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(5) Euro Pol: Appt of Commission: May 1980.

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND MONSIEUR RAYMOND BARRE HELD AT THE MATIGNON AT 1145 ON FRIDAY 19 SEPTEMBER 1980

(6) Econ Pol: Brandt Commission: Oct 1979

Present:

Prime Minister	M. Raymond Barre
Mr. C.A. Whitmore	M. Pierre Achard

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COMMUNITY AFFAIRS

The Prime Minister said that there were a number of matters on which she hoped the Community would make rapid progress. She expected the arrangements for implementing the agreement of 30 May to go through without delay. She looked forward to an early agreement on fisheries. The question of Zimbabwe's accession to the Lome Convention was urgent. Equally, she looked forward to early resolution of the outstanding problems over sheepmeat and New Zealand butter.

M. Barre said that in agreeing on the 30 May package all Nine members of the Community had undertaken to solve a number of problems before the end of 1980, including the implementation of the budgetary settlement, fisheries and sheepmeat.

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Fisheries

The Prime Minister said that Mr. Walker and M. le Theule were making progress in their discussions which seemed to be going well. We would do all we could to reach an agreement, and if things faltered, it would not be the United Kingdom who were responsible. Our fishermen needed an agreement urgently. But she wanted to make it absolutely clear that there was no linkage between a settlement of the fisheries issue and any of the other problems now facing the Community. The agreement of 30 May provided for fisheries to be dealt with in parallel with the application of decisions in other areas. If suggestions of linkage were raised now, it would cause considerable difficulties.

M. Barre said that he very much hoped that agreement on fisheries would be reached by the end of the year. The first step was for the British and French fisheries ministers to reach agreement and then to get our partners, and in particular the Germans, to accept it. He was anxious to avoid any source of friction inside the Community over the next few months, and if the fisheries problem could be solved this would create a better climate generally. He thought it should be possible for the European Council in December to adopt regulations on both the implementation of the 30 May budget agreement and on fisheries, without expressing any linkage between them but taking account of parallel solutions for these problems.

The Prime Minister reiterated that there must be no linkage imported into the fisheries issue where none existed now. She was approaching the matter in the same spirit as M. Barre. There had undoubtedly been friction in the past, and she did not want there to be any more. Any problems between Britain and France must be smoothed away.

/30 May Budgetary Agreement

30 May Budgetary Agreement

M. Barre said that although agreement had not yet been reached on the regulations to implement the agreement on 30 May, he thought it should be possible to find a solution without difficulty.

The Prime Minister said that if the budget agreement was not being implemented by the end of 1980, this would cause major problems within the Community.

Sheepmeat

M. Barre said that France was ready to accept the European Commission's proposals on sheepmeat which Mr. Gundelach thought would deal satisfactorily with all the outstanding problems. France's concern was to avoid a diversion of trade between Great Britain and France in favour of New Zealand. Such a diversion of trade would occur if Britain sold on the continental market New Zealand sheepmeat in a way which was "independent of the normal currents of trade." The Commission were ready to propose the implementation of Article 115 of the Treaty of Rome to prevent such a diversion of trade. For the rest France fully accepted the result of the negotiations between New Zealand and the Community on tariffs and quantities.

The Prime Minister said that she did not understand how New Zealand sheepmeat might distort the normal patterns of trade within the Community since it normally arrived when there were few British lambs on the market. She too saw no reason why the problem of New Zealand sheepmeat should not be finally settled now that the Commission had obtained the agreement of most Members of the Community on the tariff.

Zimbabwe and the Lome Convention

The Prime Minister said that Rhodesia had originally had an annual quota of 25,000 tonnes of sugar under the Commonwealth Sugar Agreement. Zimbabwe was now seeking a similar quota for sugar exports to the Community. They had made it clear that a satisfactory solution on sugar was a condition of their access to the Lome Convention. Unfortunately France had been able to agree on a negotiating brief for the Commission which only allowed Zimbabwe a quota of up to 25,000 tonnes. She wished to emphasise the political importance of making it possible for Zimbabwe to join the Lome Convention. If she lost interest in Lome, she might turn more towards Eastern Europe for help.

M. Barre said that France saw this problem in two phases. The first was how to deal with Zimbabwe between now and the renegotiation of the present sugar agreement next year. It was likely that some of the existing sugar quotas of other ACP countries would not be used and these could be attributed straightaway to Zimbabwe within an overall limit of 25,000 tonnes. The second phase comprised the long-term arrangements for Zimbabwe sugar, and these could be settled within the global quota of sugar during the renegotiation of the sugar agreement next year.

The Prime Minister said that there was no certainty that shortfalls during the coming months would give Zimbabwe a quota of 25,000 tonnes. Britain believed that Zimbabwe should be given a separate and additional quota of sugar. Otherwise there would be friction between Zimbabwe and her fellow ACP countries and between Zimbabwe and the Community. She therefore hoped that France would be prepared to look again at the Commission's negotiating instructions, with a view to agreeing that Zimbabwe should be given a quota of 25,000 tonnes straightaway. She wanted to re-emphasise the political importance of being ready to smooth the way for Zimbabwe to join the Lome Convention.

