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PART 6.

CONFIDENTIAL FILING

PRIME MINISTERS VISITS TO ~~FRANCE~~

22 November 1987, and 10 June 1988
+ Subsequent visits

~~FRANCE~~

PART 1: MAY 1979

PART 6: NOVEMBER 1987

PREM 19/2692

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~13.11.87~~							
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~~20.11.87~~							
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~~13.10.88~~							
~~26.11.88~~							
~~3.1.89~~							
~~8.2.89~~							
28.2.89							
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PART 6 ends:-

British Embassy to CSCE 28.2.89

PART 7 begins:-

Draft record of Plenary session

COVERING CONFIDENTIAL

BRITISH EMBASSY
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C D Powell Esq
Private Secretary to the
Prime Minister
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LONDON SW1A 2AA

Your reference

Our reference

Date 28 February 1989

Dear Charles

ANGLO-FRENCH SUMMIT

1. I enclose a draft record of yesterday's plenary, which you said you would like to see before it was issued. May I leave it to you to make copies as necessary?

Yours ever

Jeremy

J Q Greenstock

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file

TRANSCRIPT A - PM - PC - PARIS - 27 FEBRUARY 1989

FROM JAMES LEE/EG FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE
HELD IN PARIS BY THE PRIME MINISTER, MRS THATCHER,
AND PRESIDENT MITTERRAND OF FRANCE
ON MONDAY, 27 FEBRUARY 1989

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TRANSCRIPT A

PRESIDENT MITTERRAND:

Ladies and Gentlemen, Mrs Thatcher and myself are having this press conference with you following on the few hours we spent together working on what is traditionally called the Summits between our two countries.

I personally had a long conversation with Mrs Thatcher and I would like to thank her for being here, for making a contribution. We are always very happy to welcome her here in Paris. At the same time our Ministers were meeting together, that is the Ministers for Foreign Affairs, the Home Affairs Ministers, the Ministers for Industry and Defence.

In the course of the conversation I had with Mrs Thatcher, we tackled a number of subjects, some of which were also tackled during the plenary meeting.

East-West relations, an assessment of the present situation in the Soviet Union of what one might call Mr Gorbachev's experiment possibly, within the country and outside the country.

TRANSCRIPT A - PM - PC - PARIS - 27 FEBRUARY 1989

RESIDENT MITTERRAND (CONT):

And then there was some discussion of the question of rmament, the disarmament, of which we have taken note in a certain mber of fields. In some cases it is already a fact, in others it s a statement of intent, as in the case for instance of nventional weapons an appointment has been made for the beginning f March and recently the Conference on Chemical Weapons, where gain the old agreement between the Soviet Union and the Americans n intermediate missiles. The beginning of an agreement of the same ountries on strategic weapons (I hope that this interruption is not he suggestion that certain events might take place, possibly I can peak loud enough so that you can all hear me. I must say it is the irst time I have seen this and I certainly hope that Mrs Thatcher ill not believe that this is an example of British-French elations!) as I was saying therefore, we talked obviously of the roblem which is going to come up at the NATO meeting at the end of ay in Brussels on what is called the modernisation of short-range eapons.

And then we went on to a certain number of aspects of the iddle East problem, we talked about the Middle East and the results f the Iran-Iraq war which obviously led us to what is called today he Rushdie Affair, the reactions of the Western countries and all he different consequences which may stem from this.

TRANSCRIPT A - PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND (CONT):

The Middle East, Mr Shamir's recent visit to Paris, the present state of discussions or non-discussions on the question of a possible international conference and we talked about Europe, the European Community. We approached it via the monetary problem and the Single Market.

We talked about the environment, the problems of the audio-visual world, the last two were relatively easy to deal with. The first two, of course, were more difficult and pending the Commission's report, M. Delors' report, and what the President of the Community, Felipe Gonzales will do pending all this. As I was saying, we discussed a certain number of aspects we knew well where the differences lie between us but we felt that at any rate a compromise had to be reached if the construction of Europe was to go forward.

A few other questions were dealt with concerning the European Community. Mrs Thatcher for instance did not forget to talk about the Nissan cars, Japanese cars made in Great Britain, she does not forget anything and that is a very good thing I find.

I have really summed up, I have only run through not the positions of Great Britain and France but simply the topics which we dealt with and I will leave it to you if you have any questions that you would like to ask to allow us to delve further into several topics in which you are particularly interested.

TRANSCRIPT A - PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND (CONT):

But before I give the floor to Mrs Thatcher I would like to say that I for one feel that this kind of meeting is extremely useful, extremely fruitful, not only as regards personal relations, it is always better to continue those relations so as to make sure that you are really working together in a number of concrete fields. But I also think that it is fruitful and important for the relations between our two countries which play a very specific role in Europe for historical, technological reasons, because we have certain weapons, because we are neighbours, and because in the major problems with which mankind has to deal with today we have some similarity in our approach.

Now decisions have been taken which may seem to be perhaps less important if compared to the major subjects with which we deal but I feel that they are not negligible. First of all there will be an exchange of diplomatic staff between our two countries as from the autumn of this country (sic). We will have British diplomats at the Quai d'Orsay, there will be French diplomats in London and they will be welcomed, accepted, as if they were part of the same Administration. And this I feel shows the trust that lies between us.

There will also be an increase in the exchange of youth. We had taken the initiative of this together a few years ago and therefore the budget for these exchanges will be increased, multiplied at least by two.

TRANSCRIPT A - PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND (CONT):

We will also increase the number of visits so as to prepare the important Community and international problems which lie before us.

But now I am sure Mrs Thatcher will wish to give you her point of view before we give you the floor for questions.

Madam, once again, may I say how very happy we are to welcome our British friends here and particularly the Prime Minister, in person.

(END OF TRANSCRIPT A, CONTINUED ON TRANSCRIPT B) NNNN

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

FROM JAMES LEE FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE

HELD IN PARIS BY THE PRIME MINISTER, MRS. THATCHER,

AND PRESIDENT MITTERRAND OF FRANCE

ON MONDAY, 27 FEBRUARY 1989

==========

TRANSCRIPT B - (CONTINUED FROM TRANSCRIPT A)

PRIME MINISTER:

Mr. President of the Republic, first may I say that this has been a very very good Summit indeed, as befits two countries with similar interests and a very mature relationship. Second, may I thank the President very much for the arrangements made for me to visit the Gaugin (phon) Exhibition yesterday which I enjoyed enormously, which is a rare treat, and everything possible was done in that marvellous Exhibition to demonstrate it in full, both to me and the many members of the public who go to see it.

The President has indicated the main subjects of our discussion. We were talking in broad-brush terms leaving the details to our Ministers, but there are very interesting movements happening in the world at the moment. The President has indicated them.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER(CONTD):

In East-West, a period of enormous change in the Soviet Union, but as we all know, periods of very great change, particularly change concentrated into a small period of years, are also periods of great uncertainty and when that happens it is absolutely vital for the West, which is the bastion of freedom and human rights, to keep its defence strong and sure and up-to-date. That is why we can welcome the changes that are going on in the Soviet Union, regardless of what transpires. We hope that they will succeed; if they do not, our defence will be strong and sure.

You know we have a NATO meeting coming up at the end of May. The result of that must be a strong, united Alliance with its weapons up-to-date. I shall be seeing Chancellor Kohl again before that meeting so also will the President of the Republic.

On the Middle East, again, there is a general feeling that it is time for well-prepared negotiations to begin. We feel that those should be within the framework of the five nations representing the Security Council because we feel that each one of us has something to contribute to the result of those negotiations. I think everyone realises the present situation cannot continue and therefore it is a task of finding a way through with people who will negotiate with Israel and Israel negotiating with those people to come through to a satisfactory solution.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER (CONTD):

Of course, we discussed the European Community. We have great decisions coming up. There will be the M. Delors Report which will probably be coming by the Madrid Summit, but I think myself that the greatest attainment between now and 1992 will be the achievement of a Single Market. I do not think people realise just quite what an achievement that will be. It will not only be a matter of the Directives, but a matter of trying to break down some of the cultural barriers which, too, can be a great hindrance to trade and we must give very great attention to that.

Close on the heels of the Single Market, which we had a word about today will, of course, be the Channel Tunnel, hopefully opening in 1993. President Mitterrand and I signed the initial agreements and all is going well and we look forward to taking the first ride through the Tunnel in 1993.

Of course, we discussed Nissan. Nissan should be very similar to another very famous motor company which has great investments in Britain - the Ford Motor Company - investments right across the countries of Europe. We import and export the Ford components and the Ford cars to one another and from Europe to other countries, without regard to borders at all. There are no difficulties on imports and exports and the same should be true with Nissan.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER (CONTD):

We had a very brief discussion about the possibilities of the Economic Summit, but I think we were both particular interested in some of the environmental problems. Both of us have taken a great interest in the Bangladesh problem with the floods and had a quick discussion. We have seen President Ershad - he is coming to Paris very soon - and we both take a very great interest in the world environment and are particularly concerned about the great part played by the maintenance of the big tropical forests and will give considerable attention to that on the world scene.

I would like to thank President Mitterrand once again for a very good, warm, friendly Summit with a very fruitful exchange.

Now, your questions!

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QUESTIONS AND ANSWERS

QUESTION (RADIO FRANCE INTERNATIONAL):

Prime Minister Thatcher, did you talk about concerted EEC action against Iran in the light of Khomeini's death threats against British author Salman Rushdie? Is there more the EEC is planning to do than perhaps to break of diplomatic ties with Iran?

PRIME MINISTER:

I thanked the President of the Republic and his Ministers very warmly for the support they had given over the Salman Rushdie matter. It is a fundamental matter of freedom of speech and we cannot have other people inciting their citizens to murder one of our citizens and on that we had to be very firm.

It showed one of the tremendous advantages of having a European Community, that we gathered together and took joint action in a very decisive way.

As you know, we have withdrawn all of our diplomatic staff from Tehran. We had only five there. Relations had only just got going again. They have all been withdrawn and Iran is withdrawing hers from London, so in substance, we have no diplomatic direct relations at all at the moment. Ours are in the hands of Sweden, as they were previously.

So I think in substance, we have already taken the requisite action and been supported splendidly and quickly by the whole Community.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

QUESTION:

Mr. President, since the situation round the Rushdie affair is perhaps more serious now, do you think that Salman Rushdie still has the possitility of living free without any form of protection?

PRESIDENT MITTERRAND:

If you are asking me to make a forecast about the degree of hatred of which he is likely to be the object for some time yet, I cannot of course do that. As long as he is under threat, of course, he will have the right to protection which he is entitled to as anyone, whatever one thinks of his books or what he said - anybody who wishes to show his right of free speech will be protected. I cannot of course tell you how long he will have to be protected, but the more solidarity there is between the countries who take a firm stand against this, then the shorter I think the time will be that protection will be necessary. That is, I think, the gist of the matter.

PRIME MINISTER:

I agree with that completely.

QUESTION (Israeli Radio):

About Mr. Shamir's visit to Paris which you mentioned, what were your impressions and what did you say to Mrs. Thatcher about this?

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND:

Well, my impressions are nothing very original. I think that nothing very much is moving.

The international conference which I have myself called for at the initiative of the Five Permanent Members of the Security Council of the United Nations, obviously that is something that the Israeli Prime Minister is not very keen on to say the least.

How else can one start a negotiation? Direct negotiation has failed. You are as familiar with that as I am, and I really do not see what prospects there are to make us think that things are going to change for some time yet.

Will direct dialogue eventually take place between Israel and some future unknown interlocutors who will be the future elected politicians on the West Bank? Whoever they are, Mr. Shamir seems to think to rule out the PLO in this process, so I really cannot give any very positive answer to what you have asked. I do not know what Mr.Shamir's intentions are, but I am sure he will be willing to put them forward to you.

All that I can tell you is that the points which have been rehearsed over several years which would eventually lead to a peaceful solution of the conflict between Israel and the Arab countries seem to have got no further and things are very much in a deadlock at the moment as I see it.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND (CONTD):

There is, of course, the idea that there may be some mediation with Egypt and Jordan but it is the Heads of State of those two countries who have expressed their views on this and do not seem to have encouraged that process in what they have said, so if we are talking about a procedure towards dialogue, towards peace, I really have nothing new to add to the situation that you are familiar with.

The Israeli Prime Minister has been received in Paris, as is appropriate, as the representative of a friendly country, has been to see me, and I have told him what I thought of it and we agreed to meet again at some future time, but I think the conversations will go on for a long time yet. It nevertheless remains true that France still believes that one should take into account the new issue which is the meeting of the Palestine National Council in Algiers; the consequences that should be drawn from that are new elements and an international conference, we believe, would be very welcome. That is what I said but that is where we stand.

PRIME MINISTER:

May I just add a few words?

I agree very broadly with the President of the Republic.

I think you need three things to get negotiations started:

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER (CONTD):

First, the influence and the resolve of the United States with Israel.

Secondly, the support of the Permanent Members of the Security Council.

Thirdly, a method of choosing who should negotiate on behalf of the Palestinian people. Some would say directly the PLO; others would say that the people of the West Bank whose future is being negotiated should have the chance to choose who should negotiate for them. The latter might be a way of getting people to vote on the West Bank. If so, those elections would have to be held very clearly under fair auspices to minimise any intimidation that might take place, but you are going to need those three things.

QUESTION:

Mr. President, did the Ministers of the Interior study or even take new measures to control together all the threats due to fundamentalists and other extremists?

PRESIDENT MITTERRAND:

There was a long discussion between the two Ministers of the Interior. This is the first time that they have met each other and discussed these matters. It was simply a continuation of discussions which have already been going on and the aim of these discussions at the moment is to make sure that the resources available to ensure the security of persons are appropriate. I cannot say more than that but the fact that this was discussed.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

QUESTION:

Mr. President, did you discuss the possible reaction of France if tomorrow the Iranian Parliament were to decide to go further and break off completely diplomatic relations with Great Britain, as they threatened to do this week-end?

PRESIDENT MITTERRAND:

We have not looked at the worst assumptions and at least we shall not talk about them. We shall wait until what might happen does happen before telling you what we think about it, but in an affair of this kind where fanaticism and dogmatism do lead to absolutely irrational situations, one has to be prepared for everything and that is indeed the state of mind in which we find ourselves at the moment.

PRIME MINISTER:

As I indicated earlier, we have withdrawn our full diplomatic staff from Tehran. The Iranians are withdrawing theirs from London, so in substance, the relations do not continue directly - they only continue through Sweden - so the substance, as far as we are concerned, has already been dealt with.

QUESTION:

Mr. President, as regards the modernisation of short-range missiles, NATO missiles, do you feel that you would agree more with Chancellor Kohl who feels that we can still wait two or three years or would you agree with Mrs. Thatcher who feels that a decision ? to be taken more quickly?

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRESIDENT MITTERRAND:

I will tell you that when the time has come. For the time being, my position is very simple, extraordinarily simple.

If there is modernisation of this type of weapon by the Soviet Union, there is no reason why there should not be modernisation of this type of weapon by the Western Powers.

The aim that I have always striven for is balance. Of course, it is difficult to achieve that balance. We have progress in practically every area as you know full well. There is no reason to spark off a new imbalance in very short-range nuclear weapons. That being said, the country in which the weapons would be stationed is the Federal Republic of Germany. France, itself, as you know, has its own strategy, autonomous, so before discussing this publicly I shall be meeting Chancellor Kohl in a few weeks time and I will wait until we have had a chance to discuss that together before making any public statements.

We have time to discuss this between now and the end of May and it is a decision which must be taken within the framework of the Alliance but it is also a sovereign decision which has to be taken by Germany because it commits Germany and does not commit France, so I think it is quite reasonable of me to observe discretion vis-a-vis our German friends before giving you a full answer on this point.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

QUESTION:

Mr. President, what do you think of the consequences of what is called the "Rushdie Affair" in France? I am thinking of the demonstration yesterday in Paris.

PRESIDENT MITTERRAND:

A communique was published by the Prime Minister this morning stating that in France freedom of thought and freedom of speech is enshrined in our manner of doing things so nothing is forbidden in that respect. Of course, that must not be confused with incitement to murder.

Between those two principles, the Government will conduct its policy. It is quite natural for people to meet, to demonstrate, to protest. If they incite people to murder, that is something quite different and we have to make sure that our laws are respected.

PHILIP SHORT (BBC):

Prime Minister, as a follow-up to that last question, do you intend to do the same thing in Britain, that is to take legal proceedings against anyone in Britain who may call for Mr. Rushdie's death?

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER:

You know the position with regard to the law in Britain. If there is to be a prosecution - a criminal prosecution - that is not a matter for the politicians, it is a matter for the prosecuting authorities. If it is a question of sufficient evidence for incitement to murder, that is a decision for the prosecuting authorities to take and the responsibility is theirs, but our law clearly must be upheld according to the law within our own borders.

QUESTION (ITN):

Prime Minister, a follow-up on that question. Why have there been no prosecutions then? We have had a number of people appearing on television in Britain demanding the death of Mr. Rushdie but no prosecutions.

PRIME MINISTER:

Whether or not there are prosecutions is not a matter for a politician. As you know, there is separation of the political decisions and the legal and prosecuting decisions. Who shall be prosecuted is a decision taken by the police and the prosecuting authorities upon the evidence, not a decision for a politician.

The moment a politician can say who shall or shall not be prosecuted, that will be a very dark day for the law, because the law must be impartial and act only on the evidence.

TRANSCRIPT B: PM - PC - PARIS - 27 FEBRUARY 1989

QUESTION:

Madam Prime Minister and President, Sir, there has always been a question of nuclear weapons cooperation between the two countries. Did you talk about it today? Did you talk about going further? Did you talk about an extended version of a nuclear weapon launched from an aeroplane? Do you think that it is possible to go further in nuclear cooperation between the two countries?

PRIME MINISTER:

I believe the Ministers of Defence talked about this. We do need to modernise the free-falling bombs by an air-to-surface missile. We have not, either of us, got a suitable one. We shall need to do a good deal of research and development. I think we would like to cooperate on that research and development. I think we would also like to include the United States in that, because obviously it would be very much cheaper if the cost of research and development could be spread over a larger number of weapons than a smaller number.

QUESTION:

President, Sir, will we see the Europe of the merchants go along with the the Europe of the rich which you denounce. As far as the social dimension group is concerned and the market aspect of Europe, are you going in the same direction?

PRESIDENT MITTERRAND:

I have nothing against the Europe of the wealthy. All I would prefer is that everyone should be wealthy. I am simply against a system where the general rule is inequality, because it stems from the economic and social structures, but this is already a discussion of the past. However, I did want to make that point and when I see what you call the Europe of tradesmen go forward, well why not? The merchants in the Middle Ages were the ones who began to move from one country to another and trade increased and that was very good for the civilisation of the West, but at the same time, I hope and I wish all the producers, the workers at all levels should also feel that they too are Europeans in their everyday life - thanks to the guarantees which they have, thanks to their style of living. Everything should go forward at the same time.

Obviously, we have got to begin somewhere, but we must try and harmonise interests.

(END OF TRANSCRIPT B - CONTINUED ON TRANSCRIPT C) ####

TRANSCRIPT C - PM - PC - PARIS - 27 FEBRUARY 1989

FROM JAMES LEE/BG FOR COI RADIO TECHNICAL SERVICES

TRANSCRIPT OF PRESS CONFERENCE

HELD IN PARIS BY THE PRIME MINISTER, MRS THATCHER,

AND PRESIDENT MITTERRAND OF FRANCE

ON MONDAY, 27 FEBRUARY 1989

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TRANSCRIPT C (CONTINUED FROM TRANSCRIPT B)

QUESTION:

I would like to put a question to you concerning Salman Rushdie. Our law on the freedom of the press of 1890 states that there should be a fine or even 1 - 5 years imprisonment for people who incite to murder in public. Now that law may have to be revised but as people yesterday in France publicly incited to murder, is there not regret that these people have not been arrested?

PRESIDENT MITTERRAND:

I will refer you to the communique from Martinon (phon) which says that any new appeal to violence or murder will immediately lead to judicial proceedings. That is what I had wanted to show you but I did not have it in front of me when I answered you the first time. Is that all right?

TRANSCRIPT C - PM - PC - PARIS - 27 FEBRUARY 1989

QUESTION:

Mr President, I would like to take up your answer concerning short-range nuclear weapons. You said if the Soviet Union modernises its short-range nuclear weapons you see no reason why there should not be modernisation by the Western powers. Do you believe that there is a modernisation of short-range nuclear weapons on the part of the Soviet Union which requires a modernisation on the part of the Western powers and do you think this requires a forthcoming decision?

PRESIDENT MITTERRAND:

Discussion is going on. If there were an imbalance, there is already an imbalance as regards quantity by the way in Europe, but if that imbalance were to be increased by difference in quality well then certainly everyone would understand that to safeguard peace we should restore the balance.

QUESTION (Adam Bolton, Sky News):

Can I ask whether you discussed food safety at all, particularly in view of some of the measures in Britain taken against French soft cheeses and whether indeed that played a part on the menu of what you had for lunch?

TRANSCRIPT C - PM - PC - PARIS - 27 FEBRUARY 1989

PRIME MINISTER:

No we did not discuss food safety but I had some very good camembert cheese for lunch.

PRESIDENT MITTERRAND:

Very good Mrs Thatcher. Anyway, I am sure that no-one would stand on health grounds here because obviously you have got to be very careful about this sort of thing but at the same time you cannot use that as a trade argument and I am sure our British friends understand this quite as well as we do and I am sure that they could answer back if they wanted to in other fields. It is a question of honesty in trade.

QUESTION:

I would like to know if you have discussed issues concerning the European Monetary System and I would like to ask Prime Minister Thatcher whether she believes the entry of the UK into the EMS as premature still?

PRIME MINISTER:

We did not discuss that particular system. We are waiting for the report of the Delors Commission. You refer to the European Monetary System. We have been members of the European Monetary System for a very long time. Is that clear?

PRIME MINISTER (CONT):

We have been members of the European Monetary System for a very long time and part of our reserves are allocated to that System. I do not think you got your question right but I will not correct it for you. I have given you the right answer.

PRESIDENT MITTERRAND:

I am sure that the gentleman was thinking of something else but, no, no no, we are not going to continue the discussion, but it is absolutely certain that we did discuss the European Monetary System, of course we talked about it, it is an essential topic and at present it is difficult to say much because we do not yet know about the main aspects of the decision, M. Delors' report, the decisions which will be taken by Felipe Gonzales, the President of the Council, all this needs to be known. I think it would be much more useful to put the question again soon, at any rate before the Madrid Summit.

The fact that there are different approaches, need we really repeat that? The fact that progress can be made, as I hope will I am sure be proven later on but we would really be speaking uselessly if we were to go any further today.

(END OF TRANSCRIPT C, AND OF WHOLE TRANSCRIPT) ####

SECRET

SUBJECT cc MASTER

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FCO EAMAUP

cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 February 1989

Dear Stephen,

ANGLO/FRENCH SUMMIT: PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

The Prime Minister had an hour and a half discussion with President Mitterrand at the beginning of the Anglo/French Summit in Paris this morning. The President was accompanied, fleetingly, by Monsieur Attali and throughout by Madame Guigou.

The United States

The conversation began with some exchanges about the United States. The Prime Minister observed that the vote by the Senate Armed Services Committee against Senator Tower had been a blow to President Bush. The Committee had divided on party political lines, which suggested there was not much bipartisanship around. She thought that Senator Tower's rejection would be a setback for NATO: he had very considerable experience in defence matters and was pro-Europe. She thought it would be more and more difficult to get good people to accept political office in the United States if the price was such extensive preying into their private lives.

President Mitterrand said that, even if Senator Tower's nomination got through the full Senate, his authority would be diminished. He shared the Prime Minister's dislike of the puritanical approach which was now fashionable. The President added that he had lunched with President Bush in Tokyo and found him generally relaxed and friendly.

Salman Rushdie

The Prime Minister said that she held no brief for Mr Rushdie. He must have known that his book would give offence to Moslems. But there had been no option but to react as we had to murder threats by a foreign state. We had been grateful for support from Europe. President Mitterrand said it was a case of standing up for the principle, not the person. Ayatollah Khomeini's action had been stupid. It probably stemmed from political in-fighting in Iran and a desire to gain prestige in the Islamic world. The President

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noted that the Soviet Union was not showing solidarity and that Japan had refused to take steps. He himself entirely approved of the Western reaction. Khomeini's threats were insupportable. The Prime Minister observed that Khomeini seemed to be in distressingly good health. President Mitterrand commented that this was our bad luck.

The Prime Minister said that the meeting between Shevardnadze and Khomeini was an interesting development. The Iranians presumably saw it as a way of getting back at the West. She thought that the Soviet Union had cause to be cautious in its dealings with Iran, if fundamentalism was not to spill over into the Islamic Republics in the Soviet Union itself.

East West Relations and Defence

President Mitterrand invited the Prime Minister to give her analysis of developments in the Soviet Union. The Prime Minister said that there was growing evidence of underlying resistance to reform and a consequent lack of progress in modernising the Soviet economy. The basic problem was the inadequacy of the human material. People simply feared taking responsibility. We had also to remember that Gorbachev was trying to comnpress into a decade or so changes which had taken centuries in Western Europe. There was a limit to the amount of practical help which the West could give, apart from obvious steps such as management training and joint ventures. She did not think that Gorbachev himself knew what to do next. It would be interesting to hear what he had to say during his forthcoming visits to European capitals. But there was no doubt in her mind that the West must go on expressing its moral support for what Mr Gorbachev was trying to do.

The Prime Minister continued that she and President Mitterrand agreed on the proper response to the uncertainty in the Soviet Union. That was to maintain a strong defence based on up-to-date weapons. The problem was Germany. There had been an obvious collapse of political morale there following the Berlin elections, creating a dangerous situation. Chancellor Khol agreed on the need to be cautious about the Soviet Union but was not ready to draw the right conclusions, in particular on modernisation of SNF. NATO needed a decision in principle this year to deploy a successor to LANCE if Congress was to authorise the necessary funds for its development. She had discussed the problem with Chancellor Kohl the previous week. The most he had been prepared to do publicly was to reaffirm the communiqué of last year's NATO Summit and agree to a further meeting with her. If NATO failed to take an appropriate decision on modernisation, this would be a clear signal of weakness going far wider than the SNF issue itself. It would signify a lack of will to face up to difficult decisions. The Prime Minister added that she was also somewhat concerned about the United States' position on the issue. They had started off strongly but now seemed to be wobbling a bit. The key points were for NATO to keep together, stay strong and be ready to take difficult decisions.

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President Mitterrand said that Mr Gorbachev faced three threats. First, there was no prospect of bringing about an increase in purchasing power in the Soviet Union, because of the chaotic nature of the economic reforms and the lack of response to them. If greater freedom failed to produce material advantages, people in the Soviet Union would lose interest in Gorbachev. Secondly, there was the problem of the nationalities. If the army and the Party began to criticise Gorbachev for dislocating the Soviet Empire, he would be in serious trouble. Thirdly, there were developments in Eastern Europe which must contain dangers for him. It would be wrong for the West to exploit the nationalities issue against Gorbachev. Indeed, he agreed with the Prime Minister that the right course was to continue to support his reforms. He believed that Gorbachev had no choice but to continue to move forward. He seemed intent on building his own instrument, not the army or the Party, but the State, which would act as a third force.

President Mitterrand continued that he entirely agreed with the Prime Minister that the West could not base its policy on hypothesis or speculation. We had to be ready for anything, and this meant keeping our defence strong. Against this background, his reasoning on SNF modernisation was simple, some would say over-simple. If the Russians were modernising their SNF, NATO must do so too. If they were not, NATO need not. The military opinion in France was that the Soviet Union was modernising its capabilities in this area, but he would like to see a more detailed assessment before making up his mind. The West should not be the first to start a new SNF arms race. But any Soviet effort should be off-set by a corresponding Western effort. He agreed with the Prime Minister that the problem lay in Germany. There was a strangely sentimental approach to Gorbachev there which had eroded public support for defence. The SPD seemed ready to open the doors wide to the Soviet Union. The coalition was not strong and within it the conservatives were also divided. He found it hard to see the German Government coming out in favour of modernisation this year, although he might be wrong. His own contacts suggested that the Government was increasingly pessimistic about next year's Federal elections and not in the right frame of mind to take a decision in May. That said, the Prime Minister was quite right to focus on Chancellor Kohl. Could she bring him round? The Prime Minister said that she was trying to bring home to Chancellor Kohl that the decision would not be any easier for being postponed. We also had to convince the Germans that we risked ending up with no land-based US missiles in Europe. That would be a clear victory for the Soviet Union. The longer the delay, the greater the risk of this. The only safe course was to take the decision on modernisation now. She would talk to Chancellor Kohl again in late April or early May. She felt very strongly that this was no time for weakness in NATO.

