

CONFIDENTIAL

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PRIME MINISTER

has seen - (G) 4/7

Meeting with Mr. Jenkins

European monetary co-operation is bound to be the main topic. Mr. Jenkins is due to meet Chancellor Schmidt on Wednesday and will no doubt reflect what he learns of your views. It is unfortunate that Mr. Jenkins and Mr. Ortoli still seem to be conducting separate campaigns and that Mr. Jenkins' more ambitious ideas carry more weight in Bonn, where Mr. Ortoli is not highly regarded. It will do no harm for Mr. Jenkins to learn that you have reservations about the Franco-German initiative and that there are some highly significant conditions to be met if the United Kingdom is to go down this road. What advantages for the United Kingdom would Mr. Jenkins see in the current proposals? Earlier schemes have foundered by imposing all the obligations on debtor countries. How can "symmetry" be achieved so that monetary stability is not deflationary? Mr. Jenkins will claim that monetary stability is possible without equal economic performance (but what about inflation rates?): maybe, but the discipline is not saleable unless, by one means or another, it brings economic performance closer together. The present system (with the CAP) operates perversely, by transferring resources e.g. from the United Kingdom to Denmark.

2. Other topics to mention if there is time:

- (i) We shall expect the same kind of understanding from the Commission as they showed the French during their pre-election period.
- (ii) We should like Mr. Jenkins' help in getting the Bremen Council to agree to a European Brookings in London.
- (iii) We hope for action to redress the imbalance in British staff in the Commission.

*John Hunt*  
(John Hunt)

3rd July, 1978



cc Martin Set  
Aircraft Jul 77  
Euro Pol May 78  
Euro Pol June 78

Order no. 6/77

Euro Pol Nov 77

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT  
OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET,  
ON 3 JULY, AT 1800

Present:

Prime Minister	Mr. Roy Jenkins
Mr. Michael Franklin	Mr. Crispin Tickell
Mr. B.G. Cartledge	

Civil Aircraft

The Prime Minister told Mr. Jenkins that he had found his talks with civil aircraft manufacturers in the United States most interesting: he now had a much better feel for the American than for the European possibilities in this field. He had no prejudice against the European option, but it was much more intangible. Mr. Jenkins said that he accepted that it was neither possible nor practicable to exclude totally an American element in any project; but he thought that McDonnell Douglas would be a better choice since if British Aerospace were to go in with Boeings, their position would be that of a mere sub-contractor on an aircraft which was not even Boeing's first priority. The Prime Minister agreed that the possibility of a European element in the McDonnell Douglas option was a considerable attraction. Mr. Jenkins wondered whether the elimination of a European element might not put an end to UK/European cooperation in the field of military aircraft. The Prime Minister expressed doubts about this: he repeated that the European possibilities were not sufficiently tangible to enable one to grasp them.

Mr. Jenkins said that sensible people in Europe were coming round to the view that the McDonnell Douglas option was serious. He suggested that he and M. D'Avignon should put together a letter to the Prime Minister setting out the European option in as concrete terms as possible. The Prime Minister said that Rolls Royce had a strong preference for one of the American options, taking the view that they would never get their



engines into a B10. Mr. Jenkins said that his understanding was that this was not certain. The Prime Minister said that if Rolls Royce could get their 524 engine into the B10, this would be very satisfactory; but, if not, they would have to go for an American option - the French were being very obstinate about their CFM6 engine. The Prime Minister went on to say that he had found considerable respect for the A300 in the United States, although AI had been obliged to offer very favourable financial terms and fringe benefits to Eastern Airlines in order to sell the aircraft. From the point of view of Rolls Royce, the Boeing option was the easiest and the most certain; but he would not deny that it had disadvantages. Mr. Jenkins commented that if Boeings were to lose interest in the 757, and if British Aerospace, as sub-contractors, were to slip back on their deliveries, Boeings would deal with British Aerospace very roughly. The Prime Minister agreed that there were risks in every option; the European option was full of unknown quantities.

