

TRANSCRIPTION OF THE FOREIGN AND COMMONWEALTH SECRETARY'S NOTES
OF THE MORNING SESSION OF THE EUROPEAN COUNCIL, TUESDAY,
5 DECEMBER 1978

The Dutch

On para 3.1. Accelerated implementation of existing loan programme.

On para 3.2. Interest rate subsidies 2%. Not on all loans, only new additional loans.

On para 3.3. Preference for a special edition of the Regional Fund.

The Commission (Mr Jenkins)

Wider questions raised by the Prime Minister may be a problem, but one cannot exclude MCAs. MCA: as a consumer subsidy rather than export subsidy.

On para 3.2. (accept). 3% interest subsidy. Difficulty in applying this to new loans from now since the Ortoli facility already applying. Makes the Ortoli facility ineffective.

Para 3.3 accept.

Luxembourg

On para 3.2 prefer 2% interest.

On para 3.3 prefer a special section of the RDF rather than a special credit line.

Danish accept para 3.3.

Belgium accepts para 3.3.

Prime Minister (general introduction)

Essential for the EEC to tackle the problem of convergence.

EMS must be seen to be compatible with the long-term objective

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of narrowing the gap between less prosperous regions and countries.

- "Not the task of the Community to make it more difficult to secure this convergence."
- "If the convergence of the Community is an objective then the Budget must reflect this objective."
- "Concerned at the way the burden will increase."
- "Underlying trend clear"
- "By 1980 our net contribution is 1,000 million m.u.a."
- "Britain will be the largest net contributor"
- "Present resource transfers greatly out of balance"
- "You all complain that we are not Community minded. The real trouble is that when I stand up at the Dispatch box in the House of Commons I am unable to point to any real tangible benefit from EEC membership"
- "Interest of fulfilling commitments (quoted from para 9) - not criticising principles of CAP - not asking for ~~xxxxxxxxxx~~ dramatic changes in contribution"
[i.e. the British draft]
- Circulate the documents. "Our contribution to the Budget is becoming so onerous that I must repeat I cannot accept anything which worsens our position."

Signor Andreotti

"Cannot stress enough the importance of having a statement of solidarity with the less prosperous countries." Objective problem and a psychological problem.

Must reduce the public deficit.

Development of the south of Italy essential politically.

Minimum of economic growth.

Community aid earmarked for the south of the country must enable us to show that there is a policy of solidarity, policy of compensation

- we should put into the statement the text circulated by Prime Minister Callaghan.

Head with disappointment suggestion for lowering interest rate ^{subsid} to 2% - our proposal is to increase it to 4%.

More important to consider the amount of resources to be transferred - within this overall figure flexibility of ways in which the money should be spent.

On para 3.4 agree must not be spent on distorting competition. - Schmidt would like to add "specific industries within" member states - seemed to be agreed as a drafting change.

Herr Schmidt: what is the figure you have in mind for stating the overall amount.

Signor Andreotti: We thought of a figure but it might be better to hear proposals. As far as loans are concerned for 1979, we already have 1300 million units of account. If 4% interest - 326 thousand units of account. Additional loans 1,000 million units of account - 250 thousand units of account. Increase in Regional Fund earmarked for Italy 125 million units of account.

Herr Schmidt: Very depressed by discussion speaking for Germany. Some 7 months ago we put ideas forward. French President felt would contribute to study growth - more employment.

We made concessions yesterday which reached the limit of our constitution.

Easier to steer German economy. If we decide to make a contribution we do so for European reasons. Easier to manage economy alone - in the Snake shown our will for solidarity.

Demands put forward for renegotiating for the third time.

RDF revised.

CAP revised.

My interest in this whole operation will melt away very fast.

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Can understand concern by Prime Minister but if the UK is not going to participate in ERR no consequences for GB. No need for change in Regional and agricultural policies. ~~No cause why know opportunity to take this all up again.~~ No advantage in risking our currencies - why in addition I should make further financial sacrifices which would take the form of extra taxation.

Mr Schmidt: clarified that the nature of the loan would be the Understanding for Italian position.

Also understanding for Irish position, particularly if Ireland was to join and the UK not. Money market for Ireland/~~London~~ capital market for Ireland/London currency union would now be dissolved. Agree creates a special situation.

Things are getting out of hand. Prepare ourselves for failure.

Mr Lynch

Entry would raise major economic difficulties. Approach will depend on the degree of assistance we can get.

Our situation is unique - explained our difficulties - our economy remains in the course of development.

