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2d Session }

COMMITTEE PRINT

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**THE ASCENDANCY OF ECONOMIC GOALS
IN THE WORLD ORDER
Washington: 1975**

REPORT

ON THE

EIGHTH MEETING OF MEMBERS OF CONGRESS AND OF THE EUROPEAN PARLIAMENT

OCTOBER 1975

PURSUANT TO

H. Res. 315

AUTHORIZING THE COMMITTEE ON INTERNATIONAL RELATIONS TO CONDUCT THOROUGH STUDIES AND INVESTIGATIONS OF ALL MATTERS COMING WITHIN THE JURISDICTION OF THE COMMITTEE



JANUARY 1976

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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C., January 31, 1976.

This report has been submitted to the Committee on International Relations by the members of the committee who participated in the meetings in Washington, with an official delegation of the European Parliament on October 29-31, 1975.

The findings in this report are those of the committee members and do not necessarily reflect the views of the membership of the full Committee on International Relations.

THOMAS E. MORGAN, *Chairman.*

(III)

LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C., January 31, 1976.

Hon. THOMAS E. MORGAN,
Chairman, Committee on International Relations, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We are submitting for consideration by the Committee on International Relations a report on the meetings held in Washington on October 29-31, 1975, by members of the committee, and other Members of the House with an official delegation of the European Parliament.

We hope that the report will be useful to the committee in its consideration of legislation relating to U.S. relations with Europe.

PAUL FINDLEY,
DONALD M. FRASER,
BENJAMIN S. ROSENTHAL.

REPORT OF THE

COMMISSIONERS OF THE
LAND OFFICE
FOR THE YEAR 1870

The following report of the
Commissioners of the Land Office
for the year 1870, is
submitted to the Senate
and House of Representatives
of the State of New York.
It contains a full and
complete statement of the
lands owned by the State,
and of the proceeds of the
sale of the same, and of the
lands sold for the purpose
of raising money for the
debt of the State.

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PREFACE

The program for this eighth meeting of Members of Congress and of the European Parliament reflects the econocentric direction the world has taken since the oil embargo in late 1973. The title of this printed version of our program, "The Ascendancy of Economic Goals in the World Order" could, with good reason, have been expressed even more strongly as the "continued" ascendancy of such goals because the embargo continued into a period of sharply rising oil prices, balance-of-payment problems, recession in the Western World and further economic distress and despair in the Third and, especially, the Fourth Worlds. Thus, for the 4 years that the Congress and the European Parliament have sent delegations to these meetings, the parliamentarians have been engrossed in economic questions for more than half of that time.

One of the program's discussions, that concerning institutional developments within the European Community, implies that this concentration on economic goals may not continue much longer. For while in institutional terms, the ascendancy of economic issues has marked the Community's existence almost from the signing of the Treaty of Rome nearly 20 years ago, we now see signs that the next 20 years of the Community may witness a corresponding development of political institutions and aspects. The scheduled start of direct elections to the European Parliament in 1978, for example, almost certainly means the development of genuine pan-European political parties and stronger European political leadership.

Because the concept of European Union has always contained a promise of political content beyond the admittedly important economic development of the European Community in its present form, we have decided to include as an appendix to this report the document prepared by Leo Tindemans, the Belgian Prime Minister, on European Union. This marks, to our knowledge, the first American publication of the Tindemans' report. This report was requested by the chiefs of government of the Community countries in their 1974 summit meeting as a guide to future growth of the Community.

The Tindemans' report has received much attention in Europe since its publication 3 weeks ago. It has attracted little attention so far in the United States. We commend it, therefore, especially to our American readers and particularly to our colleagues in Congress and the executive branch. It is an excellent discussion of the role of Europe in the world and in its relations with the United States. And in its careful but far-reaching discussion of what European Union means in the fields of foreign and defense policies, the Tindemans' report may well mark the start of a second generation of growth for a united Europe.

If this ascendancy of political goals does proceed within the European Community, it will have profound affects on the American-European relation. We welcome this development; others in our country may be less certain that political unity in Europe is good for the United States. All Americans interested in the European and the American roles in the world, however, should read the Tindemans' report with care.

DONALD M. FRASER,
BENJAMIN S. ROSENTHAL.

JANUARY 31, 1976.

PARTICIPANTS

MEMBERS OF THE EUROPEAN PARLIAMENT ¹

Pierre-Bernard Cousté, Chairman, Progressive European Democrat,
France.
Walter Behrendt, Socialist, Germany.
Betty Boothroyd, Socialist, United Kingdom.
Libero Della Briotta, Socialist, Italy.
Fernand Delmotte, Socialist, Belgium.
Doris Mary Fisher, Socialist, United Kingdom.
James Martin Gibbons, Progressive European Democrat, Ireland.
Roger Houdet, Liberal, France.
Liam Kavanagh, Socialist, Ireland.
James Scott-Hopkins, European Conservative, United Kingdom.
Egon Alfred Klepsch, Christian Democrat, Germany.
Silvio Leonardi, Communist, Italy.
Tom Normanton, European Conservative, United Kingdom.
Augusto Premoli, Liberal, Italy.
Willem Scholten, Christian Democrat, Netherlands.
Horst Seefeld, Socialist, Germany.

SECRETARIAT OF THE DELEGATION

Karlheinz Neunreither, Director, German.
Théo Junker, Principal Administrator, French.

ASSISTANT

Liz Foreman, British.

ADVISERS

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PRESS AND PUBLIC RELATIONS

Guy van Haeverbeke, Head of Division, Belgian.

PROTOCOL SERVICE

Charles Hentges, Luxembourgish.

INTERPRETERS

Miss Padberg (German).
Miss Schmitt (German).

¹ See p. 109 for biographies.

Mr. Farley (English).
 Miss Hartley (English).
 Miss Gualandris (Italian).
 Mrs. Ciani-Basetti (Italian).
 Miss Dowdall (French).
 Mr. Heidelberger (French).

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Mike McCormack, Democrat, Washington.

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¹ See p. 110 for biographies.

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CONGRESSIONAL PROGRAM FOR DELEGATION FROM THE EUROPEAN PARLIAMENT

WEDNESDAY, OCTOBER 29, 1975

15.00–17.30—*Plenary Session I*—General Discussion “Review of Political Developments since April Meeting” (End of Indochina War, political developments in Southeast Asia, CSCE Finale, Developments in the Eastern Mediterranean and in Portugal).

(Papers by Mr. Findley and Mr. Kirk).

18.00–20.00—Reception given by Mr. Jens Otto Krag, Head of the Delegation of the Commission of the European Communities at his residence.

20.30—Chesapeake Bay evening hosted by Congressman and Mrs. Gilbert Gude.

THURSDAY, OCTOBER 30, 1975

09.00–10.15—*Parallel Working Groups*:

A. Discussion of draft report on a code of international conduct for multinational corporations.

(Papers by Mr. Lange and Mr. Sam Gibbons.)

B. Discussion of international monetary problems.

(Papers by Mr. Klepsch and Mr. Reuss.)

10.15–10.30—Coffee Break.

10.30–12.30—*Plenary Session II*—Discussion with papers “Institutional Developments in the European Community and in the United States”:

European Community: Progress towards European Union and direct elections to the European Parliament.

United States: The role of Congress in foreign affairs.

(Papers by Mr. Seefeld and Mr. Rosenthal.)

13.00—Lunch offered by Mr. Ralph Ingersoll, Deputy Secretary of State, State Department.

15.00—Meetings at the State Department.

18.00–20.00—Reception offered by Ambassador Gaja, of Italy, on behalf of The Nine.

20.30—Formal Dinner offered by the Congress of the United States at Smithsonian’s Museum of History and Technology.

FRIDAY, OCTOBER 31, 1975

09.00–10.30—*Plenary Session III*—Discussion with Papers “Should the United States and the European Community seek international agreements on primary resources and commodities including energy?” (including: Preparation of International Conference on Energy and Primary Resources, Euro-Arab dialogue, Lomé Agreement, U.N. Session on primary resources).

(Papers by Mr. Houdet, Mr. Normanton, Mr. Biester and Mr. McCormack.)

- 10.30-11.30—*Plenary Session IV*—Summary Discussion (including reports from Working Groups).
 11.30—Coffee Break.

FRIDAY, OCTOBER 31, 1975

- 12.00—Press conference.
 12.30—Reception in Capitol.
 13.00—Lunch offered by the International Relations Committee, House of Representatives.
 14.30—Executive branch meetings.

Wednesday, October 29, 1975

SUMMARY OF DISCUSSION

PLENARY SESSION I: GENERAL POLITICAL DEBATE

(Working documents: Mr. Findley and Mr. Kirk)¹

Mr. Rosenthal and Mr. Cousté, the joint chairmen, opened the discussions and introduced members of their respective delegations.

Mr. Findley introduced his paper on "Trans-Atlantic Cohesion in the Midst of Change". He repeated the invitation he had extended to the European Delegation in Munich in March to visit Illinois, following their meeting in Washington in the fall of 1976, to see the new Lincoln Shrine, and the city of Springfield, during the bicentennial year.

Mr. Scott-Hopkins, in Mr. Kirk's absence (due to illness), introduced Mr. Kirk's paper on "Some Political Aspects of United States/European Relations". He also commented on Congressman Findley's introduction. While stressing European interest in Mr. Findley's proposals concerning an Atlantic Convention on the establishment of institutionalized political links between the United States and Europe, it is neither desirable nor feasible for the Nine to enter such a relationship until they were able to speak with one voice on terms of equality with the United States. He welcomed Congressman Findley's proposals concerning the standardization and joint production of armaments, which, he said, had been a goal on the European side for many years, but concerning which depressingly little progress had yet been made.

U.S. SITUATION IMPROVED

Mr. Sam Gibbons said that there had been a vast improvement in the U.S. position since the previous meeting in March. U.S. military power had been steadily increasing, and military expenditure, in real terms, was now increasing by 2½ percent per year. The American economy was in better shape and inflation had been cut back to about 5 percent. There had been a record trading upturn, and the internal political situation was now much healthier than during the Watergate period. Internal passions and divisions concerning Southeast Asia had now receded. The balance of trade was a healthy one, and perhaps the dollar was undervalued. The trade surplus was now running at a very high level. He very much hoped that in the GATT negotiations it would be possible to make further reductions to remaining trade barriers. Finally, the recycling of Arab petrodollars seemed to be working out reasonably well.

Mr. Scholten agreed with Mr. Findley's emphasis on the need to standardize armaments within the Atlantic Alliance. This was not

¹ See pp. 11 and 15, respectively.

just of technical but also of financial importance. If we were not successful in achieving standardization in this field it would no longer be possible for the smaller NATO member countries to continue to maintain their defense efforts at the level that they had done in the past. In the Netherlands Parliament he was an Opposition Member and did not agree with the negative defense budget of the present Dutch Government. He was glad, however, about European agreement to purchase the F-16 as a replacement of the "Starfighter."

DIRECT ELECTIONS TO PARLIAMENT

Mr. Leonardi, looking to the future, said that there was considerable hope of achieving greater democratic control within the European Community, notably through the direct election of members of the European Parliament. Following the Helsinki Summit of the Conference on Security and Cooperation in Europe—a conference which had no victors and no vanquished—the climate of détente had improved. The perspectives for European Union now appeared to be quite good. Whereas Congressman Findley had proposed the strengthening of Atlantic relations through the creation of some kind of Federal Union, Europeans felt that they had to give priority to the creation of European Union, otherwise there would be asymmetry between the United States and Europe in view of U.S. predominance. Congressman Findley's proposal would only be viable once Western Europe had achieved union.

Mr. Cousté first asked Congressman Findley to elaborate the meaning of his congressional resolution on Atlantic Union. He then raised Dr. Kissinger's recent visit to Peking and wondered whether the Kissinger visit implied a lessening of U.S. interest in détente with the Soviet Union. He stressed the interest the Chinese showed in developing closer links with the Europe of the Nine.

ATLANTIC CONVENTION SUPPORTED

Mr. Premoli stressed the need for NATO to retain military bases in the eastern Mediterranean. He agreed that there was a strong need to move forward with the standardization of armaments; this is just one element, however, within the wider problem of the structure of Western defense in general, which needed reorganization. He thought that an Atlantic Convention of the kind proposed by Congressman Findley would benefit not only NATO but the European Community as well.

Mr. Delmotte referred to the problems of structure raised by Congressman Findley's idea of an Atlantic Convention. He was glad that the U.S. situation, as described by Congressman Gibbons, appeared to be in such a healthy state, particularly since prosperity was a necessary element in helping to maintain democracy. He expressed interest in the proposals made concerning the standardization of armaments but underlined that it was yet more important to stabilize the means of increasing prosperity.

Mr. Klepsch asked what importance U.S. Congressmen attached to the United Nations. He then touched on the question of U.S. agricultural exports, pointing out that although the Soviet Union might benefit from large-scale U.S. grain sales, this could have the general

effect of driving up world grain prices and thus prices to the consumer in Europe and elsewhere.

Had SALT I been violated by the Soviet Union? If so, how might such a violation affect the current SALT II negotiations? On the point of armaments standardization it was important that any standardization and/or joint procurement scheme should not just be to sell U.S. weapons. The real point was what European weapons systems should be developed within NATO and sold, including to the United States. What would happen after Tito in Yugoslavia? Turning to Portugal, the prospects for the future were still far from clear. Finally, he expressed gratitude to the U.S. Congress for having lifted its embargo on arms sales to Turkey.

ARMS STANDARDIZATION AN OLD IDEA

Mr. Behrendt said we must be extremely cautious concerning the Atlantic Convention in order not to arouse expectations which might be disappointed. Mr. Klepsch had stressed the need for arms standardization. There had been talk about this for years but we had got nowhere with it. The point was we could not afford purely national solutions in producing sophisticated modern weaponry.

As far as CSCE was concerned, the West had to see whether what it thought it had achieved at the Conference had any kind of reality at all. Although the embargo on Turkish had been lifted, as a result the West now had new problems with Greece. He was glad that Congressman Gibbons had expressed a positive view about reduction of trade barriers in GATT.

PROGRESS IN GREECE, PORTUGAL

Mr. della Briotta said that Mr. Kirk's report had been very circumspect about the situation in the Mediterranean. There is good reason for some optimism concerning the Mediterranean. Although 3 years ago there had been dictatorial régimes in Greece and Portugal there was now a much greater degree of democracy in these two countries.

Mr. Findley, replying to the discussion, gave a detailed explanation of his proposal for an Atlantic Convention and the joint congressional resolution on this matter. He was glad that so much support had been expressed concerning the need for armaments standardization and joint procurement within the Atlantic Alliance. As far as the effect of United States-Chinese contacts on United States-Soviet Union relations was concerned, he said that the United States had never entered into a love affair with either the U.S.S.R. or China. It was just trying to improve relations with these two countries.

PAPERS

TRANS-ATLANTIC COHESION IN THE MIDST OF CHANGE

Paper by Paul Findley

We meet today in the midst of great uncertainty and change. This is due in large part to either existing or impending crises of political succession in the major nation-states of the world. The succession crisis that shook Portugal is well known to all. The crisis in Spain has just begun. We can only wonder how much longer it will be before China, the Soviet Union, and Yugoslavia are similarly circumstanced by a vacuum of leadership. How will our own planning be affected by these momentous changes? How much time do we have?

It is generally believed that Secretary Brezhnev is in failing health; his hold on power even now is questionable, and the general direction of Soviet policy is riddled with important ambiguities. How can we explain, for instance, the apparent official approval that has been given to Konstantin Zarodov's criticism of national communist parties that are insufficiently violent and revolutionary in their orientation. Certainly this serves only to fan ideological fires in Portugal, in direct opposition to firm and repeated Western warnings.

SIGNS OF MORTALITY

China's marvelously resilient and durable political leaders, Chou and Mao, have clearly begun to show signs of mortality. The authority of Deputy Premier Teng is anything but assured. Here, too, we cannot know with confidence who will emerge to take their place, but we can discern the lines of policy along which rivals for power will probably coalesce. For example, we know that there are powerful forces within China's military establishment who will urge reconciliation with the Soviet Union once the current leaders pass from the scene. This change would of course dramatically alter the calculus of world power.

It is natural for us to wonder how we can best deal with this myriad of uncertain but seemingly momentous possibilities. Are there prudent steps that we can take in advance of these events to help minimize the dangers to our security and interests? Are there steps that may lessen the incentives for drastic revisions in the national policies of Russia and China? In short, How can we hedge against uncertainty?

On such matters, one can speak with caution and modesty. I will advance, however, two mutually reinforcing steps that seem to me especially worthy in this context of international change. The first is the continued and indeed accelerated strengthening and cultivation of our trans-Atlantic political relationship. The second and natural by-product of this is the modernization and cohesion of our common defense posture.

With respect to the first goal, it is my pleasure to inform you of the steps that have been taken within the Congress to date to advance the idea of a more effective unity of our peoples. A bipartisan group of 111 Members of the House have joined Congressmen Jim Wright, Don Fraser, Allan Howe, and me in introducing a resolution to call an Atlantic Convention of the NATO democracies. The purpose of such a conference is to explore the possibility of transforming our present relationship into a closer union based on federal or other democratic principles.

SUPPORT OF ATLANTIC CONVENTION

This resolution has the largest number of co-sponsors ever. Responsible conservative spokesmen, such as Dr. Walter Judd, former Member of Congress, have joined hands with more liberal persons to urge support for this idea. The House Subcommittee on International Organizations approved the bill unanimously. I expect that the entire Committee will soon give its strong endorsement as well. There has been an impressive growth of interest and support for this resolution. No longer is the idea of unity regarded simply a moonbeam at noon.

The support behind this endeavor, not only in the House, but in the Senate and White House as well, is so substantial that we can be assured that a most prestigious delegation will be named to participate in this historic convention. It is time for the parliamentary democracies of Europe to begin to consider this question more intensely, with a view toward determining the nature of their own role. For after years of patient hope and substantive maturation, this idea will soon be a reality of our times.

A more effective unity of our people is a wholesome thing in its own right. It is doubly important in the light of impending transformations of the international scene that I have already discussed. Rather than leading to a withering of any one nation's power, our closer union will contribute to the general strength and influence of all. It will be an important signal to whatever forces are arrayed against us—a signal of cohesion in a period of dissolution, of a growing interdependency of values, interests, and aspirations.

Bringing the Atlantic Convention to fruition is an important expression of our collective willingness to meet important problems. We must demonstrate actual will power as well. This leads me to my second prescription.

We must resist the popular impulse to reduce our defense expenditures. This will be quite difficult for many. And yet I say to you it must be done. More than ever before, it is important that the signal emanating from the Western democracies be one of strength and firmness. Many of those in the Soviet Politburo, for instance, who urge a resumption of the risky diplomacy of confrontation, do so on the assumption that we in the West are in the midst of a crisis of confidence. They assume that our unwillingness to make commitments for our collective defense belies an important lack of steadfastness. We must not foster such a perception.

NOT ONLY RESOURCES NEEDED

Additional resources are a necessary but not sufficient requirement for improved defense. There exists a parallel requirement to reorganize our posture along more rational and realistic lines. As I mentioned in my statement at Munich last April, new precision technologies have important and promising applications for forces on the defensive. In order to exploit such revolutionary technologies, however, we may have to make important alterations in our existing force structures. This may meet with a predictable resistance within our own defense bureaucracies. Such must be overcome. I fully intend to press along these lines vigorously in the year ahead.

It is also important that we make greater strides in the standardization of our equipment and weaponry. Our current deficiencies in this regard are worrisome. Logistical disparities, for instance, may greatly constrain the speed with which we can deliver ammunition during the press of battle. The latest war in the Middle East, with its rapid expenditure of ammunition, tends to demonstrate the urgency of this problem. The lack of a standardized process of command and control raises the prospect that (a) either we will be unable fully to co-ordinate the new weaponry that promises us an advantage, or (b) even worse, we may be reduced to great confusion in the midst of high crisis. In a positive vein, one notes the efforts that have been made in restructuring our tactical air forces in northern and southern Germany so as to make them more compatible in organization and doctrine.

When we last met I dwelt at great length on the force reduction talks. I continue to be wary of these negotiations. We used to refer to them, of course, as MBFR (Mutual *Balanced* Force Reductions.); the "B" for balanced has been removed, though, and therein hangs much of the tale. The Soviet Union aspires to freeze the existing asymmetry in concrete; we wish to move to a more secure *equality* at lower levels of forces. At a minimum, we must not allow the Soviets to contractualize the existing imbalance. Beyond this, however, there are other concerns to which we must attend. If United States forces are withdrawn across the ocean, will legal constraints prevent us from easily reinforcing the alliance in a time of tension? Will the withdrawn Soviet forces pose a much greater threat, being greatly more proximate to the theater of potential conflict?

The responses that I have suggested for this period of uncertainty and change will require both steadfastness, and in the case of the Atlantic Convention, inspiration. In the midst of the current flux, however, there are encouraging glimmers.

HOPE OF PORTUGAL

There is now more reason for hope and confidence in Portugal. The revolution in that country has led to see-sawing emotions in the hearts of all those who favor self-determination and democratic ways.

Every revolution, of course, entails a crisis of legitimacy. The central question of all political succession is: By what right does the successor rule? This question was resolved early on in Portugal by the people speaking in an appropriate electoral forum. This has been an important element in achieving a restoration of moderate elements in the government. Another important fact was the firmness exemplified by the European Economic Community in making clear that it would withdraw financial support until the pluralist democracy mandated by the Portuguese people was restored. I am pleased to note that this had not only a salutary effect in Portugal, but that it helped to promote greater European cohesion as well.

I have tried today to broadly outline some of the opportunities and challenges we will face in the days ahead and to suggest a prudent and appropriate response. As always, I look forward to benefiting from your reflections, to the stimulating and pleasurable dialogues that always result. I have every confidence that our collective efforts will enable us to chart a course safely through uncertain waters. As my fellow-countryman, Thomas Jefferson once wrote, we steer our ship with hope, leaving fear far astern.

There is now more reason for hope and confidence in Portugal. The revolution in that country has led to new and promising changes in the hearts of all those who have been oppressed and humiliated. The central question of the revolution is: what right does the people have to the power? This question was resolved only on the basis of the people's struggle in an open and democratic form. This has been an important element in achieving a revolution of such a nature. In the government, another important factor was the influence exerted by the Portuguese Community in making clear that it would withdraw financial support until the political democracy was restored. The Portuguese people were forced to accept the fact that this had not only a revolutionary effect in Portugal, but that it helped to promote greater European solidarity as well.

I have tried today to present another some of the opportunities and challenges that we will face in the days ahead and to suggest a prudent and responsible response. As always, I look forward to hearing from you. I have every confidence that our collective efforts will enable us to carry out our mission safely and successfully. As my fellow countryman, Thomas Jefferson once wrote, we must not only have good laws, but we must also have good men to execute them.

SOME POLITICAL ASPECTS OF UNITED STATES-EUROPEAN RELATIONS

Paper by Peter Kirk

I. EAST-WEST RELATIONS

CONFERENCE ON SECURITY AND COOPERATION IN EUROPE (CSCE)

1. A third, summit, phase of CSCE was held in Helsinki at the end of July. At present it is not yet possible to assess the significance of the Conference. Its importance, or lack of importance, in the development of East-West relations can only be judged later in view of the way that its conclusions and principles are carried into practice. As many commentators have already observed: "The proof of the pudding will be in the eating."

2. The Soviet Union gained, from the Conference, international acceptance of the post-war frontiers in Europe. The West, on its side, both asked for and obtained the beginning of talks on balanced force reductions in Europe, participation of the United States and Canada. The Berlin Agreements, some concessions on SALT, Soviet restraint in the Middle East, and an agenda which included some subjects which the Russians did not wish to discuss at all, particularly human rights and the freer movement of people and information. Above and beyond this it provided the Nine with their first major success in working out a concerted approach to an important foreign policy problem. It is interesting to note that the final act of the Conference was signed by Mr. Moro, the Italian Prime Minister, on behalf not only of Italy but of the Nine.

3. In Committee I on political and security problems the West and the Romanians successfully insisted on obtaining a text concerning the principles applying to relations "with all other participating states irrespective of their political, economic or social systems as well as their size, geographical location or level of economic development." This closed loopholes which the Russians sought to keep open in their proposals concerning "relations between states with different social systems" under which the USSR might have asserted its right to intervene in the affairs of states with the same social system. Although the Soviet Union obtained the inclusion of a text stressing the immutability of frontiers, West Germany, together with Ireland and Spain and others, insisted on the possibility of peaceful change of frontiers. In this context the USSR also accepted the reference to the right of self-determination of peoples. Finally, agreement was obtained, despite Soviet reluctance on certain confidence-building measures, in the form of advance notice of military movements and manoeuvres, on a voluntary basis.

4. In Committee II on economics, science, trade and the environment the main unresolved problem was that of trade reciprocity between East and West. Otherwise this "basket" contained many practical proposals which may help to increase East-West trade. The need to achieve a freer flow of commercial information was underlined in this Committee.

5. The most intractable problems were in Committee III on cooperation in humanitarian and other fields. The West had succeeded in insisting on the inclusion of this point as a major conference agenda point, despite Soviet reluctance. Although the USSR fought strenuously to obtain a preamble referring back selectively to the principles in Basket I emphasising sovereignty and non-interference the only concession it achieved was a preamble stating that "this cooperation should take place in full respect for the principles guiding relations among participating states as set forth in the relevant document." The principles adopted now request states to "facilitate freer and wider dissemination of information of all kinds." In principle there was also agreement on facilitating the reunion of families.

6. Apart from the three "baskets" there was protracted discussion concerning follow-up to the Conference. In the end the Eastern European proposal to estab-

lish a standing body fell by the wayside and the final result was an agreement to hold a meeting of officials in Belgrade in 1977 to review progress and consider further meetings.

7. Commenting on the Conference in "The World Today" of September 1975, Richard Davy writes: "For the moment the Conference may turn out to have somewhat less influence than either its friends or its critics expected. The Russians have got the Conference but it was not quite the Conference they wanted. Nor was it the Conference that Western critics feared. It will do less than expected to boost the confidence of the Russians, and less to lull the West into false security. As Mr. Brezhnev said at Helsinki, everybody has won. But we still do not know what they have won."

MUTUAL AND BALANCED FORCES REDUCTIONS (MBFR)

8. In view of the controversy within the West about the respective military strength of NATO and the Warsaw Pact in the MBFR geographical area (West Germany and the Benelux countries, East Germany, Poland and Czechoslovakia) it may be useful to set out the most recent estimates of the International Institute for Strategic Studies concerning manpower and developments:

THE MILITARY BALANCE, 1975-76

	Manpower (thousands)		Equipment	
	Ground	Air	Tanks	Aircraft
NATO:				
United States.....	198	41	2,100	280
Britain.....	55	9	650	130
Canada.....	3	2	30	50
Belgium.....	63	20	375	140
Netherlands.....	78	21	525	160
West Germany.....	345	117	2,650	550
Subtotal.....	742	210	6,330	1,310
France.....	58		325	
Total.....	800	210	6,655	1,310
Warsaw Pact:				
Soviet Union.....	460	45	8,000	1,200
Czechoslovakia.....	155	45	2,600	405
East Germany.....	100	28	1,650	325
Poland.....	210	60	3,200	825
Total.....	925	178	15,450	2,800

9. Since the MBFR situation is well known and has been much discussed, your rapporteur considers that, at this stage, it is only necessary to recall the basic proposals made by NATO and the Warsaw Pact. NATO has suggested the reductions to be made in two phases. The first would involve a 15% cut in US and Soviet ground forces in the area concerned, which would leave 168,000 US troops (a reduction of 30,000) and 391,000 Soviet troops (a reduction of 69,000).

10. In the second phase there would be a reduction of both NATO and Warsaw Pact ground forces to a common ceiling of 700,000, involving further cuts by NATO of 70,000 and further cuts by the Warsaw Pact of 166,000. Although it seems likely that the proposal that cuts should begin with ground forces is aimed to free negotiations from the complexities that would be caused by including air forces, and their equipment, the problem is complicated by the fact that whereas some countries have surfaces-to-air forces in their armies, others have these in their air forces.

11. The Warsaw Pact has proposed that both ground and air forces in the area should be covered. The figures on which the Warsaw Pact propose their reductions are: NATO 1,010,000 and the Warsaw Pact 1,100,000. The Warsaw Pact proposal envisages the cuts in three phases. The first reduction of 20,000 by both sides by 1975, leaving figures of 990,000 and 1,079,000; the second reduction of 5% by 1976, leaving 940,000 and 1,025,000; and a final reduction of 10% by 1977. The residual figures would then be 845,000 air and ground forces for NATO and 925,000 for the Warsaw Pact.

12. The Warsaw Pact has also proposed that aircraft in the area should be included in MBFR as should be nuclear forces. NATO is interested in trying to revise the present disparity in tanks showed in the above table.

13. Amongst many differences between NATO and the Warsaw Pact concerning MBFR the essential one is that whereas Eastern European countries wish, in the first phase of reductions, to reduce not only Soviet and US forces in Europe but also European forces, NATO on its side, insists that initial reductions should be limited to the forces of the two super-powers with further reductions being brought in during a second stage. Whereas NATO continues to argue that reductions negotiated should be "balanced", i.e., that greater cuts should be made by the Eastern side—which has a conventional superiority in the reduction area—so as to end up with similar numbers of armed men on both sides, the USSR and its allies continue to maintain their basic position which is that cuts should be on a one-for-one basis.

SALT

14. Attempts to reach a second Strategic Arms Limitation to complement the first SALT agreement are blocked, the main difficulties apparently concerning the verification of MIRV (Multiple Independently-targetable Re-Entry Vehicles) missiles, and the classification of bombers and cruise missiles. Military commentators stress that unless agreement is reached in these key areas, both super-powers will press on with vast and extremely expensive programmes giving a further twist to the arms race spiral. Thus President Ford has warned the Soviet Union, in a recent speech, that unless there was agreement on the next phase of nuclear arms limitation he would propose an additional \$2-3 billion for strategic arms spending. Press reports that the Soviet Union has wriggled out of its commitment under SALT I have been denied by the US Administration.

15. Ex-Chancellor Brandt has recently aired the idea that it would help to break the disarmament stalemate if NATO were to offer to withdraw a number of tactical nuclear weapons, in Europe, in exchange for the withdrawal of a number of Soviet tanks. As some military experts have already pointed out such an exchange would be dangerous since the Soviet Union has had about 600 intermediate range missiles implanted, facing us, in Eastern Europe for a number of years. These arms are not covered by the SALT or MBFR negotiations. Mr. Brandt's suggestion would confirm the immunity of these Russian weapons from discussion. It would also involve NATO, for the first time, in unilateral nuclear disarmament—a dangerous precedent.

WESTERN GRAIN SALES TO THE SOVIET UNION

16. There is another poor grain harvest in the Soviet Union this year. The USSR has already purchased widely on the world market, mainly from the United States and also from Canada, Australia and elsewhere, to compensate for this year's disastrous grain production. The Russians have already bought 16.5 million tonnes this year on the world market, of which nearly 10 million tonnes was purchased from the US before an embargo of US grain exports to the Soviet Union was imposed until after the October 10 US crop estimates.

17. At the time of writing talks on a long-term agreement for US grain sales to the Soviet Union are still in progress. It seems that agreement has been reached on sales of between 6 million and 8 million tonnes of wheat and maize in each of the next five years, with consultations whenever the USSR wishes to buy more than 8 million tonnes in any year. The US, apparently, wishes an escape clause permitting a cut-back in supply in a bad crop year when its output would fall below a set level. Apparently the USSR would find this acceptable if there were a balancing clause permitting it to waive its purchase commitment in any year when its own domestic production exceeded a set level.

18. Any agreement of this kind will clearly have both commercial and political implications. There will be price implications both for the US and world consumers, and an agreement of this kind could increase US political leverage on grain importing governments including that of the Soviet Union. A CIA study published last year states that due to its grain surpluses "without indulging in blackmail in any sense, the US would gain extraordinary political and economic influence . . . The major powers would be at least partially dependent on food imports from the United States." In this context it is interesting to note that Senator Jackson has proposed a grain-for-oil barter deal which could start a flow

of Soviet oil to the United States. If the United States Government were able to negotiate a deal of this kind the entry of Soviet oil might affect the ability of OPEC to set prices unilaterally.

II. IBERIAN PENNINSULA

PORTUGAL

19. During recent months the power struggle has continued in Portugal. Three main trends can be identified within the Armed Forces Movement: those who follow Goncalves policies which are said to favour the creation of a bureaucratic Communist state with the means of production controlled by the proletariat; the moderate officers led by Major Antunes, who apparently favour democratic socialism on a pluralist Western scale; and the radical officers led by the volatile Brigadier de Carvalho, who has called for a system in which popular power would be held by popular associations of workers and peasants. Although the Socialist Party and its allies have been excluded from the political process, the Communist Party has suffered a number of setbacks to its previously dominant position. Although the internal political situation still remains far from clear, in external affairs Portugal remains a member of the North Atlantic Alliance and has been in close contact with the European Community. Meeting in Luxembourg on 6 October the Foreign Ministers of the Nine agreed to give Portugal £75 million of emergency financial aid. This offer, which was less than some members of the Community wanted to give and very much less than originally proposed by the Commission, was conveyed to the Portuguese Foreign Minister, Major Antunes, in Luxembourg on 7 October.

20. The Ministers agreed that the aid should take the form of loans from the European Investment Bank, at a specially low subsidised rate of interest, to finance industrial projects proposed by the Portuguese Government. It has still to be decided whether the cost of the subsidised loans should be met directly from national Treasuries or out of the EEC Budget.

21. The question of what role the Community should play towards Portugal has been and remains a very difficult one to resolve. Should the Community have taken, from the very beginning of the new situation in Portugal, a stronger stand, though this could have involved the risk of supporting a non-democratic solution? Or has the present cautious approach been the right one? Some observers still consider that the present approach has resulted in giving too little, too late to Portugal, thus weakening the incentive that the Community can provide to help the moderate and democratic forces in Portugal to prevail. One crucial factor must never be forgotten. The Portuguese people have already expressed, through the polls, their own views as to the kind of government they want. It is to be hoped that Western democracies will encourage the Portuguese people to achieve a solution in the sense that the Portuguese people have indicated.

22. The Soviet Union has followed developments in Portugal with close attention. During his recent visit to Moscow President Costa Gomes signed on 3 October, an agreement under which the USSR will provide economic aid to Portugal. As yet there is little sign of direct Soviet intervention in Portugal, and in view of the Helsinki Summit of the Conference on Security and Cooperation in Europe it is to be hoped that the USSR will resist any possible temptation to intervene directly in Portuguese politics.

23. The European Parliament invited members of the Portuguese Constituent Assembly to attend its October session in Strasbourg, but in the event no Portuguese parliamentarians came to Strasbourg.

SPAIN

24. The political situation within Spain has inevitably been influenced by the recent events in Portugal. Although some years ago rising living standards, the tourist boom, and increasing industrialisation fixed the interest of the Spanish people on economic rather than political problems, the deterioration of the economic situation over the past year or two has led to a situation of economic unrest which is exacerbated by strong political tensions.

25. Although the Prime Minister, Mr. Arias Navarro, promised democratic reforms in February 1974 the Caudillo has refused to accept any political changes. There is a danger that Spanish politics will be polarized into a dangerous official extreme right/underground extreme left confrontation.

26. Until very recently the question arose of how Western countries might try to influence the development of the situation in Spain so that following General Franco's death an internal political explosion could be avoided. But the execution, at the end of September, of five political prisoners, following the most summary of trials, and despite the appeals for clemency of the Pope and many other world leaders has, at least for the time being, ruled out this possibility. Following the adoption of a resolution by the European Parliament in September, calling on the Commission and the Council "to freeze existing relations until such time as freedom and democracy are established in Spain" the Foreign Ministers of the Nine decided in Luxembourg, in October, to break off trade talks with Spain.

27. Following the execution of the five political prisoners political unrest in Spain has intensified and a number of policemen and civilians have been killed.

28. Although the political executions in Spain have been rightly condemned by world opinion, it should be remembered that comparable events are by no means unknown in several other countries with which the European Community is developing closer relations. It is to be hoped that we do not fall into the trap of developing a double standard of political morality.

III. EASTERN MEDITERRANEAN

CYPRUS

29. Cyprus remains the flashpoint in the Eastern Mediterranean. In August Mr. Clerides, leader of the Greek Cypriot Community, and Mr. Denktash, leader of the Turkish Cypriot Community, agreed that Cyprus should be divided into two federated zones and that in return for this Greek concession the Turkish area should be less than the present 40% of the island under Turkish occupation. Archbishop Makarios has, however, repudiated this agreement. The Turkish military position on the island is strong and well entrenched. There are reported to be some 200,000 homeless refugees on the island out of 260,000 Greek Cypriots who used to inhabit what is now the Turkish-occupied part of Cyprus. Further it is clear that there has been large-scale Turkish immigration into the north of Cyprus, which can only make a final political solution more difficult.

