

PART

**SECRET**

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PO -CH /GH/0111



PART A

DD: 25 Years

Begin: 7/10/83

Ends: 25/10/83

11/9/95

CHANCELLOR'S PAPERS ON  
THE ANGLO-GERMAN SUMMIT,  
20-21 OCTOBER 1983

PO -CH /GH/0111

PART A

RESTRICTED



10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
DATE	10 Oct 1983
ACTION	MR FITCHER
COPIES TO	CT. F. EST. M.S. Mr. Middleton Mr. Fitcher Mr. Urwin

7 October 1983

Dinner  
for dining.  
Miss Court.  
Mr. Lavelle.  
Mr. A Edwards.  
He

Dear Sir,

ANGLO/FRENCH SUMMIT

The Prime Minister would be grateful if the following would accompany her at the Anglo/French Summit on 20/21 October:-

- Foreign and Commonwealth Secretary
- Chancellor of the Exchequer
- Secretary of State for Energy
- Secretary of State for Defence
- Minister of Agriculture, Fisheries and Food
- Minister for Trade (in the absence of the Secretary of State for Trade and Industry on an overseas visit)

It would be helpful if all of the above Ministers could be present for the plenary session at 1045 am on 21 October. The Prime Minister is considering separately which Ministers should be invited to the dinner on Thursday, 20 October and the lunch on Friday, 21 October.

I am sending a copy of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), Robert Lowson (Ministry of Agriculture, Fisheries and Food), Steve Nicklen (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Your ever  
for Cole.

R. Bone, Esq.,  
Foreign and Commonwealth Office

RESTRICTED





10 DOWNING STREET

From the Private Secretary

SENT 12/10

ON EXCHEQUER	
REC.	11 OCT 1983
ACTION	USF. FST. EST. MST.
COPIES TO	Mr Middleton
	Mr Kitterler. Mr Clavin.
	11 October 1983
	Mr A. Edwards.
	Miss. Louise.
	Mr Fitchew

Dear Roger,

ANGLO-FRENCH SUMMIT

I last wrote to you about this event on 7 October.

As regards the dinner on Thursday 20 October, invitations are now being issued to certain of the Ministers who will be attending the Summit. For the lunch on Friday, 21 October, invitations will issue as soon as we know which French Ministers will be accompanying President Mitterrand. But in principle the Prime Minister hopes that all the British Ministers who are attending the Summit will be able to lunch with her on 21 October. We shall also be inviting the two Ambassadors. There will be one Private Secretary from each side present but no other officials.

I should be grateful if you would let me have as soon as possible a list of the officials from both sides whom you recommend should attend the plenary session (bearing in mind that space in the Cabinet Room will be limited). We shall also need to make careful arrangements for interpretation. I should be grateful for a note of the arrangements which you envisage for the Prime Minister's tête-à-tête talks with President Mitterrand, for the plenary session and for the dinner and the lunch.

Finally, I should be grateful if you would let me have by the end of this week notes for an after-dinner speech by the Prime Minister on 20 October.

I am sending copies of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), Robert Lawson (Ministry of Agriculture, Fisheries and Food), Steve Nicklen (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Your ever  
John Cole.

R. B. Bone, Esq.,  
Foreign and Commonwealth Office.





EXCHEQUER	
REF.	13 OCT 1983
INFO	MR FITCHEW
COPIES TO	CST, FST, EST, MST Mr Middleton, Mr Litter, Mr Unwin, Mr A. Edwards, Miss Court,

Foreign and Commonwealth Office

London SW1A 2AH

12 October, 1983

*John*  
-for diary.

Dear John,

Anglo-French Summit

It may be helpful to bring you up to date on the arrangements for the Summit. In particular, I attach the latest draft of the programme (the times when the Prime Minister will be involved are underlined).

The Prime Minister's wishes on who should accompany her at the Anglo-French Summit have been given to the French (your letter of 7 October to Roger Bone). There has been no formal response as yet but the French had earlier been thinking in terms of:

- M. Claude Cheysson (External Relations);
- M. Jacques Delors (Economy and Finance);
- M. Laurent Fabius (Industry and Research - and also Energy);
- M. Michel Rocard (Agriculture);
- Mme. Edith Cresson (External Trade and Tourism);
- M. Chandernagor (European Affairs).

They had said that they would consider the inclusion of M. Hernu if we were to propose Mr Heseltine and will presumably now be doing so. We have spoken about M. Chandernagor: Mr Rifkind's diary suggests he would be free to see him for bilateral discussions during the Summit. It would make sense also, if you agree, for Mr Rifkind to attend the plenary to match M. Chandernagor. Mme. Cresson may only be able to stay for 20 October. M. Alain Savary (Education) is due on 21 October, primarily to accompany the President when he opens the Lycée extension, but there might be scope for a short bilateral with Sir K Joseph. M. Fabius may also wish to have a word with the latter on research matters. We shall be pursuing these points separately. I shall, of course, let you know as soon as we have a formal French response.

We have now received your letter of 11 October. The French are particularly keen that Messrs Attali and Bianco (Special Adviser to the President and Secretary General of the Elysée respectively) should attend the Prime Minister's dinner on 20 October because of their important roles in the Presidential entourage and their quasi-ministerial status. We are still trying to persuade the French that





they should attend the dinner being given for officials by Sir Robert Armstrong and Sir Antony Acland but officials at the Elysee feel quite strongly about this point. They have also specifically asked if all five (sic) Presidential advisers could attend the working lunch on 21 October. Last time the Summit was held in London, none attended the dinner but all went to the lunch. Given that the five in question are undoubtedly President Mitterrand's closest and most influential advisers, there may be advantage in including them in one meal, if not all at the same one. In the light of the Prime Minister's views, we may have to ask the Embassy in Paris to discuss this further in detail with the Elysee.

On participation in the plenary session, we should like to follow the same format as last time. In practice, we assume that each Minister would be accompanied by one official (though President Mitterrand would wish to have his five). The two Ambassadors should be there and at least the French Coordinator of the closer bilateral contacts exercise. The Head of our Western European Department would take the record. I imagine that the Prime Minister would wish Sir R Armstrong and perhaps Mr Goodall or Mr Williamson to attend. We shall let you have a list of names on this basis as soon as it is more or less firm. I shall also let you know about interpretation.

We are planning to submit a toast and short notes for the Prime Minister's use at the dinner. It would be right to say a few informal words but we are assuming that the Prime Minister is not planning to make a major speech.

French practice is for other Ministers to attend the Press Conference as well. It is not our practice and we have reminded the French that they did not attend at the last London Summit. If President Mitterrand persists, I hope the Prime Minister would however be prepared to consider going along with it, as happened at the Press Conference last year in Paris.

I should welcome your views and, where appropriate, those of the Prime Minister on the outline programme and the points raised in each of the paragraphs above.

I am sending copies of this letter to Private Secretaries at HM Treasury, the Department of Energy, the Ministry of Defence, the Ministry of Agriculture, Fisheries and Food, the Department of Trade and Industry, the Department of Education and Science and the Cabinet Office, as well as to Stephen Lamport here.

A J Coles Esq  
10 Downing Street

for (R B Bone)  
Private Secretary



## DRAFT OUTLINE PROGRAMME

Thursday 20 October

- 1530 Supporting French delegation arrives at Northolt.
- 1615 President Mitterrand arrives at Northolt, accompanied by the Foreign Minister, M. Cheysson. Met by the Prime Minister, Guard of Honour.
- 1700 President Mitterrand alone is received by HM The Queen at Buckingham Palace.
- ~~X~~ French Ministers hold talks with their British counterparts (for up to two hours).
- 1730 President Mitterrand leaves Buckingham Palace for the French Chamber of Commerce reception at the Dorchester.
- 1820 President Mitterrand leaves for the French Ambassador's Residence.
- 1915 President Mitterrand arrives at No. 10 Downing Street for a first tête-à-tête (Private Secretaries and Interpreters only).
- 2015 Dinner at No. 10.

Friday 21 October

- 0845 President Mitterrand arrives at No. 10 for second tête-à-tête.
- ~~X~~ Other Ministers resume bilateral discussions.
- 1000 Foreign Ministers join principals at No. 10.
- 1045 Plenary session.
- 1220 President Mitterrand and the Prime Minister leave the plenary session for their Press Conference at the Royal Institute of Civil Engineers, Great George Street.
- 1230 Press Conference.
- 1315 ~~X~~ Lunch for Summit Participants at No. 10.
- 1440 Prime Minister bids President Mitterrand farewell at No. 10 Downing Street.
- 1500 President Mitterrand opens annex of French Lycée.
- 1530 President Mitterrand leaves for Northolt.
- 1615 President Mitterrand departs Northolt. Lord-in-Waiting and a Cabinet Minister bid farewell.





10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
REC.	13 OCT 1983
ACTION	Mr FITCHEW
COPIES TO	Mr Middleton
	Mr Little
	13 October 1983
	Mr Housin
	Mr A Edwards
	Miss Court

Dear Roger,

Anglo-French Summit

Thank you for your letter of 12 October. I will deal in turn with the points which you raise.

Ministerial Participation

I agree that it would be desirable for Mr. Rifkind to attend the plenary session.

Dinner on 20 October

We will invite Mr. Attali and Mr. Bianco.

Lunch on 21 October

I shall consult the Prime Minister over the weekend. Subject to Mrs. Thatcher's views, it may be possible to accommodate the President's five advisers though the effect of this will be to change the nature of the occasion. We shall no longer be able to have lunch at one table and would probably go for three separate tables. This means that the lunch will certainly not be a working lunch. But that may not matter since the main business of the Summit will have been transacted by that time. For the time being, I suggest that if the Embassy in Paris need to discuss this point further with the Elysee they should say no more than that we hope to have a response on Monday.

Plenary Session

It looks as though the numbers will be too big for the Cabinet Room. Subject to the Prime Minister's views (and again I shall consult her over the weekend) we shall make alternative arrangements. But it will be essential to restrict participation in the way you suggest i.e. each Minister, President Mitterrand apart, should have no more than one official present. I agree that the two Ambassadors should attend - and we can make provision for the French Co-ordinator of the closer bilateral contacts exercise.

/ On



On our side, the same rule of one official per Minister should apply. It will suffice for one representative of the Cabinet Office (Sir R. Armstrong if he wishes to attend or someone designated by him) to be present.

Speeches

The Prime Minister will, as usual, wish to speak for up to five minutes after dinner. This will be an informal speech, i.e. the Prime Minister will not stick closely to a text. She will hope that the notes which you are submitting by the weekend will contain some fresh language and, hopefully, ideas about Anglo-French relations. As you know, appropriate quotes are also useful.

Press Conference

I shall be in touch separately about this. Much will depend on whether the two teams of Ministers can suitably be accommodated by the Press Conference.

Draft Outline Programme

0845 on 21 October is too early for the second tete-a-tete. It will begin at 0900 hours.

I shall consult the Prime Minister over the weekend as to whether she wishes the tete-a-tete to extend until the plenary session at 1045 or whether she wishes the two Foreign Ministers to be asked to join herself and President Mitterrand.

I am sending a copy of this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), Robert Lawson (Ministry of Agriculture, Fisheries and Food), Callum McCarthy (Department of Trade and Industry), Elizabeth Hodgkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and to Stephen Lamport (Foreign and Commonwealth Office).

*Yours ever*

*RL*

R.B. Bone, Esq.,  
Foreign and Commonwealth Office.



of have measured that

you'd like to have the

House out of the

way before tackling debt.

The Fco. are generally

acquiescent; No 10

perfectly correct; no

Embassy; Paris happy

— we wait to <sup>hear</sup> what

Delors talks. But I

don't expect he'll be



*Handwritten signature in red ink.*

c.



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FROM: J O KERR  
14 October 1983

MR FITCHEW

cc Financial Secretary  
Mr Middleton  
Mr Littler  
Mr Unwin  
Mr Edwards  
Miss Court  
Mr Hall

### ANGLO-FRENCH SUMMIT

You will have seen the FCO/No 10 correspondence about arrangements for the Anglo-French Summit in London on 20/21 October.

2. The Chancellor's involvement in the proceedings at No 10 will be limited to the plenary session of talks between 10.45 am and 12.20 pm on 21 October, and the lunch that day. No 10 know that he cannot attend the dinner on 20 October because of his prior engagement at the Mansion House.

3. There remains the need to settle arrangements for talks between the Chancellor and M. Delors at No 11. The FCO's programme envisaged that there might be up to 2 hours of talks in the late afternoon/early evening of 20 October, followed by a further shorter session early on 21 October. I have explained to No 10 that a session on 20 October would be difficult, given the Mansion House speech: they quite understand. I have also asked the Embassy at Paris to explain the Mansion House problem to M. Delors' cabinet; and to suggest to them that the first, and perhaps only, session of talks between the Chancellor and M. Delors should take place at No 11 at 9.00 am on 21 October. If it is thought that an hour and three-quarters is not enough, a further session could be arranged, either between 12.20 and 1.15 pm, or after lunch. (I myself should have thought that this would be unnecessary; and the Embassy agree that the risk that M. Delors will feel short-changed at not getting a session of talks on 20 October is very low indeed.) But could you, or

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Mr Littler, let me know if you think we ought to press for a second session on 21 October?

4. I should be grateful if you could also let the Chancellor have an outline agenda for the No 11 meeting(s), and suggestions as to our team. It would be in order for us to field 3 or 4.

5. I shall let you know as soon as I hear French reactions via the Embassy.

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

J O KERR



10 DOWNING STREET

From the Private Secretary

EXCHEQUER  
17 OCT 1983  
Mr FITCHEW.  
EST-EST-EST-MSI  
Mr Middleton  
Mr Pitt-Cor.  
17 October 1983  
Mr Harwin  
Mr A. Edwards.  
Miss Court.

ANGLO/FRENCH SUMMIT

Would you please refer again to my letter of 13 October.

The Prime Minister has agreed to extend the lunch on 21 October to include the President's five Advisers.

As regards the plenary session, we shall be arranging to hold this in the State Dining Room.

On the Press Conference, we hope that the French will not persist in their desire for Ministers to attend on either side. But I have checked that, if they do, it will be possible to accommodate the Ministerial teams in the building which has been hired for this occasion. The Ministers will not, however, be able to sit on the platform. Seats will be kept for them on one side of the hall.

Finally, the Prime Minister would be grateful if Sir Geoffrey Howe and M. Cheysson could join her talks with Monsieur Mitterrand at 1000 hours on Friday, 21 October.

I am copying this letter to John Kerr (HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), Robert Lawson (MAFF), Callum McCarthy (Department of Trade and Industry) and Elizabeth Hodgkinson (Department of Education and Science).

A. J. COLES

Roger Bone, Esq.,  
Foreign and Commonwealth Office.



*Rug Pans*

PRINCIPAL PRIVATE SECRETARY

From: J G PEEET  
17 October 1983

C.  
I have now heard from Pons  
Delors is perfectly content to have  
one round of talks, starting at  
9 am on Friday, chez nous.

- cc PS/Financial Secretary
- Mr Middleton
- Mr Littler o/r
- Mr Unwin
- Mr Fitchew o/r
- Mr Bottrill
- Mrs Case
- Miss Court
- Mr Edwards
- Mr Hall

*Yes minus item 1*

Are you content with this agenda  
- minus item 1, I suggest? If so, I'll  
return Delors' cabinet.

ANIGO-FRENCH SUMMIT

*J.P.L. 18/10*

I have discussed your minute to Mr Fitchew of 14 October with Mr Unwin (Mr Fitchew and Mr Littler are both in Venice at the Monetary Committee).

2. We think the morning session on Friday should be quite sufficient and that there would be no advantage in pressing now for a second session. It would of course be open to the Chancellor and M. Delors to try to fix an additional half an hour or so later in the day if the discussions in the morning seem to require it.

3. On the agenda, we suggest the following:

- i. Export credit consensus - brief reference to our satisfaction that this has now been settled.
- ii. International Monetary Affairs - follow-up to Bank/Fund meetings, particularly French ideas for a new Bretton Woods; and some discussion of international debt questions with particular reference to Brazil.
- iii. UK and French economies - the Chancellor could open by enlarging on the themes of his Mansion House speech, and he could then invite M. Delors to give his views of the way the French economy is moving.
- iv. Community affairs - last, because likely to be most contentious. Discussion should focus primarily on the Community's future financing (Mr Williamson is minuting No 10 later today or early tomorrow on handling this subject), but it might be suitable also to mention the internal market and insurance.