President Mitterrand said he would think further about the problem and would be seeing Chancellor Kohl himself in early April. The question was whether we were prepared to have a political crisis with Germany. The Prime Minister

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suggested that the alternative was a defence crisis within NATO. President Mitterrand continued that President Bush had urged him to return to Bonn and make another speech like the one he had made to the Bundestag in 1983. The difference between the situation then and now was that the new-look Soviet policies were impressing Germany far more than he had ever imagined. The Prime Minister said that she felt that the German Government were simply failing to put the case for modernisation. It was the same thing on low flying. She and President Mitterrand should both have another go at Chancellor Kohl.

Middle East

The Prime Minister said that she had recently met Mr Arens, the new Israeli Foreign Minister. She had found his views hard-line in substance although not aggressive. The Israeli Government did not yet appear to have worked out a coherent position. Perhaps it would not do so at all. In due course the United States would have to put pressure on Israel to negotiate. But we should not rush them.

President Mitterrand said that he had been left pessimistic by his own meeting with Mr Shamir. The problem was that Shamir wanted nothing. He believed that time was on his side and that if Israel were simply to hang on long enough, the lack of unity in the Arab world would prevent any serious threat from developing. His views were part historical, part mystic. He appeared to lay claim to parts of Jordan: perhaps in this he was only the mirror image of President Assad who claimed that Jesus Christ was a Syrian! There were one or two glimmers of light: Shamir seemed ready for contacts with the Palestinians and was talking of elections on the West Bank. But this was off-set by his absolute refusal to consider an international conference or any contact with the PLO. Frankly, he had got nothing at all out of his talks with Shamir.

The Prime Minister commented that, unless Israel was prepared to concede territory for peace, Jordan would not be persuaded to return to negotiations. Shamir tended to argue for a bilateral US/Soviet framework for negotiations. This was undesirable and would lead to polarisation. Britain and France also had contributions to make. President Mitterrand said that an attempt to establish a bilateral framework would be diplomatic madness.

European Community

The Prime Minister said that she was not reassured by what she heard of the work of the Delors Committee on Economic and Monetary Union. It was vital that the Committee's report should spell out the full extent to which EMU would involve the transfer of national governments' decision-making powers over economic and monetary policy. When the matter came back to the Council, heads of government must not be able to say that they had not realised the consequences. She imagined that there would be no more than a first debate at the

European Council in June. She wondered how President Mitterrand saw the way ahead on this and what his priorities were for the French Presidency in the second half of the year.

President Mitterrand said that the European agenda would be dominated by four issues: economic and monetary union, environmental problems, the social dimension and France's audio-visual initiative. On economic and monetary union, he shared the Prime Minister's wish that the Delors Committee's report should be clear. The Prime Minister asked whether France was really prepared to see the Bundesbank take charge of its economic and monetary policies. President Mitterrand said that it was certainly the case that Germany would prefer a deutschmark zone to an ecu zone. The Prime Minister observed that Governments in the Community did not seem to have thought through the full implications of a single European currency, with the inevitable demands from the Southern member states for vast additional transfers through the regional and social funds to sustain their participation in it.

President Mitterrand continued that he was not a maximalist about the European Community. His aim for the French Presidency was simply to move forward on all four of the issues which he had identified. There had been very little progress under the Greek Presidency and not much more could be expected from the Spanish. The Prime Minister said that she hoped that President Mitterrand would include the single market among his priorities. She was increasingly coming to the view that directives and regulations were only one aspect of achieving a genuine single market. Whatever the rules said, cultural differences would remain as an obstacle to a real single market. For instance, it was very difficult for British or French companies to take over companies in Germany. One could find many other examples where the German economy was not truly open. We needed to give more attention to overcoming these cultural differences, which were the biggest single obstacle to a genuine single market. President Mitterrand said he would reflect further on this. The Prime Minister added that she hoped that the French Presidency would also encourage action to deal with fraud in the Community.

Nissan

The Prime Minister quoted the case of Nissan to show the extent to which we were still far short of a genuine single market in Europe. The fact was that France's actions had been non-communautaire. She would take up the matter with Monsieur Rocard. This she did with some passion during lunch, but without any sign of movement in the French postion.

Environment

Environmental matters were not discussed between the Prime Minister and President Mitterrand. But the Prime Minister raised the meeting in The Hague on 11 March with Monsieur Rocard over lunch, explaining once again our

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objections to the proposals which the French Government had circulated. Monsieur Rocard continued to argue the need for a new supra-national authority, as well as for sanctions and compensation.

I am copying this letter to Alex Allan (Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office). I am also sending a copy on a personal basis to Sir Ewen Fergusson in Paris.

yours sincerely,

Charles Powell

CHARLES POWELL

J. S. Wall, Esq.,
Foreign and Commonwealth Office

European Community

- prospects for French Presidency
- social dimension
- EC withholding tax
- VAT approximation
- Delors Committee: monetary co-operation
- GATT round
- fraud

East/West and Defence

- SNF modernisation
- Turkey and conventional force reductions
- Gorbachev visits to London and Paris: chemical weapons
- policy towards Eastern Europe
- bilateral defence co-operation: Exercise Lionheart 1992

MEETING WITH PRESIDENT MITTERRAND

General Themes

- assessment of Gorbachev's prospects
- conclusions for Western strategy
- expectations from new US Administration
- view of trends in Germany
- vision of future development of the EC and French Presidency
- dangers of confrontation between the West and Islam

Regional Problems

- Middle East (Iran, Arab/Israel, Shamir visit)
- Cambodia (discussions among the Five)
- South Africa

Economic Summit

- debt
- sound economic and monetary policies
- structural surpluses
- environment
- Hague meeting
- Mitterrand proposal on transparency of financial transactions

Bilateral

- Nissan
- Channel Tunnel
- drugs
- soft cheese

Points for Press Conference

1. Thanks to Mitterand. Excellent and interesting discussion. Very broad agreement on East/West, defence, Middle East. Some differences on Europe (quite sharp) & Afghanistan.

2. Account of week-end activities.

3. On East/West
   - period of uncertainty in Soviet Union
   - need to keep defences strong & up to date.
   - need to take appropriate decisions as they become necessary. Reluctance to do it will be a sign of weakness.
   Will both be telling Chancellor Kohl in near future weeks.

4. On Middle East
   - gratitude for French and EC support on Rushdie. Concern over developments in Iran.
   - similar views on Arab/Israel. Recent situation cannot continue. Need for negotiations including

Palaiokrinins. Framework of 5 Remarks

Meetings of foreign Council.

5 On European Community

- discussed monetary cooperation &
the importance of the Delors Committee spell out
implications of what EMU would mean in terms
of transfer of power.

- on internal market, emphasis
importance of eliminating not just technical
barriers but also broader, cultural obstacles.

- importance of getting rid of fraud.

- ~~raised~~ raised Nissan, using analogy ~~analogy~~
of Ford.

6. Discussed Economic Summit over lunch.
Should reaffirm sound economic policies with priority given
to dealing with inflation. Also need to discuss global
environmental issues

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ANGLO-FRENCH SUMMIT: PARIS 27 FEBRUARY.

SUMMARY

1. A POSITIVE AND CONSTRUCTIVE ATMOSPHERE, THOUGH FEW CURRENT DIFFERENCES WERE RESOLVED. GENERALLY CLOSE AGREEMENT IN ANALYSIS OF INTERNATIONAL ISSUES. MITTERRAND'S LANGUAGE OBSCURES HIS REAL INTENTIONS ON SNF. ON EC ISSUES, AGREEMENT TO DISAGREE ON ASPECTS OF MONETARY COOPERATION, TAXATION OF SAVINGS AND SOCIAL DIMENSION: CLOSER ALIGNMENT ON EC/US AND AUDIO-VISUAL. BILATERAL AGREEMENTS CONCLUDED ON YOUTH EXCHANGES AND EXCHANGE OF DIPLOMATS. PROGRESS NOTED IN TALKS BETWEEN DEFENCE AND INTERIOR MINISTERS. THE FRENCH CONTINUE TO PLAY THE NISSAN ISSUE LONG.

DETAIL

2. THE PRIME MINISTER, ACCOMPANIED BY YOURSELF, THE HOME SECRETARY, THE SECRETARY OF STATE FOR DEFENCE AND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY, VISITED PARIS ON 27 FEBRUARY FOR THE ANNUAL ANGLO-FRENCH SUMMIT. THE ATMOSPHERE WAS FRIENDLY AND CONSTRUCTIVE, THOUGH FEW SOLUTIONS WERE FOUND TO CURRENT DIFFERENCES BETWEEN THE TWO SIDES.

EAST/WEST AND SNF

3. AT THE PLENARY SESSION, THE PRIME MINISTER SAID THAT SHE AND MITTERRAND HAD BEEN IN BROAD AGREEMENT IN THEIR ANALYSIS OF DEVELOPMENTS IN THE SOVIET UNION. THE OUTCOME OF GORBACHEV'S REFORMS REMAINED UNCERTAIN AND IN THESE CIRCUMSTANCES IT WAS VITAL TO MAINTAIN STRONG DEFENCES IN THE WEST. GIVEN THE TIME NEEDED TO DEVELOP NEW WEAPONS, DECISIONS HAD TO BE TAKEN ON KEEPING WEAPONS MODERNISED AND UP TO DATE. THE SOVIET UNION ITSELF WAS DOING SO. SHE BELIEVED STRONGLY THAT LANCE, ONCE UPDATED, MUST BE DEPLOYED IN NATO COUNTRIES. DELAYING THE DECISION COULD MAKE IT MORE DIFFICULT.

4. MITTERRAND AGREED THAT THE WEST COULD ONLY WAIT FOR THE RESULTS OF GORBACHEV'S REFORMS. A FAILURE TO PRODUCE REAL ECONOMIC IMPROVEMENTS, OR TO CONTAIN NATIONALIST PRESSURES WITHIN THE USSR,

COULD PROVOKE CHALLENGES TO HIM. MEANWHILE EAST/WEST RELATIONS WERE IMPROVING DRAMATICALLY. FRANCE AND THE UK NEEDED TO WATCH CAREFULLY ALL DEVELOPMENTS IN ARMS CONTROL, INCLUDING THOSE AFFECTING SHORT RANGE WEAPONS. FRENCH POLICY ON THESE WAS STRAIGHTFORWARD: IF THE SOVIET UNION WAS MODERNISING, THEN NATO SHOULD DO THE SAME. IF THEY WERE NOT, THEN IT WOULD CREATE ADDITIONAL TENSION IF NATO WENT AHEAD. WESTERN EXPERTS APPEARED TO HAVE CONCLUDED THAT THE SOIVET UNION WAS MODERNISING (COMMENT: IN THE SUBSEQUENT PRESS CONFERENCE MITTERRAND SEEMED TO INDICATE GREATER DOUBT ON THIS POINT). THE NATO SUMMIT WOULD HAVE TO TAKE DECISIONS IN THE LIGHT OF CIRCUMSTANCES AT THE TIME, BUT THE FRENCH GOVERNMENT WOULD NOT WISH TO TOLERATE AN IMBALANCE NOR TO SEE A UNILATERAL PROCESS OF DISARMAMENT. THE FRG'S POSITION WAS CRUCIAL, BECAUSE SHORT RANGE NUCLEAR WEAPONS WERE STATIONED THERE. THE GENERAL POLICY OF THE FEDERAL GOVERNMENT AT PRESENT, AND CERTAINLY GENERAL PUBLIC OPINION IN THE FRG, FAVOURED A DELAY, THIS WOULD MAKE DISCUSSIONS VERY DIFFICULT. BUT FRANCE'S BASIC AIM WAS TO ACHIEVE A BALANCE AND TO SEE NATO (FRANCE'S OWN POSITION WAS SEPARATE) MODERNISE IF THE SOVIET UNION WAS DOING SO.

MIDDLE EAST

5. THE PRIME MINISTER AND MITTERRAND TOLD THE PLENARY SESSION THAT THEY WERE IN AGREEMENT ON THE NEED FOR THE FIVE TO BE INVOLVED IN THE PREPARATION OF AN INTERNATIONAL CONFERENCE: SPONSORSHIP BY THE US AND THE USSR ALONE WAS NOT THE WAY FORWARD. MEANWHILE THE ISRAELI GOVERNMENT APPEARED FIRMLY OPPOSED TO AN INTERNATIONAL CONFERENCE AND TO DEALINGS WITH THE PLO, AND WAS FAILING TO TAKE ACCOUNT OF DEVELOPMENTS ON THE ARAB SIDE. THE PRIME MINISTER THANKED MITTERRAND FOR FRENCH SUPPORT OVER SATANIC VERSES. IT WAS ESSENTIAL TO UPHOLD THE PRINCIPLE OF FREE SPEECH. IT SHOWED THE STRENGTH OF THE COMMUNITY THAT THE TWELVE HAD AGREED TO TAKE JOINT ACTION.

EC ISSUES

6. THE PRIME MINISTER TOLD THE PLENARY THAT SHE DID NOT UNDERSTAND WHY THERE SHOULD BE A PROBLEM FOR NISSAN(UK) IF THERE WAS NO PROBLEM FOR FORD(UK)'S EXPORTS TO THE COMMUNITY. THE FRENCH ATTITUDE ON NISSAN DID NOT REFLECT THE SPIRIT OF THE COMMUNITY AND OUR DIFFERENCES MUST BE RESOLVED. MITTERRAND SAID THAT THE FRENCH PRIME MINISTER WAS HANDLING THIS QUESTION. HE HIMSELF WAS CONCERNED THAT THE FRENCH AUTOMOBILE INDUSTRY, ALREADY AT A DISADVANTAGE AS REGARDS GERMAN PRODUCTS, SHOULD NOT HAVE TO COPE WITH A WAVE OF JAPANESE PRODUCTS IN ADDITION. HE WAS SURE NONETHELESS THAT THE UK AND FRANCE WOULD COME TO AN AGREEMENT.

7. ON MONETARY UNION, THE PRIME MINISTER CALLED FOR A CLEAR AND

PRECISE REPORT FROM THE DELORS COMMITTEE ON WHAT WOULD BE INVOLVED IN MONETARY COOPERATION. POLITICAL DECISIONS COULD ONLY BE TAKEN IN THE FULL LIGHT OF THE PROBABLE CONSEQUENCES. THE LOSS OF DECISION MAKING POWERS BY INDIVIDUAL STATES AND BY THE COMMISSION IN PARTICULAR MUST BE CAREFULLY DEFINED. MITTERRAND SAID THAT HE NOTED THAT THE UK DID NOT WANT QUICK PROGRESS TOWARDS MONETARY UNION. THE PRIME MINISTER'S DESIRE FOR CRYSTAL CLARITY WAS APPOSITE. THE FRENCH WISHED TO MAKE REASONABLE PROGRESS, BUT THOUGHT THAT THIS COULD BE ACHIEVED WITHOUT HARMING UK INTERESTS. IT WAS CLEAR THAT A DELICATE BALANCING ACT WOULD BE NEEDED.

8. THE TWO SIDES AGREED THAT DIFFERENCES REMAINED ALSO ON TAXATION AND SOCIAL ISSUES. MITTERRAND SAID THAT IT WOULD BE DIFFICULT TO STOMACH NO PROGRESS AT ALL BEFORE THE END OF THE YEAR ON THE SOCIAL DIMENSION. THE PRIME MINISTER UNDERLINED THE NEED TO TAKE ACCOUNT, IN PROGRESS TOWARDS THE COMPLETION OF THE SINGLE MARKET, OF VARIATIONS BETWEEN MEMBER STATES ON MERGERS POLICY AND OF DIFFERENCES OF POLITICAL AND ECONOMIC QUOTE CULTURE UNQUOTE WHICH AFFECTED COMPETITION. SHE ALSO DREW ATTENTION TO THE NEED TO ELIMINATE FRAUD, THE QUICKEST WAY BEING TO ABOLISH MCAS IN AGRICULTURE.

FOREIGN AFFAIRS

9. YOU AND DUMAS REPORTED YOUR GENERAL AGREEMENT ON EC/US AGRICULTURAL SUBSIDIES AND ON AUDIO-VISUAL POLICY (SEE MY SEPARATE TELEGRAMS RECORDING YOUR DISCUSSION IN DETAIL). DUMAS REPORTED TO PLENARY THAT YOU HAD REACHED AGREEMENT ALSO ON THREE BILATERAL POINTS:

I) THE FCO AND QUAI D'ORSAY WOULD BEGIN AN EXCHANGE OF DIPLOMATS IN THE AUTUMN:

II) DUMAS HAD ACCEPTED YOUR INVITATION TO HOLD FURTHER TALKS AT CHEVENING ON 15-16 MAY: AND

III) THE TWO GOVERNMENTS HAD AGREED TO DOUBLE THE NUMBER OF BILATERAL YOUTH EXCHANGES.

DEFENCE ISSUES

10. MR CHEVENEMENT TOLD THE PLENARY THAT HE AND MR YOUNGER HAD QUICKLY AGREED ON THE NEED TO KEEP NUCLEAR WEAPONS OUT OF THE CFE IN VIENNA, AGAINST THE BACKGROUND OF THE APPARENT SOVIET ATTEMPT, IN A RECENTLY PUBLISHED REPORT, TO INCLUDE TACTICAL NUCLEAR WEAPONS IN THE TALKS. THE TWO MINISTERS HAD AGREED THAT THE IDEAS DEVELOPED IN THE HLTF FOR RESOLVING OUTSTANDING MANDATE QUESTIONS APPEARED TO BE ON THE RIGHT LINES. ON BILATERAL MILITARY CONTACTS, THEY HAD

APPROVED THE IDEA OF A JOINT EXERCISE AT A LATER STAGE IN WESTERN GERMANY, AND HAD ALSO DISCUSSED SECURITY MEASURES FOR THE CHANNEL TUNNEL, POLITICAL CONDITIONS FOR FRANCE AND PARTICIPATION IN THE ACCS AND BILATERAL COOPERATION IN ARMAMENTS PROCUREMENT - INCLUDING CROSS-PURCHASING AND THE JOINT MANUFACTURE OF COMPONENTS FOR BOTH RAFALE AND SONARS. THEY HAD CONSIDERED THEIR RESPECTIVE REQUIREMENTS FOR AIR-TO-GROUND MISSILES AND THE BRITISH DECISION NOT TO ADOPT THE FRENCH ASMP. CHEVENEMENT SAID HE HOPED THAT DISCUSSION COULD NEVERTHELESS CONTINUE ON THE UK'S LONGER-TERM NEEDS, SINCE THE FRENCH MISSILE COULD BE IMPROVED.

11. MR YOUNGER AGREED WITH THIS PRESENTATION. NOTABLE PROGRESS HAD BEEN MADE IN EQUIPMENT COOPERATION OVER THE PAST YEAR, WITH JOINT SEMINARS ON LAND, SEA AND AIR SYSTEMS WELL ATTENDED BY FRENCH AND BRITISH INDUSTRY. BULLETINS OF FORTHCOMING CONTRACTS WERE NOT BEING CIRCULATED TO INDUSTRY IN EITHER COUNTRY. IT WAS RIGHT TO CONCENTRATE ON EACH OTHER'S PRACTICAL NEEDS. AS FOR TALKS ON NUCLEAR QUESTIONS, THEY HAD MADE GOOD PROGRESS IN THE PAST YEAR AND BOTH SIDES WERE NOW LOOKING FOR WAYS OF EXTENDING THEIR RANGE.

INTERNAL AFFAIRS

12. M JOXE SAID THAT HE AND MR HURD HAD DISCUSSED BILATERAL AND EUROPEAN POLICE COOPERATION. THEY HAD AGREED ON AN EXCHANGE OF POLICE OFFICERS AND ON PROPOSALS FOR POLICE TRAINING. THESE WOULD BE EXPERIMENTAL IN THE FIRST INSTANCE. BOTH SIDES WERE AGREED ON THE NEED TO PROTECT THE PUBLISHERS OF SATANIC VERSES. THERE HAD BEEN A FULL EXCHANGE ON BORDER CONTROLS AND IMMIGRATION, WHERE EACH SIDE HAD DIFFERENT REQUIREMENTS DERIVING FROM HISTORY AND GEOGRAPHY, AND TECHNICAL CHANGES HAD TO BE TAKEN INTO ACCOUNT. THE ONLY REAL PROBLEM WHICH THEY HAD IDENTIFIED WAS WITH COMMUNITY BORDERS, WHERE THE POLICIES OF MEMBER STATES WERE NOT YET HARMONISED, EG ON VISAS. ON POLICE AND CUSTOMS CONTROLS ON CHANNEL TUNNEL TRAINS, M JOXE SAID THAT THE TWO SIDES WOULD REMAIN IN CONTACT AND AIM FOR AN ACCEPTABLE COMMON SOLUTION.

13. MR HURD AGREED, UNDERLINING THE GROWING PRESSURE ON THE COMMUNITY OF PROBLEMS FROM OUTSIDE, PARTICULARLY IMMIGRATION FROM THE THIRD WORLD AND EASTERN EUROPE. THE UK SAW THE NEED FOR CONTINUING CHECKS AT THE FRONTIERS ON NON-EC NATIONALS, WHEREAS THE FRENCH PLACED EMPHASIS ON A VISA REGIME. FURTHER WORK WOULD BE NEEDED UNDER THE SPANISH AND FRENCH PRESIDENCIES.

TRADE ISSUES

14. M FAUROUX SAID THAT HE AND LORD YOUNG HAD DISCUSSED HIGH

DEFINITION TV, AIRBUS, MERGER CONTROLS, PUBLIC PROCUREMENT AND NISSAN. THEY HAD AGREED THAT THERE SHOULD BE A COMMUNITY DISCUSSION OF JAPANESE INVESTMENT: THE FRENCH GOVERNMENT WAS KEEN TO AVOID COMPETITION IN THIS AREA BETWEEN EC MEMBERS. LORD YOUNG SAID THAT NISSAN (UK) WAS WELL ABOVE THE 60 PER CENT REQUIREMENTS FOR EFTA COUNTRIES FOR PERCENTAGE OF LOCAL MANUFACTURE AND ASKED FOR CLARIFICATION OF M ROCARD'S RECENT LETTER TO THE PRIME MINISTER: IT WAS NOT CLEAR TO THE BRITISH SIDE WHETHER, IN THE FRENCH VIEW, NISSAN (UK) PRODUCTS WERE INCLUDED IN THE QUOTA FOR NISSAN CARS IMPORTED INTO FRANCE OR NOT.

GENERAL

15. THE ATMOSPHERE THROUGHOUT WAS CORDIAL AND THE RATHER TEPID QUESTIONING AT THE PRESS CONFERENCE REFLECTED THE DIFFICULTY OF FINDING POINTS OF SERIOUS DISAGREEMENT.

I BELIEVE THAT THE PRIME MINISTER FOUND PRESIDENT MITTERRAND IN GOOD FORM ON THE MAIN INTERNATIONAL ISSUES WHICH THEY DISCUSSED AND THAT THE PARTICIPANTS ON BOTH SIDES FELT THAT THE DISCUSSIONS AT THIS SHORT MEETING HAD BEEN WELL WORTHWHILE. THE FRENCH PRIME MINISTER, WHO WAS PRESENT FOR THE LUNCH, WAS CLEARLY HAPPY TO HAVE HAD A FURTHER CONTACT WITH MRS THATCHER AND ACCEPTED THE CONTINUING DISAGREEMENT ON HIS ENVIRONMENTAL INITIATIVE WITHOUT RANCOUR.

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J S Wall Esq
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27 February 1989

C8927/2

Dear Stephen,

ANGLO-FRENCH SUMMIT: 27 FEBRUARY

WILL REQUEST IF REQUIRED

Thank you for sending me a copy of your letter of ~~13~~ February to Alex Allen.

It is the Secretary of State's view that this is not an opportune time for him or Lord Caithness to be formally proposing bilateral discussions with the French Environment Minister, Lalonde. We would expect in the normal way to ask him over for discussions in late May or June on prospects for the French EC Presidency and, if necessary, the G7 Summit. But for the moment the Secretary of State would prefer to see the dust settle over the Rocard initiative before taking this forward in any structured way. Lord Caithness will however be seeing Lalonde on several occasions: at Environment Councils on 2 March, 8 May and 8 June and he will also have the opportunity of informal discussions when Lalonde attends our CFC Conference on 5-7 March.

I am copying this letter to Alex Allen (Treasury), Tom Jeffrey and Peter Wardle (DES), Clive Norris (Department of Employment), Eleanor Goodison (OAL); and for information to Brian Hawtin (MOD), Philip Mawer (Home Office), Neil Thornton (DTI), Shirely Stagg (MAFF) and Charles Powell (No 10).

Yours,

Deborah

DEBORAH LAMB
Private Secretary

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Foreign and Commonwealth Office

London SW1A 2AH

24 February 1989

Dear Charles,

Anglo/French Summit: Briefs

The Foreign and Commonwealth Office Brief for the Summit requires minor updating to take account of the fact that the French, like us, have now activated the human rights Vienna CSCE mechanism. It would no longer be right to take them to task for not pressing human rights cases.

I attach a copy of the amended pages of the brief. As this is a narrow point, we do not propose to circulate an amendment to all recipients of the brief.

I am copying this letter to Philip Mawer (Home Office), Brian Hawtin (MOD) and Trevor Woolley (Cabinet Office).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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OUR OBJECTIVES

GENERAL

- To influence French views and underline importance of working closely with the UK.
- To demonstrate our commitment to the relationship.

A. EUROPEAN COMMUNITY

- To influence French plans for their EC Presidency, particularly:
  - to maintain momentum on the Hanover/Rhodes single market priorities;
  - to ensure social issues focus on measures to bring down unemployment;
  - to encourage a pragmatic approach to monetary cooperation, with no leap in the dark.
- To persuade France that the Community will have to give more on agriculture if the GATT Round is to succeed.
- To press for an end to French discrimination against imports of UK-built Nissans.
- To agree to maintain the Community's constructive but cautious approach to relations with Eastern Europe.

B. EAST/WEST

- To confirm that our analysis of East/West relations is similar and discuss our approach to the different perception in the FRG.
- To compare notes on approach to Gorbachev in forthcoming bilaterals.
- CSCE: to welcome the fact that the French have activated the new human rights mechanism, and to encourage them to field a strong team at the London Information Forum.

C. SECURITY ISSUES

- To enlist French help with the Germans over SNF modernisation.
- To underline the importance of a fully agreed Western conventional arms control proposal being ready for tabling

ARGUMENTS FOR USE

US-Soviet exchanges. Valuable that Gorbachev visiting London, Bonn and Paris: should hear same message.

- Must not appear to endorse empty Soviet concept of Common European Home.
- Inevitable that FRG perceptions differ. Geography, emotion. Should be candid listening friend, but firm on Western security and unity. German public needs firmer lead from Bonn.
- Security policy must still be based on something like worst case.
- Soviet Internal: increasing contrast between Gorbachev's success abroad and growing internal problems.
- Economic problems daunting (Government deficit of 100 billion roubles, disappointing harvest, costs of Chernobyl and Armenia etc).
- Will get worse before improvement.
- Difficult to overestimate task facing Gorbachev. Not under immediate threat, but cannot go on indefinitely without economic success/popular support.
- Western Response: help Soviets face up to problems where we can, eg management training. Do nothing to help postpone decisions.
- Impossible for West to "rescue" perestroika economically. Soviet economists estimate short-fall of consumer goods and services at 90 billion roubles.
- COCOM blunt instrument, but necessary. Work to focus its efforts but resist pressure (eg from FRG) to relax controls.
- CSCE: progress at Vienna. Long way to go. Good that both France (over Czechoslovakia) and Britain (over Romania) have given a strong lead over use of new human rights mechanism. We must come down hard on backsliders. Important to have tested mechanism fully by (May) Paris Human Dimension meeting.
- Important to have tested mechanism by (May) Paris Human Dimension meeting.
- London Information Forum preparations on course. Hope for strong French team. Independent media figures for frank, spontaneous debate.

Solidarity agreed subject to latter's support for official policies.

