

Cossiga                    General welcome. Grave times, must solve internal problems. Europe show unity.  
PMs and EMS meet at Villa Vauban after dinner.

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Cossiga                    Outlined agenda

Jenkins                   Economic situation - text available from Roy

The Dane                   We must all adjust. EMS demonstrated viability  
Taking stern economic measures

Schmidt                   Agrees with Jenkins. Worried about balance of payments (not him so much as German people).  
Deficit spending worse than anywhere else.

Giscard                   First six months economic activity high  
second - low.  
don't intend to increase budget deficit  
Europe not too bad (other than Italy and UK)  
Rest of world difficult  
Suggest review of functions of international agency to ensure aid when needed

Haughey                   1. More emphasis on convergence - too slow  
2. Concerned about high interest rates  
3. More positive role in recycling of oil money.

Van Agt                   Agrees with Commission  
Agrees that in Venice give more attention to economic situation and aid to LDCs

Cossiga  
(Italy not  
Presidency)                Need for energy policy, and balanced growth and inflation policy.  
Suggests meeting of Finance and Labour Ministers to avoid recession in trade.

Martens

In context of EMS

unemployment 7.5%

high budget deficit

balance of payments, oil and over investment

Good low inflation. High productivity, so though  
mechanism of EMS good, no progress on convergence,  
more divergence. Worrying for EMS.

EMF technical work must be continued.

Thatcher

All problems and more.

1979 better year, but 1980 worse because didn't deal  
with situation in 79. Takes longer now. Our  
particular problems - inflation high, usually the  
exchange rate falls. Not so with us, because of oil,  
unique situation. Problem of reducing deficit.

One way - VAT and then retail PI. Social ~~budgets~~  
then PSBR <sup>not</sup> ~~than PSBR~~. But must print money.  
benefits geared ~~than PSBR~~ (?).

Pressure on wages, supply and demand in oil doesn't  
work because of political uncertainty. Analagous  
easy cure more difficult.

Schmidt

Must come to terms with OPEC.

oil surplus too big

European deficit too big

One bank crash could trigger ... (?)

A grip should be taken otherwise disaster

Ortoli

Problem of recycling of oil money major one.

Monetary solution

This is a political problem

economic problem not monetary

possible by central banks.

Ortoli cont

EMS

Successful first year. Lucky as well as clever.

Monetary policies important

[Couldn't be bothered to take the rest down]

Werner

More stable than expected and so on ad infinitum

If something succeeds everyone claims parenthood

Schmidt

He was one and has been successful.

Regrets Britain not in - would have been OK

Colombo

Success but obliged to note aspects causing concern.

Difference in rates of inflation causes imbalance  
in economics

... and have now given up completely

Cossiga. General welcome. Grace King must solve internal problems  
Europe show unity  
P.D.S & F.S meet at Vella Vauban  
after dinner.

Cossiga. outlined Agenda  
Jenkins. Economic situation - text available from Roy.  
De Jaunc. We must all adjust. F.D.S demonstrated viability.  
Taking strong economic measure.

Schmidt. Agrees with Jenkins. Worried about Balance of Payments.  
(not him so much as German people)  
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Hughes. 1. more emphasis on convergence. too slow  
2. concerned about high interest rates  
3. more positive role in recycling of oil money

Van Agt.

Agrees with Commission.

agrees that in Vanice give more attention to economic situation & a to E.C.E.S.

Cossiga (Italy. Mr Pres)

need for energy policy & inflation "

& balanced growth

Suggests meeting of Finance & labour ministers to avoid recession in trade

Belgian Tarkens.

in context of E.C.S

unemployment 7.5%

high budget deficit.

Balance of Payments sur & over investment

Good low inflation. High productivity

So though mechanism of E.C.S good, no progress

on convergence more divergence. Worrying for E.C.

E.C.F technical work must be continued.

Thatcher

All problems & more.

1979 better year but so worse because didn't deal with situation in 79.

Takes longer now. on particular problem inflation high usually than exchange rate falls. NOT-

so with us. because of oil, unique situation

Problem of reducing deficit. one way V.A.T.

& then retail P.I. Social benefits geared to P.P.

(cont)

But: hard print money. pressure on wages  
supply & demand in oil doesn't work because  
of political uncertainty. Analogue easy Euro  
more difficult.

must come to terms with O.P.E.C

oil surplus too big

or European deficit too big.

