(2)

Prime Minister

Read in full.

A.J.C. 3/2.

RECORD OF A MEETING BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND THE FRENCH FOREIGN MINISTER AT NO 11 DOWNING STREET AT 9.30AM ON 1 FEBRUARY 1983

Those present:

Chancellor of the Exchequer	M Cheysson
Sir John Fretwell	M de Margerie
Mrs Hedley-Miller	M Villemur
Mr Kerr	M Legrain
	M Bernard

MT

(i): Economic Summit Issues

M.Cheysson said that it had been agreed, at a meeting of Socialist Heads of Government at the Elysee on 23 January, that President Mitterand would suggest to President Reagan that the Williamsburg summit should consider north/south economic relations, focussing in particular on how to ease LDC debt problems, how to re-establish a satisfactory degree of monetary order, and how to reduce instability in commodity markets. Issues to be addressed under the first heading might include new financing mechanisms, the identification of new investment opportunities in LDCs, and new credit arrangements: in short, a global "new deal". President Mitterand envisaged circulating a paper to summit participants a month before the Williamsburg meeting, and chairing a further meeting of Socialist Heads of Government just before the Summit.

a new development? A.J.C. 3/2.

The Chancellor, thanking M.Cheysson for this news, said that he was sceptical about clear-cut north/south polarisations: Current world economic problems affected many different groups of countries in differing ways. And one risk with Summits was to raise expectations which could not in practice be met: A global "new deal" which involved eg a new raft of commodity agreements would run into serious difficulties, eg with the Americans. Of course the problems for the world economy, including the LDCs, of the transition from a period of high

/inflation

inflation should feature on the agenda at Williamsburg: One obvious aspect was the prospect that real interest rates would remain high, given high prospective US Federal deficits. But it might make sense for the Summit to focus most sharply on issues where practical progress was attainable: eg on the enlargement of IMF quotas, and a possible new SDR issue. With luck, the Summit might be able to note progress already achieved on the former, and call for further progress on the latter.

M.Cheysson said that he accepted that talk of a straight north/south polarisation was misleading, but he did not accept that it would be wrong to try to seek further commodity agreements. As for IMF quotas, presumably the Chancellor envisaged that a deal might be struck at an Interim Committee meeting in April? The Chancellor said that the Interim Committee would in fact be meeting on 10-11 February, and that he and M.Delors rather hoped to secure a deal then. They were working closely together. M.Cheysson said that he knew of this cooperation, and thought it very valuable.

(ii) EC Budget

The Chancellor then recalled that M.Cheysson had mentioned to him, at the last Anglo/French Summit, that he had some new ideas on EC Budget issues, which he wished to put to the Chancellor. Would it be convenient to discuss them now?

M.Cheysson said that he could only speak personally, and quite informally, as a European and a friend, and also of course a former EC Budget Commissioner. He very much hoped that the rigmarole over the 1982 Budget refunds was now virtually at an end. France had thought it quite wrong that some of the expenditure and been classified as non-obligatory, but the Council was likely to adopt the 1983 supplementary budget

(including

including the UK 1982 refunds) on 1 February, and the chapter should then close. (The Chancellor interjected that it was very important that the Council should not delay agreement on the supplementary measures and energy regulations which would provide the legal basis for the UK refunds: M.Cheysson replied that the Commission no doubt had this in hand.) The aim for the future must be to ensure that there were no further such unsavoury episodes. One way of making progress would be to approach the problems of financing community activities in a wider perspective than in the past; and perhaps to draw on the ECSC experience. The ECSC Budget was only some 350m ecus: Yet it triggered expenditure some ten times greater, involving financing by producers. There need be no community budget problem, provided that the issue of how to finance community activities was tackled imaginatively. Why should the communities' resources derive only from Customs duties and VAT? Why should the community be debarred from considering loan finance?

M.Cheysson added that it was probably good that the absurdity of the current budget arrangements - with enormous net gains for Italy and Greece, and large net contributions by the UK - was becoming increasingly apparent, for it created an obvious requirement for reform, and a new perspective. He was considering advising President Mitterand to raise the matter at the next European Council.

The Chancellor said that he welcomed M.Cheysson's recognition of the need for a fundamental reappraisal of EC Budget arrangements. This had long been the British view. And the figures spoke for themselves: The UK's budgetary imbalance in 1982 was some 2 billion ecus. The UK had over the years been told that the expansion of the regional fund would serve to remedy the position, but history had disproved this, and the fact was that, given our present share of regional fund money, the fund itself would have to increase to

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more than double the size of the whole community budget before our budget imbalance would be resolved by that route. The right solution would have to be one which would be lasting, simple, and obviously fair, and he was intrigued to know what precisely M.Cheysson had in mind. Would he, for example, be ready to consider reducing the VAT liabilities of member states bearing excessive budgetary burdens so as to place an upper limit on their net burdens? Such a limit could be based on relative prosperity and GDP. Alternatively, would he consider reducing the VAT liabilities of such member states by the difference between their contributions to, and receipts from, the CAP? Such a relief could be phased out for more prosperous member states.

M.Cheysson said that he was not in a position to comment on particular proposals. His general point was that there was no reason why new community policies should be financed along the traditional lines. A new institutional arrangement might be required. Of course it would take time to negotiate, and perhaps a further 18 months to put into legislative effect. But that was all the more reason for making a start now.

The Chancellor suggested that the best way of taking the matter forward might be through an early Anglo/French meeting of relevant experts. M.Cheysson agreed, but suggested that the Chancellor should put this proposal to M.Delors. He emphasised that he had been speaking personally, and that his suggestions should not be regarded as a formal French Government proposal - at least at this stage.

J O KERR
1 February 1983

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