

*page #*

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*Begin: 22/1/81  
Ends: 27/1/81.*

  
**PO -CH /GH/0051**  
  
**PART A**

**PO -CH /GH/0051**  
**PART A**

*Chancellor's (Howe) Papers:*

**CHANCELLORS VISIT AND  
 SPEECH TO CLUB ADJHOURED  
 HUI PARIS 1981**

*f10*

*Disposal Directions: 25 Years.*

*[Signature]*  
 25/7/95

*A*

22/1/81.1

- cc Chief Secretary
- Financial Secretary
- Sir Douglas Wass
- Sir Anthony Rawlinson
- Mr Burns
- Mr Hancock
- Miss Brown
- Mrs Hedley Miller
- Mr Bottrill
- Mr Scholes
- Mr Bayne
- Mr Appleyard

*W/B*

} FCO

CHANCELLOR

FRENCH PSBR FOR 1979

With an eye to your visit to Paris next week Mr Appleyard has kindly sent us the attached letter about the French PSBR in 1979. With all the reservations which always attach to the effort to produce a PSBR figure for France comparable to our own, he comes up with a figure for 1979 equivalent to £15 billion at 1979 average exchange rates or 5.5% of French GDP for that year.

2. The figures we now have for the three years up to 1979 are as follows:

PSBR AS A PROPORTION OF GDP

|      | <u>UK</u> | <u>France</u> |         | <u>UK</u> |
|------|-----------|---------------|---------|-----------|
| 1977 | 4.2%      | 4.25%         | 1977-78 | 3.8%      |
| 1978 | 5.2%      | 5.1%          | 1978-79 | 5.5%      |
| 1979 | 4.75%     | 5.5%          | 1979-80 | 5.0%      |

3. The paper attached to Mr Appleyard's letter gives some insight into the complexity of the French public sector and its financing and shows how remote the French are from the concept of a PSBR, let alone from making it an object of policy. The fact is that one risks a dialogue of the deaf in talking to the French about the role of the PSBR or our own efforts in relation to it. As you know, they have attached more importance to the central budgetary "impasse", although the policy of de-budgetisation has made that a pretty limited concept. Apart from the figure of 5.5% of GDP itself, Mr Appleyard's figures

about methods of financing are interesting. On his figures, the French public sector had to borrow F110bn in 1978 and F135bn in 1979. He records three main elements in the financing: capital markets, direct lending by Caisse de Depots et Consignations and overseas borrowing. In both years recourse to the French capital market was around F40bn. The dramatic growth was in CDC direct lending, which rose from F37 to nearly F65bn. The CDC which, in some of its functions, looks a bit like our National Loans Fund, disposes of the funds of both private and public sector savings banks, so presumably personal savings have been the main source of finance for the increased PSBR. But foreign borrowing also went up from F14.5bn to F20.5bn. So the process by which the French regularly expect to cover a significant proportion of their public borrowing by borrowing overseas continued in 1979. The effect of this as a continuing policy is of course to permit more domestic credit expansion within a given monetary target, and to strengthen the franc, but at the price of worsening the external balance sheet.

*KEC*

K E COUZENS  
22 January 1981

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Sir D Wass  
Sir K Couzens  
Mr Barratt  
Mr Hancock  
Mrs Hedley-Miller  
Mr Lovell  
Mr Mountfield  
Mr Ashford o/r  
Mr Edwards  
Mr Roberts  
Mr Scholes o/r

MEETING WITH M. MONORY, 27 JANUARY

You are meeting M. Monory for about an hour tomorrow afternoon. An informal agenda for your talks has been agreed with M. Monory's cabinet.

2. The attached briefing covers the subjects that we expect to arise in the course of your conversation, as follows:

- i. IMF issues
- ii. Global negotiations
- iii. Policy towards the public sector
- iv. Export credit consensus
- v. Community issues - 1980 and 1981 budgets
  - budget restructuring
  - agricultural matters

You should draw on it freely, although you will not wish to raise the question of the 1980 and 1981 Community budgets (Item 5(i)) unless M. Monory does so, and you should not get drawn into substantive discussions on New Zealand butter or fisheries (Item 5(iii)). The line on budget restructuring (Item 5(ii)) is the standard one for bilateral discussion at this stage. Our recent contacts with the French suggest that M. Monory is unlikely to lend a sympathetic ear to the UK's more radical ideas and a prolonged discussion is therefore unlikely to prove profitable.

3. In any discussion on the state of the UK economy, you may wish to draw on the material in the question and answer briefing that is being submitted separately.

*J. A. Thomson*  
J A THOMSON

26 January 1981



IMF: Concepts: what next?

Next LACS -  $\rightarrow$  liquidity: how?

Size of SDR allocation? limits?

LACS: OK - interest balance ALC

CFF - cash flows

$\rightarrow$  borrowing:  $\rightarrow$  expenditure

GN: IPI indicators

"Growth indicator"

- weighted

- Not 450% for 40:5

India's work (from 200)

Lending to fund: OK - if G.D. (?) USA

Ex Credits: must find way of getting out

Control money credit

Atty Bd

Partly right. Review how

Restrictions: limited

Princ. from their buyers

N.2 / Fin: what market is

N of aids: Add no further

increase however in aid given



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26/1/81,

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BRIEF FOR CHANCELLOR'S MEETING WITH M MONORY : 27 JANUARY

ITEM 1 IMF ISSUES

Objective

To discover and perhaps to influence M Monory's thinking on the agenda and thrust of next May's Interim Committee.

Line to Take

1. Congratulate M Monory on his nomination as Chairman of the Interim Committee. Understand that he is meeting M de Larosiere on 29 January to discuss the agenda for the next Interim Committee in Libreville. IMF has a considerable amount of work on its plate. Interested to know his preliminary thinking on the priorities to be tackled there.

2. Priority given to fight against inflation domestically bears on IMF activities. Fund is under pressure to do more and more for the ldc's. The Fund must help, and must adapt (eg the last Interim Committee's agreement on enlarged access to Fund financing) but not in ways which risk adding to world liquidity in an inflationary way.

3. This bears on two current issues: the next SDR allocation, and the proposal to link SDR allocation with special needs of the ldc's. IMF Staff paper on the next allocation period (beginning in 1982) is not rigorously argued and pays too little attention to the question whether there is a real need to add to world liquidity. In the Fund Board discussion last Wednesday the French expressed similar views. At the most we would want only a modest allocation, say \$4 million a year for 3-5 years. On link proposals we know the French are better disposed than we are. The recent Board discussions were inconclusive. It may be best not to try to agree the issue for the Interim Committee.

4. The SDR was set up to provide a means of supplementing world liquidity in the fixed rate system. The world is very different now. Perhaps the Fund should try to do some fundamental thinking about how to "promote the SDR as the principle reserve asset of the system" allocations, straight, or skewed for the ldc's, cannot be the whole answer.

LDC'S

5. Glad that Fund sees good prospects for the financing, in aggregate, of LDC's 1981 deficits. We can also welcome (i) the completion of arrangements within the Fund to establish an Interest Subsidy Account to reduce the cost to LDC's of the Fund's market-related borrowing. (UK has not been able to contribute to the Account: the French have). (ii) Progress made in setting up a facility, within the structure of the Fund's existing Compensatory Financing Facility, to provide temporary finance to LDC's affected by crop failure etc. (iii) making larger and longer loans available to countries adjusting in response to the present oil-induced imbalances.

The IMF and the Proposed Global Negotiations in the UN

6. Glad that France and Britain seen to be at one in their determination to prevent UN bodies encroaching on the independence and competence of the Fund.

Voting Power in the IMF

7. UK and France share the objective of keeping a weighted voted system in the Fund, keeping the main power in the hands of the industrialised countries. Preliminary work on the next Quota Review is just starting. The UK will almost certainly drop from second place, but probably remain in the top five (and hence retain, as of right, an Executive Director). We believe that a uniform and objective approach should be adopted towards all members, and that the LDC's, who have called for a predetermined 45 per cent share of voting power, should not get privileged treatment.

Special Quota Increase for Saudi Arabia

8. We would prefer, if at all possible, not to make a special case for Saudi Arabia before the Eighth Quota Review itself. The Japanese will presumably insist on a special quota increase too. Work has been suspended on the Saudi quota, apparently because the Saudis think the quota figures being calculated by the Fund are too small.



8

Lending to the Fund

9. The UK is willing in principle to help the Fund's liquidity by taking 2 year IMF paper into the reserves. We agree with the sense of Central Banks of the G10, who have discussed this, that this should be conditional on a good G10 response as well as on a contribution from the Saudis. It will be a difficult decision to make if, as seems possible, the American find they have legal obstacles to participation.

ITEM 2.

GLOBAL NEGOTIATIONS (GNs)

Following failure to agree on the procedures for the GNs at the UN Special Session last September, there were prolonged informal attempts to do so in October/December. Von Wechmar, the German President of the UN General Assembly, took the lead, but just before Christmas it became clear that agreement was not possible, and he suspended his efforts.

One reason for the difficulties is that the G77 are in some disarray, and in particular, some OPEC members are openly sceptical about the usefulness of the GNs. In these circumstances, it is important that the Community should not strive officiously to keep the negotiations alive. There is nothing new which the industrialised countries can "offer" the G77 in these negotiations; nor, in our view, can we realistically hope to gain anything, for example, on supply and price of energy.

The French have generally taken much the same line on monetary and financial matters as ourselves, and on the need to preserve the autonomy of the International Financial Institutions (though we have sometimes differed on points of detail). It would be useful if you could persuade M. Monory of the benefits of an attitude of benevolent inaction - and even more useful if he, in turn, could persuade the Quai d'Orsay and the President. We have very good relations with the Trésor at official level. But M. Monory has a strong personal interest in French aid policy and does not always listen to his officials. An appeal at the political level would carry more weight.

AEF2

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### ITEM 3

#### PUBLIC SECTOR POLICY ON WAGES AND PRICES

Over the past couple of years, the key issues have been:

- i) the collapse of incomes policy and the resulting increase in settlement levels as the restrictions were unwound (particularly the catching-up in the public services)
- ii) the need for employees to understand that pay increases must be determined by the money available to finance them, rather than vice versa
- iii) the problems of translating this broad concept into practice when setting cash limits and EFLs
- iv) the need for a significant downward step in pay expectations - this has been aided, particularly in the private sector, by the realities of the recession.

Problems in the public sector are:

- i) setting a pay element in cash limits and EFLs which reflects economic realities, yet is realistic in pay bargaining terms: and convincing unions that cash limits must stick
- ii) determining the appropriate basis for setting pay in the public services - particularly the problem of comparability in the non-industrial civil service
- iii) achieving realistic settlements in the monopoly nationalised industries where the unions have effective industrial muscle (privatisation and increased competition is the long-term answer).

On prices, the main problem has been to correct the unsound price structure inherited from the previous Government, which has led to sharp rises in nationalised industry prices - particularly for energy - in the last year. In 1978 and early 1979, there had been downward pressure by Government on nationalised industry prices. Although this held back the inflation rate in the short run, it could not be allowed to continue without leading to a serious waste of resources.

PRIVATISATION AND THE NATIONALISED INDUSTRIES

The Government has a continuing programme of public sector asset sales. This raised about £1 billion in 1979-80 and should raise a sum approaching £1½ billion in 1980-81. The programme is planned to continue over the next 3 years, at a rather smaller but still significant rate.