*not yet*



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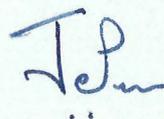
4. On briefing for the bilateral discussion, the CMV series contains briefs on all except the first of the above agenda items. But it would probably be useful if we were to offer some supplementary material as well. Accordingly, I suggest that:

- Mrs Case could offer something on international debt questions, as well as providing a paragraph on the export credit consensus;
- Mr Bottrill offer some material on international monetary affairs and the French economy;
- Mr Edwards offer some additional material on Community matters.

It would be helpful if this additional material could reach me by close on Wednesday.

5. We will separately submit a short brief for the Prime Minister's briefing meeting on Wednesday afternoon at 4.00 pm, which I understand Mr Middleton is also attending.

6. Finally, on attendance on Friday, we suggest Mr Middleton (possibly), Mr Littler, Mr Unwin and perhaps Mr Bottrill.



J G PEET



CC P/CHANCELLOR  
PS/FINANCIAL  
SECRETARY

14 OCT 1983



Foreign and Commonwealth Office

London SW1A 2AH

Sir Antony Acland KCMG KCVO  
Permanent Under-Secretary of State

18 October 1983

Sir Robert Armstrong GCB CVO  
CABINET OFFICE

PERM. SEC'S. OFFICE	
Action	Mr Fitchew
Copies To	Mr Hillier
	Mr Kinnin
	Mr Carey

*My dear Robert,*

ANGLO-FRENCH SUMMIT, 20-21 OCTOBER 1983

1. I enclose a draft Game Plan for the Anglo-French Summit in preparation for the Prime Minister's briefing meeting on 19 October at 1600. The Game Plan will be revised immediately after that meeting by the Cabinet Office in consultation with the FCO.

*Mr Kibalt*  
*Mr Lovell*  
*Mr Edwards*  
*Miss Court*

2. Enclosed with the Game Plan are copies of Paris's scene-setting telegram, the Joint Report on bilateral relations agreed between the Foreign and Commonwealth Secretary and M. Cheysson, and a report of the latest Elysée thinking on the likely French approach to the Summit.

3. I am copying this letter to the Permanent Secretaries of the other Departments who, I understand, have been invited to take part in the briefing meeting.

*Yours ever,*  
*Antony*

Antony Acland

- cc: P E Middelton Esq, HM Treasury
- Sir Anthony Rawlinson KCB, DTI
- Sir Clive Whitmore KCB CVO, MOD
- Sir Michael Franklin KCB CMG, MAFF
- Sir Kenneth Couzens KCB, Dept of Energy





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ANGLO-FRENCH SUMMIT, 20-21 OCTOBER 1983

GAME PLAN (DRAFT)

... 1. Paris telno 937 attached sets the scene for the Summit. The  
... Joint Report agreed by Foreign Ministers reviews bilateral  
... relations. Paris telno 934 reports Elysée views on the likely  
French approach to the Summit. All are attached.

First tête-à-tête with President Mitterrand (20 Oct: 1915-2015)

2. This meeting should be used to establish common ground.

3. The Prime Minister might welcome President Mitterrand's acceptance of the invitation to pay a State Visit in 1984, and move on to East/West relations, INF and British and French nuclear forces. She will want to cover her visit to Washington, President Mitterrand's speech at the UN (including the proposal for a conference of the five nuclear powers) and the results of Genscher's talks in Vienna on 15/16 October with Gromyko; and to reconfirm British and French views on INF deployment (which President Mitterrand did in uncompromising terms during his visit to Belgium last week) and the non-inclusion of British and French forces in the Geneva INF negotiations.

4. Turning to the international economy, the Prime Minister might assess the prospects for continuing recovery between now and the London Economic Summit, review current French and British economic





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priorities, and note those elements in US policy which are still unfavourable to growth in Europe.

Dinner

5. Dinner may not allow much substantive discussion, but President Mitterrand could be invited to comment on Iran/Iraq and Chad. (These will be covered in greater detail by Foreign Ministers - see para 7).

Second tête-à-tête (21 Oct: 0900-1040)

6. This part of the meeting could concentrate on:

(a) Community issues, stressing the urgency of progress towards completion of the post-Stuttgart negotiations, our interest in working with the French to achieve that, and our requirement for budgetary equity and strict control of agricultural expenditure. The Prime Minister could say that we do not believe our safety net proposal need be unacceptable to the French, and that we hope President Mitterrand can agree that officials should go over the ground thoroughly after the Summit to find points in common. The Prime Minister might respond positively to President Mitterrand's proposals for European industrial cooperation, underlining the similarities in the French paper on New Policies and the British paper on Other Policies. (see also (c) below)

(b) Falklands, pressing the President to abstain on the Argentine resolution at the UNGA, to prevent French representatives from favouring alternative resolutions or wording, and to continue not to sell sensitive weapons to Argentina.

/(c)

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(c) Bilateral relations, with the Joint Report by Foreign Ministers as the starting-point. The Prime Minister might:

(i) agree to endorse the Joint Report at the plenary session;

(ii) draw attention to progress in the energy field (UK has joined work on fast breeder reactors; cross-Channel electricity link; nuclear power station at Guangdong; discussions on cross-Channel gas link);

(iii) say that we are ready to look at practical industrial collaboration in other areas, bearing in mind the recent change of emphasis in French industrial management towards a less dogmatic, more practical approach;

(iv) propose regular high-level meetings of officials to identify promising projects including defence procurement.

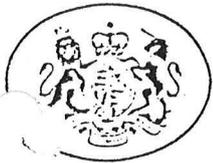
The Prime Minister may need to parry any French attempts at criticism on:

- (i) not using Ariane for launching Skynet;
- (ii) launch aid for Airbus A320;
- (iii) no passport excursions

/Finally

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Finally, the Prime Minister might express satisfaction at the growing cooperation against international terrorism, and note that action by French services has already helped the UK, for which we are grateful. She could say she is glad that the problem over rates for cultural premises is on the way to solution.

#### Other Meetings

7. Meetings between other Ministers will take place during the Prime Minister's two tête-à-tête meetings. Foreign Ministers will join the second at 10.00. It will be important that the main points on the Community and the Falklands are made or repeated in front of Monsieur Cheysson.

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GRS850

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FM PARIS 171800Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 937 OF 17 OCTOBER 1983

INFO ROUTINE EC POSTS AND WASHINGTON

CORRECTED VERSION

PRESIDENT MITTERRAND'S APPROACH TO THE ANGLO-FRENCH SUMMIT:  
20 - 21 OCTOBER

SUMMARY

1. MITTERRAND IS AT PRESENT HAVING A BUMPY RIDE. HE CAN BOAST FEW SUCCESSES. AT HOME THE STATE OF THE ECONOMY IS A MAJOR CONCERN. IN FOREIGN POLICY HE IS WALKING ONE TIGHTROPE AFTER ANOTHER AND WILL NEED LUCK NOT TO TAKE A TUMBLE. HE IS OBLIGED TO TAKE A MORE PROMINENT ROLE IN DEFENDING GOVERNMENT POLICY THAN PREVIOUSLY. HE HAS LITTLE ROOM FOR MANOEUVRE. BUT HE IS UNDER NO SERIOUS POLITICAL THREAT BEFORE 1986.

DETAIL

FRENCH ECONOMY

2. THE PRESIDENT'S GREATEST SHORT TERM PREOCCUPATION, REDUCTION OF THE EXTERNAL DEFICIT, HAS BECOME LESS ACUTE AS TRADE FIGURES HAVE IMPROVED. THE TARGET OF REDUCING THE TRADE DEFICIT BY ONE THIRD FROM LAST YEAR SHOULD BE MET. THIS TREND SHOULD CONTINUE NEXT YEAR, THOUGH FRENCH GDP GROWTH IS LIKELY TO REMAIN AROUND ZERO.

3. THE STATE BUDGET DEFICIT IS UNDER CONTROL. INFLATION IS INCHING DOWN, BUT FRANCE WILL END THE YEAR WITH A RATE WELL ABOVE THAT OF HER MAIN COMPETITORS. THE NUMBER OF REGISTERED UNEMPLOYED HAS BEEN STABLE FOR SOME MONTHS, BUT A SUSTAINED RISE IS NOW FORECAST. A FOURTH DEVALUATION IS WIDELY EXPECTED IN THE NEXT SIXTH MONTHS. MITTERRAND MUST ALSO BE WORRIED BY THE FAILURE OF COMPANIES TO RESPOND TO GOVERNMENT EXHORTATIONS TO INVEST (INVESTMENT HAS CONTINUED TO FALL THIS YEAR) AND BY THE CONTINUING DETERIORATION IN COMPANY FINANCES. THE 1984 BUDGET PROVIDES FOR ANOTHER RISE IN THE SHARE OF NATIONAL INCOME TAKEN BY THE STATE AND THE SOCIAL SECURITY SYSTEM. FACED WITH THE UNPOPULARITY OF FURTHER TAX INCREASES, MITTERRAND HAS PROMISED TO REVERSE THE TREND IN 1985, THE YEAR BEFORE THE NEXT NATIONAL ASSEMBLY ELECTIONS, BUT HE WILL FIND IT EXTREMELY DIFFICULT TO DO SO.

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/IMPLICATIONS



## CONFIDENTIAL

### IMPLICATIONS FOR FRANCE'S EUROPEAN COMMUNITY POLICY

4. TRADITIONAL FRENCH OBJECTIVES WITH REGARD TO THE EC HAVE BEEN REINFORCED BY THE ECONOMIC CLIMATE. AGRICULTURAL DEVELOPMENT AND INCREASED FOOD EXPORTS ARE SEEN AS EVEN MORE NECESSARY FOR EMPLOYMENT AND BALANCE OF PAYMENTS REASONS. FRANCE HAS NO WISH TO BECOME A NET MAJOR CONTRIBUTOR TO THE BUDGET- AND WANTS ONLY A RELATIVELY MODEST INCREASE IN OWN RESOURCES. PROBLEMS ON THE DOMESTIC INDUSTRIAL FRONT ADD ATTRACTION TO JOINT MULTILATERAL (AND SOME BILATERAL) PROJECTS AND TO PROPOSALS FOR IMPROVED RESEARCH COLLABORATION.

### FOREIGN AFFAIRS

5. MITTERRAND MUST BE FEELING RATHER EMBATTLED AT THE MOMENT ON THE INTERNATIONAL FRONT. THE DESPATCH OF FRENCH TROOPS HAS BROUGHT A TEMPORARY RESPITE IN CHAD, BUT IT IS A RISKY OPERATION WITH NO SOLUTION IN SIGHT. THE FRENCH WOULD LIKE TO REDUCE THEIR MILITARY PRESENCE IN LEBANON BUT CANNOT. THEIR RETALIATION AGAINST SYRIAN OR SYRIAN-INSPIRED SHELLING HAS MADE IT HARD FOR THEM TO GET BACK ON TO THEIR PREFERRED COURSE OF BEING TRUSTED INTERMEDIARIES. MITTERRAND'S BIGGEST HEADACHE IS THE GULF WAR AND HIS COMMITMENT TO SUPPLY SUPER ETENDARDS TO IRAQ. FRANCE IS LIKELY TO BE IN THE FRONT LINE FOR IRANIAN REPRISALS. DOMESTIC OPINION IS EITHER CRITICAL OR APPREHENSIVE ABOUT FRANCE'S INVOLVEMENT ON THESE THREE FRONTS SIMULTANEOUSLY.

6. ON THE OTHER HAND MITTERRAND'S HANDLING OF EAST-WEST ISSUES IS GENERALLY APPLAUDED. HIS FIRM LINE ON INF IS POPULAR AND FRANCE'S DISAPPOINTING RESPONSE AFTER THE SHOOTING DOWN OF THE KOREAN AIRLINER HAS HARDLY DENTED HIS IMAGE. MITTERRAND WILL PROBABLY WANT TO MAKE THE FIRM LINE HE AND THE PRIME MINISTER TAKE ON INF ONE OF THE MAIN THEMES OF THE SUMMIT, NOT LEAST BECAUSE HE IS WORRIED ABOUT THE GERMANS (THOUGH NOT KOHL PERSONALLY). HE WILL ALSO WANT TO STRESS THE CLOSENESS OF FRENCH AND BRITISH VIEWS ON KEEPING OUR INDEPENDENT DETERRENTS OUT OF THE PRESENT DISARMAMENT EQUATION. FOR ALL HIS FIRMNESS ON INF, MITTERRAND STILL FEELS THE TRADITIONAL FRENCH PRICKLINESS TOWARDS THE US AND DETESTS APPEARING TO FOLLOW ANY US LEAD (HE FEELS HE WAS RAILROADED AT WILLIAMSBURG INTO SIGNING THE DECLARATION ON SECURITY).



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### DOMESTIC

7. SINCE THE EARLY SUMMER MITTERRAND HAS MOVED INTO THE FRONTLINE IN DEFENCE OF HIS GOVERNMENT'S POLICIES, BUT GREATER MEDIA EXPOSURE HAS NOT HALTED THE SLUMP IN HIS STANDING IN THE OPINION POLLS. MITTERRAND NOW ENJOYS LESS POPULAR ESTEEM THAN ANY OF HIS PREDECESSORS AT THE ELYSEE UNDER THE 5TH REPUBLIC. HARDLY A WEEKEND GOES BY WITHOUT THE LEFT SUFFERING FURTHER SETBACKS IN LOCAL BY-ELECTIONS. THE SLIDE IN THE LEFT'S ELECTORAL FORTUNES HAS PUT THE ALLIANCE BETWEEN SOCIALISTS AND COMMUNISTS UNDER STRAIN, ALTHOUGH BREAKING POINT HAS NOT BEEN REACHED.

8. MITTERRAND HIMSELF SEEMS UNRUFFLED. HE HAS LITTLE ALTERNATIVE TO HIS PRESENT COURSE. SOPS TO THE LEFT WOULD FURTHER ALIENATE MODERATE PRO-SOCIALIST VOTERS. FURTHER RIGOUR MIGHT PUSH THE COMMUNISTS OVERBOARD. MITTERRAND'S POSITION AS PRESIDENT IS NOT HOWEVER IN ANY DANGER. HE REMAINS ASSURED OF HIS PARLIAMENTARY MAJORITY UNTIL 1986: A NO-CONFIDENCE MOTION WAS HEAVILY DEFEATED ON 12 OCTOBER. THE AUTHORITY CONFERRED ON HIM BY THE OFFICE OF PRESIDENT IS LARGELY UNAFFECTED BY THE PRESENT STATE OF PUBLIC OPINION. HE CAN COPE WITH SHORT-TERM UNPOPULARITY IN BOTH DOMESTIC AND FOREIGN AFFAIRS AS LONG AS THERE IS A PROSPECT OF REGISTERING SOME SUCCESSES IN 1985/86. BUT HE CANNOT AFFORD TO APPEAR NEGLIGENT OF FRENCH INTERESTS.

FRETWELL

FCO/WHITEHALL  
WED

<sup>3</sup>  
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## / INT REPORT TO THE ANGLO-FRENCH SUMMIT ON THE BILATERAL RELATIONSHIP

1. The two Foreign Ministers have examined the state of bilateral relations between France and the United Kingdom. They have concluded that these are generally in good repair. In accordance with the wishes of the last Anglo-French Summit (4-5 November 1982) contacts between the British and French Governments, at Ministerial and Official level, have been encouraged and closely co-ordinated. (A list of contacts is attached.) In particular there has been an intensification of contacts in the following areas:

- a. Community Issues
- b. Defence, notably procurement
- c. International Relations
- d. Research and industrial cooperation
- e. Energy
- f. Education

2. Progress has been made in the energy field where work on the cross-Channel electricity link (first stage to come into operation in 1985) is well in hand. Proposals have been put forward for a gas pipeline under the Channel later this century. The British Government have decided to join European partners in further research into fast breeder reactors. The two Governments look to an early conclusion of negotiations. Plans for the joint construction of a nuclear power station at Guangdong (China) are at an advanced stage. Contacts between experts in the atomic energy field have increased.