1 bank crash could trigger reaction.

A grip should be taken otherwise disaster

problem of Recycling of oil money major monetary solution one

This is a political problem

economic problem not monetary  
possible by central banks

Ortiz.

Successful 1<sup>st</sup> year. lucky as well as clear  
 monetary policies important.  
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more stable than expected. & so on. ad infinitum

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if something succeeds anyone claims parenthood  
 He was one.

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Success but obliged to note aspects causing  
 concern. difference in rate of inflation causes  
 imbalance in economics.

& has now given up  
 completely

# UK Budget Problem

which meant that the 538 proposal at Luxembourg was not available

Here  
Jenscher told the meeting in Naples that the  
Jelmaas had a real budgetary problem in 1980;  
but that the situation would be easier in 1981  
and 1982. He also proposed that Ecofin ~~should~~ <sup>should</sup>  
deal with the figures. He implied that there would  
be a three year solution, with the figure for 1980  
well below the refund to the UK <sup>well below that</sup> envisaged in Luxembourg <sup>(IE 1250 in the German view)</sup>  
& the figure for 1981 + 1982 possibly higher. He  
repeated this privately to Lord Carrington, adding that  
there was no psychological blockage in Bonn, but  
a real  $\pounds$  budget problem. The 1980 Supplementary had  
already gone to the Bundestag <sup>(without sufficient money for the 538 proposal)</sup> & it was impossible  
to find another before the German elections.

2. The story received in the Starkest

Confidence from German officials casts a slightly different



light on the situation:-

(a) Genscher, whose ~~relationship~~ <sup>relationship</sup> with Schmidt are at present strained, feels that he has shot his bolt and that Schmidt + Matthofer must settle the matter between them;

(b) ~~there is~~ <sup>Schmidt</sup> ~~is~~ <sup>has</sup> certainly a psychological blockage due to the rejection of his "oungenerous" offer in Luxembourg + the discussion here about fish;

(c) Lahnstein believes ~~the~~ <sup>with</sup> great firmness that <sup>in 1980</sup> there is insufficient money available within the 1% ceiling and that only about 800 is available; to justify the 538 proposal <sup>before Venice</sup>

(d) nevertheless it may still be possible to reestablish <sup>than Luxembourg</sup> something close to 538 for 1980 + <sup>letter</sup> from our point of view for 1981 (though possibly not for 1982 because of the VAT ceiling) if we can solve the fish problem + ~~reestablish~~ <sup>restore</sup> communication <sup>top</sup> between the Chancellery + No 10 Downing St.

1. ENERGY

Jenkins

Serious situation ease for Community action. Should act together. Prices not reflected increases because of taxation. Too much difference to talk about common market. Must harmonise prices - will take years. Start now. Commission thinks additional spending of 1 billion MEUA. If nothing done continue to diverge. New sources. Conservation investment imperative. Therefore to finance prices must be raised. First reading debate no detail possible today.

Schmidt

Urge our nations to supplant oil by other means for generation of power. (Wouldn't hurt Britain). France and Belgium done well. German public doesn't like nuclear. Needs help for all of us here.

Links between IEA trigger and EEC energy policy.

Giscard

Sceptical about making available extra funds because of CAP and British problem difficult without Council examining to agree to anything. Anyway no money and can't go above 1% VAT. We are confederation and some subjects must be national. French big programme. Not asking for money Foreign Ministers should pressure OPEC.

/Werner

Werner Goes along with everyone particularly everyone!  
A contribution out of proportion to the importance or population of this country both in its length and content.

Haughey Wants any statement about nuclear power to come from Commission and not Presidency. (Political sensitivity)

Giscard & Werner In dispute over their nuclear power station agreement and safety [private row but quite enjoyable]

Jenkins Nuclear essential to fill gap. Defends small Community energy budget. (To general disapproval and shaking of heads).

Dreaded Dane Nuclear power. Danish not yet decided on scope of nuclear. Certainly not fast breeder. No conclusions about nuclear will get support of Denmark. Suggests government to government purchase of oil and suggests Community policy. Supports saving proposals.

Schmidt Goes along with Haughey and appears to the Dreaded Dane to come along. Doesn't cost anyone anything and he needs a statement. Industrial world needs nuclear. Otherwise catastrophe.

Cossiga Also urges DD to repent. (With eloquence, style and some repetition).