Disposals of nationalised industry assets are contributing to the programme totals, although these also contain the proceeds of other types of sale (eg advance payments for North Sea oil and the sale of BP shares made a substantial contribution in 1979-80). However, good progress has been made in connection with the sale of nationalised industry assets. Royal assent was given in 1980 to Bills enabling British Aerospace, the National Freight Corporation and British Airways to be privatised. (The timing of share flotations depends on market conditions and is therefore uncertain, but ~~plans~~ plans for the flotation of British Aerospace are well advanced.) There have also been sales of NEB shareholdings in Ferranti and Fairey (totalling £100m) in 1980-81. Further legislation is before the House to enable the British Transport Docks Board, Cable and Wireless and major British Rail subsidiaries to be privatised and the Government intends to press ahead rapidly with these disposals.

Where full privatisation is not feasible, the Government is developing ways to expose the state corporations to private competition wherever possible eg. the British Telecommunications Bill contains provisions for the relaxation of the Post Office monopoly in specific areas.

ITEM 4.

ITEM 4

EXPORT CREDIT CONSENSUS

Background

Participants failed to reach agreement in Paris on 18-19 December on the key issue of bringing minimum interest rates more into line with market rates. The EEC proposal for an increase in interest rates (1% for rich/intermediate countries and 0.8% for poorer countries) was unacceptable to the Japanese without a loophole allowing their Exim to offer credits at below matrix rates reflecting their lower market interest rates. Participants did however agree to consider the level of minimum interest rates at each annual review of the Arrangement; and a new deadline of October 1981 was set for a solution on the lines agreed at the Venice Summit.

2. Ministers have yet to decide what solution the UK should now support. But M. Monory should be pressed to ensure that the French take a more constructive line than in the past.

Line to Take

3. The Community needs to adopt a more flexible approach to the reform of the Consensus - both in order to reduce the present high level of subsidy cost and to preserve the Arrangement, which is now under increasing strain.

4. We must press on with discussions in the Community/<sup>with a view</sup>to working out well before the next Consensus meeting in May the general basis for a possible agreement, which would at least enable an increase in minimum interest rates to be implemented.

5. The Community package of proposals must next time include greater transparency and tighter discipline on mixed credits. This is an area of increasing concern where more and more countries are taking defensive action of one kind or another. We hope the French will be prepared to move on this. [For use if necessary: The announcement on 22 January of the new ECGD mixed credit matching facility is intended as a strictly temporary and defensive measure. The UK is still anxious to see early progress towards an international agreement prohibiting this type of export financing.]

ITEM 5 (i)

1980 AND 1981 COMMUNITY BUDGETS  
POINTS TO MAKE (IF RAISED)

1. We share the Commission view that adoption of the 1980 Supplementary Budget and 1981 Budget was valid.
2. We do not consider that the European Parliament exceeded its powers .
3. We would like to avoid such disputes recurring each year and have proposed that Council procedures be reviewed to this end.

BACKGROUND

France, with Germany and Belgium claims that the European Parliament's adoption of the 1980 Supplementary Budget and 1981 Budget was illegal. They have refused to pay their full contribution to the Supplementary Budget; France has also said that it will not contribute in full to the 1981 Budget. We and the Commission consider that the adoption was legal.

We, and the other Member States (some reluctantly), have paid our contributions in full.

The Commission has not yet decided what action to take on the refusal to pay. A compromise put forward by Belgium is under consideration; we have not yet decided our position on it.

ITEM 5 (ii)

Monomony  
std info dep line

15

COMMUNITY BUDGET RESTRUCTURING

POINTS TO DRAW ON

1. Some UK preliminary work. No firm conclusions. Approach open minded. Too early to define precise solutions.
2. Exploratory stage: have already been in contact with most partners to discuss possibility of informal bilateral contracts at official level for initial exchanges of views.
3. Important to keep to timetable i.e. Commission paper by June 1981; aim at solution by end 1981.
4. Restructuring opportunity for Community to set house in order. Triple challenge of:
  - (i) 1% VAT ceiling
  - (ii) Enlargement
  - (iii) Commitment to avoid unacceptable situation.
5. UK committed to finding Community solution.
6. Solution has to involve cut in cost of CAP. 1% ceiling only effective level for restraint. Must find workable solution within it.
7. CAP reform: important not to narrow focus too early. Various possible ways forward. All must be examined.
8. 1981 price fixing: must not prejudice restructuring exercise.
9. If CAP could be controlled, scope for some additional non-agricultural spending. But unlikely to provide total solution. !!
10. Reforms or revenue side (eg progressive VAT) again unlikely to provide total solution.
11. Ceilings on net benefits/contributions: French/German ideas will need to be considered carefully. Hope Commission will examine in their paper.
12. Oil levy [if raised] UK not pressing this at present stage. But willing to consider proposals.

(17.4.81)



ITEM 5 (iii)

Community Topics - New Zealand Butter, Fish and French National Aids

New Zealand butter and fish represent two major current bones of contention between the UK and France. It is extremely doubtful whether your raising the subjects with M. Monory would yield any positive results, and we would not therefore advise you making great issues of them in your discussions. But you may wish to use the recent announcement of French national aids to agriculture to develop with M. Monory your general reference in your Paris speech to the national aids issue.

ITEM 5 (iii)

A. New Zealand Butter

(a) Background

France has thus far blocked agreement on arrangements for continued access for New Zealand for 1981 and subsequent years. They have been resisting any agreement beyond one year. In the absence of agreement the 1980 arrangements were rolled over for one month for January (based on one-twelfth of the 1980 entitlement of 95,000 tonnes). This week a further one month rollover was proposed for February, but the French blocked this and a compromise was reached rolling forward the arrangements until 10 February ie. immediately after the next Agriculture Council.

(b) Line to take

Attempts to urge the French to be accommodating are likely to be met with the argument that UK insistence on import arrangements for New Zealand is severely worsening the Community's dairy surplus problem. We advise limiting any comments to general expressions of hope that Agriculture Ministers will be able to reach agreement at the February Council.

B. Common Fisheries Policy

(a) Background

In the negotiations leading up to the 31 May agreement the Germans tried to forge a link between the CFP and the UK's budget contribution. In the event the European Council agreed that the CFP issue should be resolved by the end of 1980 but did not make the implementation of the budget agreement legally contingent on the respecting of that deadline. Nevertheless a great effort was made to reach agreement in December. In the end, however, it proved impossible to reconcile the French to proposals to meet our wish for a continuing right to reserve some of the waters within our fisheries zone exclusively for our fishermen. The Treaty of Accession gave us a derogation from general Community rules on equal access allowing us to maintain exclusive zones in 6 and 12 miles from our coast. This derogation expires in 1982 and we wanted to have it extended indefinitely. Since December there have been a number of bilateral contacts and there is another Fisheries Council on 27 January but agreement there seems unlikely.

(b) Line to take

You need not raise this issue. If it is raised by the French you may wish to say that we were very keen to reach agreement in December and hope that it will be possible to find a solution at the next Fisheries Council. You can deny responsibility for the failure to agree in December and, if necessary, reiterate that we do not accept that this should have any effect on the UK's budget refunds.

C French National Aids

(a) Background

On 5 December the French Government announced a package of national aids worth some 4,600m francs (some £400m plus), with the aim of maintaining farmers' purchasing power in 1980. About half is direct income aid given via the VAT system, and the remainder structural aid and interest relief.

(b) Line to take

In your Paris speech you plan to touch on the potential consequences for CAP costs of national assistance of this sort, and you may wish to develop the point with M. Monory. There are two main points:

(i) National assistance of the sort now given serves to add to CAP surpluses, and the costs of disposing of them fall on all member states.

(ii) Such announcements give rise to pressures for similar packages in other member states including the UK.

You may wish to stress the importance of national measures not running directly counter to the needs of CAP reform.



cc Mr Schols  
Mr Aarons

Mr Hancock

I attach a copy of the  
opening section to the C's  
Paris speech. You agreed to  
have this translated.

LH

...

26/1

It is daunting, even to an experienced politician, to be confronted with such a large and distinguished audience. I shall have to seek refuge in our national character.

I remember how this was illustrated many years ago - when, as a student, I was on a climbing holiday, near Chamonix. The holiday was organised by the Union National des Clubs de Montagnes. We students were all sleeping in large bell-tents. I was in a tent full of young Englishmen from Cambridge.

But there were girls in the camp as well, including in particular a very beautiful French blonde, who was reputed to be the mistress of King Farouk. You can imagine the surprise of our tent full of young Englishmen when one evening the flap door of our tent suddenly opened and in walked the beautiful mistress of King Farouk. We were even more surprised when she unrolled her sleeping bag and got into it beside us. But we were not provoked. With great calm we wish her good evening, and continued to read our Dickens and our Proust. After about ten minutes, this passionate young French lady, for such she must have been - got up in disgust, rolled up her sleeping bag again, and left saying:

"Oh you English. You are so phlegmatic."

A Frenchman might have reacted differently.

But it is not the purpose of my address tonight to stress the differences between our two countries. I want instead

to call attention to our similarities which are, in my view, much more important. But we have to acknowledge that we speak different languages. I would be proud if I could continue in yours. But it must already be clear that it would be prudent of me, and in the general interest, if I continued in my own. If you will excuse me, Mr. Chairman, I will now do so.



## Savings incentives and the loi Parary.

This is an important question for the UK. We need to stimulate small businesses and innovation. I have set up a group of experts from both the public and private sectors to look at the whole subjects of savings incentives and I have no doubt that they will be looking at French experience among others. I hope to receive their report shortly but, as it is not yet complete, I am afraid that I cannot comment further tonight.



OPEC taking over.

I recognise the reason for <sup>the question</sup> ~~concern~~ but I believe that we need to take a balanced view of this matter. It is not a bad thing that the oil surplus countries should have a direct interest in the economic welfare of the industrial countries. Direct Investment in real assets is likely to be more firmly held than investment in bonds and less likely to result in switching between one currency and another. Obviously the governments of industrial countries would be concerned if overseas interests held a dominant position in key industries. But I believe that the OPEC countries are conscious of this potential anxiety and are likely to see advantage to themselves in diversification of their investments.



- 1. MR HANCOCK <sup>D.H.</sup> - 116/2
  - 2. CHANCELLOR OF THE EXCHEQUER
- cc Sir Kenneth Couzens  
Mrs Hedley-Miller  
Mr Scholes

THE CHANCELLOR'S PARIS SPEECH

I attach a letter from the President of the Club d'Aujourd'hui, which the Chancellor will address in Paris on 27 January, thanking him for agreeing to be their guest of honour, and requesting a call on the Chancellor. The President of the Club M Rozner is an adviser to the President of the Société Générale, the French employers' organisation.

I agree  
D.H.  
22/12.

It would clearly help the smooth running of the arrangements for the Chancellor's speech if he and M Rozner could get together beforehand. We would therefore recommend the Chancellor to see Mr Rozner. If the Chancellor is content I will arrange with his office and the Paris Embassy a mutually convenient appointment.