3. Recent meetings between Defence Ministers have highlighted the possibilities for collaboration in defence procurement, notably over the future combat aircraft and helicopters. Elsewhere in the industrial field plans for co-operation between aero engine manufacturers are promising. Certain British and French motor component manufacturers are establishing a new partnership.

4. The Foreign Ministers consider that further efforts should be made in a number of fields. The discussions on Community questions



They led to a better understanding of the respective positions. On certain important issues, differences of approach still exist: the long-term financing of the community; the Common Agricultural Policy and energy policy, particularly solid fuels. On the other hand, the discussions have led to a convergence of views on other issues, in particular on new and other policies. The two countries need to develop, with their other European partners, their common approach to the various manifestations of the US extraterritorial issue which directly affect their interests. In the industrial field, contacts on telecommunications have taken place and more are envisaged: there are outstanding differences in our approaches to direct broadcasting by satellite and on a common European standard for cellular radios. The launch of the Airbus A320 awaits a decision by Governments. On the Channel Fixed Link, both Governments await the completion this month of a joint study by French and British banks. The French side are looking for a British decision to use Ariane to launch the Skynet 4 defence communications satellites.

5. Problems remain over rates paid on French cultural premises in Britain, a subject raised by the French Government at the last Summit.

6. A new difference has arisen, over No-Passport Excursions. Discussions are in progress.

7. The activities undertaken by the Franco-British Council to stimulate exchanges and in particular to encourage contacts in new areas deserve continuing support.

8. The Foreign Ministers have concluded that intensification of bilateral contacts during the year has been positive and useful and has led to a genuine increase in co-operation. But much work remains to be done.

9. The Foreign Ministers invite the President and Prime Minister to endorse continuing work in the pursuit of a closer relationship.



CLOSER CONTACTS BETWEEN FRENCH AND BRITISH GOVERNMENTS:  
SEPTEMBER 1982 - AUTUMN 1983

November 1982

- 24  
London Regular talks between National Armaments  
Directors: M. Martre and Sir D Lowe  
(MOD)\*.
- 25  
Paris Sir A Acland visited Paris for talks  
with M. Gutmann, Secretary-General at  
the Quai d'Orsay (FCO).
- 26  
Paris Annual official level talks on nuclear  
matters, especially non-proliferation:  
M. Martin and Mr Gillmore (FCO).
- 30  
Paris Talks between European Directors:  
M. Dufourcq and Mr Goodison (FCO).

December 1982

- 1-2  
Paris Introductory talks between Heads of  
Atomic Energy Agencies: M. Pecqueur  
and Sir P Hirsch (D/Energy).
- 9  
Paris Official level talks on vehicles,  
including the Lucas/Ducellier/Valéo  
merger (DOI).

January 1983

- 5  
London Regular official level talks between the  
Department of Trade and the Direction  
des Relations Economiques Extérieures:  
M. David and Mr Gray (DOT)
- 7  
London Official level talks on Euratom:  
M. Amigues and Mr Haskell (FCO).
- 10  
Paris Official level talks on the Channel  
Fixed Link and EC Transport issues:  
Mme Pratz and Mr Lyall (DTp).
- 17  
Paris Official level talks on cultural  
matters: M. Beauchataud and Mr Macrae  
(FCC).
- 19  
London Brainstorming session primarily on  
European Community issues: led by  
M. Paye and Mr Evans (FCO).

\* Lead Department in Whitehall is shown in brackets following each item.



20 London M. Jobert's visit to London for lunch/  
talks with Lord Cockfield, Mr Rees and  
Mr Pym (DOT).

21 London Official level talks on health service  
investment appraisal (DHSS).

26 London Official level talks on cellular radio  
systems (DOI).

27 London Co-ordinators' meeting in London:  
M. Dufourcq and Mr Goodison.

31-1 Feb London M. Cheysson's visit to London for  
dinner/talks with Mr Pym and Sir G Howe  
(FCO).

February 1983

3 London Official level talks on bilateral  
armaments collaboration: M. Conze  
and Mr Roberts (MOQ).

4-5 Paris Official level talks on science (DES):

8 Official level talks on extraterritoriality  
(FCO/Treasury)

17 Paris Lord Belstead's visit to Paris for talks  
with M. Chandernagor, M. Gutmann and  
others (FCO).

17-18 Paris Lord Cockfield's visit to Paris for  
talks with M. Jobert (DOT).

23 London Official level talks between the  
Treasury and the Ministry of the Budget:  
M. Bouton and Mr Edwards (Treasury).

23 Official level talks on coach services.  
(DTp)

24 Paris Official level talks on steel, to begin  
regular series (DOI).

25 Paris M. Gallois, Director-General for  
Industry, visited for talks with  
Sir P Carey (DOI).

March 1983

1 Paris Official level talks on UNCTAD VI:  
M. Bauchard and Mr Williams (DOT) and  
Mr Thomas (FCO)



1 Paris	Sir K Couzens' visit for talks on energy with M. J Syrota, Director-General for Energy and Raw Materials (D/Energy).
4 London	M. Chandernagor's visit for talks with Mr Hurd (FCO)
10 Paris	Official level talks on agricultural matters: M. Lachaux and Mr Andrews (MAFF)
11 Paris	Brief visit by French Motor Industry Officials (DOI)
11 London	Talks between Asian Directors: M. Combal and Mr Donald (FCO)
14-16 Cardiff	Biennial Mixed Commission on cultural affairs (British Council)
16 Paris	Regular official talks on Politico/Military affairs: M. de la Bâtie and Mr Gillmore (FCO).
17 London	Official level talks on the rating of French cultural premises: M. Beauchataud and Mr Macrae (FCO)
17 Berlin	Tripartite talks (with FRG) on robotics (DOE).
17-18 Paris	Official level talks between the Fonction Publique and the Management and Personnel Office/Civil Service College (MPO).
18 Paris	Talks between American Directors: M. Dorin and Mr Ure (FCO).
21 London	Official level talks on coal policy: M. Bellec and Messrs Manley and Carter (D/Energy).
21 London	Official level talks on Hospital Management (DHSS).
22 Paris	Official level talks on Community Trade Policy: M. Remond and Miss Lakcey (DOT).
22 Paris	Official level talks on non-proliferation: M. Amigues and Mr Haskell (FCO).
22 London	Talks between Fisheries Directors: M. Proust and Mr Pooley (MAFF).
22-23 Paris	Dr Vaughan's visit for talks with Mme Lalumière (DOT).
23-25	Talks between the Chief Medical Officer and the



Brussels

Director-General of the French Ministry of Health: Professor Roux and Sir H Yellowlees (DHSS).

April 1983

7 Talks on direct broadcasting by satellite (DOI).

14 Official level talks on steel (DOI)  
Paris

14-15 Visit by Lord Bellwin (DOE)  
Paris

18 Official talks on the renegotiation of the Lomé  
London convention (FCO)

18-20 Visit by Mr Rees who had talks with Mme Cresson,  
Lille/Paris M. Chandernagor and M. Nucci (DOT)

20 Official level talks on Guangdong nuclear  
Paris project: M. Warin and Mr Manzie (DOI)

25 Co-ordinators' Meeting: M. Dufourcq and  
Paris Mr Goodison

May 1983

3-5 Regular talks between National Armaments  
Paris Directors: M. Martre and Sir D Lowe (MOD)

5-7 Official level talks on Social Affairs  
Paris attended by the Chief Social Work Officer (DHSS)

9 Official level talks between M. Bouton and  
Paris Mr Edwards (Treasury)

9 Tripartite talks (with FRG) on joint research  
Paris institute to be set up by ICI/Siemens/CMB (DOI)

10 Brainstorming Session on EC issues: M. Paye and  
Paris Mr Evans (FC)

10 Official level talks on environmental issues  
arising from roads and road traffic  
(D/Tp).

11 Mr Walker's visit for lunch/talks with M. Rocard  
Paris (MAFF)

16-20 Official level talks on air pollution and  
London environmental hazards (DHSS)



17  
Paris

Trésor/Treasury talks: M. Jurgensen and Mr Unwin (Treasury)

19  
London

M. Gutmann's visit for talks with Sir A Acland (FCO)

20  
Brussels

Official level talks in advance of the Social Affairs Council (2 June) and of the Joint Council of Employment and Education Ministers (3 June) M. Mancy and Mr Stewart (D/Employment)

25  
London

Tripartite talks (with FRG) on direct broadcasting by satellite (DOI).

27  
Paris

Joint Franco-British Medical Interchange Committee (British Council).

31

Official level talks on lorry regulations (D/Tp)

31  
Paris

Talks between Fisheries Directors: M. Proust and Mr Griffiths (MAFF).

#### June 1983

1-3  
London

Official level talks on industrial innovation (DOI).

2  
Paris

Official level talks on air services (DOT).

7  
London

Official level talks between M. Bouton and Mr Edwards (Treasury).

9-10  
London

Official level talks on comprehensive education: Mme Delpeche and Mr Arthur (DES).

14-24  
Paris/Lille/Lyon

Official level visit and discussions on education of non-academically minded pupils: M. Martin and Mr Marshall (DES).

20-24  
Glasgow/Dumfries  
and Edinburgh

Visit of French INRA staff to discuss research and development in agriculture with MAFF, DAFS and ARC staff (MAFF).

29  
Paris

Official level talks on EC trade questions: M. Remond and Mr Gray (DTI).

#### July 1983

4  
Paris

Talks between Political Directors: M. Andréani and Sir J Bullard (FCO).



4  
Paris Official level talks on UN matters: Mr Adams (FCO).

6  
London Brainstorming Session on EC issues: M. Paye and Mr Evans (FCO).

8  
London Coordinators' Meeting: M. Dufourcq and Mr James

20  
Paris Official level talks on agricultural commodities (MAFF).

21  
Paris Mr Heseltine's visit for talks with M. Hernu (MOD).

21  
Paris Mr Lamont's visit for Airbus Ministerial meeting (DTI).

22  
London M. Rocard meets Mr Jopling (MAFF).

22  
Paris Sir G Howe's visit for mid-term review meeting between Summits (FCO).

25  
Paris Mr Rifkind's visit for talks with M. Chandernagor (FCO).

August 1983

9  
Paris Official level talks on No-Passport Excursions (FCO)

September 1983

2  
Paris Official level talks on Guangdong: M. Warin and Mr Manzie (DTI)

6  
London Visit of Director-General for Energy and Raw Materials: M. Syrota and Sir K Couzens (D/Energy).

12  
London Regular talks between National Armaments Directors (MOD)

12  
London Official level talks on European fast reactor collaboration (D/Energy)

12  
London Official level talks on the Middle East: M. Bonnefous and Mr Egerton (FCO)

15-16  
Visit of M. Mignot (D/Employment/DTI/MS)



19 Official level talks on Africa: M. Ausseil and Mr Squire (FCO)

19-22 Visit of professional and technical training  
London experts (DES).

20 Politico-Military talks: Mme Renourd and  
London Mr Cartledge (FCO).

20 Official Visit of Mr Macfarlane for talks on  
Paris sport with Mme Avice (DOE)

20 Official level talks on the proposed  
London cross-Channel gas link: M. Wanecq (D/Energy)

20-24 Bilateral contacts between the Chief Medical  
Madrid Officer and the leader of the French delegation  
to WHO: Professor Roux and Sir H Yellowlees  
(DHSS)

23 Informal meeting on Trade publicity:  
M. Montvalon and Mr Rumbelow (DTI)

26-28 Visit of Mr Gummer (D/Employment)  
Paris/Marseilles

26 Visit of M. Fabius for talks with Mr Parkinson  
London Mr Walker and Sir K Joseph (DTI/Den/DES)

27 Further official level talks on fast breeder  
Paris reactor collaboration (D/Energy)

27 Official level talks on space issues (DTI)

October 1983

4 Official level talks on Community and economic  
Paris issues: M. Paye and Mr Evans (FCO)

10 Visit of Sir A Acland for talks with M. Gutmann  
Paris (FCO)

10 Co-ordinators' Meeting: M. Dufourcq and Mr James  
Paris (FCO)

10-13 Visit of Lord Gowrie for the opening of the  
Paris/Bordeau Turner Exhibitions (Arts)

14 Official level talks on the Americas: M. Dorin  
London and Mr Ure (FCO)

20-21 Anglo-French Summit  
London



November 1983

30  
London

Official level talks on Asia: M. Combal and Mr Donald (FCO)

18-20  
Montpellier

Franco-British Council Seminar on Health Care Costs (DHSS)

30  
Paris

Visit of Mr Raison for talks with M. Nocci (ODA)

Autumn

Paris

Official level talks on non-nuclear R and D collaboration (D/Energy)

Joint Working Group A officials to follow up Energy Ministers' talks (D/Energy)

Paris

Official level talks on social security: Mr Regan (DHSS)

London

Official level talks on telecommunications: M. Grenier (DTI)

December 1983

5-6  
London

Anglo-French Legal Talks (LCD)

N.B. This calendar, at French request, does not list the frequent meetings between senior members of the armed services.



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FM PARIS 171230Z OCT 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 934 OF 17TH OCTOBER

ANGLO-FRENCH SUMMIT, 20-21 OCTOBER.

## SUMMARY.

1. I CALLED ON THE SECRETARY GENERAL OF THE ELYSEE TODAY TO DISCUSS PREPARATION FOR THE BILATERAL SUMMIT. BIANCO AND ATTALI, WHO WAS ALSO PRESENT, EXPRESSED THE FRENCH WISH TO EMPHASISE THE POSITIVE ASPECTS OF OUR BILATERAL RELATIONS. GIVEN THE LIKELY THRUST OF JOURNALISTIC INTEREST THEY ALSO WISH TO DISCOURAGE SPECULATION THAT THIS SUMMIT WILL BE THE OCCASION FOR AN ATTEMPT BY THE PRESIDENT AND PRIME MINISTER TO RESOLVE NATIONAL DIFFERENCES ON EC QUESTIONS.

## DETAIL..

2. THE FRENCH LIST OF TOPICS FOR DISCUSSION BETWEEN PRESIDENT AND PRIME MINISTER IS ALMOST IDENTICAL TO OURS. THEY AGREE THAT THE FOREIGN MINISTERS' REPORT SHOULD BE NOTED AND CONFIRMED.

## STRATEGIC QUESTIONS.

3. THEY AGREE ON THE IMPORTANCE FOR PUBLIC OPINION, GOING BEYOND FRANCE AND BRITAIN, OF PRESENTING A FIRM AND UNITED STAND ON INF AND EAST/WEST RELATIONS MORE GENERALLY.

## EUROPEAN COMMUNITY.

4. BIANCO DID NOT DEMUR WHEN I SAID THAT THE PRIME MINISTER WOULD WISH TO DISCUSS PROGRESS TOWARDS FULFILLING THE STUTTGART MANDATE AND PREPARING THE ATHENS COUNCIL. THE FRENCH INDICATED THAT THEY WILL CALL FOR FINANCIAL RIGOUR TO BE IMPOSED ON OTHER POLICIES AS WELL AS THE CAP, A SUBJECT WHICH THEY CLAIM HAS SO FAR BEEN NEGLECTED POST-STUTTGART. MITTERRAND CAN BE EXPECTED TO TAKE UP THE THEME DEVELOPED BY DELORS IN BRUSSELS THAT FUTURE FINANCING OF THE COMMUNITY SHOULD NOT BE DEALT WITH BY A PURELY BUDGETARY APPROACH, BUT MUST BE SET IN THE CONTEXT OF A WIDER RELAUNCHING OF EUROPE, A KEY ELEMENT OF WHICH WILL BE GREATER ENCOURAGEMENT FOR EUROPEAN INDUSTRIAL COLLABORATION. HE WILL HOWEVER ACCEPT THE NEED TO AVOID ANYTHING TOO BLATANTLY DIRIGISTE IN THE WAY OF AN INDUSTRIAL POLICY.