30. Quite apart from the solution of the political problem there is the urgent human problem of feeding, clothing and housing the refugees.¹ The European Community provided special food aid to Cyprus in 1974 as follows: 3,000 tons of cereals; 250 tons of powdered milk; 200 tons of butter oil. Further, individual Member States of the Community have given food aid to Cyprus bilaterally. Under the normal European Community food aid programme Cyprus also received in the autumn of 1974: 5,000 tons of cereals and 250 tons of butter oil. Further supplies of European Community normal food aid flowing to Cyprus during 1975 include: 5,000 tons of cereals; 300 tons of butter oil. A further 1,000 tons of cereals is being given by Denmark through the world food programme.

31. Although the Member States of the European Community have an extremely strong interest in helping to promote, with Greece and Turkey, a durable solution to the Cyprus problem there is little they can do, apart from providing humanitarian aid, until the Greek and Turkish Governments are themselves prepared to negotiate seriously. But at present the Turks, in their dominant, on-the-spot military position, have little incentive to move. The tension between Greece and Turkey over Cyprus is heightened by the continuing Greek/Turkish dispute concerning ownership of the continental shelf around the Aegean Islands and the Turkish coast.

GREECE

32. At the meeting of the EEC-Greece Council Association in July the Greek Government stressed the urgency and the importance it attached to its request to become a full member of the EEC. The Greek Government's application remains under consideration by the Nine (at present mainly at the level of joint technical studies with Greece) pending the report of the Commission which is awaited with interest. The Nine whilst revealing political sympathy for Greece's

¹ Their situation remains a tragic one despite the agreement reached between Mr. Denktash, leader of the Turkish Cypriot Community, and Mr. Clerides, leader of the Greek Cypriot Community, at Vienna on 1 August permitting some 10,000 Greek Cypriots to continue to live in the northern part of Cyprus and some 9,000 Turkish Cypriots living in southern Cyprus to move north into the Turkish-occupied part of the island.

ambitions, realise that there are many economic and political problems to be solved. For Greece its relationship with the EEC is particularly important in the light of its loosening of links with the United States and with NATO. Greece's application also raises the future relationship to EEC of the other two European associated members of the Community—Cyprus and Turkey.

TURKEY

33. Since the fall of Mr. Ecevit's Government Mr. Demirel's Government has remained in power since April. Mr. Demirel's position has, indeed, been reinforced by the partial elections to the Senate and to the Assembly held in October. Whereas Mr. Ecevit, despite his successful military take-over of northern Cyprus, showed interest in reaching a compromise solution with Greece of the Cyprus problem, Mr. Demirel's position is based on a tough, no-compromise line over Cyprus.

34. Turkey's whole relationship with the United States and with NATO was placed under severe strain by the embargo imposed by the U.S. Congress on U.S. supplies to Turkey and by the cutting-off of U.S. financial aid. At the end of July Mr. Demirel reacted by taking over control of U.S. military bases in Turkey, including important electronic intelligence-gathering stations.

35. The decisions by the U.S. House of Representatives on 2 October, and the Senate, on 3 October, to lift (under certain conditions) the arms embargo have been greeted with relief by those who have stressed the importance of maintaining a strong political and military relationship between Turkey and its NATO partners. Had Turkey been tempted to break its ties with the United States and to loosen its relationship with NATO the strategic situation in the Eastern Mediterranean—already dangerously weakened by Greece's attitude to the U.S. and to NATO—could have deteriorated sharply. It is interesting to note that the Foreign Ministers of the Nine were already reported as having disapproved (at their Venice meeting) the continuance of the American arms embargo, especially in the light of the Cyprus problem. The arms embargo was also discussed at the EEC/Turkey Association meeting on 16 September in Brussels.

36. Although the Turkish Government has expressed relief at the partial lifting of the U.S. arms embargo there is still some way to go before full confidence can be restored between Turkey and the U.S. The Turkish Foreign Minister, Mr. Caglayangil, stated in Ankara on 2 October: "It is out of the question that the U.S. installations, which were closed before, are reactivated again and immediately." However, talks between the Turkish and U.S. Government on formulating a new relationship between the two countries are expected to open later this month.

IV. THE MIDDLE EAST

37. The main development in the Middle East since the Munich meeting has been the interim agreement on the Sinai between Egypt and Israel. Under the agreement Israel is committed to withdraw from strategic bases and oilfields. In exchange Egypt is now committed to a peaceful settlement of its conflict with Israel. The two parties describe the agreement as being a "significant step" towards implementing U.N. Security Council Resolution No. 338, which, in turn, commits both Israel and Egypt to implementing Resolution No. 242, which has been the basis of most Middle East peace efforts since 1967.

38. The ultimate significance of the Sinai Pact depends on whether it enables the two parties, and thus others directly concerned, such as Syria, to develop Dr. Kissinger's "step by step" approach into a wider and more permanent settlement. Meanwhile, scepticism and hostility towards the Sinai Agreement have been expressed by Syria and the Palestine Liberation Organisation. Whereas the United States, on its side, seems prepared to enter fully into any form of Middle East dialogue that could reduce tensions and promote a genuine Middle East settlement, it is by no means clear whether Syria and the Palestinians, whose active participation are also required, are prepared by play ball. Further, the USSR has been offended by the agreement both in the light of the prospect of a physical U.S. presence in Sinai and U.S./Israeli discussions concerning the supply of Pershing missiles to Israel, together with the implantation of U.S. technicians there. Without Soviet agreement, also, there cannot be a realistic Middle East settlement.

V. SOUTH-EAST ASIA AND THE END OF THE WAR IN INDOCHINA

39. The fall of South Vietnam and Cambodia (and possibly Laos), symbolised by the takeover of Saigon by North Vietnamese and Vietcong forces on 30 April, has been a triumph for the Indochina Communist Party (ICP).

40. The ICP is now in an unchallenged situation as the leading military power of South-East Asia. The questions that arise concern not so much its dominant position but the implications for the rest of South-East Asia and for the allies of the United States.

41. As far as the second point is concerned, Secretary of State Kissinger stated at a press conference on 29 April: "We will have to assess the impact of Indochina on our allies and on other countries in that area and on their perceptions of the United States, and we will have to assess also what role the United States can responsibly play over an indefinite period of time, because surely another lesson we should remember from the Indochina experience is that foreign policy must be sustained over decades if it is to be effective, and if it can be, then it has to be tailored to what is sustainable. The President has already reaffirmed our alliance with Japan, our defence treaty with Korea and we, of course, also have treaty obligations and important bases in the Philippines. We will soon be in consultation with many other countries in that area, including Indonesia and Singapore and Australia and New Zealand, and we hope to crystallise an Asian policy that is suited to present circumstances with close consultation with our friends."

42. In the countries of South-East Asia, the ending of the US military involvement in Vietnam has already provoked and is continuing to provoke reflection concerning political alignments and realignments. Peking's prestige and influence in South-East Asia has certainly risen to a marked degree following the revolutionary successes in Vietnam and Cambodia, especially in Cambodia where the USSR backed the old regime until almost the last moment. But China still has an interest in a continued US military presence in Indochina and Japan as a counterbalance to potential Soviet expansionism—particularly in view of the growing Soviet naval activity in the region. As Michael B. Yahuda has written in "The World Today" of July 1975:² "The dilemma for China, therefore, is to what extent she can oppose specific important outposts of the American military deployment in East Asia, without undermining American credibility as a counter-vailing power in the area. China's leaders cannot set aside their support for North Korea or their intention of liberating Taiwan. At the same time they cannot welcome a possible total American withdrawal in the immediate future."

43. On their side, although Malaysia, of the ASEAN countries, has normalised relations with China, Singapore and Indonesia are still hesitant, Thailand prefers a very cautious approach and the Philippines are worried about possible subversion of their local ethnic Chinese population. Until the resolution of the preliminary question of what relations are established between Laos, Cambodia and Vietnam and China, the attitude of the other South-East Asian countries will perhaps continue to be undecided. Meanwhile the five ASEAN countries have not been able to move beyond mutual consultation to the development of a common approach towards China or the new Communist countries. Further, it is not yet clear whether China intends to play a "responsible" diplomatic role with the ASEAN countries or whether she will encourage revolutionary movements.

44. Finally, as far as the European Community is concerned, it should be noted: (a) that China has now achieved full diplomatic representation with the Commission through the appointment of an ambassador to the European Communities in Brussels; (b) that a delegation of the European Parliament, led by the President, Mr. Spénale, visited the ASEAN countries this summer.

² "China's foreign policy after the victories in Indochina".

Thursday, 30 October 1975

SUMMARY OF DISCUSSION

WORKING GROUP A—DISCUSSION OF DRAFT REPORT ON AN INTERNATIONAL CODE OF GOOD CONDUCT FOR MULTI-NATIONAL CONCERNS

(Working Documents: Mr. Sam Gibbons, Mr. Lange)¹

Mr. Sam Gibbons introduced the discussion on the working document prepared by Mr. Lange. (PE. 42.110) He recalled that this was the fifth discussion on this topic and reminded members that the meeting was public.

After answering some questions, Mr. Gibbons explained that he, together with Mr. Lange, whom he had met prior to this meeting, was proposing that for the next meeting this document, after examination and improvement, could be considered as a draft Code on Multi-national Companies for industrial nations. It could be put to the respective governments within the European Community and the United States, and it was hoped to include Japan also.

Mr. Fithian, for his part, considered that the point had been reached where the MNCs were avoiding taxation thanks to their ability to juggle profits and prices. As their activity exceeded national boundaries, the only valid approach was the international one, in order to have some control over their financial behaviour.

IMPORTANCE OF TRANSPARENCY

Mr. Seefeld stressed the importance of transparency in the matter of taxation and strongly recommended the adoption of Mr. Lange's proposal in that field.

Congressman Gibbons and Mr. Delmotte insisted on the need for any controlling agency to follow the development of the MNCs and hence the need for regularly updated information.

Congressmen and Members of the European Parliament drew comparison between their respective national legislations on MNCs. Congressman Gibbons explained that in the United States MNCs could not be treated more harshly than American companies.

A discussion took place on the necessity for MNCs to report on jobs created or abolished as a result of their activities. Mr. Delmotte pointed out that in cases of unemployment, the government must always explain economic situations, even those in which it lacked effective control.

Mr. Seefeld made a compromise proposal by asking for the inclusion of the idea that wherever the right to information on such topics existed, it should be respected by MNCs.

¹ See pp. 25 and 27, respectively.

EC COMMISSION AND OECD PROPOSALS

Both Congressman Gibbons and Mr. Seefeld recommended that the work on MNCs should be carried further, and that the document by Mr. Lange, and a "Compendium from Different Sources of Principles for Inclusion in a Draft Code on MNCs for Industrial Nations" (presented for discussion purposes by Congressman Gibbons) should be examined by all parliamentarians interested. They also expressed the wish that the draft code to be presented at the next meeting should be related to the study made by OECD on MNCs and to the report prepared by the Commission of the European Communities on MNCs.

PAPERS

COMPENDIUM FROM DIFFERENT SOURCES OF PRINCIPLES FOR INCLUSION IN DRAFT CODE ON MULTINATIONAL ENTERPRISES (MNE) FOR INDUSTRIAL NATIONS

Paper by Mr. Sam Gibbons

INTRODUCTION

MNEs can play an important role in economic and social welfare, but certain of their characteristics can give rise to concern and conflict with national policy objectives.

The guidelines are purely voluntary. (Alternatively, the guidelines should be binding on MNEs, host governments, and parent governments.)

Each country has the right to set conditions for MNEs within its national jurisdiction, subject to international law and international agreements.

MNEs are companies of private, state, or mixed ownership established in different countries and so linked that one can exercise a significant influence over others.

Where relevant, these guidelines should apply to all enterprises, national as well as multinational.

Governments should use international dispute settlement mechanisms (arbitration).

Governments have a responsibility to treat MNEs according to international law.

Governments must acknowledge their responsibility to deal with conflicts of laws as they affect MNEs.

Member nations will establish review and consultation procedures.

MNEs should give consideration to national policy objectives of the host country.

MNEs should not discriminate between nationalities on filling positions.

Enterprises should not make nor be solicited to make payments to host government officials or contribute to political parties, unless such contributions are lawful and details of amounts and of beneficiaries are disclosed.

(Alternatively—MNEs should observe local standards and practice with regard to providing gifts to public officials, contributing to political organizations, and engaging in political activities.)

INFORMATION

In addition to information required by national laws, and taking into account business confidentiality, MNEs should disclose yearly information on their activities in each country in which they operate, with respect to:

Financial and organizational structure;

Geographical operations;

Investment;

Financial results and sales;

Capital transactions;

Employees;

R. & D.;

Pricing policies;

Accounting practices.

MNEs should assist subsidiaries in providing necessary information on their activities to host authorities, taking into account business confidentiality.

FINANCING

MNEs in their financial transactions should take into consideration balance of payments and credit objectives of the host country.

RESTRICTIVE PRACTICES AND COMPETITION

In addition to abiding by national law, MNEs should :
 Avoid action that would adversely affect competition ;
 Avoid discriminatory pricing ;
 Avoid restricting freedom of operation of subsidiaries, licensees, etc. ;
 Avoid engaging in cartels or restrictive agreements that adversely affect competition ;
 Cooperate with enforcement authorities.

TAXATION

MNEs should provide tax authorities with relevant information and should avoid the use of facilities that alter the tax base contrary to national law (transfer pricing).

EMPLOYMENT AND INDUSTRIAL RELATIONS

MNEs should :
 Permit employee representative organizations ;
 Provide such organizations with necessary information ;
 Observe local employment and industrial relations standards ;
 Train and utilize local labor ;
 In changing operations, relieve the effect on employees and give due notice ;
 Avoid discrimination on the basis of sex, age, religion, color, ethnic origin, or political activity, unless in pursuit of national policy aimed at greater equality of employment ;
 Not transfer an operation because of a labor dispute ;
 Allow labor representatives to negotiate with MNE management that has authority over its areas of concern.

TECHNOLOGY

MNEs should add to local scientific and technological capabilities, should permit the dissemination of technology, and should transfer technology on reasonable terms.

NATIONAL TREATMENT

Nations should accord MNEs treatment as favorable as that accorded to similarly situated national enterprises ; except, for the regulation of entry of foreign investment, in order to secure public order and security, to fulfill international obligations, and in certain sectors specifically designated by a country for exclusion.

Nations should not discriminate on the basis of country of origin, except possibly as between members and non-members of an economic or monetary union.

Obligations under international law and treaties are not affected.

OFFICIAL INVESTMENT INCENTIVES AND DISINCENTIVES

Governments should be prohibited from adopting national policies that provide incentives or disincentives to foreign investment. (Alternatively, nations should be required to take into account the international ramifications of such policies and should avoid harm to other countries. A country should be able to call for consultations if it is being injured by an incentive or disincentive for foreign investments by another member nation.)

TOWARD AN AGREEMENT ON MULTINATIONAL CONCERNS

Paper by Mr. Lange

INTRODUCTORY REMARKS

The internationalization of production is a logical consequence of the development of our economies; as such, it is a positive phenomenon, contributing to economic growth and increasing prosperity.

But just as it is normal for firms increasingly to carry on activities beyond the frontiers of their own country, so it is normal and necessary for an international framework to be set up for these international activities, obliging the firms in question to respect certain basic rules and at the same time offering them the necessary legal security.

Economic integration, as embodied in multinational concerns, has stolen a march on politics, for which in most cases the national frontiers remain the relevant framework. Although far-going economic interdependence can be a useful stimulus towards political integration, it is nevertheless essential in international relations too for politics to take precedence over economics; that is, the framework in which the multinational concern operates must be under political control. This condition is not being met at present. Accordingly, certain rules need to be laid down in an international agreement.

The problems connected with the activities of multinational concerns (MNCs) can no longer be solved nationally and cannot yet be solved on a world scale (in the United Nations). Arrangements in an OECD context would represent a great step forward. The delegation of the US Congress on the one hand and that of the European Parliament on the other can in the first instance help to bring about an agreement between the USA and the European Community, to which Japan and other industrial countries may later accede.

COMPETITION

MNCs frequently have technical or financial advantages over their competitors, which means they enjoy a certain position of power. Competition policy should be aimed at checking abuse of this position.

To achieve this, the first essential is much more intensive cooperation between the anti-trust authorities of the USA and the Community. Controlling multinationals is made difficult not so much by the shortcomings in national legislation on competition as by the problems in implementing it. The anti-trust bodies are frequently unable to prove abuse by an MNC because the necessary evidence is in the hands of another of its establishments abroad. An international agreement should therefore authorize anti-trust bodies to have access to all relevant information. Moreover, the rapid exchange of information between the anti-trust bodies and mutual support in investigations of restrictive practices must be guaranteed. Finally, it must be made possible for anti-trust bodies to take joint action against cartels and against abuses of power.

The annual reports of large concerns ought to give the public a clear picture of their activities, of their financial situation and of their connections with other enterprises. At least the following information should be published, broken down by country of establishment:

The funds invested, reinvested and transferred to the country of the parent company;

The origin and composition of the capital;

The number of jobs created and abolished;

The balance sheet and the profit and loss account, with taxes paid shown as a percentage of turnover;

Expenditure on research and income from royalties, licensing and management contracts;

Financial and personal links with other concerns;

The number of host-country nationals working at various levels.

In the longer term an international system of standardized annual accounts and reports for large concerns must be aimed at.

INVESTMENT POLICY

All investments planned by the international concerns must be declared to the competent authorities in the countries concerned.

In more than half of all cases, direct investment abroad takes the form of a takeover of an existing firm. There are reasons for being more restrictive in such cases than on new, direct investments. Takeover bids (open bid for total or partial takeover) must be made subject to regulations. The latter must provide at least that the board of the firm to be taken over be informed before an open bid is made, and also contain stringent provisions on the information to be supplied to trade unions and shareholders.

Canada, Belgium and Britain have rules under which, in the event of foreign takeover of firms, certain guarantees can be required in regards jobs, investment policies, maintenance of national management and also, where appropriate, maintenance of research activities and a certain share in exports. Such rules ought to be harmonized in an international agreement.

FISCAL POLICY

In principle, taxation ought to be paid in the country where the income is earned. This makes it essential above all to maintain supervision of the transfer prices (that is, the prices applied in transactions that take place within a concern), and to take action against the tax privileges that holding companies often enjoy. Inasmuch as holding companies are used to collect income from dividends, loans, licenses and the like, and to provide finance to firms in the group to which the holding company belongs, abuse frequently occurs. Unilateral legislation by a limited number of countries would simply mean that the holding companies would flee to other countries. The USA and the European Community could, however, take the following measures in the fairly short term:

Harmonize withholding tax on debenture interest;

Take steps to combat abuse of agreements for the avoidance of double taxation;

Aim at a joint position regarding "tax havens";¹ consideration should be given to denying, in the framework of an international agreement, concerns that misuse tax havens the right to open new establishments in the countries that are party to the agreement.

In all cases where an accurate allocation of profits in the short term does not seem possible, the method could be adopted whereby an MNC is taxed on the basis of its consolidated profit, it being understood that the profit is assigned to each establishment on the basis of its turnover figure and of the capital invested in it.

INTERNAL TRANSACTIONS

Transactions within MNCs—between subsidiaries of the same firm or between a subsidiary and the parent company—constitute an important part (20 to 25%) of international trade. Fixing the prices for these operations gives multinationals possibilities that firms with establishments in only one country do not have, and that put them in a position to make more profit: as much as 15 to 20% more profit.

MNCs can have various reasons for setting a different transfer price from the one that would be applied to a consignment from a firm to another, independent one. A concern with establishments in various countries seeks to declare as much profit as possible in countries with a low level of taxation, and to keep down the profit declared in countries with high taxes. MNCs will also seek to set the transfer prices in such a way that more profit goes to hundred percent subsidiaries than to companies in which they have a part interest only. In some cases it may also be advantageous for the MNC to declare low profits, or even losses, in a country where its subsidiary is facing important wage negotiations. Other factors that play a part here are the country of establishment's currency stability, exchange control, and the risk of nationalization.

Transactions within an MNC concern not only goods but also services, financial operations and payment for the use of technical knowhow, trademarks and

¹ Countries or areas with as many as possible of the following characteristics: low taxes, little or no exchange control, bank secrecy, no exchange of fiscal data with foreign authorities, a developed banking system and political stability.

patents. The category of services includes services in the form of central marketing, payment for services of central administration, etc.

Tax authorities in a number of countries, particularly the USA and the Federal Republic of Germany, have sought to draw up rules for fixing transfer prices. It is not a simple task. The usual basis taken is that the price calculated ought to be the one the concern would have applied if delivery had been made to an independent firm (the "arm's length" principle). Where this method cannot be applied, recourse is had to calculations made on a "cost plus" basis, i.e., production costs plus a reasonable profit margin. For loans within an MNC, the basis can be the prevailing interest rate, but here too there is a certain fluidity, since the amount of the loan, its duration and the guarantees offered play a part in determining what a "reasonable" rate of interest is. Finally, the right price for the use of technical knowhow, patents and trademarks can only be determined very approximately by a tax authority.

TRANSFER PRICING QUESTION

As far as prices for services rendered are concerned, it is, to start with, not easy to ascertain whether the service concerned has actually been performed. Here, then, the MNCs have plenty of room to manipulate transfer prices. Floating exchange rates constitute an extra complication for the fluctuations—that MNCs cannot be compelled always to pass on exchange rate fluctuations—that does not happen on the free market either—but equally, they cannot be prevented from so doing.

But some control over the transfer prices applied within an MNC is both meaningful and indeed essential. For consignments of goods, particularly homogeneous goods, price comparisons over a period of time, and also with consignments delivered elsewhere at the same time, can give useful pointers. A second indication that wrong transfer prices are being applied is a profit or loss percentage that deviates sharply from the average for the branch of industry concerned. Results can only be achieved by giving up at the outset all aspirations for perfectionism and endeavouring purely to avoid obvious excesses.

In view of all the difficulties indicated above, many countries have chosen a simpler method: they do not check the transfer prices, but confine themselves to keeping an eye on the profit made by an establishment of a foreign concern. If the tax authorities of the country concerned find the profit unacceptable, i.e., too low, the concern is simply taxed on a higher profit figure.

So far there is almost no cooperation between tax authorities regarding supervision of transfer prices. Intensive cooperation between these bodies is essential to effective control. The failure to exchange information is partly due to legal provisions regarding secrecy. So legislation needs to be changed in that respect.

Only harmonization of fiscal legislation—not necessarily total, but aimed at removing the most glaring discrepancies—can put an end to the tax avoidance achieved through transfer prices. Pending that, an international agreement ought to be established with provisions guaranteeing flexible—not perfectionistic—supervision of transfer prices.

CAPITAL MARKET POLICY AND MONETARY POLICY

It is desirable for monetary authorities to have accurate data on international capital movements. In some European countries the banks are obliged to keep the central bank of their country of domicile informed of their forward exchange position. This kind of regulation should be extended to (a) at least all countries of the Community and the USA and (b) all concerns of a certain size. Information should be supplied monthly and also cover all capital movements within the concern.

The concerns must allow residents of the host country to acquire their shares. Participation by host-country nationals can be promoted by a provision that a foreign company having recourse to the capital market in the host country must do so partly through an increase in own capital.

SOCIAL POLICY AND LABOUR MARKET POLICY

The representatives of the workers in a multinational establishment must be afforded the opportunity of holding consultations with those responsible for the establishment's policy. At present it is often the case that the trade unions of a country have to deal with a management that has only limited

powers. Either steps must be taken to ensure that the management of an establishment can provide the workers with all relevant information and also act with the necessary autonomy, or else group works councils must be instituted that can negotiate directly with the central management. As a rule, at least one host-country national should have a seat on the board.

Workers should be informed and consulted in good time on matters affecting them and, in the event of mass redundancies, they must have an important voice in drawing up the labour phase-out plans. Moreover, workers must be guaranteed retention of acquired rights where their firm is involved in a merger. Provisions on this matter will shortly be entering into force in the European Community.

The trade unions and—where they exist—the direct representatives of the staff (works councils) must be recognized by multinationals as contractual partners in negotiations on wage agreements and the fixing of work conditions of the workers employed in a firm. This presupposes an internationally valid collective agreement.

Concerns must be obliged to provide work in the host country for its citizens. This should also be the case for the management bodies of the dependent firms or subsidiaries.

Thursday, October 30, 1975

SUMMARY OF DISCUSSION

WORKING GROUP B—INTERNATIONAL MONETARY PROBLEMS

(Working documents: Mr. Klepsch, Mr. Reuss)¹

Mr. Reuss summarized his paper. He stated that the U.S. Congress would probably agree to the compromise reached in the IMF earlier this year on revising the quotas and the articles on voting distribution. On the other hand, he did not think Congress would approve the arrangement about IMF gold.

Regarding the latter, there was still doubt on many points. It was uncertain whether the IMF which is to dispose of one sixth of its gold stocks (approximately 25 million ounces) to benefit the developing countries according to the compromise reached, will make these disposals by public sale, through the recognized gold market or by sale to the monetary authorities. Nor was it known over what period the sale was to be made.

The most doubtful part of the gold agreement was the provision that another one sixth of the IMF gold should be restored to the member states. That was unfair, because it benefited mainly the rich countries, but more important, it put Special Drawing Rights in the background. The probable consequence of this restoration of monetary gold to the member states would be that the increase in monetary reserves over the next few years would take the form mainly of an increase in monetary gold.

Moreover, the gold agreement still left total uncertainty regarding the future international role of monetary gold. The U.S. Congress continued to advocate a gradual reduction in the role of that component of the reserves, although it was very well aware that monetary gold could not be excluded from the reserves from one day to the next.

Mr. Reuss would prefer to have seen the one third of the IMF gold—half of which was now to be returned to the member states, while the proceeds of selling the other half were to benefit the developing countries—put entirely on the market.

FLEXIBLE EXCHANGE RATES

On the whole, Mr. Reuss was able to agree with the Klepsch working document regarding flexibility of exchange rates. In his view, however, the final verdict on floating exchange rates, a system that on the whole had pulled the industrial countries through a difficult period, should be somewhat more positive.

¹ See pp. 35 and 39, respectively.

Mr. Klepsch stated that there was agreement between the United States and the European Community regarding quota allocation. Nor were their positions on floating rates very far apart, and there was even an encouraging convergence here.

The differences of opinion concerned mainly the following two points:

If one third of the IMF gold was brought on to the market in a short period, the gold prices would collapse; that was unacceptable for the Community. Contrary to what Mr. Reuss seemed to suppose, it was certainly not impossible for the one sixth of the IMF gold that was to be returned to the IMF members to end up also benefiting the developing countries; and

On the American side, it was not well enough understood that restoring convertibility of the dollar was in fact a condition for a return to a healthy international monetary system. A special account for this should be set up in the IMF.

On this latter point, Mr. Reuss said that he had formerly been a supporter of it, and would still not have any objections to this kind of solution. The U.S. Congress would be open to this kind of initiative. The question was whether there were in fact too many dollars in circulation at the moment, and whether there was, therefore, a need for such an arrangement.

Mr. Leonardi felt that Mr. Reuss had taken a rather too favourable view of the system of floating exchange rates; the views in the Klepsch working document were closer to reality.

SELF-DISCIPLINE NEEDED

For Mr. Normanton the economic and political self-discipline of the governments of our countries was the central point. International monetary problems were in fact created by governments that did not know how to follow a sensible policy at national level.

It was very much to be regretted, Mr. Scholten felt, that Mr. Reuss was so opposed to the compromise on IMF gold reached 2 months previously in Washington. In Europe there was an impression that nothing should stand in the way of implementing that compromise as long as a solution was soon found for the third important aspect of the monetary problems, namely the exchange rate system. No one in Europe reckoned on the U.S. Congress linking ratification of the agreement to other conditions, nor on its going back on the gold agreement.

The background to the American position was probably not so much the wish for a greater part of the proceeds from the disposal of IMF gold to benefit the developing countries, but rather the wish to strengthen the position of the dollar as a component of the reserves. It would be a serious matter if the United States were now to seek to re-open the discussion on gold.

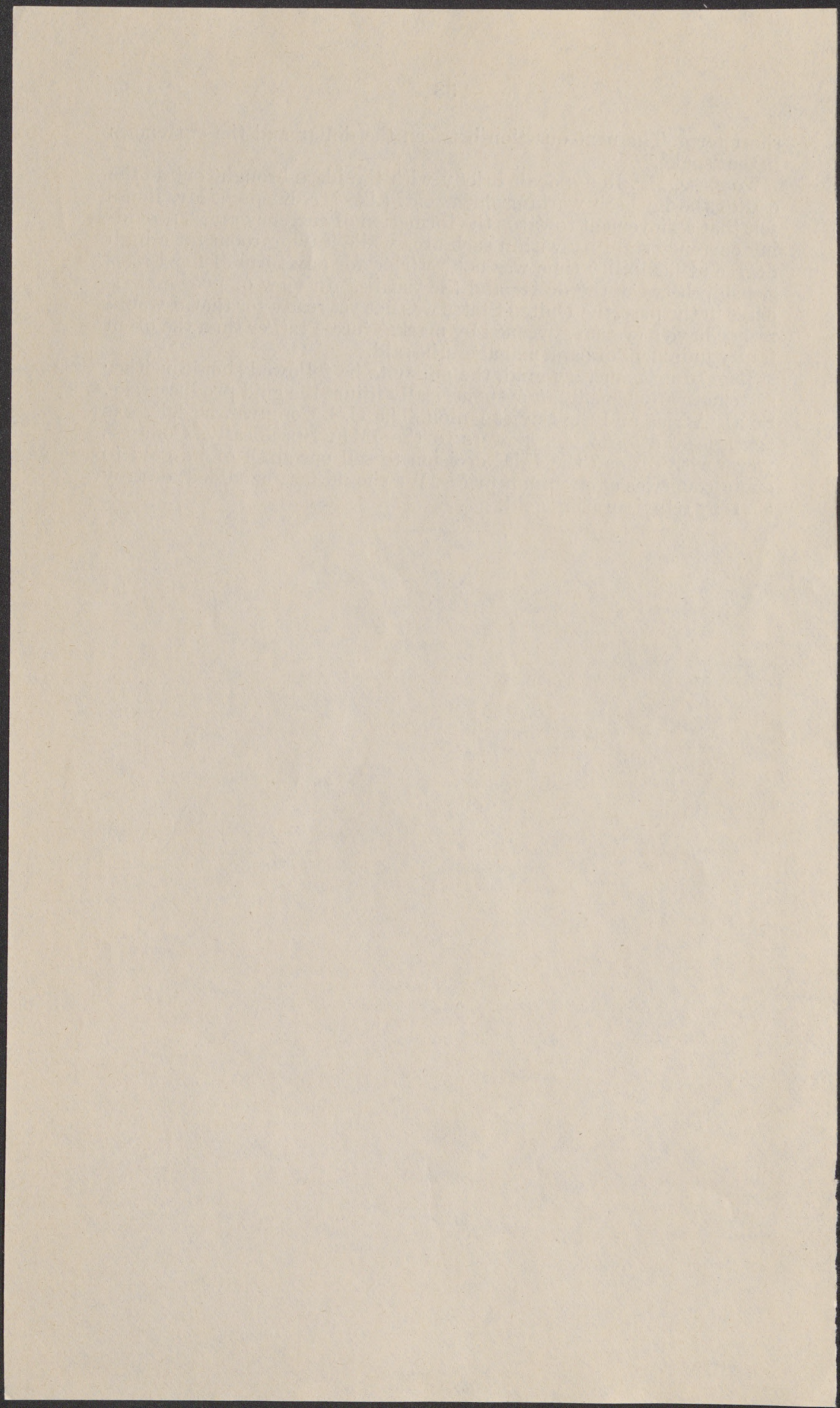
Mr. Klepsch added that in Europe there was often an impression that the main reason why the United States wished to deprive gold of its monetary role was that then there would only be the weak Special Drawing Rights besides the dollar.

Agreement between the Community, Japan and the United States on the exchange rate system seemed to be a possibility in the fairly

short term. The next question between the dollar and the currencies in the "snake."

To close, Mr. Reuss dealt briefly with the ideas brought out at the end of the Klepsch working document. Like Mr. Klepsch, Mr. Reuss felt that a movement towards the formation of currency areas, providing currency stability within each area while leaving room for a high degree of flexibility time was not yet ripe for any form of fixed relationship between the dollar and the "snake." In view of poor experiences in the past, the United States was not yet ready for that. I would rather have a system governed by market forces rather than the often faulty judgment of bank managers, he said.

Regarding monetary gold, the policy to be followed should neither systematically benefit nor systematically injure the gold producers, i.e. South Africa and the Soviet Union. The U.S. Congress, he felt, was against granting wider powers to the IMF. Specifically, Congress views with dismay the IMF decision to sell one-sixth of its gold to quota countries at premium prices. We should not, he added, destroy SDR by reinvigorating gold.



PAPERS

THE INTERNATIONAL MONETARY SITUATION

Paper by Mr. Klepsch

At the last annual meeting of the International Monetary Fund (IMF), progress was made on three points:

Arrangements were made for gold in monetary reserves.

The quota distribution in the IMF (and therefore the distribution of voting rights) was changed to give the oil-producing countries a more important voice in the organization.

Agreement in principle was reached to set up a "Trust Fund" to supply credit on favourable terms to the poorest developing countries—with per capita incomes of \$250 or less—facing balance of payments problems; the fund's resources would derive from the proceeds from the sale of part of the IMF's gold, and also from contributions from the industrial and oil-exporting countries.

THE GOLD AGREEMENT

The arrangement arrived at for monetary gold is satisfactory, though it provides no final answer to the question of the future role of gold in the monetary system. In fact the agreement amounts to not much more than a confirmation of the status quo, but for the moment that is enough. The major industrial countries and the IMF have undertaken not to increase their total monetary gold stocks in the next two years; that means that the central banks will not on balance be able to buy any gold on the free market, but they may sell their gold stocks to one another at a freely arranged price. For the moment, the IMF is retaining two-thirds of its gold stocks, $\frac{1}{6}$ th is being returned to the members and $\frac{1}{6}$ th is being sold—on the free market or to the central banks¹—the proceeds going to the "Trust Fund" mentioned.

The gold agreement does not change much in the existing situation, but it does change something: it now becomes possible to finance balance of payments deficits with gold.² It will probably be a long time yet before gold loses its monetary function, but it is improbable that the importance of the metal as a component in monetary reserves will increase. For the moment, the settlement reached in Washington in September will suffice; it cannot, however, come into force until a solution is found for the final, still unsolved problem of the exchange rate system.

THE EXCHANGE RATE SYSTEM

In discussions on the future exchange rate system, a lot of prestige is unfortunately at stake and positions have rigidified, so much so that one might almost forget that in practice both the proponents of a floating exchange rate system and those who advocate a return to "fixed but adjustable parities" act almost the same way. Fixed rates are not yet attainable but "clean floating" does not occur in practice either, since governments cannot afford to have the price of important imports continually fluctuating. Moreover, the balance of payments deficits, to the extent that they are connected with increased oil prices, cannot be got rid of by allowing exchange rates to float completely freely. As long as the OPEC countries have large surpluses on their payments balances, these must correspond to deficits elsewhere in the world. If the deficit countries tried to restore equilibrium on the balance of payments by letting their currency float downwards,

¹ This prospect may cause disquiet on the gold market, since $\frac{1}{6}$ th of the IMF's gold stocks is still almost 800 tons of gold, or practically South Africa's annual production.

² Since IMF members' monetary gold reserves can now be valued at market value, their value goes up from 36 thousand million in Special Drawing Rights (SDR) to around 110 thousand million SDR, and total monetary reserves from 180 to around 225 thousand million SDR.

the only possible consequence would be increasing curtailment of economic activities. Massive intervention would then be needed on the currency markets.³

It is not the case that floating rates are operated everywhere in the world. By far the largest number of countries still have their currency unit linked to a foreign currency; mostly the dollar, sometimes the French franc or the pound Sterling. However, the most important countries, accounting between them for 70% of the IMF members' total foreign trade, have a currency that floats either independently, or jointly as in the case of the European "snake".

It is fairly generally recognized that floating rates have helped the world through a difficult period, characterized by sharply divergent inflation rates and large balance of payments deficits. Monetary crises have not arisen, and protectionism has nowhere gained the upper hand.

The most important drawback to floating is that sharp exchange rate fluctuations have occurred, their causes unrelated to basic economic trends. This applies particularly to the sharp fall in the dollar rate, which recently changed again to a rise. A second objection is that decisions on foreign investments must be taken more than formerly on fairly irrational grounds, since it is often the current exchange rate that determines the yield to be expected from a foreign investment. Again, foreign trade, which on the whole has not been much troubled by the floating rates, has felt the pinch where forward markets are insufficiently developed. Developing countries, which are hardly able to protect themselves against the fluctuations in their foreign currency incomes consequent upon exchange rate changes, have also suffered from the floating.