C J BAKER  
22 December 1980

club  
d'aujourd'hui

25  
PARIS, le December 10th, 1980.

LE PRÉSIDENT

Dear Chancellor,

On behalf of the members of our Managing Committee, I wish to thank you very sincerely for accepting to be the guest of honour of a dinner-discussion within our Club on Tuesday January 27, 1981, at 8 o'clock p. m.

I can assure you that your presence at this dinner will constitute an event which will be reported by the members of the press invited on this occasion.

I think that it would be advisable if I could meet you before January 27th, at any moment convenient to you.

Besides, this request will, meanwhile, be expressed to your Cabinet by courtesy of the British Embassy in Paris.

I look forward to seeing you then, and thanking you again for accepting to honour this dinner with your presence, I remain,

very respectfully yours,



Jacques ROZNER

Dress: Lounge Suit

Sir Geoffrey HOWE  
Chancellor of the Exchequer

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# France et Grande-Bretagne : 26 des intérêts communs

## déclare le chancelier de l'Echiquier sir Geoffrey Howe

Regardant au-delà des horizons bouchés jusqu'aux élections présidentielles, le chancelier de l'Echiquier, sir Geoffrey Howe, a pris hier, date pour les lendemains d'une réélection du président Valéry Giscard d'Estaing en indiquant comment pourraient être alors recherchées des solutions aux problèmes d'intérêt commun. Prenant la parole devant M. René Monory et un parterre de chefs d'entreprise à l'invitation du Club d'aujourd'hui, que Jacques Rozner a fondé avec la Société générale et l'U.A.P., le chancelier de l'Echiquier, qu'accompagnait le gouverneur de la banque d'Angleterre, a mis l'accent à tout moment sur ce qui rapprochait la France et la Grande-Bretagne.

Dans le domaine économique, c'est d'abord, a-t-il dit, la lutte contre l'inflation d'un côté comme de l'autre de la Manche, lutte qui l'a ramenée de 22 % au mois de mai à un niveau moindre que la France et les Etats-Unis. Un même effort doit être tenté pour un redéploiement industriel accéléré sans trop compter, dans le cas de l'Angleterre, sur le pétrole qui fournira au pays 5 % du P.N.B. moins longtemps que le pétrole vert n'enrichira la France.

« Dans le domaine européen, c'est l'intérêt commun des deux pays, a-t-il affirmé, que la Communauté soit modifiée de telle sorte qu'elle puisse durer et prospérer grâce à des solutions réalistes pour le budget et pour la P.A.C., en consolidant le système monétaire européen. Si la Grande-Bretagne n'a pas été en mesure de faire participer la livre

au mécanisme des taux de change, a souligné le chancelier, c'est que son inclusion aurait suscité des difficultés de fonctionnement, difficultés que ses partenaires n'auraient pu aisément accepter en raison des pressions à la hausse dues au pétrole de la mer du Nord. Mais, a-t-il ajouté, c'est là une situation qu'il conviendrait de réexaminer. »

En venant au problème plus délicat de la politique agricole commune, sir Geoffrey Howe s'est déclaré persuadé que « la France, ayant rejoint le rang des contributeurs nets au budget communautaire de 1980 », serait plus encline à souhaiter que « les excédents de production engendrés ne continuent pas de représenter un trop lourd fardeau pour les consommateurs et contribu-

bles dans l'ensemble de la C.E.E. ».

N'ignorant certainement pas que tel n'est pas entièrement le point de vue de Paris, sir Geoffrey Howe a ajouté « même les plus fervents partisans de la P.A.C. admettent que son fonctionnement ne correspond pas exactement à ce qu'en attendaient ses créateurs ». Le chancelier a indiqué fort clairement que le temps de la réforme viendrait un peu plus tard et qu'il restait un difficile chemin à parcourir.

En ce qui concerne les problèmes nord-sud, le chancelier a émis le souhait que la France et l'Angleterre aient la même approche à l'égard des pays les plus pauvres. « Toutefois, a-t-il précisé, nous devrions diriger notre effort non pas tant vers une redistribution de l'ensemble des richesses mondiales que vers leur accroissement ». Il a présenté la lutte contre l'inflation comme une façon d'aider les P.V.D. ainsi d'ailleurs que les transferts de capitaux. Sans doute un membre du cabinet de Mrs Thatcher ne pouvait-il aller plus loin dans cet exercice chaleureux d'entente et de cordialité.

A. V.

26/1/81.

27

CHANCELLOR

cc Principal Private Secretary  
Mr Hancock  
Mr R Allen  
Mr Scholes

*Mr Napghan.*

CLUB D'AUJOURD'HUI

Mr Appleyard has telephoned with some news of the questions which you may be asked after the speech tomorrow evening. They are likely to cover:-

- (i) Government monetary policy (no precise details);
- (ii) North Sea oil policy:
  - its effect on the UK economy
  - rate of depletion
  - should there be a European oil policy?;
- (iii) The current level of investment in UK companies;
- (iv) Should more savings be encouraged from the private sector (eg the Loi Monory)?;
- (v) Which are the UK Government's priority industries?;
- (vi) The problem of petrodollars:
  - will OPEC take over European key industries?;
- (vii) The UK attitude to the EEC, including the likely attitude of the Labour Party under Mr Foot;
- (viii) Does the UK have an Africa policy?;
- (ix) Transformation of coal - this apparently means production of petrol from coal and Mr Appleyard has explained that this would fall more appropriately to Department of Energy Ministers.

2. Mr Appleyard has said he does not expect all of these questions to be asked but they indicate the broad areas in which the audience will be interested.

3. Mr Appleyard also mentioned that he had telephoned the Private Office direct about a request from "le Quotidien de Paris"

for an on-the-record interview with you to answer questions about the sterling exchange rate, UK interest rate policy, the CBI's views of the exchange rate and interest rates, the Government's view of the trade union movement and your assessment of the balance sheet of successes and failures of Government policy. The Embassy say this is a good quality but small circulation newspaper and they do not urge the interview upon you. They would like, if possible, an answer before we leave tomorrow morning.

RS.

MRS R E J GILMORE  
26 January 1981

Paris Embassy: 010 331 266 9142

Mr Hancock suggested answers are below.

JW

26/1



26/1/81,  
29

## Club d'aujourd'hui

Some notes on Mr. Appleby's questions

Q. Should there be a European oil policy?

A. There has to be a concerted European campaign to use less oil. We must all play our part in this.

We have been vigorous in switching electrical generation from ~~oil~~ oil to coal. We admire the French nuclear programme.

If there were a crisis, the agreed Community arrangements would come into effect.

The North Sea is already producing as much as it is sensible to produce consistent with good oil-field practice. The speed with which the North Sea fields have been developed has been one of the reasons why demand for OPEC oil has been much reduced since 1977. A large part of N. Sea production goes to the rest of the Community.



Q. Does the UK. have an Africa policy?

A. The present British government has devoted a good deal of its attention to Africa. When we took office the overriding priority was to settle the potentially explosive problem of Zimbabwe. I believe we did this in a way that was in the interests of Africa, of the European Community and, indeed, of the whole Western world. We are now cooperating with France and other allies in the search for a settlement of the problem in Namibia.

Q. Transformation of coal

I understand that the transformation of coal to petrol is still very expensive and there must be real doubts about the cost-effectiveness of this technique. But we must study all such ideas and stay in touch with technological developments in all relevant areas.



Q. The UK attitude to EC.

A. The British government is making special efforts to convince the British public of the benefits of membership. The Budget settlement last year has been a help and we hope that we shall in due course be able to demonstrate progress on restructuring the Budget and the reform of the CAP.

Q. What about the Labour Party?

A. It is not of course for me to defend their attitude. I find it very strange that a party that when in Government applied for membership and then in 1975 recommended a positive vote in our referendum should now have second thoughts. Clearly the <sup>Party</sup> conference vote has created unease within the Labour Party and I trust that in time more balanced counsels will prevail.





Q. UK depletion policy.

Quote Mr. Howell of 23 July :-

**Oil Repletion Policy**

Mr. Waldegrave asked the Secretary of State for Energy if he will now make a statement on the Government oil depletion policy.

Mr. David Howell: We expect that from later this year United Kingdom oil production will regularly reach a level equal to United Kingdom consumption. Thereafter, on present forecasts production would rise to a peak in the mid-1980's giving a significant surplus over United Kingdom consumption in the 1980's as a whole. We are likely to become net importers of oil again about 1990.

Recent events underline the fragilities of the world energy scene. The Government believe that on strategic and security of supply grounds it is in the national interests to prolong high levels of UKCS production to the end of the century. This requires action to increase exploration which we have already taken, and to defer some oil production from the 1980's. Such action accords fully with the recommendations to maximise indigenous hydrocarbon production on a long term basis and with our other international commitments including net exports of 5 million tonnes in 1985 as agreed in the Community and the International Energy Agency.

There are of course, major uncertainties about future levels of North Sea production and United Kingdom consumption. There can therefore be no rigid plan. We shall continue close supervision over reservoir performance at existing fields and scrutinise new applications for field developments to ensure good oil field practice consistent with optimum oil and gas recovery in the national interest. We shall also continue to take decisions on

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Written Answers

23 JUL

case-by-case basis, but giving greater emphasis to the need to limit the sharpness of the peak in production. We shall of course, honour the assurances given by the right hon. Member for Chesterfield (Mr. Varley) on 6 December 1974 on the basis of which heavy investment has been undertaken by the oil companies.

In particular, the Government will consider delaying the development of fields discovered after the end of 1975, which are not covered by the assurances given by the right hon. Member for Chesterfield. The Government will also continue to tighten control on gas flaring.

The Government have taken no decisions on whether to have production cut-backs which, under the assurances given by the previous Administration, cannot be made before 1982.

I believe that this flexible approach is the right one and takes account of both the needs of those involved in the difficult business of oil production and, more important, the long-term national interest.

26/1/81. 331

CHANCELLOR OF THE EXCHEQUER ✓ 12/2 cc Chief Secretary  
Financial Secretary  
Sir D Wass  
Sir K Couzens  
Mr Barratt  
Mr Hancock  
Mr Unwin  
Mrs Hedley-Miller  
Mr Ashford o/r  
Mr Edwards  
Mr Scholes o/r

PARIS SPEECH : 27 JANUARY 1981

BRIEFING FOR QUESTIONS

After you have delivered your speech to the Club d'Aujourd'Hui tomorrow, there will be a question and answer session lasting for about 30-45 minutes. I attach a set of briefing notes, in the usual supplementary format, covering the topics that seem most likely to crop up. You will find an index\* at the beginning for ease of reference.

*J. A. Thomson.*

J A THOMSON  
26 January 1981

\* inside FRONT COVER



TEXT ON TOP

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## INTEREST RATES

### 1. Cut interest rates further now?

We cut MLR by 2% on 24 November. This is as far as we could safely go without jeopardising our success in reducing inflation. But if inflation and monetary growth continues to moderate as we expect them to, then it should be possible to cut interest rates further.

### 2. Raise MLR

Appropriate level a matter of judgement. But monetary conditions have certainly been tight in recent months - the slow growth of the narrower aggregates offers evidence of this. Not convinced that higher rates would have helped - in the short term they can have a perverse effect in forcing companies to borrow more.

### 3. Two-tier rate to help industry?

Such a system would be very costly and difficult to administer. Increasing public borrowing to pay for a subsidy would tend to force market interest rates up. It would simply delay the general reduction in interest rates which all industry wants.