## BILATERAL.

5. THE FRENCH WILL MAKE A STRONG PITCH FOR GOVERNMENTAL SUPPORT FOR THE AIRBUS A320, WHICH THEY REGARD AS FUNDAMENTAL TO THE FUTURE OF AIRBUS INDUSTRIAL. AT LEAST IN PRESENTATIONAL TERMS, THEY ATTACH PARTICULAR IMPORTANCE TO THE MEETING OF DEFENCE MINISTERS AND WILL WANT TO STRESS PUBLICLY THE POTENTIAL FOR FUTURE COOPERATION AND COLLABORATION IN THIS FIELD. THEY THINK IT BETTER TO TREAT THE FIVE BANKS REPORT ON THE CHANNEL FIXED LINK IN A VERY LOW KEY,



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TO AVOID YET ANOTHER AFFIRMATION OF NO MORE THAN READINESS TO STUDY THE PROPOSALS SERIOUSLY. ATTALI THOUGHT THAT MITTERRAND WOULD WANT TO SAY NOTHING ON THE SUBJECT UNTIL THERE IS A FIRM BILATERAL DECISION TO GO AHEAD WITH THE PROJECT.

6. OTHER BILATERAL TOPICS WHICH THEY AGREE WOULD RATE A MENTION BETWEEN PRESIDENT AND PRIME MINISTER (AND PUBLIC EMPHASIS AS EXAMPLES OF POSITIVE FRANCO-BRITISH EXCHANGES) ARE THE CROSS-CHANNEL ELECTRIC CABLE, FAST BREEDER COLLABORATION AND, FURTHER INTO THE FUTURE, THE GAS LINK. ATTALI WOULD WELCOME AN OPPORTUNITY TO TALK TO SIR R ARMSTRONG ABOUT MUTUAL OBLIGATIONS, INCLUDING RECIPROCITY OF ACCESS TO TELECOMMUNICATIONS MARKETS, IN THE LIGHT OF THE PRIVATISATION OF BRITISH TELECOM. FABRUS WILL ALSO WISH TO PURSUE THIS WITH MR TEBBIT.

LONDON ECONOMIC SUMMIT.

7. LOOKING AHEAD TO THE LONDON ECONOMIC SUMMIT, ATTALI THOUGHT IT WOULD BE USEFUL FOR PRESIDENT AND PRIME MINISTER TO EXCHANGE VIEWS ON THE PRESENT STATE OF IMPLEMENTATION OF THE RECOMMENDATIONS OF THE TECHNOLOGY GROUP ESTABLISHED BY THE VERSAILLES SUMMIT, IN PARTICULAR THE PROJECTS IN WHICH FRANCE AND BRITAIN EXERCISE JOINT LEADERSHIP.

FALKLANDS.

8. I PUT BIANCO ON NOTICE THAT ANOTHER SUBJECT IN THE PRIME MINISTER'S MIND WOULD BE THE FALKLANDS, INCLUDING THE PROSPECTIVE UNGA RESOLUTION.

FRETWELL

STANDARD

WED

MR THOMAS



18/10/83

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Qz.03372

MR COLES

cc: Mr Fall  
Mr Kerr  
Mr Lamport  
Sir Robert Armstrong  
Mr Goodall

ANGLO-FRENCH SUMMIT: COMMUNITY BUDGET AND THE POST-STUTTGART  
NEGOTIATIONS

The General Brief on the European Community (2a) and the Brief on EC Financing (2b) for the Anglo-French Summit emphasise that the French should be encouraged to move further towards our safety net ideas and that Anglo-French agreement will be an essential ingredient for a satisfactory outcome to the post-Stuttgart negotiations. The French have already made a step in announcing in Brussels that the correction of the budget inequity should be made by adjusting a member state's VAT payment. Now we need more specific bilateral discussions in the run-up to Athens. We hope that the Prime Minister and other Ministers, as appropriate, will refer to the need for more bilateral contact in the coming weeks.

2. I have been asked to explain the background. We do not suggest that the following points should be explicitly made at this Summit but the Prime Minister may wish to be aware of them. Our safety net proposal would establish a limit for Germany but hardly affect its net contribution; limit very substantially the United Kingdom's net contribution; and increase the French net contribution greatly. Applied to 1982 the safety net would give corrected net contributions of (actual uncorrected net contributions in brackets) 2107 million ecu (2086 million ecu) for Germany, 763 million ecu (19 million ecu) for France and 440 million ecu (2036 million ecu) for the UK. Whatever our philosophical differences, it is unlikely that the negotiation will be successful unless there is an acceptable balance between



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the French, German and UK contributions. The Germans are ready to accept a very high limit. In these circumstances, provided that our own limit was satisfactory, a French/German/British agreement that the French and UK net contributions would be roughly the same could be a critical element in a successful solution. In practice, the contribution of France, with a larger GDP than ours, would almost certainly increase in later years but a roughly equal France/UK situation at the time of the settlement might still be welcome to President Mitterrand. This needs careful attention in the further bilateral contacts in the period between now and the Athens European Council which are recommended in the briefing.

*Df Williamson*

D F WILLIAMSON

18 October 1983

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18/10/83

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Qz.03372

MR COLES

cc: Mr Fall  
Mr Kerr  
Mr Lamport  
Sir Robert Armstrong  
Mr Goodall

ANGLO-FRENCH SUMMIT: COMMUNITY BUDGET AND THE POST-STUTTGART  
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*DF Williamson*

D F WILLIAMSON

18 October 1983

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C

As well as the briefs mentioned in Mr Keet's note, you may also like to glance at nos.

- 2E International Trade Issues
- 3C Transatlantic Relations  
Economic Issues
- 7G Hong Kong
- 9(a) French scene (political).
- 10 Franco/German/UK relations.



FROM: J G PEET  
DATE: 18 October 1983

CHANCELLOR OF THE EXCHEQUER

cc PS/Financial Secretary  
Mr Middleton  
Mr Littler o/r  
Mr Unwin  
Mr Fitchew o/r  
Mr Bottrill  
Miss Court  
Mr Edwards

ANGLO-FRENCH SUMMIT : BRIEFING MEETING

You are attending the Prime Minister's briefing meeting at No. 10 tomorrow at 4.00 p.m. Mr Middleton and (possibly) Mr Unwin will accompany you.

*No has a useful resume of all the briefs except the (2) series*

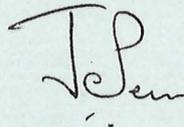
2. Extensive briefing for the Summit has been circulated in the CMV series. The briefs of main concern to the Treasury are nos. 1 (general), 2a (general brief on the Community), 2b (EC financing), 3a (world economic prospects), 3b (international debt) and 9b (French economy). It is not likely that the Prime Minister will wish to spend much time on the last three of these, which you will be discussing with M. Delors on Friday morning. The discussion tomorrow is more likely to concentrate on the future financing negotiations.

3. In these negotiations, the French have been predictably tough in public, with Cheysson, Delors and Chandernagor all expressing opposition to the safety net and the strict financial guideline. However, in a number of private contacts at official level the French appear to have adopted a rather softer line on the safety net in particular, although they remain firmly opposed to the strict financial guideline. As the brief on EC financing says, our objective for this Summit should accordingly be to encourage the French to move further towards us on the safety net; and in particular to encourage further exchanges of views at official level with a view to seeking agreement between the French, ourselves and the Germans which we can then "sell" to the rest of the Community.



4. Mr Williamson of the Cabinet Office is minuting No. 10 later today on this point following interdepartmental discussion of the tactical handling of the subject on Thursday and Friday.

5. On more immediate EC issues, the general brief (2a) is correct to suggest that it is unlikely that President Mitterrand will try to raise the question of the link which the French have insisted exists between our 1983 refunds and the Athens discussions. It would also not be advantageous for us to refer to the dispute over 1982 risk-sharing, although it is no longer correct to say that this issue is now in the lap of EC Budget Ministers (paragraph 9); since the supplementary budget for 1983 has now been adopted, discussions on risk-sharing are proceeding instead in Foreign Ministers' meetings.



J G PEET





EXCHEQUER
20 OCT 1983
Mr Fitchew.
EST. EST. MGT. EST.
Mr Middleton.
Mr Hitler. Mr Chauvin.
Mr A. Edwards.

Foreign and Commonwealth Office

London SW1A 2AH

19 October 1983

John Jones, Miss. Count in A Edwards in Hall

Anglo-French Summit

I hope this letter will tie up the remaining loose ends before the Summit.

As you know, M. Fabius is not now coming with President Mitterrand but is sending his Minister Delegate, M. Louis Mexandeau, whose specific responsibility is Posts and Telecommunications. He is the junior of the French ministerial delegation. One consequence of all this is that there will now be no session of talks with the Secretary of State for Energy.

President Mitterrand is now bringing six close advisers with him. The addition is Pierre Morel, a Technical Adviser on the Community side. We have told the French that there is unfortunately not a place for him at lunch on Friday, but I hope that if a vacancy were to occur, on the Energy side, for example, you would consider him a first replacement. He will be expecting to take part in the plenary session.

Interpretation

Mr Peers Carter will be interpreting for the Prime Minister; President Mitterrand will be bringing his own interpreter as well, M. Christopher Thiery. They will both accompany the two leaders throughout. At dinner on Thursday, an interpreter will sit behind each French Minister who does not speak English well (that is, all except M. Cheysson and Mme Cresson) and provide a whispered translation. The same will apply during the plenary session and the lunch, except that at the plenary session the opening statements by each leader will be translated consecutively. Simultaneous translation will be provided at the Press Conference.

The Prime Minister may wish to note that the President will be travelling with an entourage of about one hundred people.

I am sending copies of this letter, with a timetable of the bilateral contacts before the plenary session, to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Defence, Trade and Industry and Energy, the Ministers of Agriculture, Fisheries and Food and Trade, Mr Rifkind and Sir R Armstrong.

(R B Bone)  
Private Secretary

A J Coles Esq



## BILATERAL TALKS DURING THE ANGLO-FRENCH SUMMIT

Sir G Howe and M. Cheysson

Thursday 20 October : 1820 - 1920  
 Friday 21 October : 0900 - 1000 (then to No. 10)

Mr Lawson and M. Delors

Friday 21 October : 0900 - 1040  
 (interpreter - Mlle Caliste)

Mr Heseltine and M. Hernu

Friday 21 October : 0915 - 1040  
 (interpreter - Mrs Taylor)

Mr Jopling and M. Rocard

Friday 21 October : 0900 - 1040  
 (interpreter - Mr Lawrence)

Mr Channon and M. Mexandeau

Thursday 20 October : 1825 - 1920  
 (interpreter - Mrs Dennis)

Mr Channon and Mme Cresson

Friday 21 October : 0915 - 1035

Mr Rifkind and M. Chandernagor

Thursday 20 October : 1820 - 1920 (Possible joint  
 meeting with Sir G Howe  
 and M. Cheysson)  
 Friday 21 October : 0900 - 1040  
 (interpreter - M. Chave)



(PWN)

From : G E Fitchew

Date : 19 October 1983

MR MIDDLETON

cc PS/Chancellor  
PS/Financial Secretary  
Mr Littler  
Mr Unwin  
Mr Mountfield  
Mr Kitcatt  
Mr Lovell  
Mr Edwards  
Miss Court

ANGLO-FRENCH SUMMIT, 20-21 OCTOBER 1983

Sir Antony Acland's letter of 18 October sets out a proposed "Game Plan" for the Anglo-French Summit. There are two points which it may be worth picking up at the Prime Minister's briefing meeting, if the opportunity arises.

2. First, the FCO Game Plan proposes (paragraph 6(c)(iv)) that the Prime Minister should give a pretty enthusiastic response on the question of industrial co-operation between France and the UK. It might be worth injecting a note of scepticism at the Prime Minister's briefing meeting. Despite the French assertion that they are now adopting a more pragmatic approach towards industrial co-operation, the fact is that they are still more interventionist and more protectionist than we are. We also rather more doubtful than the FCO and other Departments whether there really are all that many possibilities of real promise for Anglo-French industrial co-operation. (It is noteworthy that the next paragraph in the brief warns that we may have to parry French criticism of us for not co-operating with them over the use of Ariane and Airbus A320). Given this rather unpromising background, it might be better to go for an ad hoc high level meeting with French officials as a follow-up to the Summit rather than the FCO proposal for a regular series of meetings.

3. Second, Paris telegram No. 934 of 17 October, enclosed with Sir A Acland's letter, reports (paragraph 4) that the French may want to take up the issue of imposing greater financial rigour on other



✓ Community policies as well as the CAP. This is an issue on which the Prime Minister could certainly be encouraged to respond positively to the French. It is also an issue which the Chancellor could profitably discuss with M. Delors, possibly to be followed-up by an official level meeting between the Treasury and French Finance Ministry. It would be particularly valuable to have French support for applying financial rigour to the Commission's very expensive proposals on Integrated Mediterranean Programmes.



G E FITCHEW





pwp

FROM: J O KERR  
DATE: 19 October 1983

MR PEET

cc PS/Economic Secretary  
Mr Middleton  
Mr Littler (OR)  
Mr Unwin  
Mr Fitchew (OR)  
Mr Bottrill  
Mrs Case  
Miss Court  
Mr Edwards  
Mr Hall

ANGLO-FRENCH SUMMIT

Thank you for your minute of 17 October, in reply to mine of 14 October.

2. I can now confirm that M. Delors's cabinet have assured us that he is entirely content with the plan for only one session of talks with the Chancellor, starting at 9.00am on 21 October.

3. The Chancellor is content that the agenda should be as suggested in your paragraph 3, though item 1 - export credit consensus - can he thinks be dropped.

4. The Chancellor is content that his supporting officials on Friday should be Mr Middleton, Mr Littler, and Mr Unwin. If the Economic Secretary would wish to join the meeting, he would be very welcome.

J O KERR



FROM: J G LITTLER  
DATE: 20 October 1983

CHANCELLOR

cc (without enclosure)  
Mr Middleton  
Mr Unwin  
Mr Fitchew  
Mr Lavelle  
Mr Peet

TALK WITH DELORS: MONETARY ISSUES

It should not be necessary to spend long on this subject, which has two parts. Both were extensively discussed by officials at the Monetary Committee earlier this week and will be reported to the ECOFIN on Monday.

... 2. If you have time, you may like to read in advance the attached ECOFIN brief by Mr Fitchew. But the main points are as follows.

International

... 3. This refers to the Williamsburg follow-up which Delors as Chairman launched at the G10 meeting in Washington. Camdessus, the French Chairman of the Monetary Committee, will report to ECOFIN that Community members of the G10 deputies have made arrangements to keep in close touch with each other and colleagues in the Monetary Committee; and we have agreed to try to focus the work on practical ideas and not get lost in general reform philosophy. You may like to glance at the attached draft telex (I have yet to clear with the Bank of England) in which I have included UK suggestions which will, I think, be broadly acceptable to the French and others in the Community (although they will probably try to build up the exchange rate into greater prominence!)

European

4. The main point is a procedural one. Out of the blue, at a recent meeting of the Special Council, it was suggested that ECOFIN should examine a commission paper with proposals on the Economic and Monetary environment, with some idea that this might provide positive material for the Athens European Council



in December. Fortunately, it was left to ECOFIN to decide how to carry this forward. The subject needs to stay with ECOFIN and not go forward to the European Council.

5. On substance, the commission proposals look for such things as:

- Completing the ERM (UK in the way, but nobody else interested).
- Enhancing the Ecu (Germany in the way).
- Removing exchange controls within the Community (France and Italy and others in the way).

6. All that we want to pick out of the general mish-mash is an opportunity to bring forward again the question of insurance services.



J G LITTLER



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CHANCELLOR

From: J G PEET  
20 October 1983

CABINET OFFICE BRIEFING  
AVAILABLE FROM CABINET  
COMMITTEE SECTION. RELEVANT  
PAPERS ARE:  
CMV(83) 1 - CMV(83)12

cc Economic Secretary  
Mr Middleton  
Mr Littler  
Mr Unwin  
Mr Fitchew  
Mr Bottrill  
Mrs Case  
Miss Court  
Mr Edwards  
Mr Hall

ANGLO-FRENCH SUMMIT : 20/21 OCTOBER

Your bilateral meeting at No 11 with M. Delors runs from 9.00 to 10.45 am tomorrow morning. You will both then join the plenary session at No 10, where you will also be lunching. Messrs Middleton, Littler and Unwin will support you at official level for the bilateral session.