- CSCE: Human Rights Mechanism: In the past France has been less disposed than others to take up specific cases and issues. However they have recently used the new CSCE human rights mechanism (over Havel, the jailed Czech dissident). Britain has similarly activated the mechanism over Romania. The new mechanism agreed at Vienna needs to be activated by as many partners as possible before the Paris meeting on the "human dimension" in June 1989. It allows specific cases to be tackled.

C. ARMS CONTROL

- Nuclear: French Ministers suggested publicly (1988) that LANCE modernisation be postponed pending developments in conventional arms reduction talks. When the Prime Minister met President Mitterrand on 30 November, he assured her that he would not be an obstacle to a 1989 decision to modernise LANCE.

- The French are as opposed as we to NATO/Warsaw Pact negotiations on short range nuclear forces: they fear involvement of French SNF systems. But danger is: if French believe that they face a choice between LANCE modernisation with SNF negotiations or no modernisation at all, they may prefer to put off a modernisation decision.

- Conventional: securing Alliance agreement on European zones for conventional arms control purposes has created major difficulties: French, for bloc to bloc reasons, have opposed treating Europe as a single entity with a common ceiling between East and West. Germans have resisted any focus on the central front because it "singularises" them; flank countries, in particular Turkey, have been fearful of arrangements that might isolate them. The Western Proposal, which all bar Turkey now support, gives priority to the measures applying to the whole zone and emphasises Alliance solidarity. But one of provisions is for a regime applied to an extended central zone (from which Turkey, Greece, Norway and Iceland would be excluded on the NATO side). The Turks fear that this extended "central zone" represents the WEU (even though it includes Denmark), from which they feel excluded. Their preferred alternative (based on NATO's

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10 DOWNING STREET

From the Private Secretary

27 February 1989

Dear David,

LYONNAISE DES EAUX

I think you are seeing M. Monod, Chairman and Chief Executive Officer of Lyonnaise des Eaux, some time in March. The Prime Minister talked to him at some length after dinner at the Embassy in Paris on 26 February and formed a very favourable impression of him. As you know his company has been involved in buying up or participating in a number of water companies in the UK.

M. Monod gave us to understand that he was interested in taking a share in the provision of water services in Hong Kong. The Prime Minister commented, that with the approach of 1997, the more that such facilities were in private hands, the more difficult it would be for the Chinese to reverse or interfere with established arrangements. She told M. Monod that she would mention to you that they had spoken. She hoped that you will arrange for him to meet those concerned with water supplies in Hong Kong.

Yours ever,

Charles Powell

Sir David Wilson, KCMG.

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lyonnaise des eaux

JÉRÔME MONOD

CHAIRMAN AND

CHIEF EXECUTIVE OFFICER

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(2)

Prime Minister
CDP
24/2.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

23 February 1989

C D Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

ANGLO-FRENCH SUMMIT 27 FEBRUARY: ECONOMIC AND MONETARY CO-OPERATION

... I attach a brief on economic and monetary co-operation for the Prime Minister's use at the Anglo-French Summit on 27 February. I am also copying it to Stephen Wall (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

Yours sincerely

Jonathan Taylor

J M G TAYLOR
Private Secretary

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ANGLO-FRENCH SUMMIT: 27 FEBRUARY

ECONOMIC AND MONETARY COOPERATION

Our Objectives

- To make clear to the French why the UK favours a pragmatic approach to economic and monetary cooperation and the handling of the Delors Committee report.

- To emphasise the political difficulties of Treaty amendment.

- To sound out the personal position of President Mitterrand, and to impress on him the political difficulties inherent in proposals emerging from the Delors Committee.

French Objectives

- To press the case for firm commitments to progress towards EMU, and need for early institutional change.

- To sound out the UK position, and, perhaps, to urge early UK membership of the ERM.

Our Arguments

- Important that Delors Committee's Report makes clear that full EMU would require massive shifts of economic and political sovereignty from member states.

- Such a shift would require fundamental amendment to the Treaty, going beyond the competence of members of the Committee who are monetary experts. Heads of State and Government should draw the constitutional conclusions from the Report - Central Bank Governors should not make such recommendations.

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- Report should focus on practical steps within existing Treaty to be taken in immediate future, rather than long-term objective of EMU which is premature and not necessary for the Single Market.

- UK could support practical early measures which do not require Treaty amendment including:-

i. monetary cooperation

- reserve diversification and use of Community currencies in intervention. (The French are favourably disposed.)

- private ecu: removal of national impediments to use of private ecu; government borrowing denominated and payable in ecu (our ecu Treasury Bill programme points the way); and increased use of ecu in reserve holdings and intervention. (French have announced plans to launch medium to long-term bond denominated in ecu.)

- we support continued and strengthened monitoring and coordination of monetary policy.

ii. abolition of exchange controls. An important step to which all member states are now committed. Implementation of this commitment is necessary for the Single Market and must be a priority. (France still has some controls to remove. The French, in particular, are concerned that dismantling exchange controls will lead to widespread tax evasion and against that background, the Commission has issued draft proposals for a Community withholding tax.

The French attach considerable importance to this issue, but have said that they will not go back on their commitment to remove exchange controls.);

iii. fiscal policy. A further precondition for the successful economic development of the Community is the gradual elimination of budget deficits, and meanwhile their financing in a non-monetary way.

- Procedure When Committee has reported, its work will be complete. It would be a mistake for Madrid Council to refer work back to it. Should remit further work to ECOFIN, with Central Bank Governors present as appropriate.

Our Response To Their Arguments

- [If French argue for Treaty change] No. Implies readiness to accept massive shifts of economic and political sovereignty from member states. Major and wasteful diversion of effort from important task of completing Single Market. Only recently changed Treaty to deal with the jobs that need doing now. Absurd to propose further Treaty amendment so soon. UK Parliament will not give a blank cheque - ie enabling powers to be exercised at some undetermined future date.

- [If French raise spectre of "two tier Europe"] Deplore such divisive talk. Could only weaken Europe.

- [If European Central Bank raised] No secret that we believe study of this issue is premature to say the least.

[If suggested sterling should withdraw from the ecu as a non-participant in the ERM] In no one's interest to propose a change which would have far-reaching market implications.

French Views

The French remain the keenest advocates of rapid progress towards EMU. In private, they stress their pragmatism. But they have made clear that they have no reservations about possible institutional developments or Treaty change.

Mitterrand - not closely involved in recent discussions, but determined that the French Presidency - which will follow the Madrid Council - should mark a step forward in European construction, and sees monetary co-operation as a key area. He wants to see the Community pull together rather than apart, and realises the importance of working closely with the UK in achieving this. But - if only for tactical reasons - he is not above floating, or allowing others to float, suggestions of a two-tier Europe.

Prime Minister Rocard - out of an apparent concern to gain German support, has declared himself willing to contemplate an autonomous European Central Bank.

Finance Minister Beregovoy - the Trésor has been focusing on pragmatic measures (eg strengthening the EMS, including UK participation in the ERM, and greater use of Community currencies in intervention) as a way of promoting symmetry in obligations under the ERM.

De Larosiere, Governor of the Banque de France - appears to favour monetary union as locomotive for securing economic union. Advocated institutional step of creating European Reserve Fund to pool reserves, intervene on behalf of member states and play a role in monetary policy coordination - the Fund would be a first stage leading eventually towards a full European Central Bank.

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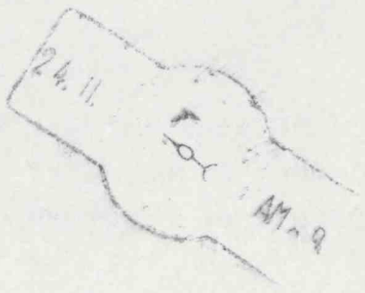
Background

The Governor's tactics in the Delors Committee were discussed at your meeting of 15 February. You will clearly not wish to foreshadow exactly how the Governor will play this in the Delors Committee.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PRIME MINISTER

ANGLO-FRENCH SUMMIT

You attend the Anglo-French Summit in Paris next Monday. It is a brisk affair:

- a meeting with President Mitterrand from 1030-1200
- a plenary from 1215 to 1300
- lunch at the Elysée from 1300-1500
- press conference from 1515-1545
- depart for London at 1600

Broad Themes

There are no really dominant issues for this Summit, and anyway Mitterrand tends to prefer rather general philosophical discussion. Some themes which you might pursue are:

- his assessment of Gorbachev's prospects:
- the conclusions which he draws for Western strategy and for the particular position of the UK and France as nuclear powers:
- what he expects from the new US Administration (he will just have met President Bush in Tokyo):
- his view of trends in Germany and the political prospects there:
- his vision of the way which the European Community should develop over the next few years, in particular during the French Presidency:

- the likelihood of a developing confrontation between the West and Islam stemming from the Rushdie affair.

In addition there are quite a lot of detailed issues to discuss. I suggest that you take them under the following broad headings.

East/West and Defence

The main immediate point here is to keep the French as close to us as possible on SNF modernisation. They are sounder on the 'no arms control' aspect than on modernisation. But Mitterrand told you at Mont St. Michel that he would not be an obstacle to a decision to modernise. This could lead on to quite an interesting discussion on how Mitterrand sees Germany at present. How does he rate Kohl's prospects? How does one steady German opinion? Does he fear a drift to neutralism under the potent influence of Gorbachev?

You should also take the opportunity to mention the importance of not alienating Turkey, either in the NATO proposal for Conventional Force Reductions or in our response to Turkey's application for EC membership. But the French are likely to be less sympathetic than the Germans.

Gorbachev will visit Paris in early July. You should encourage Mitterrand to challenge him about Soviet dissembling on chemical weapons.

The French want to play a major role in Eastern Europe and Mitterrand is visiting all East European countries except Rumania. The purpose is not clear. But he may have in mind some sort of EC initiative on Eastern Europe during the French Presidency. You might discuss in a philosophical sort of way the ideas on Eastern Europe with which the Americans are toying.

The subject of our bilateral defence cooperation also needs discussion. The French claim to be disappointed about lack of

progress on the nuclear side and our decision not to order their ASMP. On the conventional side, we have suggested to the French that they participate in Exercise Lionheart 92 (a BAOR not a NATO exercise) and await a response. Since they took part in Exercise Cheeky Sparrow with the Germans, there is surely no reason not to take part in one with us.

European Community

You will want to find out how Mitterrand sees the French Presidency in the second half of this year and what he expects to achieve. Obviously we want them to press on with the Single Market. They will want to concentrate on the Social Dimension. That is all right provided it is agreed that measures like worker participation are optional. We do not want to add unnecessarily to industry's costs.

You will want to explain the practical disadvantages of an EC withholding tax, as well as our objections of principle. You can welcome the more flexible French approach on VAT approximation, while explaining our unwillingness to see the Community set VAT rates. You will need to go through the arguments on the Delors Committee, in the hope of getting Mitterrand to set realistic objectives for the European Council in Paris in December. You can quote the views of Herr Poehl and his colleagues. But Mitterrand has shown scant understanding of this issue in the past and sees it purely in political terms.

On the external side the main point is the need to make a success of the GATT round. There are welcome signs of American flexibility on agriculture, but the EC will have to move too.

Finally you will want to encourage Mitterrand to give prominence to action against fraud during the French Presidency.

Regional Problems

It would be useful to compare notes on the Middle East. You will want to thank him for France's support over Rushdie. On Arab/Israel, you have seen Arens and Shamir has just been to Paris. It would be interesting to know what impression Mitterrand formed of Israeli intentions. We share an interest in avoiding an exclusively US/Soviet framework for negotiations.

You might try to draw him out on Cambodia, although the French take a rather exclusive view of this and want to keep the reins of an international conference firmly in their own hands. Recent developments - contacts between China and the Soviet Union and between Cambodia and its neighbours, and developments within the Khmer Rouge - have been moderately encouraging. You will want to suggest discussions among the Five in New York, in parallel not in competition with French efforts.

If there is time you might touch on South Africa and explain your attitude to Ministerial contacts.

Economic Summit

You will want to make clear that you do not see this just as a forum for French ideas on debt. On this, you will not be party to transferring the risk from the private sector to the taxpayer. The main task of the Summit will be to reaffirm sound economic and monetary policies and try again for some reduction in the structural surpluses of Germany and Japan. You also envisage a good discussion on the environment, concentrating on the economics of environmental change and protection, and the need for practical steps. This will be an opportunity to explain direct to Mitterrand why you are not attending the Hague meeting. You will also want to ask about the thinking behind his latest letter about transparency of international financial transactions.

Bilateral Issues

There are several themes which you ought to raise here.

The first is Nissan on which you will want to continue to press hard. It is a question of principle and must be resolved.

The second is the Channel Tunnel, which the media will expect you to discuss. After recent management changes, things are going better. You can note progress with satisfaction.

Thirdly, you could mention drugs. Until very recently the French have been reluctant to discuss a bilateral agreement, preferring a multilateral approach. But they have just agreed to open negotiations. To be welcomed.

Fourthly, he may raise French concerns over our statements on listeria in soft cheese.

A fuller brief is in the folder.

C.D.P.

(C. D. POWELL)
23 February 1989

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22 February 1989 Copy No 1

ANGLO-FRENCH SUMMIT: 27 FEBRUARY 1989

BRIEF
by the Foreign and Commonwealth Office

INTRODUCTION

This brief is designed to serve the Prime Minister's bilateral with President Mitterrand. Prime Minister Rocard will join for the Plenary and the lunch.

The following are attached to the Brief:

Annex A	Programme
Annex B	Personality Notes on French Ministers participating
Annex C	Possible press points

OUR OBJECTIVES

GENERAL

- To influence French views and underline importance of working closely with the UK.
- To demonstrate our commitment to the relationship.

A. EUROPEAN COMMUNITY

- To influence French plans for their EC Presidency, particularly:
  - to maintain momentum on the Hanover/Rhodes single market priorities;
  - to ensure social issues focus on measures to bring down unemployment;
  - to encourage a pragmatic approach to monetary cooperation, with no leap in the dark.
- To persuade France that the Community will have to give more on agriculture if the GATT Round is to succeed.
- To press for an end to French discrimination against imports of UK-built Nissans.
- To agree to maintain the Community's constructive but cautious approach to relations with Eastern Europe.

B. EAST/WEST

- To confirm that our analysis of East/West relations is similar and discuss our approach to the different perception in the FRG.
- To compare notes on approach to Gorbachev in forthcoming bilaterals.
- CSCE: to urge the French to join others in activating the new human rights review mechanism, and to field a strong team at the London Information Forum.

C. SECURITY ISSUES

- To enlist French help with the Germans over SNF modernisation.
- To underline the importance of a fully agreed Western conventional arms control proposal being ready for tabling

OUR OBJECTIVES

when negotiations open in March.

D. DEFENCE COOPERATION

- To maintain momentum of bilateral cooperation.

E. OTHER INTERNATIONAL ISSUES

- World Economy: To register our view that the Paris Economic Summit should discuss a broad range of world economic issues (not just debt/LDCs).
- Environment: Ozone Layer: to secure French acceptance of our proposal that March Environment Council agree an 85% reduction in CFCs by 2000.

Rocard initiative: [to follow]

- Terrorism: to keep the French firm over Libya and to thank for continuing cooperation on Irish terrorism.
- Drugs: to encourage conclusion of an agreement on drug traffickers' assets.
- Arab/Israel: to compare notes on ways of promoting peace process.
- Southern Africa: to caution against further restrictive measures and to press for unity amongst the UNSC Five on Angola/Namibia.
- Libya: to support French over prevention of supply of 3D radar.

F. BILATERAL

- Youth Exchanges: to note agreement.
- Channel Tunnel: To confirm that recent difficulties are under control and do not require Government intervention.
- To put down a marker for the next Summit.

FRENCH OBJECTIVES

GENERAL

- (For Mitterrand) to demonstrate personal involvement in promoting French interests with a key partner.
- To show that the Anglo-French relationship matches the Anglo-German one.

A. EUROPEAN COMMUNITY

- To explore extent of UK flexibility on French Presidency priorities (including electricity).
- To urge agreement on EC-wide tax on savings.
- To avoid early moves on agriculture or change in the CAP's basic structure.
- (Possibly) To pave the way for a political initiative on EC/Eastern Europe relations during the French Presidency.

B. EAST/WEST RELATIONS

- To compare notes in the light of the new US Administration.

C. SECURITY ISSUES

- SNF: to seek confirmation that UK does not favour arms control negotiations.
- To air the difficulties of re-opening the NATO conventional arms control position at this stage.

D. DEFENCE COOPERATION

- To urge the UK not to let nuclear defence cooperation stagnate.
- To support moves for wider bilateral defence cooperation generally (but possibly resist our invitation to participate in Exercise Lionheart).
- (possibly) To promote Rocard's proposal for a WEU research institute.

E. OTHER INTERNATIONAL ISSUES

- East/West: to compare notes.

FRENCH OBJECTIVES

- World Economy: to concentrate Economic Summit discussion on debt, development and environmental issues.
- To secure UK support for a global scheme for middle-income country debt relief.
- To secure support for Mitterrand's proposal for action to curb abuse of international money transfers.
- (Possibly) To seek UK financial support for Francophone countries in return for French contribution ($10 million) for Nigeria.
- Environment: to plug the Rocard initiative.
- Terrorism: to avoid commitment over Libya.
- Drugs: (possibly) to argue that multilateral agreements are more important than bilateral ones.
- Arab/Israel: to retain freedom of policy movement and to win support for their preparatory conference proposal.
- Southern Africa: (possibly) to argue case for further restrictive measures.

F. BILATERAL

- Youth Exchanges: to confirm agreement.
- Channel Tunnel: to ensure HMG keeps an eye on problems.
- Carriers Liability Act: to persuade UK to waive fines.
- Cheese: to remonstrate over HMG's action.
- Bicentenary of French Revolution: to secure Prime Minister's participation on 13/14 July.

ARGUMENTS FOR USE

A. EUROPEAN COMMUNITY

- Single Market: must press ahead with Hanover/Rhodes priorities - banking and financial services, public contracts, standards and intellectual property and transport.
- Hope French Presidency will take this forward, especially Second Banking Directive, Investment Services Directive, Public Procurement and Transport (road haulage, shipping and the next stage of civil aviation liberalisation).
- Social issues: recognise that you will want progress but must concentrate on unemployment and improving labour market flexibility, eg by training, increasing labour mobility, helping long-term unemployed.
- Also work to be done on Health and Safety at work.
- EC-wide withholding tax on savings could damage EC. Drive investment out. Difficulty of principle for us.
- Indirect tax approximation: welcome signs that Commission more flexible.
- Understand your officials have produced alternative ideas which show clearing house unnecessary and how fiscal frontier formalities could be eliminated. Strongly agree: close to ideas we are working on too. Should find way forward on these alternative lines.
- Zero rating in UK a sensitive political issue. Have given clear pledges. No trade distortion.
- GATT Uruguay Round: both want successful GATT Round. Best defence against protectionism. Much to gain - eg services, intellectual property.
- But agriculture remains the key. Without progress Round as a whole will fail.
- US is clearly moving from utopian position on total elimination of agricultural support. EC must now show flexibility on short term.
- Can claim credit for recent CAP reforms. Price freeze proposals welcome. But Community will have to go substantially further to avoid GATT isolation.

ARGUMENTS FOR USE

- Frontiers: detect less absolutist approach in EC. Want to ease circulation of legally traded goods and bona fide travellers. Abolish all non-essential checks.
- But must reinforce cooperation against terrorism, international crime etc. Cannot give up water's edge checks without adequate alternative safeguards.
- Nissan: grateful for your assurances at Mont St Michel.
- Commission has stated clearly UK-built Nissans must be treated as EC-built cars.
- Can you give reassurance that they will not be counted against your quota for Japanese built cars?
- Otherwise weakens commercial incentive for distributor to buy UK-built cars. Amounts to restriction on free circulation of British exports within Community.
- EC/Eastern Europe: constructive but cautious approach proving its worth. Differentiate carefully between countries, ensure agreements based on mutual advantage - and reflect reforms already achieved, not just promised. Leave Romania out.
- Negotiations with Russians bound to be lengthy. Impatience will compromise our position. They are demandeur.
- Fraud: recent useful work by Court of Auditors and European Parliament shows need for determined action by Commission and member states.

B. EAST/WEST RELATIONS

- East-West relations at their best for many years. Result of Soviet new thinking and strongly held Western line.
- Each Soviet step is vindication of our long-standing policies. No case for major change. Remain ready to adapt as Soviet reforms continue.
- No call for dramatic gestures in response to Gorbachev moves. Important to explain why Russians can make such eye-catching announcements (military superiority, no public opinion worries) and reasons for our defence and security policies.
- New US administration bound to take time to resume pace of

ARGUMENTS FOR USE

US-Soviet exchanges. Valuable that Gorbachev visiting London, Bonn and Paris: should hear same message.

- Must not appear to endorse empty Soviet concept of Common European Home.
- Inevitable that FRG perceptions differ. Geography, emotion. Should be candid listening friend, but firm on Western security and unity. German public needs firmer lead from Bonn.
- Security policy must still be based on something like worst case.
- Soviet Internal: increasing contrast between Gorbachev's success abroad and growing internal problems.
- Economic problems daunting (Government deficit of 100 billion roubles, disappointing harvest, costs of Chernobyl and Armenia etc).
- Will get worse before improvement.
- Difficult to overestimate task facing Gorbachev. Not under immediate threat, but cannot go on indefinitely without economic success/popular support.
- Western Response: help Soviets face up to problems where we can, eg management training. Do nothing to help postpone decisions.
- Impossible for West to "rescue" perestroika economically. Soviet economists estimate short-fall of consumer goods and services at 90 billion roubles.
- COCOM blunt instrument, but necessary. Work to focus its efforts but resist pressure (eg from FRG) to relax controls.
- CSCE: progress at Vienna. Long way to go. Must use agreed Human Dimension mechanism to come down hard on backsliders.
- Important to have tested mechanism by (May) Paris Human Dimension meeting.
- London Information Forum preparations on course. Hope for strong French team. Independent media figures for frank, spontaneous debate.

ARGUMENTS FOR USE

C. SECURITY ISSUES

- Grateful for Mont St Michel assurance that France will not impede decision on FOTL.
- Without decision on modernisation this year, risk defensive gap in mid 1990s; send wrong signals about our resolve. Decision no easier if postponed.
- Believe Kohl basically agrees. But faces considerable coalition/public opinion problems. Urged him to give firm lead.
- Must steer FRG off SNF arms control. Obvious risk of Soviet pressure for third zero: slippery slope to de-nuclearisation. Hope you will do all possible to persuade Kohl of dangers.
- Best scheme: challenge Soviets to reduce nuclear weapons unilaterally, in line with the substantial reductions in NATO stockpile made possible by modernisation.
- Conventional arms proposal good as stands. Need to take account of Turkish concerns without altering proposals' basic structure. Essential agreed proposal ready by 6 March.
- CW: congratulations on Paris conference. Consensus on final declaration helpful; would have liked stronger treatment of proliferation problem.
- Shevardnadze statement commits Russians only to begin destruction of CW stocks this year. Small step, but he also repeated earlier claims we believe false.

D. DEFENCE COOPERATION

- My 1988 proposal (more joint maritime activity; reinforcement route exercising through France; French exercising in Northern Germany) intended to build on existing strengths and geographical factors.
- Must maintain momentum. Defence staffs looking at exercise on lines of communication through France, and French participation in exercise Lionheart 92 in Germany. Both valuable. Lionheart participation confirmed soon?
- Value relationship in defence procurement: reciprocal purchasing initiative going well; shared interest in more

ARGUMENTS FOR USE

open European arms market.

E. OTHER INTERNATIONAL ISSUES

- World Economy: Economic Summit must address all items on economic agenda current in July.
- Environment: Ozone Layer: now top of environmental agenda. EC should act, send message to rest of world..
- Rocard initiative: [to follow]
- Terrorism: Qadhafi still supports terrorism. Arms for PIRA, Abu Nidhal and other terrorist groups. We should not become demandeurs/set conditions. Just keep up firm pressure.
- Drugs: bilateral agreements essential to deal with specific differences in legal systems. Complementary to multilateral initiatives. Faster to conclude.
- Arab/Israel: Palestinian move towards moderation an important opportunity. EC troika visits worthwhile but EC efforts need focussing, eg encourage Israel towards negotiation and urge restraint on PLO. Must complement central US role. Favour further informal consultations amongst Five.
- Arens visit: no sign new Israeli thinking. Some risk that US might buy Shamir's preference for "superpower umbrella" for international conference, rather than Five's involvement. Not good: cut us both out and deliver Arabs to Russians. Informal discussions in New York one way of heading this off.
- Shamir Paris visit (21-24 February)?
- Southern Africa: political uncertainty: P W Botha reluctant to relinquish power completely. De Klerk calm, pragmatic but concerned by right-wing challenge in Transvaal home base.
- Election timing uncertain. Meanwhile cannot expect much progress on reform.
- Angola/Namibia: recent agreements vindicate policy of engagement. Namibia's future will have crucial bearing on future of South Africa.
- Should build on success by encouraging internal Angolan

ARGUMENTS FOR USE

peace process.

- Libya: Agree important to deny high-tech systems to Libya. Ideas for approach to potential suppliers?

F. BILATERAL

- Channel Tunnel: recent changes at Eurotunnel and Trans Manche Link, and agreement with the banks, augur well.
- Tunnelling at UK end now proceeding apace. Perhaps complete our part of service tunnel ahead of schedule.
- Youth Exchanges: welcome agreement to increase exchanges. For press conference?
- Welcome forthcoming Educational Exchange Colloquium: should yield practical benefits.
- Summit: next in about a year: let us clear dates early. UK to host.

OUR RESPONSE TO THEIR ARGUMENTS

A. EUROPEAN COMMUNITY

- Banking reciprocity clause: oppose Commission proposals. Must handle carefully, not antagonise trading partners. Better to work for multilateral liberalisation.
- European Company Statute: no evidence that business sees need for ECS. Complex legislation. Not priority.
- Audio-Visual: exciting technology for future. Government's role to set right framework eg standards. Eureka collaborative research effort needs to be followed by competitive production to encourage market to develop.
- European programme production: audiovisual Eureka should stick to technology model: wider than EC and industry-led. No case for quotas. Lively industry in UK without protection.
- Energy: Support need to complete Energy market. Must be though liberalisation not central interference. Support common carriage principle.
- GATT Agriculture: US intransigence on agriculture was main problem at MTM in Montreal. But had US been less utopian, EC would have been isolated.
- US already showing evidence of less rigidity. Must honour commitments to sustained reductions in agricultural support, which means further response.
- Nissan [If argued that no obstacles to distribution of UK-built Nissans]:
- Requirement that they be counted against Japanese quota has been confirmed to us (by M Fauroux). Thus a problem.
- [If it is argued that cars must have local content of 80%]: EFTA-built cars need local content of 60% to circulate freely in Community. Cannot expect higher proportion from EC-built cars. Commission will back us. In any case, local content already over 70%.
- [If argued that problem is temporary because content will soon reach 80%] 80% not due to be reached until first half of 1991. Problems anyway recur with each new model as 60% transitional period will also apply to them. Question of principle: must resolve once and for all.
- EC/Eastern Europe: do what we can to encourage Gorbachev,

but EC cannot substantially affect pace of reform process eg by economic concessions. Will be determined by internal factors. Measured, patient EC approach.

B. EAST/WEST RELATIONS

- Soviet changes not irreversible. And still far to go before we can treat USSR as "normal" member of international community.
- Respect for human rights must be institutionalised.
- Public presentation of our policy must keep sight of problem areas, as well as welcoming new developments. Public opinion in West susceptible to "charm offensive". Responsible lead from Western leaders needed, especially in FRG.
- Poland: welcome progress at Polish Round Table: but many pitfalls remain. Would be sympathetic to any call for debt rescheduling but firm that political conciliation insufficient grounds for further economic help: insist on IMF Standby Arrangement before considering debt rescheduling/new credits.

C. SECURITY ISSUES

- LANCE essential part of NATO's requirement for flexible response strategy. Unmaintanable after 1995. Need congressional funds now for of FOTL: requires NATO decision this year. Must settle now, stop disagreement festering in NATO.
- Understand sensitivity in FRG, especially with 1990 Federal Elections. But NATO cannot maintain defences if governments shirk difficult decisions.
- Conventional: agree we must try to get Turks to join other 15 Allies on basis of existing proposal. Perhaps table proposal without providing details about sub-zonal arrangements.