### 4. Cut MLR further to bring down the exchange rate?

There is no certain relationship between interest rate increments and the exchange rate. The important factors influencing the exchange rate continue to be the UK's position as an oil producer at a time of uncertainty in the world oil market, and confidence in the Government's commitment to defeat inflation.

## MONETARY STRATEGY AND TARGETS

### 5. Strategy abandoned?

The Government remains firmly committed to the medium-term financial strategy and to the achievement of a progressive reduction in monetary growth. A new target which maintains the thrust of the strategy will be announced at the time of the Budget. At the same time, whatever fiscal decisions are necessary to validate the strategy will be announced.

6. Failure to meet target?

There will be some overshooting. But the December figure showed a definite improvement. The outlook for inflation is also now very promising.

7. Claw back excess growth in new target?

No decisions have been reached on the form of target or the range for 1981-82 and later years. Need to reassess carefully at Budget time the underlying excess this year. Will decide target then in the light of this reassessment, the growth of other aggregates and developments in the economy generally.

8. Inflationary burst in 12-18 months time?

Although monetary growth in the autumn was rapid, it is important not to draw mechanistic conclusions based on so short a period. Need to look at monetary growth over a much longer period. Determined to ensure that monetary growth is far lower in 81-82 than in 80-81.

9. Has the British monetary 'experiment' failed?

Quite wrong to characterise our policy as an 'experiment', or as the slavish implementation of a particular monetarist dogma. No doubt about the relationship between growth in money supply and inflation, most major industrialised countries have had published monetary targets similar to our own. But the problems we faced in the UK were more acute than elsewhere, and it will take time to squeeze inflation out of the system.

BACKGROUND NOTE

The audience will have some knowledge of recent monetary developments in the UK. The policy is widely reported in France, with the predominant tone one of fascination with an intriguing 'experiment'.

A recent Société Générale bulletin argues that the Government's monetary policy has worsened the recession. On the other hand, it claims that the policy has not been tight enough. Interest rates have not been high enough to reduce corporate borrowing, and the Government has failed to restrain the growth of the PSBR.

Recent Monetary Developments

£M3 rose by 1/2% in banking December, bringing growth rates since mid-February to about 22 1/2% at an annual rate. After allowing for distortions caused by the corset, underlying growth is around 19%. The growth in the main monetary aggregates in recent months is shown in the following table:

| <u>Banking month</u>            | <u>NIB M1</u> | <u>M1</u> | <u>£M3</u> | <u>M3</u> | <u>PSL1</u> | <u>PSL2</u> |
|---------------------------------|---------------|-----------|------------|-----------|-------------|-------------|
| November                        | +0.9          | +0.7      | +2.1       | +2.5      | +2.1        | +1.8        |
| December                        | +1.0          | +1.6      | +0.5       | +0.6      | +0.5        | +0.8        |
| <u>Target period</u>            |               |           |            |           |             |             |
| (last 10 months at annual rate) | +4.8          | +9.4      | +22.4      | +21.9     | +18.6       | +15.2       |

The 'first guess' figures for banking January will not be available until Friday, 30 January. Some questions and answers on monetary policy are attached.

B THE UK ECONOMY : INFLATION, UNEMPLOYMENT AND INDUSTRIAL PERFORMANCE

1. Are Government's policies to bring down inflation really working ?

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Over the past 7 months the year on year rate of inflation - as measured by the retail price index - has fallen from 21.9 per cent (May 1980) to 15.1 per cent (December 1980). Further reductions are expected. Not impossible could be in single figures before end - 1981.

2. But inflation rate in UK still higher than when Government took office ?

In last 6 months of last Administration retail prices rose at annual rate of almost 14 per cent and were on a rising trend. Current underlying rate (which is just in double figures) is well below the inherited level.

3. Does Government see decreasing inflation as more important than increasing output and employment ?

Like other industrial countries (compare statements in IMF meetings, Venice Summit, and latest OECD Survey, Government see beating inflation as top priority. Sustained improvement vital to achieving growth and reducing unemployment in longer term.

4. Unemployment at record levels ?

Greatly regret present levels of unemployment. Showing regret by increasing public spending on schemes to meet special difficulties (eg YOP and STEP). But fundamental causes are failure of UK to adjust to change, and rise in earnings unmatched by productivity. Policies laying foundation for creation of secure employment.

5. UK Productivity poor ? What is Government doing about it ?

Acknowledge that output per person employed has been poorer in UK in recent years than in France or Germany or Japan (though better than in US or Sweden. This underlines the need for improvement. Higher productivity and sensible pay settlements - are essential keys to improving competitiveness. But both essentially the responsibility of management and workers; not to be achieved by Government waving some 'magic wand'.

6. Do unemployment figures truly represent the actual level of unemployment ?

Various commentators have attempted to assess unregistered unemployment in the light of working population and economic activity statistics and arrived at different answers. By its nature, unregistered unemployment is very difficult to measure. (There is also the question of the size of the 'black economy' which again is of its nature not reflected in official statistics).

7. Poor industrial relations contribute to poor performance of UK economy ?

Government believes the balance of power to be unduly weighted on side of unions in UK. Discussion document (Green Paper) on trade union immunities **just** released as basis for consultations with view to improvement.

However, important not to exaggerate degree of industrial disruption in UK. Over 90 per cent of manufacturing plants are strike-free in any one year. UK generally around middle position in "international league table" for stoppages of work due to industrial disputes - eg lost relatively more days but had fewer strikes than France in decade 1969-78 (ILO figures). Recent experience much better. Since last summer new stoppages in UK have been lower than any comparable period since the war and number of working days lost the lowest since 1966.

8. Your tax cuts have not galvanised the economy into expansion ? A lesson for France ?

The reductions in the rate of income tax made in our first Budget were a necessary part of our policy of restoring rewards for enterprise and effort while returning appropriate responsibilities to individuals and bodies. The point is we want to ensure the right conditions for a flexible and competitive market economy when the upturn comes.



9. Your attempts to cut public spending have shown how hard it is to do? A lesson for France?

We don't pretend that spending cuts are painless. But we have achieved a big reduction from over ambitious plans of predecessors. We aim to keep next year's total below this year's outturn. We are maintaining firm control through cash limits. Numbers employed in civil service and local government reduced. Firm stand taken on public sector pay.

Essential to ensure public sector does not take up disproportionate share of resources.

PSBR

1. Is the PSBR forecast for the year still £11½ billion?

That is the Industry Act forecast. The outturn will depend on many factors especially the heavy inflows expected in January and March. We must await indication of these receipts before we can give a more precise assessment of the PSBR.

2. Following the Financial Secretary's remarks in Zurich is the PSBR now expected to be greater than £11½ billion?

The outturn may well prove to be greater than £11½ billion. The outturn will depend on many factors, including heavy inflows expected in January and March and we must await indication of these receipts before giving a more precise assessment of the PSBR.

3. Effect of recession on the PSBR

The Industry Act forecast took account of effects of further unemployment on Government spending and borrowing. Some deterioration since Budget time. But Government committed to taking whatever action is necessary to maintain thrust of MTF5.

4. Why is PSBR now higher than the Budget forecast?

Much can be attributed to higher borrowing by local authorities and public corporations reflecting both higher than expected expenditure and the worsening trade conditions. Central Government expenditure is higher than expected. This is on defence and also results from the effects of the recession.

5. Is PSBR expected to fall in the coming quarter?

Yes. Partly because of the rebate on EC contributions, rising receipts of North Sea taxes and asset sales.

6. Is the high December CGBR figure consistent with the Industry Act Forecast?

(CGBR in December £2.7 billion, CGBR April-December £13.3 bn). No estimate of the CGBR was given in the Industry Act forecast. It is not the practice to provide estimates of the CGBR other than at Budget time.

7. Is expenditure off target?

Supply expenditure in the year is now expected to be higher than forecast at Budget time, part of this increase resulting from the effects of the recession. The higher expenditure was reflected in the December borrowing figures.

8. Recent revision to nationalised industries EFL's more evidence that PSBR is off target?

No. The money for these industries (British Steel, British Shipbuilders, British Rail and British Airways) has been found from the Contingency Reserve and so does not add to planned expenditure or the PSBR.

9. What is the effect of the recent high CGBR figures on the money supply?

The CGBR is only one element of the money supply. The money supply figures for January will be announced on 19 February.

10. What PSBR expected next year?

An estimate of the PSBR in 1981-82 will be given on Budget Day, 10 March.

PUBLIC EXPENDITURE

1. Plans to reduce public expenditure?

Government maintains its commitments to reduce volume of public expenditure in the medium term. Volume of planned expenditure 1981-82 is being re-distributed, with substantial reductions in some programmes partly off-setting increases due to the recession.

2. Later years?

Plans for period to 1983-84 will be published in the White Paper at the time of the Budget.

3. Next year's level?

Aim is to keep planning total for volume of public expenditure in 1981-82 ~~about 1 per cent~~ below outturn now expected for the current year. Final planning total has not yet been set - that will be included in next public expenditure White Paper.

4. Government has cut valuable services

Our first priority must be to create a healthy economy: only through improved economic performance will we be able to have better public services. But I do not believe that reductions are inconsistent with an acceptable level of public services.

5. Cuts create unemployment?

Cuts in public spending should not be seen in isolation. Part of medium term strategy to reduce inflation and get output and employment growing again. This requires lower taxation, lower Government borrowing and slower growth of money supply.



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PARIS SPEECH 27 JANUARY 1981:  
BRIEFING FOR QUESTIONS - EXCHANGE RATE

Exchange rate policy

Government's policy is to leave the exchange rate to be determined by the market. Current level has not been sought as a matter of deliberate policy. Whether the rate is rising or falling, intervention is limited to "smoothing", to moderate excessive fluctuations and preserve orderly markets.

Reasons for recent strength of sterling

Important factors influencing exchange rate continue to be UK's position as oil producer at time of uncertainty in world oil market, and confidence in the Government's commitment to defeat inflation. In last ten days uncertainties in world financial markets associated with release of hostages have tended to strengthen sterling.

Future course of rate

Following abolition of exchange control, private sector outflows are growing and could accelerate as UK interest rates decline. Overseas borrowing in sterling market could also expand. Over time, these factors should offset some of upward pressures on rate - but making no predictions.

Act to bring rate down

Experience has shown that to control exchange rates, Government have to cease to give priority to monetary targets. Sustained intervention by authorities in foreign exchange markets would risk adding to money supply and jeopardising fight against inflation - and even then could not guarantee lower exchange rate.

Loss of competitiveness

Recognise problems faced by industry, but excessive pay settlements main cause of loss of competitiveness. Best remedy is therefore to control domestic costs through higher productivity and sensible pay settlements.

SMALL FIRMS

Government Help for Small Firms

Enterprise package in June 1980 Budget plus changes in 1979 Budget constituted battery of improvements for small firms and self-employed. Removal of controls and regulations and blitz on form-filling requirements especially relevant to reducing burden of non-productive work and unreasonable extra costs. Government will continue to keep under review possibilities for further help.



[Possible loan guarantee scheme? This is one of a number of possibilities we are considering to assist flow of funds to small firms. No decisions have yet been taken and we hope to consult the banks shortly.]

Is Flow of Private Sector Finance Adequate?