2. My minute of 17 October contained a suggested list of items for your discussion with M. Delors. Dropping the export credit consensus item, they are as follows (with the numbers of the relevant CMV briefs in brackets):

- International monetary affairs including international debt (3a, 3b)
- UK and French economies (9b)
- EC affairs (2a, 2b)

We suggest that you attempt to deal with the first two items fairly briskly to leave sufficient time for a full discussion of Community financing.

3. For the discussion of international monetary affairs, Mr Littler is sending forward a separate note following this week's Monetary Committee meetings. I also attach a further short piece on the latest international debt situation, kindly provided by AEF.

4. For the discussion of our respective economies, you might enlarge briefly on the themes of your Mansion House Speech. The brief on the French economy includes some suggested points to make. You might however wish to begin by congratulating M. Delors on the news announced yesterday of France's first monthly trade surplus for four years.

Reporting  
telegram  
attached



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5. On the European Community, I attach a note prepared by Mr Edwards which supplements the briefing and suggests rather more specific objectives for your bilateral. I have also attached at the back a very short aide memoire of the main proposals on future financing which have been tabled in the discussions so far.

*Tuua Hal*  
PP J G PEET



GRS 100  
[CULL]

UNCLASSIFIED

FM PARIS 191830Z OCT 83

TELEGRAM NUMBER 943 OF 19 OCTOBER 1983

TO IMMEDIATE FCO

INFO SAVING UKREP BRUSSELS, CONSULS GENERAL IN FRANC E.

FRENCH BALANCE OF TRADE

1. FIGURES PUBLISHED TODAY SHOW THAT THE IMPROVEMENT IN THE FRENCH BALANCE OF TRADE HAS CONTINUED IN SEPTEMBER WITH A SURPLUS OF F323 MILLION, SEASONALLY ADJUSTED AFTER A DEFICIT OF JUST UNDER F400 MILLION LAST MONTH.

2. IN UNADJUSTED TERMS THERE IS A DEFECIT OF F2.3 BILLIONS BRINGING THE TOTAL UNADJUSTED DEFICIT FOR THE FIRST NINE MONTHS OF THE YEAR TO F42.58 BILLIONS, A STRIKING REDUCTION FROM THE LEVELS EXPERIENCED BEFORE THE AUSTERITY MEASURES WERE INTRODUCED IN MARCH OF THIS YEAR. THIS IS ONLY THE SECOND TIME SINCE MARCH 1979 THAT THERE HAS BEEN A SEASONALLY ADJUSTED SURPLUS ON THE FRENCH TRADE ACCOUNT. THIS RESULT MAKES IT ALMOST CERTAIN THAT THE GOVERNMENT WILL ATTAIN ITS OBJECTIVE OF KEEPING THE DEFICIT WITHIN F60 BILLION IN 1983.

3. FCO PLEASE PASS ADVANCE COPIES TO:

NO 10 DOWNING STREET

FCO : PS

PS TO MR RIFKIND

MR EVANS

SIR J FRETWELL, C/O WED

MR YOUNG, WED

TREASURY : PS/CHANCELLOR

MR LITTLER

DTI : PS/SECRETARY OF STATE

MRS LACKEY

FCO PASS SAVING UK REP BRUSSELS

PETRIE

FINANCIAL

WED

REPEATED AS REQUESTED

COPIES TO  
MRS LACKEY DTI  
MR LITTLER TREASURY



20/10/83

EC FUTURE FINANCING

Brief CMV(83)2(b) sets out general objectives and a general line to take with French Ministers. This brief suggests some specific objectives and a specific/for the Chancellor to take with M. Delors.

Objectives

2. We suggest that the Chancellor's objectives should be:

- i. To emphasise that the UK's approach to the future financing negotiations is not 'purely budgetary' (Delors' term): we are as keen as anyone to relaunch the Community.
- ii. To persuade Delors that the Danish scheme, even with the amendments suggested by France, cannot form the basis of a deal at Athens in December.
- iii. To persuade him that a lasting arrangement on broadly the lines of our safety-net must be a key ingredient in any final deal; the arrangement must measure the imbalances problem correctly, but key issues such as financing shares are wide open for discussion.
- iv. To emphasise the importance of finding a common approach between France and the UK: this should be the subject of intensified contacts at official level in which Treasury/Tresor officials should play a major part.

Notes for use in discussion

3. General approach. We have noted with great interest and large measure of agreement M. Delors' intervention at September Special Council, when he contrasted evils of 'exclusively budgetary approach' with merits of a general approach which saw all problems in context of relaunching the Community. We too want to see the Community progress. We have ideas of our own for this and are anxious to learn more about France's ideas in fields of technological and industrial cooperation.



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4. We also believe, however, that Community must have sound financial system in order to sustain progress and accommodate enlargement. Two key elements in this are -

- i. more effective control of expenditure (all expenditure, not just agriculture) and
- ii. lasting solution to imbalances problem.

One of main obstacles to progress in recent years has been that net contributor countries have been more or less obliged to argue against new policies which could further aggravate an already intolerable budgetary situation.

5. Danish scheme. We have noted that France has given some support in Special Council to Danish scheme and has suggested amendments to it, in particular -

- i. corrections to be made on revenue side, by adjusting gross contributions, rather than on expenditure side, and
- ii. financing by a special key reflecting how well member states do from the budget already and their relative prosperity.

6. Two points on this. First is that we agree very much with first of these amendments and see great merit in second as well.

7. Second is that, even with these amendments, no way in which Danish scheme could possibly be guaranteed to solve imbalances problem on lasting basis.

The scheme:

- would give UK nothing after enlargement and only inadequate amounts before;
- deals only with problem of inadequate receipts and ignores that of excessive gross contributions;
- would leave UK and other net contributor countries at mercy of increase in uncorrected net contributions: if these were to double, corrected net contributions would double as well.



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8. Safety-net. Only proposal on table which would solve imbalances problem is our safety-net proposal, under which net contributions would be limited in accordance with ability to pay, measured as a percentage of GDP reflecting net contributor country's relative prosperity. Our idea, like yours, is that any necessary corrections would be implemented on revenue side, by deduction from VAT, not on expenditure side.
9. Clear to us that something on these lines will have to form part of Community's 'new deal'. See no possibility of persuading UK Parliament to accept increase in own resources limit unless some guarantee that imbalances problem genuinely solved on lasting basis and more effective control on Community expenditure.
10. Aware that France not entirely happy with certain aspects of safety-net proposal - eg that it might place too heavy a burden on France and insulate net contributor countries too much from problems of expanding Community budget. Would like however to stress two points.
11. First, we do not insist that safety-net system has to be exactly what we set out in our circulated paper. Plenty of scope for discussion. Key requirements are -
- a. Solution must be guaranteed to solve problem on lasting basis which provides adequate protection, not least against large increases in our uncorrected net contributions.
  - b. Solution must measure problem correctly, not just part of it. Forces us onto net contributions. Net contributions do measure the large transfers/<sup>of money</sup>which we have to make across our balance of payments, month by month, in response to Commission requests, from London to other Community capitals.
12. Second, believe that system on these lines would be good not just for UK but for Community as a whole, including France. Key points for you, clearly, would include determination of national shares in financing safety-net reliefs. Believe your idea of special key reflecting how well member states do from budget already and their relative prosperity is very valuable in this connection. Promising approach to problem of how to spread burdens as fairly as possible.



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13. Official contacts. Important that French and UK officials should intensify their discussions of these and other aspects, in hope of finding some common approach. Hope you will agree that Treasury/Tresor officials should take major part in these discussions.



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EC FUTURE FINANCING : AIDE MEMOIRE OF PROPOSALS TABLED SO FAR

i. Commission

Propose to finance CAP expenditure in excess of 33 per cent of total EC budget by special key based on relative prosperity, agricultural production shares and shares of 'net operating surplus'. Would have reduced UK net contribution by about one-quarter in recent years.

ii. Danish scheme

Propose to set up a 'convergence fund' out of which payments would be made to those member states of below average prosperity whose share of EC expenditure was below their GDP share. Payments to be limited to some two-thirds of this 'receipts gap'. For the UK, would have produced about 650 mecu net in respect of 1982 - rather less than one-third of our net contribution.

iii. French amendments to Danish scheme

Would make corrections on revenue not expenditure side; would reallocate administrative expenditure in an unhelpful way; and would adjust financing of reliefs to bear more heavily on richer net recipients (Benelux and Denmark). No effect on amount of relief for UK.

iv. UK safety-net

Would limit member states' net contributions to a percentage of their GDP, that percentage varying with their relative prosperity. Financing of relief for negotiation. UK's illustrative example would have reduced our net contribution for 1982 to about 440 mecu (rather below one-quarter of our unadjusted net contribution).

v. German scheme

Nothing yet tabled, although a paper is promised next week. One German idea is to limit net contributions to a multiple of member states' GDP shares in total net transfers. If multiples set at 2 for Germany and 1 for the UK, the former would bear about half total EC net contributions and the latter about one-fifth.



20/10/83

INTERNATIONAL DEBT - INCLUDING BRAZIL

In the meeting with M. Delors on Friday 21 October, the Chancellor might outline UK policy on country debt problems, both in general terms and in relation to Brazil, drawing on the general brief circulated as CMV(83)3(b).

2. The brief stresses the importance of economic adjustment by debtor countries and the crucial role of the IMF and World Bank in promoting such policies. For Governments to contribute additional support automatically would weaken market discipline and increase the financial exposure of governments. Accordingly HMG has withheld any commitment to take part in the extra official support package for Brazil and in principle would adopt the same approach for other countries.

3. The Chancellor should be aware that the Bank of England are still uneasy with the line we are taking on the grounds that it fails to recognise the very serious consequences for the international financial system if the Brazilian rescue package were to fall apart, and that it over-emphasises the ability of the banks to continue supporting not just their own interests but also the authorities' interests in a sound banking system. In the meeting with M. Delors, it would, of course, be wrong to minimise the risk of a major breakdown and the potentially damaging consequences for the international financial system; but our view remains that overriding priority must continue to be placed on adjustment by the debtor countries themselves. The pressures for this, and on the commercial banks themselves, would be relaxed if it became apparent that official creditors were willing to provide additional support to fill postulated "gaps" over and above the substantial support being provided through the Fund and through official rescheduling.

4. On Brazil, there are two further points to report:

a. At the Monetary Committee meeting earlier this week there seemed to be general acceptance that G10 have a collective responsibility for providing an official support package, notwithstanding the UK refusal to participate. The French position seems to be that at the



end of the day they will keep open some existing credit lines and treat this as their contribution, though neither they nor others are prepared to quantify this in advance;

b. There are encouraging recent reports from Brasilia that the Government are determined to press ahead with the wage de-indexation legislation.

5. If time permits, it may be worth briefly mentioning Yugoslavia. There are worrying signs that the IMF are seeking to repeat for 1984 the somewhat unsatisfactory programme for 1983 (which involved direct Government support). We have made clear to the Fund that we favour a strict Fund programme accompanied only by a conventional 'Paris Club' type rescheduling. We hope the French continue to share our view.



DRAFT

DRAFT MESSAGE TO DINI

Your telex of 4 October invited suggestions ahead of the meeting of G.10 Deputies next month.

2. I hope we shall not allow ourselves to drift into a kind of comprehensive re-run of the Committee of Twenty, but that we will try to concentrate instead on a very few practical questions or specific studies. I would also urge that we should not set up special sub-groups but instead use existing machinery and organisations.

3. I would offer four possible areas of work for consideration, which I list below in reverse order of the importance I would attach to them.

4. First, a question on exchange rates having been specifically remitted to us, I hope we could focus on the narrow question of the impact of wide variations in exchange rates on investment and protectionism. Perhaps one of our own number could produce an initial paper.

5. Secondly, under the heading of liquidity, I would find it interesting to join in discussion and seek a better and shared understanding of the way in which we should assess global liquidity. Perhaps we could ask the IMF to offer a paper.

6. Thirdly, under the heading of the role of the IMF, I think we should consider whether and how the process of surveillance could be strengthened. Suggestions from any or all of us could usefully be pooled and then discussed.



7. Finally, although international debt has not been explicitly included in our remit, it is a dominant issue at present. In his IMF speech, the UK Chancellor touched on possible future developments (future restructuring with longer maturities, encouragement of private direct investment, expanded IBRD role). It might be thought appropriate for our group to consider the desirability, scope and timing of specific action in this area.



ECOFIN COUNCIL, 24 OCTOBER, LUXEMBOURG

Item : Preparation for European Council : Economic and Monetary Issues

UK Objectives

Our objectives are :

- (a) to make it clear that freedom of services in the insurance sector must feature on the agenda for the Athens European Council and that the UK will be looking to the Heads of Government to make real progress towards adoption of a genuinely liberal regime for non-life insurance;
- (b) to avoid overloading the European Council with other economic and monetary issues which are not ripe for decision; (in particular to avoid discussion of UK participation in the Exchange Rate Mechanism (ERM) of the EMS).
- (c) to ensure that the ECOFIN Council retains full responsibility for the preparation of economic and monetary issues and that the Special Council is kept out of them. More particularly, to ensure that the main forum of discussion of international monetary questions, following the IMF Annual Meeting, remains the G10 Deputies, with informal consultation as appropriate in the ECOFIN Council and the Monetary Committee.

Detail

2. As part of their contribution for the European Council, the Commission have circulated a paper entitled "Community Actions to Improve the International Competitiveness of European Enterprises". A copy of the first three pages of this document which deal with "The Improvement of the Economic and Monetary Environment" is attached below at Annex A.



3. Under this heading the Commission proposes three lines of action :-

- the deepening of the zone of monetary stability established by the EMS
- the creation of a truly integrated Community financial market
- the participation of the Community in establishing a stable and credible international economic and monetary order.

Paragraphs 5 to 17 below discuss the Commission proposals in more detail and their advantages and disadvantages for the UK.

4. There was a first discussion of the Commission's paper at the Special Council in Athens on 10-12 October. The Special Council agreed that the Commission's proposals on the economic and monetary environment should be remitted to the ECOFIN Council, but the latter should decide on how it wished to carry the work forward. Accordingly, it has now been agreed that next week's ECOFIN Council will discuss the Commission proposals under the heading "Preparation for the European Council". The Monetary Committee has had a first round of discussions on some aspects of the Commission's proposals and M. Camdessus will make an oral report to start off the ECOFIN discussion. It is unlikely that he will do more than report that certain subjects are already in hand within the Monetary Committee and that on others opinions are so divided that there is unlikely to be much prospect for progress before the European Council.

(a) Development of the EMS

5. The Commission paper calls on the European Council to confirm its commitment to :-

- extending the exchange rate mechanism (ERM) to all member states;



- strengthening this mechanism and
- applying the instruments of convergence more widely and effectively.

6. This subject was almost totally ignored (even by the Commission) in this week's discussions in the Monetary Committee. There was no reference whatsoever to the question of sterling's participation in the ERM. The only indirect references to the EMS were occasional hints by France that the Germans should be more ready to accept ECU in settlement of debts within the EMS and complaints by Belgium that France had, contrary to the rules, intervened to push the French franc away from its EMS central rate.

7. The main UK interest in this part of the dossier is to avoid any awkward discussion on the participation of sterling in the ERM at the Athens European Council. It seems unlikely that this issue will emerge at ECOFIN on Monday. But if it does, the Line to Take might be :-

- has always been recognised that a currency's participation in the ERM is a matter for decision by the member state concerned;
- UK continues to keep issue under review. No immediate plans to join. Important that we should only join if the conditions are right;
- Doubtful whether this subject would be ripe for discussion at Athens.

8. More generally, it seems unlikely that there will be much enthusiasm among other member states for a further round of discussions on "strengthening the EMS". (The Monetary Committee had an unsuccessful round of negotiations as recently as March 1982). Unfortunately, this still leaves open the question as to what, if anything, the European



Council should say on monetary and exchange rate stability. Depending on the course of discussion it might be appropriate to steer the ECOFIN Council towards a conclusion that :-

- the immediate priority is the work within the G10 on what can be done to improve the international monetary system as a whole (see paragraph 14 below);
- in participating in this work the Community and member states should recognise the need to ensure that any new developments should contribute to, or be consistent with, strengthening monetary stability within the EC.