In certain circumstances, floating exchange rate may give a boost to inflation. Higher import prices, to the extent that they are a consequence of the depreciation of the country's own currency, are in general passed on to the customer in the selling prices. However, when a country's exchange rate rises, the prices of the goods it imports are much less flexible, so that a drop in import prices by no means always benefits the consumer. To that extent, the effect of floating rates is on balance inflationary. Nevertheless, US Treasury Secretary Simon was correct to maintain⁴ that the principal connection between inflation and floating rates is that the sharply divergent inflation rates have made a system of floating exchange rates unavoidable.

Again, it is to the credit of floating rates that they have enabled a number of countries to protect themselves better against imported inflation, and that they have manifestly conduced to some restoration of equilibrium on the payments balances of countries like Italy and the USA and recently also the FRG.

Floating exchange rates have not given governments the extra margin of autonomy in their economic policy that had been expected. A falling exchange rate increases the cost of imported goods, which makes more impression on public opinion than any fall in the level of monetary reserves, as Treasury Secretary Simon correctly stated.⁵ This means that floating rates compel a certain balance of payments discipline just as much as a system of fixed but adjustable parities.

The special weakness of floating rates is, however, the fact that their level is partly determined by short-term capital movements, which seldom have much to do with the intrinsic strength of an economy. These shifts of short-term capital can constitute a strong disequilibrium factor, and thereby endanger free trade. In the last few years our countries have not had much trouble from this, but as the President of the Bank for International Settlements observed in his speech at its 45th General Meeting: "Bien que cela n'ait pas encore été le cas jusqu'ici, il n'est pas raisonnable de croire qu'une telle éevntualité ne puisse se produire". (Although it hasn't happened yet, it is unwise to think it can't.)

STARTING POINTS FOR CLOSER COOPERATION

The exchange rate system at present in force is the only possible one in the present situation; and this situation will not change as long as inflation rates continue to be as different as they are now.⁶

³ Annual report for 1974 of the Bank for International Settlements, Basel, 1975.

⁴ Statement by Treasury Secretary William Simon before the Sub-Committee on International Economics of the Joint Economic Committee, July 21, 1975.

⁵ Address of Treasury Secretary William Simon before the 1975 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund, September 2, 1975.

⁶ It is remarkable that exchange rate trends have not in practice differed very much from those before the Bretton-Woods system collapsed: now, too exchange rates are usually more or less stable within narrow margins for a fairly long time, subsequently rising or falling sharply in a fairly short period. That is more or less the picture we know from the era of the so-called fixed parities.

In the short-term there is no real chance that the industrial countries, even supposing they wanted to, could go back to fixed but adjustable parties. It is, however, equally clear that the present system of floating rates is not functioning entirely satisfactorily. In these circumstances what can the industrial countries, particularly the USA and the European Community, do?

1. Firstly, it has to be borne in mind, as the last few years have clearly shown, that international cooperation in the area of monetary and economic policy is more important than the exchange rate system—fixed parities or floating rates—as such. In this connection particular importance attaches to coordinating money and credit policies.

2. Secondly, restoration of economic stability in our own countries is what can make the most valuable contribution to bring about a healthy international monetary system.

3. Thirdly, there is the question what is to be done with the short-term claims on the USA. The American Treasury Secretary considers that there is no dollar surplus. This assertion is in accord with the facts to the extent that some countries with monetary dollar reserves have borrowed still more dollars in the oil crisis to cover their balance of payments deficits. Nevertheless, the great number of short-term claims on the USA is a permanent threat to the sound operation of the currency markets, and has repeatedly stood in the way of rational exchange rate formation. This is the explanation for the wild fluctuations in exchange rates already mentioned. The large dollar holdings in non-American hands and the attendant danger of sudden massive displacements of short-term capital hang like a sword of Damocles over the currency markets.

4. In the interests of stable monetary relationship, it is therefore necessary for the USA, just like other countries, to observe a certain balance of payments discipline,⁷ and that means restoring the convertibility of the dollar into, say SDRs. International monetary relationships will continue to be in danger as long as there is no arrangement for the large dollar holdings in foreign hands. Secretary Simon stated he was aiming at “orderly exchange market conditions”;⁸ this implies finding an arrangement for the dollar surplus.

5. If the necessary progress is made on the above points the world can evolve towards more stable monetary relationships, two alternative developments being in fact possible. It is conceivable that the members of the Group of Ten will gradually narrow the limits of fluctuation and thereby jointly come to a system of more fixed rates; but what is more probable is a development that can already be seen starting, where currency stability is aimed at within groups of countries, it being understood that the groups will continue to float against one another. In a subsequent stage the currency blocs might also come nearer together, so that what were initially loose links could gradually be made closer. A settlement is thus conceivable whereby the US monetary authorities and those of the countries in the “snake” would agree to keep the fluctuations of their currencies within limits of, say 5% above and 5% below an agreed par value. This is in no way a revolutionary proposal, bearing in mind that in the last few years fluctuations have only occasionally exceeded these limits.

The transition towards more flexibility was necessary a few years ago. The time is now ripe to gradually achieve more stability.

⁷ It is incorrect to say that the surplus dollars should be used to buy American goods or services, since the very existence of the surplus shows that demand for these goods and services at prevailing prices is saturated. And in view of the size of the dollar surplus, the proposal that these dollars be exchanged for other currencies cannot be taken seriously, since this sort of exchange on a large scale would occasion too great a fall in the dollar rate.

⁸ Address to World Bank and IMF, 1975.

INTERNATIONAL MONETARY REFORM

Paper by Mr. Reuss

For over three years International Monetary Fund—first through the Committee of Twenty and later the Interim Committee—has sought to draft amendments to the IMF Articles of Agreement to bring them into line with current realities and to establish the framework for a viable international monetary system. In September the Interim Committee tentatively reached agreement on two of the three remaining areas where differences of opinion among members had blocked agreement in recent meetings. The two areas were (a) how an agreed increase in IMF quota subscriptions should be allocated among the individual members and (b) certain details regarding the future international role of gold. The third area, that of a suitable exchange rate policy, remains for consideration at the next Interim Committee meeting in January.

The negotiations for agreement on a reformed monetary system have been long and arduous. Unforeseen events during 1973 have made the task far more difficult than initially anticipated. In March the major industrial nations abandoned any attempt to maintain fixed parities for external values for their currencies and decided to let foreign exchange value of their currency be determined largely by the interplay of private supply and demand. By the end of 1973 the Organization of Petroleum Exporting Countries had quadrupled the price of oil. This increase in oil prices imposed severe balance of payments adjustment strains on the industrial countries and on those developing nations unable to export primary commodities at high prices.

It would be easy to look with relief toward a speedy conclusion of the negotiations. But several key questions remain. Is the tentative agreement reached in September a workable one? Can a suitable agreement of the remaining issue of exchange rates be worked out? Will the final package meet the objectives laid out in the Outline of Reform proposed by the Committee of Twenty in the summer of 1973?

IMF QUOTAS

General agreement was reached in January 1975 to increase total IMF quotas by 32.5 percent, or from 29.2 billion special drawing rights—SDRs—to 39 billion SDRs. But there had been continuing disagreement on how much the quotas of some industrial countries, including the United States should be reduced proportionately and also on how much the quota share of other members, especially oil producers, should be increased. Finally, at the last meeting, the Interim Committee agreed on quota increases for the industrial countries and for the major oil exporting members. Only smaller adjustments in the quotas of a few developing countries remain to be worked out.

In order to accommodate a doubling from 5 to 10 percent of the quotas of OPEC countries made necessary by the massive shift of wealth to the oil producers since 1973, some industrial nations have had to accept smaller quotas. The U.S. quota share has been reduced to slightly over 20 percent. Italy and France also have accepted smaller shares. Great Britain, though still maintaining the second largest quota share, has accepted the largest decrease. Not all of the industrial countries have had their shares reduced. Germany and Japan have received larger shares to reflect their growing economics. These changes both increases and decreases are consonant with new economic realities.

At the same time the Interim Committee has proposed that the majority in the Fund required to approve important decisions be increased from 80 to 85 percent of total voting power. Thus the veto capability of the U.S. has been maintained and will permit future quota adjustments without directly challenging the U.S. position. The Interim Committee is to be commended for its successful resolution of the different political and economic interests.

(39)

AGREEMENT ON GOLD

The agreement on gold announced by the Interim Committee would abolish the official price of gold, currently set by the IMF at 35 SDRs per troy ounce, and eliminate the obligation of Fund members to use gold to pay 25 percent of their quota subscriptions and in certain other transactions. The agreement specifies that one-third of the Fund's gold stock would be disposed of. A sixth of the stock, or 25 million ounces would be sold in the market, and as a consequence of central bank purchases of gold in the market, the total number of ounces of monetary gold, including gold now held by the IMF, would not be increased. The Group of Ten agreed that these arrangements would be reviewed 2 years after initial implementation to determine whether they should be continued, modified, or terminated.

Many details regarding the implementation of the gold agreement are still unresolved. For example, it is uncertain whether the IMF will offer its gold through dealers in the major cities where gold markets exist, through public auction, or whether private placements with individuals or monetary authorities will be considered. Nor is it known over what period the sales will be executed, in what increments they will be paced or the extent to which sales may be curtailed in reaction to declines in the market price.

The major weakness of the currently proposed agreement is its provision to return one-sixth of the IMF's gold to IMF members. This restitution would offer the wealthy industrialized countries the opportunity for large capital gains. Gold would be sold to IMF members at the current official price of 35 SDRs or \$42 per ounce in proportion to their quotas—i.e. their contribution to the Fund's gold stock. Hence national monetary authorities purchasing gold from the IMF under the restitution provision might be able to realize profits equivalent to three or four times the purchase price. At current market prices—about \$150 per ounce—the profit to the U.S., for example, could be \$500 million, to Great Britain \$230 million, to Germany \$140 million, to France \$130 million, and to Japan \$100 million. In contrast, the potential profits of Malaysia would be \$16 million, Columbia \$14 million, Sri Lanka \$9 million, Korea \$8 million, Afghanistan \$3 million, drought stricken Mauritania \$1 million, Bangladesh \$11 million and Honduras \$2 million.

Perhaps more serious than the question of equity is the impact this agreement may have on the composition and supply of international liquidity. The gold agreement may well increase the proportionate value of international monetary reserves held in the form of gold and delay further distribution of special drawing rights in the future. The IMF will sell a sixth of its gold stock at market prices and a sixth at the existing official price to monetary authorities. National monetary authorities could conceivably purchase most of the gold that the Fund sells in the market. Thus, one-third of the Fund gold stock, or 50 million troy ounces, could be transferred from the Fund to the monetary authorities of member states and carried on the books of the later at a price three or four times the price now used by the IMF. This procedure would constitute a partial revaluation of the world's gold reserves. During the next year or two, therefore, a significant proportion of additions to the reserve stocks of monetary authorities could—as a consequence of this agreement—be in the form of gold. Other things being equal, the greater the supply of gold reserves, the less is the need for additional reserves created by the IMF in the form of special drawing rights.

AMBIGUITY OF GOLD

Moreover, the gold agreement does not clearly signal a reduction in the future international monetary role of gold. Instead, this question is clouded by ambiguity. There is some basis for hope that the most dire of these possible consequences will not actually come to pass. Nevertheless, the agreement fails to take a clear stand on the international monetary role of gold, and neglects to indicate that this role will necessarily be diminished in the future. On the contrary, that role might grow.

What the Interim Committee has agreed to so far on gold is a beginning. It should be improved upon before revised Articles of Amendments are agreed to and presented to IMF members for ratification. The final solution should not increase either the proportion or the total value of international monetary reserves held in the form of gold, and it should unequivocally signal a future diminution in the international monetary role of gold. Of course, as a major reserve asset constituting presently about 20 percent of all reserve holdings, gold

cannot be phased out overnight. But the international monetary reform now being negotiated should immediately begin the process of diminishing the significance of gold, rather than permit the question to be determined by the disparate actions of various central banks.

A preferable solution would be to sell the full one-third of the IMF gold stock that is being disbursed in the market. The proceeds from the sale of 50 rather than 25 million ounces of gold could then be used to benefit developing countries although maximizing returns to poor countries should not be achieved at the expense of getting gold out of the international monetary system. Nevertheless, there is no need to confer windfall gains on the wealthy.

If the sale of a portion of the IMF's gold produces a shortage of international reserves—and there is some dispute now about whether the total stock of international liquidity is deficient or excessive—the members of the IMF can agree to create sufficient additional special drawing rights to eliminate any such deficiency.

Such an arrangement would be more equitable, would permit more precise control over the growth of international liquidity than the existing agreement, and along with abolition of the official price of gold and the need to use gold in transactions with the IMF, would unambiguously signal the beginning of a gradual movement to phase out gold as international money.

EXCHANGE RATES

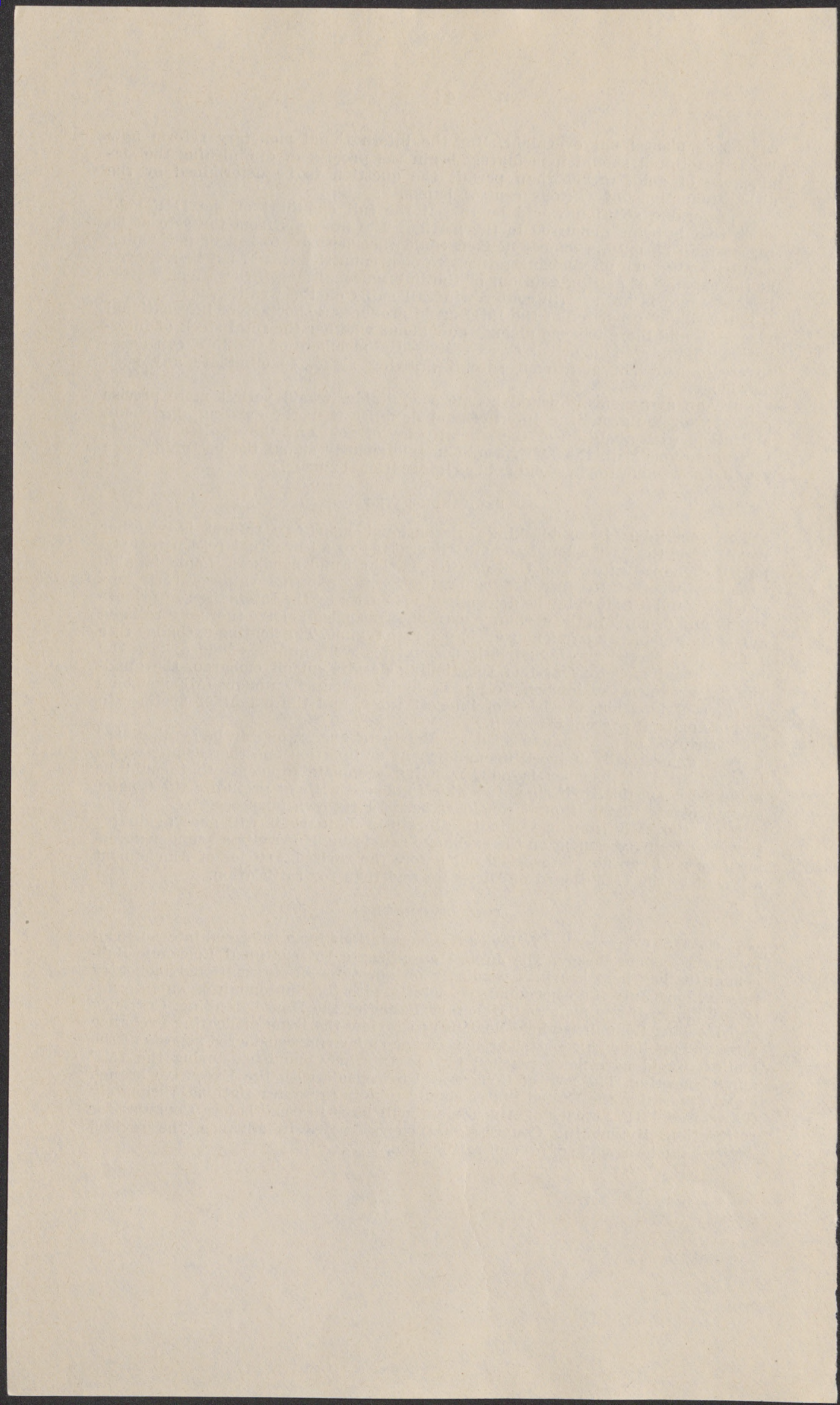
The remaining issue blocking international monetary reform is whether members of the IMF should commit themselves to an eventual return to fixed parity exchange rates. The U.S. position is that Fund members should be able to choose whether to state a fixed parity for the external value of their currencies or to let that value be determined primarily by the interaction of private supply and demand in the exchange markets. Our officials have therefore resisted any commitment to a particular exchange rate regime. The floating exchange rate regime has served the industrialized countries well, and has helped keep the international monetary system functioning despite an oil embargo, the quadrupling of the cost of imported oil and wide discrepancies among IMF members in rates of inflation, the level of interest rates, and the extent of declines in output during the recent recession.

Either fixed or floating market determined exchange rates can be manipulated to foist domestically induced unemployment or inflation on other countries. So long as an IMF member is not exporting economic problems that could be managed domestically, it should be able to choose without prejudice the type of exchange rate regime that it considers best for its own purposes.

When the IMF Interim Committee meets in January it will once again try to work out an agreement on the exchange rate issue. Hopefully a sounder agreement on gold can also be worked out before the revised Articles of Amendment are sent to the IMF Board of Directors and then for ratification.

ROLE OF CONGRESS

In the U.S. Congress has followed the negotiations for a reformed international monetary system closely. The Joint House-Senate International Economic Subcommittee has held hearings regularly on questions of international monetary reform. Last July this subcommittee, jointly with the Subcommittee on International Trade, Investment and Monetary Policy of the House Banking, Currency and Housing Committee, held hearings to review the issue of floating exchange rates and published a report. Three weeks ago a hearing considered aspects of the tentative gold agreement reached by the Interim Committee during the IMF annual meeting. The role of Congress is to consult with the Executive branch on what position the United States should take in these negotiations. Ultimately the revised IMF Articles of Amendment will have to come before Congress for ratification. By making Congressional views known in advance, the revised Articles can be capable of prompt ratification.



Thursday, October 30, 1975

SUMMARY OF DISCUSSION

PLENARY SESSION II—INSTITUTIONAL DEVELOPMENTS

(Working Documents: Mr. Seefeld, Mr. Rosenthal)¹

Mr. Seefeld introduced his paper on "Recent Developments Within the European Communities." Congressman Rosenthal introduced his paper on "The Role of the U.S. Congress in Foreign Affairs".

Congressman Gibbons underlined his support for the views expressed by Congressman Rosenthal which he considered to be a very good explanation of the interest of Congress in foreign policy and the reasons why Congress wished to intervene in foreign policy.

Congressman Ryan said that the main reason for the peculiar relationship of Congress vis-a-vis the President during the past few years was that although the President was a Republican the majority in Congress was Democratic. This created conflicts or tensions between the White House and Congress. In a situation of this kind it was very difficult to obtain a harmonious view between the administration and Congress over foreign policy.

CONGRESSIONAL INTERVENTIONS CITED

Congressman Biester pointed out, however, that, with specific reference to the Gulf of Tonkin Resolution, the Vietnam war had been launched by a President and Congress of the same party. Foreign policy powers were given to Congress by Article 1 of the U.S. Constitution but not to the President, except for the making of treaties. But it must be admitted that Congress had not played a very glorious role in foreign policy in its recent period of interventionism which includes the League of Nations, the Neutrality Act and the Hickenlooper amendment. With its policies toward both Greece and Turkey, Congress had been playing dice with the future of NATO.

Miss Boothroyd, referring to Mr. Seefeld's paper, said that "European Union" and the possible holding of direct elections to the European Parliament in 1978 had been mentioned. Were such developments feasible? The Europeans in Britain were very happy about the referendum result, but it should be remembered that the referendum concerned only the Common Market as it was today, and did not refer to a "European Union". The decision to move on to a "European Union" had to be decided by our sovereign parliaments. There was no question of Europe, for instance, insuring its own security framework—this had to be done in NATO. As far as standardization of arms was concerned, this had been spoken about for more than 20 years and we still had not got there yet.

¹ See pp. 51 and 47, respectively.

EXAMPLE OF VIETNAM

Congressman Sarbanes said that the essential rationale of the United States is its democratic nature. Therefore it was logical that Congress, as the democratic element in government, should intervene in foreign policy. It was known that Congress had to rectify treaties when these were negotiated. Congress had to act responsibly in such situations, but it was not prepared to hand over its entire responsibility to the administration. He did not think that ethnic groups did exert very much electoral pressures on Congressmen, but just made them look more closely at the specific questions in which their ancestry made them involved or interested. It had to be admitted that Congress sometimes reacted crudely over foreign policy matters but it had very few instruments at its disposal. In Vietnam, the Congress had to cut funds because the executive branch refused otherwise to end the war. Ultimately there must be a basis in principle for our foreign policy for the American people will not support a foreign policy based only on power and "realpolitik."

Mr. Klepsch said that, from his point of view, one of the problems was that Congress was reelected every 2 years. Thus minority groups were able to exert foreign policy influence and pressures because of their electoral pressures on Congressmen. It should not be forgotten that the United States was a world power whose commitments, undertaken by its administration, had to be honored without a danger of these commitments being destroyed by Congress. Would Congress, for instance, approve if Turkey were to leave NATO as a result of the embargo which it had imposed? This was certainly one possible implication of the Turkish arms embargo.

Mr. Seefeld, replying to Miss Boothroyd, and referring specifically to holding direct elections for the European Parliament by 1978, said that it was perfectly feasible to hold direct elections by that year if the British and Danish Governments did not pose too many problems. He agreed that the British referendum had been a good result not only for Britain but for Europe. As a result of the referendum the British public was better informed about Europe than other member countries of the Community, because of the very elaborate campaign. The forthcoming report of Mr. Tindemans [The Belgian Prime Minister] on European Union could only be as good as the political input into it allowed it be to.² It could not be better than the idea of those with whom Mr. Tindemans was consulting. The whole point of the strength and unity of the Community was the realization of its members that there were more things which united them than divided them, and that they were better off sticking together.

GROWTH OF EUROPEAN PARLIAMENT

Congressman Rosenthal wondered whether the European Parliament, in trying to obtain more powers, which was a fully desirable aim, might be able to learn lessons from the experience of the U.S. Congress.

Mr. Normanton thought that there was some parallel in relations between the European Parliament and the Council of Ministers, and

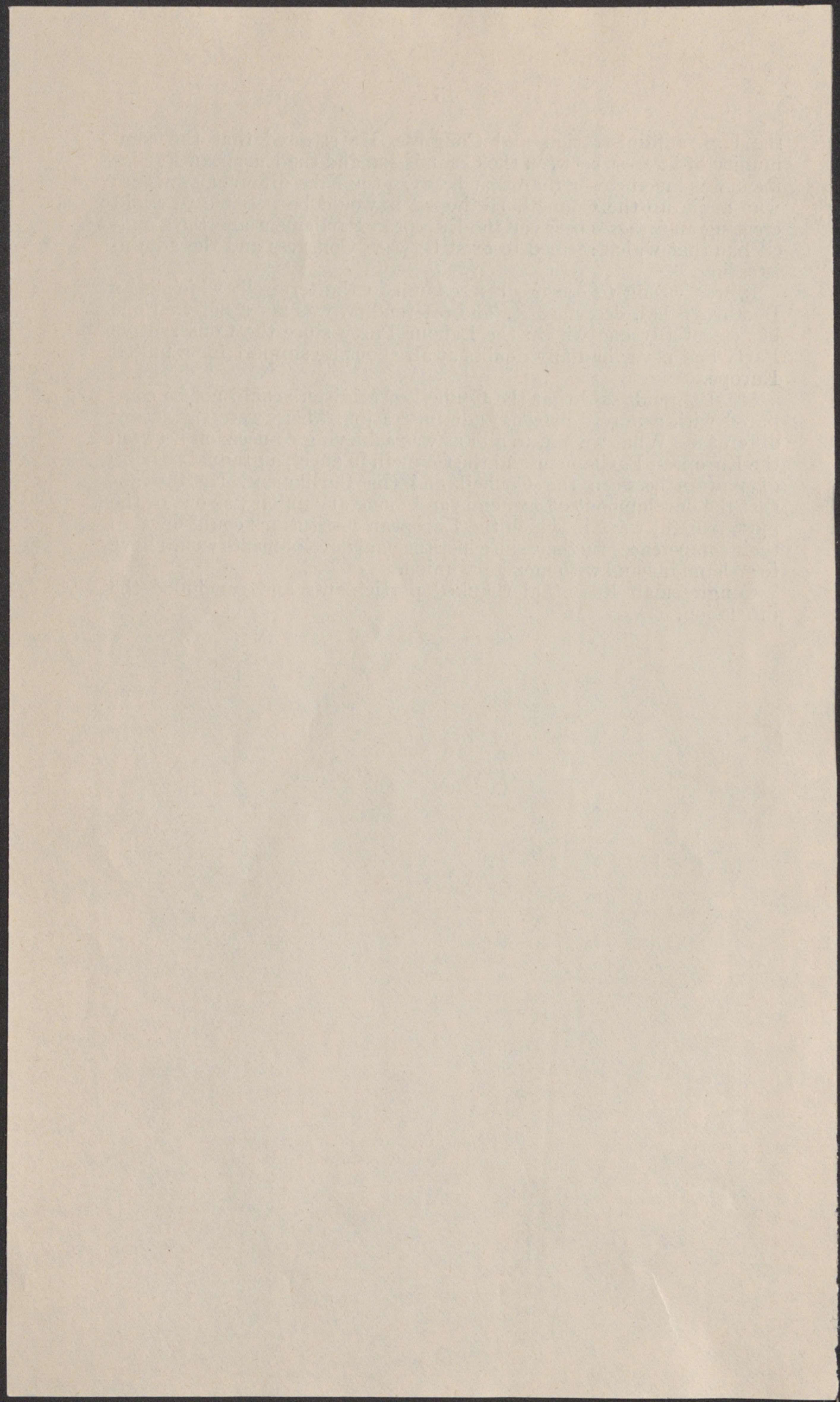
² See p. 85 for the Tindemans Report.

the U.S. administration and Congress. He stressed that the community of interest between the Commission and the European Parliament was much closer than that between the Nine different ministers who made up the Council. He hoped it would be possible to avoid creating an *impasse* between the European Parliament and the Council like that which seemed to exist between Congress and the administration.

It was wrong to see the referendum in the terms in which Miss Boothroyd had described it. The referendum was not a national one but essentially one within the Labour Party since the Conservative Party had never had any doubts at all about its support for a united Europe.

Mr. Behrendt said that the Council of Ministers could not be compared with a purely national administration. There were significant differences. What we had to aim at was achieving co-decision between the European Parliament and the Council, in effect, a gradual sharing of powers between the Council and the Parliament. He thought that the development of economic and monetary union was one of the most fruitful ways in which the European institutions could develop their competences further, since institutional developments would have to go hand in hand with monetary union.

Congressman Rosenthal thanked participants and concluded the discussion.



PAPERS

IS THE CONGRESS IN REVOLT?

Paper by Mr. Rosenthal

The role of Congress today in foreign affairs perplexes many foreigners. From an institution which consistently supported the policy outlines of Marshall, Acheson, Dulles, Rusk and Kissinger, we now perceive (in the United States, as well) a new direction by Congress.

The milestones of this change are agreed upon: the Trade Reform Act of 1974, with the Jackson amendment; the suspension of military aid to Turkey; and the refusal to grant additional military aid in Southeast Asia.

What is less clear is the long-term significance of these instances of congressional independence in foreign affairs:

Are these isolated cases, brought together only by their coincidence in time?

Do they reflect the peculiar weaknesses of the Ford Administration, the only one in American history where the President never won a national electoral mandate?

Or do these congressional acts of defiance represent a more substantial shift of authority to a Congress clearly reacting against too much foreign involvement, of which Vietnam is the symbol?

TRADE BILL DISPUTE

Let us examine the examples before drawing general conclusions:

The seeds of the trade bill dispute came from the lack of caution by the Nixon Administration which in October 1972 signed a trade agreement with the Soviet Union which promised, among other items, most-favored-nation (MFN) status. In the euphoria before the anticipated election victory by Nixon that fall, the Administration forgot that congressional approval was needed for MFN status. At the same time, the Nixon Administration ignored the bitter reaction in America several months earlier to the Soviet emigration tax. That reaction should have warned both governments that congressional approval would not be automatic. Whether or not one agrees with the final congressional action, it was well anticipated for over two years.

The Turkish aid suspension had its roots in the cynical policy employed by two American Administrations in the eastern Mediterranean since 1967.

Faced with a Greek military dictatorship, the Johnson and Nixon Administrations proceeded on a business-as-usual basis in Athens. When that dictatorship provoked a coup on Cyprus in July, 1974, the United States, still eager to protect its Greek bases, refused to condemn the attack on the legal Cypriot government. The inevitable Turkish reaction came in the July invasion. But when the Turks, in August, expanded that beachhead to over one-third of the island, and over three-quarters of its economic wealth, the situation shifted dramatically, in the congressional view.

TURKISH AID SUSPENDED

The Turks, who in July were the aggrieved party, were now the aggressor, armed almost entirely with American weapons, employed against an explicit and long-standing prohibition in U.S. law. The refusal of Secretary Kissinger to face this legal issue—a refusal which many judged intolerable in the post-Watergate period—insured that military aid to Turkey would be suspended.

The Turkish affair, therefore, must also be charged to ineptness by the Administration, rather than to a congressional design to seize authority.

On the third example, Vietnam, there had been a widespread public disenchantment with the war in Southeast Asia since 1968. The refusal of the Congress to vote extra aid to Vietnam was entirely consistent with Congress' own

record since 1973 and with the temper of the American people. That this refusal surprised the President and the Secretary of State is itself surprising.

Even if these three episodes are clearly unrelated, do they not reflect a lack of leadership by the Ford Administration? Even if coincidences, don't these events create a new mood in Congress? The answer is clearly "yes" if these questions ask whether the political effects of these congressional acts could not have been otherwise represented. Yet the new President, with a conventional and conservative approach to foreign affairs, cultivated in the House of Representatives in the quarter-century when Presidents made foreign policy, was paradoxically, not a likely candidate to sense the new Congressional mood for several reasons:

MISTAKES OF THE PRESIDENT

First, the new President was confident that he knew the House and could lead it in foreign affairs as Truman, Eisenhower and even Kennedy and Johnson had. Ford failed to see the special difficulties of the three problems outlined above and his special weaknesses as an interim President.

Second, President Ford relied too much on Kissinger when the Secretary of State was already beginning his decline. The Kissinger credibility was tarnished by Chile, by his Salzburg temper tantrum and by a style increasingly perceived to concentrate more on managing his critics and less with dealing with international problems. Yet Ford's weakness in foreign affairs could not allow him to release Dr. Kissinger.

The weaknesses of the President compounded those of his Secretary of State, creating the appearance that the *institution* of the Presidency was weakened in foreign affairs. How unreal this appearance is, we can see by projecting ourselves 18 months ahead. By spring of 1977, we can be confident these events will have taken place:

A President, elected in his own right, will be in the White House with a new foreign policy team.

Vietnam will have receded from the public consciousness.

The new President will have used his initial strength to remove both Turkish aid and the Jackson amendment as major problems, assuming that they are not already removed by the present Congress.

What, then, will be the Congress which the new President faces in the foreign affairs field?

IS THERE A "REVOLUTION?"

To the great disappointment of those, in and out of the Congress, who see today a "revolution" in the legislative branch, there is a good chance that two years from now no one will know what today's excitement was about. Congress changes its ways very slowly. The dramatic changes in internal procedure taken by the present Congress offers proof of relative congressional inertia and not a refutation of it. The principal change was to elect 3 of 21 committee chairmen by merit and not seniority.

Coordinating the work of 435 Members, elected every two years largely on their own and as party representatives, is a task which has occupied the House since its creation. (Coordinating the House and the Senate has never been possible.) Numerous reorganizations have been discussed, a few adopted, but the theme of the House's history is that few men and few groups have ever tamed the essential (and healthy) disorder of the institution. When the House seemed to become *too* organized (under the Speaker in the late 19th Century, and under the Caucus, in the early 20th Century) the House itself reacted by limiting the trend toward too much order.

Today, the House, especially in foreign affairs, seems to be reacting against too much control by the President. The Vietnam conflict symbolizes that concern. Here was a major American military engagement into which the Congress was led by three Presidents who controlled both the diplomatic and military facts available to the legislative body. The disaster of Vietnam, from its origins and its execution, will remain a symbol of Congressional weakness and manipulation for some years.

The reaction against this manipulation so far has come in the Democratic Caucus, the assembly of all party members in the House. But past experience indicates that the Caucus is unlikely to be a continuing or a consistent guide for the House.

IMPROVING CONGRESS' CAPACITY

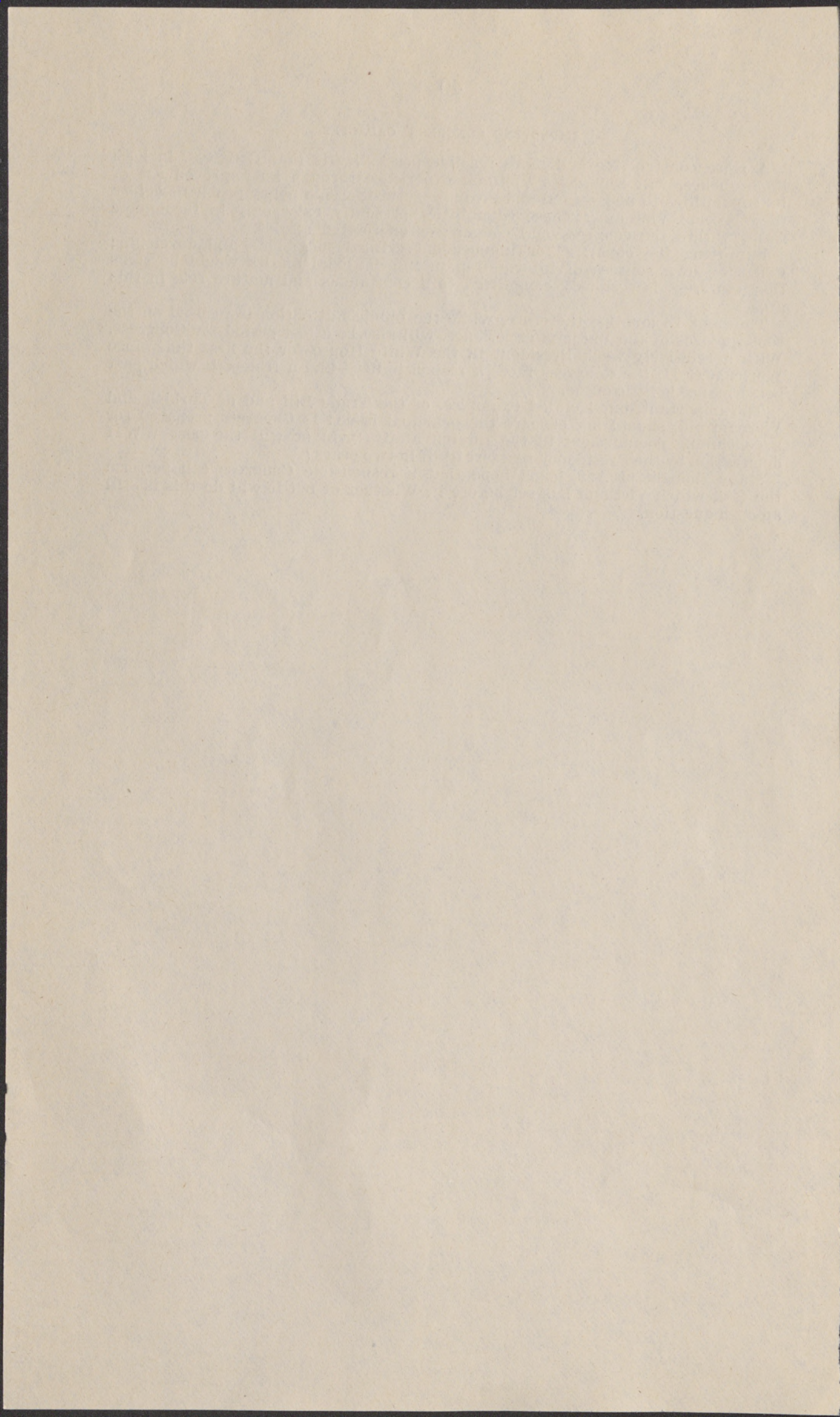
A more constructive and more feasible possibility is that Congress, in both its branches, will reflect its Vietnam experience through an improved use of its capabilities to understand and evaluate future foreign policy problems *before* they become Vietnams. These capabilities presently exist only in incomplete forms within the congressional committees on foreign affairs.

Improving the capacity for independent critical judgments and developing Congress' own sources of information in international affairs would be signs that Congress is seriously committed to a continuous and mature role in this area.