I am encouraged by the response from the private sector in this field. A number of new schemes specifically designed to cater for the financial needs of small firms have recently been introduced by the clearing banks and other financial institutions.

Why Not Introduce a Scheme Based on the Successful French 'Loi Monory'?

I would of course be glad to see an increase in investment in the small business sector, but what has to be considered is whether a scheme evolved in the substantially different fiscal and financial conditions that prevail in France would necessarily be the most effective way of doing this here. In its report, the Wilson Committee noted that there were real difficulties in producing a scheme both administratively sound and free from the dangers of abuse; these are important questions that need to be considered.

4 Why Not Use North Sea Oil Revenues to Finance Additional Investment?

It is not our practice to earmark particular sources of tax revenues for particular purposes. North Sea oil revenues are already taken into account in our medium term financial strategy. If North Sea oil revenues were used to finance additional investment, for example, to encourage more investment in high technology areas, this would only be consistent with the Government's overall economic strategy if offsetting savings were made elsewhere. I think it is also fair to say our problem has been not so much shortage of finance but lack of profitable investment opportunities.

Enterprise Zones

Government establishing on an experimental basis about ten Enterprise Zones. All the sites chosen will be in areas of physical and economic decay most in need of regeneration. Based on premise that less, not more Government will encourage industrial and commercial activity. Within each Zone, the following measures will be applied: exemption from Development Land Tax; 100% capital allowances for industrial and commercial building; 100% rating relief for industrial and commercial building; relaxation of planning controls; exemption from industrial training requirements; priority handling of requests for Customs warehousing and inward processing relief; and abolition of remaining Industrial Development Certificates. It is intended that the first sites should be designated in the Summer.

Does the competitive freedom of the City (in respect of entry for foreigners and of free movement of capital) act to the disadvantage of British industry?

I believe not. The competition from domestic and foreign financial institutions means that the services available to industrial and commercial companies are extensive and sophisticated and provide a fully sufficient equivalent to those in more highly planned but more constrained financial sectors <sup>elsewhere.</sup> The business of the City is built in a self-reinforcing manner on the expertise and ethical standards of those who make their living there. It is of course important as a still growing sector for employment.



G. NORTH SEA OIL

NORTH SEA PRICES GOING UP FOLLOWING RECENT OPEC MOVES?

UKCS prices are set by the market, not the Government. Now that the prices of comparable North African crude oils have risen there is every reason to expect that North Sea prices will follow them. NOT FOR USE : BNOC prices are expected to rise by some \$3 barrel in the next few days.

Effects of oil price rises on UK economy

North Sea oil does not mean that the UK is immune from the effects of increased oil prices which are passed on to UK consumers. Like our partners we are similarly affected by the decline in overall economic growth resulting from higher prices. Our export markets also face a slow down. The UK cannot isolate itself from the depressing effect of higher world oil prices on the world economy.

What is the effect of North Sea oil on the UK exchange rate?

It is impossible to be precise about the impact of North Sea oil on the exchange rate. In all probability however North Sea oil has tended to result in a stronger balance of payments than would otherwise have been the case. This will have put upward pressure on the exchange rate and the exchange rate can be expected to be higher than it would otherwise have been for as long as the UK remains a substantial oil producer.

Use of North Sea revenues

Revenues from the North Sea help to reduce the PSBR and so ease the pressure on other taxation and interest rates. But it is important to keep these revenues in perspective. They currently constitute about 1 1/2% of GDP. in the (1980), is not expected to rise above 5%.

Community action in an oil shortfall

Background : The French are not members of the IEA. They are anxious about the effectiveness of the Community's agreed measures in the event of a supply crisis and believe, not unreasonably, that the UK will look more to the IEA oil sharing scheme. There are established international arrangements both with the

EC and IEA for dealing with a serious supply shortfall. The UK will stand by its international obligations.

Disposal of UKCS oil - suggestions that more might be allocated to France/the Community

Some two thirds of UKCS oil exports already go to the Community (and France ranks third in the Community as an importer of UKCS Crude). The Government continues to expect that oil companies exporting North Sea crude will do so in the markets of our partners in the EC and IEA.

Seventh Round of UKCS licensing

Background : French companies did less well than they had hoped in the recently announced allocations for the company nomination blocks. Awards for the remaining blocks will be announced in due course. This is primarily a matter for the Secretary of State for Energy. But if raised you could say that you understand decisions on the allocation of awards are made strictly on their merits in the light of published criteria (including past performance, technical competence and so on).

New North Sea Tax

Background : French oil companies, in common with other oil companies, have expressed anxiety about the new tax and in particular have suggested it will constitute a major disincentive to new investment. If the new tax is raised you could say that you were satisfied that there was scope to raise further revenue from the North Sea and that the new tax is justified on its own merits in the light of the profitability of the North Sea. You consider that a new tax is the most satisfactory way of achieving this and the Government is consulting the industry about its detailed formulation. (ELF and Total both have interests in Southern Basin gas fields. This gas is PRT exempt and both companies have recently made representations to the MST(c) arguing that this production also be exempt from the new tax. The MST(C) announced by Written Answer on 22 January that he proposed that PRT - exempt gas should also be exempt from the new tax).

What is the position on domestic UK energy prices?

The UK along with other member states is committed to a policy of economic pricing of energy. Pursuit of this objective has led the Government to come under considerable pressure from industrialists who allege that energy prices to UK industry are significantly above those to our major competitors. We are looking closely at the matter.

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H. THE UK'S PLACE IN THE COMMUNITY

1. Don't the frictions of the period since its accession, and particularly of the last two years, demonstrate that Britain doesn't really fit in the Community?

Not at all. The Community was bound to take time to adjust to its first enlargement. Both the original members and the acceding countries needed to adapt, and the 1970s, which brought so much pressure on other fronts, were not a good time to make the necessary changes. The UK's budget problem arose very largely because the Community at large did not develop in the way foreseen at the time of the accession negotiations.

2. Don't the British Government's actions belie its protestations of commitment to the Community?

No. We have fought our corner, as is the way in the Community and as France has always done with great skill and determination. But we have always made it absolutely clear that we were seeking changes as committed members of the Community. Indeed our efforts were inspired by a desire to put our financial relations with the Community on a sound and durable footing, so that they were no longer a source of friction between us and our partners.

3. You joined the club in full knowledge of the conditions of membership: how can you legitimately complain if they prove onerous?

The Community has not developed since accession in the way in which we were assured that it would. In particular the CAP still absorbs far more of the budget than the original six foresaw in the early 1970s. So we felt fully entitled to invoke the further assurance that we received in 1970, to the effect that "should an unacceptable situation arise ... the very survival of the Community would demand that the institutions find equitable solutions".

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In any case, no community which hopes to prosper can afford to be static, unchanging and unresponsive to the feelings of its members.

4. Despite its eight years of Community membership, doesn't the UK still see itself as the USA's spokesman in Europe (the American "Trojan Horse")?

No. We never saw our close links with the USA, which have deep historical and linguistic roots, as in any way incompatible with our Community obligations. Successive American administrations have had close bilateral relations with other member states as well as ourselves, and we see no reason to suppose that these have undermined the Community. And if our ability to see the world as the Americans see it has ever helped to increase mutual understanding between the USA and the Community as a whole, then that is surely to be welcomed as a contribution to the strength and coherence of the Atlantic Alliance, on which all <sup>our</sup> countries depend.

#### BUDGET RESTRUCTURING

5. Isn't the UK's underlying objective in the restructuring exercise to undermine all the Community's achievements to date, especially the CAP and the own resources system?

No. We fully endorse the objectives of the CAP, as they are set out in Article 39 of the Treaty, and we have always discharged to the full our obligations under the own resources system. But we sincerely believe that the impending exhaustion of own resources, and the need to avoid "unacceptable situations", which the Community itself has endorsed, make it essential for the Community to take a critical look both at the operation of its policies and at their overall impact.

6. Have you any comments on President Giscard's suggestion that limits might be placed on the net benefits of some member states to match those placed on the UK's net contribution?

Naturally we noted the President's remarks with interest, as we have all suggestions for tackling the Community's budgetary problems.

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It certainly seems to us important that the Community should look closely at the overall financial impact of its policies and see if these are consistent with its wider objective of promoting economic convergence and that they do not impose an unfair burden on any member state.

7. Do you regard restructuring as a necessary pre-condition of further enlargement?

The UK remains convinced that the cause of freedom and democracy will be served by the accession of Spain and Portugal to the Community and we share our partners' commitment to facilitating it. But at the same time we see the prospect of a further enlargement as a strong reason to press ahead with the restructuring exercise, since it is likely to exacerbate some of the financial problems that the Community now faces. We must take the necessary steps now, if tension and conflict are to be avoided in future.

8. Couldn't the UK solve its own problems by importing more from the Community?

No. The main reason for our problem is our low level of receipts from Community policies, in particular the CAP, not the high level of our gross contribution. We scrupulously implement Community preference, and cannot compel our traders not to buy outside the Community without contravening Article 110 of the Treaty of Rome.

9. Isn't the UK seeking a "juste retour"?

No. We do not claim that every member state should get out of individual Community policies, or of the budget as a whole, exactly what they contribute. But we do believe that the Community must have regard to the overall financial impact of its policies. We take it that President Giscard and Chancellor Schmidt were saying very much the same thing in June.

10. Aren't you ignoring the wider benefits of Community membership?

No. We accept that there are many benefits of Community membership which don't enter into the budgetary calculations. But for the most part they are common to all member states. The one big exception is the CAP, which brings extra-budgetary benefits to all

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those who are net exporters of the products concerned within the Community and losses to those who are net importers. The UK, like Italy, is a heavy net importer, and therefore loses outside the budget as well as within.

CHANCELLOR'S VISIT TO PARIS  
CONTRIBUTIONS TO QUESTION AND ANSWER BRIEF

Positive MCAs and the green pound

Questions

- (a) The UK has always advocated low CAP prices. Why are you manipulating the green pound to give your farmers high prices.
- (b) When will you revalue the green pound.
- (c) The UK's positive MCAs are adding to the cost of the CAP.
- (d) Positive MCAs represent a deliberate addition to the UK's net contribution. Why should other member states pay for this through the risk sharing formula.



Answers

(a) There has been no manipulation. Green currencies and MCAs were invented by France in 1969 for the legitimate purpose of maintaining the Treaty objective of stable agricultural prices in periods of exchange rate instability. Upward fluctuation in sterling has taken UK farm prices above common price for a few months. For most of the time since we joined the Community the reverse was the case.

(b) Green currency revaluations are normally considered at the price fixing. Whether we shall revalue this year will need to be considered in the light of a whole range of factors including developments on exchange markets and relative inflation rates.



Is?

(c) As the UK is a net importer we pay more positive MCA import levies to FEOGA than we receive in positive MCA export subsidies. So UK MCAs are reducing cost of the CAP. When we had negative MCAs we were accused of increasing its cost.

(d) In negotiations leading up to the 30 May agreement the UK argued that MCAs should not be included in the calculation of net contributions. Other member states argued that they should be and we accepted this. Now we all have to abide by the terms of the agreement.

CAP price fixing

Questions

- (a) UK can achieve its objective of a low price increase by revaluing the green pound. So there is no need for her to oppose a reasonably generous increase in common prices.
- (b) Will UK respect agreement last year to agree prices according to proper timetable (ie. in March)?
- (c) What is UK's price objective this year?

