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RECORD OF A MEETING OF HEADS OF GOVERNMENT/STATE AND FOREIGN MINISTERS AT THE QUAI D'ORSAY, PARIS, AT 0900 ON TUESDAY 10 DECEMBER

(Reconstructed from Mr Callaghan's notes)

ECONOMIC AND MONETARY UNION

1. Mr Callaghan said that he preferred the UK text on this subject. The proposals in the Paris 1972 communique had proved to be a failure. The whole question needed entirely fresh study. Herr Schmidt asked whether the UK had a real interest in EMU or whether the British position represented an intellectual objection. Mr Callaghan said that it was largely a dislike of intellectual dishonesty. It was wrong to pretend when EMU was not going to happen in the foreseeable future. He could also envisage that some British regions might be disadvantaged. Herr Schmidt said that the question was not very important. He and M. Giscard d'Estaing had known in 1972 that EMU was an illusion fostered by idealists who did not understand the problem. The fact was that the policies of individual countries diverged. Until you had one central bank and one currency EMU would remain an ideal. The Ministers round the table should not deceive themselves nor should they even promise to study the subject. It / was

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was not possible to withdraw from their predecessors' statement but personally he would feel intellectually dishonest if Heads of Government pretended that EMU was likely to happen. Mr. Wilson commented that if it were possible in present circumstances Herr Schmidt could not have spoken yesterday about Germany's ^{proposed reflection which was a} unilateral measures, ^{due} as he had. The "snake" had not survived. He could think of good UK reasons for rejecting EMU but other countries also would find the same objections. To try to have a single currency and monetary policy would be a recipe for unemployment. M. Ortoli said that all concerned knew that EMU had little chance of being achieved by 1980 but it remained the objective. Abandoning such an objective would be very dangerous and serious. A common unit of account would be helpful. If the objective was abandoned there would be no discipline in monetary matters. Mr. Joop den Uyl said it was not difficult to join those who doubted the reality of 1980 as a target date but the goal must be adhered to. ~~What~~ ~~otherwise would be the outcome of the CAP.~~ Signor Moro and Mr. Cosgrave expressed agreement with Signor Ortoli while Mr. Cosgrave commented that EMU would not happen for many years. Herr Schmidt asked the British delegation to abandon their text.

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It was not worth making a study. Mr. Wilson said that the discussion reminded him of disarmament talks. "Universal and general disarmament" was always said to be a long term aim. He did not wish to remove the ultimate goal ^{but could not imagine} and would like progress in 1975 or 1976. M. Giscard d'Estaing said that the French Government did not want to be too pessimistic. Some things had been harmonised in spite of Italian difficulties. The aim of EMU was fundamental and the text should be maintained and amended as necessary. Nothing was achieved in 1973 and the reference to this should be deleted but it was wrong to switch off the beacon in a storm. Could there be agreement on the basis of pages 8-10? Mr. Hartling said that Luxembourg, Denmark and Ireland should be present at the working party ad hoc group of the G 10. Canada and the United States would probably not disagree if the Nine proposed this. M. Giscard d'Estaing said that he would revert to this matter later.

Regional Fund

2. M. Giscard d'Estaing said that there was a lively desire by Ireland and Italy in particular for a Fund to be set up. This was linked to the question of coordinating regional aids. He asked M. Ortoli to introduce the subject. M. Ortoli said that the Commission wanted to help those regions that were

most/

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most under developed. For the years 1975-1977 he suggested 1,400 MUA's. After three years stress would be ^{laid} ~~aid~~ on helping those areas where regional imbalances were most glaring. The Commission would have preferred a larger Fund and would have proposed 15% more for the UK, Ireland and Italy. Priority should be given ^{to} ~~for~~ regions with industrial structural difficulties, frontier areas and so on.

M. Giscard d'Estaing said that Germany and France had reservations about the budgetary burden ^{which would fall} on them. Italy and Ireland had specific problems. The matters to be settled were:

- (a) The period - three years or two?
- (b) The amount - 1,400 MUA's or lower?
- (c) Should there be quotas only for Ireland and Italy together with general guidelines or should there be an allocation of quotas?