The next 18 months, therefore, while the public's attention is focused on the consequences of the Vietnam experience, will also be a test period for Congress. With a relatively weak President in the White House for the first time since World War II, the Congress faces a responsibility—and a test—for which past performance is little guide.

The important, but isolated examples, of the Trade Bill and of Turkish and Vietnam aid, should not obscure the principal issue: Is Congress prepared for a continuing commitment in the foreign affairs field or will the post WWII domination by the Presidency reassert itself in two years?

Many thoughtful Americans hope that a responsible Congress can perform the task which Vietnam has set before it. Whether or not it will do this is still an open question.



RECENT DEVELOPMENTS WITHIN THE EUROPEAN COMMUNITIES

Paper by Mr. Seefeld

A. EUROPEAN UNION

1. The different institutions of the European Communities have now submitted their reports on "European Union" to Mr. Tindemans, the Belgian Prime Minister, who is due to take these documents into consideration, together with views expressed by national governments, political parties and other relevant organisations, in preparing his own report for submission to a summit meeting before the end of this year.¹

2. In his detailed replies to a journalist of "Le Monde"² Mr. Tindemans has already made it clear that just to find a definition of "European Union" is in itself a major problem, quite apart from providing detailed proposals for the substantive content of "European Union". In the same interview Mr. Tindemans admitted that in his own view it would not be possible to form a complete "European Union" by 1980, though he expressed the hope that the Nine would be able to move forward in the economic, monetary and social fields. He also stated that a "European Union" was inconceivable without a common attitude of the Nine concerning guidelines for foreign and defence policy. Commenting on the controversial problem of European defence, Mr. Tindemans told "Le Monde" that since Europe on its own was not able to ensure its own defence this must continue to be carried out within the integrated system of NATO. Within NATO Mr. Tindemans considered that the European contribution could take the form of a strengthening of the Eurogroup, which might take on the responsibility of armaments standardisation. Mr. Tindemans emphasised that the precondition of any distinct European defence entity must be the creation of a European political authority.

3. From what Mr. Tindemans has already revealed it seems unlikely that his report on "European Union" will make ambitious proposals in the sense of the creation of some form of European federation, confederation or government. It is, indeed, already clear that Mr. Tindemans's proposals will be of a more limited and practical nature. It is only to be hoped that European public opinion will not be too disappointed and will not become disillusioned by such an approach. Mr. Tindemans's task is a difficult and unenviable one at a time of economic crisis when the member governments of the Communities have been tempted to return to policies of economic nationalism. If positive results follow from Mr. Tindemans's report they might well take the form of: (a) more detailed organisation and institutionalisation of the work of Heads of Government; and (b) a more active policy by the Nine, as an entity, in fields outside but linked to the Treaties—such as cooperation in the legal and health domains.

B. HEADS OF GOVERNMENT

4. The only Heads of Government summit since the Munich meeting of the two delegations was a "low-profile" one in Brussels in August, which issued no declaration. But it may be useful to make some comments concerning this major new institutional development.

5. The decision that Heads of Government meetings should be held regularly three times a year was taken in Paris in December 1974. This decision is of the very highest significance since it indicates the willingness of the Heads of Governments to take the responsibility, themselves, for laying down guidelines of Community policy, at the highest level, and to consider and possibly decide on matters outside the Treaties but related to them.

6. There has not yet been sufficient experience of the "European Council" to enable us to arrive at a balanced assessment of its advantages and disadvantages.

¹ See p. 85 for the Tindemans Report.

² "La visite à Paris du premier ministre belge", "Le Monde", 21–22 September 1975. For full text see end of this paper.

On the one hand we can already see that the "European Council" is capable of breaking deadlocks in fields of policy where action has been necessary for some time—notably concerning regional policy, where the decision to establish a Community regional policy was taken at the Heads of Government meeting in Paris in 1972 and where the decision to activate this policy was taken at the Paris meeting of December 1974. On the other hand the December 1974 summit *replaced* the the ordinary Council in taking a major, detailed decision concerning a matter which clearly lay within the competence of the EEC. This raises the whole question of the relationship of the "European Council" to the Community institutions and to the Treaties. Thus, although it is to be hoped that the "European Council" will provide the European Communities with greater flexibility and enable them to move forward more rapidly in areas where much needed decisions have been blocked for too long, it is clearly necessary that the decisions of the Heads of Government be made politically accountable within the Community framework.

7. At present there is no such accountability and following the important Dublin summit this March which wound up the "renegotiation" of Britain's terms of membership of the European Community it was only through the press that public opinion was informed as to the important decisions taken since the Heads of Government did not publish any statement or communique.

8. If summit meetings are to be made accountable politically, the most obvious way would be to make them so either to national Parliaments or to the European Parliament. But national Parliaments are more than fully occupied with national problems and are not completely informed concerning Community problems. On the other hand a basic function of the European Parliament is to supervise political decisions within the Community and so, from a Community viewpoint, the most desirable solution would be that summits should be accountable to the European Parliament. On the basis of a report by Mr. Peter Kirk on Powers of the Parliament Parliament's Political Committee is already considering the idea that the particular Head of Government chairing any one summit meeting should report to the following session of the European Parliament concerning the decisions and discussions of that Heads of Government meeting.

C. THE COMMISSION

9. The Commission continues to exercise its two fundamental roles within the Community. First it acts, in most cases, as the initiator of policy proposals. Second, it acts as the executive or administrative body of the Community in administering the Common Agricultural Policy, etc. But since the "Luxembourg Agreement" of January 1966 the Commission's power of initiative has been blunted by the insistence of governments that practically all decisions must be taken by unanimity. At the Paris Summit of December 1974 the Heads of Government stated that: "It is necessary to renounce the practice which consists of making agreement on all questions conditional on the unanimous consent of the Member States, whatever their respective positions may be regarding the conclusions reached in Luxembourg on 28 January 1966." Your Rapporteur considers that the Commission's real significance as initiator of policy will not be fully restored until the Council returns to voting procedures laid down in Article 148 of the EEC Treaty, which provides for majority voting.

D. PARLIAMENT

10. The European Parliament is beginning to acquire effective budgetary powers. In March 1975, the institutions of the Community agreed to a "concertation procedure" as a means of resolving differences between the Parliament and the Council of Ministers over *all* proposals with financial implications. The Council agreed in July to adopt the proposed amendments to the budgetary provisions of the Treaty—these are now submitted for separate ratification to the national parliaments. When these amendments are finally approved, the European Parliament's statutory rights will be considerably increased. Parliament will have the power to reject the overall budget. It will be able on its own to give a discharge to the Commission for the annual budget. Those amendments and modifications to the budget proposed by the Parliament will be more likely to be included. Parliament will be consulted over the appointment of members of

the proposed Court of Auditors. Indeed, the establishment of this independent court, which will greatly assist Parliament in the scrutiny of expenditure, is also awaiting final approval by the Member States. The next set of Treaty amendments, moving toward a power of co-decision for the Parliament in budgetary matters, will be prepared by the Commission in the coming months.

11. Parliament is in no mood just to remain content with the additional budgetary powers it obtained from the Member Governments in the new budgetary texts, though these are an essential contribution to the enlargement of Parliament's powers in view of the introduction of direct elections.

12. The Council has not yet reacted to the proposals concerning the introduction of direct elections voted by Parliament in 1974, but must do so in the near future if 1978—the earliest time suggested by the Heads of Government themselves—is to be the year that sees the holding of the first direct elections.

13. Parliament's report on "European Union"³ makes an important proposal concerning the Community's decision-making procedure. In the text which Parliament adopted in July, Mr. Bertrand, the rapporteur, had proposed that a new Community decision-making procedure should be introduced, as follows. First the Commission, where appropriate on a proposal from Parliament, should draw up a draft proposal. Next this draft should be submitted to the Council and Parliament at the same time. Then the Commission proposal, approved or amended by Parliament, would be forwarded to the Council and the Commission, which could then amend the proposal as suggested by Parliament. Were the Council to feel that it must make substantive changes to the text of the proposal approved by Parliament a conciliation procedure must be instituted, within time limits to be specified, before the Council takes its decision.⁴

14. Further, as far as the extension of Parliament's own powers are concerned, Mr. Kirk has already submitted a draft report and draft resolution to the Political Committee. Amongst other proposals Mr. Kirk suggests: (a) that direct political accountability should be established from Heads of Government meetings to Parliament. This would take the form of the Head of Government of the country chairing each Heads of Government meeting reporting to Parliament at its next session; (b) the extension of Parliament's budgetary control over the Commission through: (i) the submission of five-year forecasts of expenditure to Parliament by the Commission and, (ii) the establishment of budgetary sub-committees by each "spending" committee of Parliament which—alongside Parliament's Committee on Budgets—would scrutinise and make suggestions concerning the major policy options in their own field of expenditure; (c) an increased role for Parliament in the negotiation of association and trade agreements by the Community—with Parliament holding an orientation debate before the Council gives the Commission a negotiating mandate, and with the Community's signature of such agreements requiring Parliament's approval before these agreements would enter into force.

15. The problem of establishing a single seat for the Communities continues to preoccupy Parliament, which is particularly concerned with its own site and with improving the effectiveness of its own work in the very difficult present situation in which plenary sessions are divided between two cities, Luxembourg and Strasbourg, and most committee meetings are held in yet a third city, Brussels. In September Parliament's Bureau instructed the Political Committee to report on this question.

E. POLITICAL COOPERATION

16. During recent months the political cooperation process has been mainly concerned with the conclusion of the Conference on Security and Cooperation in Europe at Helsinki and the development of the Euro-Arab dialogue.

17. Tribute must be paid to the cohesion and negotiating skill displayed by the Nine at Helsinki and Geneva. In fact, it was the Nine which emerged as the major negotiating force in the Conference. It is noteworthy that Mr. Moro, the Italian Prime Minister, signed the final act not only on behalf of his own country but also on behalf of the European Communities.

³ Requested by the Heads of Government and which is one of the basic texts which Mr. Tindemans is taking into consideration in preparing his own report on "European Union" for submission to the Heads of Government before the end of the year.

⁴ This proposal is aimed at extending to all legislative proposals the procedure already agreed concerning proposals for acts with financial implications.

ANNEX

[Article from "Le Monde", September 21-22, 1975]

BELGIAN PRIME MINISTER'S VISIT TO PARIS

INTERVIEW BY MAURICE DELARUE

"Europe is certain to develop towards greater independence, even in defence," Mr. Tindemans tells "Le Monde."

Mr. Leo Tindemans, who was instructed by the Paris summit of 1974 to define before 31 December next an "overall concept of European Union" (it had been agreed in 1972 that such a union would be set up "before the end of the present decade") is expected in Paris on Sunday, 21 September. The Nine have asked the Belgian Prime Minister to draw up a report based on an analysis of the work done on this matter by the Commission, the Court of Justice and the European Parliament, and on consultation with governments and a "wide range of public opinion" in the Community. Mr. Tindemans has already visited Dublin, Luxembourg, The Hague, London and Bonn. He will visit Rome and Copenhagen in October. In Paris, from Sunday evening to Tuesday evening, he is to meet a large number of politicians, trade unionists, ministers and opposition spokesmen. In the following interview, he sums up his work and ideas on Europe.

"Only Mr. Marchais has refused to meet me"¹ said Mr. Tindemans, "but the views he ascribed to me and the concept of European Union he put forward have no basis in reality. My mandate laid down no fixed rules. I can work without any preconceptions. I informed Mr. Marchais that I regretted his refusal to have talks.

"But, Mr. Tindemans went on, I will be seeing Mr. Mitterrand. The leaders of the CGT have accepted my invitation as well as those of the CFDT and FO."

Have you met with any other refusals?

No, but the Communist leaders in Luxembourg called off the meeting at the last minute after accepting. When I visited the Grand Duchy the President of their party was ill and the Vice-President abroad. I will be meeting the leaders of the Italian Communist Party.

Are you not afraid that the expression "European Union" might not be taken seriously? Such ambitious words with so little substance tend to cause smiles.

This is something which is worrying me. Twenty years ago people talked about a Community, then about political union, then about "European Union" without defining them in any way. Today I am asked to say that European Union is. In present circumstances it is well-nigh impossible.

Europe is not making progress. Everyone knows this. The recession is so bad that it recalls the horrors of the 30's. When Italy put restrictions on imports, your paper printed an article entitled "Return to Autarky."

Since then this tendency has grown stronger. There were protests recently in Great Britain because Danish furniture had been bought for the House of Commons. In statements to "Le Monde" Mr. Bidegain² gave a list of products which France does not produce but could produce. When there are balance of payments difficulties, the natural tendency is to seek a solution in protectionism. With present difficulties—unemployment, inflation, trade deficits—the danger that the construction of Europe may crumble is a real one. At a moment like this the task which I have accepted is risky.

How do you think you will manage?

When there is a crisis either you succumb to it or you use it as a springboard. I hope that Europeans will be aware of the dangers and use it to make a leap forward. If I have accepted the task, it is because I believe that Europe can make substantial progress.

The French have the impression that their partners do not wish to see an independent Europe. The Americans control whole sectors of European activity and almost all advanced technology. Do you think that Europe can avoid being totally absorbed by the United States? Do you not find this disquieting?

What is disquieting for Europe is its lack of awareness, its lack of will to defend itself; by this I mean forging its place in the economy, the social life, the international life of our time. Your words provide an excellent argument for

¹ "Le Monde", 13 August.

² "Le Monde", 27 August. Mr. Bidegain is the chairman of the committee for foreign economic expansion of the CNPF.

greater European integration. What is the situation? Our countries, separated into nation-states, are no longer capable of defending their place in the world market. Europe does not make trips to the moon, there are whole sectors where its technology is non-existent; in scientific research we are not able, on our own, to make an effort comparable with those of the United States and the USSR. For this reason alone we should seek greater European integration.

A EUROPEAN AERONAUTICS INDUSTRY

But, when it came to choosing a fighter plane, Belgium, perhaps unwillingly, supported its associates (Netherlands, Denmark, Norway) and opted for an American plane rather than the Mirage, a French and therefore European plane.

This question should be examined more closely. If, right at the beginning of this affair, concrete proposals had been made to set up a European aeronautics industry based on the French model, I believe that the affair would not have been doomed to failure from the start. But the effort at European level came too late.

Would it be possible to start again later?

Yes, certainly, and for this reason Belgium has set aside the equivalent of the cost of ten planes³ to take such an initiative. The Netherlands, yes, even the Netherlands, have done the same. I think I should add that to create Europe it is not sufficient simply to transplant to European level the problems, the nationalism, the autarky of the nation states. Our relationships with the United States, with Japan, with the eastern countries and the Third World must be settled first.

In the field of defense it is clear, to us at any rate, that it is impossible to organize our defense alone. We wish to remain in the integrated system of NATO. Within this system we will advocate the strengthening of the Euro-group,⁴ standardization of armaments within this group and action by the group side by side with what is done at the WEU.⁵

Not a lot is done at the WEU.

No, but I was told in May that at the level of the WEU and the Eurogroup important decisions had been taken. My defense minister told me: "for goodness sake tell the French that if they do not take part they risk losing out completely in that field."⁶

But one also gets the impression that what is planned there is not European but Atlantic. Instead of the Eurogroup, why not use the armaments committee of the WEU or some body which could be set up, but which would be truly European and could work as such with the Americans?

I know . . . the last proposal before the decision to buy these planes was precisely one to set up, within the Nine, a European council to study armaments and put them into production.⁷ But the idea was put forward too late.

Has Mr. Giscard d'Estaing spoken to you of this?

Yes, Mr. Giscard d'Estaing gave me to understand this, Mr. Chirac and Mr. Destremau also. Later, I know, another interpretation was put on this proposal. But I state this categorically. Since the idea was not followed up, I can understand that it should be played down, but it was discussed. Had it come earlier, it would have been better received.

You say it is impossible for Europe to defend itself alone?

Yes, it is not yet possible.

Should it not at least reserve the right, the intention, to have its own defense?

The right, yes, certainly. But this presupposes an European Political authority, for it is unthinkable for the generals to decide on European defense policy. It is this lack of European political authority which led to the failure of the European army in 1954.

³ 3,000 million Belgian francs, more than 300 million French francs (more than 30 million pounds sterling).

⁴ A NATO group without legal status in which, since France stopped being a full member of the military organization (1967), European members of the alliance meet.

⁵ The Western European Union, dormant since its creation in 1955. The Federal Republic of Germany, Belgium, France, the United Kingdom, Italy, Luxembourg and the Netherlands are members.

⁶ An allusion to the project of creating an allied armaments agency ("Le Monde", 24 May).

⁷ "Le Monde", 12 June. To explain to Parliament why the project was abandoned, Mr. Tindemans pointed out that Mr. Giscard d'Estaing (at the press lunch of 21 May) had rejected the idea of European defence.

Great Britain is now a member of the Community. But do you think that the British have the same concept of the Community as their partners on the continent? Do they not consider it not so much as a beginning—as is stated in the Treaty of Rome—but as an end? They joined to get it over with . . .

The British tradition is to accept the verdict of the people. I think that with time Great Britain will inevitably develop in the direction we hope. It is only now that the British are discovering all the contents of the Treaty of Rome, the institutions, the Parliament, etc. A majority of those in authority will support a more integrated Europe. Great Britain is going through great internal difficulties, but I am not pessimistic about its European spirit.

It will nevertheless be more difficult to build Europe with nine than with six. What do you think of the idea put forward by Mr. Brandt to allow European countries which cannot keep up to move towards integration at their own pace?

It is unthinkable to make a distinction between full members of the Community and second-class members. Europe "à la carte" with integration in some fields with nine, in others with six or with four, which some people have envisaged, is mere speculation. However, the following situation could arise: with the Treaties in force between the Nine, some might feel that they can go further. This is the opposite of the theory put forward by Mr. Brandt. This is what happened when certain members of the Community linked their currencies in the European "snake". Nor can we object to some countries organizing themselves in this way if they think fit.

THE TREATIES WILL BE ALTERED

Must a new treaty be adopted to take over from the Treaty of Rome?

I ask everyone this question. In my view it is inevitable that the Community Treaties will be changed either by the adoption of amendments, or by the conclusion of an additional treaty.

In what fields do you think that Europe should seek closer integration?

In the economic and monetary fields—I am longing for a solution to monetary problems to be found at European level—in the social, technological, scientific fields (in these fields we are becoming second-rate nations) and of course in energy.

And on foreign policy?

We cannot conceive of a European Union without a common attitude on major points of foreign policy and defence policy.

Is there some other way of achieving this than the somewhat empirical form of cooperation practised at present?

Yes, there is another way. First you must develop towards greater independence. Even though some members—the Irish—are not members of the alliance, and some wish to have nothing to do with nuclear defence and find that the American umbrella suits us perfectly. It is not easy, but it is clear to me that we are developing towards a greater European independence, even in defence. I support the famous Kennedy formula: "equal partnerships" between the United States and Europe.

How can this be achieved?

We can go further with integration. At present, in international policy, a field which is not covered by the Treaty of Rome, cooperation is on a voluntary basis, without treaty or obligation. European Union should introduce greater obligations.

DELEGATION OF POWERS

Do you believe that it is possible to adopt a common attitude, for example towards Israel, by decisions taken by a majority?

At present it is not possible, but one day a means must be found for Europe to speak with a single voice.

In 1969, General de Gaulle suggested setting up a restricted group of European states to define major policies.⁸ What does Belgium think of this?

I have not yet consulted my countrymen, but it will be difficult for a small country to accept powers of decision being entrusted to a restricted number of partners. I am aware of the opposition to this idea in the Netherlands, in Ireland and I know that it exists in Denmark and even in Italy.

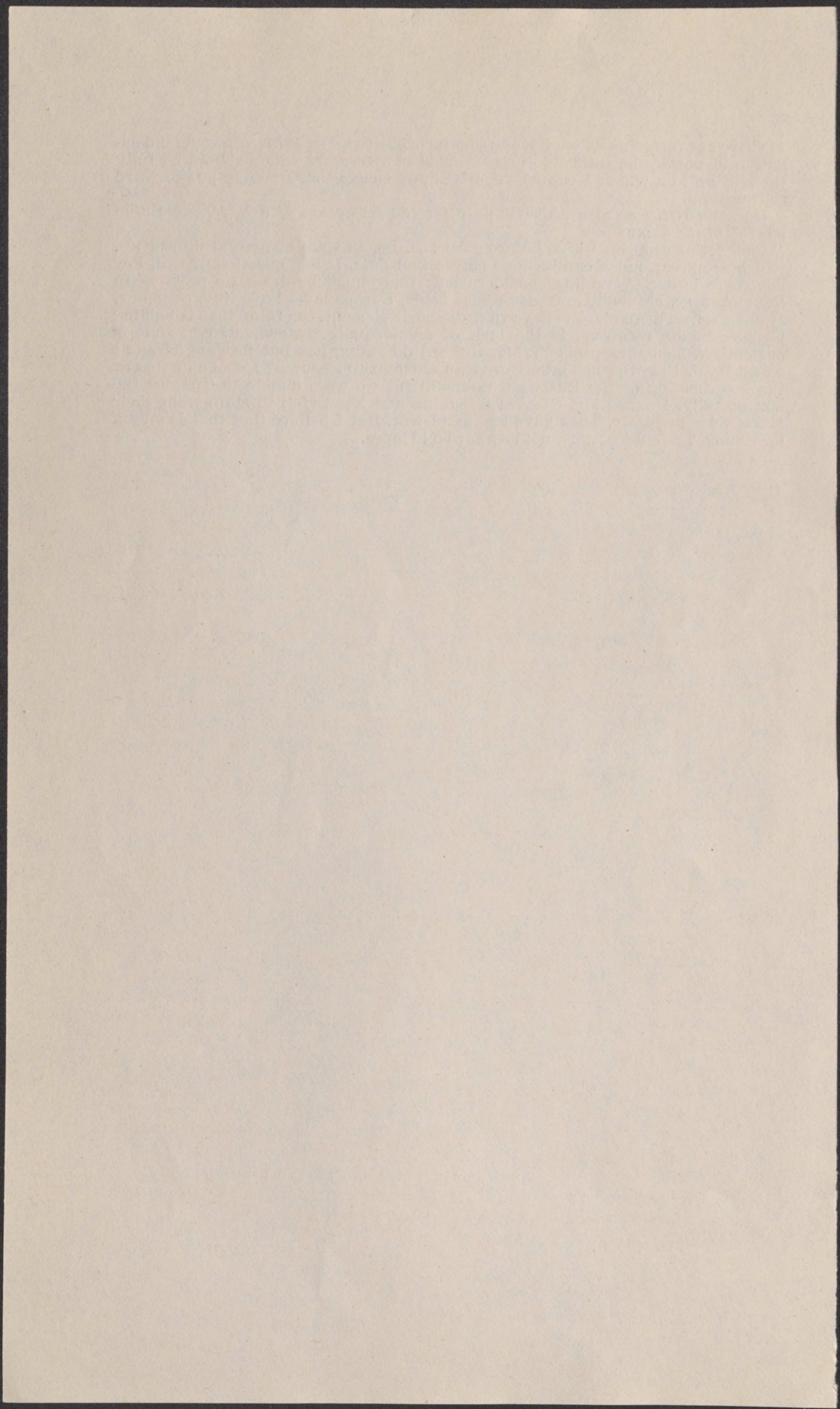
So there is no solution.

⁸ Suggestions made to the British Ambassador in 1969 which gave rise to what was called the "Soames affair".

There are formulas which have not been considered. For example, would a delegation of powers be thinkable or not? This is a formula which should be fully thought out, on which I cannot yet reach any conclusion. I simply put forward the question.

Does 1980 still seem a realistic date for the formation of a European Union worthy of the name?

Complete European Union before 1980 . . . no. In spite of present difficulties, which are great, much can be done before that date. It is a question of will. For me, there is one overriding consideration: there must be dramatic progress in the monetary, economic and also social fields. Europe must have its own policy. It must set an example. I believe that the basic element, the thing that is holding back economic recovery, is the lack of an adequate instrument, and that is basically a monetary problem. Mr. Giscard d'Estaing has put forward ideas at world level. But why not take European monetary measures? I spoke of this at the last meeting of the European Council. But we were unable to examine the matter fully. I asked Mr. Giscard d'Estaing and Mr. Ortoli to state what their views were precisely. They gave me an answer. But I believe that that is only a beginning. The subject must not be allowed to lapse.



Friday, October 31, 1975

SUMMARY OF DISCUSSION

PLENARY SESSION III: OUGHT THE UNITED STATES AND THE EUROPEAN COMMUNITY TO SEEK TO BRING ABOUT INTERNATIONAL AGREEMENTS ON RAW MATERIALS, INCLUDING ENERGY?

(Working documents: Mr. McCormack, Mr. Normanton, Mr. Biester, Mr. Houdet)¹

Mr. McCormack felt that there was little understanding of the energy problem in the United States. There was a refusal to recognize the seriousness of the situation. However, it was high time to get a proper grip on the energy problem. It was almost certain that by the end of this century there would be little or no oil left and natural gas reserves would also soon be exhausted. We would then have to seek other energy sources. Even if energy savings could be achieved, energy consumption in the United States would continue to rise.

Since solar energy and geothermal energy would not in general be of importance for energy supplies before 1990, and would still be making only a small contribution in 2000, and since, moreover, it would not be before 2000 that the first energy from nuclear fusion could be produced, the inescapable conclusion was that for the rest of this century we would be dependent for a very large part of our energy consumption on coal and on energy obtained from nuclear fission.

If this analysis was correct, it followed that we should take the following steps:

ENERGY ECONOMIES VITAL

In the first place, substantial economies would have to be made in heating and air conditioning in buildings, energy consumption for transport and industrial consumption. Moreover, extraction of oil and natural gas should be stepped up.

Despite environmentalist objections, there was equally no way of avoiding full-scale development of the coal industry. We could not afford to cut back on the construction of nuclear power stations. Finally, research would have to be intensified on all promising new forms of energy.

In view of the enormous sums involved, it was of the greatest importance for the United States and Europe to work closely together.

Mr. Normanton pointed out that the European Community as such still had no energy policy. At best one might say that each member state had its own energy policy; but it might well be argued that on the whole there was no energy policy at all. This was not the fault of the European Parliament, which had indicated very clearly along what lines a common energy policy ought to be shaped.

¹ See p. 65 ff.

Since the delegations had last met, the following new developments had taken place in Europe:

A fairly sharp fall in consumption;

A rise in prices;

Oil stocks had become larger than ever;

A start had been made on bringing in North Sea oil;

The costs of extracting that oil had, however, risen astronomically, so much so that even those who had invested in it were beginning to get seriously worried.

Mr. Biester introduced his working document. Now that the developing countries had gained their political independence, they were increasingly putting demands for the establishment of a new economic order that would guarantee them, if not economic autonomy, at least greater economic weight.

This new development was facing the industrialized countries with an entirely new situation.

IMPORTANCE OF SPECIAL U.N. SESSION

For several years the United States had been keeping an eye on this development without exercising active influence on it. The U.N. Special Session in September 1975 was a turning point in American policy; this was now directed at actively promoting the increasing mutual dependence of our economies, because of an awareness that our political and economic system could survive in the long run only in a framework of ordered international relations. On this view, the advantages the developing countries would draw from implementation of the resolution adopted at the close of the U.N. Seventh Special Session would ultimately benefit the industrialized countries too.

Specifically, U.S. policy was aiming at secure supplies of raw materials, with some guarantees on prices and international political stability.

Accordingly, in September this year the United States proposed in the U.N. the creation of a "development security facility" to stabilize incomes from the developing countries' exports. Through this mechanism the developing countries would be granted loans, and in some cases outright gifts. Both would be financed from the proceeds of selling one-sixth of the IMF's gold.

The United States further proposed the creation of grain stocks of at least 30 million tons.

Both these proposals were designed to bring the participating countries a minimum of economic security. At the same time, the United States sought to accelerate the economic growth of the developing countries, for which the American Government proposed the following:

Expansion of the financial resources of the World Bank, and particularly those of its specialized body, the International Finance Corporation;

The setting up of an international investment fund to promote private investment in the developing countries;

The laying down of a good conduct code for multinational concerns;

Finally, the renewal and improvement of the product agreements for tin, coffee, cocoa, and sugar.

THE THIRD AND FOURTH WORLDS

The industrial countries could not survive if the flow of raw materials from the developing countries was interrupted, and for its part the Third World could not grow and the Fourth World could not live, unless reasonable prices were paid.

On product agreements there were unfavorable experiences with cartels. In fact, what was needed was joint consultation to find a solution that would guarantee the raw material exporting countries a reasonable price for their export products, and give consumer countries some security of supply.

Mr. Biester called the Soviet Union's negative attitude at the U.N. Seventh Special Session remarkable. Their position was apparently that they had not caused the problem, and that they therefore need do nothing about it.

Just as industrialists in our countries had discovered less than a century ago that it was not in their own interests to pay the workers low wages, so the industrial countries had now to understand that it was in their enlightened self-interest to offer the developing countries reasonable prices for their export products.

Mr. Houdet also stressed, in his document, the interest of all parties concerned in establishing a new international economic order. Free trade, the free movement of capital and freedom of establishment were certainly an important economic good but these freedoms would exacerbate inequality if international trading partners were at too different stages of economic development. Relations between the Third World and "the North" should therefore not be based on complete reciprocity. That was why the European Community had deliberately not applied that principle in the Convention of Lomé.

An uninterrupted supply of raw materials was of vital importance to the industrial countries. Security of supply was endangered only by export restrictions, political embargoes and cartels, but also by investment lags in the raw materials industries. Economic recovery was likely to lead to raw material shortages.

FINANCING RESERVE SUPPLIES

Many of the developing countries' demands could be regarded as well founded: the formation of buffer stocks for certain products, the establishment of a common fund to finance these stocks, multilateral supply and offtake agreements, stabilization of export revenue and encouragement of raw materials processing in the developing countries themselves. On the other hand, there must be reservations on the formation of cartels of raw materials producers, and also regarding indexing of raw materials prices.

The financing of buffer stocks was a very important point. The European Community's view was that the costs ought to be borne by all the industrial countries, including the state-trading countries, and also by other countries with adequate financial resources, notably the oil producers.

As an instrument, buffer stocks were most likely to succeed if excessive demands were not made of them. The chance for success was, for instance, much greater if they were confined to smoothing out

fluctuations, not keeping the price in a predetermined tunnel at all costs.

The product agreements suffered from the drawback that they did not allow a differentiated approach according to the needs of the producing country. For products produced in substantial quantities by both rich and poor countries, preference ought therefore to be given to a system of stabilizing revenue from raw materials exports, adjusted to the developing countries concerned. Again, in those cases where price stabilization was particularly difficult, a form of revenue compensation or revenue guarantee was preferable.

RESISTING NUCLEAR POWER

Mr. Rosenthal had formed the impression from Mr. Normanton's statements that resistance in Europe to the construction of nuclear power stations was declining. That was certainly not the case in the United States.

Mr. Normanton pointed out that the situation in Europe was different in that nuclear energy in the member states was government controlled; governments were responsible for the lion's share of investments in the sector. In the United Kingdom alone public investment in the nuclear sector had amounted to 15,000 million pounds sterling. The enormous sums at stake here made close cooperation between the United States and the Community more necessary than in any other area.

Mr. Findley asked whether Europe had advanced far in building tidal power stations.

Mr. Houdet answered that technically very satisfactory results had been achieved with this form of energy production, but yields remained modest. Moreover, obvious geographical reasons limited its application.

ENERGY CONSERVATION LAGGING

Mr. Leonardi was very skeptical regarding the practical value of the diagrams in Mr. McCormack's working document. Extrapolations like that did not mean very much.

None of our countries had so far made a serious attempt to get broad sections of the population to cooperate in an energy saving policy.

Improved cooperation between North and South should introduce a period of rapid economic growth.

Mr. Scott-Hopkins found it not entirely clear what energy policy the American Government now wished to follow. On the one hand, if Mr. McCormack's figures were to be believed, the United States could not manage without nuclear power, but on the other hand there was an obvious reluctance to build up a full nuclear industry.

Mr. Stephens answered that the United States did not really have an energy policy. There was agreement only on the urgent need to expand the sources of energy supplies.

CURBING CONSUMPTION

Mr. Gibbons felt it was going too far to say that the United States had no energy policy, although admittedly no serious effort had yet been made to put a brake on consumption.

In Mr. Ryan's view, uncertainty regarding nuclear energy was connected above all with the problem of storing nuclear waste. This was a much graver problem than that of possible nuclear accidents. Containers for nuclear waste had a lifetime of at most half that of the radioactive waste. In California there was an additional special problem, namely earthquakes. Taken together, these difficulties explained the American people's reluctance to emphasize nuclear power to supply their energy needs.

If we were serious about saving energy, we would have to insure that energy was not sold too cheaply. Cheap energy was one of the things that determined our life styles; in the United States, for instance, commuter traffic would have developed along very different lines if energy had not been so cheap for so long. There was enormous wastage of energy everywhere in the United States at the moment.

PAPERS

UNITED STATES ENERGY POLICY

Paper by Mr. McCormack

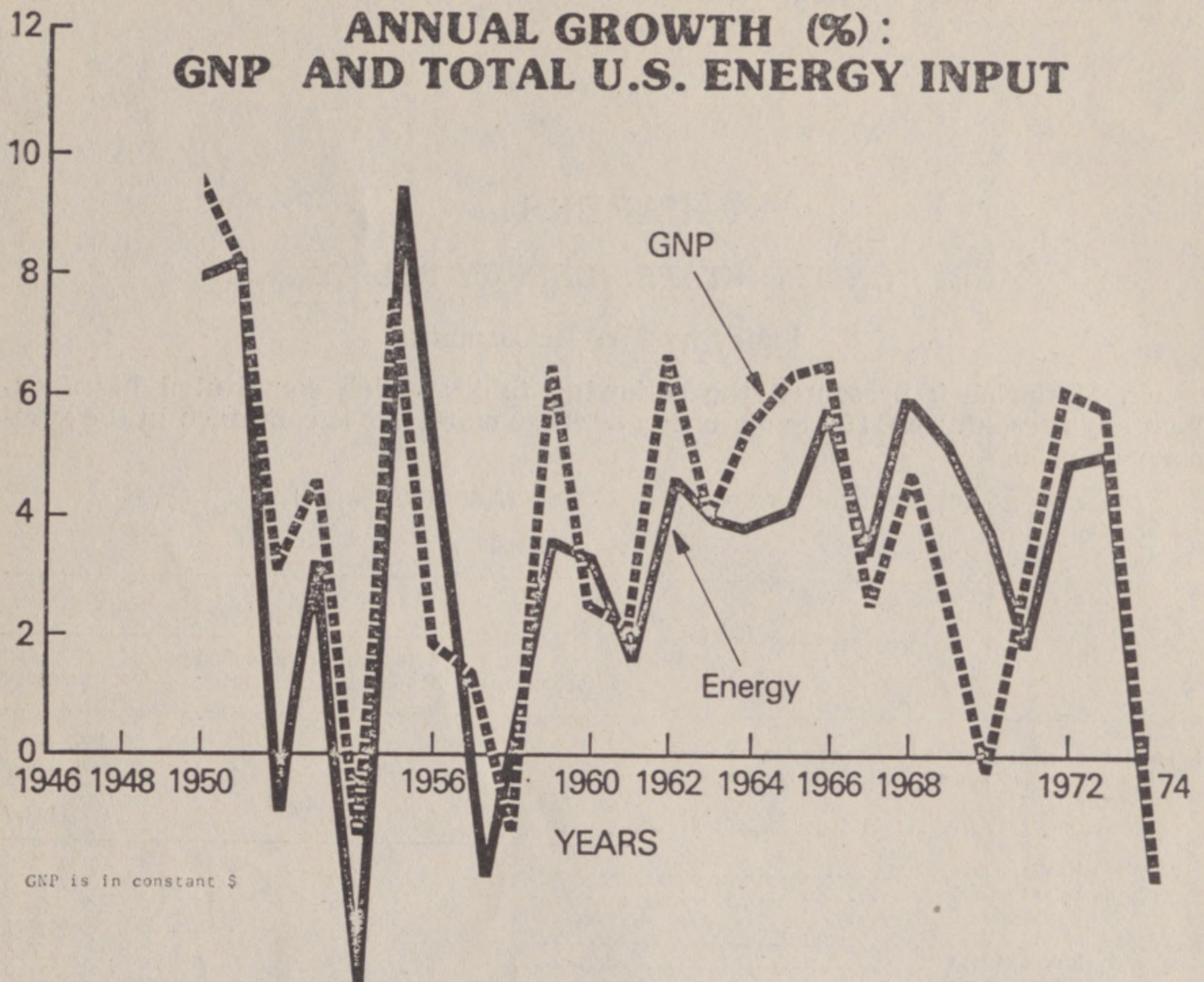
Mr. McCormack presented the following tables which constituted his documentary presentation. His explanation of these materials is contained in the summary on p. 59.

