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France
Prime Minister.

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RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND
THE FRENCH FINANCE MINISTER, IN THE FINANCE MINISTRY IN PARIS AT
8.00 A.M. ON 18 JANUARY 1982

Present:

Handwritten initials and notes:
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p.a.
M. L.

Chancellor of the Exchequer	M. Jacques Delors
Sir Reginald Hibbert	M. J-Y Haberer
Sir Kenneth Couzens	M. B. Jolivet
Mr. J.O. Kerr	
Mr. L.V. Appleyard	

Japan

The Chancellor said that the Japanese had not come under as much pressure in G5 on 17 January as perhaps they should have. They had yet to accept the necessity of reform in their trading practices; and the Community had still not begun to bring effective pressure to bear on them. The Economic Summit at Versailles in June should be the occasion for a renewed offensive; but this would require extensive prior preparation and co-ordination. M. Delors agreed. The various Denman missions to Tokyo had been fruitless, as had talk of bilateral investment agreements. The Japanese were happy to talk, but avoided action. Perhaps in preparation for the Summit personal representatives of the European Summit participants should try to produce an effective plan: leaving matters to the Commission had so far proved ineffective.

2. Sir Kenneth Couzens pointed to the risk that the Japanese would play off Europeans against Americans. He was also concerned that the new Japanese budget, being designed to reduce domestic demand at a time of fairly rapid growth, would produce another surge in exports. The Chancellor thought that Herr Matthofer would need no convincing that a common offensive was required: Count Lambsdorff might be more difficult. The Commission would of course have to play a part in the exercise. So, added M. Haberer, would the Belgians, as the Presidency. Sir Kenneth Couzens suggested that



the French, as hosts for the Summit, might like to take the lead in co-ordinating the exercise. M. Delors however thought that the British reputation for liberal external trade policies perhaps stood rather better than that of France: French amour propre would not be offended if the UK were to run the exercise. The Chancellor agreed to reflect on this suggestion, in consultation with the Secretary of State for Trade. He and M. Delors might then talk again at the February ECOFIN, and the matter might indeed be one worth raising at the ECONFIN Ministerial lunch.

3. M. Delors agreed. The French Government fully shared the concern which the Chancellor had voiced. Indeed President Mitterand had raised the matter during a recent visit by the Japanese Prime Minister. The latter had made no response whatsoever. Some way must be found of breaching the psychological barrier which appeared to prevent the Japanese from recognising that early action by them was essential.

United States

4. The Chancellor then referred to the risk to European recovery created by the mounting US budgetary deficit, and the consequently rising US interest rates. M. Delors said that the US unwillingness to recognise the adverse consequences of their domestic policies for their European partners was becoming increasingly irritating. In September we had been told in Washington to expect a deficit of some \$43 billion, and had expressed alarm: the figure had since more than doubled. We had pressed for more frequent intervention in the foreign exchange markets: and been refused. In G5 on 17 January we had asked for comments on their monetary figures: the Americans had not even replied. For 15 months Europeans had progressively reduced their demands, but had still failed to extract a single concession.

5. M. Delors went on to say that he was concerned that US intransigence on economic issues might soon begin to affect political relations. For example, the German and Benelux governments faced



major domestic difficulties, e.g. from the anti-nuclear movement, over US defence and security policies. Their willingness to sustain the ideological battle at home might be eroded if their US ally seemed impervious to their concerns on economic issues.

6. The Chancellor said that he shared much of M. Delors concern on the economic issues. The next key development would be the publication of the US budget in a few weeks time. We ought perhaps to suspend final judgement until then.

Community issues

7. M. Delors said that he hoped that we would carefully consider the possibility of establishing some link between sterling and the other EMS currencies. This might be a subject which he and the Chancellor could discuss again on a future occasion. Progress on it would be beneficial to the Community's image: which all-too-often was one of rows about the budget, and about milk. The Chancellor said that EMS would be discussed at the next European Summit.

M. Delors said that M. Haberler, the Governor of the Bank of England, and others had worked out small institutional changes, which would not fundamentally alter the EMS. This would make it easier to establish closer links with sterling, if the UK Government were to want them.

8. The Chancellor said that on the budget the UK's two aims were to establish a procedure for rational resource-planning, and to achieve a long-term solution to the problem of our net contribution which recognised that, with below average per capita GNP, that contribution could only be modest. In fairness, we should be making no contribution at all, but we would be prepared to concede a modest net contribution in the context of a long-term solution. M. Delors said that foreign Ministers had made substantial progress at their meeting on 14-15 January: an agreement on 25 January on the question of contributions seemed on the cards. As for the underlying problem of rational resource allocation, some reforms would certainly be required in the event of Spanish and Portuguese accession to the Community. M. Delors added that he thought the Community unduly



tardy in disbursing funds available under the new Community instrument. Properly used, such funds could and should prime the pump to attract new capital to European markets, and assist sensible programmes of structural adjustment. The Chancellor warned against undue haste: the EIB had an important role to play. And the cost of borrowing was of course rising at present. M. Delors accepted that it would be wrong to increase the upward pressure on interest rates. The EIB could be the right channel for the lending in question; but equally there could be other channels. Some progress should be made soon.

9. Finally, the Chancellor raised the question of the disagreement between the Council and the European Parliament over the 1982 budget. M. Delors said that the Parliament was attempting to arrogate to itself a new status going beyond what had previously been envisaged. To rein it in, one could either amend the Treaty, or take the Parliament to court. A court action would not be very satisfactory, but might be unavoidable. Meanwhile, the first question was whether payments in respect of the 1982 budget should be made on the basis of the budget agreed in the Council, or approved by the Parliament. This was still under consideration in Paris. The Chancellor said that our analysis was very similar to M. Delors'. Perhaps going to court was unavoidable, although barristers rightly tended to warn potential litigants of the element of unpredictability in any court action. Given the latest developments on bank nationalisation, M. Delors would appreciate the point.

10. The meeting end at 09.30 a.m.

A handwritten signature in dark ink, appearing to read 'J.O. Kerr'.

J.O. KERR

19 January 1982



Distribution

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Financial Secretary
Economic Secretary
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