Answers

(a) Commission - and all Community Finance Ministers last year - recognise the continuing importance for the CAP of a prudent price policy. This is essential if CAP is not to be destroyed by surpluses. This policy has to be pursued consistently over a long period of years and we shall continue to support it irrespective of green pound situation. A green pound revaluation would not undo the damage to the CAP as a whole of a big price increase.

(b) UK has no wish to delay the price fixing process if a reasonable agreement can be reached.

(c) UK's detailed position on prices will have to be formed in the light of the Commission proposals when they become available. In general must reiterate the need for a very prudent price policy.

Fisheries

Question

(a) The UK has failed to respect agreement reached in conjunction with a compromise on the UK's budgetary contribution that Common Fisheries Policy (CFP) would be settled in 1980. Why should other member states respect budget agreement?

Answer

(a) Cannot accept that budget agreement was contingent on CFP deal being reached by a particular time. It takes 10 to reach an agreement in the Community. UK worked hard for an agreement on CFP in December. Hope that agreement can be reached shortly. Would not wish to prejudice chance of this by debating now which country was responsible for failure to reach agreement in December but deny strongly that it was the UK.

Third country trade

Questions

(a) UK criticises the cost of the CAP but insists on import arrangements (eg. New Zealand butter, ACP sugar) which have the effect of increasing the volume of exports the Community has to dispose of.

(b) Dairy surplus could be curbed by reducing imports of cheap inputs (eg. soya beans) why does UK oppose this?

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Answers

(a) Community should not attempt to solve its internal problems at the expense of traditional Third Country suppliers. Basic criticism of CAP expenditure is not so much its level but the fact that it is largely spent on wasteful disposal of surpluses and of the fact that surpluses are increasing. Breaching faith with developing countries supplies of sugar or inflicting major damage on New Zealand economy by halting her sendings of butter would do nothing to solve the fundamental problem of bringing Community production and consumption trends into line.

(b) Pushing up the price of farm inputs would either damage farm incomes or involve further increase in farm product prices to the detriment of consumers. Restricting soya imports would involve trade war with United States.

J. COMMUNITY BUDGET DISPUTE

UK satisfied that budgets were legally adopted?

The Commission decided that the budgets were legally adopted and requested payment accordingly. HMG saw no good reason not to comply. We regard the allegations of impropriety as unproven.

UK motivated by concern to secure refunds?

No. We do not consider that the Parliament actions went beyond its powers. We were also concerned, as we had previously made clear, that the Budget should contain adequate provision to meet outstanding commitments.

What will be done to settle the dispute?

I do not think it would be right for me to speculate on what other member states, or the Commission, may do.

How can similar disputes between the Council and Parliament be avoided in future?

At the Budget Council on 22 December we called for a review of budget procedure with precisely this objective. Member states will undoubtedly be discussing the subject further.

J

K. THE COUNCIL OF MINISTERS AND THE EUROPEAN PARLIAMENT

Doesn't the recent dispute over the 1981 supplementary budget reveal that the present relationship between the Council and the Parliament is unworkable?

The Treaty (of 1970) gives the Parliament certain powers in relation to the Community budget. It would be unrealistic to expect it not to use those powers. We do not wish to extend the Parliament's powers but, without changing the Treaties, we cannot change them either. We have already proposed that the Council's procedures be reviewed to avoid disputes of this kind occurring in the future.

L. EUROPEAN MONETARY SYSTEM (EMS)

UK Participation

Apart from the exchange rate mechanism, we participate fully in the EMS. In particular we have deposited 20 per cent of our gold and dollar reserves with the European Monetary Cooperation Fund and received ECUs in exchange.

UK attitude to joining exchange rate mechanism

We have repeatedly stated that we should be glad to take part in the exchange rate mechanism in the right circumstances. So far, however, the circumstances have not been right. Market pressures on the sterling exchange rate have recently been intense, and our domestic economic problems have called for policies of severe monetary restraint. We believe that joining the exchange rate mechanism in the wrong circumstances would be harmful both to the EMS itself and to our own domestic policies.

Institutional phase

It was originally intended that the EMS would move to the second, "institutional" phase in March this year; but the European Council last December decided to put off the transition until an (unspecified) "appropriate time". ~~This recognised the reality that there is neither political will nor technical scope for major progress at this stage.~~ Work is continuing and

*I am sure that Finance Ministers will be looking at the question again later in the year.*

## M. NORTH/SOUTH ISSUES

### Crisis in North/South relations?

Neither South nor North are monolithic blocks. Economic problems of individual countries not helped by thinking in simplistic and dramatic terms. Most useful forms of co-operation take account of circumstances in each of the countries concerned.

### North should stimulate world economic activity through massive aid transfers to South

Objections to aid as a means of securing world reflation are basically the same as the objections to domestic reflation at a time of high inflation. LDCs share an interest in reduced inflation in the industrialised countries, not least because growth will run into a stop if inflation is not controlled.

### North cannot afford to ignore predicament of South

Development depends ultimately on forces within country in question. Key to development is freedom: freedom of economic competition, of exchanges, of private flows, of investment, of trade. Official aid flows are, and should be, of dwindling importance, except to the very poorest.

M



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## N. EUROMARKETS

Line to take :

- continuing rapid growth in Euro-markets, in part a reflection of the growth of balances held by oil exporting countries;
- movement of liquid assets can cause problems for monetary policy and exchange rate stability;
- but believe the solution to these is by appropriate domestic policies, not by international controls;
- sceptical about the effectiveness of controls; markets might well move to uncontrolled centres and then we would be worse off than if they had remained in better established centres.

### Background

Discussions are continuing in the US about proposals to reduce the penal element in bank reserve requirements and also to create "offshore" banking centres in the mainland US which would not be subject to monetary controls or tax.

Not for use: These developments may indicate a recognition by the US of the difficulty of controlling offshore markets, and also that their high reserve requirements have stimulated these markets. It is also possible that the German attitude is changing in view of their concern to secure capital inflows.

The Euro-sterling market was given a boost by the ending of exchange controls and the existence of the corset, but UK resident non-bank deposits remain a very small proportion of the total (at £1 billion under 10% of assets). The latest evidence suggests that reports of recent rapid growth in the market may have been exaggerated. (Paris is one of the main Euro-sterling centres.)





OPEC SURPLUSES

Line to take:

The last round of oil price increases has led to a large increase in expected surpluses. The health of the world economy depends on the effectiveness and terms on which these surpluses are recycled to deficit countries. Oil producers have common interest in ensuring that the oil price increases do not undermine further the position of developing countries. Need for greater involvement of official institutions in adjustment and financing, particularly the IMF.

Background

| OPEC surpluses |                   | £ billion                     |
|----------------|-------------------|-------------------------------|
| 1979           | 1980              | 1981                          |
| 70             | 115<br>(estimate) | 70 (WEP forecast not for use) |

We expect the surplus in 1981 to fall back towards the level of 1979 as the effect of the increased price of oil is more than offset by a fall in the demand for oil and increased OPEC imports (which are expected to be the most dynamic element in world trade this year as they were last).

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VISIT OF THE CHANCELLOR OF THE EXCHEQUER: 27 - 28 JANUARY 1981

27 January

- 1330 The Chancellor of the Exchequer and the Governor of the Bank of England, accompanied by Mr D J S Hancock (Deputy Secretary, HM Treasury) Mrs R E J Gilmour (Assistant Secretary) and Mr A J Wiggins (Private Secretary) arrive Charles de Gaulle Airport on Flight AF811. Met by Mr Petrie (Minister Economic) and Mr Appleyard (Financial Counsellor).
- 1400 approx Lunch at the Ambassador's Residence for the Chancellor and the Governor, accompanying officials and Embassy staff.
- 1545 The Chancellor of the Exchequer leaves the Ambassador's Residence for the Ministry of the Economy, 93 rue de Rivoli, accompanied by Mr Hancock, Mr Wiggins and Mr Appleyard.
- 1600 Call by the Chancellor of the Exchequer on M Rene Monory, Minister of the Economy.
- 1700/1730 The Chancellor and officials return to the Ambassador's Residence.
- 1730 Tea at the Ambassador's Residence.
- 1800 Mr Hancock and Mrs Gilmour leave the Embassy for Mr Appleyard's flat.
- 1810 The Governor of the Bank of England leaves the Residence for the Banque de France. Mr Hurr to conduct the Governor to M de la Genière's office, 39 rue Croix-des-Petits Champs.
- 1830 The Governor calls on the Governor of the Banque de France.
- 1900 Mr Hancock and Mrs Gilmour leave Mr Appleyard's flat with Mr and Mrs Appleyard to return to the Ambassador's Residence.
- 1930 The Chancellor of the Exchequer, accompanied by HM Ambassador and Lady Hibbert, Mr Hancock, Mrs Gilmour, Mr Wiggins and Mr and Mrs Appleyard leave the Residence for the Club d'Aujourd'hui at the Intercontinental Hotel, 3 rue de Castiglione. (The Governor of the Bank of England will be taken by M de la Genière to the dinner from the Banque de France.)
- 1945 The Chancellor is greeted at the entrance to the Intercontinental Hotel by M Jacques Rozner, President of the Club d'Aujourd'hui and members of the Club Committee. The Chancellor gives a brief interview for French television news.

VISIT OF THE CHANCELLOR OF THE EXCHEQUER, 27/28 JANUARY 1981

27 January

- 1230 Three cars from Embassy to CDG to meet Flight AF811 ETA 1330. One car to take M(E) and Mr Appleyard. Mr Stewart to be on hand to help with baggage and other formalities.
- 1330 Three cars from CDG to the Residence.
- 1545 Two cars from Residence to Ministry of the Economy, 93 rue de Rivoli, for call on M Monory. Cars to be on hand until
- 1730 (approx) Return to Residence.
- 1800 One car to take Mr Appleyard and 2 officials to Mr Appleyard's flat, 57 bd de Beausejour (with baggage).
- 1810 One car from Residence to Banque de France (Governor's entrance 3 rue de Vrilliere).
- 1900 One car to take Mr Appleyard and 2 officials from Mr Appleyard's flat to Residence.
- 1930 Two additional cars (i.e. total of 3) to take HM Ambassador, Lady Hibbert, the Chancellor, <sup>Mr Hancock</sup> Mr Wiggins (and Mr and Mrs Appleyard to the Hotel Intercontinental 3 rue de Castiglione.
- 2230 onwards Three cars to be on hand to take HM Ambassador, Lady Hibbert, the Chancellor, Governor of the Bank of England, and Mr Wiggins to the Residence and Mr and Mrs Appleyard and two visitors from Hotel Intercontinental to Mr Appleyard's flat.

28 January

- 0650 One car to take Mr Appleyard and officials (with luggage) from Mr Appleyard's flat to the Embassy.
- 0715 One additional car (total two) to take Chancellor, Governor of Bank of England, 3 officials and Mr Appleyard from the Residence to CDG for Flight AF808 ETD 0830. Mr Stewart to be on hand at CDG to help with baggage and other formalities.  
  
One car to return Mr Appleyard to the Embassy.



