

Saturday

HS. This is an important step towards strengthening the City.

A Fortunate Combination that strengthens the City & the German economy
Central economy ~~Central economy~~

They exist, this will make them wider

Two areas of prosperity in City
If ~~prices~~ ^{prices} ~~wishes~~ ^{wishes} to regain the whole that is a decision for them - but ~~do not~~
let us devise a system that can be usable
~~we cannot~~ ^{may} ~~will~~ ^{be} ~~usable~~
durable.

Two conditions: -

① Durable & effective

② Strengthen the economy.

XYZ have reserves

G.T. This Scheme will be the basis for discussion

R.J.

No one is asked to commit themselves before December
Sharply focussed work.

(No real difficulty
Provided essential conditions
- sharply focussed work

L.S. R.J. summarizing views

HS. This is a way to replate, my County will be forced to do it.

1 an apt Heard Gd'E say with happiness that ~~the~~ ^{can be made} Amendments

"if need be by introducing Amendments to the scheme"

Also on another day it will reveal in operation "at least until"

A We all agree that a Zone is highly desirable

Accept L's text which for me is fine

2nd line "has given preliminary consideration"

but we have certain misgivings about the mechanism (eg do we substitute in textual exercises)

RS. ① "Decisions & Commitments" can then be taken

② Accept "in the context of such a scheme"

③ Accept "and likewise are essential"

Following the discussion @ C on April 7
the European Council has discussed the attached
scheme for the creation of a close monetary

- - - - - end of sentence
✓ Such has been introduced by Decision of
the Council.

✓ The Council does envisage a
number of effective schemes

✓ - - - - - if necessary by
Amendment.

✓ - - - - - in the context of
such a scheme

✓ Such measures will be essential
if the zone of monetary stability is
to become

✓ Decisions can be taken & commitments
can be made

GdIF

I shall say
We shall only continue studies.

Not taken a positive decision

① NO Commitment

② will work on basis of Scheme

③ ~~Other~~ Conditions are necessary

④ Durable & effective scheme will help

⑤ NOT as it starts now but we have provided for Amends, & especially we shall

* undertake studies of measures which are essential if it is to "mean"

=

(a) Common approach to achieve a considerably higher rate of growth

(b) We shall improve employment by means of increased growth

(c) CAP - Balanced Distribution of Resources

The proposals put forward ^{at the Council} by ~~the Government~~
~~French Government~~ will focus discussion ~~at~~
~~the~~ ~~French~~ ~~Government~~ ~~Council~~ which will however be free to change
or amend ~~these~~ these proposals

JL. had before it

LJ. give being consistent to the ideas put forward
by certain delegates.

RT. give consideration to the scheme which is put forward
today

has discussed the attached scheme

such a scheme - if necessary amend. of the Annex.

"Duratle effective"

The aforementioned provisions will be essential

In order to make the scheme duratle effective

A. Schmidt "The room for amending it is unlimited"

LTC. ÷ —

Andriotti Text represents preliminary approval

but } Technical details shall be a separate issue
Approve the ^{objective} idea of Franco/Benem cooperation.

Finance Ministers have also studied

Say we have received proposed which will be studied.
But this presupposes that we approve this scheme.

Van Agt Sought a mid way between Franco/Benem + just continuing studies.
Fund shall be fed by Natl. currencies - already too much liquidity.

X Andriotti Essential conditions for growth & stability resource transfer
All are not technicians!
Political problem here.
Snake shall continue will keep new system until it proves itself.
Must reserve on this.

HS will state that Snake will ~~not be discussed~~ ^{remain in operation} on behalf of all bank members.

6/2: If we don't say what the proposals are the press will have a number
What is the status? → @ Franco/Benem paper
or ⊕ A EC document.

We shall say this is a good proposal & call on Finance Ministers to point it.

Jorgensen Make it public I agree.

This draft is more committal than last night but with a few amendments we did accept

Andriotti - find it a little weaker - Franco/Benem ^{Belgian} proposal associates themselves with it

Lynard But what outcome has decided

HS. No decision which kind a country will be made earlier than 5 Dec 72

Qd'E

The Scheme was not adopted - because we were asked for it to be adopted.

Portugal & Estabans can make other proposals

Snake When final decisions are taken - the decisions will be equally binding.

QdE

X Agree to proceed for convergence

by reducing gaps in the growth rate

X Energy Cost: Create 4 years of...

X Economic Policy: Financial Stability, Investment, etc.

⊗ Agriculture: stable high stability & stable close together

Report in a cost of price support

budget of CAP

(only answer that can be done to the...)

X Unemployment: Employment of...

excess of... of... USA

Relative to... of... of...

⊗ Other stability: but will require...

⊗ ... of ... of ...

⊗ ... of ... of ...

⊗ ... of ... of ...

⊗

⊗ ... of ... of ...

A.J. X Growth & Monetary Stability go together.

Does not wish to see the snake weekend

[X] Disappointed that East Germany did not reach agreement on joint employment
- Andretti says they must agree } Plenary
proposal from 11/79

7/19 $2\frac{1}{2} - 3\%$ = GDP [we shall not get 2%]
= worsening of Employment.

Italy & Ireland to reduce Public Sector Deficit.

GdE X Agree to need for convergence
try to reduce gaps in our growth rates.