D. DEFENCE COOPERATION

- Lionheart: [Germans against?] Have told us they would welcome French participation.

OUR RESPONSE TO THEIR ARGUMENTS

- Greater nuclear collaboration? Greatly value exchanges over last 2 years, eg on:
  - strategic nuclear targetting philosophy
  - Soviet air and anti-ballistic missile defences
  - requirements for tactical air-to-surface missile
  - nuclear security etc etc
- Some scope for cooperation in other areas, eg water space management for ballistic nuclear submarines (Defence Secretary will elaborate). But limits imposed by eg assignment of forces to NATO etc.
- Regret cooperation on French tactical air-to-surface missile (ASMP) not possible; does not meet our range requirements, and no variant likely to do so. But happy to continue exchanges on design concepts in this field.
- WEU: [Research Institute?]: no need: colocated WEU in Brussels remains best solution.

E. OTHER INTERNATIONAL ISSUES

- US Administration: good start. Experienced team. Attaches importance to Allies (consult, not notify).
- World Economy: Onus on G7 to maintain world economic growth and fight inflation; Summit should address trade, external positions and issues, such as currency markets, current account imbalances and structural policies. Give impetus to Uruguay Round: agriculture a key issue.
- Debt policy under review within G7. Expect progress at IMF and World Bank Spring meetings; against schemes which simply transfer risk from private to public sector; SDR allocation difficult to justify on global liquidity grounds and possibly inflationary. Danger of shift from reform/conditionality together with finance to finance only.
- Help for Francophone countries. Their position different to Nigeria's. Much richer and seem less prepared to take necessary structural adjustment measures. Playing our part in Paris Club.
- Welcome proposal for Summit discussion of ways of fighting laundering of drug traffickers' assets. In line with conclusions of Toronto political declaration.

OUR RESPONSE TO THEIR ARGUMENTS

- (If necessary) But against widening scope of proposal to include monitoring or controls by governments of all international financial flows. Central banks (through Basle machinery) have already drawn the attention of their banks and financial institutions to their agreed Statement of Principles on the prevention of the criminal use of the banking system.
- Environment: Ozone Layer: clear scientific evidence already exists that Montreal Protocol provisions insufficient to save ozone layer. Action in March Environment Council last chance to send message to 2-5 May Helsinki Meeting on Montreal Protocol.

  Rocard Initiative: [to follow]
- Terrorism: experience shows only sustained pressure works on Qadhafi. Talked to him in 1985: catalogue of horrors since.
- Drugs: UK supports multilateral agreement but Council of Europe Convention unlikely to be completed soon. Bilateral approach quicker.
- Arab/Israel: not convinced formal preparatory conference would help. Simply anticipate problems at Conference itself. What form could it take?
- Southern Africa: not the time to discuss further measures: Namibia elections on 1 November: must not provoke South African deviation from UN plan.
- With current uncertainties, time not right for fresh initiatives. Could drive whites into laager.
- Difficulty with New York activity on Cambodia: complementary to French efforts at reconciling Cambodian factions under Sihanouk. Discussion between Five would not prejudge form of international involvement in the settlement. French readiness to host conference is constructive.
- Rushdie: many thanks for your robust support.

F. BILATERAL

- Channel Tunnel: (Immigration controls on board trains): looking closely at the arguments.

OUR RESPONSE TO THEIR ARGUMENTS

- (Rail routes through Kent) Understand the need for new track: public consultation now proceeding.
- Carriers Liability Act: considering French approach. Will respond as soon as possible, but not likely to be favourable.
- Cheese: (listeria) acting only on scientific evidence (which French now have; no ban on sale/imports of soft cheese.
- (Unpasteurised milk/milk products) UK public consultation will also give member States opportunity to submit views.
- Bicentenary: have accepted 13-14 July in principle. But morning and afternoon 13 July difficult (Cabinet and Parliamentary Questions). Programme plans?

BACKGROUND

A. EUROPEAN COMMUNITY

- Social Issues: French Presidency likely to make Social Issues a priority. Mitterrand has taken a lead on this. Main French concerns appear to be:
  - a higher profile for the "social dialogue" between employees and labour;
  - progress on practical measures such as Health and Safety, training, labour market flexibility (acceptable in principle);
  - a social charter for workers setting minimum rights (eg to leave, training), model employment contracts and consultation with the workforce (we have opposed);
  - progress on the European Company Statute including provision for worker participation (we have opposed).
- Tax on Savings: the French want an EC-wide withholding tax on savings because they fear a flight of capital from France when they liberalise capital movements. Tax could drive money out of the EC, damaging London and other financial centres. Commission presented proposal for a 15% withholding tax to be presented to ECOFIN on 13 February.
- Indirect Tax Approximation: Mme Scrivener (Tax Commissioner) told Chancellor on 19 January that Commission's VAT clearing house proposal would need to be re-considered, and that Commission need to start afresh on excise duty harmonisation. She acknowledged importance to UK and Ireland of VAT zero rates.
- French officials recently circulated proposals for removing fiscal frontier controls on freight based on retaining destination system for VAT, and thus making clearing house mechanism redundant. But French proposals do not address VAT approximation. French believe some central approximation necessary to avoid revenue losses through cross border shopping by individuals. They argue that VAT rate adjustments will take time. They are thus unlikely to give priority to indirect tax approximation during their Presidency. They argue that our market forces approach to

BACKGROUND

approximation will result in competitive rate cutting, with an inverse auction damaging all concerned.

- Frontiers: Debate currently in Paris between ideologues and realists. The French potentially useful allies on cooperation against terrorism, moving fiscal checks away from frontiers etc.

- Audio-visual: French stand to gain from production of European hardware (HDTV). Thomson of France is a main participant in the HDTV EUREKA project. UK commercial interest now low, but we can support project, provided it is industry-led.

- French want to counteract dominance of Anglophone TV programmes, by quotas and by cooperating with others in subsidising the programme-producing industry. They anticipate that a levy and/or fiscal incentive would be necessary to weaken the existing strong links between national broadcasters and national programme makers.

- Rhodes Council noted French idea of an audio-visual meeting (now likely to take place in September), but did not endorse their other proposals.

- GATT Uruguay Round: the GATT MTM in December reached provisional agreement on 11 out of 15 areas. Agriculture, textiles, intellectual property and emergency safeguards remain to be resolved. Without progress on agriculture the LDCs, in particular, will not allow agreement in remaining areas to be reached/confirmed. The French are among the more protectionist EC member states, particularly on agriculture, though there have been helpful comments since Montreal from Nallet (Agriculture) and Bérégovoy (Finance).

- Nissan: President Mitterrand assured the Prime Minister on 30 November that the problems encountered by UK-built Nissans in entering the French market were "over". But the French Industry Minister, M Fauroux, confirmed to our Paris Embassy on 11 January that the cars would be counted against quota on Japanese imports, as long as local content less than 80%. Prime Minister wrote to Mitterrand on 30 January making it clear that she expected him to hold to his assurances, and that UK-built Nissans should be treated on

all fours with other Community cars. Made same points to Rocard on 8 February: no sign of movement. Commission see no justification for treating UK-built Nissans differently from other cars manufactured in the Community. On 30 January Sir Leon Brittan and Commissioner Bangemann indicated that they would be ready to support us if further Commission action were needed.

- Energy: free market for French exports of nuclear electricity high among French internal market objectives. FRG and several other Member States maintain local generating monopolies which prevent cheaper French electricity being exported directly to their industrial consumers or local distribution boards. Given the liberalisation involved in privatisation, we have supported France out of principle but there is little national interest involved in what is primarily a Franco-German squabble.

- EC/Eastern Europe: French support our cautious approach. But negotiations with USSR likely to begin during French Presidency: might tempt Mitterrand to push for more forthcoming line.

B. **EAST/WEST**

- French analysis on East-West is close to ours. French concerned about Germans sliding to East. Gorbachev due to visit Paris in July (dates not yet public); he may also visit European Parliament in Strasbourg.

- French making a concerted effort to regain their position in Eastern Europe. Have abandoned differentation between East Europeans in favour of "encouraging reform wherever found". Mitterrand visiting all capitals except Bucharest. In Prague (December) he met dissidents and spoke forcefully on human rights issues. In Bulgaria (January) French secured in advance release of some dissidents. Poland, Hungary and the GDR are scheduled for later this year, Rakowski visited Paris privately on 14-16 February: sought help over debt rescheduling. Dumas to Warsaw in April; Mitterrand thereafter. Framework for legalisation of

BACKGROUND

Solidarity agreed subject to latter's support for official policies.

- CSCE: Human Rights Mechanism: France has been less disposed than others to take up specific cases and issues. The new mechanism agreed at Vienna needs to be activated by as many partners as possible before the Paris meeting on the "human dimension" in June 1989. It allows specific cases to be tackled.

C. ARMS CONTROL

- Nuclear: French Ministers suggested publicly (1988) that LANCE modernisation be postponed pending developments in conventional arms reduction talks. When the Prime Minister met President Mitterrand on 30 November, he assured her that he would not be an obstacle to a 1989 decision to modernise LANCE.

- The French are as opposed as we to NATO/Warsaw Pact negotiations on short range nuclear forces: they fear involvement of French SNF systems. But danger is: if French believe that they face a choice between LANCE modernisation with SNF negotiations or no modernisation at all, they may prefer to put off a modernisation decision.

- Conventional: securing Alliance agreement on European zones for conventional arms control purposes has created major difficulties: French, for bloc to bloc reasons, have opposed treating Europe as a single entity with a common ceiling between East and West. Germans have resisted any focus on the central front because it "singularises" them; flank countries, in particular Turkey, have been fearful of arrangements that might isolate them. The Western Proposal, which all bar Turkey now support, gives priority to the measures applying to the whole zone and emphasises Alliance solidarity. But one of provisions is for a regime applied to an extended central zone (from which Turkey, Greece, Norway and Iceland would be excluded on the NATO side). The Turks fear that this extended "central zone" represents the WEU (even though it includes Denmark), from which they feel excluded. Their preferred alternative (based on NATO's

military command structure) is opposed by all other Allies on both military and political grounds. We are working to see if Turkish concerns can be met without re-opening the structure of the proposal now agreed by 15, but this looks increasingly unlikely: some modification may be required if an Alliance proposal is to be ready on 6 March when conventional talks begin.

- Rocard suggested in November 1988 (and reiterated in 8 February Chatham House speech) establishment in Paris of small European (ie WEU) Strategic Studies Institute. But this is really French attempt to maintain WEU agency in Paris: we firmly oppose.

D. **DEFENCE**

- Good progress at military level on pursuing Prime Minister's January 1988 cooperation proposals. But French political commitment uncertain. On reinforcement through France, the French have responded positively to the idea of a further bilateral paper exercise: planning proceeds for May 1990. But French CDS is having difficulty winning approval to participate in Exercise Lionheart 92 (a BAOR, not NATO, exercise). This sits oddly with French willingness to exercise with FRG in South Germany ("Cheeky Sparrow" in 1987).

- President Mitterrand disappointed by lack of substance in Anglo-French nuclear defence cooperation, especially our decision that the French ASMP did not match our needs for a Tactical air-to-surface missile. But we have told the French that we wish to stay in close touch on technological developments. Talks between MOD officials have taken place; more are planned.

E. **OTHER INTERNATIONAL ISSUES**

- Environment: Ozone Layer: last autumn we announced our support for an 85% cut in CFC emissions by the year 2000. Within the EC there has been considerable support for this at Working Group level and recent lobbying has shown that France is one of the few partners with reservations about

action in the March Environment Council. But in the end they may be prepared to sign.

- Rocard Initiative: [to follow]

- Terrorism: the Spanish Presidency have proposed that the EC set Libya (and Syria) conditions for lifting of EC measures. We have opposed this arguing that Libyan assurances are untrustworthy. French reaction ambiguous. Meanwhile, the Spanish initiative has been put aside to allow the dust to settle after the allegations concerning the Libyan CW plant and the destruction of two Libyan aircraft.

- French continue to provide full practical cooperation against terrorism.

- Drugs: French reticent over a bilateral agreement over assets of drug traffickers. They prefer multilateral approach, and argue that agreement would be difficult until the UK signed the European Convention on Mutual Legal Assistance (which we cannot sign without new primary legislation, not expected before the 1989/90 session). Negotiations for a Council of Europe Convention on confiscating assets of drug traffickers are taking place. French have just agreed to open negotiations for a bilateral agreement. Need to maintain pressure.

- Arab/Israel: the EC Troika (including France) has visited Israel (the Greek was not welcome), met Arafat (Madrid, January) and visited Syria, Jordan and Egypt (mid-February).

- Shamir told Dumas that he opposed an international conference as it would be an anti-Israel tribunal. He prefers direct negotiations under the umbrella of the two Superpowers. He will have visited Paris on 21-24 February. Shamir may hope to restrict his proposals to autonomy. When he visits Washington (probably March) the US may find this twin approach attractive. But the new Administration's Middle East policy is still fluid: French are our best allies in encouraging it to take shape in a way consonant with our interests. French are still attached to their idea of a preparatory conference, but acknowledge at official level that informal discussions among the Five would be a

useful first step.

- South Africa: Restrictive Measures: the French oppose comprehensive mandatory sanctions against South Africa. But under Socialist Government have raised several initiatives in European Political Cooperation (including a ban on South African press offices in the EC and on granting of official export credits for the Mossel Bay oil-from-gas project). They want to be seen publicly to be increasing pressure on the SAG.
- Cambodia: elements of an external settlement falling into place: But Khmer factions (and Sihanouk) reluctant to compromise. Unless they do so, regional states, whose interests are different, may put together a settlement without them.
- French are reluctant to discuss Cambodia with other UNSC Permanent Members, as they aspire to special role in settlement process. Paris round table meeting between Cambodian factions planned for the Spring. Mitterrand has also said that France would be prepared to host an international conference in the event of a political settlement.
- Libya: have approached Thomson and Siemens for 3D radar. France favours a self-denying ordinance among potential Western supliers.

F. BILATERAL

- Channel Tunnel:

Construction difficulties and cost overrun problems led to demands from Eurotunnel and Transmanche Link (TML) for changes in the other's management, and a threat from the banks to enforce a default. Forthcoming changes at both Eurotunnel and TML should help: the (French) Managing Director of Eurotunnel being eased out, to be succeeded by two Managing Directors: M Bertrand and Dr Ridley (ex LRT). Both well regarded. New TML Chief Executive being sought.

- These changes and determination to improve performance have impressed the lead banks. On present planning should be sufficient funds for completion.

BACKGROUND

- The target completion date has been extended by a month to June 1993, but may be delayed until August 1993. News on tunnelling now good: if recent improvement is maintained, the service tunnel (due to be completed next year) will be ready ahead of schedule. Eurotunnel shares now double issue price.
- On-train controls: discussing French arguments in favour of immigration controls on board trains: government decision likely in early March.
- Rail route: BR's proposal for new high-speed track opposed in Kent: likely to affect specific route rather than whole scheme.
- Quai/FCO Exchange: Agreement at official level to exchange FCO and Quai diplomats: exchanges of at least 1 year at 1st Secretary level and shorter training exchanges (3-4 months) at 3rd/2nd Secretary level. Two diplomatic services now identifying candidates. Aim to start in Autumn. Possibly announce at Summit press conference. Similar exchange with Auswärtiges Amt (FRG) since 1986. Continuous programme of other civil service exchanges with France exists.
- Youth Exchanges: Prime Minister agreed with M Chirac in November 1987 a joint study on achieving expansion. Results encouraging: there were 1,939 government supported exchanges in 1987; (1988: 2,299). A press release has been agreed setting out next objectives.
- The Department of Employment and DES are working with the French to improve exchanges in the areas of vocational training and education. An Anglo-French Colloquium on educational exchanges will take place on 25-26 May in UK: should result in a specific plan of action.
- Carriers Liability Act: French ferry operators have incurred £250,000 in unpaid fines for carrying UK-bound passengers without the documentation for admission. Was agreed last year not to take Court action to recover the debts pending passage of French legislation obliging carriers to refuse to accept such passengers (became law in December). But French have asked us to waive outstanding fines.

BACKGROUND

- We have made clear there could be no waiver - Sealink and P&O, hearing of French non-payment, have declined to pay, running up debts of £750,000. But they will be forced to pay.
- Cheese: French concern more over claims of listeria in soft cheese than over steps to end sale of unpasteurised milk. Mr MacGregor wrote to Nallet (Agriculture) on 17 February with evidence from UK market of listeria in French cheese (1987: 85 samples; 14% infected, some seriously). Public consultation over ending unpasteurised milk sales will also invite views on steps (if any) over products (including cheese) from such milk, eg clearer labelling.
- Bicentenary: Mitterrand invited Prime Minister for 13-14 July celebrations: accepted in principle, explained difficulties with morning and afternoon of 13 July (Cabinet/PQs), sought information about Bicentenary programme (Paris Economic Summit 14-16 July): response awaited.
- Contacts: last Summit 29 January in London. Prime Minister saw Mitterrand 10 June and 30 November (Mont St Michel); Rocard 10 June (Paris) and 8 February before his Chatham House lecture.

ANNEX A

ANGLO-FRENCH SUMMIT: 27 FEBRUARY

OUTLINE PROGRAMME (all timings to be confirmed)

0720	British Ministerial Delegation departs RAF Northolt by RAF Andover
1000	Andover arrives Villacoublay
1030	Arrive City Centre Bilaterals begin at Elysée and host ministries
1215	Plenary at Elysée
1300	Lunch at Elysée
1515	Press Conference [at Elysée]
1545/1600	Depart for Villacoublay
1615	Prime Minister departs in HS 125
	Ministerial Delegation departs in RAF Andover
1630	HS 125 arrives Northolt
1655	RAF Andover arrives Northolt

ANNEX B

MITTERRAND, FRANCOIS GCB

President. (First term: 1981-88; Second term: Since May 1988)

Born 1916. Son of a railway official. Trained as a lawyer in Paris. Distinguished war service including escape from a prisoner of war camp and resistance work (mission to London in 1943). Represented Nievre in North Central France from the end of the war until election as President. Was one of the few French politicians to oppose de Gaulle's return to power in 1958 which he considered imposed by the armed forces. From 1958-81 he was de facto leader of the opposition. Ran unsuccessfully for President in 1965 and 1974. From 1971-81 was First Secretary of the renovated Socialist Party (PS) which, under his leadership has become the dominant force on the left of French politics. A skilful party tactician, Mitterrand did much to hold the warring factions of the PS together during the long period of opposition and of difficult relations with the Communist Party (PCF). He made a State Visit to the UK in 1984: the Prince of Wales greeted him at Victoria Station and attended both banquets.

Mitterrand is not a doctrinaire socialist but rather a humanist with egalitarian instincts and a sense of public responsibility. By nature aloof with few personal friends. Keeps his own counsel. He is keen on books, painting and writing. His air of self-possession and unflappability is part cultivated and part natural. As President, adopted an outward air of confidence and serenity during difficult periods and low popularity ratings.

His wife had a good resistance record and a strong interest in Human Rights causes (this influence can sometimes be detected in her husband's actions). Of his two sons, one was elected a PS Deputy in 1981.

ANNEX B

ROCARD, MICHEL

Prime Minister since May 1988.

Born 1930. Son of Professor Yves Rocard CBE, a distinguished nuclear physicist. Studied literature and entered ENA. Resigned from government service in 1967 to stand (unsuccessfully) in Legislative elections. Secretary General of cialiste Unifié (PSU) 1967-73.
Joined Socialist Party 1974. Member of the National Secretariat 1975-79. Deputy for the Yvelines 1969-73 since 1978. Minister for the Plan 1981-83. Minister for Agriculture from 1983 until his resignation in 1985.

Rocard made his name as a national figure during the May events of 1968. His party was the only one to be identified with the student movement, and its leaders occupied key positions in the main student and teacher organisations. He broke with the PSU in 1974 after its failure to amalgamate with the Socialist Party. He then rose swiftly in the Socialist Party. During the past decade, Rocard had moderated his leftish image. He remains one of France's most popular politicians. He has a strong intellect, and keen political instincts. A good speaker when audible (very rapid delivery), his distinctive brand of intellectual garrulousness sometimes speaks more of a hyper-clever university don than a statesman of Presidential stamp.

He visited the UK as a COI Category I sponsored visitor in 1980 and 1988. During the latter visit he met the Prime Minister, Foreign and Defence Secretaries, Chancellor of the Exchequer and Governor of the Bank of England.

Rocard speaks good English. He is divorced and remarried (to a sociologist). He has two children by each marriage.

ANNEX B

DUMAS, ROLAND GCMG

Minister for Foreign Affairs (with status of Ministre d'Etat).

Born 1922 at Limoges in the Haute Vienne. Fought in the Resistance. His father was shot by the Germans. Escaped from captivity. Graduated in law from the University of Paris. Studied at the LSE on a British Government scholarship. Barrister at the Paris Court of Appeal since 1950. Political journalist. Centre-Left deputy for Haute Vienne 1956-58; for the Corrèze 1967-68. Socialist Deputy for Périgueux, Dordogne since 1981. Appointed Minister for European Affairs in January 1984; replaced Cheysson as Foreign Minister on the latter's move to Brussels as EC Commissioner at the end of that year.

Like Mitterrand, Dumas voted against the establishment of the Fifth Republic. This cost him his seat in Parliament. He has combined politics and journalism with a successful career at the Paris Bar. He has acted as counsel in many politically controversial trials including defending Algerian nationalists during the Algerian War.

Author of books on China, barristers and the media. Keen interest in music. When young he trained to become a professional operatic singer. A collector of paintings.

Married (twice). Three children. A gifted linguist with good English.

ANNEX B

CHEVENEMENT, JEAN-PIERRE

Minister of Defence.

Born 1939, in Belfort. Ecole Nationale d'Administration (ENA) 1963-65. Ministry of Finance 1965-68. Commercial Counsellor at Jakarta briefly in 1968. Joined the Socialist Party in 1964. Leader of the Party's left-wing CERES faction (now renamed Socialisme et République). Député for Belfort since 1973. Appointed Minister of Research in June 1981. Promoted to Minister of State responsible for both Industry and Research in June 1982. Removed in March 1983 reshuffle. Minister of Education 1984-86. MP 1986-88. Appointed Defence Minister after Mitterrand's 1988 re-election.

He is married to a psychologist. Two children. He understands English reasonably well but is reluctant to speak it.

ANNEX B

JOXE, PIERRE

Minister for the Interior.

Born 1934 in Paris. Studied at the Ecole Nationale d'Administration (ENA) 1960-62. Joined PS in 1971; appointed National Secretary for Training later Party Treasurer.

Joxe was briefly Minister of Industry in Mauroy's first Government in 1981 but moved to lead the PS Parliamentary Group. Appointed Minister of the Interior when Fabius became Prime Minister in July 1984. Returned to lead the Parliamentary Group after the 1986 elections, and to Interior after the May 1988 change of government.

He has apparently moderated his more extreme Marxist views in recent years but he remains on the left of the PS. As Minister of the Interior he faced initial police hostility, but reduced this by introducing an ambitious and expensive plan for police modernisation.

Married. Two children. Speaks quite good English. Once spent three months at the LSE.

ANNEX B

FAUROUX, ROGER

Minister of Industry and Regional Development.

Born in 1926 in Montpelier. Studied literature and philosophy at the Ecole Normale Supérieure. Graduated from the Ecole Nationale d'Administration.

In 1961 he moved to the private sector, joining Pont-à-Mousson. He became Financial Director in 1969. Appointed President Directeur-Général of St Gobain in 1980. He was retained by the Socialists when St Gobain was nationalised in 1981. He left St Gobain in 1986 to become Director of the Ecole Nationale d'Administration. Appointed Minister of Industry in May 1988.

He owes his appointment to his high reputation as an administrator, his popularity in business circles, and his identification with the Catholic centre. He is a pragmatist whose priority is to make French industry more competitive internationally, with particular attention paid to the needs of small and medium-sized business.

He is an open man whose way of speaking reveals his Southern origins. A good conversationalist, interested in literature and the arts.

Married to the sister of the historian Le Roy Ladurie. Six children. Speaks English.

ANNEX B

CRESSON, MME EDITH

Minister for European Affairs.

Born 1935 near Paris. Economist by training. Joined the Socialist Party after meeting Mitterrand (to whom she has been very close) in the sixties. Active in PS youth and student section; MEP 1979-81. Finally won a seat in Vienne in 1981. Minister of Agriculture in 1981; Minister of External Trade 1983; also of Industrial Redeployment (1984). PS Deputy from 1986-88. Appointed Minister for European Affairs in May 1988.

Mme Cresson has an exuberant personal and political style. Reckoned by some to be too fond of confrontation, she is said nevertheless to be open to advice. Not a subtle analyst, but comes across well on TV. As Minister of Agriculture, she overcame conservative French farmers' mistrust of a woman Minister with no farming background. As Minister for External Trade, she was willing to contemplate protectionism to reduce the trade deficit. She is now eager to assert a coordinating interministerial influence on French preparations for 1992.

Married to a Peugeot executive. Two children. Has visited England many times (most recently 7 February for talks with Mrs Chalker and DTI Ministers). Good English.

ANNEX C

PROPOSED THEMES FOR PRESS CONFERENCE

Bilateral Relations

- Excellent. Intense pattern of Ministerial and official exchanges.
- France our 3rd largest export market; UK similarly France's 3rd.
- Huge private sector/tourism flows: approx 6 million British visitors to France 1988. Industrial collaboration, eg Channel Tunnel.
- Want to strengthen relationship still further. Liberalisation 1992 gives immense scope for greater private sector flows.
- Also, agreement to:
    - double number of officially supported Youth exchanges (from 1987 figures)
    - hold Educational Exchange Colloquium (25-26 May in London)
    - exchange FCO/Quai d'Orsay diplomats

- Prince & Princess of Wales visit (November 1988) a great success.
- 1st batch of Jean Monnet scholars being selected.
- Drugs and Terrorism: good practical cooperation (cf Eksund).
- Congratulations on Bicentenary: look forward to participating in 13-14 July celebrations.

Defence

- Increasingly close relationship. Regular Ministerial meetings. Mr Younger remaining in France until 1 March.
- Seeking better value for money through closer cooperation on equipment procurement: joint conferences
- Growing cooperation over exercises; good progress over defence arrangements for Channel Tunnel.
- Want to maintain existing dialogue on nuclear matters.

EC

- Views on essentials very close.
- Major common goal remains Single Market completion. Determined to prevent "Fortress Europe".
- Agreed on the need for effective action to combat fraud in the EC.

International

- Close identity of views on East/West and Security (including START, conventional and CW). Agree on need for active policy of negotiation backed by firm defence.
- Consult closely on eg Middle East, Afghanistan, Cambodia.
- Welcome French support over Rushdie/Iran.

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ANGLO-FRENCH SUMMIT: FRENCH POLITICAL SCENE

SUMMARY

1. MITTERRAND HAS A LONG TIME IN POWER AHEAD OF HIM, BUT THE GOVERNMENT IS STILL SEARCHING FOR FORWARD MOMENTUM. THE RECENT FINANCIAL SCANDALS HAVE NOT SERIOUSLY HARMED THE GOVERNMENT, BUT THEY HAVE COME AT AN UNFORTUNATE TIME BEFORE NEXT MONTH'S MUNICIPAL ELECTIONS, WHERE THE PS NEEDS TO MAKE GAINS. CONTRAST BETWEEN MITTERRAND'S LACK OF UNDERSTANDING OF FINANCIAL MARKETS AND PRAGMATISM OF ROCARD/BEREGOVOY SHOWS UP DIFFICULTY FOR FRANCE WITH ITS CENTRALISING, PROTECTIONIST TRADITIONS OF ADAPTING TO 1992. ON THE INTERNATIONAL SCENE, FRANCE IS HIGHLY ACTIVE, BUT LACKING A STRATEGY.

DETAIL

2. MITTERRAND'S RE-ELECTION LAST MAY HAS NOT YET GIVEN FRANCE THE STRONG COORDINATED GOVERNMENT WHICH IT LACKED DURING COHABITATION. MITTERRAND REMAINS, BY HIS AGE, EXPERIENCE AND POLITICAL SKILL, AS WELL AS BY HIS CONSTITUTIONAL POSITION, THE LEADING FIGURE ON THE SCENE. BUT HE HAS HAD AN UNEASY PERIOD - SPECULATION ABOUT THE DURABILITY OF A SOCIALIST GOVERNMENT, CRITICISM OF MITTERRAND'S ALOOF IMAGE, THE PARTLY POLITICAL PUBLIC SECTOR STRIKES IN THE AUTUMN, THE DIFFICULTIES FACING THE GOVERNMENT'S NEW EDUCATION PROGRAMME OR THE RECENT FURORE OVER FINANCIAL SCANDALS. NONTHELESS, NOTHING ALTERS THE FACT THAT THE MITTERRAND ERA STILL HAS SEVERAL YEARS TO RUN.

