

PART III

SUMMARY RECORD OF DISCUSSIONS

(a) MEETING AT 4 p.m. ON 19 OCTOBER

Economic and Monetary Union

The French Finance Minister (M. Giscard d'Estaing) as representative of the host country, reported to the Conference on a meeting of Finance Ministers which had taken place at lunch that day. He said that they had decided to carry a step forward the decision about the creation of a European Monetary Co-operation Fund, which had been taken in Rome on 12 September, and had agreed that it should come into being on 1 April, 1973. They thought that it would be desirable to mark this event in a solemn way and also to settle some of the details of the operation of the Fund by a formal agreement between Governments. It would also be necessary to appoint an agent for the Fund.

2. M. Giscard d'Estaing then spoke about short-term credit facilities and the narrowing of margins on which it was agreed that the system should be renovated. There had been some discussion about increasing the resources for short-term support. It had been decided to invite the Committee of Central Bank Governors and the Monetary Committee to report before 30 September, 1973, on this question.

3. There had also been discussion about the possibility of a progressive pooling of the reserves of member countries and it had been decided to call for a report by 31 December, 1973.

4. M. Giscard d'Estaing said that Finance Ministers had also discussed the co-ordination of their positions as regards international monetary reform. The ground had been prepared by their agreement on the eight points at their London meeting in July. They had reaffirmed the principle of reaching a common attitude.

5. The Chancellor of the Exchequer agreed with M. Giscard d'Estaing's summing up. He said that the Finance Ministers' decision on the Fund had been criticised as being a little vague so far. It was therefore an important decision to set a date for its creation. He also agreed that it was important to present a united front in international monetary reform discussions or, if this was not fully possible, at least a co-ordinated approach. The Summit Communiqué should go as far as possible towards stating that there would be agreement on a common position.

6. The Danish Finance Minister (Mr. Per Haekkerup) also agreed with M. Giscard d'Estaing's report and with the principle of a common stand in the international monetary negotiations. He recalled, however, that Denmark was not represented in the Group of 20 and would therefore have to co-ordinate its stand with Sweden and Norway. In this respect, Denmark would be a communicating link between Scandinavia and Europe.

7. The Netherlands Finance Minister (Mr. Nelissen) expressed some reservation about the idea of a "Treaty" to set up the Fund. This would have to be looked at carefully in the next 2-3 months. He was in favour of going particularly far in the Summit Communiqué about adopting a joint point of view in the international monetary negotiations.

8. *The German Finance Minister* (Dr. Schmidt) said that Germany was in favour of joint efforts both for internal stability and for the reform of the international monetary system. The German Government were grateful to the Commission for their efforts to work out an anti-inflationary programme for the Council of Ministers to consider at its meeting on 30-31 October in Luxembourg. He wished to make a few remarks about the content of such a programme which, in the German Government's view, should include control of excessive credit expansion; the reduction by central banks of their commitment on the Eurodollar market; a restrictive budgetary line in 1973; reduction of prices through a reduction of the common external tariff which would have a striking effect; the adoption of certain steps to reduce agricultural prices, while maintaining the Common Agricultural Policy, especially the prices of meat, butter and potatoes; full use of existing arrangements to keep down prices by competition policy. He said that he was not losing sight, however, of the fact that some countries had employment situations which made their situation rather different.

9. *The Italian Finance Minister* (Sr. Malagodi) was in broad agreement with M. Giscard d'Estaing's report and on the proposals for the creation of the Fund and for the preparation of reports on short-term support and pooling of reserves.

10. *The Irish Finance Minister* (Mr. George Colley) was also in broad agreement, with two provisos. He agreed that a common approach in the international monetary negotiations would be valuable. But it might be difficult to attain it and if it was elusive there should be a "co-ordinated approach" as the Chancellor of the Exchequer had proposed. In the circumstances he thought (with Irish logic) that the Summit Communiqué should say that the aim was a co-ordinated approach. Secondly, he thought that it would not be possible for the Summit to specify what anti-inflation measures should now be envisaged. This would have to be done at the Finance Minister's meeting at the end of the month.

11. *The Belgian Finance Minister* (M. Vlerick) expressed some reservations about the idea of a formal agreement. He thought that this and several other points mentioned by previous speakers would need careful examination before a final position was taken.

