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~~Mr. Storr.~~

(in case you wish to
see the notes to Hamburg)

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I attach a reconstructed record of discussions at the European Council in Brussels on 16/17 July. This has been made from manuscript notes taken by the Secretary of State during the meeting. It does not constitute a full record and as of now has not yet been shown to the Secretary of State himself, who may wish to make some amendments.

It is being circulated, however, in this form in order to help those who have urgent briefs to prepare for the Prime Minister's and the Secretary of State's visit to Hamburg next week. I should therefore be grateful if recipients of this minute will treat it with care and discretion, and on an informal basis.

(P.J. Weston)
18 July 1975

- cc Sir O. Wright
- Sir J. Killick
- Sir D. Maitland
- Mr. Cloake, TRED
- Mr. Butler
- Mr. Statham
- Mr. Wilton
- Mr. Morgan
- Mr. Egerton
- Mr. Fretwell
- Mr Braithwaite
- Mr. Tickell
- Mr. Wright, No. 10 ✓
- Mr. Brearley, Cabinet Office

Chanceries:

- BONN
- PARIS
- UKREP BRUSSELS

RECORD OF DISCUSSION AT EUROPEAN COUNCIL HELD IN BRUSSELS
16/17 JULY

(ONLY THE PRIME MINISTER AND THE SECRETARY OF STATE WERE
PRESENT ON THE BRITISH SIDE. THE FOLLOWING RECORD IS
BASED ON A NOTE TAKEN BY THE SECRETARY OF STATE)

1. Signor Moro proposed that the meeting should take the following as its agenda:-

- (a) The Community after the Referendum
- (b) Energy and Producer/Consular Relations
- (c) Economic and Monetary Problems (including the meeting of Finance Ministers on 10 July)
- (d) Raw materials and co-operation over development aid
- (e) Political questions, and specifically the CSCE; the 7th Special Session of the UN General Assembly; Portugal; China; and the Middle East.

2. Herr Schmidt and President Giscard argued that economic and monetary problems should be taken first. The Members of the European Council were not in Brussels solely to agree documents.

3. Signor Moro, stressing the importance of the Community finding its way forward, suggested that there could be agreement on the Audit Court and on budgetary procedure. It would be desirable to discuss direct elections, plus international questions such as energy etc. An effort should be made to find a common position on raw materials and on monetary questions (eg progress towards EMU) and the integration of economic policy. He also instanced company law as an area where the Community could make progress.

4. The Prime Minister then spoke about the position following the British Referendum on membership of the Community. The text of his speech is annexed.

5. Mr den Uyl said that he was heartily pleased with the conclusions that the Prime Minister had drawn. But the question that was important to him was that of direct elections. He went on to propose that a Working Party should be set up to take this further. It had been understandable that in Paris the British Government had been unable to take up a position and he went on to enquire where our reserve now stood. President Giscard d'Estaing said that he wished to put a question to the British Prime Minister. The result of the Referendum had put an end to slowness in construction of the Community. What was the British position on EMU? Was it necessary that we should gradually move towards economic and monetary union?

6. The Prime Minister replied that the British answer was the same as had been given in Paris. We adhered to the ideal of EMU

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but in present circumstances it was not a practical possibility. We were however prepared to discuss all aspects on a realistic basis, but at present the differences among the economies of the Member countries were such that a homogeneous union involving a pooling of debts and resources was not practicable.

Mr Callaghan said that Britain was willing to take part in a Working Party on direct elections and would contribute to M. Tindemans' study. At the same time we would be carrying out our own national study, which might be ready by the end of the year.

7. President Giscard d'Estaing said that the principle of direct elections was the most important thing. He wished to pose a more precise question: was the UK prepared to withdraw the reservation it had placed at the time of the Paris meeting?

8. Mr Jørgensen referred to the challenge from multinational companies. It was therefore necessary to try to adopt a common position on the industrial economic order. On direct elections he explained that his Government was very sceptical but undertook to study it more closely.

9. Herr Schmidt asked that there should not be too small an interval to settle the matter of direct elections. He suggested that between now and 1978 an agreed view could be reached. But unless progress were made on structural matters we would not be able to solve financial and other questions, many of which would involve additional sacrifices for the German people. He therefore urged that Foreign Ministers should be asked to give the European Council a position paper in six months' time, based on the draft from the European Assembly. In his view a Working Party was unnecessary. On the proposal for a European passports union he asked the Foreign Ministers to make progress and suggested that if necessary they should bring in their respective Ministers of the Interior.

10. M. Ortoli enquired whether it would be possible to have a European unit of account. He thought the Commission were already doing work on a passports union. More generally it was necessary for the Community to have a clear programme of future action.

11. M. Tindemans said that he might deal with the problem of direct elections or alternatively limit himself to referring in his report to the proposals put forward by the Assembly. He had discussed the problem in the UK and France. In the UK he had encountered considerable opposition from Mr Thorpe on behalf of the Liberal Party because of the absence of proportional representation in the British system. On the other hand he had been told in France that if national systems of direct elections were adopted, then it would be impossible to have a really representative European Parliament. There was therefore a real problem to be tackled. He went on to urge the importance of finding a solution to the monetary problem.

12. Mr den Uyl said that he would prefer Foreign Ministers to do the work on direct elections. But it was important that their examination of the matter should not be confined to the proposals of the European Assembly, the limitations of which had to be demonstrated.

13. The Prime Minister asked whether any progress had been made towards a passports union since the matter had been dealt with in December 1974. On monetary matters Britain would accept any practical proposals for co-operation. As for direct elections we could accept the machinery of a report either from Foreign Ministers or from a Working Party: either would do for the purpose of examining the matter.
14. Herr Schmidt said that the Council had received a wise report from the European Assembly and outlined the recommendations it contained. With all respect to the British Liberals, we could not try to unify our election procedures. He urged that the Council should try to get a report by December 1975 and agree on it thereafter. Perhaps after 1980 we would be able to have a unified system.
15. Mr Thorn pressed the case for a study of the harmonisation of the various electoral systems. On the passports union, the Community should admit its guilt in failing to make more progress. As a remedy, he suggested, Foreign Ministers should take charge of the matter.
16. Mr Cosgrave expressed support for what Chancellor Schmidt had said on direct elections. He was glad that the British reserve seemed to have been lifted. Mr Jørgensen said that he too was willing to allow Foreign Ministers to consider direct elections, though he might have preferred a Working Party. The Foreign Ministers could draw up a report which the Council could then consider, taking into account the state of public opinion.
17. Signor Rumor enquired whether the European Council were in agreement. If so he would table a paper for Heads of Government to agree. Signor Moro commented that it was of course possible for there to be working groups as well, ie working to the Council of Ministers.

PART II (PM 16 JULY)

18. President Giscard said the recession had been deeper and longer than anyone had forecast. The technical decisions taken by different countries on floating were correct but Governments neglected the political and psychological factors which had led to profound disorganisation. Fluctuations in rates bore little relation to changes in industrial competitiveness. Member States had had little political reflection about this. His conclusions were:

(i) It was necessary to take new measures to support economic activity and employment, and these should be thought out at the Community level. This would have a positive effect on public opinion.

(ii) There should be a concertation between those responsible for major economies to arrange the monetary system in a co-ordinated manner. One should not be pessimistic about the "Snake"; two-thirds of trade were covered by it, since France had rejoined. It might be worth having studies with the UK on the techniques of floating.