

TRANSCRIPTION OF FOREIGN AND COMMONWEALTH SECRETARY'S NOTES:  
FIRST SESSION, EUROPEAN COUNCIL, BRUSSELS, P.M., 4 DECEMBER,  
EMS

The Danish Prime Minister's comments on the Presidency's draft resolution on EMS were as follows:

Paragraph 3.6

~~The~~ immediate obligation not possible. Favours "exceptionally".  
Special treatment for involuntary debtors - no confidence in financial sanctions.

Paragraph 3.7

Expedient to extend 30-60 days: facilitate intervention credit.

2-3 months.

Paragraph 4.2

Prefer to increase short term credit to 15 billion ECU; medium term 10 billion ECU.

Paragraph 5.2

Offer to non-associates to participate 2 or 3 times a year on Ministerial level. Norway should be formally invited. President should contact Norway after the meeting. Not specifically mention Norway but concrete action by Presidency helpful.

Paragraph 6.1c

Make a decision not to introduce the ECU now for the CAP. Proposed text for 6.1c to be distributed separately.

Worried about disturbance in the currency markets from now on. Would like us to say we do not expect any distortions: could be via a journalist's question. Very positive attitude.

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The Belgian Prime Minister's comments on the same text were as follows:

Paragraph 3.6

Favour the word "exceptionally". This gives force to the supposition. As regards the words "in the light of experience" at the end of paragraph 3.6, this should apply within the Monetary Committee or within the Council of Ministers not just at senior level of central banks.

Paragraph 3.7

Does not like the wording. Not a novelty. Already exists now. Prefer 60 days.

Paragraph 4.2

15 billion ECU short term; 10 billion ECU medium term.

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The Prime Minister's comments were as follows:

Congratulate - flesh on the skeleton.

Parliamentary point - against "decisions".

Paragraph 1.2

Suggest "we are agreed as follows".

Paragraph 3.2

Comprise all member countries of the EEC. Suppose someone took a conge.

Paragraph 3.6

Prefer an obligation. Believe majority does not accept it.

Favour "exceptionally" rather than "however".

The question of innocent debts is not dealt with.

? Deutschmark becomes a currency of refuge from the dollar - other member states have to intervene.

Quoted from the brief - "debts incurred" etc...

At the end not just left to central governors. As regards this sentence I believe it should be a separate paragraph so provisions it refers to are not just referring to paragraph 3.6 - to ERR. (Herr Schmidt intervened to say "refer if necessary", to which Mr. Callaghan replied that the use of necessity was not necessarily appropriate, e.g. 75%. Not a strong point; matter of convenience).

Paragraph 3.7

30 days.

The Prime Minister did not mention the problem of "adopt"

Paragraph 6.1.

(Dr. Owen will remind; but it can be fed to the Germans as a Parliamentary point related to paragraph 1.2).

The Netherlands Prime Minister had a strong preference for "however" on 3.6. He agreed that decisions were not just for central banks alone.

Paragraph 3.7

Mr van Agt did not feel strongly either way. But he did not want an unconditional extension of the 30 days (and ~~which~~ he did not himself know what this meant! ).

Paragraph 4.2

He favoured a ratio of 15:10.

Paragraph 4.4

The Dutch might circulate a text.

Paragraph 5.3

They want somewhere a reference to the developing countries.

of the system  
Mr. Roy Jenkins commented generally that the differences as regards the working<sup>it</sup> itself were not very great. They did not seem to be points on which the success or failure of the system should depend.

Paragraph 3.6

Mr. Jenkins preferred "exceptionally". However ~~he~~<sup>it</sup> gave no additional strength. As regards the Belgian point on the last words of paragraph 3.6, there was a certain force in involving the Monetary Committee and Council of Ministers. He was hesitant about the British view that all the provisions of paragraph 3 be reviewed; it would run counter to the point about durability and raise a shadow of doubt. How important were "comments".

Paragraph 3.7

Mr. Jenkins preferred 60 days.

Paragraph 4.2

15:10. He was willing to take a compromise between 15:10 and 12.5:12.5, but it should be nearer to 15:10.

Paragraph 6.1c

Mr. Jenkins did not like the Danish amendment.

Paragraph 6.4

The square brackets could be dealt with in the Ecofin Council. The point was technical. There were also some technical points which could be considered during the drafting meeting tonight.

The Irish Prime Minister's comments were as follows:

Para 3.6: Mr Lynch preferred "exceptionally" - support retention. He supported Mr Callaghan's request for a review covering more than para 3.6 but did not attach great importance to it. On credit, he supported the 12.5:12.5 ratio but did not feel strongly.

