multilateral and bilateral issues, including the GATT trade negotiations, the North-South dialogue and the world economic situation.

Most of the time was devoted to bilateral issues. Mention was made of the recent visit to Europe of an important Japanese industrial mission led by Mr Doko, the President of the Japan Federation of Economic Organizations (Keidanren).¹ This had clearly helped Japan to appreciate more keenly the need to try and avoid particular sectoral problems on the Community market and to redress the growing imbalance in bilateral trade by allowing Community exports to expand.

The Commission stressed that it was still very concerned about a number of specific trade problems for which solutions still need to be found.

These included shipbuilding, where the Community industry is in a very serious situation; discussion on this subject will continue.

On the matter of Community exports to Japan, the delegation and the Commission reviewed areas where an expansion in Japan's imports could help to rectify the present imbalance in trade.

The Japanese Delegation showed that it clearly appreciated the social and political as well as the economic aspects of the issues raised by the Community and indicated that it would urgently consider what else could be done to improve bilateral trade relations.

Statement by the European Council

1114. After the meeting of the European Council on 29 and 30 November the President issued

the following statement setting out the conclusions on relations with Japan:

The European Council stresses the importance it attaches to maintaining good relations between the Community and Japan and its strong desire that these relations should develop to the advantage of both the Community and Japan.

The European Council notes with concern the effects of import and export practices followed hitherto in Japan as well as the rapid deterioration in the trade situation between the Community and Japan and the problems which have arisen in certain important industrial sectors. Determined efforts are called for to remedy this situation, paying particular attention to the need for rapid expansion of Japanese imports from the Community, with a view to the development of mutually advantageous trade relations.

The European Council accordingly invites the responsible Community institutions to give further urgent consideration to these problems and to pursue vigorously this important aspect of the common commercial policy in discussions with Japan. It expects that substantial progress will have been achieved before its next meeting on the solutions which are urgently needed to realize the Community's objectives.

The European Council notes with satisfaction that the Japanese Government is willing to cooperate with the European Community, on the basis of mutual understanding, in solving the problems which arise.'

¹ Bull. EC 10-1976, point 2345.