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Euro Pol
Mr Wright



Foreign and Commonwealth Office

London SW1A 2AH

14 March 1975

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BA
Mr. Armstrong

may want to see
(I doubt when the PM is
with the EU - this ?)
I agree; but nice
to know it exists.

Dear Patrick,

Records of the Dublin Meeting

... I enclose with this letter copies of records of the main meetings at the European Council in Dublin on 10/11 March. I should emphasise that these are reconstructions from manuscript notes. The Foreign and Commonwealth Secretary has seen them and has pronounced them to be broadly accurate. But they should be regarded as giving a general impression of discussion rather than a note-takers record. We are giving them a limited distribution within the FCO, with an instruction that they are not for direct quotation.

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I am sending a copy of this letter with the enclosure to Chris Brearley in the Cabinet Office and to Bailey (HM Treasury) and Kearns (MAFF).

Yours
ever
John

(P.J. WESTON)

Patrick Wright, Esq.,
10, Downing Street,
S.W.1.

cc Euro Pol April 74
(Budget)
Euro Pol Pt 2
(Access to Commonwealth
fund)
Power 162
(International Energy)

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Registry No.

DRAFT

Type 1 +

SECURITY CLASSIFICATION

Top Secret.
Secret.
Confidential.
Restricted.
Unclassified.

To:-

(Reconstructed from Mr. Callaghan's notes.)

FROM

Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

RECORD OF EEC HEADS OF GOVERNMENT MEETING AT DUBLIN CASTLE ON MONDAY 10 MARCH at 1500.

Mr. Cosgrave suggested that the order of business should be:

- (1) ~~The ^{General mechanism for the Community} Budget~~
- (2) New Zealand
- (3) Energy Questions
- (4) The "new international economic order" ^(N.I.E.O.) - raw materials and commodities.
- (5) CSCE
- (6) Current political questions
- (7) The world economic situation.

The following day the meeting could return to the question of the budget, New Zealand and energy. He suggested that the Heads of Government should issue only a minimal number of declarations and that these should be short and specific. He hoped that the meeting would be successful.

Mr. Wilson then made an initial statement on the lines envisaged covering the British Government's general attitude to renegotiation, steel, the Budget and New Zealand. He also made it clear that the British Government would not raise any new points before the Referendum.

Herr Schmidt suggested that the meeting should concentrate on the budgetary corrective mechanism first and then New Zealand and Mr. Cosgrave indicated that this was agreed.

Signor Moro said that the Italian Government had always been in favour of enlarging the Community and Britain should bring its ^{own} ^{share} ^{of} influence and its democratic ideals to bear in world affairs./

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affairs. As there were ^{many} no other issues to be raised it was important to get over the present delicate phase. Heads of Government should therefore ^{reach} urge a rapid conclusion. As regards the Budget it was his view that the difference between VAT on the one hand and levies and duties on the other was not a real choice. It was the levies and ^{levies} ~~tariffs~~ which could cause an imbalance especially as countries with ^{large or high proportion of} much overseas trade would have large sums of money involved. The Italian Government thought that the ^{corrective} ~~corrective~~ mechanism should be based on levies plus duties plus VAT. The requirements that the increase in GNP should be lower than 120% of the Community average would damage countries which started from a lower point. He favoured the abandoning of the 2/3rds rule and the balance of payments criterion which introduced a political question into the mechanism.

M. Thorn ^{had} said that he followed the content of Mr. Wilson's statement with satisfaction and especially the fact that no new problems would come up before the Referendum. In other words the question of steel would be raised in the normal way of Community business. The Commission had tried to take into ^{of} account the British case in a fairly generous way. The figures under discussion which had been put forward by the Commission were adequate although Heads of Government could discuss them if they felt it necessary. As regards levies and duties he had some sympathy with the French President. The British case however was not without merit particularly since the present system was being tampered with in any case. He thought it right to discuss the balance of payments criterion. He understood the arguments on this but the system would have to be changed. It had to be established for example whether ^{the balance of payments situation} it was due to excessive movement of capital. Possible alternatives might relate to whether balance of payments were in surplus over a period of years/

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years or to capital movement. Because London was a major monetary centre, these ^{factor} should be taken into account.

Mr. Joop den Uyl said that he had listened to the Prime Minister with satisfaction and especially to the fact that no new points were to be raised and that the UK did not claim to have any special status within the Community. In the light of this statement ~~xxx~~ it should not be impossible to resolve the outstanding points. As regards the Commission's proposals relating to balance of payments surplus the UK difficulty over this was reasonable. Objection had also been raised to the 2/3rds ceiling which was not quite so reasonable. ~~As regards the~~ VAT objection he said that ^{he} had little sympathy with ~~it~~. It was difficult to follow the Commission's thinking but he was ready to agree to ^{the proposals, taking into account all the Commission's proposals} taking into account all the Commission's proposals. To sum up, the balance of payments criterion should be removed; so should the 2/3rds limitation. ^{The mechanism} ~~This~~ should apply to any country in difficulty since those who were strong today could be weak tomorrow.