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

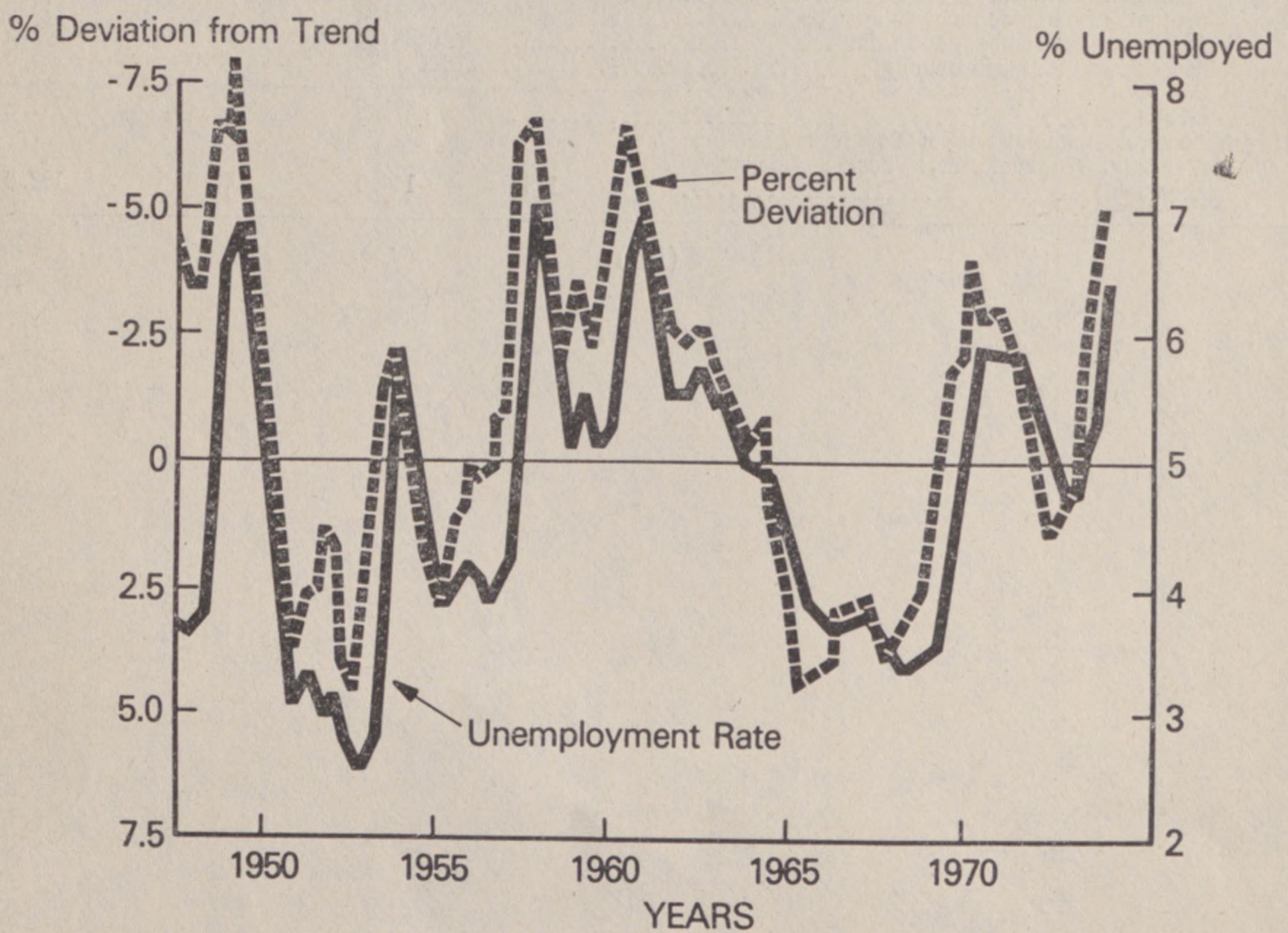
[In millions of dollars]

	Fiscal year 1975 (estimated)	Fiscal year 1976		Total proposed
		Administra- tion request	Subcommittee increase	
I. Results of action taken by Subcommittee on Energy Research, Development, and Demonstration (obligations).				
Solar energy.....	38	70.3	73.4	143.7
Heating and cooling.....		26.0	14.4	40.4
Solar thermal.....		13.2	15.3	28.5
Photovoltaic.....		12.8	16.7	29.5
Wind.....		11.5	6.6	18.1
Bioconversion.....		3.6	2.9	6.5
Ocean thermal.....		3.2	8.0	11.2
Other.....		0	9.5	9.5
Geothermal energy.....	28	23.0	33.0	56.0
Energy conservation (transmission, storage, advanced transportation, end use, improved conversion efficiency).....	25	41.0	94.0	135.0
Materials research and molecular science.....	83	94.0	20.0	114.0
Nonnuclear environment and safety.....		241.5	16.0	257.5
Scientific and technical training.....			5.0	5.0
Total.....		469.8	241.4	711.2
II. Additional recommendation of Congressman Mike McCormack (expenditures): Fusion (magnetic confinement).....	105	144.0	48.0	192.0

ANNUAL GROWTH (%): GNP AND TOTAL U.S. ENERGY INPUT



THE RELATIONSHIP BETWEEN GNP DEVIATION FROM TREND AND UNEMPLOYMENT



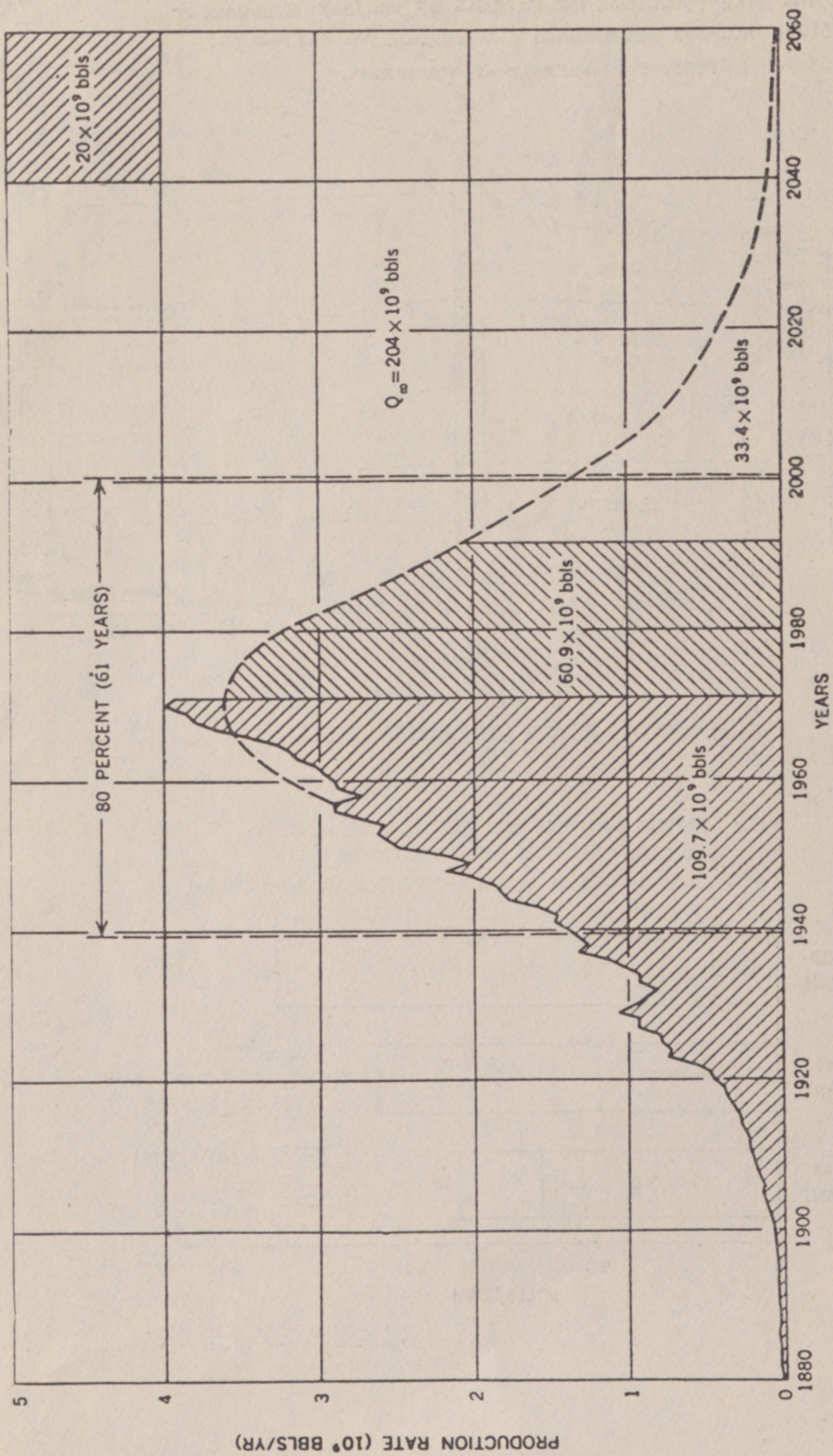


FIGURE 66. — Estimate as of 1972 of complete cycle of petroleum liquids production in the conterminous United States.

1. UNITS ARE MILLIONS OF BARRELS OF OIL/DAY EQUIVALENT
2. ASSUME ALL-OUT EXPLORATION AND DRILLING FOR GAS AND OIL.
3. ASSUME AGGRESSIVE CONSERVATION PROGRAM.

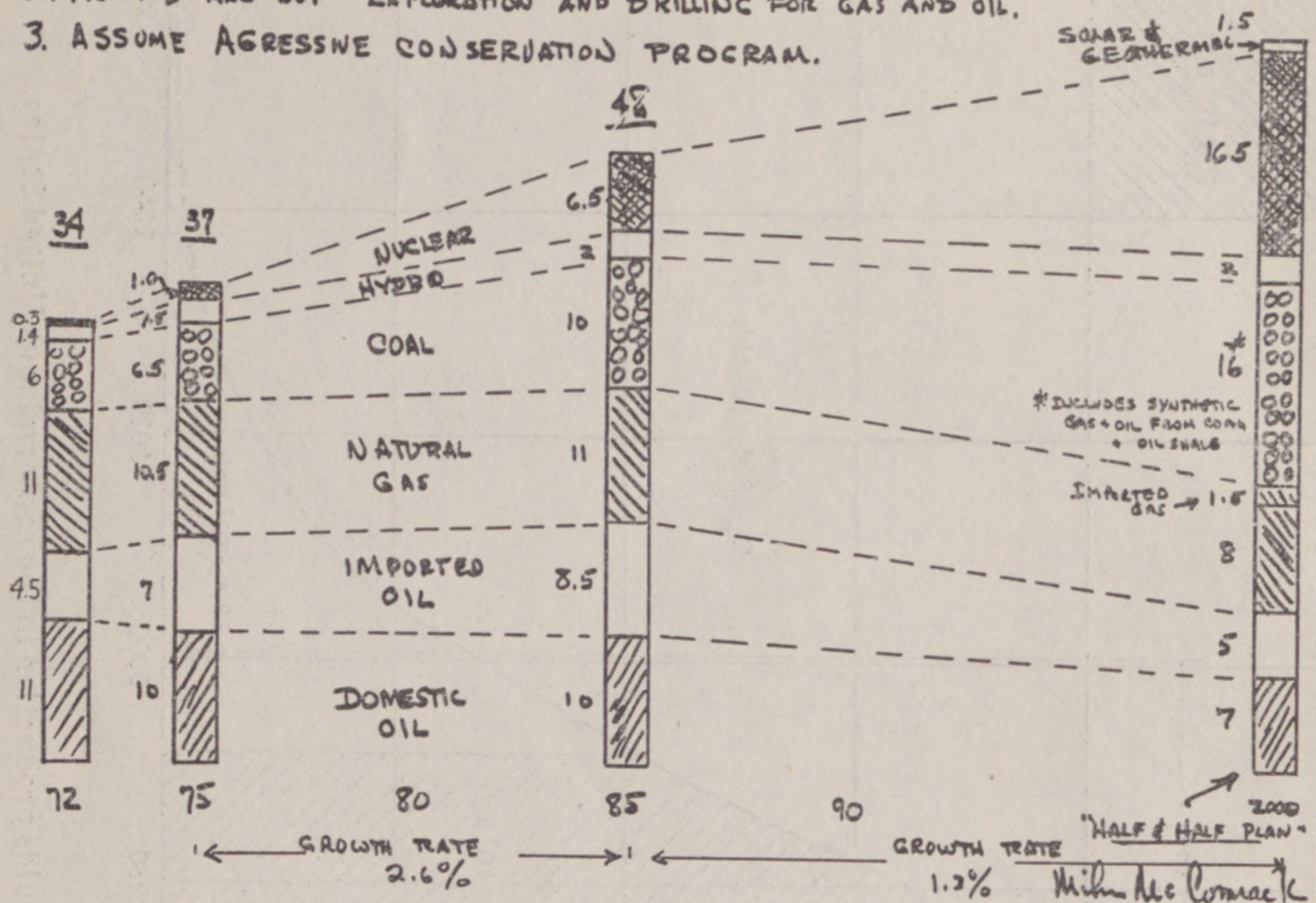
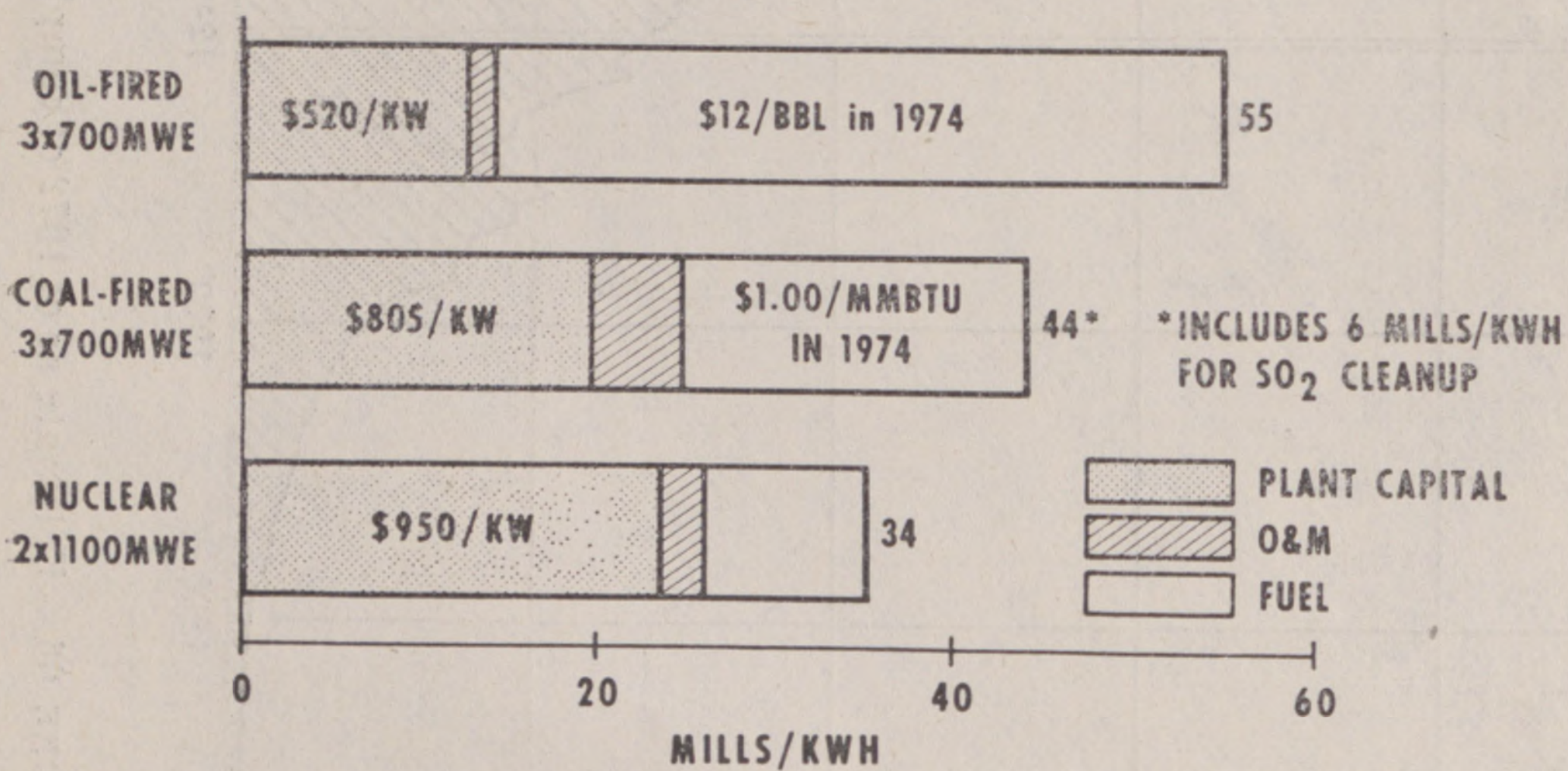


Exhibit 1
COMPARATIVE POWER GENERATION COSTS

BASIS

- 1985 COMPLETION-AVERAGE COST FOR 1st 10 YEARS
- 15% FIXED CHARGE RATE AND 70% PLANT FACTOR
- 5% ESCALATION FOR FUEL AND O&M; 7.5% ESCALATION ON CAPITAL



From Converter Reactor Alternatives
by Ken Davis, Vice President of Bechtel Power Corp.

WHAT ARE THE LESSONS TO BE LEARNED?

1. In spite of successful conservation programs, total U.S. consumption of energy will increase for the balance of the century.
2. We are running out of petroleum and natural gas.
3. We must rely on coal and nuclear fission for a large portion of our energy for the balance of this century.
4. Solar and geothermal energy will have no significant impact on total energy production before 1990, and will make only a small contribution by the year 2000.
5. The first economic nuclear fusion electric energy will not be on the line before the year 2000.

WHAT MUST WE DO?

1. Conserve in heating and cooling buildings, in transportation, and in industrial processes.
2. Undertake aggressive programs of exploration, drilling, and development for petroleum and natural gas.
3. Develop our coal industry as rapidly as possible, in spite of the environmental and production costs involved.
4. Remove all unnecessary obstacles from and provide funding for the construction of nuclear powerplants.
5. Institute aggressive programs of research and development in all energy-related areas.

THE ENERGY POLICY OF THE EUROPEAN PARLIAMENT

Paper by Mr. Normanton

I. INTRODUCTION

1. In 1973 the European Economic Community was dependent on imports for 63 percent of its energy requirements. In this respect it compared very unfavourably with the United States with its 90 percent self-sufficiency in energy. Since the autumn of 1973, the European Community has had to reconsider its energy policies in the light of the increased energy prices and possible insecurity of supply. The European Parliament, and particularly its Committee on Energy, Research and Technology, has consistently supported the actions of the Commission of the European Communities and, in certain cases, taken the initiative, in the formulation of a new energy policy strategy which would guarantee greater security of supply. The keystone of this policy is the development of the European Community's indigenous sources of energy.

2. The exploitation of indigenous sources of energy—coal, natural gas and particularly off-shore oil and nuclear energy—requires very heavy investment in research, as well as in power stations for nuclear energy and extraction facilities for off-shore oil. It is, consequently, vital for Europe to guarantee such substantial investment against a possible fall in oil prices. Some form of minimum safeguard price, which would protect investment without unduly reducing the competitiveness of European industry, must be considered seriously.

II. THE EUROPEAN COMMUNITY AND THE INTERNATIONAL ENERGY AGENCY

3. Eight of the nine Member States of the European Community are also members of the International Energy Agency set up by the OECD. The European Parliament recognises the value of the International Energy Agency's work. Nevertheless, the draftsman feels that the IEA is complementary to, and not a replacement for, concerted effort by the European Community in the field of (i) relations with energy producing countries, and (ii) actions to be taken to ensure an equitable distribution of energy in the event of renewed supply difficulties. It is highly regrettable that the Member States of the European Community have not yet developed a real common energy policy.

III. ENERGY POLICY

4. The European Parliament believes that the Commission's objective of limiting to approximately 40 percent by 1985 the degree of Community dependence on imported energy can only be achieved if serious and concerted efforts are made by the Member States. It regrets, however, the apparent apathy with regard to energy questions which at present characterises the policies of many Member Governments.

5. If Europe is to reduce its dependence on imported energy, electricity should account for some 35 percent of the Community's energy consumption by 1985 (compared with 25 percent in 1972). While encouraging the increased consumption of electricity, the European Parliament would strongly oppose the construction of new oil burning power stations. It similarly believes that natural gas could be utilised more economically for domestic and industrial purposes than for the generation of electricity. While maximum use should be made of coal in thermal power stations there is, nevertheless, no alternative to the greatly increased utilisation of nuclear energy for electricity production. This implies large-scale investment in nuclear power stations, particularly power stations of 1,000–1,500 MWe which could produce electricity more economically than smaller generating plants.

6. The large-scale use of nuclear power implies a secure source of nuclear fuel and, more particularly, of enriched uranium. The United States is Europe's most

important supplier of nuclear fuel. Any interruption in the supply of fissionable material would have grave consequences for European energy production.

7. Partly as a result of its dependence on imported nuclear fuels, the European Community is at present engaged in major research in the field of thermonuclear fusion. With the Joint European Torus, the European Community will be in the forefront of research in this field.

8. The European Parliament has consistently stressed the importance of developing the Community's hydrocarbon resources of which off-shore oil and natural gas are by far the most important. Though a barrel of oil from the cold and stormy waters of the North Sea could cost up to a hundred times more to produce than a similar quantity of oil from the deserts of the Middle East or North Africa, the European Parliament believes that the necessary capital must be made available for investment in this secure source of hydrocarbons.

9. Both Europe and the United States have highly developed industrial economies, and both are major consumers of energy. But while the United States could feasibly become self-sufficient in energy during the next decade, the most optimistic Europeans cannot hope for more than 60 percent energy self-sufficiency. Nevertheless, both Europe and the United States would benefit from guaranteed prices to safeguard investment in energy, and both would benefit from a common stand by consumers in the event of excessive price increases by the oil producing nations. In the field of research there are considerable opportunities for cooperation between Europe and the United States, which could bring about a desirable strengthening of existing trans-Atlantic links.

THE SEVENTH SPECIAL SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY

Paper by Mr. Biester

At the time we meet the United States and the developed world find it difficult to sustain their economic standards and growth. No longer can industrialized countries solve on their own the economic issues they periodically must face.

As a consequence of the abandonment of political colonialism by European powers, industrialized nations can no longer depend, in every case, upon guaranteed availability of raw materials at manipulated low prices. Secondly, a new unity among developing nations has manifested itself in new and substantial demands for change in the international economic order. As a result, the developed world finds itself in a situation vastly different from that which existed a decade ago, or a generation ago.

BALANCE OF POWER

United States foreign policy has been primarily based upon a balance of power. We have sought to secure our position through expanded relations with China, detente with the Soviet Union, and an intermediary role in the Middle East. Our policy of continued concentration on East-West confrontation has excluded a clearer perception of the growing North-South polarization and has been very costly in both political and economic terms. The United States has passed in the last decade from the United Nations' most influential member to a position of political isolation as it confronts a very large proportion of the Third World bloc over a long agenda of contemporary issues. Though we have unflinchingly committed ourselves to massive regional undertakings in the past thirty years, we have continually hesitated to move in the one area that would start us down the road to improved long-range political and economic security: the active promotion of global interdependence.

Until now the United States has recognized a growing interconnection between the various economies of the world and even supported some efforts at regional cooperation. However, until recently, we have done little to involve ourselves directly in this process. The Seventh Special Session of the United Nations General Assembly saw the United States move from passive acceptance of economic interdependence to active promotion of it. Like all new endeavors, this course of action holds many risks; yet the potential for international security is unparalleled by any other recourse.

DOUBLE INTERDEPENDENCE

New realities, and our perceptions of them, should be making Americans increasingly aware of interdependence in its two different aspects. One is the interdependence of nations, even superpowers, to rely to some extent on other nations for essential ingredients in their economies, living standards, or security. The other is the complex interaction among the issues of population, environment, economic growth and development. A problem in one sphere aggravates problems in the others.

Both aspects of interdependence will impose new requirements on individual nations as well as on the international community. These in turn will require adjustments in the working of national institutions and in the life styles of ordinary citizens.

The United States has the choice of helping to bring all the peoples of the world into a more equitable and cooperative political and economic order or continuing a policy of imagined hegemony. The key involves recognition of the fact that the health of each of our political and economic institutions depends upon the health of the international system. It is my conviction that a world which has freed itself from political and economic chauvinism and established institutions which serve to facilitate communication, cooperation and compromise will find the capacity to solve international crises when they arise.

The American proposal to the Seventh Special Session proposes to bring a more equitable system of crisis management into existence. It should be viewed as a broad and far reaching proposal which attempts to expand and even to redistribute access to the world's resources, capital and technology. Unanimous acceptance of the final resolution of the Special Session should indicate a universal view which advocates direct benefits for the developing world. The strength that these nations accrue as a result will in turn benefit industrial nations.

United States' interests in this area are fundamental. We seek to insure a constant and ample supply of raw materials, to insure import price security, and to promote political stability on an international scale. The interests of developing nations are equally fundamental: to insure economic stability on an international level and to promote national economic growth. The United States and Europe are in a decisive position to influence the fulfillment of both orientations. Our response will determine the extent of risk involved and is crucial to our political and economic security.

INSURING ECONOMIC SECURITY

The American proposal rests on the premise that economic security is the base upon which growth will survive. Stability is the minimum requirement of an effective strategy for development. To this end, three factors are accurately perceived as those which hold the key to equilibrium. The non-inflationary economic expansion of industrial nations, the consistent supply of vital products at an equitable price, and the stability and growth of export earnings within developing nations are all vital to international economic security.

To accomplish these goals the United States proposes creation of a new "development security facility", the purpose of which will be to stabilize over-all export earnings. The facility would give loans to individual nations of up to \$2.5 billion and more each year to sustain development programs in the face of export fluctuations. The poorest nations would be able to convert their loans into grants under prescribed conditions.

Development security could provide unprecedented protection against disruptions caused by reductions in earnings both for countries whose exports consist of a few commodities and for those with diversified and manufactured exports whose earnings also fluctuate with business cycles.

Creation of this security facility rests with the sale of \$10 billion in gold reserves and will depend upon the role of gold in the international monetary system. A floating exchange rate has worked rather predictably for all participants during a period of economic crisis. The Jamaican meeting of the World Bank Group in January will determine the structure of global monetary reform and the feasibility of this \$10 billion sale. Our inability as nations to arrive at flexible economic cooperation will deter the course of equitable reform and undermine economic security, not only for developing states but for ourselves as well. The final joint resolution of the Special Session calls for a reduction in the role of national reserve currencies and creation of special drawing rights which would become "the central reserve asset of international control over the creation and equitable distribution of liquidity and limit potential losses as a consequence of exchange rate fluctuations."

MINIMAL RISKS INVOLVED

For the industrial world the risks involved in creating a development security facility are relatively minimal. With money to finance the program coming from the International Monetary Fund our benefits will vary only with the policy of allotment. With a maximum of \$10 billion in outstanding loans, the earnings shortfalls of all 100-odd nations who qualify for such loans or grants might not be met in a particularly severe economic pinch. In such a situation the lending policy becomes decisive to the goals attained, or missed.

Though this facility must be created within the international order many of the proposals of the Special Session will require legislative approval. The United States Congress will consider, and hopefully pass, increased authorizations for the International Finance Corporation as well as the International Monetary Fund itself. We in the House of Representatives will vote in early November on a \$25 million membership contribution to the African Development Fund and a \$6 billion expansion of the Inter-American Development Bank. Replenishment of the Asian Development Bank will come up for consideration next year.

Assured access to capital markets for developing nations should be the shared responsibility of the members of the world economic community. We must move rapidly in the creation of an international forum which will have the effect of bringing together the borrowers of the Third World with the lenders of the industrial world.

The United States and other developed nations can maximize their economic advantage by allotting the predominant share of this aid to nations holding sought-after commodities, thereby stabilizing the export flow of those countries and meeting their own import demands. Such an inequitable apportionment would have the effect of aiding those countries who, in the third and fourth worlds, needs it least. It would prompt only marginal expansion of the international economic system, give little consideration to those long range import needs which might only be met by nations not receiving benefits, and ignore the humanitarian goals of the proposal.

HUMAN SECURITY NEEDS

Beyond the problem of economic infra-structure lies the question of human security. For hundreds of millions of people food security is the single most critical need in their lives. Traditionally, food security has been approached on the level of emergency relief to deal with crop failures, natural disasters and pockets of famine. This approach has never been adequate. An effective solution requires reasonable stability in the availability of food in commercial markets so that harvest failures in some parts of the world will not make food impossibly expensive elsewhere.

The United States has proposed the creation of a grain reserve with a minimum stock of 30 million tons of wheat, rice, and similar coarse grains. Full participants in the system would receive assured access to supplies with special assistance given to developing countries who participate.

This grain reserve is potentially critical to the needs of developing countries though it is important to industrial nations as well. Grain allocation should not be subject to political consideration, though placement could be made to maximize the economic or political advantage of the industrial world. Such discriminatory allocation might prove advantageous in the short run, but responsible policy that takes a far-sighted approach will consider the implications of equitable allocation to be more in keeping with economic and political security.

Aside from the formation of grain reserves the United States Congress has taken important action to insure greater human security within developing nations. The International Development Assistance and Food Act of 1975 passed by the House contains the authorization for a U.S. contribution to the International Fund for Agricultural Development, a doubling of U.S. bilateral agricultural assistance, intermediate technology, energy and health assistance and expanded technical assistance and research in the agricultural field by our universities.

ACCELERATING ECONOMIC GROWTH

It is not enough to insure the minimal economic security of the developing countries. Development is a process of growth, of acceleration, of greater productivity, higher living standards and social change. This is a process requiring the infusion of capital, technology, and managerial skills on a massive scale.

To accomplish the goal of capital development the United States has proposed major expansion of the resources of the World Bank's International Finance Corporation. The IFC is the investment banker with the broadest experience in supporting private enterprise in developing countries. This agency would provide developing countries better access to capital markets, matching sources of finance with investment needs.

NEW INVESTMENT TRUST

Our Congress will consider creation of an International Investment Trust with assets of \$200 million to prompt private investment. The Trust will serve as insurance against financial loss and be designed to attract new capital by offering investors an opportunity to participate in a managed selection of investments in developing country firms—public, private and mixed.

In the area of technology, we have invited other nations to join us in bi-lateral support for training and technical assistance to help developing countries find and exploit new sources of fossil fuel and other forms of energy. We will also seek

methods for using less accessible and low-grade resources including solar and geothermal power.

Creation of an Independent Technical Information Bank, an International Center for the Exchange of Technical Information and an International Energy Institute will be left up to the international community. A global forum must be developed in these areas.

We seek to promote technical innovation in food production and improvement of nutrition, expanding academic assistance and research in the agricultural field.

The export earnings of many of the poorest countries—and the livelihood of millions of their people—depend on such products as timber, jute, cotton, and natural rubber. These nations will be given urgently needed assistance to improve the productivity and competitiveness of these products and to diversify their economies. The ultimate goal is the broad promotion of industrialization beyond the strategic sector.

ROLE OF MULTINATIONALS

Multinational corporations have been important instruments of modernization in developing countries. There is often no substitute for their ability to marshal capital, management, skills, technology and initiative. Yet, standards of conduct must be established regulating the actions of transnational corporations. The twenty-four members of the Organization of Economic Cooperation and Development took a step in this direction by drafting a code which calls on multinational companies to provide more information about themselves and avoid practices that would concentrate their economic power. We should affirm that enterprises act in full accordance with the sovereignty of host governments and take full account of their internal policies. Governments and enterprises must respect the contractual obligations which they freely undertake. Contracts should be negotiated openly, fairly, and with full knowledge of their implications, and firms should not transfer operations from one branch to another because of labor disputes. As the American proposal states, "greater assurance that contracts will be honored will improve the international commercial environment, increase the flow of investment, and expand economic transactions." All nations must be represented in negotiations that will establish the mandatory guidelines regulating these firms. The final United Nations Resolution calls for work on such a code to be undertaken within the United Nations Conference on Trade and Development. This body together with the Organization of Economic Cooperation and Development must solve the problem through laws, regulations and their enforcement by member governments.

Finally, consideration must be given to trade. For growing nations, trade is perhaps the most important vehicle of development. As the proposal itself states: "Increased earnings from exports help pay for both the imports that are essential to expand production and the food for growing populations. These earnings reduce dependence on aid, limit the accumulation of debt, and help finance essential borrowing." We seek fundamental structural improvement in the relationship of developing countries to the world trading system, improved opportunities for the manufacturing sectors of developing countries, non-tariff barriers to the particular situation of developing countries, and changes in the system of protection in the industrialized countries that favor the importation of raw materials over other goods.

Industrialized nations have made a great deal of progress in recent months on reaching a consensus on the list of commodities that should enjoy priority in negotiations for stabilization agreements. In the Congress we are already preparing to consider new arrangements on tin, coffee, cocoa, and sugar.

Safeguards have been built into the framework of this development program to insure a fair and equitable distribution of these benefits and goals. Yet, because the industrial world has a relatively dominant influence within the institutions implementing these proposals, there will be a temptation to grant most of the aid to those nations possessing resources currently in highest demand despite the relative need of the other states involved. Such action would not be in keeping with the spirit of the proposal nor would it correspond with the tone of the Third World's demands.

POTENTIAL SECURITY

These are lofty goals involving risks in their enforcement as well as in their neglect.

Critics of the proposal call it too conciliatory and believe the United States is "selling out" to Third World demands. They claim it will result in renewed inflation, higher unemployment, and an over-all weakening of the United States economic position in the world.

Such is not necessarily the case. Because the proposal relies heavily upon market-based criteria, it should, in fact, have the effect of strengthening the United States economy. It is a major premise of the proposal that a strong industrialized world economy can do more than any other single factor to raise the level of development in Third World nations. Our increased exportation of technology could give a boost to our economy and provide the United States with a stronger balance of payments position than we have held in recent years. Similar action could have the same beneficial effect on the European Community.

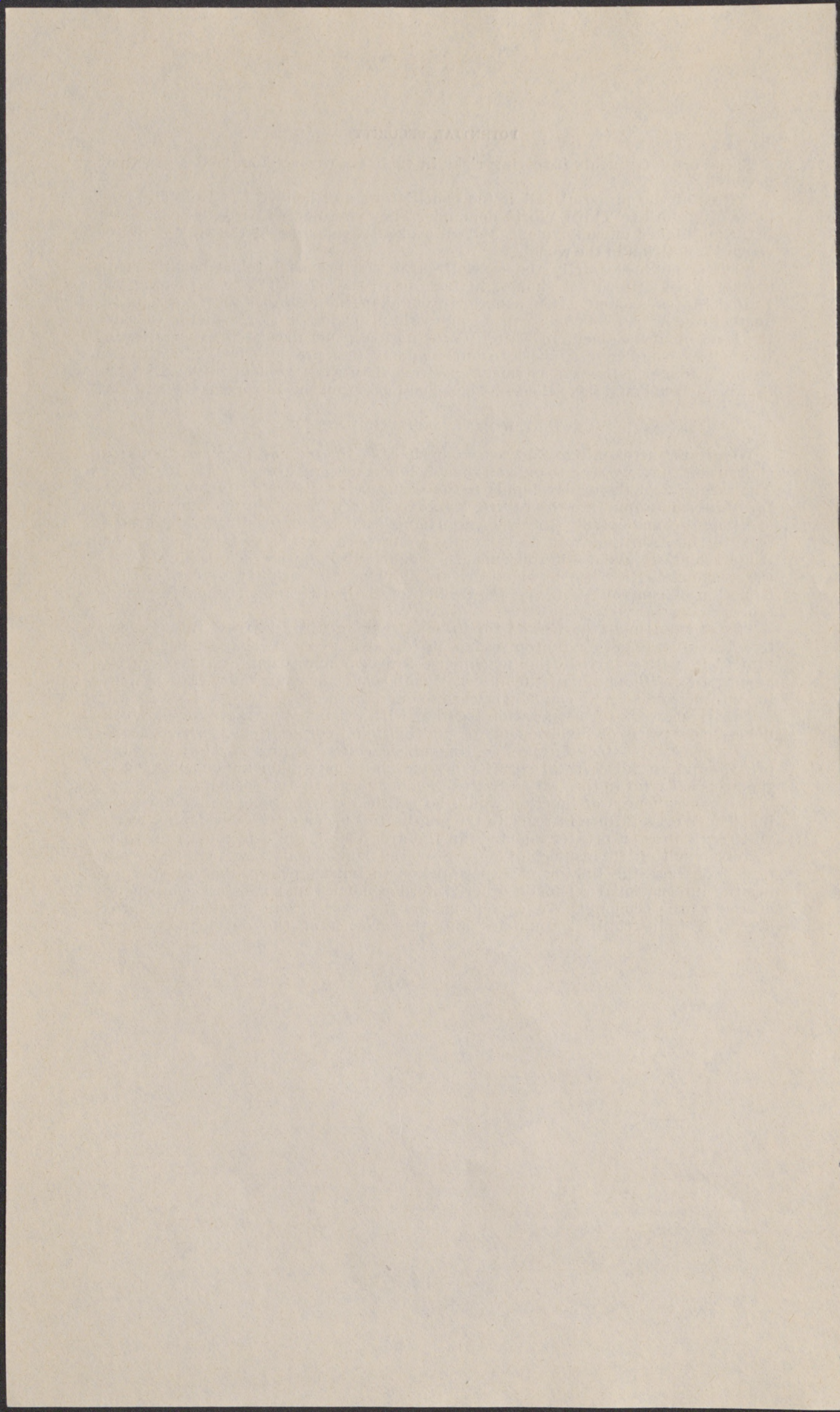
NOT WEALTH REDISTRIBUTION

We are not attempting to decrease our share of the pie and increase another's. On the contrary, we seek to expand the whole pie, making everyone's share larger. The rate of growth for developing nations may be considerably faster than ours for quite some time into the future. Interdependence may even tax our standard of living to some extent. However, any change that might result would not compare to the drop that would eventually occur were we not to take this action. An attempt to avoid interdependence would surely mean a continuation of the economic crises we have experienced during the past two years, a continuation of confrontation and the decline of the entire international economic order.