As regards the UK there was ^{the} a related problem of renegotiation. Would the Regional Fund apply only when there was a definite decision?

3. After a long silence Signor Moro said that he accepted the Commission's proposals. Mr. Callaghan, Mr. Cosgrave, Mr. Joop den Uyl and Mr. Gouldberg accepted the Commission's proposals - Mr. Joop den Uyl with the reservation that the Commission should take care to ensure that conditions of competition would not be falsified by the application of the Fund and

Mr. Gouldberg/

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Mr. Gouldberg with the reservation that Greenland should not be forgotten. M. Giscard d'Estaing said that a number of countries supported the Commission's proposals while Herr Genscher ^{had} entered ^a the reservation on the period and the ambit. Herr Genscher said he agreed with the proposed distribution and if the Fund were for three years the ambit would be as proposed by the Commission.

4. No objection was expressed to a three year Fund and there was a wide measure of agreement on 1,400 MUA's but M. Giscard d'Estaing said that France would prefer a smaller Fund. In the ~~first~~ year for example expenditure would be lower because of uncertainties about the UK. If the UK left the Community this would create administrative disorder. Therefore payments for the first year should be below the Commission^{'s} proposals. There might be 700 MUA's for the second and third year and 950 MUA's for the three-year period as a whole. He would accept this total. Herr Schmidt said that the French proposal for the starting point was reasonable and he could agree. It was necessary also to consider the social fund on which no firm decision had been taken. Mr. Fitzgerald said that M. Ortoli ^{had said that he saw} no prospect of a solution if the meeting departed from 1,400 MUA's and a three-year period. In any case the Irish share should be larger.

Herr Schmidt/

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Herr Schmidt said it was not an easy situation for a Finance Minister to stand up in the Bundestag and say that Germany would pay a very substantial sum across the exchanges in three years. He was not impressed by the fact that the Commission was ready to spend the money for Germany. Salaries had recently been raised by 16-17% by the Council of Ministers. It was easy to spend other people's money. In Germany State employees would only get an 8% increase. He begged the Irish Government to understand that he had a problem of public opinion and that ^{the German government} they had had to cancel a number of national programmes. Even a figure of 950 MUA's would be touchy for him. M. Ortoli said it was a very bad policy to speak of the Commission as Herr Schmidt had done. He was not the President of the Commission when some of these matters had been decided and he was not prepared to accept the criticism levelled at him. If the figure was 950 MUA's what would be done for Italy and Ireland. Would the percentages be 40% and 60% of 950 MUA's? If so they were getting far from their objectives. If Ireland and Italy got the sums intended (on a calculation of 1,400 MUA's) there would be little left for anyone else. If ^{this was not the intention, then} they ~~did~~ not the figure was not large enough. Signor Rumor found the proposal of 950 MUA's in adequate for Italian purposes. M. Giscard d'Estaing said/

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said that there must be some degree of fairness. A Regional Fund represented an act of solidarity. The German position must be taken into account. France could submit very sizeable requests - for example some of the French regions were in a similar state to the British. ~~But the French Government had not exaggerated exaggerated the differences in return.~~ He suggested a reduction of 100 MUA's because of slow take off and because of the uncertainties over the UK. Quotas should be established for Ireland and Italy to assure them of comparable net figures to those proposed by the Commission. Herr Schmidt excused his earlier statement as being somewhat emotional. Mr. Callaghan thought ^{would be} the UK ~~was~~ willing to stay out both as a contributor and as a receiver if that was thought preferable ^{but they would then come} ~~to~~ what ~~they~~ came in after three years if the British people decided to continue membership. ^{In such a case also} Britain would ^{also} remain free on the question of coordinating regional aids, though she would continue to take part in the ^{discussions in this subject,} ~~work~~. On the whole, however, the UK preferred the large Fund and the Commission's proposals were acceptable. Herr Schmidt said that assurances had been given to Ireland and Italy that a Fund would be established. With some hesitation he suggested thinking in terms of an order of magnitude between 950 and 1,400 MUA's. He agreed with/