(b) The Creation of a Truly Integrated Community Financial Market

9. The Commission have put together under this heading a rag bag of some 30 separate ideas and proposals of varying age and merits, which have little more in common than that they are concerned with investment and other financial flows both within the Community and outside it. It is unlikely that they will be discussed in any detail on Monday. But in case of need a separate annex is attached which summarises each of the individual ideas, the UK interest in them and gives a short line to take.

10. Briefly, the most significant proposals under this heading are :-

- a call by the Commission on those member states still maintaining exchange controls to relax them;
- development of the role of the ECU. In particular, that it should be treated as equivalent to a foreign currency for the purpose of freedom of capital movement obligations;
- agreement on freedom of services in the insurance sector.

11. As noted above, we want the Athens European Council to give a push to the negotiations on insurance. It will be important to prevent



this getting bogged down with the rest of the financial integration proposals. We have accordingly insisted that it should appear as a separate item or sub-item on the ECOFIN agenda. A separate brief and speaking note on insurance will be provided.

12. The Monetary Committee had a preliminary discussion on the role of the ECU and liberalising capital movements this week and they are likely to feature in M. Camdessus' report. There is no prospect of early agreement on foreign currency status for the ECU. This is blocked by the Germans, who have complex legal problems arising from the provisions in their basic Monetary Law. As regards liberalising capital movements, the French and the Italians both hinted that, with a little encouragement from the Commission and other member states, they might be able to agree to at least some minor steps towards greater freedom. Neither of these two subjects cause the UK any difficulty. We already have reasonably complete freedom of capital movement and we do not discriminate against the ECU compared with other foreign currencies.

13. With the exception of insurance, we would be entirely content for the ECOFIN Council to conclude that the rest of the "financial integration" dossier is simply not ripe for discussion at the European Council, which has far more pressing things to discuss. The Commission could instead be asked to take up the various initiatives in the specialised Council Working Groups concerned and, where necessary, in the Monetary Committee. (It should not be too difficult to split off insurance from the other subjects, since it also appears under the heading Internal Market in the Commission's paper for Athens).

(c) Participation of the Community in Establishing a Stable and Credible International Economic and Monetary Order

14. M. Camdessus will be reporting on the Monetary Committee's discussion. Briefly, it was agreed that at this stage there should be no specific Community contribution to the work initiated in the



Group of Ten Deputies on possible improvements to the international monetary system. The G10 Deputies will not hold their first meeting until the first half of November; and participants have been invited to submit short notes on specific topics they think should be studied. It was agreed, however, that the Monetary Committee should monitor the progress of the G10 discussions and, as usual, provide a forum for consultation within the Community in between G10 meetings, which would allow Member States not participating in the G10 to express their views. All this is acceptable, as is the idea (paragraph 8 above) that Member States should take account of the need to ensure that any new developments are compatible with monetary stability within the EC.

15. M. Camdessus' report is likely to refer to the three main themes which the Cephallonia Informal Finance Council agreed should be on the G10's agenda :-

- the level and distribution of international liquidity;
- exchange rate stability;
- the future role of the IMF.

16. If any substantive discussion develops your Line to Take might be :-

(a) need to avoid raising unnecessarily high expectations from G10 discussions. Instead concentrate on modest practical improvements in operation of the system.

(b) need to identify more precise subjects of study within the three main Cephallonia themes. For example, work on international liquidity might focus initially on problems of definition and measurement;



- (c) similarly, work on role of IMF might focus on :-
- confirming that it is in the business of short-term balance of payments financing, not development;
  - its exchange rate surveillance role;
  - its relationship with the private banking system in handling indebtedness problems.

There was a general consensus in the Monetary Committee for this kind of approach and for the thought that work on exchange rate stability was of lower priority.

17. As regards procedure, it would seem reasonable for the November ECOFIN Council to send a progress report on its national monetary reform to the European Council; though there will be precious little to report and certainly nothing for the European Council to decide.

7500

PREPARATION FOR EUROPEAN COUNCIL

Line to Take

(a) General

European Council in Athens already has major workload on future financing of the Community, budgetary imbalances and agriculture. Therefore important to avoid overloading it with unnecessary points of detail. Need to be very selective in deciding what other subjects can be dealt with. Need to confine ourselves to the major issues where the development of the Community has been blocked and where discussions at European Council can make a real contribution to future progress.

2. Objective of "improving Community's international competitiveness" certainly desirable. But main responsibility for achieving it rests on each member state through improvement of our individual economic policies and performance.

(b) Strengthening EMS

3. Here again main priority should be greater convergence of economic policy and performance to consolidate the system.

4. Doubt whether time is ripe for further discussions on major changes in operation of EMS. Main priority at present should be the Group of Ten work on improving operation of international monetary system as a whole. Important that in G10 discussions we should bear in mind objective of greater monetary stability in Europe.

(c) Sterling Membership of Exchange Rate Mechanism (see paragraph 7 of main brief).

(d) Integrated Financial Market

5. Certainly endorse general objective of making financial markets more efficient and competitive through greater integration. Main



line of action for Community must be through removal of existing restrictions and obstacles to the free flow of capital through the Community; not through addition of new bureaucratic mechanisms. Accordingly :-

- UK shares hope that those member states still maintaining exchange controls under the Treaty's safeguard clauses will feel able to move towards greater liberalisation, even if gradually;
- UK has no difficulty with the proposition that ecu should be treated on all fours with foreign currencies for purposes of capital movements.
- On the other hand, UK against idea of a Community "ring fence" or "floodgates" against inward or outward capital movements. That would diminish existing degree of freedom within the Community and be bureaucratic and inefficient.
- See no case for intervention at the Community level in member states' foreign borrowing programmes or their external indebtedness. This would simply reduplicate work already done in Bank of International Settlements (BIS).

6. Will want to speak separately about liberalisation of insurance markets. But leaving that issue aside, doubt whether any of the other issues arising under the integrated financial market heading should be referred to Athens. Do not see any major points of principle to decide. Many of the detailed proposals - often no doubt worthwhile in themselves - need further work in the appropriate Council Working Groups and in the Monetary Committee. Invite the Commission to put that in hand.

(e) Freedom of Services in Insurance Sector (see separate brief).

(f) International Monetary System

7. Understand discussions in G10 Deputies will start in first half of November. Let us see how they develop. Agree ECOFIN and Monetary



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Committee should monitor progress and consider as necessary what contribution the Community can make to these discussions. ECOFIN Council in November could consider whether there is any need to report to Athens European Council. But important to avoid raising expectations of radical changes.

CONFIDENTIAL

1570

## INTERNATIONAL MONETARY REFORM

Line to take

- (i) Recognise world has been passing through difficult economic and financial period: exchange rate instability, inflation, high interest rates, the debt crisis. These problems reflect inflationary policies of past. No answer to flinch from adjustment or seek easier conditionality.
- (ii) So should continue to work through existing channels, mainly IFIs. Welcome G10 study on conditions necessary to improve functioning of the international monetary system. Right approach is to allow deputies to identify areas in which progressive improvements may be sought. Look forward to report by early 1984. Relying on a conference instead would risk undermining the not magnificent achievements so far.
- (iii) Doubt whether present international problems (eg debt issues, exchange rate instability) stem from breakup of Bretton Woods system. Are not cause and effect the other way round?
- (iv) Not persuaded that some technical panacea for present problems if could only trouble to sit down and work it out. Obvious dangers of creating false expectations with all damage that could result from that.
- (v) Prefer to think in terms of building on existing policies and arrangements. Emphasise desirability of sustained non-inflationary growth, greater convergence of economic policies of major industrial countries.
- (vi) Summit Conferences themselves, and surveillance arrangements, illustrate recognition of interdependence. Heads of State seek to step back from immediate problems to consider strategic objectives. Conclusions of Williamsburg intended to help in practical way towards adoption of responsible policies while respecting national sovereignty.



## Background

The idea of international monetary reform and a conference has been pressed in a number of quarters over the last year. In deference to pressure from M Mitterand, the Williamsburg Summit declaration invited "Ministers of Finance, in consultation with the Managing Director of the IMF to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this process by a high-level international monetary conference".

2. M Ortoli circulated a paper airing most of these issues for discussion at ECOFIN at Cephalonia on 10-11 September. Much of what the paper said was sensible but M Ortoli's cover note displayed an unsuitable enthusiasm for getting the Community to spearhead any further technical work needed before the G10 get to grips with arranging discussions. In the event, at Cephalonia EC Finance Ministers concluded against major international monetary reform or calling an immediate conference but thought that there would be merit in getting the G10 to commission studies of international liquidity and the development of the multicurrency reserve system.

3. At the Washington G10 Ministerial discussion was introduced by an account from Ortoli of the outcome of the EEC discussion. Lalonde (Canada) spoke briefly of the CFM study group report and its discussion in Trinidad. He commented that the idea of a conference as such had perhaps now shifted in favour of specific ideas. In discussion most speakers favoured a remit to G10 deputies. This report is intended to be completed by early 1984.

4. The US favour consideration of the development of Article IV responsibilities and the possibility of putting more teeth into IMF surveillance of domestic policy and debt issues. The French suggested that no issues should be ruled out in the remit to deputies and that they should be free to consider techniques for study whether comparable to the interaction group arrangements, refreshment of old studies, remission to a group of 'wise men' or to the IMF, or some other approach. However, the terms of the communique did not express certainty of any positive outcome and the form of words agreed was cast in very general terms.



## IMF: ACCESS

### Line to take

Enlarged access should not be a permanent feature of the Fund but world economy has taken longer to emerge from recession than we had hoped and the need for Fund finance, already historically high, is likely to continue through 1984 and 1985. Therefore, given uncertainties about future developments, it would have been unreasonable to seek a definite view at the Interim Committee on the level of members' access to the Fund more than a year ahead. Committee rightly encouraged a gradual phasing out of the enlarged access arrangements but also right to say that extension into 1984 was necessary and fully justified. Pleased that actual decision on limits - 102% of quotas a year normally, 125% under circumstances of special need - reflects our thinking quite closely. Decisions reached offer scope for Fund to continue lending to countries in balance of payments difficulties.

### Background

Limits to IMF credit for borrower countries to apply with the new quotas were provisionally agreed at the Interim Committee on 25 September. Further work was remitted to the Executive Board. What emerged was a 102/125 2-tier system, with the precise conditions for the second tier not spelled out, and with an uncomfortable reference to smaller developing countries as a consideration. It is expected that Executive Directors will take the view that it will be unwise to try to be more explicit in the Executive Board, because that might risk reopening the whole question. The best thing may well be to reproduce some of the text of the Interim Committee communique as background to a simple statement of the 2-tier numbers.



## IMF: RESOURCES

### Line to take

The need now is for prompt implementation of the quota increase and enlarged GAB. The UK has taken a lead through early ratification of both. The role of the US is vital here. Although many uncertainties remain, we welcome President Reagan's commitment to ratification. [Congressional approval should help to unlock BIS loan.]

### Background

Fund practice has traditionally been to cover all commitments with actual resources. The present over-commitment of SDR 3bn on borrowed resources is a departure which the Managing Director is anxious not to allow to go too far. He wants credit facilities amounting to SDR 6bn or so (from industrials and Saudi Arabia) in order to cover likely over-commitment of borrowed resources by the end of the year.

At the BIS meeting on 12 and 13 September, there was no progress in negotiations toward the SDR 3bn industrialised countries' loan. The Managing Director's reaction on 14 September was to warn the IMF Board that the Fund could not continue to lend without greater financial security. On 15 September G5 deputies agreed that the SDR 3bn loan should be arranged later in the year, perhaps at the November BIS meeting, thus unlocking the further SDR 3bn from Saudi Arabia. (The US would take parallel action separately eg for Brazil.)

The MD's stance has smacked of brinkmanship. It seems to be designed to force the hand of the US administration on their IMF bill, since it looks as though the BIS syndication hangs on that. No progress on credit lines was made at the Annual Meetings and the MD is reported to be in a sombre mood. On 3 October the Board agreed that the MD should rescind his instructions about no further lending since it was unlikely that further enlarged access programmes would reach the Board before the end of November when Fund liquidity is to be reviewed again. The MD was not entirely happy with this but took it to mean that there was a high degree of confidence that the borrowing initiative would come to fruition. He also thanked those directors which had confirmed their authorities' willingness to contribute to the loan (UK, Belgium, Italy and Canada). He expressed his intention to go to Basle on 7 November.



The present position is admittedly rather unsatisfactory but definite progress now hangs upon the readiness of the US Congress to approve the quota legislation. There is due to be a Congressional conference by the end of October to iron out differences between the Senate and the House. If this conference is able to reach agreement, there is every reason to hope that the BIS loan will be forthcoming in due course.



## IMF: ALLOCATIONS

### Line to take

We support the Interim Committee's view that the case has not yet been established for an SDR allocation which would represent an increase in unconditional liquidity.

### Background

The IMF Articles require that SDRs can only be created and distributed in response to a shortage of international liquidity. We, with others, have argued that it is by no means clear that the conditions for an allocation exist. The Managing Director was unable to report a consensus at the September Interim Committee but it was agreed that further discussions should be pursued.

7500

From: J B UNWIN  
21 October 1983

NOTE FOR THE RECORD

*purp*

cc Principal Private Secretary  
PS/Economic Secretary  
Mr Middleton  
Mr Littler  
Mr Fitchew  
Mr Lavelle  
Mr Mountfield  
Mr Bostock  
Mr Edwards  
Mr Hall

COPY FOR

ANGLO FRENCH SUMMIT: CHANCELLOR'S TALKS WITH M DELORS

I attach, for the record, copies of notes which the Chancellor drew on to report to the plenary session this morning on his discussions with M Delors.

2. On international financial matters, the main point was perhaps the identity of agreement on Brazil and debt problems generally. M Delors gave no signs of wanting to contribute, whether by export credit or other means, to the Brazil "gap". The Chancellor did not mention Yugoslavia.
3. On Community matters, the discussion was friendly but necessarily superficial and did not take us very much further. M Delors peddled the Danish scheme, as amended by France; the Chancellor made it clear that, while some areas were negotiable, we had to stick on the net contributions concept. It was agreed, however, that close bilateral contact at official level should be maintained with a view (Delors' suggestion) to trilateral talks involving the Germans at some stage.
4. I had a separate discussion on future financing problems with Jean Claude Paye (Economic Director of the French Foreign Ministry) last night. He is personally well disposed towards us and himself, I think, accepts that the net contributions concept is a valid one. He stressed, however, that, although he felt sure that the UK and France could agree on a scheme that produced for both of us an acceptable net contribution figure, it was absolutely unacceptable to his Ministers that any scheme should be based on this concept. There were deep philosophical objections to it. Nor would France (as our previous discussions have revealed) accept a scheme that gave the UK an absolute limit.
5. I responded on familiar lines, indicating that while we could consider some variations (eg a marginal contribution to increases in Community expenditure) we



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could not abandon the net contributions principle. Only this could produce a solution that (to meet his own criterion) was "durable". It might be possible to cook something up that would produce an acceptable number for Britain or France in the first year or two; but unless it was based on the net contributions concept there could be no assurance it would offer lasting protection.

6. I should perhaps also add that it was evident from Mr Jopling's report of his talks with M Rocard that they had made no progress on the agriculture front. We are still well apart on the individual commodity regimes; and even French agreement that agricultural spending should be contained extends at best to limiting the rate of increase over time to no more than the rate of increase of own resources rather than significantly lower than that increase.



J B UNWIN



CHANCELLOR - DELORS - 21 OCTOBER:

International Financial Scene:

*in Paris*  
Follow up to IMF: <sup>agreed that</sup> right to follow up under aegis of G5. / Meeting in January <sup>would</sup> ~~might~~ be helpful. Within Community, more sensible to handle in ECOFIN than in Special Council. Unrealistic to suppose that progress on this wide span of issues could be made in framework of current EC negotiations.