The proposal must be viewed for its long range goals, and from this perspective its advantages by far out-weigh its disadvantages. Perhaps most importantly, it will establish the machinery for communication and cooperation among all participants in the international economic community. By promoting interdependence, we can help it work to our advantage.

This framework for cooperation together with expanded markets for our technology, new areas of involvement for multinational corporations, insured access to raw materials—including coffee, tin, rubber, cocoa, sugar and oil at equitable prices—and an agricultural security system make maximum implementation of the proposal vital to the United States' economic growth and security.

The consequences of inaction would be politically and economically devastating. The West's failure to react to the substantial needs of the developing world will result in even greater demands in the area of oil, the continued growth of cartels resulting in insufficient or over-priced supplies of raw materials, and price-indexing—the linking of export prices to import prices, thereby disrupting the international economic order. Interdependence underlies all components of the world economy. We cannot ignore the correlation between the prosperity of industrialized countries and the growth of the developing world.



INTERNATIONAL RAW MATERIALS AGREEMENTS

Paper by Mr. Houdet

The relationship between the industrial and developing countries is changing rapidly. Political independence has been followed by efforts to secure a bigger say in economical affairs. The results the OPEC countries have managed to achieve through oil prices have made an impression on the developing countries, especially since the economic problems of the third world have in some cases assumed almost dramatic proportions. The developing countries with no oil production of their own will this year have a balance of payments deficit of around 36,000 million dollars (as against 9,000 million dollars in 1973). Their foreign debt has increased to 120,000 million dollars. These figures reflect the steadily declining purchasing power of many developing countries. These factors have led in the third world to a change in approach to development. The developing countries no longer want to ask the rich countries for aid that cannot bring about any permanent improvement in their position; they demand negotiations on an equal footing.

For their part, the industrial countries have realized since the oil crisis how vulnerable their economy is and how dependent they, or at least most of them, are on other countries for their supplies of energy and certain raw materials. There is also increasing awareness that the prevailing economic order is bringing about tensions in relations between developing and developed countries that constitute a threat to world peace.

LOMÉ CONVENTION CITED

Free trade, free movement of capital and freedom of establishment are certainly important and desirable economic goals. But these freedoms exacerbate inequality where there is an excessive disparity in the economic development of international trading partners. Relations between the third world and 'the North' can, therefore not be based on complete reciprocity of concessions. That is why in the Lomé Convention signed in February 1975 between the nine Member States of the European Community and 46 associated countries from Africa, the Caribbean and the Pacific, the European Community deliberately abandoned the principle of reciprocity. Thus, 99% of the ACP countries' products can be imported into the Community free of customs duties and charges having equivalent effect and without quantitative restrictions. The ACP countries nevertheless remain free to determine their commercial policy as regards access for EEC products to their markets.

The increasing interdependence between the developing and the industrial countries means that it is also in the interest of the latter to make every effort to prevent political tensions building up as a result of the widening of the gap between the two groups. If such efforts are to bear fruit, the economic relations between the developing and the industrial countries must be cast in a different mold. The European Community expressed its readiness for this in the Lomé Convention:

"Resolved to establish a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more balanced economic order; * * *"¹

SECURITY OF SUPPLY

A steady supply of raw materials is of vital importance for the industrial countries. It is endangered not so much by the threatened exhaustion of our planet's raw materials reserves, of which there are probably enough for the time being. What is more important for security of supply is that exploitation of the reserves should proceed continuously and at an adequate level and that world

¹ See ACP-EEC Convention of Lomé, p. 13, last recital.

trade should remain free from disruption. Trade is endangered by unilateral action such as export restrictions, political embargoes and cartels. There is now undoubtedly a general awareness of this danger in the West.

There is, however, less awareness of the fact that the opening up of new reserves, which have not only to replace exhausted sources but also to take up the increase in demand, is being seriously endangered by declining investments in the raw materials industries. The causes of this decline are plain enough: few of the developing countries have either the money or the technical know-how needed. At the same time enterprises from the industrial countries are either no longer allowed in or being frightened off by the stringent conditions of establishment and by the risks involved in investment in many developing countries. By way of illustration, foreign investment American raw materials concerns fell by 20% in 1972/1973 in relation to the average of preceding years. When the most severe post-war recession first hit the industrial countries, raw materials stocks had reached a very low level. Once economic recovery really gets under way, serious raw materials shortages are like to be felt.²

That is why the industrial countries cannot allow the present situation to continue—even if the developing countries were prepared to see this happen—for they would be the first to suffer. The old times when the governments in our countries could leave private companies to take sole care of raw material supplies have gone for good. By following the call for a “new international economic order” we are not therefore surrendering to revolutionary ideas but attempting to fill a vacuum which has gradually arisen since the Second World War. The industrial countries would do well to take the forthcoming negotiations on a new pattern of international economic relations very seriously.

In the last 18 months the subject of raw materials has been discussed at a great many international conferences: the Sixth Special Session of the UN in April 1974; the UN General Assembly before last; the second UN General Conference on industrial development (UNIDO in Lima in March 1975); the preparatory conference in Paris in April 1975; a meeting of the Council of Ministers of the OECD in May 1975 where economic relations with the developing countries were given close attention; the conference of Ministers of Foreign Affairs of the non-aligned countries in Lima in August 1975; and finally the UN Seventh Special Session on development questions held in New York from 1 to 16 September 1975, and the meeting of the “5 financial powers” in Paris.

These consultations have given few definite results but have certainly not been useless. Standpoints originally miles apart look less irreconcilable now that the industrial countries have seen the inadvisability of an open confrontation with the Third World, and the developing countries have abandoned some of the extreme demands prompted by their fear of economic neo-colonialism. Recently, therefore, there has been less talk of forming cartels of raw materials producers and more of raw materials agreements. There is a readiness to cooperate, but the fundamental differences of opinion have not yet been settled. After the Special Session of the UN Assembly we have in fact got no further than accepting the broad outlines of an agenda for discussion, which falls well short of an action programme. Attention now centres mainly on a possible conference on international economic cooperation in December of this year, in which 27 nations—industrial countries, OPEC countries and developing countries—might take part.

CARTELS OPPOSED

In the raw material sector, the developing countries are calling for the formation of international stocks, the establishment of a joint fund to finance the stocks, multilateral supply and offtake obligations, stabilization of export earnings and encouragement of raw materials processing in the developing countries themselves. In general these demands should be approached positively. On two points, however, the industrial countries cannot make concessions: cartels of raw materials producers must be opposed, and the industrial countries must have strong reservations on the indexing of raw materials prices—i.e. linking these prices to those of industrial goods.

The success of the OPEC cartel has made the industrial countries afraid that producers of other raw materials than oil might combine and act as a cartel. Article 5 of the “Charter of economic rights and duties of states” approved by

² This concern is clearly expressed in the communiqué issued after the meeting of OECD Ministers in May this year. It calls investment incentives in the primary products sector as one of the objectives of the raw materials negotiations.

the UN General Assembly embodies the right of any country to combine as a raw materials producer with other producers with a view to developing its economy. In recent years several new cartels have been set up, and existing ones strengthened, notably for bauxite, iron ore, copper, phosphates, mercury, tin, timber and coffee. In some cases successes have been achieved: phosphate prices have been tripled and Jamaica's bauxite income has even been increased six-fold.³

PROBLEMS FOR CARTELS

But the conditions for setting up cartels are not so favourable for all raw materials as they are for oil. A high price elasticity of demand, and frequently also of supply, and the possibility of opening up alternative sources of supply are often obstacles to the formation of cartels. Many primary products either do not have such a strategic position as oil (coffee, cocoa, tea), or the industrial countries themselves can, if necessary, step up their production (sugar); alternatively, satisfactory substitutes may be available (rubber, various oils, jute, sisal, cotton, fruit).

But the danger of cartel formation must not be underestimated. If demand picks up again and supplies of certain raw materials become short because of the investment lag mentioned above, cartels will mushroom. And the developing countries would not be alone in these cartels; they certainly would be joined by the industrial countries that produce and export raw materials. Furthermore, the OPEC countries may well be able to play a central role as bankers in determining the future structure of raw materials trade. With their financial power they could lend decisive support to raw materials cartels. They could declare their readiness to buy up raw materials in periods of low prices and thereby engage in commodity speculation behind the mask of solidarity with the developing countries. It is superfluous to point out in regard to the developing countries that cartelization in the raw materials sector carries with it the danger of provoking a reaction in the form of cartelization of demand, and may cause cartel formation along the whole business chain.

The effort to link raw materials prices to those of industrial goods is somewhat less objectionable than cartel formation. Nonetheless, an objection in principle to this kind of indexing is that it excludes the market mechanism and that, if the price is set too high, inefficient production is kept going and marketing difficulties arise.

Indexing can certainly not be equated with an excessive increase in raw materials prices. What the developing countries are demanding is an improvement of their terms of trade. To that extent indexing, which by definition means stabilization of the terms of trade, and, therefore, no improvement, is rather a moderate demand. Provided the necessary precautions are taken against overproduction, a form of indexing may well be acceptable in certain suitable cases. For instance, under the Lomé Convention the European Community has undertaken to pay a price for sugar from the ACP countries which is in practice indexed, since the price guaranteed to the ACP countries is based on the price for sugar produced in the Community; this price is, of course, adjusted annually.

PRODUCT AGREEMENTS

Product agreements are agreements between countries that produce primary products and countries that buy them. These agreements are concluded with a view to stabilizing the prices of products in international trade. They must guarantee remunerative prices for producers and fair prices to consumers. For the latter, moreover, security of supply is a central goal. Furthermore, it is important to both parties, consumers and producers, for product agreements to eliminate sharp price fluctuations and encourage the achievement of equilibrium in the longer term between demand and supply.

A number of objections in principle, as well as practical reservations, are adduced against product agreements. It is alleged, unjustly, that product agreements mean a dangerous break with world free trade. That depends entirely on the technique used. Moreover, the raw materials market without product agreements is anything but a free market. The raw materials market has been

³ Opinion of the Committee on Development and Cooperation for the Committee on Economic and Monetary Affairs on the communication from the Commission of the European Communities to the Council on the Community's supplies of raw materials—PE 40.452/fin., par. 7.

manipulated for a long time. In the case of cereals, timber, wool and sugar, government manipulation of production and marketing is a well-known phenomenon, and different prices in domestic and export trade have always been practised.

The raw material exporters are by no means all developing countries. Fifty-five per cent of world raw material exports are from the industrial countries, 38% from the developing countries, and 7% from the eastern bloc. That is certainly a reason not to conclude product agreements for all important raw materials, but it is insufficient reason to regard such agreements as inappropriate all along the line.

It is a fact that in the past experience with product agreements has often been unsatisfactory. These agreements functioned reasonably as long as there were no great changes in demand or supply, that is, as long as they were not really needed. If demand increased sharply, the producers usually no longer observed the agreement, and if supply exceeded demand, restrictions were in general imposed on exports by the suppliers, but not always respected. Buffer stocks were also often too small, and finally, the mistake was constantly made in the past of setting up product agreements with an eye solely to the interests of the producers; the consumers usually had no voice in managing the agreements. These technical objections can, however, be met; they are not an insurmountable obstacle to product agreements.

FEAR OF HIGH PRICES

In the industrial countries there have always been fears of the high costs which product agreements allegedly involve. Price stabilization need not be linked with a transfer of financial resources to the producer countries. In practice, however, stabilization does lead to some rise in prices since the mechanisms to prevent the price going through the ceiling or the floor are not the same. A floor price can be defended by storage and possibly by export restrictions. A maximum price is more difficult to maintain, since often demand can scarcely be limited. Experience (for instance with the tin agreement) has shown that product agreements are more effective in containing downward fluctuations than in limiting price rises.

But the industrial countries should not let themselves be too easily dissuaded by this. A reliable minimum price is of enormous importance to the steady expansion of production capacity which must keep pace with increasing demand. And the best line of defense against extreme price rises is still a regular and long-term balance between supply and demand. This is an important argument for product agreements and for the thesis that these agreements can be in the interests of both producers and consumers. The European Parliament has for years advocated the application of international raw materials agreements.⁴

The enormous redistribution of incomes consequent on the oil price rise has allowed the belief to take root that an arrangement covering several raw materials would be totally unacceptable to the importing countries. Closer inspection bears this out. Taking the five products (copper, lead, zinc, cotton and wool) which the European Commission considers most suitable for new product agreements, and assuming an average price rise of 20% for these products, this would mean a transfer of resources of two thousand million dollars. UNCTAD has drawn up a list of 18 products,⁵ but a number of these must be left out, either because agreements already exist, or because the market is dominated to too great an extent by substitutes, or else because that part of the market which remains free is not representative of the whole market (most iron and bauxite mines, for instance, are owned by the processing industry).

What is important is that the UNCTAD plan provides for an arrangement to avoid unlimited growth in buffer stocks, which is necessary because even a small rise in prices above the equilibrium price brings with it a risk of structural surpluses. Under the Corea-plan buffer stocks would not be allowed to grow unrestrictedly. Once the maximum is reached, the price is thereafter regulated simply by restrictions on exports from the producer countries.

SMALL BUDGET IMPACT

A third positive point in the proposals for product agreements is that they would have a relatively smaller impact on the public budgets of the industrial

⁴ See inter alia Doc. 42/75—Report on the Community's overall mineral policy regarding development cooperation policy.

⁵ Wheat, rice, maize, sugar, coffee, cocoa, tea, cotton, jute, wool, hard fibres, rubber, copper, lead, zinc, tin, bauxite and aluminum, iron ore.

countries. The target percentage of 1% of GNP for development aid seems scarcely attainable in most of our countries. Reasonable price increases for raw materials can, however, bring about a certain transfer of resources from the rich countries to the poor countries, without making excessively high demands on the industrial countries' public budgets. Moreover, it is clear that 'development aid' through higher raw material prices is psychologically much more acceptable to the producer countries than direct aid, which might seem to them like charity.

It has been calculated that the formation of buffer stocks for the 18 raw materials listed would require an investment of around 10.7 to 13 thousand million dollars;⁶ this is, however, a maximum figure that would only be reached if all 18 buffer stocks reached their peak simultaneously, a situation which is unlikely to arise in practice.

The financing of buffer stocks is an important aspect. The European Community believes that the costs should be borne by all industrial countries including the state-trading countries, as well as by other countries with adequate financial resources, i.e., mainly the oil producers. The IMF, which has already made funds available to tin and cocoa producers to form buffer stocks, should also be able to take part in the financing arrangements. This distribution of responsibility logically means that the consumer countries must be strongly represented on the body administering the stocks.

Product agreements may take various forms; a mixed form usually offers the best prospects. Export or production quotas are one important possibility; they have been applied for some time in the case of sugar and coffee.

Buffer stocks can function provided that they are administered jointly by all the parties concerned, and that there is sufficient agreement between them on the maximum and minimum price. A further requirement is that the buffer stocks must be big enough to affect the market. Buffer stocks have the best chance of succeeding if the demands made on them are not excessive. For example, the likelihood of success is much greater if they are confined to damping fluctuations and not to holding the price within a predetermined "tunnel" at all costs.

Further study should also be made of the possibility of introducing a system of fixed minimum and maximum prices with levies paid by:

The consumers when prices are below the minimum price;

The producers when they are above the maximum price;

Both, when they are between the minimum and maximum prices.⁷

This arrangement has the great advantage of simplicity, so that administrative costs can be low. Moreover, no capital need be injected.

STABILIZATION OF EXPORT EARNINGS

Product agreements have the drawback that they do not allow an approach differentiated according to the needs of the producing country. In the case of products which are produced in considerable quantities by both rich and poor countries, preference should therefore be given to stabilization of the earnings from exports of raw materials adjusted to the developing country concerned. Again, in cases where price stabilization is very difficult, a form of income compensation or guarantee is preferable. In choosing products here, the following criteria can be used:

Earnings from exports of the product concerned must reach a set percentage of total export earnings of the individual developing country (the Lomé Convention stipulates a minimum percentage of 7.5%, and 2.5% for the poorest countries);

Only products of particular significance to the poorest developing countries should be covered by the scheme.

The European Communities' ideas tend towards a system that could work as follows: there would be transfers calculated on the basis of the difference between the average export earnings over a prior period of a few years and effective earnings in the year concerned (both expressed in special drawing rights). In the Lomé Convention, the Community and the 46 associated countries decided to institute a system of this kind. The "STABEX" system

⁶ To these acquisition costs must be added interest and storage charges, plus any costs arising from product deterioration. Against this, stocks bought in times of recession can normally be sold profitably later on.

⁷ Product agreements designed to limit excessive price fluctuations—Communication from the Commission of the European Communities to the Council, June 1975.

will apply to some 15 products,⁸ with compensatory financing if incomes fall by 7.5% or more below the average of the four previous years. A system of this kind might be applied in a broader context, with all the industrial and oil-producing countries taking part in the financing.

⁸ Groundnuts, cocoa, coffee, cotton, coconuts, palm products, and products derived from these primary products ; leather, hides, wood, tea, raw sisal and iron ore.

APPENDIX

THE TINDEMANS REPORT

Mr. Leo Tindemans, the Prime Minister of Belgium, was asked at the 1974 Paris summit meeting of the chiefs of governments of the Community members to report by the end of 1975 on the concept of European Union. This assignment was based, in turn, on the 1972 summit agreement that such a union would be established by the end of the present decade.

Because Mr. Tindemans Report, which was released in early January, is of such wide interest, we are reprinting it below in its entirety.

LEO TINDEMANS' LETTER TO HIS EUROPEAN COUNCIL COLLEAGUES

December 29, 1975.

At the conference of Heads of State and Heads of Government of Member States of the European Communities, which was held in Paris on 10/11 December 1974, you asked me to define what was meant by the term "European Union."

When attempting to do this I obviously took into account the reports drawn up by the European Parliament, the Commission of the European Communities and the Court of Justice and also the opinions voiced during the past year by members of your Government and other powerful forces in the various States.

Throughout these contacts I was struck by a contradiction.

On the one hand, some people believed that it was particularly inappropriate to draw up a report on European Union at a time when the European concept was passing through a crisis and the incompleted European Structure was swaying. Furthermore, there was the feeling that the economic recession has made itself felt in our Member States throughout 1975 without any large-scale joint action having been planned to counter the effects of economic depression and unemployment.

And yet—and this is most significant—almost all the people to whom I spoke stated that they could not imagine a better future for their country than that offered by the building of Europe. They could not conceive of doing this other than by strengthening the Community.

In this respect, there is a distinct divergence of views between public opinion and those who fulfill a political role in their respective countries.

Public opinion is extremely sceptical on the will to establish a genuine European Union and solve the real problems of the day at European level. It wants results and questions the lack of political will on the part of its leaders.

For me, the conclusion is obvious: if we wish to safeguard the achievements of the Treaties and conquer new ground the Member States must agree on new aims.

THE POLITICAL STAKES

At this stage, the stakes are political, that is quite irrefutable.

This is the reason why I deliberately refused to draw up a report claiming to be, at least in part, the Constitution for the future European Union. Nor did I wish to describe what Europe ideally should be, while remaining personally convinced that Europe will only fulfill its destiny if it espouses federalism.

The crisis in Europe is so serious that we must, in the immediate future, save what has already been achieved and, working on this basis, take drastic measures to make a significant leap forward.

I had to make a difficult choice. My proposals do not directly concern the final phase of European development. They state the objectives and the methods whereby Europe can be invested with a new vitality and current obstacles can be overcome.

My choice is based on the belief that at the present time any other approach would either be unworthy of our faith in Europe, or else, because of its utopic nature in the present circumstances would lose all credibility with the parties in power. Consequently, it represents a realistic yet feasible approach.

For me, European Union is a new phase in the history of the unification of Europe which can only be achieved by a continuous process. Consequently, it is difficult to lay down, at this stage, the date of completion of the European Union. It will only achieve its objectives by means of institutions which have been adapted to its new requirements. It is in fact by means of Institutions which have been strengthened and improved that the Union will be able to give increasing expression to its own dynamism. In this respect, the role of a directly-elected European Parliament will be decisive in the development of the Union. Finally, I am convinced of the need, in 1980, to assess what we have already achieved so as to open up new prospects and make further progress.

That, after much reflection, is my conclusion.

Seen in this light, the proposals put forward in my report should help us to overcome the present crisis, improve the functioning of the institutions, give shape to yesterday's and today's political options and work out new ones. As I see it, this is the main task at the present time.

If we succeed in this, the European concept will be preserved once and for all and because of this the future of our peoples assured.

I remain firmly convinced—as do the great majority of our fellow-citizens—that we can only really develop if we have common policies in most sectors.

Efforts to reach an agreement on vital questions of international policy and concentration on security are the basis of our policy which aims at safeguarding our identity. They are indispensable to Europe if a better world is to be built.

The aim of European Union should be to overcome the age-old conflicts which are often artificially maintained between Nation-States, to build a more humane society in which, along with mutual respect for our national and cultural origins, the accent will be placed more on the factors uniting us than on those dividing us.

Such a Europe could awaken new hope in everyone and could be the focal point in an ideal and significant resurgence.

Any discussion which the European Council may wish to hold on my report should lead to a commitment to achieve by appropriate decisions the qualitative change characteristic of European Union.

I am convinced that after a detailed study of this report you will feel able to endorse its objectives and ensure that they are carried out.

CHAPTER I.—A COMMON VISION OF EUROPE

A. EUROPE TODAY

Why has the European concept lost a lot of its force and initial impetus? I believe that over the years the European public has lost a guiding light, namely the political consensus between our countries on our reasons for undertaking this joint task and the characteristics with which we wish to endow it. We must first of all restore this common vision if we wish to have European Union.

In 1975 the European citizen does not view the reasons for the building of Europe in exactly the same way as in 1950. The European idea is partly a victim of its own successes: the reconciliation between formerly hostile countries, the economic prosperity due to the enlarged market, the detente which has taken the place of the cold war, thanks particularly to our cohesion, all this seems to have been achieved and consequently not to require any more effort. Europe today is part of the general run of things; it seems to have lost its air of adventure.

Our populations are concerned with new problems and values scarcely mentioned by the Treaties. They realise that political union does not automatically follow from economic integration, too many fruitless discussions cast doubt on the credibility and topicality of our joint endeavour: to this extent the European idea is also a victim of its failures.

In this state of mind we plunged into a crisis and are experiencing rates of inflation and unemployment the likes of which have never been seen by the present generation. It is therefore hardly surprising if the Community is crumbling beneath the resurgence, which is felt everywhere, of purely national preoccupations. Especially as the Community, in its present state, is unbalanced: in some fields it has been given far-reaching powers, in others nothing, or practically nothing, has been done, very often because our States were too weak to undertake anything new: the fragile nature of Europe must surely be a reflection of the powerlessness of our States.

An unfinished structure does not weather well: it must be completed otherwise it collapses. Today Community attainments are being challenged.

Basically, however, Europeans are still in favour of closer links between our peoples as laid down in the Treaties of Paris and Rome, first between the Six, later between the Nine. They even take this reapprochement as a matter of course and regret not having more evidence of it in their daily lives. A return to selfish national attitudes, to national barriers, and to the antagonisms which they have frequently engendered would be seen as an historic defeat, the collapse of the efforts of a whole generation of Europeans.

If this extensive will for reapprochement is to take on a political dimension vital to ensure that action is taken, Europe must find its place again among the major concerns of public opinion thus ensuring that it will be the focal point of the political discussions of tomorrow. We must listen to our people. What do the Europeans want? What do they expect from a united Europe?

1. A voice in the world

During my visits I was struck by the widespread feeling that we are vulnerable and powerless. This is a new experience for our peoples in recent history. Inequality in the distribution of wealth threatens the stability of the world economic system; exhaustion of resources weighs heavily on the future of industrial society; the internationalisation of economic life makes our system of production ever more dependent. Our States seem very weak to face these challenges alone. What weight do isolated voices have unless they are those of the Super Powers?

And yet the will to make an active contribution is still very strong as we can see from the 100,000 young Europeans who are working in co-operation programmes throughout the world. Our peoples are conscious that they embody certain values which have had an inestimable influence on the development of civilisation. Why should we cease to spread our ideas abroad when we have always done so? Which of us has not been surprised to see the extent to which the European

identity is an accepted fact by so many of the foreigners to whom we speak. It is not only from within that there is a call to the countries of Europe to unite.

Our peoples expect the European Union to be, where and when appropriate, the voice of Europe. Our joint action must be the means of effectively defending our legitimate interests, it must provide the basis for real security in a fairer world, and enable us to take part in this dialogue between groups which is apparently a new aspect of international life. How can we reconcile these requirements in today's world if we do not unite?

Europe must guard against isolation, against turning inwards on itself which would reduce it to a footnote in history, and also against the subjection and narrow dependence which would prevent it from making its voice heard. It must recover a certain amount of control over its destiny. It must build a type of society which is ours alone and which reflects the values which are the heritage and the common creation of our peoples.

2. A new society

We all feel that our society is in the state of anxious expectancy and conflict which is the forerunner of major changes. New and sometimes contradictory scales of values are making their appearance in all fields of social life. The task of the present generation is to seek a transition to a post-industrial society which respects the basic values of our civilisation and reconciles the rights of the individual with those of the community. If we fail our democracies will be at risk and our children will inherit a decadent society.

Despite the sometimes radical divergencies in the solutions advocated there does exist a minimum consensus of opinion between the democratic forces in Europe on the nature of the changes required. A new type of economic growth displaying more respect for the quality of life and the physical and human environment and better able to reconcile economic and social objectives. Growth which is oriented towards highly specialised activities and makes full use of the skills available in Europe, management and organisational capacities in the most advanced and complex fields of human activity; this is our one specific advantage in the international economy: Europe's "grey gold". Finally the development of individual personal responsibility in the social and economic sphere by associating workers with the decision making, the management or profits of undertakings, by much greater freedom in the organisation of work, by more openness, decentralisation and consultation in public administration.

Our peoples expect European Union to embody and promote the development of our society in the way foreseen above, to provide a new authority to compensate for the reduced power of national structures and to introduce reforms and controls which often cannot be implemented at state level, to give an organic form to the existing solidarity of our economies, our finances and our social life. Europe can and must identify itself with the concerted and better controlled pursuit of the common good with economic resources being reoriented towards the collective interest, a reduction in regional and social inequalities, decentralisation and participation in decision making. We will then have created a new type of society, a more democratic Europe with a greater sense of solidarity and humanity.

3. A positive solidarity

No one wants to see a technocratic Europe. European Union must be experienced by the citizen in his daily life. It must make itself felt in education and culture, news and communications, it must be manifest in the youth of our countries, and in leisure time activities. It must protect the rights of the individual and strengthen democracy by the interplay of institutions which have legitimacy conferred upon them by the will of our populations. The image of Europe must be in line with its motivations and opportunities, it must demonstrate to those within and without the solidarity of our peoples and the values of our society. I am convinced that this Europe, a progressive Europe, will lack neither power nor impetus.

B. EUROPEAN UNION

The basic choice made by the Founding Fathers of Europe and embodied in the Treaties of Rome and Paris was to bring about an even closer union between our peoples. This option is still open to us. In the face of the internal and external challenges of our society felt by the whole of Europe six countries initially and then nine decided to fight back by joining forces.

The 1972 and 1974 Paris Conferences decided that European Union was the best means of doing this at the present stage of the building of Europe.

As the aims and nature of European Union are no longer very clear the first task of our governments is to decide precisely within the European Council what are the implications and consequences of these choices. It is now up to the European Council to decide on the general form which the joint endeavour is to take during the Union phase. The time to enshrine in a legal text all the changes which have been gradually made to the European structure will be when the process of building the Union has acquired its own momentum.

As a result of my consultations in all our countries I suggest that the European Council should define the different components of European Union as follows:

1. European Union implies that we present a united front to the outside world. We must coordinate our action in all the main fields of our external relations whether it is a question of foreign policy, security, economic relations or development aid. Its aim is to defend our interests but also to use our collective strength to support whatever is just and legal in world discussions.

2. European Union recognises the interdependence of the economic prosperity of our States and accepts the consequences of this: a common economic and monetary policy to cope with this prosperity, common policies in the industrial and agricultural sector and on energy and research to safeguard the future.

3. European Union requires the solidarity of our peoples to be effective and adequate. Regional policy will correct inequalities in development and counteract the centralising effects of industrial societies. Social action will mitigate inequalities in the distribution of wealth and encourage society to organise itself in a fairer and more humane fashion.

4. European Union makes itself felt in people's daily lives. It helps to protect their rights and to improve their life style.

5. In order to achieve these tasks European Union is given institutions with the necessary powers to determine a common, overall and coherent political view, the efficiency needed for action, the legitimacy needed for democratic control. The principle of the equality of all our States continues to be respected within the Union by each State's right to participate in political decision making.

6. Like the Community whose objectives it pursues and whose attainments it protects European Union will be built gradually. So as to restart the construction of Europe straight away and increase its credibility its initial basis is the political commitment of the States to carry out specific actions in fields selected according to their importance and the chances of success.

The different facets of European Union described above are closely connected. The development of the Union's external relations cannot occur without a parallel development of common policies internally. Neither can be achieved without consolidating the authority and effectiveness of joint institutions. In this vast scheme everything goes together and it is the sum of the progress achieved in parallel which constitutes the qualitative change which is European Union. The rest of this report will examine in each of the fields referred to the aim and the first positive actions which need to be and can be taken.

The general framework which I propose should be adopted by the European Council must serve as guidelines for the efforts to build Europe. The will of our States, expressed in this way, is based on the deep seated motivations of public opinion and can convey to it the guiding light of our common action.

The political consequences of these choices must be carefully assessed. They cannot occur without a transfer of competences to common bodies. They cannot occur without a transfer of resources from prosperous to less prosperous regions. They cannot occur without restrictions, freely accepted certainly, but then enforced unreservedly. This is the price of Union. But what price would we pay for inaction? The crumbling away of the Community, voices isolated and often going unheard in the theatre of the world, increasingly less control over our destiny, an unconvincing Europe without a future.

CHAPTER II.—EUROPE IN THE WORLD

Our States' reasons for presenting a united front in world discussions are convincing from an objective point of view: they stem from power relationships and the size of the problems. From a subjective point of view they are felt very strongly by our peoples: our vulnerability and our relative impotence are in the thoughts of everyone. The convergence of these two factors means that external

relations are one of the main reasons for building Europe, and make it essential for the European Union to have an external policy.

A. A SINGLE DECISION MAKING CENTRE

The examination of our possibilities for action in the world should be based on one obvious fact: the increasing intermeshing of different sectors of international activity.

As described in the previous chapter the European Union should not only be concerned with foreign policy in the traditional sense, including security aspects, nor solely with tariff and trade policies which are already common policies by virtue of the Treaty of Rome, but also with all external economic relations. The traditional distinctions maintained by diplomatic chanceries in this field make increasingly less sense in the modern world. The recent development of international life shows that economic, industrial, financial and commercial questions will all in the future be the subject of negotiations, the significance of which will be highly political. If the European Union did not have the means to cover all aspects of our external relations it would not be equal to its task. The Union must have an overall, coherent outlook and plan of action. I suggest that the European Council should now decide:

(a) to put an end to the distinction which still exists today between ministerial meetings which deal with political cooperation and those which deal with the subjects covered by the Treaties: in order to decide on a policy the Ministers must be able to consider all aspects of the problems within the Council.

(b) that the institutions of the Union can discuss all problems if they are relevant to European interests and consequently come within the sphere of the Union.

The existence of a single decision making centre does not mean that there will be confusion between those activities which today are the responsibility of the Community and political cooperation activities. The nature of the problems does not mean that they will all be treated in the same way. Coherence of activity on the other hand which is essential requires that the different aspects of the often complex problems which the European Union will have to examine be dealt with together, at least at ministerial level, by the same people and in the same place.

With this in mind I suggest changing the political commitment of the Member States which is the basis of political cooperation into a legal obligation. A very short protocol taking up paragraph 11 of the Copenhagen Report¹ ought to give competence to the Council and thus clarify the legal framework in which it is to operate.

The development of new policies on the basis of the Treaties does not cause any particular problem: the provisions binding us are clear and there are numerous precedents. The same thing does not apply in fields not covered by the Treaties. The way in which future developments are to take place must be specified here.

B. TOWARDS A COMMON FOREIGN POLICY

In those fields of foreign relations not covered by the Treaty the Nine nowadays coordinate their policies, and in recent years this arrangement has been extended and has met with considerable success. Such an arrangement would not, however, be adequate within the framework of the European Union. It explicitly incorporates within its structure the possibility of failure: the pursuit of different policies whenever coordination has not been achieved. The European identity will not be accepted by the outside world so long as the European States appear sometimes united, sometimes disunited.

European Union obviously implies, within the fields covered by the Union, that the European States should always appear to be united, otherwise the term would be meaningless. The coordination of policies, which is important during a transitional period, must therefore gradually make way for common policies, which means that our States must be able to draw up a common policy and act together within the framework of the European Union.

¹ Here is the text of this paragraph:

Governments will consult each other on all important foreign policy questions and will work out priorities, observing the following criteria:

The purpose of the consultation is to seek common policies on practical problems;

The subjects dealt with must concern European interests whether in Europe itself or elsewhere where the adoption of a common position is necessary or desirable.

On these questions each State undertakes as a general rule not to take up final positions without prior consultation with its partners within the framework of the political cooperation machinery.

Chapter V of this report gives details on the respective roles of the European institutions in the formulation and implementation of a common foreign policy. Here suffice it to say that the European Council has a vital rôle to play in making general policy statements based on global political concepts, without which there can be no common policy. The political decision, which is the application of agreed general policy statements to the realities of everyday life should be the responsibility of the Council.

The main difference between coordinated policies, as formulated at present, and a common external policy, which distinguishes the Union, does not depend on the kind of procedure adopted or the nature of the relevant institution. It depends on the obligation to reach a common point of view. The States will undertake to define the broad outlines of their policy within the European Council. On this basis, the Council will then have the obligation to reach a common decision on specific aspects. This obviously means that the minority must rally to the views of the majority at the conclusion of a debate.

In order to provide the necessary impetus to the dynamic process of European Union, our States must now take the political decision to pursue a common foreign policy within a given number of specific fields, selected in relation to their importance and the practicability of fulfilling them. During the gradual evolution of the Union this political commitment will have to be extended to all important aspects of our external relations.

C. IMMEDIATE POSITIVE ACTION

When defining its foreign relations, the European Union must approach major world problems as well as problems arising in its own area simultaneously. Owing to their basic importance, four of these must be of foremost concern to us:

A new world economic order ;

Relations between Europe and the United States ;

Security ;

The crises occurring within Europe's immediate geographical surroundings.

When dealing with such complex problems it is unavoidable that certain decisions should be subject to provisions of the Treaty while others are not. In these cases of joint responsibility, common policies will have to be based concurrently both on the provisions of the Treaty and on provisions arising from Member States' political commitment mentioned above.

1. *A new world economic order*

Our external relations with countries of the Third World are, and will continue to be, dominated by the problem of sharing the world's economic resources and to a lesser extent, by the after-effects of the colonial era. These questions affect our economic relations, our supplies, our cooperative effort and, finally, the solidarity of mankind and world stability. This is therefore one of those complex situations in which the voice of Europe must make itself heard.

Furthermore, there is every indication that this is a field in which the Nine can and must formulate a common external policy without delay since :

The main negotiations have not yet really begun ;

They will take place between groups of countries, and, in such circumstances, bilateral diplomatic relations, however close they may be, solve nothing, whereas the EEC has acquired valuable experience through the Yaoundé and Lomé Agreements ;

The divergences of opinions and interests among the Nine, which are unavoidable when dealing with so vast a subject, are not insuperable, as has been shown recently by the common stands adopted at the 7th Special Session of the UN General Assembly, and in the preparations for the Conference on International Economic Cooperation ;

Even without a new political commitment, the respect for Community authority, the requirements of political action and the defence of our common interests, call for a very high degree of cooperation and joint action on our part.