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H. Giscard
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with M. Giscard d'Estaing on the policy of stepping up fairly substantially from the first year i.e. 250, 450 and 450 equalling 1,150 MUA's. 150 MUA's should come from funds set aside for the Agricultural Fund. Such an arrangement would mean ^{both} (UK involvement *(which he would prefer)*) and a three-year period. Beyond this permanent rules should be established. M. Tindemans asked for M. Ortoli's views, who said that the Commission recognised for Ireland and Italy a figure of 600-660 MUA's. The quota for seven countries would stand and subject to checking he thought that Feoga could cope. After some discussion of the absolute figure for individual countries Herr Schmidt said that in his view the Commission's percentages should stand. M. Giscard d'Estaing said that there was a specific proposal by Herr Schmidt for a fund of 1,150 MUA's with the Commission's percentages. This would mean for Ireland 50 MUA's or 6% over three years. This was not over large. Mr. Callaghan again/said that Britain would be prepared to stand aside from the Fund for three years but must be ^{either} wholly in or wholly out. This immediately prompted M. Ortoli and Mr. Joop den Uyl to say that they could not agree on an eight-nation Fund. *The Meeting adjourned for breakfast discussion*

5. After a brief recess Herr Schmidt proposed a Fund for three years on the basis of 300 MUA's, 500 MUA's and 500 MUA's. The 1300 MUA's would be financed

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as to 1150 MUA's ~~from own resources~~ ^{on the basis of the Commission's proposal}
and as to 150 MUA's from ^{the} a non ear-marked portion
of the Agricultural Fund. The quotas should be fixed
over a three-year period according to the Commission's
proposals. Ireland was of the opinion however that
in this overall solution it would receive 6 MUA's
less than expected. After further discussion it was
agreed that the Italian quota would remain as proposed
^{but had a 1300 m.u.a.}
and that an additional amount for Ireland would be
^{for 6 m.u.a. leaving 1294 m.u.a. as the figure an}
made up by 0.1 % from each of the quotas of the other
^{which to have the same percentages (except for Italy)}
beneficiaries.

Renegotiation

6. Mr. Wilson said that his statement could be
shorter and less controversial than ~~at~~ their previous
discussion. There had been delays in making progress
on British renegotiation because of changes in
European Governments and because of the second British
general election. An early solution was now necessary
for everyone. The position of the British Government
had been set out in two elections in a single year
(something which had not happened since 1910) and had
been reinforced by the vote of the British people.
Mr. Wilson said that he had set out publicly once
again on Saturday the policy which was being followed.
The Government believed that entry on the right terms
was good for both Britain and Europe. This was the
view which he had held since 1966. If the terms were

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bad then they were bad for Britain and for Europe. The British Government was negotiating with a real intention to succeed and to achieve what had been set out in the manifesto. Within 12 months from the last general election the British people would decide through the ballot box. If the terms were satisfactory and were approved by the people then Britain would play its full part in a cohesive Europe.

7. Mr. Wilson then set out the seven main issues for renegotiation and in each case he quoted what was stated in the manifesto as a preliminary to his remarks on each item.

(1) The CAP. ~~A~~ stock-taking was taking place. Britain did not challenge the main principles but arrangements had to be made for producers outside Europe.

(2) The Budget. Mr. Wilson hoped that this could be cleared up later in the discussion.

(3) EMU. The British position had been set out earlier.

(4) Parliamentary Sovereignty. This was a matter of considerable importance. Things had gone all right so far but in the case of regional policies for example individual governments must be free to act speedily especially
in a time/

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in a time of recession without harming their other European partners. There was not too much problem over industry with the exception of steel. On that matter there had been trouble over the weekend with the Commission's statements and proposals. ^{about Barrowes.} On fiscal matters the European countries were pursuing their own policies and therefore it might not prove so difficult for them to ^{achieve} do so, also in relation to matters affecting the sovereignty of their parliaments.

(5) Capital Transfers A derogation had been already accepted.

