


The creation of a partnership (1974–1981)

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URL: http://www.cvce.eu/obj/the_creation_of_a_partnership_1974_1981-en-3cfaae9e-6f85-44b3-b850-f5c096a5638d.html

Last updated: 06/07/2016



The creation of a partnership (1974–1981)

From 1974 onwards, major political changes took place in a number of European states. On 28 February, in the United Kingdom, the Labour Party returned to power under Prime Minister [Harold Wilson](#). He was much less pro-European than his predecessor [Edward Heath](#) and would subsequently call for renegotiation of British membership. Five years later, in 1979, Conservative Party leader [Margaret Thatcher](#) became Prime Minister and sought to hold back the development of the Community. On 16 May 1974 Chancellor [Helmut Schmidt](#) took over from Willy Brandt in the Federal Republic of Germany (FRG), and in France, [Valéry Giscard d'Estaing](#), who was more pro-European than his predecessor [Georges Pompidou](#), was elected President on 19 May following Pompidou's untimely death. Any notion of 'trilateralism' between Paris, Bonn and London was becoming impossible to achieve, swept away by the misgivings of the British and thereby opening the way for bilateral action by France and Germany. It was at this point that commentators started referring to the '[duo](#)' formed by the two countries, though the Germans preferred the term 'tandem'. This new relationship was primarily based on the friendly relations between Giscard and Schmidt, who had first met as [Finance Ministers](#). The French President entertained none of his predecessor's suspicions regarding Germany. He wanted to 'move from reconciliation to Franco-German entente' in the cause of European integration. The two leaders agreed on the need to build strong links between the Federal Republic and the rest of Western Europe and to [strengthen the European Communities](#).

The new drive in Europe's affairs affected its institutions first. In the late 1960s, the summit meetings held on an occasional basis between the Heads of State or Government already seemed to be the best way of overcoming the institutional and decision-making deadlocks that had arisen, particularly as a result of [the failure of the Fouchet Plans](#) for political union. But the international context in the early 1970s made it even more imperative to revisit the debate on the European institutions. [The accession to the EEC of Denmark, Ireland and the United Kingdom](#), [the first oil crisis](#) and [the end of the Bretton Woods monetary regime](#) encouraged the development of political cooperation between the Nine.

French President Valéry Giscard d'Estaing was in favour of a Europe of states and did not want a return to supranational power vested in the Commission or the European Parliament. German Chancellor Helmut Schmidt was less federalist than his predecessors but would nevertheless have preferred to strengthen these independent bodies, in line with the demands of German political parties and most of the other Member States. The solution adopted at the Paris Summit (9–10 December 1974) involved boosting the intergovernmental character of the Community by [setting up the European Council of Heads of State or Government](#), which took the place of the intermittent summits. The Council would meet regularly to take basic policy decisions, on the model of the Franco-German councils instituted by the Élysée Treaty. As a counterbalance, the Community-oriented character was strengthened by France's agreement to election of the European Parliament by direct universal suffrage, but without any extension of its extremely limited powers.

In the [final communiqué](#) of the Paris Summit, the Heads of State or Government of the Nine confirmed that they would meet, accompanied by their Foreign Ministers, three times a year and whenever necessary. The European Council was a non-institutionalised diplomatic and intergovernmental instrument. It encouraged the [personal involvement of Heads of State or Government](#) in the European integration process, giving them the role of initiator, coordinator and arbitrator of the broad framework of European integration and political cooperation between the Member States.

The European Council was welcomed by the [Tindemans Report](#) on European Union (1976), the Report of the Three Wise Men on [institutional reform](#) (1979), the [European Act](#) (1981) and the [Spinelli draft](#) treaty on European Union (1984), each of which proposed various practical changes. The European Council was subsequently given an official legal basis with the Single European Act

(SEA). The SEA defined the European Council as the body that would establish guidelines on general issues and on European political cooperation. In practice, its role would become increasingly important, encouraging greater integration.

In [economic terms](#), the divergent interests of France and the FRG made any progress difficult. However, a start was made on reforming the [common agricultural policy \(CAP\)](#), which the Germans considered too expensive but which the French were determined to keep. France would have liked a common [industrial policy](#) too, but the Germans rejected such a move as interventionism that would distort market forces.