3. MITTERRAND'S QUOTE LETTER TO THE FRENCH PEOPLE UNQUOTE IN WHICH HE SET OUT HIS PRIORITIES BEFORE THE PRESIDENTIAL ELECTIONS WAS AN IMPRESSIVE DOCUMENT FOR THE ELECTORATE, BUT NOT STRONG ENOUGH EITHER IN DETAIL OR IN ITS GRASP OF THE NEEDS OF THE MODERN FRENCH ECONOMY TO SERVE AS A GUIDING FORCE FOR GOVERNMENT POLICY IN THE RUN-UP TO 1992. ROCARD HAS HAD SOME DIFFICULTY IN GIVING THE GOVERNMENT A SENSE OF FORWARD MOMENTUM WITHOUT THE UNEQUIVOCAL SUPPORT OF HIS PRESIDENT: AND MANY FRENCH OBSERVERS COMPLAIN, BOTH IN PUBLIC AND IN PRIVATE, THAT FRANCE IS NOT PREPARING HERSELF WITH SUFFICIENT SKILL

OR DETERMINATION FOR THE GREATER COMPETITION WHICH THE SINGLE EUROPEAN MARKET WILL BRING.

4. MITTERRAND'S PRIORITIES REMAIN THE SAME: TO EXERT FRENCH LEADERSHIP IN MOVING EUROPE FORWARD, TO SEEK SOLUTIONS TO THE DEEP-ROOTED PROBLEMS OF NORTH-SOUTH AND TO HELP BRING EAST-WEST RELATIONS, INCLUDING ARMS CONTROL, TO A STATE OF GREATER MUTUAL CONFIDENCE. THE ENVIRONMENT HAS BEGUN TO MOVE INTO THE FRONT LINE AS A FOURTH PRIORITY. BUT HAVING IDENTIFIED THE ENDS, THE FRENCH ARE STILL UNSURE ABOUT THE MEANS. THE GOVERNMENT'S FOREIGN POLICY INITIATIVES HAVE SO FAR LACKED OVERALL COHESION, OFTEN CREATING AS MANY MINUSES AS PLUSES (FOR INSTANCE, THEIR MOVE ON CSCE LAST AUTUMN AND, MORE RECENTLY, THEIR ATTEMPT TO GENERATE A EUROPEAN MOMENUM ON THE MIDDLE EAST, NOT TO SPEAK OF THE HANDLING OF THE ROCARD ENVIRONMENT INITIATIVE).

5. IN ECONOMIC POLICY TOO (SEE MIFT) AN ATMOSPHERE OF UNCERTAINTY REMAINS. THERE IS NO SIGN SO FAR OF ANY SHIFT BY THE ROCARD GOVERNMENT AWAY FROM PRAGMATIC ECONOMIC POLICIES, AND THE PERFORMANCE OF THE FRENCH ECONOMY HAS BEEN STRONGER THAN MANY WERE PREDICTING A YEAR AGO. BUT THE MESSAGE REMAINS CONFUSED ON THE DEGREE OF STATE INTERVENTION AND THE GOVERNMENT HAS NOT YET DECIDED HOW BEST TO TACKLE THE MOST DIFFICULT, FOR FRANCE, OF THE EC ECONOMIC ITEMS, PARTICULARLY FISCAL ISSUES.

6. THE RECENT FINANCIAL SCANDALS HAVE MADE THINGS MORE DIFFICULT FOR MITERRAND AND PARTICULARLY FOR BEREGOVOY. ON THE BRIGHTER SIDE, MITTERRAND'S TELEVISION INTERVIEW ON 12 FEBRUARY, DISTANCING HIMSELF FROM THE SCANDALS AND UNDERLINING HIS DISTASTE FOR THE CORRUPTING POWER OF MONEY, WAS WELL RECEIVED BY THE FRENCH ELECTORATE (THERE IS A LONG TRADITION FOR SUCH ATTITUDES TO FINANCE). NOR HAS THERE YET BEEN ANY CONFIRMATION THAT SENIOR PEOPLE IN GOVERNMENT WERE DIRECTLY INVOLVED IN THE SCANDALS THEMSELVES. BUT WORRIES REMAIN ABOUT THE CAPACITY OF THE PARIS STOCK EXCHANGE TO PLAY A LEADING ROLE IN THE MORE COMPETITIVE FUTURE, ABOUT THE REAL DETERMINATION OF THE GOVERNMENT TO ALLOW THE FINANCIAL AND COMMERCIAL SECTORS TO DEVELOP AS THEY MUST FOR THE SINGLE MARKET AND INDEED ABOUT THE PRESIDENT'S ATTITUDE TO THE FREE PLAY OF MARKET FORCES.

7. MEANWHILE, THE MUNICIPAL ELECTIONS (12 AND 19 MARCH) IMPOSE SOME SHORT-TERM CONSIDERATIONS ON MITTERRAND AND THE GOVERNMENT. WHILE THESE ELECTIONS NEED BE NO MORE POLITICALLY SIGNIFICANT THAN ANY OTHER SET OF LOCAL ELECTIONS IN THE MIDDLE OF A LEGISLATURE, THE SOCIALIST PARTY (PS) IS ANXIOUS TO RE-GAIN THE TOWN HALLS IT LOST AT

ITS LOW PERIOD IN 1983. IT NEEDS TO KEEP AT BAY BOTH THE COMMUNIST PARTY (PCF), WHICH IS BEGINNING TO RE-GAIN ITS CONFIDENCE AFTER ITS POOR PERFORMANCE IN 1988, AND TO KEEP OPEN A LINE TO THE CENTRISTS, WHOSE SUPPORT MITTERRAND WOULD LIKE BUT ONLY ON HIS OWN TERMS. A POOR PERFORMANCE BY THE PS NEXT MONTH COULD FORCE MITTERRAND INTO AN UNWELCOME CHOICE BETWEEN BUYING SUPPORT FOR HIS PRESENT GOVERNMENT EITHER ON THE LEFT OR ON THE RIGHT. THE SCANDALS HAVE COME AT A BAD TIME IN TERMS OF THE PS'S CAMPAIGN FOR A BROADER RANGE OF SUPPORT.

8. THE KIND OF POLICIES NEEDED TO WIN THIS SUPPORT AS FRANCE APPROACHES THE EUROPEAN ELECTIONS AND HER EC PRESIDENCY ARE LIKELY TO CONTAIN A GOOD DOSE OF EURO-RHETORIC E.G. ON THE SOCIAL DIMENSION OF THE INTERNAL MARKET.

9. ON THE INTERNATIONAL STAGE, MITTERRAND HAS ENSURED THAT 1989 WILL BE A HIGH PROFILE YEAR FOR FRANCE. THE BICENTENNIAL CELEBRATIONS ARE UNFOLDING BY FITS AND STARTS, WITH A CHARACTERISTIC FRENCH MIXTURE OF FLAIR AND LAST-MINUTE PLANNING, BOTH OF WHICH WILL NO DOUBT BE ON SHOW ON 13/14 JULY. A SERIES OF INTERNATIONAL CONFERENCES IN FRANCE, BEGINNING WITH THE CW ONE IN JANUARY, WILL CONTINUE TO PREOCCUPY AN OVERLOADED FOREIGN POLICY MACHINE. GORBACHEV WILL COME HERE IN EARLY JULY, AND MITTERRAND WILL CONTINUE HIS OVERSEAS VISITS, INCLUDING TO POLAND. ALL THIS ACTIVITY IS GRIST TO MITTERRAND'S MILL, BUT MAY NOT MANAGE TO CONCEAL THAT THE GREAT TACTICIAN REMAINS IN SEARCH OF A STRATEGY. A SUCCESSFUL FRENCH PRESIDENCY (WHATEVER THAT MAY MEAN) IN THE SECOND HALF OF THE YEAR IS PERHAPS THE TOP FOREIGN POLICY PRIORITY. THAT SUGGESTS THAT THE MOST USEFUL OUTCOME OF THIS SUMMIT COULD BE TO TEASE OUT FRENCH INTENTIONS FOR THEIR PRESIDENCY, POINTING THEM AWAY FROM AREAS OF POTENTIAL CONFRONTATION AND IDENTIFYING AREAS OF COMMON GROUND. I FEAR, HOWEVER, THAT ON MANY SPECIFIC ISSUES, THE FRENCH THEMSELVES WILL NOT HAVE A CLEAR PICTURE OF THE WAY AHEAD.

FERGUSSON

YYYY

DA1AKF CONFIDENTIAL

PRIME MINISTER

YOUR VISIT TO PARIS

You are to spend the weekend of 25/26 February in Paris before the Anglo-French Summit on 27 February. I have had a talk with Ewen Fergusson about the programme. What we propose is as follows:

Saturday 25 February

1430 Depart Northolt
1630 Arrive Paris
2000 Dinner at the Embassy
Ewen is intending to get in about 14/16 guests whom he believes you will find of interest

Sunday 26 February

0900 Visit the Gaugin exhibition (in the hour before it is open to the public)
1100 Drive out to Vaux-le-Vicomte to see the gardens and for lunch. It is about an hour's drive but very fine, indeed spectacular.
1800/1900 Drinks at the Embassy for the senior staff
2000 Small supper at the Embassy, possibly for the Chiracs

Content with this general outline? Yes - marvellous MT

C.D.P.

(C.D. POWELL)

8 February 1989

CONFIDENTIAL

MINISTER
FOR PUBLIC TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01 276 5040

My ref

Your ref

Stephen Wall Esq
Private Secretary to
the Secretary of State for
Foreign and Commonwealth
Affairs
Foreign Office
Downing Street
LONDON
SW1A 2AL

3rd February 1989

Dear Stephen

I am writing to let you know that, subject to your Secretary of State's approval, Mr Portillo proposes to visit France from the evening of 26th February to the afternoon of 28th February to hold discussions with the French railways on the development of their TGV trains.

At present, the programme includes a trip on a TGV from Lyon to Paris on the morning of Monday 27th February followed by meetings with the French railways that afternoon. On Tuesday 28th February Mr Portillo plans to visit the Channel Tunnel site at Sangatte before returning to London that evening.

The TGV is of some significance to us at present in the light of BR's proposals to build a new high speed rail line through Kent from the Channel Tunnel to London. As you may know, this is causing considerable concern in Kent given the potential environmental impact of a new line, and comparisons with the French TGV are being made both from the noise impact of their high speed trains and the measures taken by the French to minimise the environmental impact.

BR plan to announce their preferred route corridor for their high speed line early in March, and Mr Portillo feels that, before then, it is very important for him to have first hand experience and knowledge of the TGV for himself so that he can respond to the debate on the whole issue from an informed position.

Mr Portillo is aware that Monsieur Delebarre, the French Minister of Transport, will be unable to host the visit himself given other commitments. He is also aware that the Prime Minister will be in Paris at the same time, for the Anglo-French Summit, and that the Embassy in Paris will not be able to provide him with their usual level of hospitality. He is, nonetheless, content to proceed with the visit given the importance of the issues concerned, and the need to have experienced the TGV prior to BR's announcement in March.

I am writing in similar terms to Paul Gray at No.10 and to Murdo MacLean in the Chief Whips Office, and would be very grateful for an early indication that your Secretary of State is content for Mr Portillo's visit to proceed.

Yours sincerely

Stephen Bramall

STEPHEN BRAMALL
Private Secretary

2F

-010

MINISTER
FOR PUBLIC TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01 276 5040

My ref:

Your ref:

RA - Issue resolved in conversation Schweer CDP at Portillo's this.
PRCG
17/2

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1

2 February 1989

Dear Paul

I enclose a copy of a letter I have today sent to Stephen Wall concerning Mr Portillo's proposed trip to France from 26th to 28th February.

Since the Prime Minister will be in Paris for the Anglo-French Summit at the same time as Mr Portillo's visit, I thought it important that you should be aware of his proposed trip.

I would be very grateful if you could confirm that you see no difficulties with this.

Yours sincerely
Steve.

STEPHEN BRAMALL
Private Secretary

Ó10

CONFIDENTIAL

cc- M. Powell (No 10)
M. Weston
M. Lavelle

Foreign and Commonwealth Office
London SW1A 2AH

Sir Patrick Wright KCMG
Permanent Under-Secretary of State

30 January 1989

Sir Robin Butler KCB CVO
Cabinet Office

CABINET OFFICE
A 1091
31 JAN1989
FILING INSTRUCTIONS
FILE No. .....

My dear Robin,

ANGLO-FRENCH SUMMIT: 27 FEBRUARY

1. This letter sets the scene for the Anglo-French Summit, which is due to take place in Paris on 27 February, a week after the Summit with the Germans in Frankfurt (the subject of my letter of 23 January).

2. The last Summit with France was at Lancaster House in January 1988. Since then there have been a number of bilateral meetings between British and French leaders, most recently between the Prime Minister and President Mitterrand at Mont St Michel on 30 November.

3. Consideration is currently being given to Ministerial participation in the Summit. The French have just proposed that a choice be made from Ministers for Foreign Affairs, Defence, Home Affairs, Industry, Finance, Education, European Affairs, Employment, Culture, Research and Environment. Our initial view has been that, as well as the Prime Minister, at least the first four proposed and Ministers of Agriculture could take part.

UK Objectives

4. In essence the Summit is an opportunity to build on the present excellent bilateral relationship and to give it publicity. European Community and strategic issues will be at the top of the agenda. We shall want to ensure close Anglo-French co-operation in the run-up to the French Presidency, in order to influence their thinking towards realistic aims.

5. We shall also wish to discuss the latest developments in arms control and to encourage the French to continue their movement towards practical co-operation in defence matters, on which the Prime Minister wrote to the President in January 1988. An important subject will be SNF modernisation and the need to take decisions at a NATO

/Summit

Summit this spring. We shall want to keep President Mitterrand firm over his expressed intention not to put obstacles in the way. The French voice could also be important in resisting German pressure for early negotiations on SNF.

6. On nuclear matters we shall wish to reassure the French of our continuing interest in further developing the Anglo-French dialogue.

7. Apart from Community and defence issues, we shall want to:

- intensify bilateral anti-terrorist co-operation;

- resist any French attempt to focus the July Economic Summit on debt and development issues at the expense of other major international economic concerns;

- convince the French of the need to maintain a flexible EC position on agriculture in the GATT Uruguay Round.

8. The French share our wish to advertise the closeness of bilateral relations. They are likely to want to explain their aims for their Community Presidency, giving emphasis to their pet themes of audiovisual, monetary, social and tax issues.

FRANCE: BACKGROUND

Internal Political

9. François Mitterrand was re-elected President in May 1988. A socialist government was formed under Prime Minister Rocard, thus putting an end to the uneasy period of cohabitation between a socialist President and M Chirac as Prime Minister. In the legislative elections of June 1988 the electorate applied the brakes by denying the socialists an overall parliamentary majority.

10. President Mitterrand made clear during the 1988 election campaign his desire to "open" French politics through detaching centrist politicians from the Right and creating a more fluid, consensus-based system. The appointment of a number of non-socialists as Ministers (industrialists, academics and former centrist MPs) reflected this attempt at "ouverture". However, the process seems currently stalled. Key centrist politicians are unwilling to be wooed until at least after the municipal elections in the spring.

/11. The right-wing

11. The right-wing parties remain in disarray following M Chirac's defeat. There is a good deal of malaise on the left too, with the Socialist Party unsure of its goals and Communist Party support steadily declining. Since his re-election President Mitterrand has maintained a lower profile, though he follows certain dossiers closely, especially defence, international economic and Community questions. His apparent aloofness has led to some public criticism.

12. The French continue to consider themselves (and the Franco-German relationship) the locomotive of European construction. French rhetoric about European vision and purpose is no hindrance to their single-minded pursuit of national interests within the Community.

Economic Policy

13. After a sustained period of rapid growth, France's national income per head overtook the UK's in the early 1970s. However, problems multiplied in the late 1970s and early 1980s. The Socialist reflationary programme proved unsustainable and expansionary goals were abandoned in 1983 in favour of more market-orientated policies aimed at controlling inflation, strengthening the Franc and reducing the budget deficit. The Chirac government that took office in 1986 introduced measures to liberalise the economy such as privatisation, abolition of price restrictions and partial lifting of exchange controls. These measures, combined with beneficial external factors, led to a strong economic performance in 1988, with growth at 3.5%, inflation 3% and the Franc steady.

14. The Rocard government remains committed to the control of inflation, reduction of the budget deficit and a strong Franc, but is more concerned than its predecessor with social issues, particularly unemployment (currently 10%). The privatisation programme has been halted, though there will be no renationalisation. A mild wealth tax has been introduced to please the left. Despite a wave of public service strikes the government have stuck to their policy of "rigueur".

15. Higher than forecast tax revenues, the result of faster growth in 1987 and 1988, have given the Finance Minister, M Bérégovoy, room for manoeuvre over the 1989 budget. Expenditure is to increase by 4.7% over 1988 with concentration on the government's main priority areas: education, culture, research, employment, transport and

/overseas

overseas territories. The target deficit is down and there will be tax reductions.

European Community

16. EC issues are at present at the top of the French political agenda. We shall want to ensure that progress is sustained under the French Presidency on the Hanover/Rhodes priorities for the Single Market (public contracts, banking and other financial services, intellectual property and approximation of standards). We also want progress on transport liberalisation. The French will want to focus attention on social issues and monetary co-operation. Our purpose is to maintain a close dialogue so that any French initiatives remain within realistic bounds.

17. We must present our ideas on the social dimension in a positive way, making clear that if the French stick to measures to combat unemployment and non-burdensome proposals in the health and safety area, there are real achievements to be had. But we should make it equally plain that the imposition of unnecessary burdens on business, or mandatory forms of worker participation, are not acceptable.

18. On monetary co-operation we shall want to stress our support for practical progress, step by step (eg. on the lines of the Basle/Nyborg 1988 ERM reforms, or our own ecu initiative), and the dangers of any leap in the dark.

19. We shall need to argue against French calls for a withholding tax on savings, pointing out the danger of driving capital out of the Community altogether. On indirect taxation, there are no signs that the French wish to force the pace, but we should remind them of our market forces approach.

20. The French are likely to return to the charge on audio-visual developments: we can rest on the Rhodes Conclusions which contained satisfactory references to the promotion of high definition television, and to the need to ensure consistency between the Council of Europe Convention and any subsequent EC directive on broadcasting.

21. It may also be necessary to press President Mitterrand for a solution to the problem of access to the French market for UK-built Nissans, if this has not already been resolved.

22. We envisage, if possible, a further meeting between the Prime Minister and President Mitterrand just before or early in the French Presidency.

/Defence

Defence and Arms Control

23. A welcome shift in French attitudes to defence and strategic issues towards a slightly more atlanticist outlook continues, though slowly. Gaullist dogma is still well enough entrenched to keep France out of NATO's integrated military structure for the measurable future. However, progress is being made discreetly on the proposals for bilateral defence co-operation made by the Prime Minister to President Mitterrand in January 1988; these would increase their practical defence collaboration alongside their NATO allies.

24. France will also participate in the new negotiations on Conventional Armed Forces in Europe, which bring together the 23 members of NATO and the Warsaw Pact, though it has been at pains to avoid any suggestion that these are bloc-to-bloc negotiations (it stayed out of the preceding MBFR talks on these grounds).

25. President Mitterrand has taken a firm tone on East/West relations, though he favours an improvement in relations with Eastern Europe. He took a less helpful stance last autumn on nuclear defence, especially SNF modernisation, which he suggested should be left aside subject to progress in conventional arms control; but he has subsequently indicated to the Prime Minister that he will not continue to press this line. On SNF negotiations French officials well understand the dangers, but they need to be emphasised to President Mitterrand and we need him to confirm that he will help resist any German pressure for early negotiations.

Terrorism

26. Our co-operation on terrorism with France remains good. The continuing PIRA campaign of violence shows the long-term value of the "Eksund" coup of October 1987 when the French intercepted a shipment of 120 tons of Libyan arms bound for the IRA. In the wake of the Lockerbie air disaster we shall be seeking French support for our initiatives in The Summit Seven to improve aviation security and aircraft design and on the detection of plastic explosives like Semtex.

World Economy

27. France is host to the Economic Summit this year (on 14-16 July, immediately after their Bicentenary Celebrations); so international economic issues are likely to be among their preoccupations. 1988 was a good year for

/the major

the major industrialised countries, with more stable financial and exchange markets than in 1987, an average growth rate of just over 4% and only a small increase in inflation. The task of economic policy co-ordination this year will be to sustain this improved performance, by pursuing micro-economic reform and addressing the main uncertainties over inflation and the prospects for further reductions in the current account imbalances of the US, Japan and Germany. The imbalances have fallen as a percentage of GDP, but progress seems to have slowed; Germany's surplus actually rose last year. The financial markets will also be watching how the Bush Administration plans to tackle the US budget deficit. Reform of the international monetary system is a traditional French aim, but there have been no new initiatives since Balladur's February 1988 paper, which is currently being considered by a G7 study group.

28. We will want to see in April a successful conclusion of the GATT Mid-Term Meeting which broke off in December without confirming any agreements. This will mean the EC finding common ground with the US on agriculture. To do so, both sides will need to show flexibility. We may well have to resist French attempts to tighten the Community negotiating position, and to persuade them of the need for greater flexibility, particularly on further short-term measures of agricultural reform.

Debt

29. Following the success of the Toronto Summit in agreeing debt relief measures for sub-Saharan Africa, President Mitterrand is expected to argue for making the problems of middle-income debtors a major theme of the forthcoming Paris Summit. At the UNGA he proposed a new scheme for facilitating commercial bank debt reduction: developed countries' share of a new allocation of SDRs would be used to provide partial guarantees on debt. We are sceptical about this scheme, which represents a substantial transfer of risk from commercial banks to creditor country taxpayers. In any case we oppose an SDR allocation. We believe that President Mitterrand may well float other Summit Seven initiatives to help developing countries.

30. In the context of our recent efforts to raise an international aid package for Nigeria (to which France has agreed to contribute around $10 million) the French have made it clear that they are seeking similar international support for francophone countries in West Africa. We have

/pointed

pointed out that Nigeria, unlike eg. Côte d'Ivoire, is committed to serious economic reform and has already undertaken substantial adjustment measures. But, even if the francophone countries followed suit, ODA would not have funds to help. If pressed on this, we shall need to repudiate any linkage.

Bilateral Relations

31. Bilateral relations have improved markedly in recent years. The climate is occasionally affected when attitudes differ over major international issues. But in general the instinct on both sides is now to look for consultation and convergence rather than adopt antagonistic positions. The importance attached by the French to the relationship was epitomised in the unlimited effort and goodwill they put into the successful visit of the Prince and Princess of Wales in November.

32. Work on the Channel Tunnel remains behind schedule and relations between the Eurotunnel and the contractors are causing concern to both governments. French interest in the arrangements for customs and immigration controls for Channel Tunnel trains remains active. The bilateral youth exchange programme is moving ahead: we plan to announce improvements at the Summit. Difficulties over the Carriers Liability Act 1987, under which Air France and French ferry companies have incurred fines, may be raised by the French.

Public Handling

33. The Summit will be announced about ten days beforehand. In order to help achieve the maximum impact in France, we hope that requests from the French media for interviews with British Ministers in advance of the Summit will be considered favourably.

34. The Summit is expected to conclude as usual with a press conference. We intend to use this to draw attention to some of the positive developments in Anglo-French relations over the last year or so and to future plans. I should be grateful if Whitehall Departments would draw attention to any items appropriate for mention.

35. The draft brief for the Prime Minister will be circulated by 13 February for consideration at a meeting of the MISC 76 Committee in the Cabinet Office on 20 February. I should be grateful to know as soon as possible of any subjects Departments consider it should cover in addition to

/those

those in the enclosure to this letter. I understand that Departments will as before brief their own Ministers for their separate bilateral meetings.

Yours ever, Patrick

Patrick Wright

cc: Derek Andrews Esq CB CBE, MAFF
Sir Michael Quinlan KCB, MOD
Geoffrey Holland Esq CB, Dept of Employment
Sir Peter Gregson KCB, Dept of Energy
Sir Terence Heiser KCB, Department of Environment
Sir Clive Whitmore GCB CVO, Home Office
Sir Brian Hayes GCB, DTI
Sir Alan Bailey KCB, Dept of Transport
Sir Peter Middleton GCB, HM Treasury
Sir David Hancock KCB, Dept of Education and Science
Charles Henderson Esq, OAL
Richard Francis Esq, British Council
Sir Richard Lloyd-Jones KCB, Welsh Office
Russell Hillhouse Esq, Scottish Office
Sir John Blelloch KCB, Northern Ireland Office

PROPOSED LIST OF TOPICS FOR ANGLO-FRENCH SUMMIT: 27 FEBRUARY

1. East/West Relations and Arms Control.

2. Bilateral Defence Relations.

3. European Community.

4. Other International Issues:

   (a) World Economy
   (b) Co-operation against terrorism
   (c) Regional Issues
   (d) Environment

5. Bilateral Issues:

   (a) Youth Exchanges
   (b) Any current problems (eg. fisheries, carrier liability, Channel Tunnel)

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 January 1989

Dear Nigel,

PARIS ECONOMIC SUMMIT

We had a short talk with the Prime Minister this evening about the Paris Economic Summit from which I think three points emerged:

- the Prime Minister suspects that the French may launch an 'expensive' initiative on the environment at the Summit, drawing on the ideas put forward to a number of Heads of Government by Monsieur Rocard. She thinks that we should prepare for this by producing a paper of our own on the economics of environmental protection. This would examine the costs of commitments to deal with specific environmental problems such as car exhaust emissions, reducing dependence on coal and measures to preserve tropical forests. The paper should also look at the consequences for aid policy of additional commitments in these areas. You will want to set a study in train;

- the Prime Minister also wants the Summit to tackle again, and this time more effectively, the problem of persistent structural surpluses in countries like Japan and Germany. She would welcome ideas on how we can best go about this;

- in the same context, but also with an eye to the Anglo/German Summit in late February, she would like a note on our economic and trade relations with the Federal Republic of Germany, the reasons why we have such a substantial deficit in our trade with them and what we can do about it.

The Prime Minister also lamented the substantial deficit in our trade with the Community as a whole, the fact that our farmers seemed to fare worse last year in terms of farm incomes than any other farmers in the Community and the further rise expected in the current year in our net contribution to the Community. In the light of all these, it was hard to construct a case that membership was doing us much good. It might be useful if the Cabinet Office could put together a short factual note dealing with our comparative

position in these three areas of our economic relations with the EC, illustrating the trends in each case.

I am copying this letter to Alex Allan (Treasury), Stephen Wall (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Roger Bright (Department of the Environment), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Carys Evans (Chief Secretary's Office) and Roger Lavelle (Cabinet Office).

Yours sincerely,

CHARLES POWELL

Nigel Wicks Esq., C.V.O., C.B.E.

Too early for detailed arrangements But PM + DT + CDP + I GR will no go over on the Saturday & spend weekend

10 DOWNING STREET

Charles

Sheila Waghorn from MOD at the FCO Protocol Dept rang. Embassy.

They are quite keen to start the ball rolling for the PM's visit to Paris in late February — in particular they'd like to confirm dates so that they can at least book aircraft. CDP.

Do you want to write to the FCO or is it still a bit early? — too early

Derek

3/1

FILE PM

SUBJECT C MASTER OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T182/88

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

1 December 1988

Dear M. President

May I thank you most warmly for your hospitality yesterday. The choice of Mont St. Michel for our meeting was a particularly happy one. I have long wished to see the town, and what a remarkable sight it is. Thank you also for a memorable lunch at Mere Poulard.

I was grateful for the opportunity to hear your impressions of the situation in the Soviet Union following your meeting with President Gorbachev. Our views on the right way to handle relations with the Soviet Union, in particular the need to maintain strong defences combined with willingness to negotiate, are happily close. It is very important for Europe that Britain and France should stand together on these issues.

I look forward to our meeting in Rhodes.

With every good wish,

Yours sincerely

Margaret Thatcher

His Excellency Monsieur le Président Mitterrand, G.C.B.