12. *M. Werner* said that as he was also Prime Minister he had not been able to attend the Finance Ministers' meeting. He welcomed their decision on the Fund. He was however rather surprised at the different dates M. Giscard d'Estaing had mentioned for reports on short-term support and reserve pooling. The latter question was more important and it would not be possible to advance a great deal further in the three months between the two dates set. Since it was important to have a study of the question on reserve pooling available in connection with decisions to be taken about the move into the second stage of EMU on 1 January, 1974, he suggested that the report on reserve pooling should be advanced by at least three months. He also suggested that a decision might now be taken to increase the resources put at the disposal of the Fund at the beginning, perhaps to 10 per cent of the total reserves of Member States. Finally he wished to link recourse to the Fund with the rigour with which countries observed the Community's concerted stability measures.

13. *President Pompidou* said that it had been agreed that the Fund should, at the beginning, be provided with 1.4 milliard units of account. He would be in favour of rounding up this figure. On the other hand, for the Summit to agree on this might be regarded as a detraction from the authority from the Central Bank Governors. He was in the hands of the Conference.

14. *M. Eyskens* said that the proposal to have a treaty to set up the Fund caused him concern. To adopt this proposal would be to move away from the institutions of the Community and to fail to adopt the procedure foreseen under Article 235 of the Treaty of Rome, on which he thought that there was a consensus.

15. *M. Giscard d'Estaing*, commenting on M. Werner's remarks about the date for the report on reserve pooling, said that reserve pooling was a complicated question on which differences of opinion persisted. It had therefore been agreed, after a careful discussion, that a later date was desirable if agreement were to be reached. Commenting on M. Eyskens' remarks he said that the Fund would naturally be placed within the framework of the institutions of the Community. The formal agreement would settle certain modalities.

16. *M. Schumann* confirmed that in his view, the agreement would mention the Treaty of Rome in an appropriate way and the institution (the Fund) would be part of the Community. *President Pompidou* commenting on those who had been hesitant about saying formally that the enlarged Community would adopt a common position in the international monetary discussions said that it would be taken as a sign of disagreement if the Summit Conference did not make a very strong statement on this question. The Communiqué must say that they had resolutely decided to agree. This did not mean that the Community would enter discussions with other countries on a take it or leave it basis. They would keep in reserve the possibility of concessions in future discussions in the light of, for example, the position of the United States or Japan. But they must assert their will to speak with one voice. It was essential to decide that a common position should be reached. *M. Schumann* said that a common position had been reached at the Finance Ministers' meeting in July. The Communiqué should reaffirm the eight principles then agreed.

17. *Mr. Colley* said that he was reasonably optimistic that full agreement would be reached. But he repeated that he was not quite sure and he therefore preferred to refer to a "co-ordinated approach". *Sr. Malagodi* agreed with Dr. Schmidt that the eight points could be reaffirmed. There were however some points on which agreement had not been reached, for example, the price of gold. We should decide to continue consultations in the same spirit as had produced agreement before.

18. *President Pompidou* summing up the discussion said that the members of the drafting committee should be asked to specify that the Nine were ready to reconfirm the eight points and to say that preparation of the international monetary negotiations should be joint and fully agreed by all.

Inflation

19. *M. Giscard d'Estaing* said that the Summit should give a new impulsion to the work of the Finance Ministers. The directive from the Summit should be that they must agree on measures to combat inflation on 30-31 October. It was not, however, possible now to reach agreement on what measures should be specified.

20. *The Commission* (M. Barre) said that the Commission was working on a detailed plan and were trying to reduce the differences between experts. They hoped that the meeting at the end of the month would produce concrete decisions.

21. *Sr. Malagodi* said that the causes of inflation were different in different countries. The Italians had every wish to combat inflation but they would have to pursue their own methods.

22. *The Chancellor of the Exchequer* said that there was no doubt about the importance of the meeting in Luxembourg. It was certainly true, as the previous speakers had said, that countries were in different situations. In the United Kingdom for example, inflation was of the cost/push not the demand variety. The problem was to bring down the rise in incomes and prices without increasing unemployment. Nevertheless even if the measures for each country could not be identical, we could learn from each other and adopt a common approach in certain matters. One example might be the growth of money supply. He recognised that this had been too great in the United Kingdom recently. It was necessary to get a proper balance. Our own situation would be helped by common action to slow the rise in certain prices, particularly those in which public opinion attached importance. In general the United Kingdom regarded the meeting on 30-31 October as of great importance.

23. *President Pompidou* said that tighter credit could even help to cause business to keep down prices. Herr Schmidt had mentioned certain food prices. He must point out that two of the three foods in question were in deficit in the Community. Herr Schmidt had not mentioned cereals which were in surplus. France was in favour of moderation in prices. To this end, farmers should be directed towards producing deficit products and away from producing surplus products. On the anti-inflation front there should be concerted action on 30-31 October. He agreed that employment was an essential element in internal stability, but full employment must not mean a rise of 6, 7 or 8 per cent in prices. Otherwise a crash would follow. As far as the economy was concerned the Conference should adopt the Finance Ministers' recommendation.