The Nine are already making serious efforts to appear united at major negotiations ahead, and the European Council meeting held in Rome in December 1975 has, in this respect, produced some encouraging results. Our countries have taken the initiative on joint negotiations in the Lomé Agreement, the Euro-Arab dialogue and in Mediterranean policies.

I propose, first, that we should decide :

That come what may we appear united at multilateral negotiations relating to a new world economic order, at the various gatherings where these take place,

and in the implementation of their conclusions. This means that we shall, in every case, place the primary interest of joint action above our divergent opinions and interests.

That we shall designate, as the need arises, the delegates responsible for pursuing such policies on our collective behalf.

I propose that decisions should then be taken :

To strengthen the instrument of our joint action by gradually transferring to the Community a substantial part of national appropriations intended for development cooperation (major development projects, food aid, financial aid), and in coordinating the remainder of our activities in this field.

To complement this approach by adopting a common stand on general political problems which would arise in our relations with the Third World.

If these decisions are taken, we shall de facto be pursuing a common external policy in most of our relations with the Third World.

2. Relations between Europe and the United States

Relations with the United States, who are at one and the same time our allies, our partners and occasionally our competitors, raise problems of vast proportions for the European Union. They are of prime importance in the political field, in defence, in economic affairs, not only on account of the interdependence of United States and European economies, but also because of the joint responsibility of these two industrial centres for the world economy, a responsibility which the Rambouillet meeting of December 1975 has once again underlined.

The need for Europe to speak with one voice in its relations with the United States is one of the underlying reasons for the construction of Europe. A constructive dialogue between the European Union, conscious of its identity, and the leading Western political, economic and military power, is necessary without delay. Its usefulness has been recognised by the document on the European Identity adopted at the Conference of Heads of Governments at Copenhagen in December 1973. Only in this manner, as part of the development of the Union shall we be able to establish relations with the United States based on the principle of equality, free of any concept of inferiority, which reflects at the same time both what is common in our basic values, interests and responsibilities, and the difference in the destinies of our two regions.

It is doubtful if the European states can have a strictly identical appreciation of relations between the United States and Europe so long as their respective analyses of the problems of defence are noticeably divergent. This question must however be examined frankly and in detail with the object of laying down certain principles and rules determining the content of and procedures for cooperation between Europe and the United States.

In this context I propose that the European Council should take the initiative to delegate one of its members to hold talks with the United States with the object of reaching a common understanding of the character and scope of relations between that major Power and the European Union.

3. Security

By virtue of the Atlantic Alliance we in Europe enjoy a measure of security and stability which has enabled us to undertake the construction of Europe. As soon as our States recognise the existence of a common destiny, the security of one member will necessarily affect the security of others. No foreign policy can disregard threats, whether actual or potential, and the possibility of having to meet them. Security cannot therefore be left outside the scope of the European Union.

On the other hand, the Conference on Security and Cooperation in Europe has shown, if that was necessary, that in matters of security, political, military, economic factors and other factors such as those affecting human relations, closely overlap.

During the gradual development of the European Union, the Member States will therefore have to solve the problems of maintaining their external security. European Union will not be complete until it has drawn up a common defence policy.

Meanwhile, I note that our States are not really at present in a position to determine the general policy without which no common defence policy is possible, and are unlikely to be able to do so in the near future. But this does not mean that nothing should be done, and I therefore suggest that we should decide :

Regularly to hold *exchanges of views* on specific problems in matters of defence and on European aspects of multilateral negotiations on security. Exchanges of views of this kind will one day enable Member States to reach a common view of defence problems and, meanwhile, to take account of their respective positions in any action they take.

To cooperate in the *manufacture of armaments* with a view to reducing defence costs, and increasing European independence and the competitiveness of its industry. The measures taken so far to provide the European countries of the Alliance with an organisation for the standardisation of armaments, on the basis of joint programmes, will have important consequences for industrial production. This strengthens the need to initiate a common industrial policy on the manufacture of armaments within the framework of the European Union. Setting up a European armaments agency for that purpose must be given consideration.

On the question of *détente* the Nine have already succeeded, through political cooperation, in outlining joint positions that have enabled them, during the Conference on Security and Cooperation in Europe, to defend identical points of view. This practice must obviously be pursued and generalised. It will also have to include that element of obligation which distinguishes a common policy from mere coordination. It will have to be extended, during the gradual development of the Union, to all the problems which play an important rôle in the general field of *détente*, including agreements on economic cooperation and the increase of personal contacts.

The development of a *détente* policy in Europe presupposes that all our interlocutors recognise the European Union as an entity. Our willingness to act together in the field of external relations is a reality in Europe today; it will be even more so in the future and all states, including those which today still hesitate to do so, will then have to recognise that fact.

4. *Crises in the European Region*

The political problems which arise within our immediate geographical surroundings, that is to say, in Europe and in the Mediterranean area, have a particular significance for the European Union. The credibility of our undertaking requires that in this field where our interests are greatest, we should from now on be united, that is to say, that we should accept the restrictions imposed by a common policy.

In the last two years, political cooperation has enabled the Nine to adopt common positions on questions such as the crises in the Middle East, Cyprus and Portugal and their political action has often been expressed through the Community. In effect, our States tend to prefer joint action. Indeed, the increasing political weight of the Nine, when they are united, and their common interests in lessening potential sources of conflict in their immediate surroundings, tend to induce our countries to act together, and will do so increasingly.

I therefore propose that we decide to make what has been the constant practice in recent years into a general rule, that is to say, to lay down a common policy and to act together within this framework, with the restrictions that this entails, in all cases where important political problems or crises arise in Europe or in the Mediterranean area.

In the strictly political field of external relations the European Union must, independently of the specific situations mentioned above, carry on the kind of cooperation begun in 1970 until the natural evolution of their undertaking leads Member States to accept the more restrictive formula of a common policy.

We must assert the European Identity in all international political discussions, as the Nine have been doing, with increasing success at the United Nations. We must define our relations with countries belonging to other continents some of which, such as China, Canada and Japan manifest increasing sympathy for the task of European unification.

In Europe, we must pay particular attention to those European countries which have a democratic system similar to ours. We should establish relations with them which make it possible to take account of their interests and their points of view when formulating the Union's political decisions, and also to obtain their understanding and their support for our actions. The habit of such informal cooperation will, in due course, facilitate the accession of those States wishing to join.

We should give greater joint consideration than in the past to those problems of our external relations which bears upon the European Union in the medium

term. I propose that the Ministers for Foreign Affairs should submit suggestions to the European Council on how joint consideration of such problems can be undertaken.

CONCLUSION

Our common action with regard to the outside world cannot, obviously, be considered in isolation. In some fields the practical opportunities for progress will depend on parallel progress being made in building the Union's internal structure: as in the case, for example, of monetary and financial questions. The implementation of common policies in our external relations presupposes increased efficiency in the institutional system. These questions are examined elsewhere in this report, and it is the progress of the whole which will enable Union to be achieved.

Subject to that reservation, the proposals set out in this chapter constitute a qualitative change in the character and intensity of our relations, and this is what the Union will seek to achieve.

In order to ensure such a common front and such common action in relation to the outside world, our States will gradually wish to submit the greater part of their external relations problems to a common policy procedure, and they will accept the restrictions imposed in consequence. In order to give the necessary new impulse to the dynamic process of Union, they should now take, in a number of selected sectors, certain restrictive political commitments. During the gradual development of the European Union, these will have to be enshrined in legal obligations which will confirm the qualitative changes which the Union seeks to achieve. In the very important field of our external relations the European Union will then have become a living reality.

CHAPTER III.—EUROPEAN ECONOMIC AND SOCIAL POLICIES

Since 1969, the Conferences of Heads of Governments have affirmed the desire to consolidate the Community by establishing an Economic and Monetary Union. It was an important political choice, made by the highest authorities of our States.

However, in recent years the Community has not progressed in this important field, and unless it does so European Union will be meaningless. The adverse international economic and financial circumstances are not the only cause: these could equally well have induced a burst of activity.

As pointed out in the report of the working group chaired by M. Marjolin, the failure is also the result of two other causes: a failure of political will, and inadequate understanding both of what an Economic and Monetary Union is meant to be and of the conditions necessary for the creation and operation of such a Union.

In the first chapter of this document I emphasised the need to re-establish first of all a political consensus on the scope and consequences of our commitments. With regard to economic and social questions, this consensus relates to:

A common economic and monetary policy;

Sectoral policies;

A social policy and a regional policy.

A. ECONOMIC AND MONETARY POLICY

1. The present situation

In the course of my consultations in the various countries of the Community, those with whom I spoke everywhere recognised the need for European economic and monetary policy. Everyone agrees that this question is the crux of the internal development of the Union, and that isolated initiatives which may be taken in related fields, such as regional or industrial policy, will be meaningful only if a solution to the central issue is found. On the other hand, up to now no one has claimed to have found a solution which could be accepted by all our States.

I am not in a position to produce a ready-made solution to problems which have long been studied and discussed, and which must eventually be settled by the European institutions, the more so since these will have the authority to take decisions and further action.

It seems to me that the situation is as follows:

(1) Our States confirmed in 1974 their will to attain the objectives they had set themselves at the Paris Conference in 1972, which include a common economic and monetary policy.

(2) Today, however, there is no genuine political consensus to establish this common economic and monetary policy, doubtless because of the absence of adequate mutual confidence to permit the transfer to common institutions of the powers which it is essential to grant them.

(3) There is also no genuine technical consensus on the manner in which a common economic and monetary policy should be achieved. After years of discussions no solution has emerged from the experts' debates.

(4) Added to this indecision there are the known objective economic and financial difficulties both at Community and world level.

(5) The progress which it is possible and necessary to make, on the basis of a new approach to the problem, which I will mention later, falls short of what is required to make, in this field, that qualitative change which distinguishes European Union.

In fact, there is no agreement on how to achieve a common economic and monetary policy, nor is there even any sustained discussion of the subject. And yet this is a basic requirement for achieving a European Union.

In the present state of affairs, no real progress can be expected. This situation cannot persist without causing the credibility of our Governments to be questioned when they assert their support for a European Union.

I therefore propose that the European Council should now:

(a) revive discussions within the Institutions on the manner in which a common economic and monetary policy can be achieved and its role in the European Union. During this policy discussion no proposals should be set aside *a priori*.

(b) without waiting for the results of these discussions, instigate positive progress along the road selected in 1969.

In order to revive the discussions and give some indication of how positive progress can be made, I will now examine:

A new approach to the problems;

Its practical application by the development of the "Snake";

The road to follow to make further progress.

2. A new approach

It is impossible at the present time to submit a credible programme of action if it is deemed absolutely necessary that in every case all stages should be reached by all the States at the same time. The divergence of their economic and financial situations is such that, were we to insist on this progress would be impossible and Europe would continue to crumble away. It must be possible to allow that:

Within the Community framework of an overall concept of European Union as defined in this report and accepted by the Nine,

And on the basis of an action programme drawn up in a field decided upon by the common institutions, whose principles are accepted by all,

(1) those States which are able to progress have a duty to forge ahead,

(2) those States which have reasons for not progressing which the Council, on a proposal from the Commission, acknowledges as valid do not do so,

But will nonetheless receive from the other States any aid and assistance that can be given them to enable them to catch the others up,

And will take part, within the joint institutions, in assessing the results obtained in the field in question.

This does not mean "Europe à la carte": each country will be bound by the agreement of all as to the final objective to be achieved jointly; it is only the timescales for achievement which vary.

This system which accepts that there should temporarily be a greater degree of integration between certain members is not without analogy in the Community: Article 233 of the Treaty of Rome specifically provides for it in the case of the Benelux countries and the Belgium-Luxembourg Economic Union. The system could, as matters turn out, be of great assistance in enabling the process of development of the Union to regain its momentum, albeit imperfectly.

I therefore propose that the European Council should adopt the following guidelines:

Bearing in mind the objective difficulties of certain States, progress as regards economic and monetary policy may be sought initially between certain States in accordance with Community practices, and with the limitations mentioned above.

The "Community Snake" which lies at the heart of monetary stability is the starting point for this action. The Snake must be consolidated and then extended its action to fields which it does not cover today.

3. *The "Snake"*

The machinery of the Snake, which has proved itself by maintaining the stability of exchange rates, must be used to seek a convergence of economic and monetary policies between those States which are in a position to achieve it. In order to do this the Snake must:

Be consolidated,

Extend its action to the key aspects of economic and monetary policy,

Be of a distinctly Community nature.

To this end, I propose the following:

(1) Today the Snake operates and is controlled partly outside the Community. In future this must happen within the common institutions in accordance with procedures to be agreed upon. Without actually taking part in the operation of the Snake those member countries not belonging to it will be brought into discussions so as to avoid increasing divergence and enable any opportunities for alignment to be seized. Community operation of the Snake is all the more imperative in that it constitutes the departure point for a policy which will later be extended to all members of the Community thus having a beneficial effect on trade as a whole within the Community.

(2) At present the Snake only lays down obligations in the field of external monetary policy. Its operation is therefore precarious and unbalanced. Identical restraints must be accepted in the field of:

Internal monetary policy: control of financial resources,

Budgetary policy: extent and financing of deficits,

Key aspects of economic policy as regards the short-term economic situation and the control of inflation.

(3) Within the framework of the Institutions, the system must provide for procedures enabling joint decisions to be reached on alterations in pivotal exchange rates. Member States not belonging to the Snake must be brought into these discussions. Those countries belonging to the Snake would undertake to withdraw from it only in cases of "manifest crisis" as established by a joint decision.

(4) Along with these obligations, machinery for short and medium-term support between members of the Snake must be made automatic and considerably strengthened. This means increasing the activity and effectiveness of the European Monetary Co-operation Fund which must become the embryo for a European central bank, in particular by some pooling of reserves.

(5) Those countries in the Snake must gradually abolish the remaining obstacles to the free movement of capital between them, in particular those set up since 1970, which only demonstrate how the process of integration has deteriorated.

(6) Finally, measures must be worked out to assist those countries not in the Snake to join. The measures cannot be defined in abstracto and will not be automatic. They will be determined case by case. These measures will also include those in the structural field, by means of regional, social, industrial and agricultural policies. In connection with the developments explained in previous paragraphs it is important to keep in mind the interests of the countries not taking part in the Snake in order to facilitate their future participation. Hence the need to discuss these developments within a Community framework.

Thus consolidated and extended, the nucleus of monetary stability existing today becomes the basis for a real convergence of economic and monetary policies.

Strengthening the Snake will also be of direct help in gradually restoring greater international monetary stability. The first step in restoring this stability is to form significant zones of stability within which stable exchange rates can be maintained.

This strengthening will enable us to seek a better co-ordination of economic and monetary policies between large blocs with the aim of reducing the fluctuations, which in the recent past have been excessive, between leading currencies or groups of currencies and more particularly between the Snake and the dollar. In this connection the European Monetary Co-operation Fund should gradually become responsible for the intervention policy of the Snake vis-à-vis the dollar. Consolidation of the Snake will enable the Community to take part as such in international financial negotiations.

4. *The search for a common policy*

The new approach, set out above, and its practical application to the Snake will not in isolation lead to the formation of a common economic and monetary

policy. It is a starting point from which a certain amount of progress can be made, and which can serve as a prelude to the important stages which will remain to be reached. The latter must be discussed within the Institutions.

In steering this discussion we must learn from the past. For my own part I would draw the following conclusions from our past failures :

(a) Globalisation and interdependence of solutions

The problems raised must be tackled globally. If, as must be the case, progress is made in stages, each stage must involve a balanced set of measures in the field of economic policy as well as monetary policy.

The interdependence of solutions also means that the automatic implementation of measures for giving aid or mutual assistances which is of necessity part and parcel of any Economic and Monetary Union, is directly bound up with an acceptance of the constraints which this union involves.

(b) The irreversibility of the machinery

Even though equilibrium is sought at each stage, it is inevitable that certain States should feel they are taking greater risks than others, be it that they have less to gain in the immediate future or that they stand to lose more.

To carry conviction, progress must be irreversible. The general political benefits from definite progress towards a strong, integrated European Union will offset any short-term disadvantage, be it real or imaginary, which a particular State has to face. This means that the policy of "small steps" cannot always apply; sometimes a "large step" must be taken.

It seems to me that this is the basis on which we should resume discussion of the problems involved in setting up an Economic and Monetary Union. The Werner Report adopted by the Council set out the problems and the solutions which should be considered. It must continue to form the basis for our discussions, along with the ideas which have been put forward since its adoption. I am thinking in particular of the various proposals to create a European currency, which would on the face of it have a considerable political and psychological import.

Whatever happens, achieving Economic and Monetary Union in the difficult circumstances we are facing at present will be a lengthy business. For this reason I have proposed concrete steps which can be taken in the immediate future on the basis of a new approach. These steps will lead to a degree of integration which is doubtless imperfect but which will make it easier to take the "large steps" which at some point will have to be taken. However, these concrete steps can only take on their full significance as part of a long-term vision setting out a programme which is ambitious and at the same time realistic. The European Council must lend its authority to this. I suggest that the Commission should submit an annual report to the European Council on progress made in the search for a common economic and monetary policy and that it should propose which new steps could successfully be taken. This report could serve as preparation for an annual debate in Parliament on the state of the Union.

B. SECTORAL POLICIES

Within the framework of organised convergence of economic and monetary policies, the European Union must undertake specific projects to guarantee the dynamism, profitability and future of our productive apparatus in those sectors where action taken by our States is today often inappropriate or inadequate.

In the *industrial* field this means collectively safeguarding our innate capacity for innovation and advanced technology, since this alone can guarantee our future prosperity in the world economy.

It also means pursuing Community objectives as regards opening up markets, adherence to the rules on competition, the abolition of monetary barriers and drawing up a statute for the "European Company."

Finally, we must display solidarity in solving the problems of adapting our productive industry, which the search for a new world economic order will inevitably bring.

In the *agricultural* field an assessment has just been made by the Council stressing the strengths and weaknesses of what is our most highly developed and most integrated form of common action. The agricultural policy reflects one of the aspects of European Union in that it guarantees farmers income and living standards comparable with those of other groups in society. This objec-

tive is one of solidarity and justice. However, the implementation of this policy cannot be viewed purely in the light of agricultural problems.

I do not think it either possible or useful to include in this report an inventory of projects to be undertaken in such a vast area. That will be the job of the Institutions of the Union. I would like however to set out one or two thoughts on the two sectors which are at the very heart of industrial development and hence our future: energy and research.

1. Energy

Current action by the Community both on establishing a Community energy policy and on discussing energy problems in a wider international framework is inadequate. In view of our dependence on outside sources of energy this issue radically affects the stability and security of our productive industry.

European Union implies that a common policy should be worked out in this fundamental sector, and the European Council at Rome opened the way to progress.

In order to demonstrate our solidarity and lay the basis for a common policy, I consider that the following decisions must be taken:

(a) To introduce machinery ensuring the solidarity of our States in times of supply difficulties;

(b) To define at Community level consumption and production targets;

(c) To develop, in the light of these objectives, a programme of alternative resources in the context not of each individual State but of the needs of the Community as a whole;

(d) To develop additional production capacity by promoting investment and providing the means to guarantee and protect such investment;

(e) To mobilise at Community level the finance needed to achieve (c) and (d) above;

(f) To establish a Community instrument to organise the energy market.

On the external front, the Community will then be able to pursue a coherent policy, the basis of which will be achievement of the aims of Community energy policy, both at the Conference on International Economic Co-operation and in discussions with the other industrialised countries and any future negotiation of supply agreements.

2. Research

The Community's effort as regards scientific and technological research has come up against a certain amount of reticence on the part of national research institutes and industrial users. This reticence is caused by special interests and a lack of confidence. These must be overcome at all costs since the existence of a common research policy is directly linked to the maintenance of our competitiveness, that is to say our internal prosperity and our position in the world.

Research policy must not be spread over a range of heterogeneous and marginal activities. It must be strictly concentrated on priority sectors determined in the light of three criteria:

(a) Research directly connected with a common policy of the Union, such being the case, for example, with environmental research which is a necessary support and adjunct to a common environment policy.

(b) Research directly connected with a common activity in a specific sector, such as research into alternative sources of energy.

(c) Research too costly to be carried out by an individual state, like, for example, research into controlled thermo-nuclear fusion.

In these specific fields the common policy must:

Be backed by resources adequate in both quantity and duration for results to be achieved which can be used at the industrial level;

Initiate an exchange of information on the activities and results of national programmes, thus avoiding duplication and making generally available the results obtained;

Enable small States in particular to take part in work which would not be justified at national level.

C. SOCIAL AND REGIONAL POLICY

One of the fundamentals of the European Union, set out in the first chapter of this report, is the common search within a wider framework for progress towards a modern society and a form of economic growth which respects human values and social needs. Social and regional policies meet this objective and give sub-

stance to the solidarity of Europeans by reducing the inequalities which separate them. In this field I propose that the European Council should adopt the following general guidelines :

1. Social policy

The sine qua non of the social well-being of Europeans is economic prosperity guaranteeing full employment in conditions of better controlled growth. In this context an economic policy which leads to greater control over production levels will have an immediate social impact. The same applies to environment and consumer protection policies. Sharing out the benefits of this prosperity by means of taxation, social security and joint investment projects will remain essentially the responsibility of the States, who can take account of the traditions and facts which vary from one country to another. The social policy of the Union must manifest itself in specific projects which give effect at European level to the social aims of our undertaking and which guide and supplement action on the part of individual States. Such projects involve the security of the workforce, their involvement in economic decisionmaking (concertation) and their participation in company decisions and company profits.

(a) Security

Supplementing measures already in force within the Community, the Union must lay down standards applicable in all our States as regards wages, pensions, social security and working conditions, laying particular emphasis on the problems of women at work.

The Union must afford particular protection to certain categories of workers: migrants, the handicapped.

It will thus provide a consensus in matters of social justice, without which our States cannot possibly pursue their common undertaking.

(b) Concertation

The gradual transfer to the European level of some powers of decision in economic policy matters reflects a step which large firms took long ago. This parallel development means that the practice of concertation between employers, workers and public authorities which exists to some extent in all our States, must also be introduced at European level.

Framework agreements or collective European settlements must be reached by means of concertation in individual sectors.

This means considerably increasing the activity of the Standing Committee on Employment. This body will have to be consulted during preparation of the Union's social policy, and it must be associated with its implementation. It must have a right of initiative vis-à-vis the European Institutions so that, along with the Parliament and the Economic and Social Committee, it can act as a spur to the development of the social side of the Union.

(c) Worker participation

The problem of the place of workers in an enterprise arises perhaps in differing degrees but along similar lines, in all our countries. In view of the increasing integration of economic units this problem should be solved at the European level by increasing worker participation in the management, control or profits of businesses. This policy fits in with the search for a more humane just society which lies at the heart of the European effort.

Subsequent developments in the social policy of the Union must keep pace with progress in implementing a common economic and monetary policy. In particular, the operations of the Social Fund must be increased gradually in order, along with regional aid, to act as a corrective to any imbalances arising in the Community. When there has been some progress towards the alignment of the economic policies of the Member countries the internal solidarity of the Union will have to find more conspicuous expression, in particular in the fight against unemployment.

2. Regional policy

For an integrated economic and monetary unit to operate harmoniously there must be a substantial regional policy to offset tendency of the market to concentrate capital and activity in the more competitive areas of the Union. Such a policy will satisfy the clear desire in all our countries to revive the regions.

This policy must necessarily involve a net transfer of resources from the most prosperous areas of the Community to the less favoured areas. In part these

transfers will be made, as now, through national regional development policies. However, a large proportion of the transfers will have to be made through the community budget, either directly by means of regional aids, or indirectly by the effect on economic structures of the agricultural and industrial policies. The regional policy will therefore have to expand gradually in step with progress made in aligning the economic and monetary policies of the member countries.

The regional policy must also be concentrated on the most economically backward areas of the Community. Funds must be allocated on the basis of objective criteria applicable to the whole of the Community without national quotas.

CONCLUSION

The common policies referred to in this chapter are the very substance of European Union. They give substance to the solidarity which binds our economies and our currencies. They give expression to the desire to enable all regions and all social classes to share the common prosperity and share power. They aim to restore to us collectively control over the development of the economy, industry and energy control which is tending to slip from our grasp and which is essential if we are to maintain economic activity and employment. All in all they offer us the instruments which make it possible to strive for new growth in a more just, more humane society.

Economic and monetary policy which forms its essential basis is also its most tricky aspect. A new approach can nonetheless give results, so long as progress made is seen as part of a long-term conception, arrived at after thorough discussion and based on true political consensus.

This political consensus must also find expression in the approach to economic and monetary problems at national level. European Union will be on the right track when the European dimension is constantly in the minds of the decision-makers in the member States, when European action is no longer thought of as an extension of minor and marginal importance of a national policy based on national interests, when European decisions and action are accepted as the normal means of controlling our society and guaranteeing the future. Today we must push aside intellectual barriers.

CHAPTER IV.—A CITIZEN'S EUROPE

The construction of Europe is not just a form of collaboration between States. It is a rapprochement of peoples who wish to go forward together, adapting their activity to the changing conditions in the world while preserving those values which are their common heritage. In democratic countries the will of governments alone is not sufficient for such an undertaking. The need for it, its advantages and its gradual achievement must be perceived by everyone so that the effort and the sacrifices are freely accepted. Europe must be close to its citizens.

The main contribution of the European Union in this field has been described in the previous chapter. The measures taken in connection with the social policy of the Union, as regards security, concertation and participation will be directly felt in the daily lives of Europeans. They will emphasise the human dimension of the undertaking.

It remains now for me to set out additional courses of action. I propose that we should adopt two:

The protection of the rights of Europeans, where this can no longer be guaranteed solely by individual States;

Concrete manifestation of European solidarity by means of *external signs* discernible in everyday life.

Without going into details, I will simply indicate certain areas where progress obviously can and must be made.

A. PROTECTION OF RIGHTS

1. Fundamental rights

The gradual increase in the powers of the European Institutions which will make itself felt while the Union is being built up, will make it imperative to ensure that rights and fundamental freedoms, including economic and social rights, are both recognised and protected. In this the Union will find confirmation of its political objectives.

I propose that the European Council should instruct the Institutions to propose how best to set about this recognition and protection. The latter must at all events mean that individuals will have the right of direct appeal to the Court

of Justice against an act of an Institution in violation of these fundamental rights.

2. *Consumer rights*

The Community's efforts to introduce common standards for quality control and marketing must be continued. In particular they must be better motivated and more effectively put over. European consumers must be made to understand that they are being afforded real protection against the constant possibility of fraud and other real dangers. The individual State is no longer always in a position to provide this guarantee in a single market where goods are moving freely.

The Commission should examine how best to put over to public opinion the role of Community rules in consumer protection and should undertake an extensive consumer information programme in conjunction with the relevant organisations and associations at national level.

3. *Protection of the environment*

It is obvious from the geography of Europe that one person's environment is also another's and that its protection cannot remain an exclusively national matter.

In a single market, the constraints which need to be placed on industrial production can only be imposed at European level. The fields where the European Union can and will have to intervene are legion.

Because of its topicality I will quote an example of what we should do and make a specific proposal:

The European Union should possess a common body responsible for regulating and controlling nuclear power stations, with identical responsibilities and powers to those of the Nuclear Regulatory Commission in the United States. Control should be exerted over the siting, construction and operation of the power stations, the fuel cycles and the disposal of radioactive and thermic waste.

The psychological reaction throughout the whole of Europe against the setting up of nuclear power stations can only be calmed by the existence of a supervisory body offering guarantees of strictness, openness and in particular independence. These guarantees cannot be found at national level since more often than not our States are themselves involved, directly or indirectly, in decisions as to siting and construction. The argument in favour of a European supervisory body is therefore very cogent: it is a question of rendering the necessary development of nuclear energy in Europe acceptable to public opinion. This argument is given additional weight by the fact that numerous power stations are planned for frontier zones where the problems arising go beyond any national considerations.

B. THE EXTERNAL SIGNS OF OUR SOLIDARITY

1. As regards *movement of persons*, measures leading to uniformity of passports and later to a passport union are currently under discussion.

I propose that in addition the European Union should set as its aim:

The gradual disappearance of frontier controls on persons moving between member countries, as a corollary of passport union;

Improved transport and communication, if necessary by harmonising rules, and by abolishing tariffs which discriminate between national transport and telecommunications and those taking place within the Union;

The simplification of procedures for refunding medical expenses incurred by Union citizens in another country of the Union. Existing provisions are inadequately understood due to their administrative complexity and a lack of information. This "Health Europe" must be given life.

The day that Europeans can move about within the Union, can communicate among themselves and when necessary receive medical care without national frontiers adding to the problems of distance, European Union will become for them a discernible reality.

2. Similarly we must encourage greater integration in educational matters by promoting student exchanges. The aim is to give Europeans of tomorrow a personal and concrete impression of the European reality and a detailed knowledge of our languages and cultures since these constitute the common heritage which the European Union aims specifically to protect.

I propose that a pragmatic solution should be found to the delicate matter of the equivalence of diplomas and studies, this being the main obstacle in the way of integration of educational systems.

Our governments should:

Foster bilateral or multilateral agreements between universities and educational institutions under which the latter would undertake to organise student exchanges.

Give these agreements a legal status enabling reciprocal recognition to be given to studies in various sectors.

In this way we would be reviving the zeal for movement and mutual enrichment which intellectual Europe has known in the past. In addition there should be initiatives based on the achievements of the "Office Franco-Allemand de la Jeunesse".

3. I propose that a serious effort should be made to promote collaboration between *information* bodies, in particular radio and television, to encourage the spread of information and better knowledge of each other.

Such collaboration will be of particular significance in the context of direct elections to the European Parliament which will provoke throughout Europe an electoral campaign on European themes.

CONCLUSION

The proposals for bringing Europe nearer to the citizen are directly in line with the deep-seated motivations behind the construction of Europe. They give it its social and human dimension. They attempt to restore to us at Union level that element of protection and control of our society which is progressively slipping from the grasp of State authority due to the nature of the problems and the internationalisation of social life. They are essential to the success of the undertaking in that it is not enough for the Community of the future to exist: it must also be seen to exist.

A strenuous effort must be made by the European Institutions and by governments to improve the way in which our common activity is presented to public opinion and to link the daily decisions of the Institutions to the motivations behind the construction of Europe and to the idea of society which is inherent in it.

Some of the additional schemes proposed in this chapter are the responsibility of public authorities: this applies for example to the movement of persons or the protection of human rights. However, other activities fall within spheres where private enterprise normally plays an important role, as in the case of human contacts, youth exchanges and certain aspects of information and culture.

With this in mind, I propose that the European Council should decide to create a *European Foundation*, to be financed partly by subsidies from the Community or the States but whose activities will to a large extent be financed from private funds. Its object will be to promote, either directly or by assisting existing bodies, anything which could help towards greater understanding among our peoples by placing the emphasis on human contact: youth activities, university exchanges, scientific debates and symposia, meetings between the socio-professional categories, cultural and information activities. This Foundation will also have a role to play in extending abroad the activities of a United Europe.

By virtue of its character, this Foundation will often be able to intervene more flexibly and more effectively than national or European authorities. It will also offer the innumerable supporters of European unification in our countries an opportunity to make a personal contribution by aiding the Foundation. In this manner it will be more clearly apparent that the creation of the Union can and must be a matter for us all.

CHAPTER V.—STRENGTHENING THE INSTITUTIONS

The preceding chapters have described the content of European Union, a stage which will both prolong and extend to new areas the efforts which have been made over the last 25 years. We must now examine how it should work:

From the consultations which I have had in each of our countries, I have drawn the following conclusions:

European Union can and must be built upon the institutional bases already accepted by the Member States within the framework of the existing Treaties:

This will require an improvement in the performance of the institutions, whose authority has been reduced as is too often shown by the absence or tardiness of decisions. In certain cases this may well necessitate Treaty amendment.

Strengthening the institutional machinery is all the more necessary since the tasks which our institutions will undertake are evidently difficult. The European

Community has integrated markets. The European Union must integrate policy. The qualitative change which this vision demands depends upon the decision-making process, that is to say upon the institutions.

A return to intergovernmental co-operation would not help to solve European problems. Such co-operation tends to underline the differences of power and interests between our countries and does not meet our collective needs. It is therefore a common institutional apparatus which must be reinforced.

To achieve European Union we must henceforth be able to find in the different European institutions the authority needed to define a policy, the efficiency needed for common action and the legitimacy needed for democratic control. It also implies that the institutions should have that coherence of vision and of action which alone will allow them to define and then pursue a policy. It is with these four criteria of authority, efficiency, legitimacy and coherence in mind that we must determine what changes should be brought about in the function of European Institutions.

A. THE PARLIAMENT

Direct elections to the Parliament will give this Assembly a new political authority. At the same time it will reinforce the democratic legitimacy of the whole European institutional apparatus.

1. The Powers of the Parliament

A consequence of the Parliament's new authority will be an increase in its powers, which will take place gradually in the course of the progressive development of the European Union, notably through a growing exercise of the legislative function. It goes without saying that the Parliament should assume an important responsibility in the construction of the Union.

I propose that :

The Council should immediately allow the Parliament to take initiatives by undertaking to consider the resolutions which Parliament addresses to it. This will permit the Assembly to make an effective contribution towards defining common policies.

In the course of the progressive development of the European Union this practice should be enshrined in a Treaty amendment which would accord to the Parliament a real right of initiative.

Parliament should be able, immediately, to consider all questions within the competence of the Union, whether or not they derive from the Treaties.²

2. General Orientation Debates

The elected Parliament should influence the general direction of the Union's activities and focus public attention by holding large scale political debates. To enhance the authority of these debates it is highly desirable that the leaders in each of our countries should be able to take part in them, even if the function that they fulfil at the national level does not in fact allow them to stand for election to the European Parliament.

To this end I submit for the Parliament's consideration the following two proposals :

(a) The Parliament should organise at least once a year (that is to say, according to the proposals set out below, once under each Presidency) a debate on the state of the Union and the functioning of the institutions.

(b) Invitations to take part in this debate and other debates of comparable importance should be extended, both to the President of the European Council, and to a limited number of leading politicians who are not members of the European Parliament chosen according to criteria to be decided. These invited politicians would be able to address the Parliament.

B. THE EUROPEAN COUNCIL

The institutional structures set up by the Treaties have shown themselves in practice to be too weak to give the necessary continuing political momentum needed for the construction of Europe. This is what led the heads of government to meet, initially occasionally, and then regularly under the name of "European Council".

So that the European Council should really bring something new to the functioning of the institutions by strengthening the Union's decision-making capacity, I submit to it the following propositions defining its role and its method of working :

1. The European Council is to make *coherent general policy statements*, emanating from a global vision of problems. This is an indispensable precondition for an attempt to produce a common policy.

2. Within this framework the heads of government will collectively use the *authority* which they have at the national level to give from within the European Council the momentum which is needed for the construction of Europe, and to co-operate in the search for that political agreement which will allow progress to be maintained, in spite of difficulties.

3. To ensure that it functions as an *efficient* institution while maintaining a large measure of flexibility, the European Council:

Will, when it takes decisions on Community matters, act in the form and according to the procedures of the Treaties. The presence of the Commission at European Council meetings is to be the guarantee of this;

In other cases will formulate its decisions or general policy statements in such a way that they can serve as guidelines for those to whom their execution is entrusted. The European Council will always indicate the institution or the organisation entrusted with executing its decisions;

Will at the same time indicate, if necessary, the timescale for the execution of the decision;

And the preparation of its meetings is to be the responsibility of the Council of Ministers (Foreign Affairs).

C. THE COUNCIL

The Treaties lay down the powers and the procedures of the Council in the Community field. When it acts in fields of Union activity not covered by the Treaties, the competence of the Council will derive for the present from the political commitment of the Member States and will later be confirmed by a juridical instrument.

To reinforce the authority and efficiency of the Council its activity should become more coherent, faster and more continuous.

To this end I have formulated the following proposals:

1. Coherence

(a) The Council of Ministers (Foreign Affairs) should be entrusted by a decision of the European Council with co-ordinating in the most appropriate manner the activities of the specialist Councils.

(b) The distinction between ministerial meetings devoted to political co-operation and meetings of the Council should be abolished. The abolition of this distinction would not however effect the current procedures for preparing the diplomatic discussions of the Ministers.

2. Speed

Speeding up the decision-making process requires greater use of majority mechanisms.

(a) Recourse to majority voting in the Council should become normal practice in the Community field.

(b) In those sectors of external relations where the Member States have undertaken to pursue a common policy, they must be able speedily to reach decisions and to act when faced with a crisis. This implies that by analogy with the institutional mechanisms of the Treaties, minority opinion should, in these sectors, rally to the view of the majority at the end of the discussion.