HM AMBASSADOR'S LUNCH FOR THE CHANCELLOR OF THE EXCHEQUER: 27 JANUARY

GUEST LIST

Chancellor of the Exchequer,  
Sir Geoffrey Howe QC MP

HM Ambassador

Governor of the Bank of England,  
Mr Gordon Richardson

Lady Hibbert

Mr Hancock  
(Deputy Secretary, HM Treasury)

Mr Petrie  
(Minister, Economic)

Mrs Gilmore  
(Head of Information Section,  
HM Treasury)

Mr Appleyard  
(Financial Counsellor)

Mr Wiggins  
(Principal Private Secretary to  
the Chancellor)

Miss Spencer  
(Agricultural and  
Economic Counsellor)

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CAR LIST

1930

Residence to Club d'Aujourd'hui

Rolls: HM Ambassador, Chancellor and Lady Hibbert;

Car 1: Mr Hancock, Mrs Appleyard;

Car 2: Mr Appleyard, Mr Wiggins, Mrs Gilmour;

Car 3: Spare

2230

Club d'Aujourd'hui to Residence

Rolls: HM Ambassador, Chancellor, Mr Wiggins;

Car 1: Lady Hibbert, Governor;

Car 2: Mr Hancock, Mrs Gilmour (to flat);

Car 3: Mr and Mrs Appleyard (to flat)



Mais ce n'est pas mon propos de vous exposer ce soir les différences qui peuvent exister entre nos deux peuples. J'ai au contraire l'intention de mettre l'accent sur nos similitudes, qui sont, selon moi, beaucoup plus importantes. Nous sommes pourtant obligés d'admettre que nous parlons deux langues différentes. Je serais très fier de pouvoir poursuivre dans la vôtre, mais vous en êtes je pense déjà convaincus je crois que dans l'intérêt général, il est plus prudent que je reprenne dans la mienne, ce que je me propose de faire dès maintenant, si vous voulez bien m'en excuser, Monsieur le Président.





Il est intimidant, même pour un homme politique d'une certaine expérience, d'affronter un public d'éminentes personnalités, venues très nombreuses ici ce soir. Je crois qu'en la circonstance, le flegme britannique légendaire me sera d'un grand secours.

Je me souviens d'une anecdote, qui m'est arrivée il y a bien des années, et qui pourrait illustrer ce même sentiment. J'étais alors étudiant, et je faisais de l'alpinisme près de Chamonix, dans le cadre de vacances organisées par l'Union Nationale des Clubs de Montagne. Nous dormions dans des tentes; je partageais la mienne avec d'autres jeunes étudiants de Cambridge.

Mais il y avait aussi des jeunes filles dans ce camp de vacances, et notamment une ravissante Française, blonde, dont la rumeur disait qu'elle était la maîtresse du roi Farouk. Quelle ne fut pas notre surprise quand un soir, alors que nous étions tranquillement installés pour dormir, la porte de la tente s'ouvrit sur la ravissante jeune femme en question, qui, sans mot dire, entreprit consciencieusement de dérouler son sac de couchage et se mit au lit. Nous n'avons pas pipé. Nous lui avons souhaité bonne nuit, avec le plus grand calme, pour nous replonger qui dans son Dickens, qui dans son Proust.

Au bout de dix minutes, elle se releva écoeurée, rempila son sac de <sup>couchage</sup>, avant de sortir en maugréant :

"Oh, vous les Anglais, avec votre flegme ..."

Evidemment, les choses ne se seraient peut-être pas déroulées de la même façon si elle était tombée sur des Français.

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cc Mr Scholas  
Mr Aarons

Mr Hancock —

I attach a copy of the  
opening section to the C's  
Paris speech. You agreed to  
have this translated.

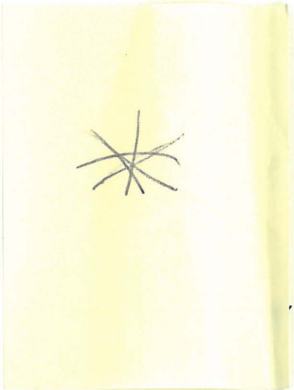
lit

26/1

27/11/81

73

It is daunting, even to an experienced politician, to be confronted with such a large and distinguished audience. I shall have to seek refuge in our national character.



I remember how this was illustrated many years ago - when, as a student, I was on a climbing holiday, near Chamonix. The holiday was organised by the Union National des Clubs de Montagnes. We students were all sleeping in large bell-tents. I was in a tent full of young Englishmen from Cambridge.

But there were girls in the camp as well, including in particular a very beautiful French blonde, who was reputed to be the mistress of King Farouk. You can imagine the surprise of our tent full of young Englishmen when one evening the flap door of our tent suddenly opened and in walked the beautiful mistress of King Farouk. We were even more surprised when she unrolled her sleeping bag and got into it beside us. But we were not provoked. With great calm we wish her good evening, and continued to read our Dickens and our Proust. After about ten minutes, this ~~passionate~~ young French lady, ~~for such she must have been~~ got up in disgust, rolled up her sleeping bag again, and left saying:

"Oh you English. You are so phlegmatic."

A Frenchman might have reacted differently.

But it is not the purpose of my address tonight to stress the differences between our two countries. I want instead

to call attention to our similarities which are, in my view, much more important. But we have to acknowledge that we speak different languages. I would be proud if I could continue in yours. But it must already be clear that it would be prudent of me, and in the general interest, if I continued in my own. If you will excuse me, Mr. Chairman, I will now do so.



27/1/81 75

1.

Text of the speech delivered by Rt Hon Sir Geoffrey Howe QC, Chancellor of the Exchequer, at the Club d'Aujourd'hui at 8.00 p.m. on Tuesday, 27 January 1981.

Introduction

I understand that this distinguished club usually meets to hear a speech from an eminent French statesman. Monsieur Monory, for whose presence and support tonight I am most grateful, is one of those who have addressed you in the past. I am indeed honoured by your invitation to follow in his footsteps. I would like to use this rare privilege as an opportunity to discuss the ways in which our two countries share a common outlook and a common approach to today's problems, and to indicate some of the challenges facing the European Community and the world as a whole which we can work together to meet.

2. There is in our history and in our situation today much to unite our two countries. France

/and Britain





2.

and Britain are the oldest nation states of Western Europe. We share the inheritance of Rome, of the Renaissance and of the Enlightenment. In art, in literature, in architecture we represent between us a large part of the Western European tradition. We have shared in the settlement and development from Europe of continents overseas. Both France and Britain have progressed from an imperial past to a European present. We are both free democracies, and we are both industrial countries much concerned with international trade. All this means that we both have a great deal to contribute to the building of Europe, and that within this common pattern our distinct national characteristics can further enrich it.

3. In Britain there is a proverb - of which I am sure there is a more elegant French equivalent - "A problem shared is a problem halved". We have many problems in common. And in an

/increasingly

3.

increasingly dangerous wider world the need for a common approach has never been greater. So I believe that proverb applies particularly strongly to France and Britain.

Recent economic history

4. One overriding interest which we share is in the success of the productive sectors of our economies. This is the key to all other forms of progress - in the relief of poverty, an enhanced quality of life, a better environment.

5. Since the war, Britain has been less successful than France in achieving economic growth and raising the living standards of her population. In 1950 Britain's Gross Domestic Product per head, measuring by the exchange rates of the time, was a little above that of France. Now it is little more than two-thirds of yours. Not only have we allowed serious inflation to take root in our economy - and we are not alone in that - but our productivity has not grown fast enough, we have responded too slowly to change, and successive

/Governments

Governments have not succeeded in promoting a better performance.

6. I believe, however, that there is now a real prospect of improvement which I hope will end our relative decline. You will ask why I say this at a time when we have suffered, in 1980, a fall in output of about 2½ per cent and when our rate of unemployment has, sadly, risen to about 9 per cent.

6A. I do not rest my faith in improvement simply, or even mainly, on the fact that we have our own oil in the North Sea. I have the feeling that the favourable impact of North Sea oil on the British economy is commonly over-estimated by many Frenchmen - indeed by many of my own countrymen as well. Over the next few years, we expect oil and gas production to represent little more than 5 per cent of our Gross Domestic Product. This oil is an undoubted benefit to us. But it certainly does not insulate us from the world recession that has resulted from the oil crisis - not least because of our exceptional dependence on overseas trade.

/Perversely,

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/Perversely,

5.

Perversely, indeed the effect of oil on our exchange rate has made it suddenly more difficult for our trading sector to compete. And our exports of other goods and services are after all far more important to our national income than production of oil.

[ 7. Like those of other industrial countries, British industry and British consumers suffer from high oil prices. And, of course, we share too in the difficulties caused by the impact of high energy prices on economic activity in the rest of the world. So we certainly do not welcome the recent large increases in the price of oil. Nor can we insulate prices for North Sea oil from those being applied to comparable crudes by other oil-producing countries. The British National Oil Corporation is contractually bound to pay the full market price for the oil that it buys from the producing companies in the North Sea. It cannot then make a loss when it sells the oil to its own customers. ]

/Nor is Britain

8. Nor is Britain alone in possessing the advantage of valuable natural resources. There is a parallel to be drawn between our oil and your ample supply of good agricultural land. Your President referred not long ago to France's agricultural land as your own "green oil". It was a characteristically perceptive observation: for those fertile, indestructible hectares represent a resource far more lasting and in the long run of greater economic significance than Britain's finite and exhaustible oil and gas reserves.

Our approach to economic problems

9. Why then do I look for an improvement in Britain's economic fortunes? I believe that under the present Government an important change of attitudes is coming about. There are signs of a new recognition in Britain of the realities of a highly competitive world. For its part, the Government is making every effort to bring home to the British people the vital lesson that everyone's incomes depend not simply on making products or

/offering services.

offering services but on selling them.

9A. This is reflected in a much lower and more realistic level of pay settlements since the autumn and in greater acceptance that overmanning has to be eliminated and productivity improved to allow us to compete. Management is having to respond to the pressures of competition in order to survive. We have to sustain and extend these new attitudes as Britain comes out of the recession if we are to achieve the improvement of which I have spoken. If this can be done, there would be great benefit to the European Community as a whole, as well as to Britain itself.

10. The policies which the British Government are pursuing bear a close resemblance to those of France, and of our other partners. Clearly our objectives are the same. They are to set our economies back on a path of steady growth.

11. This will require not just a willingness to accept economic change, but a sense of purpose in  
/responding to

responding to it. The economies of industrial countries must switch to more sophisticated products from things that can be made more cheaply in a developing country with lower labour costs. Attempts to resist such change by imposing barriers to international trade would make us all worse off without necessarily preserving employment.

[ 12. Fruitful change depends primarily on the effort, imagination and co-operation of those directly engaged in productive activity. In Britain our post-war economic experience has taught us to be extremely wary of claims about the power of government to achieve this or that economic goal. To me, the role of government is to provide political and economic stability. ] For, paradoxically enough, necessary change is most easily effected in a stable environment.

/13. In pursuing



9.

13. In pursuing that goal, France and her leaders have shown great constancy of purpose. There are many in Britain, and I am one of them, who are impressed by the vitality and resilience of French society. The success with which you have modernised your economy and responded to the challenge of the Common Market has earned great respect in Britain. It shows what can be done when, in the words of Cardinal de Retz, "La resolution marche de pair avec le jugement" [- when resolution walks in step with good judgement.]