The Prime Minister went on to say that the UK aircraft industry was larger than that of France and Germany combined, and that the UK therefore had something substantial to offer. He would welcome hard information on the B10 project; he might take the matter up with President Giscard and Chancellor Schmidt during the European Council Meeting in Bremen. The UK would not delay a decision beyond the autumn. Although British Airways' decision on whether or not to buy the Boeing 737 was a separate issue, it would nevertheless have some influence on the British Government's larger decision on joint manufacture. Mr. Jenkins commented that a UK decision which would have the effect of dispensing with an independent European aircraft manufacturing capacity would be a very major one, and would determine the world division of labour in the aircraft industry for the next two decades. The Prime Minister said that he was very conscious of this: there were lions at every exit. The Prime Minister added that he would welcome a letter from Mr. Jenkins on the lines he had suggested: the more tangible its terms, the better.



European Council and Economic Summit

Mr. Jenkins said that he had originally regarded the near coincidence in timing between the European Council and the Economic Summit as advantageous, but he was now more worried about it, and about the relationship between the agendas for the two meetings. The Bremen meeting would be primarily concerned with monetary issues, partly for the negative reason that it would not figure very prominently on the agenda at Bonn; there would clearly be some discussion at Bonn about <sup>monetary</sup> policy, but the United States were basically happy with the status quo, and would not, therefore, wish monetary questions to dominate the proceedings. Moreover, Mr. Jenkins said, it would be difficult to bring the question of concerted action for growth to a full conclusion at the Bremen Council. Signor Ortoli had done very good work since the Copenhagen Council, and had set out in detail what each Member of the Community could be expected to do, and how much concerted growth could be achieved safely. The Ortoli analysis showed that the impact of a concerted programme for growth on the public sector borrowing requirement would be less than if each country were to adopt measures for growth individually: this would be an important point in arguing the case to the Germans. Mr. Jenkins said that he nevertheless saw little chance of a firm German offer in advance of the Bonn Meeting; there were, indeed, arguments against the Europeans playing their growth cards before the Economic Summit since these were the strongest cards in their hand. The Bremen communique should nevertheless be designed to pave the way for a significant German contribution on growth at the Bonn Meeting. The Prime Minister agreed with this analysis.

Mr. Jenkins said that the "Little Five" were inclined to become neurotic before Summit Meetings: it was important that they should not feel that Bremen was just a side show by comparison with Bonn. The Prime Minister said that it was of course true that Bremen was regarded as, in part, a preparation for Bonn: but nothing should be done to make the Five feel that they were being shut out - Bremen should be regarded as an opportunity for them to make



themselves heard.

### European Monetary Reform

Mr. Jenkins said that the Bremen Council would be particularly important in the monetary context. The Prime Minister said that he had read the Finance Council's paper, and thought it a good one. He would not, however, agree to any scheme which might repeat the experience of 1972/74: there was a risk that Members of the Council might get carried away when they were discussing these issues together. The Prime Minister expressed the view that Chancellor Schmidt was in any case unlikely to accept the conditions which would be essential for any scheme of the kind now being discussed/ <sup>to work.</sup> The Chancellor had started off with a grandiose plan which would put the FRG reserves at the disposal of Europe, but all this now seemed to be evaporating.

Mr. Jenkins said that this had also been his own impression, but he was now less sure. President Giscard had been stimulated by Helmut Schmidt's ideas, which had been put to him after the French elections, and had become very enthusiastic about the possibilities; President Giscard now saw monetary reform in a more schematic and longer term way than Helmut Schmidt. The Prime Minister commented that President Giscard had told him that he would re-enter the snake in mid June; but he had clearly had second thoughts. Mr. Jenkins said that President Giscard had told him recently that he would not re-enter the snake in its present form, since he wished the currency bands to be defined in terms of weighted average or of the European unit of account rather than in nominal values.

President Giscard wanted a new system to be as tight as the snake. Mr. Jenkins said that it would be difficult for Chancellor Schmidt, now that he had aroused President Giscard's enthusiasm, to draw back from his ideas. There were mixed views within the French Government on the question, but President Giscard's internal

/position



position was now very strong.