On the other hand, decisive progress was made to tackle the [monetary crisis](#) that affected Europe in the late 1960s and early 1970s. The devaluation of the French franc and revaluation of the German mark, together with the collapse of the Bretton Woods international monetary system, destabilised the European markets. After the [failure of the European Monetary Snake](#), Europe's leaders looked for a new approach to guarantee the stability of their currencies. France, seeking to curb its [high inflation](#), counted on the support of its German partner to launch a system of [monetary cooperation](#) designed to stabilise currencies and provide Europe with the means to stand up to US monetary hegemony. But the FRG feared inflation contagion. The Bundesbank, a strong advocate of stability, was opposed to close monetary cooperation, and Federal Chancellor Helmut Schmidt was reluctant to move forward. The Germans were not keen on the idea of putting their strong currency and economic stability at risk to save their less disciplined European partners.

The previously contradictory French and German monetary philosophies were gradually brought in line by the efforts of political leaders and by economic constraints.

In 1978, Helmut Schmidt finally accepted the principle of a monetary agreement that Valéry Giscard d'Estaing had been urging him to consider. In return, France agreed to try to reduce its inflation differential with its neighbour. The aim was to create an area of monetary stability in Europe, to avoid constant devaluations and to stimulate trade, growth and economic convergence.

These clearly stated aims helped convince those in German economic and financial circles to put their trust in the proposed European Monetary System.

At the Copenhagen Summit on 7 and 8 April 1978, Valéry Giscard d'Estaing and Helmut Schmidt revived the idea of a new [European Monetary System \(EMS\)](#) open to all the EEC Member States. Against the backdrop of a generally encouraging economic climate, the [Bremen European Council](#) endorsed the principle of the EMS on 7 July 1978. The EEC institutions and the Finance Ministers of the nine Member States were immediately instructed to draw up detailed proposals that were later adopted formally by the [Brussels European Council](#) on 5 and 6 December 1978.

On 13 March 1979, the EMS was born. The [United Kingdom](#) did not join the EMS exchange rate mechanism so as to allow the pound sterling to continue to float. The parity between the pound sterling and the Irish punt was thus broken. The other weak-currency countries, such as Italy and Ireland, secured an increase in Community aid, and France secured the gradual dismantling of monetary compensatory amounts (MCAs), as its farmers had long been demanding. The EMS was often referred to as the '[improved snake](#)', the most notable new feature being the creation of the [ECU \(European Currency Unit\)](#). The initiative for a new European Monetary System (EMS) can therefore be attributed to the Franco-German duo.

In foreign affairs, the key development was closer agreement between the two countries on relations with the United States. Although he did not embrace Atlanticism, Giscard did not condemn American hegemony, unlike his predecessors, nor did he ask Bonn to choose between Paris and Washington,

which would have been impossible. France did not respond favourably to Washington's invitation to join the International Energy Agency (IEA), unlike its partners in the Community, and it refused to allow cooperation on foreign policy among the Member States to be made conditional on consultations with the United States. But it did move closer to the United States, particularly from 1975 onwards, within the framework of the annual summit meetings of industrial countries it had instigated. For his part, Schmidt distanced himself from the United States, concerned about its policy on monetary and nuclear affairs and its fluctuating policy towards the Soviet Union, which it conducted without regard for European views. Franco-German understanding thus allowed a [European position](#) to coalesce that was not necessarily aligned with the United States or weak towards the Soviet Union. When the Soviet Union invaded Afghanistan in 1979, Giscard and Schmidt sought to preserve détente whereas President Reagan reacted vigorously, placing an embargo on exports to the Soviet Union, and they made the Community adopt limited sanctions. On the Middle East, Schmidt moved closer to the position defended by Giscard despite Germany's links with Israel. This enabled the European Council to adopt the Venice Declaration on 13 June 1980, affirming 'the right to existence and to security of all States in the region, including Israel, and justice for all the peoples, which implies the recognition of the legitimate rights of the Palestinian people'. The Council also put forward solutions for a peace settlement.

The [team formed by Giscard and Schmidt](#) laid the basis of what would become the European Union, with the establishment of the European Council, elections to the European Parliament and the EMS. The two men wanted to complete their work and move on to the political union of Europe, with Giscard perhaps becoming its first President at the end of his second term of office in France. But he had to stand down on 19 May 1981. After a brief period of uncertainty, his successor, [François Mitterrand](#), nevertheless decided not to change course.