X Energy Coal -> Exchange Rates / Index of price

Andretti X Economic Policy proceeds monetary stability Agreement altho it can affect growth.

[X] Agriculture: should bring Hamburg & Colombia closer together
Support in cost of Agric. Support
look again at CAP. (only resources that will be decided to other matters)

Italy Germany UK.

X Unemployment: Psychology of Business
w/ complaint of Japan: USA.

Protectionism.
Relation between Growth & Protection of Employment is not understood.

Lyndal - Chap. Harter study: Link with Regional Policy

GdE. - French are in favour of low prices.

HS, get 7 me to stand up

Examining: LJC ① Get a balance between Agriculture & Regional Policy.

Hint: Acerno! ② Greater emphasis on Red. Agric within existing budget

A sledgeham ③

studying the best way of converting automatic funds & a better balance of reserves.

GdE

France
Can't proceed until V.P. Commission addresses remarks.

HS.

5 1/2 %
25 % Imports.

4 1/2 % PSBR = 8B

115 Article of Constitution
= Cannot impinge on Constitution.

Need to create the Institutions.
i. Coordinated Policy
~~It~~ It involves Management.
Need exceptional Intl. support.



European Council: Second Session

(The following is a transcription of the Foreign and Commonwealth Secretary's notes of the morning session of the European Council on Friday 7 July)

Monetary Matters

1. The Prime Minister introduced the discussion. Mr Callaghan said he would not like the text on monetary matters to be too specific. He had thought over the idea of attaching the Schulman/Clappier text as an annex to the Presidency's conclusions and had to ask that this should not be done. Signor Andreotti said that the text read like preliminary approval. We needed more analysis. It read as though everyone was agreed. It ignored the delicate technical and political issues.
2. The Netherlands Prime Minister asked whether the introduction did not create the appearance of a commitment here and now. He put this in the form of a question. If there was a commitment the Dutch would also have to make a reservation about the manner in which the funds were to be gathered together. There was an objection to pooling national currencies, which meant creating liquidity to a considerable extent.
3. The Luxembourg Prime Minister said that he did not want to imply that if the new system started on 1 January 1979 the snake would stop. There should be no break. They needed to keep open the snake. M. Thorn could accept the Franco/German proposal. But he thought we should find a form of wording which was acceptable to the Italian and British Prime Ministers.
4. The Danish Prime Minister said that he could accept the Franco/German formulation. He doubted whether amendments could be found

/to



to meet the objections to too specific a commitment.

5. The Belgian Prime Minister said that the issue was delicate and difficult. He was nevertheless surprised that the text under discussion was causing difficulties. He did not think the text was accentuated. M. Tindemans pleaded in favour of the text. He also made clear that the Belgian Government associated itself firmly with the Franco/German proposal.

6. The Irish Prime Minister agreed that there should be a fairly firm commitment that what was in the annex would form the basis for decisions. The annex would become public.

7. The Federal Chancellor said that the Finance Council paper had not been introduced formally. In any case it did not take us very far. It was a very global encyclopaedia of generalities and could not form the basis for conclusions. Nobody wanted to take binding decisions in this area today. There would be no binding decisions until December. President Giscard said that the essential thing was what we intended to do. He could say that the text under discussion was a correct expression of the outcome, as he had not had a hand in the drafting. People could make counter proposals.

8. The Prime Minister said that he had no objection to publication of the annex. The key issue was its status. Chancellor Schmidt suggested that we should agree to differ, and spell out the differences.

9. President Giscard quoted Napoleon to the effect that as to paternity we could only work on the basis of hypothesis. The President of the Commission said that with the backing of massive funds there was an opportunity for success. There was a need for

/sharply



sharply focussed work.

10. The Prime Minister said that monetary proposals without the essential transfer of resources would promote not convergence but divergence. There was no point in doing all this if it was a mechanism just for one country or more rejoining the snake.

11. Chancellor Schmidt said that the scheme under consideration was a way of taking account of all the demands for his country to reflate without damaging his country (ie through inflation). Herr Schmidt appeared to say that he accepted therefore that the Federal Republic would be "forced by this scheme" to make decisions to help other countries. The scheme was more realistic than the Werner plan.

12. Signor Andreotti said that the Prime Minister's draft text was fine for him.

13. The Secretary of State's notes end at this point. The eventual outcome is recorded in the Presidency's conclusions. Dr Owen commented afterwards that the Session had been marked by very slow and deliberate chairmanship by Herr Schmidt. The Federal Chancellor had declined to fudge the monetary issue (for example "Do you accept that this will be the focus of the next Finance Council?" "Yes"). The Prime Minister had come under very heavy pressure and the going had been rather rough at times. Herr Schmidt had taken the lead in pressing the Prime Minister and Dr Owen suspected that the Germans and French had agreed this tactic, with President Giscard deliberately relegated to the back seat. Nevertheless, the Prime Minister had established that there were no commitments until December, as well as the right of amendment to the annex by the Finance Council, and the clear understanding that in UK eyes the

/present



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present arrangement was not effective and durable, but that it could become so with adaptation and amendment. Dr Owen commented that our allies were the Italians and to a lesser extent the Irish - with the Dutch dissatisfied on some aspects. If the French were to shift, they would have to reckon with President Giscard, who was for some reason Dr Owen could not fathom totally committed to an early agreement.

11 July 1978