Commission portfolios

The Prime Minister said that President Giscard had suggested earlier in the morning that she and M. Barre should discuss the question of the distribution of portfolios in the new Commission, but this was not a matter to which she had so far given a great deal of thought. Britain would be keeping on Mr. Tugendhat and she was consulting Mr. Callaghan about candidates for the second British post. Britain would want one of the two financial portfolios. We were not seeking the agriculture post.

M. Barre said that neither was France bidding for the agriculture portfolio. Both M. Ortoli and M. Cheyssen had been Commissioners for eight years and they would be replaced.

Restructuring of the Community Budget

The Prime Minister said that Britain, France and Germany were the three Members of the Community who should be most concerned to see the Budget restructured since all were now net contributors. Germany in particular felt deeply that she was carrying an unduly heavy burden and she especially resented the fact that her contribution financed countries which were as rich as or even richer than her. There was, however, little likelihood of progress on restructuring the Budget until the German and French elections were out of the way. The changes in the Commission would also hold things up. This meant that if the timetable was to be adhered to, a lot of work on reforming the Budget and the CAP would have to be done very quickly next year.

M. Barre said that the problems raised by restructuring should be discussed closely between Governments. The Commission had a useful role in making proposals, but it was Governments which must discuss and settle these matters. Above all, it was essential to improve the management of the CAP. His personal view was that it would be very difficult to change the principle of "financial solidarity". Nor was he sure that ceilings could be put on the contributions of Member states; and ceilings on receipts would cause many difficulties. Hitherto our management of agricultural prices had been very bad. We had to agree upon new prices for meat and cereals which took account of international prices. We must develop mechanisms for reducing prices when quantities increased. We could not give guaranteed prices for unlimited quantities. He wanted to solve the problem of agricultural surpluses, though this would cause difficulties for other Members of the Community. But any reform of the CAP must safeguard European agriculture for both social and security reasons. It was quite likely that in future food resources outside the Community would prove to be inadequate, and it made good sense to have sufficient resources of our own on the soil of the Community. But this objective must be attained without spending too much money. The Community had to accept the 1% VAT ceiling.

The Prime Minister said that she agreed with what M. Barre had said about surpluses. It was the build up of surpluses which gave rise to increased receipts. Equally, she was very pleased to hear what M. Barre had said about the 1% VAT ceiling. Britain would stick firmly to the ceiling.

M. Barre said that he understood the British position on the Community Budget and he did not blame her for seeking to limit her contribution. He had seen in 1972 that the problem would arise. What was important was for Britain and France to find solutions to the problem of restructuring the Budget which did not threaten the CAP. He was more concerned with the political aspects of the problem than with the economic ones. The French Government had had a very difficult time with French farmers over the last few months. For twenty years they had lived with an expansionist view of the CAP and now that they saw that times were changing, there was a crisis of confidence amongst them. Britain appeared to them to be threatening what was important in the Community, and this explained their strong feelings towards Britain. He wanted to avoid antagonism of this kind and at the same time to correct the causes of the Community's problems and

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not simply to treat the symptoms. We had to find solutions which avoided another huge burden for Britain. He was responsible for the global management of the French economy and he knew well the burden of the French contribution to the Community Budget. France was not seeking large financial benefits from the Community. He was against protectionism and valued membership of the Community for the increased competition it provided.

NATIONAL ECONOMIES OF FRANCE AND BRITAIN

The Prime Minister said that there was no way of avoiding the present world recession which was largely due to increases in the price of oil and to the problem of recycling the increased revenues of the OPEC countries. The Western countries simply had to get through the recession as well as they could. Britain was struggling hard to defeat inflation. The restriction of the growth of the money supply was bearing harder on the private sector than on the public, and the loss-making nationalised industries were a major difficulty for the Government. Britain had failed to adapt these industries in the past and they were having to be changed now, even though we were in the middle of a recession. Britain had been, for example, slower than France to deal with over-manning in her nationalised industries and to reorganise her steel industry. The British Government would continue to follow orthodox policies which would bring down the inflation rate still further. Interest rates had been at a very high level for a long time now: indeed, they had been kept up for much longer than might have been thought possible at the beginning of the year. The high exchange rate was helping to make firms more efficient, and exports were holding up well.

M. Barre said that France was facing two major problems. First, every year about 250,000 extra people came onto the labour market. He refused to try to treat unemployment by means of a global economic policy. Instead, he was concentrating

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on the number of people who were actually looking for jobs and he had set specific objectives. The first was to reduce the number of unemployed men with families, and the measures introduced for this purpose had now been implemented. Second, the French Government were running successful programmes to find jobs for young people coming onto the labour market. Last, they were trying to reduce the pressure of women on the labour market, and to this end the Government would bring in a bill dealing with part-time work for women.

