

NOTE FOR THE RECORD

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Bremen Council Policy*

The Prime Minister gave the following account of the discussion in Council on 6 July 1978.

President Giscard began by explaining the concept behind the Schulmann/Clappier paper. He emphasised that the monetary zone should be at least as tight as the present snake; that changes in central rates would take place every four to five years (!); he said it was a question whether the new parities should be expressed in terms of ECUS or against a basket; he said that ECUs would at first be used as a medium of settlement between the central banks but later would have a life of their own; the proposals would not endanger the life of the present snake which would go on functioning for a time but it would eventually enter the new system. Mr. Lynch then asked whether it was possible for a non-snake member to make its own wider margin than an existing snake member? President Giscard said that the margin should be limited but its extent could be negotiated before we reached the final draft. Helmut Schmidt commented that wider margins would encourage markets to speculate. Signor Andreotti asked could we take into account the different levels of inflation in the different countries in fixing entry into the new arrangements, to which the reply was yes, in fixing the rate this will be done. He also asked how it was proposed to co-ordinate the new monetary arrangements with broader economic policies, to which the reply was that long term loans would be the solution. Chancellor Schmidt commented that existing snake countries were accustomed to changes of rate between snake members negotiated between Friday and Monday.

M. Tindemans said that difficulties had already arisen in the money markets in Brussels because of uncertainties about the snake in relation to these new proposals. He also asked, whether the snake was to be expressed in ECUs, which would be the means of settlement, ^{and} whether the weights of the different currencies would be on the same basis as in EUAs.

/Mr. Lynch

Mr. Lynch said that in principle the Irish Government supported the idea but it was important to have regard to realistic matters: they could not think that the convergence of economies was adequate as things now stood. It was important to study economic policy as well as to have a study on monetary stability. President Giscard said, against this, that after Bretton Woods there had been divergence in economies, e.g. different rates of growth and inflation, ^{with fixed rates,} but the Prime Minister pointed out that the disparities between economies were much greater now than then and that universal fixed rates on a Bretton Woods pattern were not viable. He went on to support the idea of having two studies on both the economic and monetary aspects.

Mr. Jorgenson said that this was a very exciting prospect, to which the Prime Minister replied that it was equally exciting if you drove over a cliff except that you hurt yourself at the bottom.

Mr. Jenkins said that we must proceed in parallel on both convergence of economies and the monetary system. Mr. van Agt asked whether the new system would be as strict as the snake. Chancellor Schmidt said yes, and by so doing would help to keep the deutschmark more stable, especially if France, the United Kingdom and Italy joined. The Prime Minister commented that this would simply make the German economy even more competitive and that therefore there must be studies in parallel covering the economic as well as the monetary aspects.

M. Thorn said that Luxembourg was in favour but he wanted to know who was going to operate this scheme over the next two years. President Giscard said that this needed to be worked out. It would need two years for some countries to adjust.

Chancellor Schmidt, referring to Mr. Lynch's earlier questions, said that it was not proposed to use the dollar to intervene in a member's currency but to use other members' currencies. But behind this intervention would be a Fund of \$50 billion which would be far too big for outsiders to speculate against. In any case, if necessary, the Community could meet on a Saturday morning and agree on a devaluation if this was desired, although nobody found it very flattering to have to devalue. Chancellor Schmidt

/said that

said that the EIB could, under the proposals, give long term loans like the World Bank. In reply to a question from the Prime Minister about whether the EIB would give soft loans like the World Bank, the Chancellor said that it would not; ^{but its rate could be finer and} /its loans would be denominated to the borrower in ECUs, which would be a transfer vehicle; and

for this purpose we would need a new institution with a managing director and a board of governors of Finance Ministers. Chancellor Schmidt went on to say that the Council should receive a draft agreement by the end of October and conclude ^{an} agreement on 6 December. This was a very short period for the Federal Republic of Germany. He would be slammed by Strauss and there would be some opposition from both central and private banks - nevertheless he thought it better to have a short fight and not drag on. The point was that there was a two-fold political purpose: (a) it was not anti-dollar, but the yen might suffer, and (b) it would mean progress in the Community.