M. Tindemans said that as regards the corrective mechanism Belgian experts thought that it was necessary to be very careful before departing from the Commission's proposals. If this were done each delegation could raise its own points. The Belgian Government therefore strongly urged that Heads of Government should depart as little as possible from the Commission's report. If they did the Belgian Government would have some proposals to put forward.

The argument that a distinction should be made between the VAT finance of own resources and the levies and duties franchises

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Mr Nørgaard said that it would be a catastrophe both for the Community and the UK if it were not possible to come to an agreement in Dublin. The Danish Government would contribute to any reasonable solution. The questions raised were so minimal that it would be unreasonable not to arrive at an agreement. The Danish Government supported the UK in their wish to remove or to attenuate the balance of payments criterion. It was paradoxical to punish a country for improving its balance of payments. It was also wrong to include only the VAT in the calculation because this would be a minimal amount. He endorsed Mr Wilson's proposal that these questions should be solved and that experts should be asked that evening to draw up a paper with as few square brackets as possible. Herr Schmidt said that in view of Mr Wilson's domestic situation he welcomed the first part of his statement. It was what the Heads of Government could have expected. As regards the budget, the German Government had accepted the Commission's proposals so far as a basis for discussion. They had been right to do so but he could not entirely agree with Mr Tindemans that the figures should be left to experts since in Germany this could marginally affect their schools programme or social policy (as the Regional Development Fund had). For him it was a

political /

political matter of the highest order and not a matter for experts. Both when he was Finance Minister, and now as Chancellor, it was a very difficult question to decide how high a sacrifice he could expect from his own tax-payers. In the past he had been in profound conflict with Herr Brandt and now he was in the same situation with Herr Apel. The Cheysson Fund and the subsidy for hill farmers had been expensive. Germany could not finance all the costly inventions of the Commission at a time when their GNP was stagnating. It affected the implementation of Germany's domestic policies. They were meeting their expenditure from credits and not from revenues. The cardinal issue was how large could he expect his tax-payers' sacrifice to be. He was facing elections in Germany also. For this reason he could not agree with Mr Tindemans. He had two critical comments on the Commission's proposals. In the first place, the order of magnitude of the refund was too big for him. The Commission avoided the issue by talking in percentages but it was possible to make a forecast and to fill it with specific figures. It was too expensive for the German Cabinet. The Commission's proposals, taking into account the two-thirds limit, would cost 420-430 m.u.a. His Cabinet margin for negotiation was about three-fifths of this order of magnitude, i.e. about 250 m.u.a.

President Giscard /

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^{he knew}
← President Giscard attached much importance to the maintenance of the "own resources" system. The Commission's proposal had not wholly but partly left aside French and German objections. Limiting the refund to the VAT slice ^{might not deal adequately with the problem.} was ~~not yet adequate~~. Personally he was prepared to consider the inclusion of levies and duties but in a degressive manner. In this respect he suggested that from 1976-1982 the divergence should be taken into account in a degressive manner, e.g. 80% in Year One and ^{declines} decline by 10% or alternatively 90% down to 30%. In this way it would be possible to envisage a clear situation at the end of the seven-year period and by then the position as regards the flow of foreign trade would have sorted itself out. It was possible that such a modification would ease the two-thirds limit which Mr Wilson had referred to. As regards the balance of payments criterion it was necessary to think in the longer term. The payment of the refund represented a negative factor in the balance of payments account of those who were making the repayment. Why should they help those whose balance of payments had ~~also~~ so much improved? The Commission's proposal in this respect was reasonable.

President Giscard d'Estaing said that the Commission's task was complex and rather ambiguous. Their proposals were not perfect but formed a basis for consideration. First he would like to ask Mr Wilson a question. He understood that he could not
commit/

commit himself since his Cabinet colleagues had to have their say. But even if he could not commit himself other Heads of Government could not go back on conclusions they had reached. In the very positive comments which Mr Wilson had made on the UK's future contribution in Community activities, did he include Objective of Economic and Monetary Union? the aims of EMU? This was a basic point for all Community countries since some doubt had been expressed in the original negotiations. President Giscard then said that the system of "own resources" was not respected in the Commission's proposals. He agreed that it was unacceptable that there should be large differences of standard of living between EEC countries as a permanent feature but Heads of Government were creating a precedent. There would be other candidates in due course - Greece, Portugal and Spain for example - all with economies that means lower than the average. They too could not be denied a correction and it would be tempting for them to join on their terms. He saw very great difficulty and danger in getting away from clear and coherent principles, i.e. the "own resources" system which embraced the universal idea of a Customs Union. This took the whole question of financing the Community out of the national field and there was now danger that they would be putting it back into it. There were difficulties in evolving suitable criteria. For example, a country with income per head slightly more than average but with a low growth rate and a deficit in balance of payments would pay more than a country which had low income and a surplus in balance of payments and a fast growth rate.

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If the ^{criticism was} ~~The~~ balance of payments ~~criteria were~~ left aside for deficit countries, it could be left aside also for surplus countries. ~~Tax-payers would pay for the product, they purchased at the same price, depending only on whether they came from outside or inside the Community.~~ There might be a negative contribution as regards tax in a local Community. ~~The VAT ceiling therefore was automatic unless the "own resources" system was done away with.~~ He found Herr Schmidt's proposal for a certain limit for transfers to be very positive. Large contributions had been expected from the Germans in the past. He approved of Herr Schmidt's ideas and thought that proposals could be devised in order to create other limits.