International Debt:

Brazil: agreed that dangerous for Governments to set precedent by providing additional official funds to fill a "gap".

In Brazil, as elsewhere, policy must be founded on

- strong Fund programmes
- rescheduling by commercial banks and new commercial bank funds as appropriate
- official "Paris Club" rescheduling.

Otherwise, pressures for adjustment will be dangerously relaxed.

ie. Firm Agreement on analysis of debt problems and way in which we should respond (US of course, must take their own decisions)

UK Economic Situation:

Chancellor summarised gist of Mansion House speech. Satisfactory outlook.

- 3% growth (lower inflation, lower saving)
- inflation 5%, and probably lower next year
- high unemployment, but rate of increase slowing and may peak next year.

M. Delors - summarised current economic situation in France. Main problem = controlling inflation; French economy less resistant to tight policies than eg. UK and Germany. ~~But~~ good progress on exports and balance of payments.



## Community Financing

Chancellor: stress importance of UK and France keeping in very close contact. We both agree on the problems:-

- equitable financing
- controlling total expenditure

without fair solution (essentially based on net contributions). UK cannot agree to any increase in own resources.

Thus, development of Community in way we both favour would not be possible.

We have common interest: therefore important to maintain close contact to see if we can come closer together.

### M Delors:

Agree on importance of agreeing on package at Athens and on finding a lasting solution to budget problem (hence his personal consideration of ecretement scheme which has much in common with safety-net proposal).

Agree also on need to control agricultural spending; but control must stem from within the policy itself, rather than from our external constraint.

On new policies, France attach importance to

- helping less developed regions
- renovating industry
- co-operation between industry in Europe

but agree on need to apply strict economy to spending.

Agree also on bilateral contacts: suggest trilateral (with Germans) in due course.



Discussed also Danish convergence proposal, with French amendments.

M Delors commend it as possible compromise;

Chancellor agree that much improved by French amendments, but point out that basing it on contributions would still leave UK and anyone else unacceptably exposed.





Brian Urwin has heard that  
the Times is proposing to run  
a story about our having  
legislation prepared for  
EC withholding - presumably  
with the intent of causing  
an embarrassment while the  
French are here.

Obviously, the line to take is  
that we have always said that  
we will do all that is  
necessary to safeguard our position ...





C

We have now heard that M Delors  
is not coming until tomorrow  
morning - he is arriving at  
Hatfield at 8.15, so he may even  
be a bit late!

He is now being accompanied by  
Jurgensen, not Touven.



S E C R E T



10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
DATE	24 OCT 1983 ✓
ACTION	—
COPIES	10
The Economic Secretary Mr Hittler / Mr Unwin Mr Fithew / Mr Edwards	
21 October 1983	

Jed 29/10

(pyp)

Dear Sir,

Anglo/French Summit

I enclose three records of conversations:

- (a) the tete-a-tete between the Prime Minister and President Mitterrand on the evening of 20 October.
- (b) The tete-a-tete between them on the morning of Friday 21 October.
- (c) The meeting between the two principals, attended also by the two Foreign Ministers, later on the morning of 21 October.

The first of these records is being copied, together with a copy of this letter, to Richard Mottram (MOD) and Richard Hatfield (Cabinet Office).

The second record is being copied to John Kerr (HM Treasury), Richard Mottram, Callum McCarthy (Department of Trade and Industry), Robert Lawson (MAFF) and Richard Hatfield.

The third is being copied to John Kerr, Robert Lawson and Richard Hatfield.

X) The usual rules apply, ie no further copies of these records should be made except where this is operationally essential.

It is of particular importance that the decision that there should be discreet bilateral meetings between Britain and France (to be extended also to Germany) should be very carefully protected. The Prime Minister will wish to decide how this matter should be carried forward. I shall be in touch separately about it in due course.

Yours  
Jed

Brian Fall, Esq.,  
Foreign and Commonwealth Office.

S E C R E T



**SECRET**

RECORD OF A TÊTE-À-TÊTE MEETING BETWEEN THE PRIME MINISTER AND  
THE PRESIDENT OF THE FRENCH REPUBLIC AT 0900 ON FRIDAY 21 OCTOBER  
AT 10 DOWNING STREET

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Present: Prime Minister  
Mr. F.E.R. Butler  
Interpreter

President Mitterrand  
Monsieur Vedrine  
Interpreter

\* \* \* \* \*

UN Resolution on the Falkland Islands

The Prime Minister said that she understood that the Argentinian Resolution was likely to be similar to last year's. She hoped that the French would again abstain. The President said that the French Government would have to examine the text. If it was the same as last year's, it was unacceptable to France and France could not vote for it. But it caused difficulties for France for the United States and Italy were likely to support the Resolution since this tended to isolate France and damage her relations with South America. It would help France to maintain its abstention if there were a general movement to abstain among Britain's friends. The Prime Minister said that Britain could continue to work hard to persuade her friends not to vote for the Resolution.

European issues

The Prime Minister said that Monsieur Cheysson had expressed the view to her on the previous evening that it would be difficult for countries to make the necessary compromises to reach agreement over the European budget and Common Agricultural Policy close to the European elections; and that it was therefore necessary to make rapid progress towards a solution before the meeting in Athens in December. She herself had hoped that, if an agreement could not be reached at Athens, it would be possible to do so at the March Heads of Government meeting under the French Presidency. Her view was that the worst scenario for the European elections would be to hold them against the background of the Commission running out of money and being unable to maintain their agricultural payments.

/ President

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President Mitterrand said that Monsieur Cheysson was perhaps optimistic about the rate at which progress would be possible, and he did not himself see how a solution could be reached quickly. If an agreement could be reached by March, he thought that this would be sufficiently long enough before the European elections. But it would not be any easier to solve the problem in March than in December, and there was everything to be said for making as much progress as possible by the Athens meeting. The Prime Minister agreed and said that she hoped that it might be possible discreetly to arrange a series of bilateral meetings between Britain and France, Britain and Germany, and France and Germany. It would also be essential for Heads of Government to remain closely in touch with the development of detailed negotiations and to approve the parameters for them, so that any agreements reached by such a process should not be overturned.

The President agreed with this suggestion. It would be essential that such discussions took place discreetly and without the press being aware of them. He suggested that Britain, France and Germany should each name a representative at Ministerial or very senior official level, or a combination of the two, who could undertake intensive but discreet bilateral consultations in the period up to December. He wanted to see all the outstanding problems settled together. He had been pleased and surprised to learn that it had been possible to reach agreement on Mediterranean acquis, which he had expected to be difficult, particularly with the Italians. Perhaps it was a good thing that the Italians had a Socialist Prime Minister.

The Prime Minister commented that she had found Signor Craxi took a positive attitude towards European co-operation, but Signor Andreotti seemed more reserved. President Mitterrand agreed and said that he had been surprised to get the impression from Signor Andreotti that he seemed to favour immediate discussions with Moscow about nuclear matters. The Prime Minister asked whether this was merely a matter of presentation or whether there were signs that the Italians were weakening in their resolve about INF deployment. President Mitterrand said that he did not doubt that

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/ the Italians



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the Italians were resolved about deployment, but were less robust about the issue of bringing the British and French deterrents into the negotiations. His impression was that Signor Andreotti had been reflecting the wishes of the Italian President.

Returning to European Community issues, President Mitterrand said that the French Government had reservations about proceeding with enlargement until harmony had been re-established in the Community's arrangements. Otherwise enlargement would only cause new strains. Prime Minister Mauroy had had a meeting of Socialist Prime Ministers, at which some progress had been made, but enlargement would raise very difficult issues including fisheries and wine.

President Mitterrand continued that the difficulties of enlargement were practical, whereas those on the Budget and CAP were difficulties <sup>of</sup> principle. The French position was that an enshrinement of an annual reimbursement to the United Kingdom was not consistent with the Treaty of Rome. He understood Britain's practical difficulties, and would not deny that the French had gained much advantage from the Community; but Germany and Britain had also gained, particularly in industrial matters. The benefits to agriculture were highlighted because of the prominence of the agriculture budget, but even this was small in relation to the Community's GDP.

The Prime Minister commented that the British position was not based on a "juste retour" but on fair sharing of the burden of the Community's budget. The problems would become more acute after enlargement, and France shared an interest with Britain in ensuring that the burden was fairly shared. She agreed therefore that arrangements for enlargement had to be taken into account in the settlement of other issues. She also felt that there were fundamental problems of agricultural policy to be solved. The European Community could not go <sup>on accumulating</sup> /surpluses, and the problem would become more acute as the United States went into surplus.

President Mitterrand agreed that the problem of surpluses had to be dealt with: the most acute one was on milk. He was

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/ quite



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quite prepared to say that over-production was bad management, even if France was involved in it. But there were problems of imports from the United States of substitute products.

The Prime Minister commented that if cereal prices were lower, there would not be such an incentive to import substitutes. She pointed out that the Treaty of Rome included only very general words about CAP, and the system of own resources had been invented long after the Treaty. On the problem of enlargement, she was concerned that if Spain's accession was held up for too long it could increase difficulties which Spain would face if there were a referendum over membership of NATO. She asked whether the French Government envisaged solving the problems of enlargement by a long transitional arrangement or by seeking fundamental solutions immediately.

President Mitterrand said that his position on enlargement was capable of adjustment. He was indeed embarrassed not to be able to agree readily to Spanish and Portuguese accession. But the Prime Minister should know that there were strong considerations of French internal politics affecting this matter. Both the Communists and Monsieur Chirac were opposed to enlargement, as were all the agricultural organisations which were mainly Conservative. That amounted to a lot of people, who would be likely to be demonstrating next summer at the time of the European elections.

The Prime Minister asked what timing the President had in mind over enlargement, bearing in mind France's national elections in 1986. President Mitterrand replied that the 1986 elections were less of a problem than the European elections next year. But he had considerable problems in the short term with Monsieur Chirac. In parenthesis, he remarked that Monsieur Chirac in a recent speech in Berlin had come out in favour of a joint European defence force, including the Germans. The President said that he was not opposed to this as a concept, but it was quite unrealistic to envisage it in the foreseeable future. The Prime Minister commented that any such proposal would seriously undermine NATO. There was to be a conference on European disarmament in Stockholm, and that was enough.

/ Returning

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Returning to enlargement, President Mitterrand said that he was willing to move towards it, and hoped that Spain and Portugal would be content with agreement in principle, but with an extended period for implementation.

The Prime Minister asked whether, in envisaging a comprehensive solution to the Community's problems, the President was also including the French ideas on industrial policy. The President said that he was not. He had in mind only the problems identified at Stuttgart. The proposals on industrial policy were important, but were only in embryo. But he felt that there should be new projects for industrial collaboration, to help get Europe out of its rut. An important area for such co-operation was information technology, where the European countries were not <sup>so much</sup> in competition with each other but as with the United States and Japan. A lot of excellent research was undertaken in France and also in the United Kingdom; and there was great scope for harmonising production. The same was also true of bio-technology. He hoped that the Community would be able to reach agreements on these matters in the same way as they had previously done on coal and steel. The promotion of the new industries would assist the modernisation of old industries and was also important on cultural and educational grounds. This was not just a pipedream, but an opportunity for a substantive new agreement.

The Prime Minister commented that ESPRIT already provided a small programme for collaboration on R&D. All countries were putting funds into research in information technology, but her impression was that the USA and Japan were still gaining on Europe. She regretted that Europe had allowed the US and Japan to take such a lead. President Mitterrand commented that he did not wish to cut off Europe from the United States. But co-operation would allow everybody to go forward faster. The European market for information technology represented about 16% of the world market. The Prime Minister said that she had seen figures which suggested that a higher proportion of households in the United Kingdom owned video recorders and home computers than in any other country.

/ Britain

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Britain already made home computers, but had only just started production of video recorders. She had given priority to getting a computer into every secondary school and was now extending this to primary schools.

President Mitterrand said that France were less advanced in this respect but were going in the same direction. He thought that software was an area in which Europe was better placed in relation to the United States and Japan than on hardware. The French experience had been that their young people were ahead of students in the United States up to the age of 20, because they had a better mathematical grounding, although after 20 the Americans tended to move ahead because they had a greater access to the necessary equipment. But the Japanese were purchasing software from France in large and increasing amounts.

The Prime Minister said that the highly complex, science-based industries were doing well in Britain. But we still had a problem with the more traditional industries. The application of new technology to the traditional industries was making them more competitive but was causing them to shed labour which had not yet been fully taken up in the new and growing industries. The cross-over point would come, but it had not been reached yet. President Mitterrand said that the unemployment crisis had been caused by delay in getting people organised to take advantage of the new technology. The position was the same in France as in Britain. It was not a disastrous problem, but it was a problem of adjustment which needed to be tackled, and neither Britain nor France had adjusted quickly enough.

The Prime Minister said that she was concerned that governments delayed the process of adaptation by loading too many overheads on industry. This made it particularly difficult for our industries to compete with those of the newly industrialised countries. President Mitterrand commented that this was a conservative attitude; in his view the question was more one of planning. If European countries were energetic and far-sighted and could agree among themselves, in ten years Europe could be industrial leaders again.

F.E.R.B.

21 October 1983

SECRET



CONFIDENTIAL

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE  
PRESIDENT OF FRANCE AT 1005 HOURS ON FRIDAY, 21 OCTOBER 1983  
AT 10 DOWNING STREET

Present:

Prime Minister  
Foreign and Commonwealth  
Secretary  
Mr. Coles

President Mitterrand  
Monsieur Cheysson  
M. Vedrine

The Prime Minister said that in the tête-à-tête conversation which had preceded the present one she and the President had been struggling with European Community problems. To summarise, it seemed that if there was not considerable progress at the European Council in Athens, the Community would enter a financial crisis in early 1984. That would be a bad background for the European elections in June. On the other hand, the closer the elections approached, the harder it would be for Governments to make compromises. This argued for making faster progress on both the budget and on the CAP before Athens.

The Foreign and Commonwealth Secretary said that he had devoted his talks with M. Cheysson yesterday to EC problems. They were agreed on the need for success at Athens if that was at all possible. The Prime Minister asked whether it was possible. The Foreign and Commonwealth Secretary said that success would be very difficult but was not impossible. France and Britain agreed on the objective with regard to the CAP but did not agree on the nature of financial control. With regard to future financing, the two sides agreed that there was a problem to be solved but there was substantial divergence between their two positions. Then, with respect to new EC policies, they had agreed to attempt to identify common ground. This was the easiest area in which to reach agreement.

/ If Athens

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If Athens was to be a success, it would be necessary to reach agreement on all the related issues. The area of most significant divergence was that of future financing. The two sides had not adequately explored the areas of disagreement. He therefore believed that a small group of advisers should meet to see whether progress could be made.

M. Cheysson said that the Prime Minister had asked whether it was possible to reach agreement at Athens. His reply was yes. President Mitterrand commented that M. Cheysson was more optimistic than he was. M. Cheysson said that agreement depended on a number of factors. All would have to appreciate what failure to agree would mean. There would need to be agreement on the identification of a few major problems on which decisions should be taken at the level of the European Council. For the first time in his 10 years experience of the Community an effort was being made to prepare the ground in this way. Work around the Council table was nearly finished. The remaining work would have to be bilateral or trilateral and would need to define the outlines of agreement in terms which might be acceptable to the Council. He saw value in the Foreign and Commonwealth Secretary's proposal for discussion in a small group of advisers.

As regards new policies, the two sides should try to summarise specific proposals for the Athens Council. The Community had begun with industrial collaboration and this could be an important element in re-launching it.

These matters apart, there were certain difficulties. With the United Kingdom, the problems were related to the limitation of CAP expenditure and a system providing automatic budgetary relief. With the Germans, the most important problem concerned the MCAs. There was also the very difficult matter of milk. France had 450,000 milk producers. But it knew very well that we could not go on producing milk at the present rate for there was no real world market for it.

All these matters were capable of resolution. President Mitterrand asked how.

/ The Prime Minister



The Prime Minister said that she would make a distinction between the major political problems and the technical methods of solving them. The major problems were three: the budget where it was necessary to limit contributions in order to avoid refunds; the control of CAP expenditure; and the German problem with regard to MCAs. At the moment progress was blocked by the absence of decisions on these matters.