The second of the two major problems facing the French Government was the de-controlling of public sector prices. For a long time such prices had been kept artificially low by means of subsidies. For electoral reasons it was impossible to increase them drastically, and he had therefore adopted a strategy of raising them progressively over a period of time. He had now put up gas, electricity, telephone and public transport charges, and oil prices in France were increased as soon as the suppliers' price went up.

M. Barre continued that it was essential to maintain a grip on the growth of the money supply. He did this by crude mechanisms which were known as l'encadrement du crédit. These involved ceilings on the creation of bank credit and limitations on the ability of the public sector to create money. He maintained a firm hold on the budget deficit which was now small and manageable. It was financed by borrowing on the financial markets and not by printing money. He had also succeeded, with the implicit cooperation of some French trade unions, in moderating wage increases so that now they were broadly in line with price increases and thus created no more purchasing power, whereas until 1976 each year had seen a 4-5% increase in purchasing power. The key to the French Government's economic strategy was to liberate productivity. Last year productivity in French industry had gone up by 7%. He was trying to offset wage increases designed to maintain purchasing power by greater productivity.

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It would be difficult to sustain next year the increases in productivity which recent years had seen, though the French Government were taking such steps as they could, for example by introducing fiscal initiatives to invest. If the French Government could stimulate further increases in productivity, this would help them to avoid too big an increase in unemployment, to maintain exports and to stablise the amount of purchasing power within the economy. To this end he was maintaining interest rates at the not too high level of 11-12% and he was keeping the franc stable. There were those in France who argued for a weaker franc in order to make industry more competitive, but his policy was to tell firms that they had to adjust to a stable franc and to become more efficient.

The Prime Minister said that her Government were also seeking to make British industry efficient, but there was not the same incentive to efficiency in the public sector as in the private sector. The private sector was cutting costs hard, but in the public sector what she called the cost plus mentality still prevailed. Only now were the nationalised industries beginning to realise that they too could lose markets because people simply could not afford their products.

M. Barre said that the next decade would be a very difficult period for all the Western economies. This was not only because the Western world was under pressure from OPEC and could not avoid the effects of increases in the crude oil price, but also because some parts of the Western economy were weaker today than they had been in the past. The United States, for example, would have to adopt stronger anti-inflationary policies for the next two or three years. The United Kingdom's policy needed three to five years to work. And France's policy was not a short term one but was based on a medium term period. At the same time, the Communist bloc was showing signs of vulnerability. Their system was not adapting to new world conditions, and their peoples were showing new aspirations which would have to be satisfied.

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They would face very difficult economic problems over the next few years. Against this uncertain background it was very important that the Community should maintain its cohesion, for example by safeguarding its agriculture and maintaining its financial regulations, for Europe would have to bear the burden of the world while the United States recovered and adopted new policies. It was essential that France, Britain and Germany stood together. He distinguished between political cooperation, defence cooperation, common policies towards the Third World and cooperation on the mechanisms of the Community. Not all of these subjects could be dealt with within the Community: indeed it was dangerous to think of the Community as a framework in which everything could be put. We had to be flexible. The Community was one type of organisation for dealing with specific problems, but for other problems we should have to find other forms of organisation.

The Prime Minister said that she very much agreed with M. Barre's analysis and in particular with what he had said about the need for Europe to form an area of political and economic stability in the coming years.

NORTH/SOUTH

The Prime Minister said she was very worried about the present approach of the West to the North/South dialogue. So often the private views of political leaders on this subject were very different from their public position, but she recognised that there were politics in it all. Earlier that week she had seen Chancellor Kreisky and she had told him that she believed that the jargon in which the North/South dialogue was carried on was now so misleading that there was a very real risk that our analysis of the problem would, as a result, be wrong and that we should fail to find the right solutions. Everybody talked of a gulf between rich and poor nations, and the poor nations were thought to be represented by the Group of 77. But some members of the Group of 77 were very wealthy and, in some cases, were richer than any of the supposedly affluent industrial nations of the West. The fact was that there had already been a major redistribution of wealth from the western industrialised nations and the ldcs to the OPEC countries. Moreover, too much aid was being channelled through multilateral organisations and this left too few resources for bilateral aid, which was more important and more effective. The West had still not got to grips with the problem of the North/South dialogue. The first step in the right direction would be to stop using the language of the Group of 77 and to look at the issue de novo.

M. Barre said that he agreed with the Prime Minister's analysis. The western nations were being exploited, in the best Marxist sense, by the monopoly power of the OPEC countries. We were carrying not only the burden of the oil price rise but also the burden of the poorer nations. Moreover, the way in which we were giving aid was not the most efficient use of resources. Our methods of financing projects lacked consistency. We poured out funds and the recipient countries responded by asking for more and more. He could not understand why Mexico, for example, was still categorised as an ldc. In the Group of 77 there were countries which had already achieved economic take off and yet they were still benefiting from special measures which allowed them to trade on very favourable terms with the Community while they imposed restrictions on imports from Europe. It was time the industrialised countries made it clear that they were now poor and that the only resources they had were brains and a readiness to work hard. He agreed that the whole question of aid needed a fundamental reappraisal.

The meeting ended at 1245.

22 September 1980