President Giscard said that *eua* was a word in French. So we should write it as such, with an 's' in the plural(!)

The presentation of EMS <sup>should</sup> set it in a political context.

On para 3.6 he supported "exceptionally" or some other word of similar bearing.

*Can't understand* We should try to avoid the impression of crawling when we see a rebirth of the Snake - press should see a difference.

President Giscard agreed with the Belgians that we must say "the institutions of the countries working the system."

President Giscard did not think we could agree to Mr Callaghan's suggestion for the cover of the review - we should not review the working of the whole system.

He preferred 60 days, but hinted that there could be a compromise. President Giscard was more reserved about discussions with Switzerland, which could move our system upwards.

*(sic)* We could examine the Danish amendments but President Giscard wanted the *eua* to disappear. There must be single prices. We could not have industrial prices similar and not also unity of prices in the agricultural system.

Signor Andreotti said that he would make a general political comment first. At Bremen we were trying to give some new lease of life to Community policy. He had put the monetary system paragraph in the communique after the paragraph referring to joint action to bring about greater economic growth, etc, etc.

We could not run the slightest risk of being obliged to leave the Snake. We had left in the past for technical reasons. This time it would be different. Perhaps we had stressed too much the political point. But while it was true for all countries, it was truer for Italy than any other country. Europe was one of the few strong points for giving democracy stability in Italy. Bremen communique had a political scope, part of a wider political framework.

Two points were essential for technical success:

Para 3.6 "exceptionally" was not a preference: it was a necessity. Without it the system would be weakened.

Para 3.7 involuntary debtor countries' debts should be settled in a quite different way. The fullest possible time not encumbered with unnecessary conditions.

Consistency with the so-called concurrent measures.

Approval by Parliament was crucial. Great difficulty for this if Signor Andreotti found, having made a unanimous decision here, any Parliament was to reject the system. This would create considerable political problems (Herr Schmidt said that no formal decision would be taken until Chapters A and B were brought together.)

Dr Owen commented that in many ways Signor Andreotti made the case we would have made and it is tactically much better made by him. But he is going in firm this time. How strongly he feels on involuntary debt Dr Owen does not know.

The Luxembourg Prime Minister said that he agreed with the Prime Minister's wording on para 1.2. He too had to put the matter before Parliament.

On para 3.6 M. Thorn preferred "however" and "exceptionally". He would like to think about a 6-monthly review covering all the provisions.

The Prime Minister intervened to say if it was thought that it would cast doubt on the whole scheme he would withdraw the suggestion. He had no intention whatever of weakening or damaging the system.

On para 4.2 M. Thorn favoured 15:10 but could envisage compromise. On para 6.1 he would like to hear more about the Danish proposal which at first sight raised no problems.

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President Giscard is making a lot of the fact that countries in the ERR must agree to unity of agricultural prices.

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Herr Schmidt proposed an amendment to para 1.4. "This system will entail the creation of the European Monetary Fund as announced in the Bremen communique."

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On para 2.3 Herr Schmidt suggested that we should replace "eventually" by "if necessary".

On para 4.2 his clear preference was for 12.5:12.5.

On paragraph 6.1 he suggested that the Danish proposal was right. As the French President said, this should be dealt with as two separate issues. Chance that the first sentence of the Danish draft was similar to para 6.1(c).

Surplus production: would be referred to tomorrow - must be taken as a Presidential conclusion. No change in the rate of exchange cannot be dealt with other than in reply to a question. After all, we cannot say - none of us can rule it out, but equally we should not invite speculation.

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President Giscard said this was a <sup>technical</sup> ~~tactical~~ issue. But there were two other questions. When NCAs were introduced in 1969 for

monetary reasons, it had been announced that they would be limited. For those countries who decided to have a monetary system these NCAs must be eliminated. This was a separate issue from CAP reform. Unity of prices between those countries who participated in the system.

If on 3.3 we should see Community system without all member states involvement or otherwise our position as participants in concurrent studies.

On page 3.3 Dutch negotiators about:

- Committing national funds to ECU? Schmidt agrees doubt. 2 years of negotiations. May well be 3 or 4 years but do not intend to say so now.
- Dutch again queried amendment to 1.4 - what they fear is that they are committing themselves not to resisting a 2nd ECU fund. May raise this difficulty in 3 years' time. ~~Amendment of the system will be~~

The Prime Minister said that we have an obligation to subscribe 20% of the ECU fund. "I gather what you think we should do is to be a real Community system then I think they should do it. But what would you do?" "What use would it be if you were not using it as part of a settlement?"

