



SUBJECT

CC MASTER

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26 March 1987

From the Private Secretary

Dear Alex,

PRIME MINISTER'S MEETING WITH THE FRENCH MINISTER FOR THE
ECONOMY

The Prime Minister had a talk with M. Balladur this morning. The Chancellor of the Exchequer and the French Ambassador were also present.

EC Finances

The Prime Minister said that it was essential for France, Germany and Britain to work together to resist the constant tendency of the European Community to spend more money. If our three countries were firm, our point of view would prevail. There were particular problems over agricultural spending. Agricultural prices tended to be set at levels necessary to keep small and relatively inefficient farmers in business. She accepted that it was necessary to keep small farmers on the land but this was a social requirement and income support for them should be financed from national social budgets.

M. Balladur said it was difficult enough to keep national spending under control without the added difficulty of having the European Community as an open tap. He agreed that it was important for Britain, France and Germany to work closely together. Indeed he had earlier proposed to the Chancellor of the Exchequer that the three countries should talk together in the margins of the informal ECOFIN next week. Agricultural spending was, of course, of great importance to France where the rural population accounted for nearly one-quarter of the total. Agriculture throughout the European Community would look totally different in ten years time. But we had to move by stages.

M. Balladur asked what the Prime Minister thought of the Commission's proposal to express contributions to the Community budget as a percentage of GNP. The Prime Minister said that she absolutely ruled it out. It was just a means

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for the Commission to get it hands on more money under an automatic system.

M. Balladur asked what our reaction was to the proposal to change the present system of agricultural spending from advances to refunds. He had two criticisms of it: it was a one-off ploy to get the Community through a tricky budgetary problem in 1987: and he saw a risk that, if funds were not available, the Commission would simply decide not to reimburse certain expenditure, leaving national budgets to pay. The Chancellor said that our attitude was rather more positive. A way had to be found to get through this year's budgetary difficulties.

Japan

The Prime Minister referred to the difficulties of persuading the European Community to take effective action against Japan. The Japanese appeared to be determined to exclude Cable and Wireless from a share in their telecommunications network. We should certainly retaliate were they to do so. More generally, the EC Commission had been far too slow to act. And a number of Member States had a built-in interest in preserving their own trade barriers against Japan, which predated the EC. The United States was more robust. But this only had the effect of deflecting Japanese exports towards the EC. She had raised the matter of Japanese trade restrictions several times at Economic Summits but had never been able to obtain agreement on action. The United States preferred to do private deals.

M. Balladur agreed that the Community should if possible act together. The Commission tended to take too abstract a view of these matters. He would be happy to send over his Minister for Foreign Trade for further discussions with the DTI.

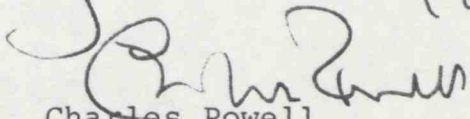
EMS

M. Balladur asked the Prime Minister's view on the operation of the EMS. The Prime Minister gave her views in familiar terms. M. Balladur concluded that it seemed highly unlikely that the United Kingdom would join in the near future. The Prime Minister said that we would join one day. But she thought that other European Member States under-estimated the difficulties which the EMS itself would have in absorbing sterling.

French Economy

M. Balladur gave a brief account of the French Government's economic reforms. The Prime Minister said that there were always difficulties at the beginning. Her Government had introduced reforms as soon as it took office in 1979, but the situation had continued to decline to a low point in mid-1981. It was important to keep your nerve through the difficult early years.

I am copying this letter to Lyn Parker (Foreign and Commonwealth office), Timothy Walker (Department of Trade and Industry) and David Williamson (Cabinet Office).

Yours sincerely,

Charles Powell

Alex Allan Esq
HM Treasury.

PRIME MINISTER

MEETING WITH M. BALLADUR

You have a short meeting tomorrow morning with M. Balladur, the French Deputy Prime Minister and Minister for the Economy. He is attending a symposium organised by the Economist.

Points which you might raise are:

- the French economy. It is not doing well.
- our desire to work very closely with France on the ex novo review of EC finances. We shall not be ready to reach any conclusion at the European Council in June.
- your visit to Moscow. This will ensure that Chirac does not feel left out, following your briefing of Mitterrand. (Balladur is of course Chirac's man.)

C.D.P.

CHARLES POWELL

25 March 1987

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