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RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR OF THE EXCHEQUER
AND THE FEDERAL MINISTER OF ECONOMICS IN THE FEDERAL MINISTRY
OF ECONOMICS, BONN AT 9.15 A.M. ON WEDNESDAY 18TH NOVEMBER 1981

Present:

Chancellor of the Exchequer
Sir Kenneth Couzens
Mr. P.W. Unwin
Mr. J.O. Kerr

Dr. Otto Graf Lambsdorff
Dr. Muller-Thuns (Deputy Secretary)
Herr Grimm (Under Secretary)
Dr. Goldschmidt (Assistant
Secretary)

FIFTH MEDIUM TERM ECONOMIC PROGRAMME

Count Lambsdorff said that he was concerned that the Ortoli Foreword to the Fifth Medium Term Economic Programme could prove divisive of the Community. It was a highly unsatisfactory document, and discussion of it might serve to highlight the fact that unanimity within the Community on economic diagnosis and prescription no longer existed. The Danes and Benelux countries would try to jump on Ortoli's bandwagon. It would be helpful if the United Kingdom and the FRG could speak with a common voice. The Chancellor said that there was still a wide measure of agreement on the need for monetary and fiscal restraint. Even Delors saw this. Sir Kenneth Couzens suggested that the principal issue was whether - as we and the Germans thought - the common aim should still be to reduce levels of public borrowing. Count Lambsdorff agreed. The disquieting feature of Ortoli's personal foreword was that it offered encouragement to those who might wish to pursue other aims. It was therefore likely to be damaging to the co-ordination of economic policy within the Community. He was very much afraid that we might soon see a rather restrictive new French trade policy. There was no ideological barrier to protectionism in France. Since high interest rates in the United States would be with us for some time, the Europeans ought to be attempting to de-couple themselves by reducing their own deficits. This must remain the paramount aim. To wait for healthy developments in the United States to bring down interest rates generally would be to wait too long.

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Contacts with the United States

2. Count Lambsdorff added that we must of course continue to do all we could to encourage healthy developments in the United States, particularly on fiscal policy. The Chancellor agreed. What was required was not a formal European demarche to the Americans, but tactful and discreet pressure behind the scenes. Insufficient progress had been made at Ottawa, and the further efforts made at the time of the IMF Washington meeting had produced few results, perhaps because Stockman's star was waning.

3. Count Lambsdorff said that the German Cabinet had agreed on 17 November on the need to strengthen ties with US public opinion. Chancellor Schmidt had authorised an intensive programme of Ministerial visits to all parts of the United States. Count Lambsdorff would himself be going in February. The Chancellor said that he too was contemplating the possibility of a visit around the turn of the year. Sir Kenneth Couzens said that the US Administration were more likely to listen to the Germans and the British than to the French in present circumstances. Count Lambsdorff agreed, adding that the Germans fully accepted that it was important to avoid any suggestion of confrontation with the US Administration. Sir Kenneth Couzens said that the US economy was moving rather rapidly into recession, which made the fiscal action necessary to deal with the deficit problem still more difficult for the Administration. If the dollar were to weaken, as it undoubtedly would, particularly against the deutschemark, the Americans would presumably start to become more interested in the external dimension of economic policy. They might, for example, change their current narrow view of the circumstances in which intervention in the currency markets would be appropriate.

Contacts with Japan

4. The Chancellor said that he was struck by the extent to which the history of Community relations with the Japanese on trade issues was one of talk, not action. He had recently received a Keidanren delegation in London, and had received advance briefing from UK



officials strikingly similar to the briefing he had received on similar occasions in 1973. The Community had totally failed to use its leverage on the Japanese, who had not been required to change their internal market. And the Europeans had failed to defend their own industries successfully against Japanese imports. Count Lambsdorff demurred. There had been a change in the Japanese Government's position. They were now attempting to deal with the deep-rooted resistance in Japanese society to buying foreign goods. The 20-point programme which the Heidanren delegation had been given in London was very good. And efficient European industries were now successfully fighting back against Japanese import penetration. The German car industry was one example. The need for non-tariff barriers, and quotas on Japanese imports, was not yet proven. He would prefer to try to defend European industries in a broader, and more long-term way.

Insurance directive

5. The Chancellor said that some progress on the draft directive had been made in the Finance Council on 17 November. The question of notification remained contentious, but Dr. Schulmann's flexibility had been beneficial. Count Lambsdorff said that the FRG would not go beyond the concessions which Dr. Schulmann had offered on 17 November. Resistance in Germany to the proposed directive came not just from the insurance industry, but from German industry as a whole. This was a new development, as industries requiring insurance cover had previously favoured a greater element of competition. Resistance would stiffen the longer the debate in the Community dragged on. The Chancellor said that the UK insurance industry would of course see little virtue in a directive which lacked all substance. But he was not despairing of progress in the Finance Council.

The Mandate

6. The Chancellor said that there was a clear convergence in the UK and German approaches to the problem of the Community budget. He had made clear - e.g. in his speech at The Hague -

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the importance we attached to establishing a system for rational budget decision-taking. The Germans had made plain their concern at the growing size of the net budget. We should join forces to hammer out a logical new approach. Count Lambsdorff said that the Germans were ready for a compromise. They were prepared to remain a net contributor, and would not argue for a 'juste retour'. But they could not accept that the United Kingdom and the FRG should be the only net contributors. Other countries were much richer in terms of per capita GNP. And, while the Germans would certainly defend the 1 per cent limit, they would wish to ensure that within it more resources were made available for spending on energy, social programmes, and the regions, rather than the appetites of agriculture. The Chancellor said that there must be limits to national contributions; and a system to determine what policies the budget should be designed to promote. At present the budget was no more than an aggregate of the demands of individual programmes, arrived at without any rational system for according priorities in resource allocation. Dr. Muller-Thuns said that a long-term system was certainly desirable. The curious position which had developed on the 1980 and 1981 refunds to the UK showed the dangers and disadvantages of random ad hoc solutions to budgetary problems. Sir Kenneth Couzens said that the UK had not of course devised, or even welcomed, the 30 May 1980 arrangement. We would very much prefer a durable system, respecting the principle of relative per capita GNP; and we had in fact put together a scheme involving limits to net contributions. We did not think that the Commission's proposals were quite right: they amounted to only another ad hoc scheme. Dr. Muller-Thuns said that the Germans too disliked the Commission's scheme.

7. The discussion ended at 10.30 a.m.

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

J.O. KERR

24 November 1981



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