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MR POWELL (10 Downing Street)

Prime Minister's lunch with M. Chirac, 26 April

M. de Silguy of M. Chirac's Cabinet spoke to me on the telephone this morning in order to mention certain Community points which they expect that M. Chirac might raise with the Prime Minister. These were:

(i) Agricultural price package. M. Chirac is likely to argue strongly that the Community ought to settle the price package and not allow it to be swept into the European Council. Underlying this point is the French frustration with the German refusal to negotiate seriously on the monetary compensatory amounts (because Germany does not want this to result in any fall in German prices in national currency) and on the cereals proposals (because these too would involve a fall in producers' prices). The Prime Minister could no doubt say that we are broadly supportive of the Commission's proposals (other than the oils and fats tax); that we do believe that the time has come for sufficiently firm measures on cereals and that we have never liked the link made in 1984 in the agri-monetary system with the strongest currency. We would certainly like to see the agricultural price package settled before the European Council;

(ii) Future financing. The French position is that there are going to be a good deal of difficulties in the ex-novo review because of excessive demands from southern member states; the French think that some greater concentration of structural funds for Portugal and Spain might be acceptable but they are resolutely opposed to anything more for Italy or Greece. M. Chirac is likely to say that, despite the Commission's proposals, the French do not expect to call in question the United Kingdom abatement system from Fontainebleau and that they are prepared to look for more common ground with us on better public expenditure control on the structural funds and other non-obligatory expenditure.

As M. Chirac is clearly looking for the maximum common ground with us in what he thinks may be quite a difficult negotiation on future financing, the Prime Minister may wish to reiterate our two important positive objectives in this review: better public expenditure control in the Community and mechanisms (guarantee thresholds or stabilisers) in the agricultural sector to avoid the problems of wasteful market imbalances. On non-obligatory expenditure the budget rules in the Treaty provide that there should be a maximum rate of increase which can only be exceeded by agreement of both the Budget Council and the European Parliament. If the United Kingdom, France and Germany stick together in the Budget Council and make clear that we are always going to do this, we can ensure that this maximum rate is not exceeded. On agricultural expenditure the French always have to look over their shoulders at home opinion but we think that M. Chirac may be sympathetic to ideas of more corrective mechanisms in the agricultural regimes provided that we make clear that this is to avoid abnormal market imbalances or absurdly unsaleable stocks.

I am sending copies to Lyn Parker (Foreign and Commonwealth Office and Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

24 April 1987