The Prime Minister wondered how Chancellor Schmidt would react to the essential conditions which he had in mind: that monetary stability should not force deflation on to the weaker countries and that there should be a real transfer of resources. In terms of the balance of payments, the UK was already paying in over £500m for its forces in Germany. Moreover, the UK was now the second largest net contributor to the Community budget; and, finally, it was generally agreed that the Community would need an increase in its real resources by 1980. The Prime Minister said that he was less interested in the technical details of any scheme than in the politics of achieving some genuine transfer of resources. It was one thing, in the 1960s, to be required to deflate in order to further economic convergence; but he now wanted to see effective pressures brought to bear on the countries which were in surplus so as to ensure that the smaller, poorer countries would not have to deflate. Mr. Jenkins said that there were three factors to be considered. The first was the question of whether the UK might be paying an unfair share of the Community's expenses. This was an argument he would not dismiss. Secondly, there was the extent to which adequate foreign exchange reserves would be put behind the currency scheme in order to ensure that it would not break down. Thirdly, there was the classical transfer of resources within the Community through the operations of the agricultural, social and regional funds. Mr. Jenkins said that he agreed that nobody wanted a scheme which would cost a great deal of money and would not work.

The Prime Minister said that the UK attitude was constructive, but he could not so far see anything in the proposals which had been advanced which would incline him to change his attitude from what it had been last time round.

/The DM



The DM would have a considerable advantage under the schemes which were being advanced. He did not mind the German economy becoming stronger, but could not accept that it should do so at the expense of the UK economy. The Prime Minister commented that he felt a little put out that, after agreeing in Copenhagen that the three Heads of Government should work together on these issues, Helmut Schmidt had discussed them with President Giscard alone, and had not given him an account of the exchanges. Mr. Jenkins said that he was also in the dark. The Prime Minister told Mr. Jenkins that Chancellor Schmidt had now proposed a private meeting with him and President Giscard; this would probably be in the early evening of 6 July in Bremen.

The Prime Minister said that his position was that he was very happy to examine the proposals which had come out of the Finance Council but that he was not prepared to commit himself in principle before subjecting them to much more thorough examination. Mr. Jenkins said that it would be a pity if the Bremen Council could not move on beyond Copenhagen. The Prime Minister said that progress would depend on a number of conditions being satisfied.

Mr. Jenkins said that the Germans were thinking in terms of a major and imaginative scheme for the transfer of resources to Southern Europe, including Turkey: this would have to be watched very carefully. The Prime Minister agreed that the inclusion of Turkey in the scheme would create real difficulties once Greece had joined the Community. Mr. Jenkins said that the German scheme would have a considerable advantage in that it would indirectly stimulate the German economy.

The Prime Minister asked Mr. Jenkins how he saw the prospects of injecting into these discussions the question of the relative size of the financial burdens of membership on the Nine. Mr. Jenkins said that Council members could hardly refuse to examine the issue, even if they did not really wish to. The problem was that this question had not been raised at Copenhagen and so did not enjoy equal status with the question of monetary reform. The Prime Minister said that it would be difficult for the United Kingdom to accept



new monetary arrangements unless something was done about the UK's contribution to the budget and through its forces in Germany, though he would not raise the latter point at the Bremen Council. If the United Kingdom was to be asked to accept extra burdens, there would have to be an effective transfer of resources.

Mr. Jenkins expressed the view that it would be wiser not to raise this issue directly: it came too soon after Article 131. He thought the major German effort would be to give more to the countries now applying for membership. On the monetary question, both Chancellor Schmidt and President Giscard were genuinely anxious to carry the Prime Minister with them. The Prime Minister repeated that he had no intention of standing in the corner and was fully prepared to be constructive. Mr. Jenkins said that it would be important at Bremen to give some constructive directives with a view to final decisions at the next European Council at Brussels in December.