- GNP lowest per head in the Community.
- Unemployment rate the highest, touching 10%. Reflects our demographic situation.
- 50% under 25.
- Young people entering employment market 3 times the average of the Community.
- Economy very sensitive - over 30% of GNP exported.

Pursuing strongly expansionist policies:

In the absence of Community support would impose strongly deflationary pressures.

Agree with Prime Minister major effort must come from the countries themselves. Investment ratio 30%, inflation less than 8%.

Need 200 million ECU's each year for 5 years on the basis of all member states participating. If all do not participate our needs

/would

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would be considerably greater.

- On the basis of this allocation would like it in the form of cash transfers - cash grants not interest-free loans.

I repeat, if all members do not participate our problems are much greater.

Herr Schmidt: clarified that the ^{maturity} of the loan would be the normal ^{time}.

Mr Lynch: proposed 5-year loan period. Open to argument about the allocation - interest subsidy rate should be 4%, preferably 5%.

President Giscard: Theoretical comments, agree ~~with~~ ^{that} transfers of resources will be carried out for the benefit of the countries participating in the ERR.

Wrong to talk about the RDF. We discussed this question a year ago. We fixed the resources - agreed then we should not question the allocations every year - France agreed not to claim what was considered fair by the Commission experts - if we join the ERR France would request that we should have some share as the Commission agreed - problems in ~~the~~ S.W. France. We will raise this at the appropriate time. Listened to Mr Callaghan. Britain not prepared to give up share even if not participating - so I consider we should stick to last year's RDF not reopen discussion.

Transfer of resources - Andreotti ^{considerable} ~~concordable~~.

On paras 3.1 and 3.2, Lynch rather high. If we are to do so either loans from ~~PLB~~ or interest rate subsidy - could agree to 3%.

Discussion with centre on the amount of the transfer. Distribution between loan and interest can be flexible - technical.

Herr Schmidt (speaking from the Chair): Further comments.

Prime Minister: Understand the Federal Chancellor's difficulty. Germany has been the pay-master. I also think that what you produced in Copenhagen was ^{remarkable} ~~reasonable~~ - the acme of German influence.

Would not like this to slip away.

/I do

I do not ask for any renegotiation. All I ask is for the policies to become effective. Told myself that the convergence of our economies would make these issues less important. Hasn't happened. Whether our fault or others' fault - not a question of renegotiation.

On para 3.2 very little difference to achieving a convergence but as a matter of principle I could not agree to introduce something which would worsen our position - one step back.

Why I want to rededicate ourselves in ~~resisting~~^{revised} para 4. Not tactically part of EMS but in Bremen durability would depend on convergence.

Herr Schmidt: Remarks on principle do not want RDF % to be changed.

Danish: Benefits cannot just be assessed by contributions - agriculture comes to some via the prices, others via the Fund. (2)

British calculations do ~~to consider payments into and out does not take~~ account of MCA - if you calculate MCA UK is a net receiver from the Budget. But I recognise after European Council March 1975 March 1977 ~~not~~ UK claim - Support para 4 addition. Must be assessed in its entirety.

Mr Jenkins: Not get diverted on MCAs.

I regret I ever launched this scheme. I hope nobody would be in any doubt as to how serious....

- a major shock to the Community
- burden of enlargement become greater
- direct elections would become a liability without any momentum.

At Bremen. Concurrent studies to help less prosperous members to come into the scheme.

Envisaged in Bremen that the countries not participating would be the beneficiaries of concurrent studies.

Danish:

- Energy
- Industrial

Support for UK para 4 on the basis UK will make a positive contribution.

President Giscard: Dont share the over ^{dramatisation} ~~demonstration~~ of Mr Jenkins. Zone is our aim, ^{it's} ~~whether~~ we wish to pursue. Not compulsory - yesterday defined the machinery - now for member states to decide if they wish to participate. The system will not be called in question by a country deciding that the compensation is not sufficient to join at present. The Italians and the Irish must decide whether they wish to participate not asking for anything more but will not accept anything less - ? transfer of resources.

(Giscard can't fully understand why Britain cannot change RDF, nor can we.)

~~xxxxxxxxxx~~ Why crucial to have made the progress we did yesterday on the system.

Herr Schmidt: Quotas not changed to the detriment of Great Britain.

RDF taken out of consideration.

There remains question of Italy, ^{and Ireland} in case Lira ^{is} ~~come~~ in the ERR. - For these two countries there ~~xxxxxx~~ is a risk - an additional capital import. Necessary any country ready to contribute large capital import to support Irish balance of payments. EIB. Gilt-edged loans. Objectivity necessary.