(6) Developing Countries Mr. Wilson paid tribute to M. Sauvagnargues over the very noteworthy achievements obtained at the Jamaica meeting. There remained the problem of food from Britain's traditional suppliers. It was doubtful whether Protocol 18 went far enough. Though food prices in the Community were at present lower it was doubtful whether this situation would last and one could not count on it. He recalled the incorrect predictions at the time of the Korean War and he was not happy about the way the sugar negotiations had been handled.

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(7) VAT There was an increasing tendency to differentiate within Europe. The British Government did not like taxing food. But as the proceeds of VAT were part of the own resources system British freedom in this respect should not diminish ^{it} the contribution to ^{the Community} VAT. ^{needs}

This was a matter which should be dealt with by politicians rather than by technicians.

Reverting to the Budget Mr. Wilson said that proposals ^{being put} were going forward. The press seemed to think that it was the only issue. It was certainly important but there were six other issues as well although some were in the process of solving themselves.

8. Herr Schmidt said that Mr. Wilson's statement should allay any fears that might have been felt. "Renegotiation" had proved to be a misleading term. It did not mean revising Treaties. This should be made clear ^{to} through national parliaments. As regards the items raised and the purposes which the British Government wished to achieve he thought that these could be fitted in to the framework of the Treaty of Rome and the Treaty of Accession. Indeed some issues had already been partially settled and Heads of Government should express their satisfaction. As regards VAT there were many interests involved but certainly no prejudice against the UK. As regards the CAP the Foreign Ministers and those

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fighting cocks - the Ministers of Agriculture - were doing the stock-taking. Heads of Government should receive a report and would have to deal with it, and the British Government's ideas would come in then.

He too had his own ideas. By a common price, income

could not be assured for the farmers when inflation was running, ^{at rates which varied from} for example, ^{to} at 8% ~~or~~ 18% in different

countries. Over production was a constant concern.

The CAP would have to be fully examined in January.

As regards financial questions the British Government was not putting the whole system into question but

if problems really did arise the British Government should be in a position to tell their own Parliament

that there was a means for going into the whole

question. He was grateful that Mr. Wilson had said

that the Budget was not all important and that it

depended on other matters too. This and Mr. Wilson's

speech at the weekend was taken in Germany as a

positive feature. Mr. Callaghan asked whether the

meeting could now focus on the Budget question, for

example on the British draft. M. Giscard d'Estaing

said that Mr. Wilson had indicated that he was not

attacking the Treaties. Did he want this stated in

the communique? Should the matter be worked out in

detail today or should they just have an exchange of

views. Mr. Wilson said he was not seeking amendments

to the Treaties if it was possible to get satisfaction

on British/

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on British requirements. He suggested that Heads of Government should agree on a Budget principle at their meeting and then let Foreign Ministers draft a formula. In that event various drafts could be drawn upon. Mr. Van Elslande said that eight out of the nine Community countries did not ^{totally} agree to the British formula. The Belgians had therefore put forward their own. M. Giscard d'Estaing asked whether the Belgian text had been considered. Mr. Callaghan said that it had together with others. It was necessary that the principle should be accepted and then the Commission could go to work. Herr Schmidt commented that there was a degree of understanding but Britain must admit that the link with GDP was not possible in accordance with the Treaty of Rome. Would Mr. Callaghan say what he disliked about the Belgian and German formulae. Signor Moro said the texts ^{which} had been submitted by different delegations ~~which~~ showed that they had taken account of British problems. It was possible to foresee situations that were not acceptable when applying the ~~own~~ own-resources principle to the Budget problem and the balance of payments factor was a hazardous one to take into account. GDP was more objective. The Italian text ^{could be useful} ~~was valuable~~ and its principle features were that it recognised that the own-resources system was a

fundamental/

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fundamental factor but that in the framework of the system the Commission should be urged to consider corrective devices taking into account British proposals. An objective mechanism should be established

9. Mr. Van der Stoel said that it had been agreed in Brussels that such a mechanism should not function only for the United Kingdom. It was not necessary to revise the Treaty to find a formula. He hoped that the British Government would say whether the balance of payments factor should be introduced. He thought it desirable to base the discussion on the Belgian text which supplied useful elements.

