



WOL 8/11  
fa-

RECORD OF A DISCUSSION AT THE MATIGNON AT 6.30 PM ON THURSDAY  
4 NOVEMBER, 1982

Present:-

Chancellor of the Exchequer  
Secretary of State for Industry  
Secretary of State for Trade

M. Pierre Mauroy - Prime Minister  
M. Michel Jobert - Minister of Foreign Trade  
M. Jean-Pierre Chevènement - Minister of Research and Industry  
M. Jacques Delors - Minister of the Economy

1. M. Mauroy said that the French government had taken office pledged to a policy of economic growth. The method adopted had been one of encouraging the productive elements in the economy, through an enlargement of the public sector. The world recession had however delayed progress. The forecasters had predicted that economic recovery would start in early or mid-1982. It had not, partly because of the damagingly strong dollar. A policy of rigour was accordingly being pursued in France. Hopes of 3 per cent growth in 1982 had been dashed, but inflation was being brought under control. The rate would be down to 10 per cent by December, and 8 per cent in 1983. The price freeze had been a considerable success. The increase in unemployment had also been stemmed: the level had stabilised at around 2 million. The major concern now was with the balance of payments. Reflation in France had proved highly successful for Germany, and German exports. The French Government were determined to reduce their balance of payments deficit by F.30 billion in 1983. They would of course respect the rules of the game, but action was essential. And they hoped that, vis-à-vis the outside world, the Community would be ready to be pretty rough.

2. The Chancellor said that the UK and French Governments shared the objectives of securing renewed growth and turning the tide of unemployment. Current French successes against inflation were much admired in London. The French experience





of a price freeze reminded him of his own experience a decade ago as the Minister responsible for policy on prices, and he recalled that Lord Cockfield had then been Chairman of the Price Commission. The policy had had mixed results; and from 1979 the new Conservative Government had in fact chosen to abolish most controls. The UK inflation rate had now fallen to 7 per cent from a peak rate of 22 per cent, and should reach 5 per cent next year. But, as in France, growth remained elusive. We had hoped for 1.5 per cent growth this year, but would get only some 0.5 per cent. The Germans of course were getting none this year. We now hoped for some 1.5 per cent next year.

3. The Chancellor went on to suggest that Anglo/French agreement would be useful in a number of fields. First, since we all suffered from the direct effects, and the effects of the world economy as a whole, of high US interest rates, it was in all our interests to encourage the US Administration to tackle the problem of its budgetary deficit. Secondly, some strengthening of the international financial institutions, and increases in the resources available to them, would buttress confidence. Thirdly, the Community must indeed agree to flex its muscle on trade issues, e.g. vis-à-vis Japan; though equally it was important that Community countries should not, through protectionist measures, damage each other.

4. Finally, the Chancellor referred to the problem of the UK contribution to the EC budget. M. Mauroy had described the current French balance of payments problems. For the UK the EC budget problem seemed permanent. Without a corrective mechanism, along the lines agreed on 30 May 1980 and 25 May 1982, we should be paying an annual contribution of some F.12 billion to our richer Community partners, which would be absurd. A more satisfactory long-term Community financing arrangement was required. Stop-gap solutions were intrinsically unsound: we, and the Community, needed a solution that would last as long as the problem lasted.





5. M. Jobert said that in trade issues, and particularly in GATT, the key issue for discussion was whether the UK and France would act separately, or in step. He favoured joint action - not necessarily for ever, but certainly over the next critical period. At the GATT Ministerial meeting the right stance to adopt would be one which was "modern and combative". We should play down points of disagreement, bilaterally and within the Community, and centre on playing a joint hand with skill and determination. Within the Community, the Commission must be encouraged to fulfil its function of ensuring that the rules were enforced. The UK would not, he hoped, continue to be one of the countries breaking the rules.

6. M. Jobert referred to the forthcoming visit to Paris of the Chinese Vice-Minister for Water and Electricity, with whom there would be some discussion of the Guandong Nuclear Power Station. He would ensure that we received a prompt and accurate account of the discussions. He was not sure that the accounts which the French had received from us of similar discussions on this project had been either prompt or accurate. And it seemed, from what the Chinese had told the French, that the UK approach to credit for Guandong broke the consensus rules.

7. The Secretary of State for Trade said that he noted M. Mauroy's concern about France's external trade balance. He had also noted that neither M. Mauroy nor M. Jobert had discussed the Anglo-French trade balance. Excluding oil, the latter was tilted heavily in France's favour. This was not something which he had thought necessary to investigate until the measures announced in Paris in October had obliged him to do so, since they created a risk that the balance would be tilted still further. He looked forward to further discussions on this with M. Jobert. As for trade with the outside world, he very much agreed that the UK and France should keep in step. The UK trade deficit with Japan was very much larger than the comparable French deficit with Japan: there might well be lessons which the





UK could learn. All of us should seek an expansion of world trade, and ideally by opening up new trading opportunities abroad. Protectionism at home should where possible be resisted.

8. The Secretary of State for Industry referred to M. Jobert's remarks about Guandong. It was agreed that this issue would be further pursued over dinner.

9. The meeting ended at 7.35 p.m.

*J.O.K.*

J.O. KERR

4 November 1982

---

Distribution:-

Mr. Coles (No.10)  
 PS/Secretary of State, FCO  
 PS/Secretary of State, DOI  
 PS/Secretary of State, DOT  
 PS/Sir Robert Armstrong, Cabinet Office  
 Sir John Fretwell, Paris  
 Sir Michael Butler, UKREP EC

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State (C)  
 Minister of State (R)  
 Sir Douglas Wass  
 Sir Kenneth Couzens  
 Mr. Burns  
 Sir Anthony Rawlinson  
 Mr. Littler  
 Mrs. Hedley-Miller  
 Mr. Carey  
 Mr. Bottrill

Mr. Kemp  
 Mr. Hawtin  
 Mr. Beastall