KK

FILE PM

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

1 December 1988

Dear Monsieur Gadaud,

I am most grateful to you for the excellent arrangements made for my meeting with President Mitterrand at Mont St. Michel yesterday. I know how much work goes into the preparation of even brief visits. But the result was a most worthwhile meeting and a highly enjoyable day. May I ask you to pass on my thanks to all those concerned.

With best wishes,

Yours sincerely

Margaret Thatcher

Monsieur André Gadaud

KK

FILE PM

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

1 December 1988

Dear Inspector Cailly,

I was very grateful to you and your colleagues for the arrangements made for my visit to Mont St. Michel. They were impeccable and enabled me to enjoy the day and the opportunity to see the town and its historic buildings.

With best wishes,

Yours sincerely,

Margaret Thatcher

Inspecteur Cailly

KK

FILE PM

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

1 December 1988

Dear Monsieur Vannier,

May I thank you for the very warm reception which I received during my visit to Mont St. Michel yesterday. I was delighted to see the town and its historic buildings and thoroughly enjoyed my day.

I offer you no less warm thanks in your other capacity as the proprietor of Mere Poulard for the excellent lunch which we enjoyed. Would you please pass on my thanks and congratulations to all members of the restaurant's staff.

With best wishes to you and all the people of Mont St. Michel.

Yours sincerely

Margaret Thatcher

Monsieur Vannier

KK

FILE PM

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

1 December 1988

Dear Monsieur Pascal

I was most grateful for your courtesy in receiving me during my brief visit to Mont St. Michel. I enjoyed the day very much and would ask you to pass on my gratitude to all those who took part in the arrangements for the visit.

With best wishes,

Yours sincerely

Margaret Thatcher

Monsieur Pascal

KK

M. Philippe de Mester, Directeur du Cabinet du Préfet de La Manche

(1) M. Pascal, Préfet de La Manche

(2) M. et Mme Vannier, Mayor of Mont St Michel and owner of Mere Poulard

(3) Inspecteur Cailly, Chef de l'Equipe du Service de Voyagi's officiels

M. Nicholas Simmonet, Guide

M. Christophe Penot, Protocole, Elysée

(4) M. André Gadaud, Chef du Protocole

Mr Quintin Quayle, Head of Chancery

Miss Pat Ramsey, Visits Officer

RAF

✓ Squadron Leader Holme — Ltr attached

FILE KK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 December 1988

THE PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

I enclose the Prime Minister's thank you letters following her meeting with President Mitterrand at Mont St Michel. I should be grateful if you could arrange for them to be sent to the Embassy in Paris to deliver. I will take the letter to President Mitterrand to Rhodes to hand over to his staff there. I am enclosing a copy for your files.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 November 1988

The Prime Minister has asked me to thank you for flying her to France today.

The journey was very smooth and the in-flight service excellent. The Prime Minister was most grateful and has asked if you would kindly pass on her thanks to all concerned.

C. D. POWELL

Squadron Leader Holme

SUBJECT
cc MASSER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 November 1988

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND
IN MONT ST. MICHEL ON WEDNESDAY 30 NOVEMBER

The Prime Minister met President Mitterrand over lunch at the Mere Poulard restaurant in Mont St. Michel today. Madame Guigou was also present. Their discussion lasted some two hours, after which they walked up the hill to visit the church and then gave a joint press conference. The transcript of the latter will be available to you.

The meeting was extremely amiable, although President Mitterrand confined himself mainly to generalities. The Prime Minister commented afterwards that he had clearly not done much homework. There was not time to cover all the subjects we had hoped to touch on: two particular casualties were Anglo-French defence co-operation and the Middle East.

East/West Relations

The Prime Minister asked President Mitterrand for his impressions of Gorbachev's position and prospects following his visit to Moscow.

President Mitterrand said that he had held extensive talks with President Gorbachev, mostly tête-à-tête. The main issues had been trade and arms control. French trade with the Soviet Union was at low level. Gorbachev had been much pre-occupied by problems with the nationalities, an immensely difficult issue because it called into question the unity of the Soviet Union. You could feel the tension in him when the issue was raised. In his view, Gorbachev's handling of this issue could well determine his overall success or failure. Gorbachev was determined to move ahead with his wider reforms. But they remained deeply unpopular in the country.

The Prime Minister said that she did not think Gorbachev had much room for manoeuvre over the nationalities issue. He could give some latitude to the republics, but had to keep overall control in Moscow's hands. Otherwise all he was trying to achieve would be put at risk. In her view, the West should not interfere in the problem however great the

temptation. Our goal should be to see greater freedom and human rights throughout the Soviet Union as a whole. President Mitterrand said that Gorbachev clearly understood the needs of the nationalities but nothing he could offer would satisfy them. They wanted independence in all but name. Gorbachev would never accept that the decisions taken in Estonia could carry more weight than those of Moscow. The Prime Minister said that the West should show sympathy. After all, we experienced similar problems. It was probably better, and certainly safer, for us if the Soviet Union remained united. President Mitterrand agreed that it was not in the West's interests to encourage the nationalities to split away.

The Prime Minister asked what progress was being made with economic reform. President Mitterrand said that Russians were clearly feeling freedom in the air and there was much more discussion. But there had as yet been little change in living standards; and there was powerful opposition to reform from the party and the bureaucracy. Unless Gorbachev's reforms began to produce results soon, there could be difficulties. There was no doubt that he was a remarkable man. He had a subtle mind and his strength was his success in creating a rapport with the Soviet people. He was setting up a leadership team loyal to himself and increasingly rested his power on the State rather than Party. He believed in his bones that Gorbachev would succeed, but nonetheless feared a political accident. We might all wake up one morning and find there had been a military coup against him. The Prime Minister commented that the risk was people would not give Gorbachev enough time. Had he given any indication of what he wanted from the West? She thought that his visits abroad helped increase his status at home. President Mitterrand replied that Gorbachev needed arms control agreements so that he could reduce spending on defence. He also wanted Western companies to help to modernise the Soviet economy through joint ventures.

Arms Control

The Prime Minister said that she was particularly concerned about the Soviet performance on chemical weapons. Gorbachev had made all sorts of claims about destroying stocks and ceasing production of such weapons, which we knew to be untrue. This cast doubt on his reliability as a negotiating partner. President Mitterrand said he had told Gorbachev that a chemical weapons attack by the Soviet Union would meet a nuclear response. The Prime Minister commented that this raised in her mind the question whether it would not be better for the West to have a chemical deterrent and not rely only on nuclear weapons.

The Prime Minister continued that, looking ahead, she was increasingly worried about the proliferation of nuclear and chemical weapons. Countries as unreliable as Libya were now acquiring the capability to produce chemical weapons and the means to deliver them over long distances, and several more countries would probably acquire nuclear weapons in the next

few years. Hitherto we had thought in terms of a world with five nuclear powers, who could be assumed likely to act responsibly. That was all changing and we must find new ways to manage the risks. In this new situation Britain and France must stay very close to each other. President Mitterrand was the only head of government in Europe to whom she could talk about nuclear weapons and nuclear strategy. The right course for both countries was to preserve strong defences, including their independent nuclear deterrents, while being ready to negotiate with the Soviet Union. President Mitterrand agreed: we could not assume that Gorbachev would succeed in the Soviet Union and it would always be essential to preserve a strong defence. On the Prime Minister's point about chemical weapons, we should not make Gorbachev's sincerity the test, but actual Soviet performance.

The Prime Minister said that it would be very important that NATO should reach decisions on modernisation of its short-range nuclear forces in the course of 1989. They were vital to the strategy of flexible response. In particular it was necessary to decide soon on the replacement for LANCE if it was to be deployed in 1995. The German position was ambivalent, although Chancellor Kohl seemed ready to take the necessary decision next year.

President Mitterrand agreed with the Prime Minister that it was difficult to know where Germany stood. There was often a difference between what Chancellor Kohl wanted to happen and what actually happened. The President recalled his scepticism about the strategy of flexible response. However, he held no doctrinaire position on SNF modernisation. About a year ago he had expressed the opinion that modernisation of NATO's short range weapons should not be allowed to become an obstacle to talks on reducing conventional forces in Europe. But since then, the situation had changed in that the Soviet Union had continued to modernise its own nuclear weapons while promoting reductions in conventional arms. His objection had therefore lost its force and he would not be an obstacle to a decision next year to modernise LANCE. To be quite clear: he had not wanted to see SNF modernisation at the expense of negotiations on conventional forces, but that was no longer a risk.

Human rights

The Prime Minister said that she had received the impression from very recent reports that the Soviet Union might no longer insist on agreement to a human rights conference in Moscow as the price for a successful outcome to the CSCE meeting in Vienna. President Mitterrand said the issue had come up in his talks with Gorbachev. He had replied that the conditions for such a conference were being discussed among the western allies. Gorbachev had not seemed much fussed about the issue and had indicated that he was not wedded to any particular date for a conference in Moscow. President Mitterrand continued that he agreed that the West should not have to pay a price for concluding the Vienna meeting. If there were to be a conference in Moscow in due

course, it must be on the basis of an improved Soviet performance on human rights. But we should not overlook the argument that a conference could itself help to put the Soviet Union on the spot. Moreover Western leaders were constantly visiting Moscow and raising human rights issues. It was slightly illogical to make such a fuss about a special meeting to discuss them. The Prime Minister said that her great fear was that all those who had fought for basic human rights in the Soviet Union and East Europe would feel that the West had been hoodwinked if it went to such a conference in Moscow.

The Prime Minister gave President Mitterrand a brief account of her visit to Poland. President Mitterrand said he would shortly be visiting Czechoslovakia. It was likely to be an unpleasant experience.

NATO Summit

The Prime Minister said that she saw some virtue in turning the planned meeting of NATO Foreign Ministers in June into a Heads of Government Meeting. It would be good to be seen to reaffirm the principles and the unity of NATO in the presence of a new American President. It would also be an opportunity to approve the comprehensive arms control concept beloved of the Germans, in order to open the way to SNF modernisation. President Mitterrand said that he would think about the suggestion: he was not opposed.

European Community

President Mitterrand said that the Rhodes European Council would be an opportunity for contacts but little more than that. Looking ahead to 1989, the main issues were likely to be monetary matters, and the social dimension. On the monetary side, France had accepted free movement of capital. But there must also be fair competition, which meant that the tax treatment of capital in the Community had to be broadly similar. France did not want to impose its own system of taxation on others. But the systems should not be so different as to result in inequality. He knew that the Prime Minister did not agree with this. There would need to be a discussion once the Commission had delivered its report. The Prime Minister said there was already complete liberalisation of capital movements in at least four Community countries and this had given rise to no particular problems. If a uniform withholding tax on savings were to be introduced, there was a risk that people would withhold their capital from Europe altogether.

President Mitterrand continued that free movement of capital would also require strengthening of the European monetary system. He acknowledged that the United Kingdom had taken several initiatives in this area, including wider use of the ecu. His own objectives were to see improved cooperation between Central Banks and the creation of a European Reserve Fund. But these were all matters which would need to be discussed when the Delors Committee had completed its work.

The President added that he hoped there could also be a dialogue on social questions such as health and safety, training and social security. The Prime Minister commented that countries like Britain and France should beware of attempts to get harmonisation of benefits throughout the Community without harmonisation of productive capacities.

The President referred to his audio-visual initiative. European producers were meeting only a fraction of Europe's programme needs, some 5000 hours out of 125000. He would like to see more European productions. 80 per cent of the films shown in France were American. When he had told this to Gorbachev, Gorbachev replied that 50 per cent of the films shown in Moscow were American. He would like to see wider cooperation in this area.

Nissan

The Prime Minister referred to the difficulties which had arisen over the import of Nissan cars to France. The President professed complete ignorance of this. After consulting Madame Guigou, he announced it had been a case of over-zealous bureaucracy. France had now promised the Commission that it would let in Nissan cars from the United Kingdom without any restriction. There was no longer a problem. Madame Guigou seemed rather taken aback.

Environment

The Prime Minister spoke of the importance of proper international coordination of work on the environment, particularly through the UNEP. President Mitterrand commented that environmental issues were much discussed in Paris and the French Government intended to make proposals. He would ask M. Rocard to inform the Prime Minister of what he had in mind. The Prime Minister said that M. Rocard had already written to her and she had replied stressing the importance of proper coordination. President Mitterrand said that the important thing was to get the subject on the table for discussion. He was not wedded to any particular proposal.

I am copying this letter to Alex Allan (H.M. Treasury), Neil Thornton (Department of Trade and Industry), Roger Bright (Department of the Environment), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

yours ever,

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL AND PERSONAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 November 1988

Dear Lyn.

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

After our excellent but rather heavy lunch with President Mitterrand in the Mere Poulard Restaurant in Mont St. Michel, we set off to walk up the very steep hill to the church at the top, with the Prime Minister setting a cracking pace. Near the top, President Mitterrand was obviously in some difficulty, saying that he felt faint and retiring into an alcove where he supported himself against a wall. His doctor arrived at the double and a stretcher was produced but waved away. He was given some of the water which we carry for the Prime Minister and asked to be left alone to recover. This took some ten minutes. By the time we moved into the press conference he seemed indeed to have recovered. But there was clearly some alarm among his entourage.

yours ever,

Charles Powell

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL AND PERSONAL

(1)

Prime Minister

President Mitterrand is apparently likely to raise this with you tomorrow. Madame Mitterrand is taking a close interest. She has visited Bangladesh. M. Attali is there this week.

CDP
29/XI

BANGLADESH FLOODS AND FLOOD PREVENTION

Points to Make

1. Appalled by scale of Bangladesh floods.

2. Impressive response from international donor community.

3. We have committed £25 million in emergency relief and rehabilitation aid, including 50,000 tonnes of food aid. EC has committed 250,000 tonnes of food aid and over £4m for post flood rehabilitation.

4. Long term flood prevention clearly critical. But problem an intractable one, complicated by political considerations involving the riparian countries, notably India.

5. Given scale and complexity of problem and political sensitivities, we think it essential that it is approached on a properly co-ordinated basis and that individual donors operate within whatever international or regional framework emerges.

6. Resources needed for flood prevention will be massive. We have already stressed our readiness to play whatever part we can in supporting international or regional solutions.

BACKGROUND

Heavy rainfall in August produced the worst flooding in Bangladesh in living memory, with 53 out of 66 districts under water at one stage.

2. The British Government was one of the first to respond as the severity of the floods became known. Altogether we provided some £7.5 million for emergency relief aid, including 50,000 tonnes of food aid (at a cost of about £5 million) and £2.5 million channelled through British and local voluntary agencies. In addition we have committed £17.5 million to help meet rehabilitation needs, including a further £2.5 million for voluntary agencies and a £15 million commodity aid grant (eg for bailey bridging). We are in close touch with the Bangladesh authorities about how we can best contribute further to the rehabilitation programme.

3. The EC has committed 250,000 tonnes of food aid and over £4 million for rehabilitation.

4. Consideration is being given by the Bangladesh government and by the international donor community to the fundamental causes of the floods, which threaten to become an annual disaster, and to long-term flood prevention measures. We have made clear HMG's willingness to play a part in trying to identify and implement sound and workable proposals. Any flood prevention programme will be extremely complex and expensive; there are also political sensitivities, particularly involving India whose policy is to resist external interventions in the problems of the region. For these reasons we regard it as essential that individual donors operate within whatever international or regional framework emerges.

5. A special UN meeting on this question was held in New York on 16 November and chaired by the French State Secretary for Humanitarian Affairs, Monsieur Kouchner. At this meeting most donors, including Britain, promised additional help after further examination of Bangladesh's reconstruction requirements. We stressed the need for an international or regional approach to the problem.

6. Madame Mitterrand visited Bangladesh in September and following this, in his speech to the UN General Assembly on 26 September, President Mitterrand announced (among other proposals) a programme to stabilise rivers in Bangladesh. His Special Adviser, Monsieur Attali, is in Bangladesh this week with a team of experts to discuss flood prevention. France's interest in this matter is welcome but it is important that any assistance provided is effectively co-ordinated with the contributions of others within an agreed framework.

EASTERN ASIA DEPARTMENT
Overseas Development Administration
29 November 1988

(1)

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CDP
29/XI

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EASTERN ASIA DEPARTMENT
Overseas Development Administration
29 November 1988

OFFICE OF ARTS AND LIBRARIES
Horse Guards Road
London SW1P 3AL
Telephone 01-270 5929

From the Minister for the Arts

C88/5901

Dominic Morris Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

29 November 1988

Dear Dominic,

... I enclose a short report on the EC Ministers of Culture meeting in Athens today, which you may wish to include in briefing for the Prime Minister's meeting with President Mitterrand tomorrow. This should be read in conjunction with the briefing enclosed with Catherine Bannister's letter of yesterday's date.

I am copying this letter to Stephen Wall, Catherine Bannister, Neil Thornton and Trevor Woolley.

Yours,

Eleanor

MISS E M GOODISON
Private Secretary

Informal Meeting of Ministers of Culture, Athens
29 November 1988

The informal meeting of Ministers of Culture took place in Athens on 29 November. There was an exchange of views prompted by Melina Merkouri on extending the European City of Culture concept beyond the twelve to Eastern Europe, and on audiovisual developments - where the Greek Presidency and the Commission argued for increased European programme production.

The Ministers agreed to consultations to be conducted by Greece, Spain, France and the Commission with the Council of Europe and to exploratory discussions with Budapest. Dublin was agreed as European City of Culture for 1991.

On audiovisual developments, Mr Luce acknowledged different approaches, but stressed the need for industry-led initiatives on the lines of the French suggestion for a EUREKA-style approach to audiovisual co-operation, recorded in the conclusions of the Hanover European Council. The French Culture Minister referred to technical standards for High Definition Television and the need to increase European programme production. Culture Ministers reached no conclusions on 29 November.

We should not support any further commitments to action in the audiovisual sector until we know more about the French EUREKA ideas, and the Commission's existing MEDIA programme of pilot projects has been assessed and agreed by Ministers.

Office of Arts and Libraries
29 November 1988

PRIME MINISTER

MEETING WITH PRESIDENT MITTERRAND

You travel to France tomorrow to meet President Mitterrand. You leave No.10 at 1000 and should be back by 1700.

You read the brief at the weekend but may like to look again at the papers in the folder. I have added some recent press cuttings.

C.D.P.

(C.D. POWELL)

29 November 1988

TIMES PAST
THE TIMES
1 Pennington Street, London E1 9XN Telephone: 01-782 5000

The Times 28-11-88

VOICES FROM FRANCE

Mrs Thatcher and President Mitterrand will meet in Mont-Saint-Michel on Wednesday as elder statesmen of Europe and the world. But if the French President is to share the British Prime Minister's influence as well as her longevity, he must look closely to affairs at home. Divided authority in Paris is beginning to bring a decline in authority overseas.

The summit promises to be a meeting in the best possible tone. There will some discord over French reluctance to accept that British-made Nissan cars should qualify as "European". As we discussed on Saturday, Mrs Thatcher must also attempt to bring France back into co-operation over the coming conventional arms talks with the Warsaw Pact.

But for the most part, the two leaders will stick to the highest common ground, discussing recent trips — Mrs Thatcher's to Washington and Poland, M Mitterrand's to Moscow and, soon, to Czechoslovakia and Bulgaria. M Mitterrand will disguise his chagrin that Mrs Thatcher is to be the first Western European leader to welcome Mr Gorbachov on an official visit.

Mrs Thatcher will courteously draw her host on his plans for the latter half of next year, when France celebrates the bicentenary of its revolution by simultaneously hosting the next Western economic summit and assuming the presidency of the European Community. They will record their satisfaction at the useful contribution to mutual understanding made by the visit of the Prince and Princess of Wales.

Their meeting will not, however, be quite the discussion between influential equals which M Mitterrand will wish. The reasons have to do with the constitutional and personal tensions developing in France between the President and the French Prime Minister, M Michel Rocard. These have increasingly blurred France's political profile abroad, and made it harder to discern where policy is made.

The constitutional tensions first emerged in 1986, with the election of the conservative government of M Jacques Chirac and the necessity this created of what came to be known as "cohabitation" between the Elysée and the Matignon. With the return to power of the socialists, the strains created by that enforced yoking of opposites ought to have disappeared. But six months later, "cohabitation" is beginning to look like a permanent feature of French politics.

M Mitterrand would appear to have developed a taste, acquired during M Chirac's tenure of office, for leaving the Prime Minister to run the country while he cultivated the world. In this scheme (for which the Gaullist constitution of the Fifth Republic, once derided by M Mitterrand, conveniently provides), the President looks after foreign policy and defence, the Prime Minister the business of government.

But this division of labour, however convenient as a means of scoring points off M Chirac while appearing to remain above the fray, is anachronistic for a modern state manipulating its way towards the Nineties. It looks particularly threadbare when both incumbents are from the same party.

The anachronism is reflected most clearly in France's policy towards what M Mitterrand likes to call "the construction of Europe", the issue most stressed by both candidates in last May's presidential elections. The business of making France competitive in the single market of 1992 demands detailed decisions — in deregulation of industry and services, in investments in education and training, in tax reforms and harmonization — which cannot be divorced from foreign policy objectives.

A deep mutation may be needed in the characteristics of the Gaullist legacy, characteristics which have been common to both socialists and conservatives. France is changing from a somewhat authoritarian, centralized state to a more flexible form of government in which, in M Rocard's plan for the next five years, the state will decide "less, better and faster".

The Prime Minister's battles with the public sector workers this autumn are important precisely because they illustrate the difficulties of effecting this change. M Mitterrand's aloofness from this, and from the battle over the 1989 budget, has begun to look like calculated avoidance. It also raises questions about the extent to which he can now be said to represent the French Government.

This will matter increasingly as long-term questions about the shape of Europe have to be addressed. M Rocard is an unabashed federalist who considers Mrs Thatcher's vision of a Europe of sovereign states not only archaic, but a recipe for Europe's economic subjugation to Japan and North America. Arguments are inevitable.

It is hard to be certain whether in the long run we will see a presidential retreat into an eminence roughly resembling that of a constitutional monarchy. But if that is the trend, its ambiguous present phase, with M Mitterrand open to the suspicion of merely tactical aloofness, creates problems for the management of European affairs.

France's partners need an authoritative interlocutor. They must hope that M Mitterrand, in the words of a French newspaper cartoon's prayer, decides to "come down from heaven" and join his Prime Minister in the country's necessary transformation.

Bicentennial Diplomacy

World Politics Take Center Stage

By Brigid Phillips

PARIS — In 1989, the bicentennial year of the French Revolution, France will frequently step away from national celebrations and move to the center stage of world politics as the host of a series of summit meetings and international conferences.

The leaders of the seven biggest industrialized countries will hold their annual talks in Paris in July. European leaders will meet in Paris in the fall when France takes over the rotating presidency of the European Community. There will be conferences on arms and human rights. And France may manage one or two more world events in the year that will mark the anniversary of the revolution.

There was "no preconceived plan that France should be the diplomatic capital of the world during its bicentennial," said Hubert Védrine, an adviser to President François Mitterrand and the presidential spokesman. "It is a happy coincidence."

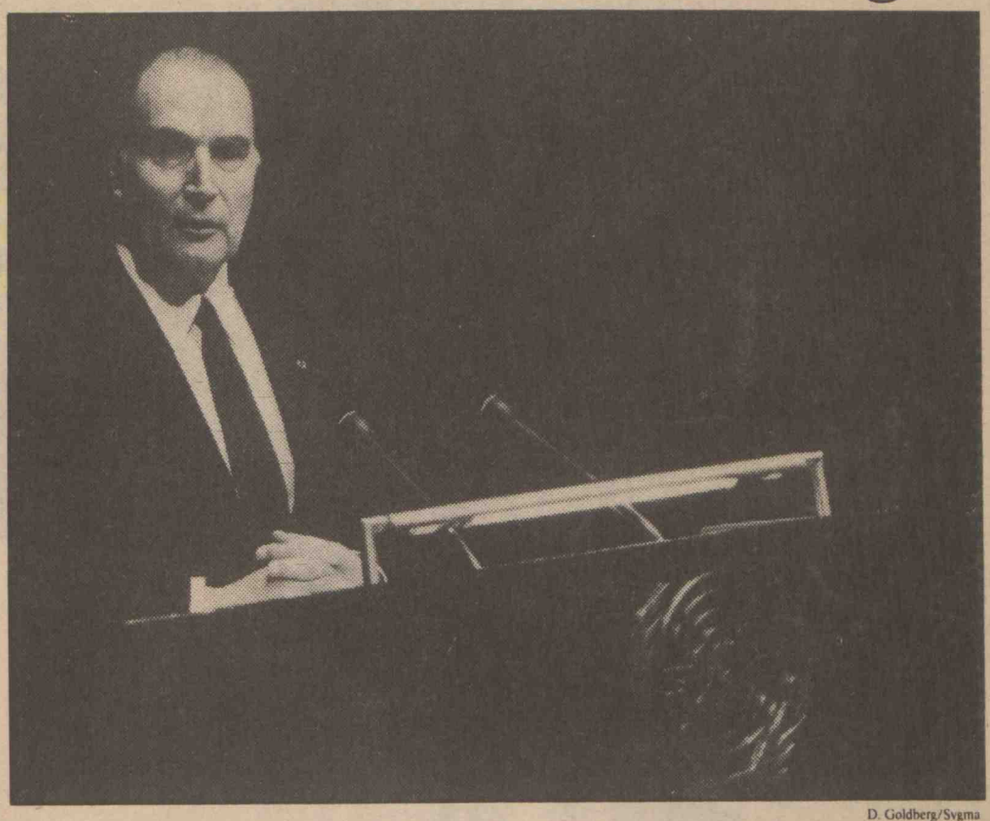
Mr. Mitterrand is likely to use each occasion to draw parallels with the themes of the French Revolution of 1789. But the timing and the discussions at the world meetings are determined outside France.

The biggest event is likely to be the meeting of Group of Seven leaders — from the United States, Canada, Japan, West Germany, Britain, Italy and France. The main purpose of the talks is to review the world economic situation — the single topic that France believes should be on the agenda. In addition, France and West Germany called last week for G-7 finance ministers should meet soon after George Bush's inauguration in January to calm the financial markets.

Other issues — from terrorism to drug control — have become part of the G-7 talks. Although French officials claim no knowledge of what might be the noneconomic issue this year, Mr. Mitterrand is certain to reiterate the appeal he has made repeatedly in this forum to step up assistance to developing countries.

Since the talks coincide with the July 14 French national day, leaders will juggle work sessions with ceremonies celebrating the revolution. There will, however, be much less of the glittering luxury that the French laid on the last time the G-7 met in France.

In 1982, the leaders, officials and media got treatment worthy of Louis XIV in the sumptuous setting of Versailles. A Foreign Ministry official said the extravagance was dimly viewed by French voters who had elected a Socialist government a year earlier. The pomp will not be repeated this time, he said.



D. Goldberg/Sygma

President François Mitterrand addresses the United Nations General Assembly.

Of the string of international events next year, France considers it can have the most impact at the EC summit in the fall. It will organize those talks as president of the European Community for the second half of 1988. The presidency comes as the EC prepares for 1992 when Europe has to complete the mechanisms for a free trade zone within the community.

France will use the summit to engineer the adoption of standards to ensure uniform treatment of workers throughout the community.

"The European summit will be the most important meeting in a year of many international meetings in France," said Mr. Védrine. "The fundamental issues are critical for the advancement of Europe."

The year of international gatherings begins in January when France will be host to a conference on chemical weapons. The 11 countries who signed the 1925 accord banning the use of chemical weapons will be invited, along with 50 nonsignatories.

The purpose of the four-day conference, according to French officials, is to give impetus to talks in Geneva on ending the manufacture and stocking of chemical arms. "We want to capitalize on the legitimate emotion that has developed over use of chemical weapons in the Iran-Iraq conflict to create a strong reaffirmation of the accord and to advance the very difficult process in Geneva," Mr. Védrine said.

> Mr. Mitterrand is likely to use each occasion to draw parallels with the themes of the French Revolution.

To set an example, Mr. Mitterrand told the United Nations in September that France was reversing its previous position and would renounce all right to make chemical weapons as soon as an accord is signed in Geneva.

Later in the spring, France will hold an international conference on human rights as part of the ongoing Conference on Security and Cooperation in Europe.

France has invited the parties in the nine-year civil war in Cambodia to hold a peace conference in France.