President Giscard said "rate of interest".

M. Ortolan said "Country would have no rights of the credit system."

The Prime Minister also raised again the question of joining. This is up to the Finance Ministry.

On page 3.6. Clearly there has been an agreement to work together to create the Bundesbank, but subject starts by weakening over the other banks. Schmidt not entitled to accept an additional obligation to 3.4 to intervene.

President Giscard starts an intervention only then goes to monetary policy.

The Prime Minister says that the intervention is only to be used for monetary policy first.



President Giscard speaking

A redraft of 3.2 could be: Adjustments of central rates will be subject to mutual agreement by common procedure which will comprise all countries but only those participating in the exchange rate mechanism (and the Commission ) will participate in the mutually agreed procedure.

If on 3.2 we concede any Community system without all member states' involvement we undermine our position to participate in concurrent studies.

On para 3.8. Dutch <sup>re-evaluation</sup> ~~re-evaluation~~ about:

- Committing national funds to ECU? Schmidt shares doubt. 2 years of negotiations. May well be 3 or 4 years but do not intend to say so now.
- Dutch again queried amendment to 1.4 - what they fear is that they are committing themselves not to resisting a 2nd ECU Fund. May raise this difficulty in 3 years' time. ~~Future of the system will be~~

The Prime Minister said have we an obligation to subscribe 20% . "I gather <sup>Yaher</sup> thinks we should, I think so too." "If it is to be a real Community system then I think they should." <sup>Helmut:</sup> "But what would one do?" "What use would it be if you were not using it as part of a settlement?"

President Giscard said "rate of interest".

M. Ortoli said "Country would have no rights of the credit system."

The Prime Minister also raised again the question of joining. Pass it on to the Finance Ministers.

On para 3.6. Clearly there has been an agreement to compromise, to square the Bundesbank, but Helmut starts by weakening even the square brackets. Schmidt not entitled to accept an additional obligation to 3.4 to intervene.

President Giscard <sup>you</sup> starts <sup>with</sup> ~~an~~ intervention only then <sup>you</sup> goes to monetary policy.

The Prime Minister challenged Schmidt - who implied you use ~~monetary~~ monetary policy first.

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President Giscard said there was a central question: Whether this is a Snake or a real European system. ~~Council~~ to know the forms of intervention ~~and~~ disappearance would be seen as weakening any additional obligation.

"Will" not "should".

"if on account of exceptional circumstances, the authorities"

Separation of last para. If the system is not effective might have to be done in 6 days. Should not warn the world.

The Prime Minister did not pursue this.

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On para 3.2 proposed addition, "which will comprise all member countries and the Commission."

Schmidt argued against Norway.

Once the ECU became a Community unit having it will affect all the countries involved. Separate from adjustment of central rates. Schmidt not a decision-maker. The Prime Minister said he could accept that but there must be an element of consultation.

The Prime Minister said I do wish the President of France would not refer only to the UK position. Other countries may be involved. After all France had to leave the Snake twice.

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Herr Schmidt asked M. Ortoli to try and find wording to meet our wish to meet need to accrue experience.

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President Giscard - decision making procedure  
- information making procedure

President Giscard referred to Ortoli. No agreement yet (I believe we should participate but not vote and should try for this. They were reluctant to have any wording for conge but this again is a factor arguing for participation).

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Signor Andreotti said it was an extremely important point.  
Cannot give up.

Herr Schmidt said <sup>HL</sup> ought to introduce system of innocent credits.

M. Ortoli: Finance Ministers split 7:2.

President Giscard on para 3.6 - Nodal point - if we resolve 3.6  
then ~~the~~ problem over 3.7 and innocent debt became more manageable.

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

President Giscard said the text was now totally changed round.  
He would keep to 3.6 - prepared to consider a substitute  
instead of 3.

Herr Schmidt said he could not give the impression that his  
Central banks were committed to intervene  
monthly  
to review world cover imminent debts.

Also add "these provisions and their effects shall ..."

Any emphasis on 3.6 will only concentrate attention on the  
line - will weaken it.

President Giscard said provisions will be examined (then take  
up the Italian text - after 3.6) - provisions will be  
expanded in the light of experience. Provisions will be examined  
if the need arises of accumulated debt.

Mr. Ortoli said these provisions, including the possibility of  
balances being accumulated by beneficiary countries and debtors,  
should be reviewed in the light of experience.