3. Continuity

(a) A Treaty amendment should extend to a whole year the term of the Presidency of the European Council and the Council in order to:

Strengthen the authority of the Presidency,

Permit a more coherent dialogue between the Parliament and the Council,

Lend more continuity to its activity.

(b) The European Council and the Council should entrust special or temporary tasks, like a negotiation or study, to the Commission, to a single country or to one or more persons independently of changes in the Presidency. This should in no way diminish the powers which the Commission derives from the Treaties.

² The extension of the competences of the European Union and consequently those of the European Parliament to matters hitherto discussed in the Assembly of the Western European Union, leads one to question the need to maintain the activity of the parliamentary institution of the WEU.

D. THE COMMISSION

1. *Role of the Commission*

Under the terms of the Treaty the Commission can considerably influence the determination of common policies by the proposals which it submits to the Council. It must do this unreservedly by regularly making the Council aware of its responsibilities.

It must not, however, restrict itself to making proposals. It must reassert its freedom of action within the framework of agreed Community policies. This will enable it to add its own brand of dynamism to the building of the European Union. This freedom of action was best expressed by the powers granted to the High Authority of the Coal and Steel Community. We must follow this example.

I suggest that:

For the execution and administration of common policies within the Community greater use should be made of Article 155 of the Treaty which makes provision for such powers to be conferred on the Commission.

The European Council should ask both the Commission and the Council to prepare a report for it on instances where this provision could be applied today or in the near future.

2. *The cohesion of the Commission*

In order to give the European Commission increased authority and cohesion I suggest that the Treaties be amended as follows:

(a) The President of the Commission will be appointed by the European Council.

(b) The President when appointed will have to appear before the Parliament to make a statement and have his appointment confirmed by vote.

(c) The President of the Commission will then appoint his colleagues in consultation with the Council and bearing in mind the number of Commissioners allocated to each country.

While we are waiting for this amendment to be made to the Treaty I suggest that the President of the Commission which is to come into power on 1 January 1977 should be appointed by the European Council at its second meeting in 1976, that he appear before the Parliament and then help the Member States to prepare for the Council meeting which will appoint the other members of the Commission.

E. THE COURT OF JUSTICE

The Court of Justice stressed in its report on European Union that the Community constitutes a "state of law" and that this characteristic must be maintained within the Union. This is an essential factor conferring legitimacy upon our undertaking which leads me to formulate the following:

(a) In the new sectors covered by the Union, the Court must have powers identical to those which it has at present, if it is to be able to interpret the law of the Union, to annul the acts of the Institutions not in accordance with the Treaties and to point out shortcomings on the part of the State;

(b) Individuals must also be able to appeal directly to the Court of Justice against an act of one of the institutions of the Union infringing their basic rights;

(c) Once European Union has gained its own momentum we should examine whether the Community's current legal system can be improved or extended: the Court has made proposals about this.

F. JOINT COMMUNITY ORGANISATIONS

1. In Chapter III of this report I indicated how the activities of the *Standing Committee on Employment* should develop. This development is in line with the need to introduce into the Institutions of the Union elements of concertation and worker participation in decision-making with which we are familiar in all our States.

2. *The Economic and Social Committee*, which is made up differently, must carry on its work. This is of considerable service to the Community, since it draws representatives from various socio-professional categories into common policy making. It must be regularly consulted on the development of economic and social policy, on consumer protection and on the abolition of technical obstacles to trade.

3. The important role played by the *Committee of Permanent Representatives* (COREPER) in the decision-making machinery of the Community must be

officially recognised in the European Union. I suggest that when at COREPER level there is a consensus between the member countries and the Commission on a decision to be taken it should be taken at this level on the authority of the Council. Today these decisions are passed up to the next Council meeting which approves them without discussion (in the form of "A points") and this procedure is legal red tape which we can do without.

The Permanent Representatives must make a real contribution to work on European policy proposals in their own countries, so as to become the indispensable bond between the formation of national points of view and the process of joint decision-making.

4. The *Political Committee* has proved how effective it is in preparing the diplomatic discussions of Ministers. The creation of a single decision-making centre in the form of the Council must not change either its powers or its composition.

I find however that the pragmatic development of the organs of political co-operation has chiefly been designed to work out common positions on topical problems. We are equipped to react rather than to act. In order to adapt to a situation where there will be a lot of joint action on external policy the Ministers of Foreign Affairs will have to see that the existing machinery is improved.

5. The construction of Europe must take into account the general trend towards *administrative decentralisation* which exists in all our countries. The Institutions of the Union will have to make sure that specialised executive bodies are set up as required to take on specific tasks. These bodies will have to have flexible rules enabling there to be personal responsibility under the aegis of the Institutions.

G. THE DELEGATION OF EXECUTIVE POWER

The effectiveness of an institutional system does not just depend on the powers which are attributed to the Institutions but also on the way in which they are exercised.

In this field there is one principle which I feel is essential if we are to have European Union: that of the *delegation of executive power*. This delegation must become the general rule if we wish to develop that degree of efficiency which is vital to the institutional system. It is both necessary as a tool of common action and as a visible external sign of our solidarity.

As to *the principle* of delegation I suggest acting as follows:

(a) All policy worked out in common should normally be implemented by a body or a person empowered to do so;

(b) Consequently every decision should specify the appropriate executive body;

(c) This executive body should have at its disposal, within the framework of a common policy, the necessary freedom of action to carry out its mandate properly.

The *practice* of delegation should apply particularly to the Council. Because of the increase in common tasks the Council, if it is to be efficient, must concentrate on its decision-making role and adopt the following measures:

(a) in the Community sector:

Use Article 155 of the Treaty as described in C above;

Delegate some of its power to COREPER as described in F above;

(b) in the non-Community sector:

Grant real delegation of power, going beyond the role of a mere spokesman, for the daily application of policies worked out together;

Enhance the role of the Presidency for this purpose;

Use, when circumstances so dictate, the States and their diplomatic machinery as authorised agents of the Union;

Make considerable use of the Community institutional machinery which Europe already possesses.

The distinction between what does and what does not fall within the sphere of the Community cannot be maintained in an absolute fashion at the executive stage nor at the decision-making stage.

The existence of a single decision-making centre supplemented by the principle of the delegation of executive power will enable us politically to make the best use of the available executive bodies, while still adhering to the Treaties, and will give our action the flexibility necessary to deal with complex situations.

CONCLUSION

The qualitative change connected with European Union and emphasised in each of the chapters of this report is also found in the institutional field. It does not necessarily mean an upheaval of the existing institutional framework. But it does mean increasing its authority, its efficiency, its legitimacy and its coherence.

Much that is already under consideration within the Community points in this direction, in particular direct elections to the Parliament and the completion of the system of own resources which will be in force before 1980. As provision has already been made for these I did not think there was any point in dealing with them here, but I want to emphasise their significance and the need for them.

The enhancement of the role of the European Council and the Parliament, the extension of the use of majority decision-making and the co-ordination of the Council's activities, the increased influence and cohesion of the Commission, the delegation of executive power are the chief measures which must be taken immediately if European Union is to progress.

In the last resort the institutional framework will reflect the spirit behind it. It is the political consensus of our States described in the first chapter of this report which must give new life to the common institutions. The belief that the Union is vital and necessary will enable us to overcome conflicts of interest and differences of opinion. Only the will to achieve Union can give the necessary powers to the common institutions. Without this political kiss of life the Institutions of the Union will always lack substance and force.

CHAPTER VI.—GENERAL CONCLUSIONS

This report attempts to give an overall picture of the European Union and of the means of achieving it. The conclusions reached therein have been given in the preceding chapters.

The task of our Governments and of the European Institutions consists:

In the first place, in arriving at a political consensus on the aims and main features of the Union in terms which give expression to the deep aspirations of our peoples;

Then, in determining the consequences of this choice in the various areas of the Union's internal and external activities;

In setting in motion, by positive action in each of those fields, the dynamic process of attaining the Union under conditions which give credibility to the European undertaking; and in strengthening the institutional machinery to enable it to cope with the tasks awaiting it.

The progress achieved as a result will gradually transform the nature and intensity of relations between our States. It is foreseeable that other European democratic States will want to join the undertaking. This will be open to them, on condition that they accept the overall view of the European Union as well as the constraints imposed by its gradual creation. New accessions must not slow down the development of the Union nor jeopardize it.

The attainment of the European Union will certainly not be easy. It is, however, essential and deserves the support of everyone.

For thirty years the relative weight and influence of our States in the world has been continually reduced. In step with this, the national governments' hold over the means that make it possible to influence the future of our societies has constantly diminished. Both internally and externally, the room for manoeuvre of the individual States has decreased. They attempt to maintain their balance in the face of pressures and factors, internal as well as external, which are outside their control. The danger of the effects of this two-fold spiral of powerlessness is great; it leads from weakness to dependence, which itself is a source of further losses.

The construction of Europe is the only all-inclusive answer to this challenge; it derives spontaneously from the will of our peoples and is embodied in the work of the Founding Fathers of Europe. It is the only answer which seeks everywhere to regain some of the control and power which is slipping from us, and to enable us to build the society in which we want to live.

The establishment of the Community was the first stage of this historic undertaking. The European Union which will extend our joint action to new

sectors and reveal more clearly the outlines of the society that lies beneath it is the stage that follows. This is how it must be understood and achieved.

At a time when unemployment and inflation are rampant in all our countries, where everyone questions the causes of the weakness of our economic and political structures, and when the prosperity of Europe depends on factors outside our control, the European effort must leave no one indifferent. Each of us must participate in the common effort in order that we may together regain an adequate grip on the economy and on inflation to ensure orderly growth, and that we may together shape a more just society in which our common values are observed so that we can make our voice heard in the world with the power of our Union behind it. On that, in the end, will depend tomorrow our way of life and that of our children.

BIOGRAPHIES OF PARTICIPANTS

EUROPEAN PARLIAMENTARIANS

WALTER BEHRENDT, born September 18, 1914, in Dortmund, Germany. Vice President of the European Parliament. Member of the Sozialdemokratische Partei Deutschlands, Deutscher Bundestag. Member of the Socialist Group of the European Parliament; Member of the Political Affairs Committee, the Associations Committee, and the Joint Parliamentary Committee of the EEC Turkey Association.

BETTY BOOTHROYD, born October 8, 1929, in Dewsbury, Yorkshire, England. Member of the Labor Party, House of Commons. Member of the Socialist Group of the European Parliament; Member of the Committee on Development and Cooperation.

LIBERO DELLA BRIOTTA, born March 28, 1925, in Ponte in Valtellina (Sondrio), Italy. Member of the Partito Socialista Italiano, Camera Dei Deputati. Member of the Socialist Group of the European Parliament; Chairman of the Committee on Public Health and the Environment and of the Committee on Agriculture.

PIERRE-BERNARD COUSTÉ, born June 20, 1920, at Rochefort-sur-Mer. Doctor of Law. Company director, national chairman of "Centre des jeunes patrons" 1958-61 and chairman of "Fédération des jeunes chefs d'entreprises d'Europe" 1961-64. At present managing director of Société Lumière. Adviser on foreign trade. Chairman of "Rhône-Loire" committee of foreign trade advisers. Member of the National Assembly since 1962. Parliamentary Group: Allied to UDR. Member of the European Parliament since May 1967.

FERNAND L. DELMOTTE, born July 24, 1920, in Jeumont, Belgium. Member of the Parti Socialiste Belge, Belgian Senate. Member of the Socialist Group of the European Parliament; Member of the Committee on Economic and Monetary Affairs and of the Committee on Regional Policy and Transport.

DORIS MARY FISHER, born September 13, 1919, in Birmingham, England. Member of the Labor Party, House of Lords. Member of the Socialist Group of the European Parliament; Member of the Committee on Public Health and the Environment and of the Committee on Cultural Affairs and Youth.

JAMES MARTIN GIBBONS, born August 3, 1924, in Kilkenny, Ireland. Member of the Fianna Fail, Dail Eireann. Member of the Progressive Democrats Group of the European Parliament; Member of the Committee on Agriculture and of the Committee on Energy, Research and Technology.

ROGER HOUDET, born June 14, 1899, in Angers, France. Member of the Republican Independants, Senate. Member of Liberal and Allies Group of the European Parliament; Chairman of the Committee on Agriculture, and Member of the Committee on Budgets.

LIAM KAVANAGH, born February 9, 1935, in Wicklow, Ireland. Member of the Labor Party, Dail Eireann. Member of the Socialist Group of the European Parliament; Member of the Committees on Social Affairs and Employment, and on Regional Policy and Transport.

EGON ALFRED KLEPSCH, born January 30, 1930, in Bodenbach, Germany. Member of the Christian Demokratische Union (CDU), Deutscher Bundestag. Vice Chairman of the Christian Democratic Group of the European Parliament; Vice Chairman of the Joint Parliamentary Committee of the EEC Turkey Association, Member of the Committee on Cultural Affairs and Youth, External Economic Relations and of the Associations Committee.

SILVIO LEONARDI, born July 16, 1914, in Turin, Italy. Member of the Partito Comunista Italiano, Camera Dei Deputati. Member of the Communist and Allies Group of the European Parliament; Vice Chairman of the Committee on Energy, Research and Technology and Member of the Committee on Economic and Monetary Affairs

TOM NORMANTON, Born March 12, 1917, in Rochdale, England, Member of the Conservative Party, House of Commons. Member of the Conservative Group of the European Parliament; Member of the Committee on Economic and Monetary Affairs and of the Committee on Energy, Research and Technology.

AUGUSTO PREMOLI, Born August 17, 1911, in Almenno S. Bartolomeo (Bergamo), Italy. Member of the Partito Liberale Italiano, Senato Della Repubblica. Vice President of the Liberal and Allies Group of the European Parliament; Member of the Committees on Social Affairs and Employment, and Public Health and Environment.

WILLEM SCHOLTEN, Born June 1, 1927, in Deventer, Netherlands. Member of the Christelijk Historische Unie, Tweede Kamer Der Staten Generaal. Vice Chairman of the Christian Democratic Group of the European Parliament; Member of the Committee on Economic and Monetary Affairs and of the Budgets Committee.

HORST SEEFELD, Born November 21, 1930, in Berlin. Member of the Sozialdemokratische Partei Deutschlands, Deutscher Bundestag. Member of the Bureau of the Socialist Group of the European Parliament; Member of the Committee on Regional Policy and Transport and of the Committee on Development and Cooperation.

MARIO VETRONE, Born January 1, 1926, in Benevento, Italy. Member of the Democrazia Christiana, Camera Dei Deputati. Member of the Christian Democratic Group of the European Parliament; Vice Chairman of the Committee on Agriculture, Member of the Committee on External Economic Relations, of the Associations Committee, and of the Joint Parliamentary Committee on the EEC Greece Association.

MEMBERS OF CONGRESS

EDWARD G. BIESTER, JR., Republican, of Furlong, Pa.; born in Trevoze, Pa., January 5, 1931; attended Doylestown public schools, and the George School; graduated from George School, 1948; graduated from Wesleyan University, 1952; graduated from Temple University School of Law, 1955; admitted to Pennsylvania Bar, 1956; assistant district attorney Bucks County, 1958-64; member of the American Bar Association, Pennsylvania Bar Association, Philadelphia Bar Association, Bucks County Bar Association; past president, Doylestown Kiwanis Club; member of board of directors, Bucks County Bar Association; married the former Elizabeth Ruth Lauffer, April 10, 1954; four children; Ann Meredith, Edward G., III, James Paul, and David Roberston; elected November 8, 1966.

ROBERT F. DRINAN, S.J., Democrat, of Newton, Mass.; born in Boston, Suffolk County, Mass.; November 15, 1920; Boston College, A.B., 1942, M.A. 1947; Georgetown University Law Center, LL.B., 1949; LL.M., 1950; Doctor of Theology, Gregorian University (Rome), 1954; honorary LL.D., Worcester State College, Long Island University, Rhode Island College; ordained Jesuit priest 1953; studied in Florence, Italy, 1954-55; dean, Boston College Law School 1956-70; professor of family law and constitutional law; visiting professor, University of Texas Law School, 1966-67; author of *Religion, the Courts and Public Policy*, McGraw-Hill, 1963; *Democracy, Dissent and Disorder*, Seabury Press, 1969; *Vietnam and Armageddon*, Sheed and Ward, 1970; corresponding editor to *America*, National Catholic Weekly, 1958-70; contributor to numerous publications; member, Council of the Boston Bar Association, 1959-62; vice president, Massachusetts Bar Association, 1961-64; chairman, Massachusetts Bar Association's Committee on the Administration of Justice, 1962-69; chairman, Boston Bar Association's Committee on Family Law, 1960-64; member, National Executive Committee, American Judicature Society, 1962-64; chairman, Section of Family Law, American Bar Association, 1966-67; member, executive committee, Association of American Law Schools, 1967-69; member, visiting committee, Harvard University Divinity School; editor in chief, *Family Law Quarterly*, 1967-70; active in civic affairs, chairman, Advisory Committee for Massachusetts to U.S. Commission on Civil Rights, 1962-70; chairman of Massachusetts delegation to the National Democratic Convention, 1972; honorary degree, St. Joseph's College, Philadelphia, 1975; elected Fellow of the American Academy of Arts and Sciences, 1966; member; House Judiciary Committee, House Government Operations Committee; elected to the 92d Congress November 3, 1970; reelected to the 93d and 94th Congresses.

PAUL FINDLEY, Republican, of Pittsfield, Ill.; born June 23, 1921, in Jacksonville, Ill.; graduated from Illinois College, A.B. degree, LL.D. (honorary), 1973; Phi Beta Kappa; Lindenwood College, D.H.L. degree (honorary), 1969; engaged in the printing and publishing business and publisher of two weekly newspapers; married to former Lucille Gemme; two children, Craig and Diane; veteran World War II (Guam invasion, Japan); elected to the 87th Congress November 8, 1960; reelected to 88th through 94th Congresses; member, Committee on Foreign Affairs and Committee on Agriculture; chairman, House Republican Committee on Western Alliances, 1965-68; chairman, House Republican Fact-finding Mission to Paris, 1965; delegate to 11th and 12th annual NATO Parliamentarians Conferences, 1965 and 1966; delegate, 1967, 1968, 1969, 1970, and 1972, North Atlantic Assembly, Brussels; member, board of trustees of Illinois College, Jacksonville, Ill.; member, board of directors, Federal Union, Inc., Washington, D.C.; secretary, International Movement for Atlantic Union; author, *The Federal Farm Fable* (Arlington House, 1968); past director, Illinois Press Association; past president, Pittsfield Industrial Development Association; member Lions Club, American Legion, Veterans of Foreign Wars, AMVETS, Congregational Church.

FLOYD J. FITHIAN, Democrat, of Lafayette, In.; born in Vesta, Nebr., November 3, 1928; attended public schools there and graduated from Vesta (Nebraska) High School; Peru State College, Nebr., B.A., 1951; graduate work at the University of Nebraska, M.A., 1955, and a Ph. D., 1964; Served in the U.S. Navy with the rank of lieutenant, 1951-55, and in the U.S. Naval Reserves, 1955-71, as commander; held the positions as high school teacher, college professor at Nebraska Wesleyan, and associate professor of history at Purdue University; member: Indiana Cattlemen's Association, Lafayette Farm Cooperative, past president of Indiana Council of Social Studies, American Historical Association, Organization of American Historians, Tippecanoe County Historical Society, and State Council for Social Studies; attends, and is a certified lay speaker and past chairman of the administrative board and youth director of Grace United Methodist Church, Lafayette; married to the former Marjorie Heim, 1952; three children: Cindy, Judy, and John; elected to the 94th Congress, November 5, 1974.

SAM M. GIBBONS, Democrat, of Tampa, Fla.: born in Tampa, January 20, 1920, son of Gunby Gibbons and Jessie Kirk Cralle Gibbons; educated in public schools of Tampa: received J.D. degree from the University of Florida; named to the University's Hall of Fame and to its honor society Florida Blue Key; member of Alpha Tau Omega Fraternity; married to the former Martha Hanley; they have three sons—Clifford, born 1950; Mark, born 1952; Timothy, born 1958; elected to the Florida House of Representatives in 1952 and served for 6 years; elected to the Florida Senate in 1958 and served for 4 years; named one of the top ten members of each body; named Tampa's Outstanding Young Man of the Year in 1954; received Chamber of Commerce president's award; deacon First Presbyterian Church of Tampa; first president of and member of University of South Florida Foundation; served in U.S. Army 5 years during World War II with 501st Parachute Infantry, 101st Airborne Division; awarded Bronze Star; was in initial assault force landing before D-Day in Europe; took part in other major combat actions, including operations at Bastogne; released from active duty as major; elected November 6, 1962. Member of Ways and Means Committee.

BENJAMIN A. GILMAN, Republican, of Middletown, N.Y.; born in Poughkeepsie, N.Y., December 6, 1922; educated in the public schools of Middletown and graduated from Middletown High School, 1941; B.S., Wharton School of Business and Finance, University of Pennsylvania, 1946; LL.B., New York Law School, 1950; veteran of World War II, 20th Air Force, 19th Bomb Group; awarded Distinguished Flying Cross and Air Medal for 35 missions over Japan; appointed assistant attorney general, New York State Department of Law, 1953; formed the law firm of Gilman and Gilman, 1955, in Middletown, N.Y.; attorney for New York State's Temporary Commission on the Courts; served for 3 terms in the New York State Assembly from the 95th District, 1967-72; member: Southeastern Water Commission, National Law Committee, Veterans of Foreign Wars; Middletown, Orange County, New York State, and American Bar Associations; the Association of the Bar of the City of New York; New York Trial Lawyers Association, and the American Trial Lawyers Association; also a member of Orange County Republican Committee, American Legion, V.F.W., J.W.V., B.P.O.E. No. 1097, Hoffman Lodge of F. & A.M., A.A.O.N.M.S. of Cyprus Temple (Albany), International Narcotic Enforcement Officers Association, Zeta Beta Tau fraternity, and Otisville Grange; married Jane Prizant, 1952; five

children: Jonathan, Harrison, David, Susan, and Ellen; elected to the 93d Congress, November 7, 1972; reelected to the 94th Congress; member of International Relations Committee, Select Committee on the MIA, Post Office and Civil Service Committee, Republican Task Force on Energy and Resources, Congressional Advisor to Law of the Sea Conference; appointed to United States Military Academy Board of Visitors, 1973.

GILBERT GUDE, Republican, of Bethesda, Md.; born in Washington, D.C., March 9, 1923; educated in public schools of Rockville, Md., and Washington, D.C.; attended University of Maryland; Cornell University, B.S. degree, 1948; George Washington University, M.A. degree in public administration, 1958; U.S. Army Medical Department 1943-46. Pacific theatre; appointed Maryland House of Delegates, January 1953; elected Maryland House of Delegates, 1954; elected Republican State Central Committee, 1958; elected Maryland Senate, 1962; member, Franklin Delano Roosevelt Memorial Commission; chairman, Committee on World Environment and International Cooperation of Members of Congress for Peace through Law; married Jane Wheeler Callaghan, Washington, D.C., June 19, 1948; three sons, Gilbert, Jr., Gregory Adolph, Daniel Callaghan; two daughters, Mrs. Sharon Giralddi, Adrienne Ann; member of Little Flower Catholic Church; elected November 8, 1966. Member, Committee on Government Operations and Committee on the District of Columbia.

LEE HERBERT HAMILTON, Democrat, of Columbus, Ind.; born in Daytona Beach, Fla., April 20, 1931; graduated, Central High School, Evansville, Ind., 1948; from DePauw University (A.B., cum laude) in 1952; Goethe University, Frankfurt on Main, Germany, on scholarship for study and travel 1952-53; and Indiana University School of Law, J.D. 1956; honorary doctor of laws, DePauw University, 1971; married the former Nancy Ann Nelson August 21, 1954; three children, Tracy Lynn, Deborah Lee, and Douglas Nelson; practicing attorney in Columbus, Ind.; instructor in contracts and negotiables at American Banking Institute; treasurer, Bartholomew County Young Democrats 1960-63 and president 1963-64; member of First Methodist Church in Columbus and active in church, civic, and community affairs; received Distinguished Service Award, Junior Chamber of Commerce, in 1962; president 89th Democratic Congressional Club, reelected in 1967; elected November 3, 1964, Chairman, Subcommittee on Near East

JAMES P. JOHNSON, Republican, of Fort Collins, Colo.; born in Yankton, S. Dak., June 2, 1930; B.A., Northwestern University, 1952; LL.B., University of Colorado, 1959; served in the U.S. Marine Corps, 1952-56; prosecuting attorney, Eighth Judicial District, Colorado; municipal judge, Ault, Colo., 1962-65; member, Poudre R-1 School Board, Fort Collins, Colo., 1969-71; president, Larimer County Bar Association; elder, First United Presbyterian Church, Fort Collins, Colo.; member: board of trustees, San Francisco Theological Seminary; board of directors, Fort Collins, Colo., Chamber of Commerce, 1968-70; charter member, Dean's Law Club, University of Colorado; married Nancy Brown of Oconomowoc, Wis., 1952; three children: Dea Lynn, Julie Conner, and Drake Bartel; elected to the 93d Congress, November 7, 1972; reelected to the 94th Congress, November 6, 1974.

ROBERT J. LAGOMARSINO, Republican, of Ventura, Calif.; born in Ventura, Ventura County, Calif., September 4, 1926; University of California at Santa Barbara, June 1950, Santa Clara Law School, LL.B., 1953; admitted to the California Bar, 1954; commenced practice of law in Ventura, Calif.; served in the U.S. Navy during World War II, 1944-46; elected to the Ojai City Council, 1958; 8 months later, elected mayor; reelected, 1960; elected to the California Senate, by special election, October 3, 1961; reelected, 1964; elected in 1966 to represent the newly created 24th senatorial district; reelected in 1970; first legislator to receive the Legislative Conservationist of the Year Award by the California and National Wildlife Federation in 1965; member of the House International Relations Committee and the House Interior and Insular Affairs Committee; married Norma Smith, 1960, three children; elected to the 93d Congress, by special election, March 5, 1974, to fill the vacancy caused by the death of Charles M. Teague; reelected to the 94th Congress.

MIKE McCORMACK, Democrat, of Richland, Wash.; born in Basil, Ohio, December 14, 1921; educated at University of Toledo and Washington State entered military service, 1943, as infantry rifleman; attended O.C.S. and commissioned as second lieutenant, parachute infantry; occupation duty in Germany entered military service, 1943, as infantry rifleman; occupation duty in Germany until 1946; honorable discharge as first lieutenant; instructor, University of

Puget Sound, 1949-50; research scientist, Hanford Project, 1950-70; elected to Washington State House of Representatives, 1956; reelected 1958; elected to Washington State Senate, 1960; reelected 1964 and 1968; sponsor of all of State's nuclear energy legislation; coauthor and prime sponsor of 1970 Thermal Power Plant Siting Act; author of the Solar Heating and Cooling Demonstration Act of 1974, the Solar Research, Development, and Demonstration Act of 1974, and the Geothermal Research, Development and Demonstration Act of 1974; member, American Legion, V.F.W., Masons, Shrine, Grange, American Nuclear Society, American Association for the Advancement of Science; married Margaret Higgins of Toledo, 1947; three children: Mark, Steven, and Tim; elected to 92d Congress, November 3, 1970; reelected to the 93d and 94th Congresses.

HELEN STEVENSON MEYNER, Democrat, of Phillipsburg, N.J., born in New York, N.Y., March 5, 1929; education began at Brearley School, New York, 1934-42; high school at Rosemary Hall, Greenwich, Conn., 1942-46; Colorado College, Colorado Springs, 1946-50; received honorary doctor of laws, 1973; served with the American Red Cross in Korea, 1950-52; wrote newspaper column, 1962-69; conducted television interview programs, 1965-68; organization memberships include commissioner, New Jersey State Rehabilitation Commission; director, Newark Museum, Newark, N.J.; married Robert B. Meyner, 1957; elected to the 94th Congress, November 5, 1974.

HENRY S. REUSS, Democrat, of Milwaukee, Wis.: born in Milwaukee, Wis., February 22, 1912; educated in Milwaukee schools, A.B. Cornell University. LL.B. Harvard Law School; lawyer; lecturer (University of Wisconsin, Milwaukee), and writer; author of "The Critical Decade," 1964; "Revenue Sharing: Crutch or Catalyst," 1969; member of Milwaukee School Board, 1953-55, married to Margaret Magrath, 1942; four children—Christopher, Michael, Jacqueline, Anne; assistant corporation counsel, Milwaukee County, 1939-40; assistant general counsel OPA, Washington, D.C., 1941-42; entered United States Army as private, January 1943; commissioned second lieutenant, Infantry, at Fort Benning, Ga., November 1943; served in 63d and 75th Infantry Divisions 1943-45; chief, Price Control Branch, Office of Military Government for Germany, June-December 1945; awarded Bronze Star Medal for action at Rhine crossing and Bronze Battle Stars for Normandy, Northern France, and Central Germany; deputy general counsel, Marshall Plan, Paris, France, 1949; special prosecutor, Milwaukee County Grand Jury 1950; personal counsel to Secretary of State Fred Zimmerman in Reapportionment Case, Wisconsin Supreme Court, 1953; former president, White Elm Nursery Co., Hartland, Wis.; former director, Marshall and Ilsley Bank, Milwaukee, Wis., and Niagara Share Corporation, Buffalo, N.Y.; past president, Cornell Alumni Association of Wisconsin; vice president, Chi Psi Alumni Association; director, Children's Service Society; vice chairman, Junior Bar Association; Board of Alumni Visitors, Harvard Law School, 1957-60; Board of Visitors, Cornell University; National Board, Youth Hostel Association; elected November 2, 1954. Member, Banking and Currency Committee; Committee on Government Operations, and Joint Economic Committee.

BENJAMIN S. ROSENTHAL, Democrat, of Elmhurst, Long Island, N.Y.; born in New York City, N.Y., June 8, 1923; educated in the public schools of the city of New York; attended Long Island University and City College; L.L.B. Brooklyn Law School (1949), LL.M. New York University (1952); married Lila Moskowitz, two children—Debra and Edward; attorney; admitted to New York Bar 1949; admitted to practice before United States Supreme Court 1954; served in United States Army March 1943 to January 1946, 18 months in Iceland; elected as Democrat-Liberal to the 87th Congress in special election February 20, 1962; reelected to the 88th, 89th, 90th, 91st, 92d, 93d, and 94th Congresses; appointed member of National Commission on Food Marketing during 88th and 89th Congresses.

LEO J. RYAN, Democrat, of South San Francisco; born in Lincoln, Nebr., May 5, 1925; M.S. Creighton University, 1951; enlisted in U.S. Navy, 1943; served in submarine service; teacher; school administrator; appointed to South San Francisco Recreation Commission; elected city councilman and served as mayor; authored book entitled "Understanding California Government and Politics"; also edited the book "The USA: From Where We Stand"; elected to California State Assembly, 1962; elected to the 93d Congress, November 7, 1972; reelected to the 94th Congress.

PAUL S. SARBANES, Democrat, of Baltimore, Md.; born in Salisbury, Md. February 3, 1933, son of Spyros and Matina Sarbanes; attended the public schools of Salisbury, Md., graduating from Wicomico Senior High School, June 1950;

A.B., Princeton University June 1954, magna cum laude and Phi Beta Kappa; Rhodes scholar, Balliol College, Oxford, England, 1954-57. first-class B.A., honours in School of Philosophy, Politics and Economics; L.L.B., cum laude. Harvard Law School, June 1960; admitted to practice by Maryland Court of Appeals, October 1960; law clerk to Judge Morris A. Soper, U.S. Court of Appeals for the Fourth Circuit, 1960-61; associate in Baltimore law firms, Piper & Marbury, 1961-62, and Venable, Baetjer & Howard, 1965-1970; administrative assistant to Walter W. Heller, chairman of the Council of Economic Advisers, 1962-63; executive director, Charter Revision Commission of Baltimore City, 1963-64; elected to the Maryland House of Delegates in November 1966, serving from 1967-71; member, Greek Orthodox Church of the Annunciation, Baltimore, Md.; married Christine Dunbar of Brighton, England; three children, John Peter, Michael Anthony, and Janet Matina; elected to 92d Congress on November 3, 1970; reelected to 93d Congress.

JOHN WILLIAM STANTON, Republican, of Painesville, Ohio; born in Painesville February 20, 1924; graduated from Culver Military Academy, Culver, Ind., in 1942; entered the School of Foreign Service at Georgetown University, Washington, D.C., in July 1942; left studies to enter the U.S. Army in December 1942; served overseas in the Pacific theater for 33 months and discharged as a captain January 1, 1946; reentered Georgetown University, majored in government and economics, and received B.S. degree in 1949; member, St. Mary's Catholic Church in Painesville; Lake County commissioner 1956-64; married December 3, 1966, to the former Peggy Smeeton; one daughter, Kelly Marie, born November 11, 1967; elected to the 89th Congress, November 3, 1964; reelected to each succeeding Congress.

ROBERT GRIER STEPHENS, Jr., Democrat, of Athens, Ga.; born in Atlanta, Ga., August 14, 1913, son of Dr. Robert Grier and Martha Lucy (Evans) Stephens; educated in the Atlanta public schools; was graduated from Boys' High School in 1931 and the University of Georgia (A.B. degree) in 1935; attended the University of Hamburg, Germany, on an exchange student scholarship; taught history and political science at the University of Georgia 1936-40; received the M.A. degree in 1937 and law degree, cum laude, in 1941; doctor of laws, Augusta Law School, 1971; during World War II served in the U.S. Army for 4½ years in the States and in Germany, the last assignment before separation was on the legal staff of Mr. Justice Robert Jackson at the Nuremberg trials of Nazi war criminals; returned to Athens, Ga., and engaged for 15 years in general practice of law from 1946 to 1961; city attorney of Athens 1947-50; member of State senate 1951-53 and member of State house of representatives 1953-59; married the former Grace Winston of Clarke County in 1938; four children, Mrs. D. R. Bianchi, Robert Grier III, Mary Winston, and Lawton Evans; elder of the Presbyterian Church; member of American Legion, VFW, Elks, Kiwanis (lieutenant-governor), Select Committee on Committees; Democratic Policy and Steering Committee; Small Business Subcommittee chairman; Phi Beta Kappa, Phi Kappa Phi, Phi Delta Phi legal fraternity, Blue Key, University of Georgia Distinguished Alumni Merit Award, Kappa Alpha Order, and ODK; elected to 87th Congress November 8, 1960; reelected to the 88th, 89th, 90th, 91st, 92d, 93d, and 94th Congress.

LARRY WINN, Jr., Republican, of Overland Park, Kans.; born in Kansas City, Mo., August 22, 1919; attended public schools in Kansas City, Mo.; A.B. degree, University of Kansas; 2 years with WHB radio station; 2 years with North American Aviation; 2 years as a private builder; 2 years as public relations director Kansas City Chapter, American Red Cross; vice president, Winn-Rau Corp. since 1950; national director, National Association of Home Builders, 14 years; past president, Home Builders Association, Greater Kansas City; past vice president, Home Builders Association of Kansas; member, board of directors, Southgate State Bank, Prairie Village, Kans.; vice president, Kaw Council of Boy Scouts, recipient Silver Beaver award, National Council representative; member, board of directors, Johnson County United Funds Council and Community Chest of Greater Kansas City; member, steering committee, Johnson County Health, Education, and Recreation Council; member, advisory board, Junior Achievement, Inc., Greater Kansas City; advisory board, Shawnee Mission Hospital; Linwood School Board District No. 1, 3 years; People to People; Rotarian; Kansas Farm Bureau, and Country Club Christian Church; past G.O.P. chairman, 3d Congressional District; past members, Republican State Executive Committee; campaign chairman for Congressman Ellsworth in two successful campaigns for Congress from 3d District; past president, Sigma Delta

Chi journalism fraternity, and Phi Kappa Psi social fraternity at University of Kansas, was an editor of University of Kansas Daily Kansan; director, Memorial Union Building; member, University of Kansas Development Committee; married Joan Ruth Elliott; five children, Edward Lawrence III, Robert Elliott, Douglas Shepherd, Janet Gay (Mrs. Donald A. Payne), and Cynthia Joan; elected to the 90th Congress November 8, 1966; reelected to 91st, 92d, 93d and 94th Congresses.

CLEMENT J. ZABLOCKI, Democrat, of Milwaukee, Wis.; born in Milwaukee, Wis., November 18, 1912; son of Mathew and Mary Jankowski Zablocki; graduate of Marquette University with a Ph. B. degree; graduate work in education at Marquette University; honorary doctor of law degree, Marquette, 1966; Alverno College, 1969; taught high school in Milwaukee; organist and choir director; married Miss Blanche M. Janic of Milwaukee, May 26, 1937; son, Joseph Paul; daughter, Jane Frances; elected State senator of the Third District of Wisconsin in 1942, reelected in 1946; elected to the 81st Congress on November 2, 1948; reelected to the 82d, 83d, 84th, 85th, 86th, 87th, 88th, 89th, 90th, 91st, 92d, 93d, and 94th Congresses.