An international conference on North-South issues is an equally vague possibility. There are persistent rumors that as a centerpiece to a bicentennial year of international events, Mr. Mitterrand may convene an informal meeting to consider the problems of disparity between the rich northern nations and the developing countries of the southern hemisphere.

According to some reports, a meeting — dubbed Cancun-2, after the conference of 22 countries held in Cancun, Mexico in 1981 — would be held in July to bring together leaders as they visit France for the bicentennial celebrations and the G-7 meeting.

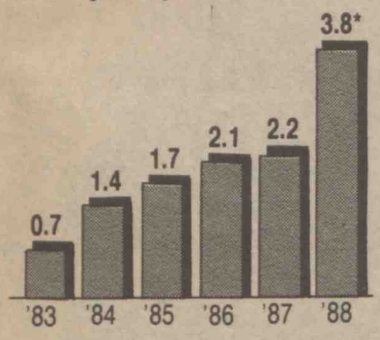
Some senior officials have termed the reports "premature" and say such a meeting is unlikely.

But others view it as a strong possibility because of Mr. Mitterrand's strong personal commitment to improving conditions for developing countries and, noted one Foreign Ministry official, in this bicentennial year what stronger way to underline the motto of the revolution — "Liberty, Equality, Fraternity"?

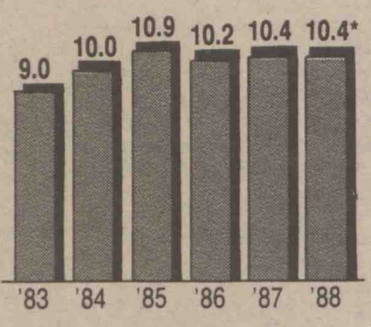
***BRIGID PHILLIPS** is a Pa... based journalist.*

THE FRENCH ECONOMY

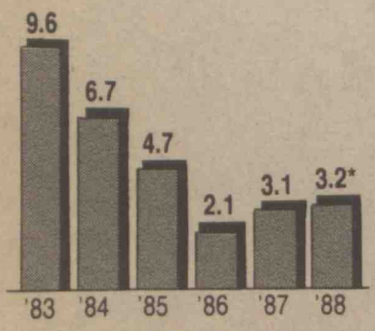
GDP
Percentage change from previous year



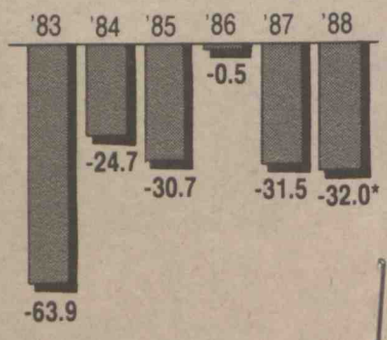
Unemployment
Percentage change from previous year



Inflation
Percentage change from previous year



Trade Balance
In billions of French francs



*estimate

Source: Ministere de l'Economie, des Finances et du Budget

Andy Sabbatini/International Herald Tribune

...improved over the last three years, make a strong fr...

200 Years After Revolution, Vision

By Theodore Zeldin

ASK ORDINARY FRENCH PEOPLE how different they expect their future to be, and you will get a very interesting answer. They do not know. The French have been searching desperately for what they call a *Grand Dessein,* a vision of their future, but it remains vague.

They are for Europe, but have no idea what Europe will be like.

Raymond Barre recently summed up the dismay in his characteristic prose: What France lacks, he said, is a discourse on its national ambition. In other words, it does not know where it is going.

In the past, France's problem used to be that it did know where it was going, but never got there: It is still a long way from having achieved the objectives of the Revolution of 1789. The French are supposed to like everything clear and distinct, so this new uncertainty is regarded as intolerable by many commentators. But I think it is a sign of rejuvenation, for living in the modern world is all about coping with the unpredictable.

The opinion polls have never been very interested in people who say they don't know, regarding them almost as nonpersons, shadows. But the Don't Knows are beginning to assume new shapes. One-third of the

COMMENTARY

French population now refuses to be identified as being either Right or Left, and that proportion is growing. Two-thirds could not be bothered to vote in the latest referendum on the future of New Caledonia.

It may soon be the Don't Knows who will decide the country's fate. The reluctance to make quick or firm decisions extends even into what was once the most delicate sphere of all: Living together before getting married is now disapproved of by only 7 percent.

Don't Knows are an increasingly important international phenomenon. They used to be the ignorant, the indifferent, the hopeless and the dropouts; but they are now a much more complex, not necessarily irresponsible category.

The United States has long had problems with Don't Knows of the old style, and still does, as George Bush's election with about half the country abstaining shows. The Don't Knows of the new style choose that status on the basis of a combination of optimism and caution. In Britain, they are the floating voters who have established themselves as the dominant force in politics, responsible for the rise and fall of the Social Democrats; only 30 percent of the electorate has voted consistently for the same party over the last six elections; as in France, one-third refuse to think in ideological terms.

NOW the French are also making a contribution to the politics of doubt: They are becoming more similar to their neighbors, less the irritating exceptions, so that what they think is increasingly instructive to the rest of the world.

Ouverture, the open mind, is the new French ideal, the new politeness, dissolving old hypocrisies. It goes further than *glasnost,* which says: Let us tell the truth about the past, let us admit we sometimes get it wrong (but we'll get it right eventually). Ouverture adds: Let us bury the past, and look afresh at every disagreement that has divided us, one by one; it is impossible to predict where we will end up.

In political party terms, ouverture is on the rocks, because it conflicts with what parties traditionally seek, but it has been more than a political

Intellectually, the French have been orphans since the loss of their Great Thinkers, who used to soothe them with explanations of what the world's confusions were all about. Ouverture is in some ways a substitute for the catchword of the '60s, structure, which implied that everything is interconnected and meaningful, and which fed the belief that social science was about to make it possible to run societies as smoothly and predictably as machines.

However, very few people have completely open minds, and so the question arises, how are closed minds to be opened? Edgar Morin, writing recently in Le Monde about the collapse of the old certainties, rightly saw that a new way of thinking is called for, once the habit of simplifying complexity is abandoned.

And yet, to achieve this, he could only suggest a sort of evangelization by teachers and intellectuals, comparable in style and dimensions to the Protestant Reformation. His suggestion recalls Jules Ferry — a Protestant, like Prime Minister Michel Rocard — trying, a century ago, to reform France through mass education.

The difficulty is that the teachers are themselves victims of not knowing: They do not know how to cope, given budget constraints, with the fact that 22 percent of French adults are illiterate, in the sense of

Victor Juhasz

having difficulty in understanding a written text; about half of those aged over 65 have trouble reading and writing. Illiteracy is increasing among the young, even though more children are being educated to a higher standard than ever before.

Universities have twice as many students as they can accommodate and have been canceling lectures because there is nowhere to hold them. Teachers have never been so demoralized.

And the intellectuals do not know how to escape from the ghetto into which they have withdrawn. France is supposed to be a country where the intellectual is respected. But Bernard Pivot's television literary chat show is watched by on average only 10 percent of viewers. That is roughly the size of the minority that values and enjoys the traditional forms of culture. In the United States, as a recent report to Congress has revealed, exactly the same proportion are enrolled in state-sponsored arts courses. In Britain, Channel Four aims to reach the same magic figure of 10 percent. Education has not converted the masses to its ideal of the good life.

Finally, the government does not know how, in the foreseeable future, it can give practical expression to the principle of ouverture, when faced by low-paid employees who do vital work, nurses and civil servants, demanding more equality and respect. It would involve challenging all wage differentials, completely changing the criteria of what deserves to be rewarded.

Personally, I do not see change being led by the established elite. Individuals are becoming more resistant to influence, more different from each other, strangers or foreigners to one another. The foreigner, the person one does not know, is now the world's main fiddle.

He confronts one on three levels: personal (loneliness has replaced hunger as the major problem in Western countries), national (the immigrant is the great disturber of traditional identities), and international (can Europeans, or Americans, also be citizens of the world?). In this perspective, politics becomes the art of finding a way of overcoming fear of the foreigner.

It is for this reason that my researches on France have culminated in a book on Happiness. Happiness used to mean being in control, feeling comfortable in one's own family, attaining serenity, keeping the foreigner, the enemy, at bay. But in a world that is in constant change, this kind of static ideal is increasingly unattainable, particularly since one can no longer feel happy if other people are unhappy. The new ideal is not happiness, but creativity. The new challenge is how to democratize creativity.

THIS is what about a half of the young people in France, and elsewhere too, are vaguely craving for. It is customary to say that the young have become docile, unrebellious, and it is assumed they will remain so forever. That is to forget that one year before the riots of May 1968 the French government did a survey of the young and found them to be totally attached to traditional values.

Today, if one looks at what they aspire to, rather than at what economics forces them to do, one sees that 27 percent are interested in working in conventional commerce and industry, 28 percent want to do some form of public service, while no less than 45 percent have their sights on a creative or artistic profession, allowing them the highest degree of personal expression. Only 12 percent regard making money as their first objective; 50 percent put the interest of the job first. The young have not become morons. But often they do not know how to get what they dream of.

In this Age of Communication, what people are most conscious of is the difficulty of communicating; they do not just want to be loved, but above all to be understood.

Listen to me: that is perhaps the most common phrase in France today, spoken or unspoken. But most people don't know, are never sure, that their message has been interpreted as they would like it to be.

From: THE PRIVATE SECRETARY

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

28 November 1988

CDP to see

Dear Dominic

PRIME MINISTER'S BILATERAL WITH PRESIDENT MITTERAND
30 NOVEMBER 1988

We have agreed with the Foreign Office that we would send direct to you briefing on the French position on European audio-visual developments in connection with the Prime Minister's bilateral with President Mitterand on 30 November.

We understand that President Mitterand is unlikely to push the French interest in these matters at the Rhodes Summit on 2/3 December, but he may nonetheless want to refer to it rather more fully at the bilateral. The attached briefing material is, therefore, fairly comprehensive.

I am copying this letter and enclosure to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry and the Minister for the Arts, and to Sir Robin Butler.

Yours sincerely

Catherine Bannister

MISS C J BANNISTER

Dominic Morris, Esq.

FRENCH DESIRE TO STIMULATE EUROPEAN AUDIO-VISUAL DEVELOPMENTS

Line to take

- Support Hanover European Council conclusion on audio visual aspects. UK also wants to see a strong European audio-visual industry.
- For us however the way to achieve this is primarily through industry-led and industry-financed initiatives. Do not necessarily rule out some pump-priming financial support at national or EC level. But Governments cannot and should not seek to prop up the industry through schemes of public subsidy which remove the need for it to respond to market forces and consumer demands.
- UK Government's recently published White Paper on Broadcasting has set the future framework for a more open and competitive market and greater consumer choice. Subject to basic minimum standards of consumer protection, these are the factors which must influence what is produced, and it is not for national Governments or the EC to second guess the market by seeking to dictate to viewers what material they should be offered.
- Any new initiatives to strengthen the broadcasting market in Europe, through the industry, should not be confined to EC Member States. Other European countries should also be given the opportunity to participate.
- Initiatives at industry level will be well placed to take

account of the rich cultural diversity of Europe and the different cultural priorities of individual countries. Attempts to produce European uniformity in this area will kill creativity.

- UK would be prepared to participate in discussions aimed at strengthening the European broadcasting industry, provided the general framework for action is right. We believe that the initiative and funding for such developments must primarily be a matter for the industry itself rather than national Governments or the EC

Background note

For some time, most of the Member States of the EC and some other European countries have expressed concern about the prospect of an expanding broadcasting market in Europe being vulnerable to the import of cheap, poor quality American programmes. To prevent this, they see a need to strengthen the competitiveness of the European audio-visual (broadcasting and film) industry. This was reflected in a conclusion of the Hanover European Council in June 1988 that "it is urgently important for the Community that European production of audio-visual programmes reflecting the richness and diversity of European culture should attain a level more in line with the broadcasting capacity in Europe."

2. The French, who were behind the Hanover conclusion, are known to be keen to stimulate and strengthen the European audio-visual industry, and in particular their own, through measures at the national and European levels. They already have a series of national support and subsidy schemes and are enthusiastic backers of the Commissions own Media Programme and other parallel initiatives in the Council of Europe such as the recently introduced Eurimages scheme for encouraging film distribution. In a letter to the Commission in early October (copy attached), President Mitterand spoke in terms of a new initiative in the form of an audio-visual EUREKA programme. EUREKA is a pan-European scheme to encourage industry-led projects in science and technology with no central funding mechanism. It was originally a French proposal but was successfully taken over and given a more commercial flavour by the United Kingdom.

3. Early indications suggest that the French believe that such a programme of action for the audio-visual industry should be financed, at least partly, from public funds - either from the EC, or from national Governments, or both.

4. Their starting point in all this is therefore different from that of the United Kingdom. Our approach - as set out in the recent White Paper on Broadcasting - emphasises the need for deregulation, the freeing of market forces, a more open broadcasting market and the widening of consumer choice. They on the other hand are more concerned with protecting their audio-visual industry and their language and culture from Anglophone imports. As a result, they adopt an interventionist approach with heavy reliance on subsidies for "cultural" works.

5. Despite having trailed their intention to develop new proposals to strengthen the European audio-visual industry, the

French have yet to provide any detailed indication of what they have in mind. We are attempting to influence their thinking, by stressing the importance we attach to initiatives in this area being industry-led and industry-financed. Officials had bilateral discussions on these matters with the French on 22 November and we are anxious that this dialogue should be continued.

<mc>PM/Bilaateral/Briefing/24/11

BRUSSELS (EU) Monday 10 October 1988 - President François Mitterrand has forwarded a letter to Commission President Jacques Delors to detail France's concepts concernin the launching of a plan for an "audivisual Eureka", whose main objective will be the cr of European programmes for television networks. The European Commission reacted positively to that initiative, which corresponds roughly to the guidelines of the actic already developed by the Commission in that sector, and it announced that a first repor to the Heads of Government would be ready for the Rhodos Summit at the beginning of Dec ber.

EUROPE recalls that Mr. Mitterrand had announced this initiative at the Hanov summit held at the end of June. The European Council had then announced in its conclu- sions that "it is most urgent for the Community that European production of audiovisual programmes reflecting the wealth and diversity of European culture reach a level more compatible with Europe's radio- and television broadcasting capability", and that there is a need to "urgently review the possibility of establishing a Eureka project in the audiovisual sector". At the end of September, during the session of the General Affair Council, the French Minister for European Affairs, Mrs. Cresson, indicated that Mr. Mit terrand's initiative would be detailed shortly (see EUROPE of 29 September, page 6).

In his letter to Mr. Delors, President Mitterrand recalls first the conclusic of the Hanover summit and continues as follows :

"You will recall that, in Hanover precisely, I had taken the initiative of al ting the Heads of State and Government on the risks that European culture and industry would be exposed to if we failed to react to the current situation : Europe imports clc to half of the cinema and television programmes it broadcasts. Out of each one hundred hours of programming acquired in Europe, only eighz come from another European country. Europe exports also very little, since its programmes account for less than 15% of worl exports. In coming years, new technologies - cabled networks, satellites - by multiply television channels, will result in a substantial increase of the demand for programmes

It is clear that if Europe wants to avoid being submerged by pictures origina ting elsewhere, it must develop its own programme industry, whose products will be broa cst on its territory and beyond.

Of course, I noted with great satisfaction that the Commission presented the "television without frontiers" draft directive in order to facilitate the movement of cinema and television programmes. The Media Plan, still at experimental stage, deserves to be further developed. At the same time, within the framework of the Council of Eurc pe, the "EURIMAGES Fund proposed by France will provide financial support for European coproductions.

These are the elements of an initial answer. However, it has become necessary to proceed faster and to mobilise all those who, in the Community or in other European countries, want to work together. We have often discussed the subject and I know your interest for everything that serves Europe.

I suggest that we use as an example the method which demonstrated its effecti veness in the EUREKA-high definition television project. It is, indeed, thanks to the Commission's decisive contribution that the European D2 MAC standard could be adopted i Dubrovnik in May 1986; this new standard considerably improves the quality of sound anc enables a choice between several languages for the same picture. Last September, in Br ton, the combined efforts of the Commission and the industrialists participating in EU KA enabled the successful demonstration of a complete high definition television networ from cameras to programmes - with satellite broadcasting. I wish that the Rhodos Europ Council would support the continuation of this action.

It is clear to what extent EUREKA-AUDIOVISUAL should incite professionals - script writers, producers, TV networks, advertisers - to create programmes correspondir to the culture and expectations of the European public and to concentrate on helping th production of fiction programmes, cartoons, documentary films; to develop sub-titling, dubbing and multilingual filming to overcome linguistic barriers; to improve training i new communication technologies and professions. These projects might be jointly financ by public funds from the MEDIA or EURIMAGES programmes, or by national aids that could be granted by each Member State, as well as by private funds. In each country involved in EUREKA-AUDIOVISUAL, similarly to what is already being done in EUREKA-technology, an appointed official could make sure that our efforts are being correctly implemented.

The development of programmes and new technologies are strengthening each oth EUREKA-AUDIOVISUAL and EUREKA-high definition will ultimately have to pool their effort just as the European Commission and EUREKA officials will build audiovisual Europe in c mon agreement".

AD

SECRET

Foreign and Commonwealth Office

London SW1A 2AH

28 November 1988

Dear Charles,

Prime Minister's visit to France: 30 November: Anglo/French Defence Cooperation

Our letter of 25 November provided briefing for the Prime Minister's meeting with President Mitterrand on 30 November. Since then we have learned from the Embassy in Paris that President Mitterrand may raise his exchange of correspondence with the Prime Minister on bilateral defence cooperation.

President Mitterrand wrote to the Prime Minister on 6 October 1987 suggesting some areas of possible bilateral cooperation in nuclear defence matters. The Prime Minister replied on 12 January that there was further scope for Anglo/French cooperation and that she welcomed discussions between Mr Younger and the then French Defence Minister, M Giraud, on nuclear defence matters. The Prime Minister also said that inevitably our two countries approached some matters from different viewpoints: France was not a member of NATO's Integrated Military Structure. President Mitterrand appears to have interpreted this as indicating a lack of substantial interest, despite the fact that the Prime Minister put forward three extremely constructive ideas for conventional defence cooperation (exercises in NORTHAG; exercise of the lines of communication through France; more maritime cooperation). My separate letter of 25 November covers the follow up to these proposals.

If President Mitterrand refers to nuclear cooperation, we recommend that the Prime Minister confirms that we very much value the links which have been established over the last two years in the nuclear area. MOD officials continue to have valuable talks with their French counterparts on nuclear matters including on:-

- the philosophy of targetting strategic nuclear weapons;
- intelligence exchange on Soviet air defences and anti-ballistic missile defences;
- design concepts for a tactical air to surface missile;
- nuclear security; and
- a range of other scientific and technical topics.

/There

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There are limits: we could not, for example, undertake to coordinate our nuclear targetting with the French given that our forces are assigned to NATO. Nevertheless, there may well be scope for cooperation in other areas, such as the better coordination of the patrols of British and French nuclear armed submarines. Officials are already pursuing this in consultation with the US.

President Mitterrand may also express disappointment that we have ruled out Anglo/French cooperation on the tactical air to surface missile (TASM) to succeed the WE177 nuclear bomb. As Mr Younger explained frankly to M Chevenement, the French system on offer (ASMP) did not meet the range requirement for TASM, nor were any variants of it likely to do so; it would also have been dated technology by the time we wanted a missile in service. But we have made clear to the French that we have no hang-ups about the principle of cooperating over theatre nuclear systems; and that we wish to stay close to them on their next generation of stand-off missile which may be of future interest. MOD officials had a briefing on French plans last month and will be meeting their French counterparts again next Spring.

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours ever,

Lyn Parker

(L Parker)
Private Office

C D Powell Esq
PS/No 10 Downing Street

FRANCE: PM's visits pts

dti

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Date 28 November 1988

Dear Dominic,

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERAND, 30 NOVEMBER: EUREKA

I attach a short briefing note on EUREKA for the Prime Minister's meeting with President Mitterand on Wednesday 30 November.

During President Mitterand's recent meeting with Mr Gorbachev, it is reported that the French President raised the subject of participation by Eastern European organisations in EUREKA. It would seem that the French are not advocating an expansion of the EUREKA club per se, but are giving high political profile to the opportunities for participation in individual EUREKA projects by Eastern European organisations and firms.

Should the President raise this point, the Prime Minister could simply take note of his views and take the line as in the attached brief.

Yours sincerely
Nick Mitchell

NICK MITCHELL
ASSISTANT PRIVATE SECRETARY

EM5AAZ

EUREKA - increased Eastern European Participation

LINE TO TAKE

The UK, along with most other EUREKA countries, presently takes the view that existing provisions are sufficient.

Backround Note

EUREKA is a pan-European (EC Twelve, EFTA Six, Turkey and the Commission) initiative established in 1985 to foster industrially led collaborative projects in all sectors of advanced technology products, processes and services.

2. The existing EUREKA rules allow for participation in projects by organisations from non-EUREKA countries in exceptional circumstances, subject to examination on a case-by-case basis. The UK, along with most other EUREKA countries, presently takes the view that these provisions are sufficient.

3. At his recent meeting with Mr Gorbachev, President Mitterand, reportedly discussed, in the context of European integration, increasing participation in EUREKA projects by Eastern European countries.

4. Organisations in Hungary and Yugoslavia are already participating in a few projects and the USSR and Czechoslovakia are likely to request joining the HDTV project.

EM5ABD

FRANCE : Visit to France

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PRIME MINISTER'S MEETING ON 30 NOVEMBER WITH PRESIDENT MITTERRAND

SUMMARY

1. MITTERRAND IN HIS SECOND TERM BECOMING MORE REMOTE FROM EVERYDAY PROBLEMS OF GOVERNMENT: CONTENT TO LEAVE ADMINISTRATION TO HIS MINISTERS AND CONCETRATE ON BROAD FOREIGN POLICY ISSUES. EAST/WEST RELATIONS AND GORBACHEV AT THE TOP OF HIS MIND. HE WANTS FRANCE TO PLAY A STRONGER ROLE HERE, NOT LEAST IN ARMS CONTROL. CONSCIOUS OF THE NEED TO MAKE HIS MARK ON HISTORY NEXT YEAR. HIS EC PRIORITIES: MONETARY, SOCIAL, AUDIOVISUAL. THOUGH HE WILL PROBABLY NOT WANT - OR BE ABLE TO - GO DEEP INTO THE DETAILED DOSSIERS, HE MAY BE ALIVE TO STAKING OUT COMMON GROUND ON WHICH TO BUILD A SUCCESSFUL FRENCH PRESIDENCY.

DETAIL

2. EARLY IN HIS SECOND SEVEN YEAR TERM, MITTERRAND IS SEEN BY THE FRENCH AS A MONARCHICAL FIGURE MORE AND MORE REMOTE FROM DAY TO DAY GOVERNMENTAL PROBLEMS. HE RESTS ON HIS LARGE POPULAR MANDATE. THE HARD EXPERIENCES OF THE THE EARLY 1980S HAVE ENCOURAGED HIM TO ADOPT A MORE HANDS OFF APPROACH TO GOVERNMENT, CONTINUING NOW THE PRACTICES WHICH WERE IMPOSED ON HIM BY COHABITATION WITH CHIRAC. MITTERRAND HANDS DOWN THE BROAD GUIDELINES, AS IN HIS ''LETTER TO THE FRENCH'' AND SUBSEQUEENT PRONOUNCEMENTS. IT IS FOR OTHERS TO FOLLOW THEM THROUGH.

3. THIS REMOTENESS OR LACK OF CONTACT WITH EVERYDAY REALITIES OF FRENCH LIFE LEADS SOME TO QUESTION HOW FAR MITTERRAND IS ANY LONGER IN COMMAND OF IMPORTANT DOSSIERS, EG ON THE EUROPEAN COMMUNTIY. HE HAS THE POWER, AND USES IT TO PLACE HIS ASSOCIATES IN KEY POSITIONS. HE HAS A BROAD VISION OF THE SORT OF EUROPE HE HOPES TO SEE EMERGE. BUT THERE IS NO SENSE THAT HE HAS A CLEAR SET OF SPECIFIC POLICY PRESCRIPTIONS OR VISION OF HOW TO REALISE THEM.

4. ONE EFFECT OF THIS UNCERTAINTY AT THE TOP IS THAT MITTERRAND NOW

CONCENTRATES MORE ON BROAD ISSUES OF FOREIGN POLICY AND DEFENCE THAN IN THE EARLY YEARS OF HIS FIRST TERM. AGAIN THIS IS SOMETHING WHICH WAS FORCED ON HIM DURING COHABITATION. IT SUITS HIS TEMPERAMENT. EVEN IN THESE AREAS HE USES A PRETTY BROAD BRUSH. HE PROBABLY KEEPS A FIRMER PERSONAL HAND ON THE EAST/WEST RELATIONS ISSUES THAN ON THE EC DOSSIERS, WITH THEIR TECHNICAL CONTENT: AND GORBACHEV'S PROBLEMS WILL BE ON THE TOP OF HIS MIND. BUT ONE HAS THE IMPRESSION THAT MUCH IS LEFT TO HIS HIGHLY COMPETENT ADVISERS AT THE ELYSEE IN THE IMPLEMENTING AND EVEN MAKING OF POLICY ON THE BASIS OF MITTERRAND'S BROAD AND SOMETIMES DELPHIC PRONOUNCEMENTS. DUMAS, HIS OLD ASSOCIATE, CAN BE RELIED ON TO WORK COMPETENTLY WITHIN THE GUIDELINES LAID DOWN, AND TO KEEP THE FRANCO/GERMAN RELATIONSHIP WARM. MITTERRAND MAY WELL GIVE MORE SCOPE TO THE ACTIVE AND AMBITIOUS MME CRESSON, WHO IS CLOSE TO HIME, AS THE FRENCH PRESIDENCY APPROACHES. ROCARD'S INCURSIONS INTO FOREIGN POLICY HAVE BEEN INFREQUENT AND CONFINED TO SPECIFIC TOPICS: BUT HE IS A REAL PLAYER IN THOSE AREAS OF COMMUNITY POLICY, ESPECIALLY FISCAL, WHICH IMPINGE ON GOVERNMENT FINANCES.

5. INTERPRETING WHAT MAKES MITTERRAND TICK IS HAZARDOUS. HE IS FUNDAMENTALLY A POLITICAL ANIMAL, WHO ENJOYS POWER PARTLY FOR ITS OWN SAKE. HIS INSTINCTS ARE REPUBLICAN, OF THE BROAD LEFT BUT NO LONGER (IF EVEN) IDEOLOGICALLY SOCIALIST. HE BELIEVES IN ACTION TO PROMOTE SOCIAL SOLIDARITY, HELP FOR THE THIRD WORLD AND EUROPEAN CONSTRUCTION. HE IS NOT A RADICAL BURNING TO CHANGE FRANCE. HE BELIEVES IN THE BIG THEMES OF EAST/WEST RELATIONS, ARMS CONTROL AND THE CONSTRTUCTION OF EUROPE IN THEIR OWN RIGHT BUT ALSO SEES THEM AS MEANS OF MOBILISING THE WIDEST POSSIBLE CONSTITUENCY ON THE LEFT AND CENTRE OF FRENCH POLICY. THEY ARE ELEMENTS OF INTERNAL FRENCH COHESION. THEY ARE ALSO (EUROPE AND EAST/WEST RELATIONS) TERRAIN FOR FRANCO/GERMAN ACTIVITY WHICH MITTERRAND SEES AS ESSENTIAL BOTH TO GENERATE PROGRESS IN EUROPEAN MATTERS AND (FOR FRANCE'S OWN REASONS) TO LOCK GERMANY INTO ITS WESTERN FRAMEWORK AND AVERT THE DISTURBING IF DISTANT PROSPECT OF GERMAN REUNIFICATION. THE FRANCO/GERMAN AXIS AND THE ASSUMPTION THAT ON MOST ISSUES THE GERMANS DO NOT WANT TO BE SEEN TO QUARREL WITH THE FRENCH IS THE BASIS FOR MAINTAINING FRANCE'S STATUS AND ITS GENERAL ROLE IN EUROPEAN AFFAIRS. HENCE MITTERRAND'S CLOSENESS TO KOHL.