The Prime Minister told the Council that he had informed the British Cabinet that morning of the proposals and they had authorised him to agree to further studies but without commitment. He would not survive if he were to do that and therefore he supported Mr. Lynch's approach. Mr. van Agt said that as a lawyer he did not understand some of the proposals, e.g. point 3, and he must be able to consult his Minister of Finance. President Giscard said that the Council could not announce just another study but must prepare for a decision. He suggested that they should agree on general principles and instruct Finance Ministers to meet before the end of this month to study this paper. M. Thorn said that the Council could not say that they here assembled proposed the following points to Ministers of Finance so as to avoid saying that they had decided and imposed a scheme. Mr. Jorgenson said that the Council should not say they had decided but that they had discussed the proposals and had given them to others to study: that would be the way to make progress. The Council must not disturb opinion outside and must tomorrow underline that the snake still existed and that it was their intention not to disturb it.

M. Tindemans said that Belgium agreed with the idea of ECUs but the snake must remain strong. President Giscard suggested that the

Council should say that, taking into consideration the documents submitted, the Council agreed to instruct Finance Ministers to meet before the end of July to elaborate the adequate guidelines and also instruct them to consult the relevant institutions. There should also be a sentence about maintaining the snake; and he suggested that it would be better to have a separate statement about the specific British position. The Prime Minister said that the Council ought to try to find a position that all could agree on, without isolating some countries, or the markets would be upset. Mr. Van Agt asked whether the Finance Ministers were "instructed" - since that would be different. The Prime Minister said that in plain English such a conclusion would mean a commitment in principle that Finance Ministers would have to elaborate. Signor Andreotti added that he had only been informed of this proposal recently by M. Clappier and he could not accept the substance of these measures either tonight or tomorrow. Mr. Lynch said that he supported the Prime Minister: what was needed was a concurrent study on economic policy. He had been told that the IMF/European Bank would be enough to deal with that situation but we should ask the Economic Council to see if the weaker countries could subscribe to and conform to the disciplines involved in the new system.

Chancellor Schmidt then suggested a formulation on the lines that following our discussion at Copenhagen we had discussed proposals to establish within the EEC a system of closer monetary co-operation (ECUs) leading to a zone of monetary stability (see the annex - i.e. the Schulmann/Clappier paper). There would then follow the sentence on the lines of that proposed by President Giscard but if this was not agreeable then a sentence which would say instead that some members would participate in the studies proposed but reserving their position. The statement should say finally that the Benelux countries, the Germans and Denmark had stated that the snake was not under discussion and that it would be maintained. Mr. Jenkins suggested that these studies should be instituted before the end of July, so that elaboration of the proposals could be completed by the end of October. Chancellor Schmidt said that he would accept concurrent studies to be undertaken on that timescale with decisions in December, and with the document attached to the communique. Signor Andreotti urged that we should

give the paper confidentially to Finance Ministers, but not publish it and that we should also take into consideration/^{the} Finance Ministers paper produced at the last Finance Council.

The Prime Minister and Mr. Lynch reiterated the case for concurrent studies on the problems of economic convergence, and methods to achieve convergence, as well as the proposals for monetary stabilisation, and suggested that this should be dealt with in a four part statement:

1. A sentence dealing with the/^{proposal on monetary reform and the} need for study of the economies of the Nine, their resources and growth;
2. The concern of the ~~sake~~ countries about the maintenance of the snake;
3. The agreement to participate in studies; and
4. That after completion of the studies by 31 October the Council would then aim to take decisions at its next meeting in December.

It was then agreed that a drafting group consisting of Mr. Jenkins, Mr. Schuman and Mr. Lynch should meet forthwith to draft a statement setting out conclusions on the line proposed by Chancellor Schmidt, as modified by Mr. Lynch and Mr. Callaghan, without any commitment in principle but with a clear commitment to studies of both the economic and monetary aspects.

6 July 1978

GDE Margin shld be about at least as tight
as the present make

Change^{in interest} will ~~be~~ take place every
4-5 years!

|| Shld new parties be expressed in EC US
or against a basket?

hope it will have a function of its own
but at first stage will be exchanged
between Central Banks

Will not endanger life of present
make: Conjoin functioning for a time
but it will eventually enter the new
system.

- ① Don't excite the markets
 - ② Entry rate - up or down
 - ③ Obligations to adjust on Deficit & surplus
 - ④ Encourage further study
 - ⑤ Give guidance to Finance Ministers
 - ⑥ No Commitment
- By Cabinet & Parlt
would keep it down
& as rate higher
strong presence

Building the IRTF: Reserve Assets: Ample credit.
a \$ Policy.

JL Can a non Snake Member make its own wide margin?

GD/E Shld be limited but negotiated before final draft.

HS But wide margins did encourage markets to speculate.

Andrestis Can we take inflation rates into A/E in fixing entry.

How do we coordinate with broader policy.