- /The Prime Minister



The Prime Minister agreed, but pointed out that it was in any case inconceivable that an agreement could be arrived at by the autumn which would satisfy the essential conditions. He would not be prepared to go ahead with technical monetary arrangements unless these conditions were also tied up. Mr. Jenkins said that all the smaller members, except Ireland, were "Snake countries" and worried about anything which might weaken the Snake, although in general they favoured advance in the monetary field. The Danes, in particular, took the view that, without the Snake, they could not have maintained their internal discipline. The Prime Minister commented that Denmark, unlike the United Kingdom, received substantial and tangible advantages from her membership of the Community and there was a consequent difference in public attitudes. The Danish Prime Minister could point to identifiable advantages to Denmark from the CAP. Mr. Jenkins expressed the view that there might be advantages for the United Kingdom in a more stable European currency. The Prime Minister agreed that this would be helpful, in certain circumstances, so far as internal discipline was concerned. But he would prefer to fight this battle himself on its domestic merits, rather than in order to keep the United Kingdom in the Snake. Unless the advantages to the United Kingdom were readily demonstrable pressure would build up to ease the United Kingdom not only out of the Snake but perhaps out of the Community as well. Mr. Jenkins repeated that there would be attractions for the United Kingdom in the stabilisation of European currencies. If the French franc was to enter a new monetary arrangement soon this might act adversely on sterling, and a

/weakening

CAP

Mr. Jenkins said that he would like to see the European Unit of Account introduced into agriculture very soon.

Mr. Franklin said



weakening of the pound during the summer and autumn would have a bad effect on the United Kingdom's prospects for fighting inflation next year. The Prime Minister said that he hoped that Mr. Jenkins had a clear picture of the United Kingdom's attitude, which was basically a constructive one; he could see all the advantages but the conditions had not so far been set out in such a way as to enable the United Kingdom to take decisions of principle, which would have to be associated with a real transfer of resources and with growth. Countries which had high unemployment should not be pushed into inflation. So far as the prospects for Bremen were concerned, he was not prepared to sign a piece of paper which could be used against him in December. The Prime Minister nevertheless agreed that it should be possible to do something at Bremen which would represent an advance on Copenhagen; and he would not rule out the possibility of reaching final decisions by the next Council in December. Mr. Jenkins commented that President Giscard would want to go faster than this but that Chancellor Schmidt would probably be willing to wait for the British.

#### European "Brookings"

The Prime Minister said that he approached this question on the basis that it would be helpful to European sentiment in the United Kingdom to have the Institute in London. Mr. Jenkins said that he thought that there was a good case for setting up the Institute and that plans should go ahead. He confessed to finding some attraction in the view that the Institute should be sited in Brussels but agreed that, on balance, London would be better. If there was to be a Frenchman at the head of the Institute, it would be important to choose somebody with an Anglo-Saxon cast of mind, since the Institute would tend to be oriented towards the English language.

#### CAP

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/Mr. Franklin said



Mr. Franklin said that the United Kingdom also favoured this. Mr. Jenkins said that the Commission would be putting forward proposals for this. Mr. Franklin commented that the introduction of EUAs would expose the high level of German agricultural prices.

#### EEC Energy Policy

Mr. Jenkins said that the gap between the main protagonists was now paper thin and it should be possible to reach agreement. The Prime Minister said, and Mr. Jenkins agreed, that it would nevertheless be important to do nothing at Bremen which might detract from the prospects of securing a firm US commitment on energy at the Economic Summit. Since further discussion at this time might tend to expose disagreements within the Community, it would be preferable to let the issue lie for the time being.

[The Prime Minister and Mr. Jenkins then continued their conversation alone.]

The Prime Minister discussed with Mr. Jenkins the question of his reappointment as President of the Commission. It was agreed that Mr. Jenkins would himself raise this issue when he was ready to do so. The Prime Minister also raised the question of UK appointments within the Commission. Mr. Jenkins commented that the UK letter on this subject had been a very effective one.

The discussion ended at 1920.

*sym.*

4 July 1978