Maybe necessary for capital imports for Italy - no need for budget transfer.

Interest rates subsidised - can't understand why they should be retrospective. Jenkins says on existing facilities but again I protest no need to retrospectively ^{give} existing windows.

/Prime Minister

Prime Minister: Danish net recipients. Cannot settle MCA today.

I am glad he accepts new para 4.

We largest importers of food - buy now from Denmark products we wouldn't ~~particularly~~ ^{provisionally} have bought.

MCA legal and administrative instrument. ^{Content} ~~Commitment~~ for MCAs to be struck out of the account on both sides.

Signor Andreotti: Each of us must always realise the position and the difficulties of other members. Mark ~~is~~ strong enough not to need help but ~~subsidisation~~ ^{stabilisation} will help Germany sell their goods.

Mr Lynch: What would be the position if the UK does not participate in ERR. What happens to the % in 3.1 and 3.2? What is French President's attitude to the special fund? Industrial ^{agreed} in ECOFIN.

Herr Schmidt: No agreement on 3.3. Always under dispute.

M. Simonet: Would the 400 million cover exclusively EIB?

Herr Schmidt: Not cover RDF.

Mr Lynch: If Britain did not participate....

President Giscard: RF - 400 million interest rate subsidies. Britain would not contribute to this financing.

On para 3.1. 1000 billion. Interest rate subsidies 3%. Maturity of 15 years. Would need 200 units of account in cash ~~automatically~~ ^{annually}.

Signor Andreotti: Must apply extraordinary rules to cover. FEOGA 3 billion. Industrial programmes.

/Herr Schmidt

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Herr Schmidt: If it all comes down to finding more resources.
- 400 EUA available an additional burden for interest subsidies,
who feel concern that a weakness of their balance of payments
need a capital import.

President Giscard: What is the additional budget burden.
Maximum of 400 million annually over next few years.

Mr Lynch: Extent of our loan obligations already 30% of GNP
so additional burdens could not take place.
? Extent of 3.2.

Herr Schmidt: Now point of decision. No ~~observation~~^{attention} of Regional
Fund.

President Giscard: You are very generous. Cannot ask Britain to
participate - so 400 million former Snake countries.

Herr Schmidt: Understand you. France did not contribute 3.1 or
3.2. Are you willing to contribute to a lesser degree?

At some stage it will be very important to establish that the
formulae applying in 3.2 and 3.3 are whether we are in or out?
Or are only if in? Or only if out?

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Signor Andreotti proposed that the following should be added at the end of paragraph 3.7:

"Special rules are to be introduced for the treatment of balances accumulated by a creditor country whose currency persistently lies outside the divergence threshold while the debtor country's currency is not itself divergent."

Extremely important point - cannot give up.

Herr Schmidt

Ought to introduce system of innocent credits.

M. Ortoli

Finance Ministers split 7:2.

President Giscard

On para 3.6. Nodal point - if we restore 3.6 then the problem over 3.7 and innocent debt becomes more manageable.

On para 3.7. 45 days. [Compromise for the Germans clearly already agreed.]

[Not clear who speaking] Arguments on para 3.2.

1. Surely member states of the Community are in a different category. Why involve the Commission?
2. They could be present but not vote.
participate
3. Is it intended to exclude the 3 new member states who are unlikely to join the ERR.

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4. Is it possible to break down the central banks' day-to-day operations from the meeting of Ministers.
 5. Exclude the Commission.
 6. Surely if they want a member state currency outside the system to try and keep within the band they need to be aware.

Signor Andreotti

Even more disappointing than we thought at the outset.

Gradually taken on the appearance of the old Snake.

Obliged to reserve my country's reply. Need a little more than 2 days. Reply within a week. Hope it will be positive. Consider it a political defeat.

Night of Sunday and Monday. Cannot force matters beyond certain limits - do hope new mechanism will be useful.

Mr Lynch

Over past few days strong desire to participate in its fullest possible context. EMU fundamental aim of the Community. Sought terms we considered would be necessary. Received general measure of understanding. As of now cannot give a positive indication that I will give a positive recommendation. Like to consider the matter further - consider whether there could be any further basis on which we could consider joining.

Unforeseen measures further basis. Council would have regard for ~~their~~ special factors.

Any other possible basis above and beyond....

France: different from Snake.

Schmidt: different from Snake.

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