The Foreign and Commonwealth Secretary commented that M. Cheysson had rightly identified the main problems for Athens. It would be helpful to get our officials together in time to make progress. The Prime Minister said that we should also keep Germany, and possibly even Italy, abreast of our discussions. But there should be no publicity for Anglo/French contacts. They must be regarded as part of our normal cooperation. President Mitterrand said that the right course was for each side to appoint one senior official who had the confidence of his Government. Ministers did not have time for these things and were always followed around by the press. The Prime Minister said that the matter was urgent. We only had six weeks left. President Mitterrand said that M. Cheysson's list of problems was very complete but he had reached no conclusions. It was clear that we could not get involved in discussion among all 10 Member States. The United Kingdom, France and Germany must sort out the problems. There would then have to be an occasional visit to Rome to soothe Italian pride. The Prime Minister said that she did not believe that the Italians should be made privy to the discussions which the President envisaged.

The Foreign and Commonwealth Secretary said that his impression in Athens last week had been that the discussion was making certain progress. The Prime Minister commented that that was due to the fact that the Community was running out of money and was having to delay payments until next year. President Mitterrand said that he thought it important that we should not give public opinion the impression that we had given up hope of solutions. The Prime Minister agreed. The press wanted to write stories about crises and disagreements. They should not be given the chance.

/ President Mitterrand



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- 4 -

President Mitterrand said that during their tête-à-tête, the Prime Minister had raised the question of the UNGA Resolution on the Falklands. He had said that the French attitude would depend on the text of the Resolution and on who was supporting it. He did not want France to be isolated if the United States and Italy favoured the text. But nor did he want to vote for something which Britain would not like. So the problem should be studied. M. Cheysson commented that if the text was like that of last year, France should abstain as last year. But if the parts of last year's Resolution which were unacceptable were changed, then there would be a different situation.

President Mitterrand asked whether it was the case that we could not accept any Resolution. The Prime Minister said that having sent a Task Force to the Falklands and lost lives we could not now say we would negotiate away what we had fought to retain. Nor could the people of the Falkland Islands agree. We would like to have better relations with the whole of Latin America. We had taken a number of steps to remove restrictions with regard to finance and trade, but there had been no response from Argentina.

The Foreign and Commonwealth Secretary said that our statement that our friends should not promote changes to the text might sound unhelpful. But the truth was that if the Resolution remained as it was last year it would be easy for our friends to maintain their former positions. President Mitterrand commented that he understood our worries. It was the American and Italian position which caused him concern. But there was a limit - and the limit was that France did not wish to be hostile to the United Kingdom. If the text were not changed, it would be easier for everyone.

The discussion ended at 1040.

A.J.C.

21 October 1983

CONFIDENTIAL





(15)

EXCHEQUER *sent*  
 REC. 25 OCT 1983 *2/10*  
 PS/EST. Mr Middleton.  
 Mr Lither. Mr Uwin.  
 Mr Fitchew, *From the Private Secretary*  
 Mr Bottrell  
 Mrs. Case. Miss. Court.  
 Mr A. Edwards. Mr. Hall.  
 Mr. J. Reet. Mr. KITCATT.

10 DOWNING STREET

25 October 1983

Mr ANSON.  
 Mr Lovell  
 Mr Lavelle.  
 Mr Mansfield.  
 Mr I. Wilson.  
 Mr Chivers.  
 Mr Bostock.

ANGLO-FRENCH SUMMIT

I enclose a copy of the record of the plenary session which took place on Friday 21 October at 1045.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Defence and Energy, the Minister of Agriculture, the Minister for Trade and Sir Robert Armstrong.

A. J. COLES

R.B. Bone, Esq.,  
Foreign and Commonwealth Office.



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RECORD OF THE PLENARY SESSION OF THE ANGLO-FRENCH SUMMIT,  
HELD AT NO. 10 DOWNING STREET AT 1045 ON FRIDAY 21 OCTOBER 1983

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Present

The Prime Minister	President Mitterrand
Secretary of State for Foreign and Commonwealth Affairs	M. Cheysson (Minister for External Affairs)
Chancellor of the Exchequer	M. Delors (Minister for the Economy, Finance and the Budget)
Secretary of State for Defence	M. Hernu (Minister of Defence)
Secretary of State for Energy	M. Rocard (Minister of Agriculture)
Minister of Agriculture, Fisheries and Food	M. Mexandeau (Delegate Minister for Industry and Research)
Minister for Trade	Mme. Cresson (Minister for External Trade and Tourism)
Mr. Rifkind	M. Chandernagor (Delegate Minister for European Affairs)
Sir Robert Armstrong	Officials
Officials	

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The Prime Minister began by saying that she and President Mitterrand had had extensive discussions the previous evening on East/West relations and nuclear disarmament. They had agreed on the need to keep the UK and French nuclear deterrents out of the INF and START negotiations. They had enunciated similar positions publicly (President Mitterrand at the UNGA). At their second tete-a-tete they had discussed European issues. They had agreed that they must work as hard as possible for the maximum degree of agreement at the Athens European Council. She was not too pessimistic about the prospects. Agreement on as many issues as possible at Athens would avoid a crisis within the Community.

President Mitterrand said that the Soviet Union could not be allowed to be the only country with intermediate range

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missiles. The UK and French nuclear deterrents could not be included in the Geneva negotiations. Britain and France could not substitute themselves for the Alliance in the protection of Europe. He was intransigent on the missiles issue and would remain so. There would however be the problem of restarting the Geneva INF talks if they broke down. He described his proposal (put forward at the UN) for a meeting with the five nuclear powers as necessary for presentational reasons. There was a problem in refusing to consider the inclusion of UK and French forces in both the strategic and intermediate range negotiations. One had to concentrate on the argument of the massive imbalance between the nuclear forces of the Soviet Union and the United States on the one hand, and those of UK and France on the other. On European questions, President Mitterrand said that the agreement on fruit and vegetables at Athens earlier this week had opened the door a little to progress. But the problems of the British Budget contribution, own resources and MCAs remained. A solution might be possible in due course if each country were prepared to make sacrifices, but he did not think that we were yet at that stage. He could not predict whether the difficulties would be resolved before, at or after Athens, but he drew attention to the timing of the forthcoming European Assembly elections. It would, however, be bad for Europe if there were a serious failure at the Athens European Council. He referred to the existence of Franco-British differences within the wider Community disagreement.

President Mitterrand went on to say that France did not wish to be isolated on the Falklands issue at the United Nations. The United States and Italy would probably vote for the Argentine Resolution. France would not vote for the present Resolution which was disagreeable for the United Kingdom. But France's position would be more difficult if the Resolution were changed. Discussion should be pursued by Ministers. In conclusion, he drew attention to the prospects for industrial collaboration and to the increase in bilateral contacts.

/ Sir Geoffrey Howe



Sir Geoffrey Howe described his talks with M. Cheysson. They had agreed that UK and French officials should meet to discuss two particular Community issues: the scope for co-operation on New/Other policies, and for narrowing differences on the elements of disagreement on the post-Stuttgart negotiation. The Foreign Ministers had approved the Joint Report on bilateral relations. Since the Closer Contacts exercise had been established at the last Summit there had been an explosion of contacts which were very valuable. The Foreign Ministers wished to endorse the report and encourage further co-operation.

On the Middle East, Sir Geoffrey Howe said that they were not optimistic on progress towards reconciliation in Lebanon. They had noted the continuing problem of the Iran/Iraq war and were in agreement on work on a resolution at the United Nations. He and M. Cheysson had agreed on the need to find out more about South African intentions on Namibia. There would be increased French, UK and German contacts with the South Africans. M. Cheysson had described the French view on Chad.

President Mitterrand expressed his anxiety at the situation in Lebanon. How and when could our forces be removed? The Prime Minister said that she, too, was concerned that UK forces should not remain in Lebanon indefinitely. Sir Geoffrey Howe added that the Lebanese were not facing up to their responsibilities. Perhaps an indication of MNF countries' intention of working towards a reduction of their forces would have a positive effect. The Prime Minister repeated that it was necessary to consider when a valid opportunity to withdraw would arise, to which M. Cheysson added that it should not, however, look as though we were giving up our support for the institutional structure of Lebanon.

Mr. Lawson summarised his discussions with M. Delors. On the follow-up to the Williamsburg discussions, they had agreed that the right way to proceed was under the aegis of the G5.



A meeting in <sup>January</sup> Geneva would be useful. As far as the Community was concerned, it would be sensible to handle follow-up in ECOFIN, rather than within the current post-Stuttgart negotiations. On debt, he and M. Delors had agreed that it would be dangerous for governments to set a precedent by providing additional funds to fill gaps. For Brazil and others it was necessary to have a strong Fund programme and to pursue rescheduling by the commercial banks. They had also discussed the respective French and British economic situations. On the Community they had agreed that the UK and France should keep in close contact, and shared the view that there should be equitable financing and that total expenditure should be controlled. M. Delors had agreed on the importance of a package at Athens and on finding a lasting solution to the Budget problem (hence his interest in ecretement des soldes). M. Delors had also emphasised the importance for France of New Policies in helping the less developed regions, reviving industry and in promoting co-operation between European firms. French amendments had improved the Danish Convergence Fund proposal, but it was still inadequate. He and M. Delors had agreed on continuing bilateral contacts on the post-Stuttgart negotiations, perhaps widening to trilateral with the Germans in due course.

M. Delors agreed. There was a great deal still to do in the Community negotiations. The French were looking for savings not simply in the CAP but also in structural funds. He repeated French priorities for New Policies. Asked by the Prime Minister how quickly the Ministers of Finance thought the UK and France would move out of recession, Mr. Lawson said that while they recognised that their economies were moving out of recession, they had not reached a view on how fast. There was, however, sustained progress. M. Delors identified two obstacles to economic growth in Europe. First, since US capital played such an important role, high US interest rates were putting a psychological and financial brake on investment in Europe. Only more investment would keep European industry afloat. Secondly, when the US was in deficit on its trade balance, the



level of the dollar dropped and other countries benefited. At present the US deficit was benefiting Japan in particular.

Mr. Heseltine said that he had had a series of meetings with M. Hernu this year. Much of their effort was devoted to the harmonisation of the operational requirements of the French and British armed forces, and thus of their equipment needs, particularly over the next generation of fighter aircraft. As for widening the discussion to other European countries, Mr. Heseltine said that they had agreed that it was difficult enough to co-ordinate the activities of three (UK, France and FRG). We might suggest to Allies that the WEU could provide a framework for discussion of arms procurement among a wider group of countries. Explaining the UK position on the launcher for Skynet 4, Mr. Heseltine said that M. Hernu had stressed the significance of using a European launcher. HMG understood the likely impact of the decision on Skynet and the importance the French attached to it. The French had made a further offer to try to bridge part of the cost difference. The French offer would be considered most carefully and a decision taken soon. He and M. Hernu had also agreed on limited joint co-operation in training and visits for the armed forces, which would be pursued at Chiefs-of-Staff level. M. Hernu emphasised French hopes that the UK would give careful consideration to Ariane as the launcher for Skynet 4. The Prime Minister drew attention to the problem of possible design changes. We were, however, conscious of the need for Europe to retain a capacity in a number of strategic fields. The issue would be weighed carefully.

Mr. Jopling said that his talks with M. Rocard had been confined to the CAP. Both agreed that CAP costs must be contained. The UK still considered a financial guideline essential, but France opposed this. France accepted that the growth in CAP costs should parallel those of own resources, but had not accepted a slower growth rate for the CAP. On milk, the French argued that this was the last area possible



for concessions and that concerted action was needed on milk, cereals and cereal substitutes and MCAs. The UK believed that price discipline and guaranteed thresholds were the best mechanisms for restraining milk production costs. France might accept a system of quotas through supplementary levies, but not a simultaneous pricing system because of the consequences for employment. Price restraint was also needed in the cereals sector but France believed that any policy should be gradual if it was not to push people from grain producing into sectors such as livestock and milk which were already in difficulty. France wanted action to limit imports of cereal substitutes, while the UK attached less importance to this. There was agreement that MCAs were an impediment to greater efficiency. It remained a high French priority to abolish MCAs, especially positive MCAs. This was not a crucial issue for the UK in the post-Stuttgart negotiations, since abolition would bring no great budgetary gains. Any arrangements would have to take into account the special position of sterling as a floating currency. M. Rocard added that as a means of reducing production in excess sectors, pricing policy could be useful for some products but not all. There was a need to maintain farm incomes in some sectors and France would be studying other methods particularly regarding milk. M. Rocard underlined the French concern at the relationship between milk and cereal substitutes. We must take account of economic realities. Each country would have to make sacrifices in the negotiations in agricultural areas which it held dear. Milk must not be hit twice both by limits on quantity and through MCAs. In general, the present negotiations were not conducive to bringing all the potential elements on to the table. Some countries would have to make sacrifices on products, other "horizontal" sacrifices, for example on own resources, or MCAs.

The Prime Minister commented that British and French objectives seemed to be the same, but discussion on methods was temporarily blocked. Could this be unblocked by December? There would have to be trade-offs.

/ Mr. Channon



Mr. Channon said that in his meeting with M. Mexandeau they had agreed to move forward on three projects which were going well. They would keep in touch on the financial terms for the Guangdong nuclear project. A joint venture was shaping up between Rolls Royce and Creusot Loire for a gas turbine power plant for generating electricity. On the Lucas/Ducellier/Valeo case, Lucas were now arranging to make a formal approach to Valeo. M. Fabius, the French Minister for Industry, had said earlier that he would be willing to look at proposals. The UK and France were close on the steel issue and were worried about the Germans reopening it at the next Steel Council. Officials would meet. A joint working party was proposed, with a first meeting around 15 December, to make a detailed study of the telecommunications sector. M. Mexandeau commented that it was particularly important to establish co-operation during this period of technological transition in the telecommunications field.

With Mme. Cresson, Mr. Channon said that they had agreed on proper compensation on speciality steels. The US offer was frankly ridiculous. The UK and French Governments should bilaterally and through the Community continue their efforts to get the Japanese market opened up. There was a need to continue to talk to the Americans about extra-territoriality. The internal market of the Community should be completed for the sake of economic growth and co-operation between European industries. The UK was looking at the economics of the Airbus A320. It had been agreed that Airbus Industrie should make a high level presentation to British Airways in the near future. It was up to the latter, not HMG, to decide on purchase. The French had also raised problems over tendering for the new transit railway in the London Docklands. This was for the Docklands Corporation to decide but Mr. Channon would be writing to the Chairman. He had assured the French that we had not known about the Dunlop decision before they had.

Mme. Cresson emphasised that improvements to the Community internal market should be linked to a better definition of the



common commercial policy. On Airbus A320, it was essential not to leave a monopoly to Boeing. Attempts to sell the A320 would be helped if all the governments concerned committed themselves to building it. A BA decision to buy, after British Caledonian, would add to the project's credibility.

Reporting on his talks with M. Chandernagor, Mr. Rifkind said they had talked about the implications of enlargement, particularly for the Community institutions. There was a danger of their becoming top-heavy. In the context of the internal market, it had been agreed that it would be desirable to simplify frontier controls. Like Mme. Cresson, M. Chandernagor underlined the link in French eyes between the internal market and the common commercial policy. The Community were always on the defensive on the latter. He noted convergent views with the UK on New Policies for the Community. We should try to work together, particularly on new technologies. There would be an early meeting of officials in an attempt to draw up, for joint presentation at Athens, some concrete ideas in the New Policies field. As for curbing expenditure, it was essential this should cover all areas, including growth in the structural funds. Spanish and Portuguese accession negotiations should go each at its own pace. He asked what would happen to the Budget between agreement at Athens on an increase in own resources and its implementation, say, two years later.

Summing up, the Prime Minister said that it had been a workmanlike Summit. The atmosphere had been positive and friendly. At the press conference, she and President Mitterrand should take the line that on the Community we were coming to a moment of decision. There was a continuing series of meetings among Ministers who were looking at all the issues in an attempt to find appropriate solutions.

The plenary session ended at 1210.

A.S.C.