→ Yes in fixing the rate

→ long term loans

HS Snake Countries are accustomed to changes in rates of Snake Members - between Friday & Monday.

Leo X Difficulties in Brussels because of uncertainties about Snake

? Will it be expressed in G.U.

weights will be as in E.M.U.

will be means of settlement

JL. In principle we support ~~the~~ idea

But we must have regard to realistic matters

We can't hold that convergence is adequate

→ Study economic policy as well as this monetary study on stability.

GdE Different rates of growth & inflation after Bretton Woods.

LSJ Support Two Studies (JL) Exactly if you don't have a cliff.

RJ. Must proceed in II - Convergence & Monetary Studies

Van Agt. Will it be as strong?

AS } "Will keep DM wave stable" (difference, UK & Italy join)
LJC - will make Germany economy even more competitive

∴ Must make studies in II.

GT. We are in favour // Who will operate this in next 2 years

GdE Need to work this out 1/2 year 2 years eg. Italy

HS As reports J.L.
We will not use \$ to intervene in a
Banker's currency - should be
Member's currencies

Fund will be \$50B - too big to spend
against

(P) Can meet on Sat. morning & agree on
a description
Not very flattery.

EIB. old, give long term loans like World
Bank

→ Lend loans on Com or
Lombard or wherever you wish.

Interest
Rates?

World be demanded to borrow
in ECU's. Which
will be a transfer vehicle.

(C) Will need an Institution with High Director
Bd of Governors: Finance Ministers

HS → No soft loans

We will receive a draft Agreement by end of
Oct. & conclude on Agreement
on 6 December.

This is a very short period for PR's

Slamed by Strauss & ~~by~~ some
opposition from Central Bank.
& also from private Banks

Better to have a short fight & not drag on

Two fold political purpose:-

(1) You might suffer w.t. \$.

(2) Will mean progress in European Cts.

Van Agt

1st order by Cabinet. They authorised further studies

L.J.C.

Intro commitment. Will. No. survive.

∴ Support beyond

→

As a lawyer I don't understand eg. Point 3.
Must consult M. of Finance.

Gd'E.

Cannot announce a study

Prepare for a decision

(1) Instruct Finance Ministers to meet ^{to agree a general} before
end of this month to study this
paper.

G.T.

We can't say "We have assented" before
the following points to M. of Finance
so that we don't decide & impose

Jorgens We don't say we have decided
We have discussed & we give it
to others to study.

That is the way to make progress
We must not disturb opinion outside.

Underline tomorrow that the Snake still
exists & we intend not to disturb it.

Leo We agree with ECU ^{but} the Snake must
remain strong & its existence
must remain
of the Monetary Fund.

↑ Taking into ~~the~~ consideration the
Document submitted, the EC
agree to instruct Finance Ministers
to meet before end of July
to elaborate the adequate ^{steps to}
to ~~prepare~~ guidelines ~~of the~~
independent ^{independent} ~~competent~~ Institutions] Also a statement about
Snake

G.d'E Better to have a separate statement for
specific British position

L.P. Try to find a formula we all agree on
- don't isolate - or markets will be upset

Jan Agt. Are our Finance Ministers disturbed?

That's different

L.J. In English this means a Committee
in principle that Finance Ministers
must elaborate

Androski. I was informed by Clappier
cannot accept substance of these measures
tonight or tomorrow

J.L. Support J.M.C.:

Need concurrent study on economic policy.

↳ I was told the (I.R.F.) - European was enough.

British Economic Ctee. to see if weaker

countries can subscribe & conform to the
disciplines.

HS ① Following up our discussions at
Copenhagen we have discussed
proposals system ^{to within the EC establish a} leading to a
of dose monetary cooperation (E.C.S.) leads to a
zone of monetary stability (see
the Annex)

② Sentence like Giscard. But if not
agreed: then in

③ Some Ministers will participate in the
study but receive representation

④ Benelux, Germany & France have stated
that Snake is under discussion & it
will be maintained

R.J. Before end of July.
~~Conclude~~ Elaborate by end of October.
Concurrent studies & decisions
in December

HS. Would accept → attach Document

Andreotti Give Paper confidentially to Finance
Ministers but not publish.

⑤ X Take into consideration Finance
Ministers Paper
Read out a Formula

J.L. } Concurrent studies on problems
of economic convergence & methods
to achieve them

HS. → ① Economics & Resources & Growth
② Snake Countries
③ All will participate in studies
④ After 31 Oct. ~~the~~ decisions will be taken