Social and regional policy

24. *Herr Brandt* introduced a memorandum which he had circulated that morning (copy at Annex B) and repeated certain points in it.

25. *Mr. Jørgensen* spoke in general approval of the German memorandum. He wished specifically to mention multinational corporations, which posed particular problems for small countries. Their activities must be made subject to public control. It was necessary to take the first steps towards common policies in the Community to control multinational corporations.

26. *The Prime Minister* enquired whether regional and industrial policy were also now under discussion. *President Pompidou* indicated that they were. *The Prime Minister* said that he was aware that considerable work had been done on these questions in the Community already. It was now time for a firm programme of action. Firms should be enabled to operate in the Community as a whole. There were problems of legislation, of the supply of capital and of technical barriers which should be dealt with. Firms must become European. There were questions of standardisation and patents which could not be quickly settled. There was the question of how high technology industries should be handled in the Community. For example, the question of computers must be considered in order to enable the European industry to compete with the highly organised United States industry and with the Japanese industry. The same applied to aerospace and the heavy electrical industries. There should be a programme of action with a timetable. He had mentioned energy this morning. There was also the supply of raw materials. He thought that Europe would face difficulties in the long-term supply of basic raw materials.

27. Turning to regional policy, *the Prime Minister* repeated our views about the timetable as set out in his speech in the morning. Here, the problems were those of changing and declining industries; industries replaced by new technology;

and industries replaced by imports from developing countries. There were also regions suffering from under-population or declining agricultural population. What was required during the next six months was to decide on criteria by which these problems should be dealt with by the Community. He agreed with *President Pompidou* that there should not be an enormous central system. There should be a common policy financed out of *ressources propres* and implemented by the countries concerned.

28. The background to our position was the need to keep the monetary system stable. Backward areas tended to become victims of a vicious circle. Prosperous areas attracted capital and became more prosperous. In backward areas the opposite happened. This would lead to tensions inside the Community, between the inside of the golden triangle (Birmingham, The Ruhr, Milan) and the rest of the Community. A regional policy was essential to the maintenance of a stable monetary system.

29. *Mr. Biesheuvel* said that he had dealt with regional policy this morning and wished to say something about social policy. The present Social Fund was not enough. The Community was being accused of lack of vision and social policy was lagging behind the Common Agricultural Policy. EMU should have important consequences in the social field, for example, the harmonisation of different social security systems. He did not suggest that practical decisions could be taken at the Conference. But perhaps some of the ideas in the *Ad Hoc* Group's Report could be pursued, like those in the German memorandum which had been received this morning.

30. *Mr. Biesheuvel* then raised the problem of the environment, pointing out that although the work of the nine countries towards European integration was principally motivated by economic considerations, it was necessary to attract public attention and not to forget problems which menaced human existence. Pollution was something which crossed frontiers and it was up to the Community to do something in this field; this was a subject on which it should be made clear, in the light of Article 2 of the Treaty, that Article 235 could be brought into operation. He referred to the Ministerial Conference due to take place in Bonn in October which might be able to begin drawing up a programme of Community action. He also expressed the hope that the Commission would be invited to the conference on the pollution of the Rhine in The Hague on 25 October, and that it could participate in the work of the Rhine Commission.

31. *Sr. Andreotti* spoke of the importance of an effective regional policy, which should be considered as a Community problem and as one of the elements making up EMU. He referred particularly to the important fringe areas of Europe where there was an excess of labour and consequently under-employment. *Sr. Andreotti* said that for industrial areas in difficulty it would seem best for there to be programmes worked out by each country and by the Community. The essential thing was the creation of a fund based on *ressources propres* which should start work on 1 January, 1974. This would allow the conference to confirm that the Community could move to the second stage of EMU on the same date. Interest reductions provided for by the fund should not be limited to European Investment Bank loans but also to national loans. *Sr. Andreotti* went on to say that a sound regional policy was also important for the development of the Community's external relations. Furthermore the Community should, as a part of EMU, develop a social policy designed to reduce under-employment. The action of the Community in this field should be concentrated on the following points:

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- (1) a broadening of the activities of the European Social Fund;
- (2) the strengthening of employment policy and the harmonisation of social security schemes;
- (3) improvement of training and harmonisation of professional qualifications;
- (4) the integration of citizens of other member countries in the country where they lived until the stage of European citizenship is reached.