M. Giscard d'Estaing said that M. Sauvagnargues had stated the French position in Brussels. It was wrong to mix up resources from international trade. These could not be of a national character. If the consumer bought in a unified market the levies and duties could not be treated as national. VAT represented an important element in the Community Budget and reflected the level of activity in the life of the Community. VAT could vary because of the different financial structure in different countries. The amounts taken at the frontiers of countries could not be taken into account.

10. Balance of payments considerations might cause grave imbalances in national economies but were not likely to cause divergences between the economies

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of the Community countries. The own resources system must not be upset. National quotas were impermissible. The Commission might consider the matter taking the German or Belgian texts into account. Herr Schmidt said that he did not like the last paragraph of the Belgian text because of the emphasis on balance of payments. This paragraph should be eliminated. The first three paragraphs were acceptable with small changes. Mr. Callaghan said that he would accept the Belgian text less the third paragraph. M. Giscard d'Estaing said that it would be wrong to return to the concept of GDP. The Belgian text must not mean that. Variations in the order of magnitude would arise for every country. Amounts taken at the border could not be considered as national revenues. Mr. Wilson said that if this ^{general} attitude ^{turned} ~~turns~~ out to represent the definitive position of the Community then he saw no hope whatsoever of a successful negotiation. Mr. Joop den Uyl said that the Belgian text less the third paragraph was adequate. He understood that the British wanted an investigation into the matter and he did not see what was the objection to that. Signor Rumor read out the Italian text omitting the reference to GDP and suggested the inclusion of some of the points which had been made round the table. Herr Schmidt said that a common formula could certainly/

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certainly be found but should not refer to customs dues. It was a matter of indifference whether customs and levies were raised in Copenhagen in London or on air or rail traffic. The Belgian formula should only refer to budgetary means and not to Community resources. Mr. Hartling recognised the matter as a grave problem for the United Kingdom and thought that the Belgian text was very useful. The UK proposals need not run counter to the system of own resources. M. Thorn entirely agreed about customs receipts. It was necessary for Heads of Government to be clear on what they had agreed before drafting started. Mr. Callaghan said that the British Government ^{would} ~~did~~ not want ^{what was} ~~merely~~ a small percentage ^{Difference between GDP Contributions} to be taken into account. Herr Schmidt said that it was not possible to foresee exactly the position in 1978. If the difference amounted to 24% as against 15% he would agree that that was unacceptable. He would not agree for a matter of just 1 or 2%. But nobody could be sure what would happen. Duty free imports from the Community would rise faster than trade with the outside world. A mandate should be given to the Commission on the lines of the Italian text to fix acceptable parameters. The British Government had said that they did not want to depart from the own resources system. It was therefore a question of dealing/

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But it was
likely to be
a matter of
15% to GDP
24% to Contributions
rather unacceptable

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dealing with the residual budgetary arrangements. The Council should define a mandate for the Commission and then if an inequitable situation did arise the parameters would apply. The German Government had abandoned projections beyond one or two years. Mr Callaghan seemed to be certain that the future difference would be large but he was not so sure. The question of oil could make a big difference. Economic forecasts and what happened in fact were often very different. Germany had stopped basing policy on forecasts for more than one or two years ahead.

Mr Wilson agreed with Herr Schmidt on this last point but risks could not be taken if, as we expected, there was a real disparity. He must be able to tell the British people that it would be dealt with and what the mechanism would be. Mr Callaghan commented that there was a 4% gap now between our contribution based on a notional VAT and GDP. Herr Schmidt said that he was prepared to go as far on principle as to say that an adjustment would be made if the situation in fact arose and a mandate should be given to the Commission to fix the parameters. Mr Joop den Uyl said that the UK economy might improve or it might decline but this was irrelevant for the decision. The political reality was that the UK demanded a corrective mechanism if a disparity did arise and this was a reasonable demand. It might be Britain today but someone else tomorrow. Mr Callaghan said that

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he could accept parts of the Italian and Belgian texts and perhaps an effort should be made to marry them together.

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