14. Britain, always a politically stable country, is now showing the same steadfastness. The record of the present Government shows what can be achieved in many directions with real determination. I offer just one example of what can be achieved by courage and firmness of purpose: the achievement of an honourable and peaceful settlement *in Zimbabwe.*

Economic Policies

15. A stable economic climate is of equal importance to political stability. The most important element in such a climate is stability in the value of money.

/Inflation is

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Inflation is the enemy of economic stability - and so of economic progress. Like you, we have made the fight against inflation a central theme of our policies. Like you, we have accepted that a policy of so-called "reflation" cannot provide a lasting solution to the problem of unemployment. We have learnt that reflation brings only a temporary boost to output, followed by faster inflation and even higher unemployment. Like you too, we have had to restrain public expenditure to support our anti-inflationary policy.

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16. This is an area where we have recently seen considerable improvement. Our annual inflation rate reached a peak of nearly 22 per cent last May. But in each month since then our index of retail prices has risen by less than one per cent. On the figures available to me, this puts our inflation rate in that period <sup>the last 6 months has been</sup> below that of France or the USA. We are determined to consolidate this success and not be deflected from our policies. They are essential if our economy is to recover and begin to grow again.

/Other changes

17. Other changes are essential to the same goal. In Britain we need to make the market economy work better. One aspect of this is making state-owned industries more responsive to market pressures. We can seek to do this by finding ways of exposing those which are monopolies to competition, and by injecting private capital in appropriate cases to reinforce their market orientation. The other element is the removal of excessive controls on the enterprise sector. We have abolished domestic controls on pay, prices, dividends and foreign exchange.

18. In France I observe rather similar developments. I have noted with interest the moves to inject private capital into some of your state-owned banks. Your removal of price controls is an even more significant step than in Britain, given their continuous existence since the war.

19. Particularly interesting to me have been your introduction of fiscal incentives for investment in shares and your efforts to improve the functioning of capital markets, in order to increase the flow of resources into equity

/capital.

capital. It is very flattering to have a law named after one. I believe you, M Monory, can be proud that your own law has been so successful.

The European Community

20. In considering the wider aspects of our economic policies I find - I am sure in the same way as my colleague, M Monory - our membership of the Community to be a pervasive influence. Indeed it is fundamental. Last year our Prime Minister, Mrs Thatcher, speaking in Bordeaux, and our Foreign Secretary, Lord Carrington, speaking in Hamburg, stressed our commitment to Europe and I stress it again tonight. We are convinced that it is only as a member of the Community that Britain can realise her full potential as a free member of the wider international community, as a European nation and as a country dependent on international trade.

21. Britain and France share the strongest interest in ensuring that the

/Community is

Community is adapted where necessary so that the essential policies of the Treaty of Rome are made durable and the Community can thrive. I do not at all mean by this that national Parliaments should transfer authority to Community bureaucracies or increase the own resources on which the Community can call. What I do mean is that in the interests of the Community itself we must make necessary changes. We must get the budget right. We must get the CAP right. We must get the distribution of burdens and benefits right. And we must get these things right on a basis that will endure. I believe we can do this without departing from Community essentials. Our reward should indeed be a stronger Community. And I believe there is already much common ground between France and Britain on the need for change along these lines.

/The Community's

89

The Community's achievements in liberalising trade between its members are substantial. Since Britain joined the Community we have found it increasingly important as a market for our goods and as a supplier of our import needs. In 1973 less than a third of our trade was with Community countries. Today the figure has risen to well over 40 per cent. But much remains to be done.

23. Free trade in services goes hand in hand with free trade in goods. This year an important initiative will come to the Council to help liberalise the trade in services. It is illogical to deny the consumer the right to choose where he places his insurance once you have given him the right to choose where he buys the goods he wishes to insure.

24. Free movement of capital should be just as important as free trade, and for the same reasons.

/In Britain

[In Britain we have now abolished all controls on the movement of capital across the exchanges.] We are keen to encourage inward investment in our economy and I was pleased to welcome a group of senior French businessmen who visited London recently. [International investment brings benefits to both the countries involved.] So I hope you will also welcome British businessmen wishing to invest in France.

EMS

25. Let me also say a word about the European Monetary System. Its first two years have been a notable success. Britain fully supports the system as a major step forward in monetary co-operation and as a major step forward in the Community. As you know we would like sterling to participate in the exchange rate mechanism when it is clear that that can be achieved without damage. For these reasons the Government of which I am a member, after coming to office, joined France and the other Member States of the Community in placing

/20 per cent

20 per cent of our gold and dollar reserves with the European Monetary Co-operation Fund and received ECUs in exchange. We are now participating actively in the work on the future of the ECU and the creation of a European Monetary Fund.

26. In current circumstances we have not felt able to participate in the exchange rate mechanism. The inclusion of sterling would, I believe, have created difficulties for the operation of the mechanism which would not be welcome to our partners. As you well know, the upward pressure on sterling, created largely by the existence of North Sea oil, has been extremely strong. No Central Bank can for long maintain an exchange rate which defies fundamental market forces. With sterling in the EMS exchange rate mechanism there would have been considerable strains, with the possibility of two or even more re-alignments of central rates in addition to those which have occurred. I regretfully conclude that the inclusion of sterling thus far would not have helped towards the goal of creating

/a zone of



a zone of monetary stability. But this is something we must keep under review.

CAP

27. As I have said, one of the major tasks facing the Community is to control the growth of expenditure financed from the Community Budget. All Member States are restraining public expenditure at home. Public opinion will hardly accept such restraint if the Community expands its budget without check. This is why the British Government believes that the 1 per cent ceiling on the Community's VAT revenues should be maintained. We are glad to know that the French and German Government shares our view.

28. Restraining the Community Budget necessarily involves restraining expenditure on the Common Agricultural Policy. The Common Agricultural Policy accounts for about two-thirds of the total Community Budget. We in Britain fully support the objectives of the CAP as set out in

Article 39 of the Treaty of Rome. We want to see fair returns for farmers and secure food supplies. But the other objectives set out in Article 39 - enhanced productivity and reasonable prices for consumers - are equally important. And the aims of the CAP cannot be pursued entirely regardless of the cost.

29. This is not simply a problem for the British. France joined Germany and Britain as a net contributor to the 1980 Community Budget. Consumers and taxpayers throughout the Community bear a burden when prices are set unnecessarily high and expensive surpluses are generated. This burden is further increased when nationally financed aids are given to farmers, stimulating yet more production and yet bigger surpluses.

30. We should always be asking ourselves whether our taxpayers are getting value for money from agricultural expenditures, whether nationally or Community financed. I know that in France, as well

/as in Britain -

as in Britain - and our countries are both predominantly industrial and commercial rather than agricultural - there is dissatisfaction with the distortions that have arisen in the working of the CAP. Even its strongest advocate would admit that it does not work exactly as its creators intended. It was no part of <sup>the original</sup> their design that the Community should produce enormous surpluses of foodstuffs such as butter and cereals. Nor did <sup>would</sup> they intend <sup>ed</sup> that the Community should devote the bulk of its revenues to meeting the cost of storage or disposal of subsidised prices. Many people will find it difficult to accept that since the invasion of Afghanistan our exports of subsidised wheat to Russia have reached their highest levels since the 1960s.

31. The problem of excess production, rising irrespective of market demand, can only be more difficult in an enlarged Community. It is essential to reform the operation of the CAP if the accession

/of Portugal and

95

of Portugal and Spain to which both our countries are committed, is not to lead to surpluses of Mediterranean commodities as well and to further burdens on the budget.

32. It is for reasons of this sort that the Britain Government is convinced that the Community must take another look at the operation of the Common Agricultural Policy. [We want to see whether it could be modified to achieve its objectives at lower cost. I hope and believe that our basic approach will get increasing support in France. For French and British consumers and taxpayers, and French and British industry, share a common interest in checking the growth of expenditure on the Common Agricultural Policy. The time available for reforms to be agreed is short.

/Reform

33. Reform will not be easy. I have no illusions about that. To be successful we shall need to be clear exactly what we are trying to achieve. Our principal objectives should be: first, to preserve a healthy European agricultural industry, second, to reduce agricultural expenditure as a proportion of the total Community budget, third, to eliminate structural surpluses, which are especially serious in the milk sector, and, fourth, to move towards prices for agricultural products which result in the production of the food we need and not more. It will be for the Commission to present proposals for change, in the context of the 1981 restructuring of the Budget and the price fixing. But meanwhile, we must explore together all the ideas and options which each of us has in mind, so that the ground can be laid for a constructive discussion of the Commission's proposals when they emerge and early progress made. I stress that reform is a Community need and a common interest and I believe that this is becoming more and more widely accepted in all the Member States.

/The world economy

The world economy

34. Just as our two countries have much to gain from co-operation within Europe, so too we can benefit from co-operation over the problems of the wider world. The West must look to its defences in the face of the military strength and uncertain intentions of the Soviet Union. We should unite in pursuing detente - so long as it is a genuine two-way process - and in building bridges with the Eastern half of our divided continent.

35. France and Britain also share a strong interest in the health of the international monetary system, the international monetary institutions and the working of the multi-currency reserve system with which we now have to live. May I take this opportunity of expressing my pleasure in the confidence which our colleagues have shown, M. Monory, in electing you to the Chairmanship of the IMF's Interim Committee. I warmly endorse their judgement.

36. We can co-operate with advantage too on the problems of the developing countries. As President Giscard d'Estaing said in his New Year Message,

/the rises

the rises in energy prices in recent years have created additional difficulties for them. At the same time they have diminished the ability of the industrialised countries to help. I know that this is a problem to which you, M Monory, have devoted much effort and attention.

[ 37. I too am very anxious that we should all find the best ways to help. The world is no longer divided simply into rich and poor or North and South. We need first to recognise that there are at least three major economic categories: the industrialised countries, those developing countries which do not have oil, and the oil producers. We must urge the last group to pay proper regard to the effects on the world economy of their actions in setting oil prices. These newly rich countries also have a responsibility in directly helping those who are poorest, both through aid and in recycling their surpluses. Direct lending by the surplus oil producers to the international institutions would greatly assist the process of recycling. ]

/One thing

38. One thing of which I am certain is that calls for massive direct transfers from rich to poor are based on a misunderstanding of the development process. At a time when most developed countries are keeping public expenditure on a tight rein such transfers are in any event extremely difficult to provide. Of course, Government aid programmes must be continued. Official aid is very important, particularly to the poorest countries. But we must think, not so much of redistributing the world's total wealth, but rather of enlarging it. We must press home the attack on inflation, maintain open trading markets, and facilitate private capital flows if we in the developed world are to play our part in helping the developing countries to make progress. I think there may be scope for further co-operation between our own two countries in tackling these issues.

/Conclusion



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/Conclusion

Conclusion

39. This is a challenging time for Europe and the wider world. We face recession, stubborn inflation, damaging uncertainties about the future supply and price of energy, and dangerous tensions at the boundaries between the Soviet sphere and the rest of the world. We face difficult adjustments in our own countries. It is a great help in convincing our people, if we can say that our partners are pursuing similar policies and setting similar priorities. We can support each other in the resolution of domestic problems. Both within the Community and outside, we can work together for the resolution of international problems. In all those tasks, I am confident that Britain and France can sustain each other, drawing strength from the history, the traditions and the values which we are proud to share.

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