Mr Callaghan said first that as regards EMU, the UK had subscribed to the communiqué following the December Heads of Government meeting. We had nothing to add or to subtract to that. Secondly, the balance of payments criterion must be removed. Thirdly, he was prepared to examine degressivity. Mr Gosgrave said he would like to identify the questions to be settled :-

- i) should the balance of payments be taken as a criterion? A number of Heads of Government wished to drop it; others wished to retain it.

- ii) should the duties and levies element be gradually phased out or reduced?
- iii) what should be the amount of the refund and was that only to be taken into account?

Herr Schmidt asked whether the VAT ceiling was challenged by anyone and Mr Callaghan said no. President Giscard suggested that some points be studied further and some referred to experts. The experts for example could consider what would happen if degressivity were taken into account on levies and duties. And also the linked question of whether the two-thirds limit should be maintained in that case. He did not want to revert to the balance of payments point at the moment. Herr Schmidt said that the limit on the total refund must be taken into account and Mr Callaghan commented that that was not a matter for experts but for Heads of Government. Herr Schmidt said that the figure which he had previously expressed in units of account was a maximum. He had no intention of losing his Minister of Finance. Mr. Tindemans then read out a list of costs per head of population in 1972 for the Six original members of the Community. He also gave comparative figures for Ireland and Denmark and for the UK after the Commission's corrective mechanism had been applied. [These figures were subsequently ^{available} circulated in writing.] Herr Schmidt asked to see these statistics in writing and said that he distrusted other people's figures. They were interesting but they did not help him. His was a Federal Government which had to be financed from

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a small federal budget. Mr Callaghan asked what period Herr Schmidt was taking for his figure of 250 m.u.a. He hoped this was not an immutable figure forever. He might be able to consider it for a short period. ~~Mr Joop dan Uyl said it was unacceptable that a country with a balance of payments surplus should get a repayment.~~ Mr. Wilson said that Herr Schmidt's statement must be taken seriously. He agreed about the ~~limitations of~~ difficulties of statistics. Was it possible for Herr Schmidt to suggest a budget limit for a period of years? (Mr Wilson gave no indication of the period he had in mind.) Secondly, if the experts were asked to make a study on the lines envisaged how would that affect Herr Schmidt's budget problem in the longer term? Herr Schmidt said that as regards the first point his Finance Minister was aware that every additional unit of account that was spent meant an additional number of DMs in his budget. The experts had calculated from the Commission's proposals that in 1980 there would be a refund of 400 m.u.a. and even more than that in 1981/1982. He must therefore limit the refund ~~to~~ roughly speaking, to 250 m.u.a. in 1980.

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Mr. Wilson said that Herr Schmidt seemed to prefer figures to percentages. Mr. Callaghan asked whether his figures were drawn up before the correcting mechanism had been applied and Herr Schmidt said no.

M. Giscard d'Estaing said that the discussion was very speculative. He hoped it might be possible to translate it into ^{clear} ~~net~~ financial terms.

M. Ortoli said that M. Tindemans was right and that his figures showed that there was a burden on the UK. The Federal German budget was 13% whereas it amounted to 30% in a country with a centralised government. It was difficult to refine the figures further. Who knew for example whether tariffs would be lower in the future.

Mr. Wilson said that if degressivity was to be examined it must start at 100% and then work down and the 2/3rds maximum ~~must~~ be scrapped.

Herr Schmidt suggested that a series of tables of figures should be put up. Degressivity could be from 80 - 10% and 100 - 40% with a scale in between. These should be in absolute figures and the ^{2/3 rds} ~~2/rds~~ maximum should be dropped.

M. Ortoli suggested taking figures of 5,000 MUAs and 8,000 MUAs for the Community budget. Herr Schmidt said that the calculations should not be on today's prices and should go as far as 1982. The Commission should take the the Chair of the Working Group.

Mr. Callaghan/

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Mr. Callaghan said that on the basis of the 1975 figures the Community budget would be between 6.5 and 7,000 million units of account in 1980. M. Giscard d'Estaing said it would go beyond 6.5 thousand MUAs in 1975. By 1980 it would be over 8.5 thousand MUAs. It was impossible to do a projection for 1981 or 1982 when the budget could grow to 9.5 thousand MUAs or even 10 thousand MUAs. Mr. Callaghan said that this was a dangerous operation because either the gap would be proving to be growing ever larger for the UK if the German Government stuck at 250 MUAs for the refund or the UK would have prevent any extension of the Community's activities in the future in order to keep the budget low.

M. Giscard d'Estaing commented that no country would be able to prevent the growth in the budget. All had tried in the past to do this and had failed.

Mr. Fitzgerald suggested that it would be right to stick to 1975 prices because if 250 MUAs were the maximum then the bigger the budget the smaller the value of the figure.

In further discussion M. Sauvagnargues suggested that the figures of 6, 7 and 8 thousand MUAs should be taken as examples.

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