Mr. Andreotti concluded by saying that a social policy could not be produced without the co-operation of the trades unions.

32. *The Prime Minister of France* (M. Messmer) pointed out that the construction of Europe too often seemed to be a matter of Ministerial meetings; it was necessary to put more emphasis on the idea of Europe conceived for the individual. M. Messmer put forward four general considerations:

- (1) there should be a Community policy in favour of workers particularly vulnerable to unemployment; in this respect the field of training was important;
- (2) the improvement of working conditions; people were less and less likely to put up with monotonous work;
- (3) the participation of management and labour in the Community's activities and the protection of the consumer;
- (4) the need to defend the environment.

M. Messmer had two proposals:

- (1) the strengthening of the Economic and Social Council and the creation of sectorial committees for industry;
- (2) the creation of a European foundation for the improvement of working and living conditions together with the creation of a European institute of social information and study.

33. *Mr. Lynch* expressed support for the activities of the European Social Fund. He went on to say that for Ireland regional policy was a very important aspect of the social programme, first because the grave imbalances within the Community were incompatible with its nature as originally conceived and, secondly, because EMU could only work on a stable economic basis. Mr. Lynch went on to refer to the resolutions of 22 March, 1971, and 21 March, 1972, which had not been put into effect and asked for a very high priority to be given to regional policy in 1973 so that EMU could be completed by 1980. Mr. Lynch thought that it should be possible to take the necessary decisions by the end of 1973.

34. *Mr. Eyskens* said that his Government attached great importance to social and regional policy and supported the points in Chancellor Brandt's paper (tabled that morning—see Annex B) as also those in the paper approved by the Ministers of Foreign Affairs at Frascati. He expressed himself in favour of the participation of workers in the management of companies. He supported Mr. Biesheuvel on the environment and said that Belgium entirely approved of Mr. Eyskens's speech, together with what M. Messmer had so eloquently said.

35. *Chancellor Brandt* then made the following points:

- (1) Germany was in favour of the participation of management and labour in working out a programme of action and was ready to consider the French idea of a European fund. But all this would require a meeting of responsible Ministers next year;

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- (2) It would not be possible to take any decision on the participation of workers in management, but the question should be studied;
- (3) It would be necessary to tackle very cautiously the question of the status of workers in countries other than their own in order not to discriminate against those who came from countries outside the Community;
- (4) Germany had suggested a conference on the environment in order to bring it within the field of responsibility of the Community;
- (5) He did not find British and Irish ideas on regional policy satisfactory as the timetable was not possible. We could undertake sufficient preparatory work before the beginning of the second stage of EMU to allow regional policy to be financed by *ressources propres*.

Herr Brandt concluded that regional policy must encourage the reform of the present situation rather than its maintenance.

36. *M. Schumann* pointed out that little progress had been made on industrial policy on the basis of the memoranda presented by France and the Commission about European companies, investment and co-ordination of purchasing. He pointed out that foreign investors owned 8 to 10 per cent of Europe's potential. He suggested that in this field the Community could use procedures similar to those employed by France in the preparation of the plan. M. Schumann took up Mr. Heath's remarks about energy policy, pointing out that Europe's demand for oil would rise from 610 million tons in 1970 to 1,430 million tons in 1985 and that American imports would in the same period rise from 175 million tons to perhaps 740 million tons. There would therefore be a problem of transition from oil to nuclear energy and this was a challenge to Europe. He was in favour of the creation of European oil companies. On nuclear policy he repeated the French view that a European isotope separation plant should be set up. The gaseous diffusion technique was the only one at present practicable. On regional policy, he expressed the hope that it would not be necessary to create a heavyweight administration and that programmes could be harmonised and their execution monitored. It was also necessary to avoid duplication between national and regional programmes. France was not opposed to supplying additional money for a European regional fund but thought that this should be used in the first place for agricultural regions. He hoped and believed that it should be possible to develop such a regional policy without waste or duplication by the beginning of 1974.

37. *Dr. Mansholt* said it was important to turn to the human aspect of Europe which was of direct importance to the people. It was essential that firm political undertakings should be given at the earliest possible moment.

(b) MEETING AT 10 a.m. ON 20 OCTOBER, 1972

Political Co-operation

38. *M. Schumann* introduced the discussion. He said that political co-operation had hitherto been mainly *à Six* and it had only been going on for a short time. But these beginnings were encouraging. It had been decided that they should begin with some difficult questions like the Middle East and CSCE. They had succeeded in bringing their positions closer together. For example, in previous years, Members had voted completely differently at the United Nations on Middle East questions. Recently they had voted together. As regards the

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