



RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE FRENCH MINISTER
FOR THE ECONOMY, FINANCE AND THE BUDGET AT 9.15AM ON 21 OCTOBER 1983
AT NO 11 DOWNING STREET

Present:-

Chancellor	M. Jacques Delors
Mr Middleton	M. Philippe Jurgensen
Mr Littler	M. Sauvel
Mr Unwin	
Mr Kerr	

International Financial System

The Chancellor suggested that further work, following up Williamsburg, on international monetary issues should be kept in the G5/G10 framework; and that the Commission proposals on the "economic and monetary environment" should be considered in ECOFIN, rather than the Athens European Council. M. Delors agreed on both points. A G5 meeting in Paris in January might be helpful. Within the Community, it would be unrealistic to imagine that progress on completing the ERM, enhancing the status of the Ecu, and establishing a new financial zone could be taken very far within the framework of current EC negotiations aimed at the Athens European Council. It would be necessary to persuade M. Ortoli that all three subjects needed to be pursued separately, and in separate timescales. The urgent issue now, to which M. Ortoli should be directing his attention, was the future financing of the Community.

Brazilian Debt

2. The Chancellor thought that the Americans would probably go on pressing for new Governmental money to fill the "financing gap". His instinct however was that, when they had concluded that they could get no more, they would either fill the gap themselves, or decide that it was smaller than had previously been thought. The UK position was



that our new contribution to Brazil took the form of agreement to the Paris Club rescheduling. Given that we, unlike the Americans, would also contribute to the proposed BIS loan to the IMF, he did not feel that the case for further support for Brazil from the UK taxpayer had been made out. He also saw considerable dangers in talk of "financing gaps". If it came to be accepted that Governments would step in when such gaps were "discovered", commercial banks would tend to back out, and the gaps thus to grow.

3. M. Delors said that the French attitude was very similar. He was concerned that BIS might be asked to produce a new bridging loan for Brazil in order to fill the "gap"; and he agreed that the "gap" theory could set a very damaging precedent. Nor did he approve of the US pressure for pledges of new Government credit: such pledges would be wrong in principle, and also quite impracticable. It would be desirable to agree once again with the Americans that policy, vis a vis Brazil and other similarly placed countries, must rest on firm agreement on strong Fund programmes unlocking Fund financing, backed as necessary by "Paris Club" and commercial bank rescheduling. The UK and France should maintain their common line.

UK and French Economies

4. The Chancellor gave an account of current UK economic developments. Inflation would rise to some 5½ per cent by the turn of the year, but would be back below 5 per cent next year, and was clearly still on a downward trend. Growth this year would be some 3 per cent, largely thanks to a continuing revival of domestic demand: developments next year would be more dependent on the world scene, and a better export performance. The fiscal and monetary policies of the last four years would be maintained. Unemployment was now rising more slowly, and could peak in 1984-85. Having taken our anti-inflationary measures earlier than most of our partners, we had gone into recession earlier and were coming out earlier: it was now clear that the low point had been in early 1981.



5. M. Delors said that he expected nil growth in France this year. The Government's measures had brought an unexpectedly rapid turn-round on exports, and the balance of payments, though French industry was still targeted too narrowly to Eastern Europe, the developing world, and OPEC, and must learn to compete more effectively in the industrialised world. The root problem was still inflation; price rises were decelerating, but not fast enough. The rigidities in the French economy were still very strong; and he envied the UK Government's success in diminishing parallel rigidities.

Community Financing

6. The Chancellor suggested that it would be important for the UK and France to remain in very close contact at all levels in the run up to the Athens European Council. The greater the degree of Anglo-French agreement which could be reached, the better the chances of overall agreement. We already agreed that the two problems to be solved were that of controlling total expenditure, and financing it equitably. On the former, we were clear that the key lay in control of the growth of agricultural expenditure. We certainly wished to see the Community develop, and develop new policies, but we could not agree to any increase in own resources until a proper system for budgetary control had been established, together with an equitable financing system. On the latter, we were clear that the key lay in basing the system on net contributions: hence our "safety net" proposal.

7. M. Delors said that his personal and longstanding view was that it was essential to have a proper financing system in order to provide a lasting solution to the budget problem - and prevent its regularly souring the atmosphere of Community discussion at the highest level, and thus imposing a brake on the Community's development. As a Finance Minister, obliged to impose economies at home, he also agreed that it would be quite wrong to release substantial new resources to the Community until it had acquired an effective budgetary



system. To deal with the former problem, the UK had proposed the "safety net": he himself thought that the alternative of an ecretement scheme deserved careful consideration, together with the latest Danish ideas. As for the latter problem, he of course agreed that it was crucial to control agricultural spending; but it would be very much easier - particularly in France - to sell such control if it stemmed from the nature of the CAP, rather than from an external constraint, as the UK had proposed. He was pleased that the UK envisaged the development of new Community policies: he himself thought that regional policy, the modernisation of decaying industries, and scientific and technological co-operation deserved further Community support. But, given that enlargement would be costly, there would be little scope for such desirable additional expenditure unless proper economies were introduced on current programmes.

8. The Chancellor said that, on the financing issue, he had indeed studied the latest Danish proposal. The French amendments to it had improved it considerably, but he feared that it was still flawed, and could not produce a satisfactory outcome: it dealt only with the problem of inadequate receipts, and ignored that of excessive contributions, and would still leave us unprotected against increases in our uncorrected net contribution. It would be important to discuss the matter further - first on a bilateral Anglo-French basis, and later bringing in the Germans. We were certainly not wedded to every last detail of our "safety net" proposal; but he remained convinced that an arrangement satisfactory to all parties could be built on it.

9. The meeting ended at 10.45am.

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

J O KERR
21 October 1983



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PS/Chief Secretary
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Mr Fitchew
Mr Battishill
Mr Mountfield
Mr Edwards
Mr Bostock
Mrs Case
Mr Bottrill

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Mr Fall: FCO
Mr Lowson: MAFF
Mr Williamson: Cabinet Office
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