6. ALTHOUGH HIS PERSONAL MANDATE IS FOR A FURTHER SEVEN YEARS, MITTERRAND NEEDS A POLITICAL BASE, AND LOOK FIRST TO THE SOCIALISTS AND THEN TO THE CENTRE TO PROVIDE THIS. FOR THE TIME BEING, THE OPENING OF THE CENTRE FOR WHICH HE WAS LOOKING EARLIER THIS YEAR IS IN SUSPENSE. IT COULD BE REVIVED AT THE TIME OF THE EUROPEAN

ELECTIONS NEXT YEAR. IT IS A MEANS OF KEEPING THE CENTRE IN PLAY SO AS TO FRACTURE THE RIGHT, AS EARLIER MITTERRAND BROKE THE COMMUNISTS. IN THE MEANTIME THE THEMES CHOSEN BY MITTERRAND AS HIS FOREIGN POLICY PRIORITIES ARE THEMES ROUND WHICH ALL THOSE ON THE CENTRE AND LEFT CAN RALLY, AND MITTERRAND HOPES THEY WILL PROVIDE SOME SUBSTITUTE FOR THE OVERALL POLITICAL VIEW OR STRATEGY WHICH ROCARD'S GOVERNMENT IS ACCUSED BY ITS OPPONENTS (MAINLY ON THE LEFT) OF LACKING.

7. FRANCE'S SPECIAL POSITION AND HER NATIONAL CONSENSUS ON DEFENCE IS A FURTHER ELEMENT OF SOCIAL COHESION, HELPING TO BIND THE LEFT AND THE COMMUNIST INTO A SET OF ASSUMPTIONS (NATIONAL INDEPENDENCE, DISTRUST OF UNITED STATES' LEADERSHIP AND FEAR OF US WITHDRAWL, IMPORTANCE OF NUCLEAR CAPACITY FOR DEFENCE AND CIVIL USE ETC) WHICH THE RIGHT, WITH THEIR GAULLIST INHERITANCE, CAN HARDLY QUESTION. THOUGH UNDER MITTERRAND THERE HAS BEEN REAL PRACTICAL RAPPROCHEMENT BETWEEN FRANCE AND NATO, AND ALSO IN OUR BILATERAL DEFENCE COOPERATION, IT REMANS DOGMA ACROSS THE POLICAL SPECTRUM THAT FRANCE CANNOT RE-ENTER THE INTEGRATED MILITARY STRUCTURE. BUT EVEN AGAINST THIS LIMITING BACKGROUND THERE IS SCOPE FOR FURTHER COOPERATION.

8. THIS IS THE BACKGROUND AGAINST WHICH MITTERRAND WILL PERFORM ON 30 NOVEMBER. IF FOLLOWS THAT I WOULD EXPECT HIM TO WANT A BROAD-BRUSH DISCUSSION OF EAST/WEST RELATIONS AND THE COMMUNITY - PLUS PERHAPS THE MIDDLE EAST - AND TO WISH TO AVOID TOO MUCH DETAIL. NEVERTHELESS FOR ALL HIS REMOTENESS, HE IS THE MAN WHOSE WORD WILL COUNT WHEN IT COMES TO SHAPING OR RESHAPING FRANCE'S POLICIES FOR 1989.

EAST/WEST RELATIONS

9. THE PRIME MOTIVE BEHIND MITTERRAND'S RE-LAUNCHING OF FRANCE'S POLICY TOWARDS THE SOVIET UNION AND EASTERN EUROPE IS TO RESTORE FRANCE'S POSITION AS A LEADING PLAYER IN THIS CRUCIAL AREA AFTER THE COHABITATION YEARS. THE CHANGE OF US PRESIDENT ENLARGES THE OPPORTUNITY. THERE IS A CONVICTION THAT NOW, WITH THE KALEIDOSCOPE SHIFTING, IS THE TIME FOR AN ACTIVE POLITICAL DIALOGUE: A DETERMINATION THAT FRANCE SHOULD DO BETTER IN EASTERN MARKETS: SOME JEALOUSY OF THE UNITED KINGDOM'S ROLE (THOUGH IN HIS 'LIBERATION' INTERVIEW ON 23 NOVEMBER MITTERRAND SPOKE WARMLY OF MRS THATCHER'S VISIT TO POLAND): MORE FUNDAMENTALLY A DESIRE TO GET BACK INTO THE ACT HIMSELF. APART FROM HIS VISIT TO THE SOVIET UNION THIS WEEK, MITTERRAND WILL BE MAKING VISITS TO CZECHOSLOVAKIA (DECEMBER): BULGARIA (JANUARY): AND HUNGARY, THE GDR AND EVENTUALLY POLAND. AND CROSZ WAS IN PARIS 10 DAYS AGO.

10. MITTERRAND'S APPROACH TO ARMS CONTROL RESTS ON A DETERMINATION TO PRESERVE FRANCE'S NUCLEAR DETERRENT FROM THE EFFECTS OF ARMS CONTROL. BUT HE WANTS FRANCE TO PLAY MORE OF A ROLE IN THE CHEMICAL AND CONVENTIONAL ARMS CONTROL NEGOTIATIONS (A POINT THAT CAN BE USED TO TEST THE FRENCH BLOCKAGE IN THE CST AUTONOMY.) HIS PERCEPTION OF KOHL'S POSITION IS THE KEY TO HIS ATTITUDE TO SNF MODERNISATION AND SNF NEGOTIATIONS.

THE EUROPEAN COMMUNITY

11. MITTERRAND MAY WANT TO TOUCH ON ITEMS ON THE AGENDA OF THE EUROPEAN COUNCIL AT RHODES, AND WILL BE PREPARED FOR THE PRIME MINISTER TO RAISE THE GATT MID-TERM MEETING IN MONTREAL, BUT IS UNLIKELY TO WANT TO GO INTO DETAIL. HE IS MORE LIKELY TO COVER, PROBABLY IN GENERAL TERMS, THE ISSUES ON WHICH HE WILL WANT TO SEE PROGRESS OVER THE NEXT YEAR, PARTICULARLY DURING THE FRENCH PRESIDENCY, IE MONETARY COOPERATION, THE SOCIAL DIMENSION OF THE SINGLE MARKET AND AUDIOVISUAL QUESTIONS. THESE WERE THE THREE MAIN OBJECTIVES HE SPECIFIED IN HIS INTERVIEW ON 23 NOVEMBER.

12. MITTERRAND IS DETERMINED THAT THE FRENCH PRESIDENCY SHOULD MARK A FIRM STEP FORWARD IN EUROPEAN CONSTRUCTION AND SEES THESE THREE ISSUES, PARTICULARLY MONETARY CONSTRUCTION, AS THE MOST SUITABLE CANDIDATES FOR TREATMENT. BRITAIN IS SEEN IN SOME QUARTERS HERE AS A POTENTIAL STUMBLING-BLOCK TO SUCH PROGRESS, AND WE ARE NOW BEGINNING TO HEAR THE FAMILIAR SUGGESTIONS OF A TWO-SPEED EUROPE, WITH BRITAIN IN THE SLOW LANE. MITTERRAND MAY FROM TIME TO TIME BE TEMPTED BY THIS (WHATEVER IT MAY MEAN IN PRACTICE) AND MAY SEE SOME TACTICAL MILEAGE IN FLOATING IT OR ALLOWING OTHERS TO FLOAT IT. AND THE RISK OF SOME FURTHER FRANCO/GERMAN GET TOGETHER, AS AT MILAN IN 1985, CANNOT BE ENTIRELY RULED OUT. AT HEART, HOWEVER, MITTERRAND WILL WANT TO SEE THE COMMUNITY PULL TOGETHER NOT APART DURING THE NEXT YEAR, AND WILL AIM TO ACHIEVE THAT IN THE RUN UP TO AND DURING THE FRENCH PRESIDENCY. I DO NOT THINK HE DOUBTS THE IMPORTANCE OF WORKING CLOSELY WITH THE UNITED KINGDOM TO ACHIEVE THIS: AND I NOTE THE CARE HE TOOK IN HIS LIBERATION INTERVIEW TO RESPECT BRITAIN'S AND THE PRIME MINISTER'S POSITION ON IMPORTANT ISSUES, WHILE NOT DISGUISING DIVERGENT AIMS ON COMMUNITY MATTERS. (ON THE EC: 'WE HAVE, WITH THE BRITISH, OVERCOME PLENTY OF OBSTACLES. THAT'S WHY WE MUST THRASH OUT THESE QUESTIONS. WE SHALL CONTINUE TO DO SO.' ON ARAB/ISRAEL:, 'COUNTRIES WITH AN OLD AND SOLID EXPERIENCE, SUCH AS BRITAIN AND FRANCE', MUST HAVE A ROLE TO PLAY IN A PEACE CONFERENCE. AND ON SNF MODERNISATION AND LINKAGE WITH CST, THIS TIME NO WORD EXCLAM).

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MDADAN [illegible]97

13. FCO PLEASE ADVANCE TO POWELL AT NO 10 DOWNING STREET.

FERGUSSON

YYYY

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MR C POWELL,
(NO 10 DOWNING ST)
RESIDENT CLERK

NNNN

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

25 November 1988

Dear Charles,

Prime Minister's visit to France: 30 November

The Prime Minister will spend about 3 hours with President Mitterrand when she visits Mont St Michel on 30 November (I enclose a brief note on the place). We expect the two main subjects to be:

- European Community issues, and

- East/West and transatlantic relations.

Under the latter heading, two particularly important issues are SNF modernisation and conventional arms control. We hope that there will also be time for a brief discussion of bilateral relations and of the Middle East.

France Internal

Last spring's elections gave President Mitterrand a clear mandate and fresh authority. He has, however, tended to leave the day to day business of government to M Rocard with the important exceptions of defence and foreign affairs. This has led to some recent criticism of him in the French press for being self-indulgent and "monarchical". Meanwhile M Rocard has not had an easy autumn and is slipping in the opinion polls. The referendum to endorse his settlement for New Caledonia was a damp squib with a high abstention rate. His anti-inflationary policy entailed wage offers to public service workers below inflation projections for the next two years. The result has been widespread discontent with disruption to nursing, postal services, trains, the metro and electricity, but the situation is gradually returning to normal. President Mitterrand's support for M Rocard under these pressures has been less than clear-cut.

After the elections, President Mitterrand encouraged talk of moving away from classic left/right politics towards a more consensus based system revolving around the centre ("ouverture"). There have, however, been no significant shifts in political affiliations, and movement in this direction is currently stalled. M Rocard is managing to get

his legislation through Parliament despite his lack of an overall majority.

The Economy

The economy has shown greater strength in recent months. Inflation is currently 3%. Growth estimates have been revised upwards to 3.5%. Total investment is expected to be about 8% up year on year. There has been improvement in unemployment but this remains a cause for concern at about 10.2%. Higher growth has allowed the Government in its 1989 budget to propose tax cuts of FF24.6 bn, to increase expenditure by FF55 bn and still to cut the budget deficit from FF155 bn (1988) to FF100.3 bn. M Rocard is continuing the fight against inflation, but the impetus of the Chirac Government's deregulatory policies has been lost.

EC Issues

Our aim, shared by the Commission and most others, is to concentrate discussion at Rhodes on the Single Market (the Commission are due to submit a report on progress under Article 8b of the Treaty of Rome), the wider world, and the environment. The French broadly agree, but may again revert to their concerns about audio-visual developments: we hope President Mitterrand will concentrate on the EUREKA (industry to industry) project for high definition television, on which a successful launch conference took place at Brighton in September. The French show no signs of wanting substantive discussion at Rhodes of tax, monetary or frontiers issues: nor do the Greeks or the Commission.

President Mitterrand is already planning for the French Presidency (July-December) which he sees as a major Anniversary (1789/1989) event. He may well envisage initiatives on monetary issues and the social dimension. Close contacts with the Elysée will clearly be important, to try to steer the French towards ideas acceptable to us. It would be very helpful if the Prime Minister could suggest that UK and French officials keep in particularly close touch as preparations proceed.

She might take the following line:

- Rhodes agenda should be short and operational, focussing on single market (Commission mid-term report on 1992 programme), wider world and environment. M Delors has so advised the Greeks: hope Mr Papandreou will follow that advice.

- Some risk of a maverick Greek proposal for new studies/money on eg island development. M Delors rightly resisting: increased Structural Funds (52 becu available between now and 1992) more than enough to cover good

projects.

- What are your intentions on audio-visual? The high definition EUREKA television project seems worth supporting.

- Know that M Delors also sees no point in another general discussion at Rhodes on social dimension of 1992. Very much agree: no subjects ripe for decision there. We favour more EC emphasis on action against unemployment (on lines of our 1986 Presidency's Employment Resolution). Good UK record on training, jobs.

- Recognise political importance in France, and for the EC as a whole, of 1989 (Anniversary) French Presidency. Would like in due course to discuss how we can help ensure its success. Suggest UK and French officials keep in close touch as your plans develop.

We recommend that the Prime Minister also raise the question of the export of British-built Nissans to France. The French are trying to count these cars against their quota for Japanese imports, until the proportion of local content reaches 80% (the target level we agreed with Nissan) in early 1991. This position is not sustainable, as unrestricted import of cars built by companies based in EFTA countries is permitted if they have only 60% EC content. We need to demonstrate to potential inward investors that a UK manufacturing base provides access to the European market. The Prime Minister might take the following line:-

- Very concerned at French intention to count imports of British-built Nissans against quota for Japanese imports. Commission have firmly supported us in opposing this move which would put British-built cars at a disadvantage on the French market compared with some non-EC cars.

- Grateful if you would look into the Nissan problem. Hope we can achieve a satisfactory solution very soon.

Though EC Agriculture and Foreign Ministers have now agreed good preparatory texts, the Prime Minister might also refer to the GATT Uruguay Round Mid Term Meeting in Montreal (5-8 December). The French have been among the EC backmarkers on agriculture. The line might be that:-

- Agriculture will be the key to success in Montreal, and the Round as a whole. And success matters: we have a common interest in sustaining and extending the open multilateral trading system, and helping to hold off protectionist pressures, eg in USA.

- Of course EC must take credit for our recent CAP reforms, and the US must stop disparaging them, and must drop their

maximalist (Bush: "utopian") demands. But EC must be ready to go on progressively making good our commitment to make agriculture more responsive to market forces.

- Also need to use GATT Round to lay the ghost of "Fortress Europe", encouraging others to open their markets too: any EC "reciprocity" provisions must be for this purpose, not to add to protectionism.

East/West and Transatlantic Relations

The Prime Minister will wish to give President Mitterrand her impressions of her recent visit to Washington after the US elections. President Mitterrand sent Mr Bush a notably warm congratulatory message, talking of him as a "man who cherishes esteem and friendship for France and its leaders". Western European Governments see a number of reassuring features about a Bush Presidency - his experience, competence, commitment to the Alliance and transatlantic consultation. His appointments so far (Baker, Brady, Sununu etc) command respect. He promised the Prime Minister that there would be "no hairpin bends" in US policy towards the Soviet Union during his Presidency. At the same time certain issues (the US budget deficit, resisting protectionism and defence burden-sharing pressures) will need careful transatlantic handling over the coming months, particularly given the difficult relations Mr Bush is likely to have with the Democrat-controlled Congress.

President Mitterrand himself will just have given a boost to Franco-Soviet relations with his visit to the Soviet Union (25-26 November) on the occasion of a space launch involving a French astronaut. He is stopping off in Moscow on his way to Baikonur for talks with Mr Gorbachev. Time will be limited and no new cooperation agreements are likely to be signed; the planned French commercial credit balance worth $2 billion will probably not be ready in time. Mr Gorbachev is due to pay another full visit to Paris next spring (he was last there in 1985), when we can expect a raft of bilateral agreements. It would be interesting to have President Mitterrand's impressions of the current position internally, where economic reforms remain largely stalled and events in the Baltic States are a test both of Mr Gorbachev's intentions and of his strength.

The French position on a number of East-West issues has evolved in recent months. President Mitterrand has softened the French line on the Moscow Conference proposal, the CW negotiations and SNF modernisation, and has adopted a more positive public position on Soviet reform policies. In part this may reflect changes in French public opinion, but another motive seems to be tactical. The French believe they can best prevent any FRG drift to neutralism by influencing German opinion from an apparently close and sympathetic stand-point.

We do not believe that there is any fundamental difference of view between ourselves and the French over the analysis of Gorbachev's policies and problems or over the broad approach that the West should adopt, though we do differ on some specific issues such as the Moscow Conference proposal.

We recommend that the Prime Minister stress the need for the West to take a coordinated, and realistic line in our dealings with Mr Gorbachev. The need for the Twelve to display unity on both economic and political matters with the Soviet Union and Eastern Europe will be an important theme at Rhodes. It is echoed in a short paper recently agreed by the Twelve Foreign Ministers. But we should be careful not to give the US the impression that there is a separate European agenda or a divergent basic analysis of developments in the Soviet Union and in Soviet foreign policy.

The French see scope for a more active policy for themselves in Eastern Europe especially in cultural diplomacy. President Mitterrand is to visit all these countries except Romania, beginning with Czechoslovakia in December. This is a measure of his desire to play a more visible role in East/West relations. He may ask about the Prime Minister's assessment of prospects for Poland (which M Dumas will visit on 1-2 December). She could make it clear that we see no point in Western financial assistance until the Poles put their own house in order, economically and politically. President Mitterrand's account of his discussion in Moscow about Afghanistan should indicate what we can expect when Mr Gorbachev comes here. We and the French hold very similar views about the situation.

On CSCE, the Prime Minister could urge President Mitterrand to back the UK and US approach on conditions for a Human Rights Conference in Moscow. We have argued in the Twelve and Sixteen that this is the best way of maintaining pressure on the Russians to continue improving their human rights performance; the more visible Western solidarity, the better the chance of securing improvements. The French are sceptical about the feasibility of setting specific political performance criteria but have accepted the need for agreed conditions of access and openness for the conference itself.

President Mitterrand may argue for Western acceptance, without further amendment, of the latest draft coordinators' text of the Vienna Concluding Document (the "zero option"). This is broadly pro-Western in tone though in some areas (eg human contacts, jamming) it could still usefully be strengthened. The Prime Minister could respond by asking how French insistence on the "zero option" on human rights texts is consistent with their wish to reopen agreed language on the link between the two sets of military negotiations (on which more below).

Nuclear Modernisation

We recommend that the Prime Minister raise the question of the modernisation of NATO's short range nuclear forces (SNF). President Mitterrand implied in his speech to the UN General Assembly on 29 September (and the suggestion was repeated publicly by M Dumas on 18 November) that modernisation of NATO's SNF - but not the introduction of the French Hades system - should be delayed for two years to allow an appraisal of the Conventional Stability Talks (CST). The Foreign Secretary has told M Dumas that such suggestions are unhelpful: modernisation will be necessary whatever results are achieved in CST; decisions are likely to be needed in 1989; and public French references to delay do not help Chancellor Kohl, who we believe wants to take decisions in 1989, over a sensitive domestic political issue. In his recent "liberation" interview, President Mitterrand did not repeat the point.

The French have an instinctive dislike of short-range systems which they associate with nuclear war-fighting rather than deterrence. But President Mitterrand may also have misunderstood two fundamental points:

(a) Decisions on a follow-on to LANCE will need to be taken in 1989 if the system is to be introduced in 1995. The Americans say that development of the system will take 3 to 4 years and production a further twelve months; this timetable cannot be significantly shortened. And the lifetime of LANCE cannot be extended without very great expense which Congress would almost certainly not countenance.

(b) Chancellor Kohl's position is not , as President Mitterrand seems to assume, to want to postpone a decision, at least on the follow-on to LANCE, until after the 1990 Federal election. On the contrary, Herr Teltschik has recently told Sir Christopher Mallaby that the Chancellor would like NATO to take modernisation decisions during 1989, albeit accompanied by a commitment to some form of SNF arms control. This tallies with two recent public statements by the Chancellor that the Comprehensive Concept exercise, which will promote a rationale for such modernisation, should be completed by mid-1989.

We recommend that the Prime Minister explain these points to President Mitterrand; emphasise that Soviet modernisation of all its theatre nuclear forces continues unabated; and add that we are working closely but privately with the FRG to resolve this potentially serious Alliance issue. We hope that France will help or, at least, not hinder.

Arms Control

President Mitterrand has recently ordered a "review" of French policy over the 23/35 relationship in the two sets of Conventional Arms Control talks, apparently with a view to integrating the CST more closely with the CSCE process.

We recommend that the Prime Minister make clear that she sympathises with his desire to ensure that conventional arms control does not acquire a momentum of its own divorced from the Soviet Union's political behaviour or its performance on human rights. Equally, however, it makes no sense to involve the Swedes or the Swiss in disarmament talks or to encourage them to make proposals on what forces the West should reduce. We therefore stand by the compromise agreed at the NATO Foreign Ministers meeting in Reykjavik in June 1987, ie that the CST should take place within the framework of the CSCE process, but that participation should be limited to the 23 members of NATO and the Warsaw Pact, who should retain full autonomy as regards subject matter and procedures. Attempts to reopen that agreement will serve only to generate a further procedural dispute within the Alliance, in particular with the Americans. Agreement on the substance of our negotiating proposal is what we should now be concentrating on.

The Prime Minister could welcome French arrangements for the forthcoming international conference (in Paris, 7-11 January) on CW use and proliferation. Mr Waldegrave will attend (the Foreign Secretary will be visiting the Gulf at the time). We hope that a final conference declaration reaffirming the authority of the 1925 Geneva Protocol and encouraging support for the Geneva CW negotiations, will be adopted by consensus.

NATO Summit

We believe President Mitterrand to be lukewarm about a NATO Summit particularly because the Summit Seven will be meeting in Paris in July. If he raises the question the Prime Minister could say that she can see advantages in a Summit during NATO's 40th Anniversary year, but that we are still considering the point.

Bilateral Relations

We recommend that the Prime Minister express pleasure at the success of the visit to France by the Prince and Princess of Wales (7-11 November) and thank the President for the efforts the French put into it. His decision to include Their Royal Highnesses in the 70th Anniversary celebration of the Armistice was particularly well received.

We recommend that she also underline the importance we attach to taking forward practical defence cooperation between our two countries in order to strengthen the collective defence of Europe. She suggested to President Mitterrand last January three areas for increased cooperation. Some progress at official level has been made in all of them. On French activity in support of NORTHAG, we are nearly ready to invite France formally to participate at brigade level in Exercise Lionheart in 1992 and in a paper exercise in 1990 to prepare for that. On exercising reinforcement routes through France, discussions between logistics staffs are going well. Discussions are also continuing between naval staffs on increasing joint maritime activity. The Prime Minister might emphasise our hope that this work will not lose momentum.

President Mitterrand might raise the French proposal to set up a new supranational environmental organisation although this seems so far to be very much M Rocard's personal initiative. FCO and DOE officials are consulting in response to your request for advice on how to handle it. At first sight, it looks unlikely even to be capable of modification into something we could accept. The trick will be avoiding any commitment to support it without being so negative as to alienate the French and tempt them to cause trouble about our own proposal for a conference on CFCs in London next March.

The most promising line so far seems to be that we try to find a way of kicking the French proposal into touch, perhaps by suggesting that it raises such a variety of important issues that it ought to be remitted for study by the world community - perhaps the UN itself. We know that the US are strongly opposed to any new institution for environmental matters: and others will sympathise.

We suggest therefore that, if the subject is raised, the Prime Minister say that, having only just received the papers, we need more time to look at the detail before commenting substantively. But, given the ambitious scope of the proposal, and its focus on institutional arrangements rather than on specific environmental problems, we see no reason why our own recently-announced proposal for a Ministerial conference on CFCs should cut across French plans. We hope they will give our conference full support and encourage others to field high-level representation.

We have been pressing the French to begin negotiations for a bilateral agreement to trace, freeze and confiscate the assets of drug traffickers. They have dragged their feet, but following the Home Secretary's latest meeting with M Joxe, the Interior Ministry has suggested that officials meet in Paris to open discussion. Clearance is still needed from other French Ministries, and it would be helpful to secure the President's endorsement of this approach.

We do not expect President Mitterrand to raise the proposal for middle-income debt which he made at the UN General Assembly, although this may be an important issue in the run-up to the Economic Summit. The proposal has yet to be fully elaborated, but seems to involve a significant transfer of risk from commercial bank creditors to the public sector. An additional difficulty is that the proposal involves an allocation of SDRs, which we oppose.

Middle East

On Arab/Israel, France has welcomed the PLO statement in Algiers calling for an international peace conference on the basis of UNSCRs 242 and 338. President Mitterrand will argue that this represents progress on which we should build. But the sceptical US and Israeli reactions show that the Palestinians have not yet convinced them that they genuinely want peace. The Europeans must encourage the moderate elements in the PLO, while urging them to remove the remaining ambiguities eg on terrorism and recognition of Israel. The Europeans can also help in persuading the new US administration to pay early and sympathetic attention to the problem, to move on Palestinian self-determiniation, and to encourage the Israelis to match the PLO step forward with a parallel commitment to an international conference. France shares our interest in involving the Security Council in any discussion of the issue.

If President Mitterrand raises Iran/Iraq and the Gulf, the Prime Minister could reiterate the value of the continuing support of the Five for the UN Secretary-General. She could also welcome French participation in operation 'Cleansweep', although they refused to agree to a joint public announcement of the operation by the WEU Presidency. There are no signs of an early withdrawal of French naval vessels from the Gulf.

I am copying this letter to Brian Hawtin (MOD), Roger Bright (DOE), and Trevor Woolley (Cabinet Office).

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

ANNEX A

MONT ST MICHEL

The small island of Mont St Michel is linked to the Brittany coast by causeway. It is a similar geological structure to St Michael's Mount off the Cornish coast. The island rises about 80m above sea level: Hugo described it as "the pyramid of the seas".

St Aubert, Bishop of Avranches, had a small chapel built on the island in AD 708 to mark the appearance of the Archangel. In the 10th century the Duke of Normandy built a Benedictine abbey there. In the 12th century this place of pilgrimage was adapted into a fortress and successfully resisted siege by the English in 1123.

The church of the abbey was built in a flamboyant gothic style between 1150 and 1521. The steeple rises 152m and is crowned by an image of St Michael.

Mont St Michel was a prison in the 19th century, but has now become a museum.

DB3AFW/1

PRIME MINISTER

VISIT TO FRANCE

You are to travel to France on Wednesday to see President Mitterrand. You fly to Dinard then helicopter to Mont St Michel for a working lunch, a brief visit to the castle and a short press conference. You should be back at No 10 by 1745.

President Mitterrand will just have returned from his visit to the Soviet Union. He is in a phase of trying to raise France's profile on the international stage, on the back of an improved economic performance. He intends to visit virtually all the East European countries over the next twelve months, and has announced that France's Mission is to see Europe extend beyond the bounds of the Community (can't think where he got that from).

French assertiveness is as usual expressing itself as French awkwardness. He has made various unhelpful pronouncements on:

- a human rights conference in Moscow which he seems ready to accept with very few conditions,

- the basis for Conventional Stability Talks, where he has reneged on agreement on the linkage between them and the CSCE process,

- on modernisation of NATO's SNF, where he has made the preposterous suggestion that NATO should delay a decision for two years, even though it's none of France's business

- and European financial and monetary co-operation, where he is clearly set on pressing for harmonisation of capital, witholding taxes and on an initiative on a European Central Bank during the French Presidency.

There is no doubt - in my mind anyway - that much of this is stimulated by a sense of rivalry with the United Kingdom and a feeling that France has lost significant ground to us in terms of international standing and prestige over the past year or so. The main point of the meeting from your point of view is to be seen to be paying attention to the Europeans after some heavy focus on the US and the Soviet Union: to show Mitterrand that we are not at all reluctant to take up his challenge on who counts round these parts: and to remind him that we have strong views of our own which cannot be ignored, and that Franco-German hand-holding does not determine Europe's policies.

So much for the background. The subjects which you will need to tackle are as follows.

Bilateral

You will want to thank him for the arrangements made for the successful visit of the Prince and Princess of Wales.

East/West

You will want to ask about his visit to Moscow and his impression of Gorbachev's situation. You should impress on him the importance of a united western line in dealings with the Soviet Union. We hope it is not too late for him to back the UK-US conditions for a human rights conference.

Arms Control

You will want to take him to task for his views on SNF modernisation and the suggestion of a delay in decisions. We cannot afford a delay: if the successor to LANCE is to be in place by 1995, we need decisions by the middle of next year. And it is very unhelpful to strengthen Genscher's hand in arguing for delay. The French are going ahead with the introduction of their own SNF (the HADES system) and should

not interfere with 'ours'.

We also regret that the French have chosen to re-open the NATO position on the link between the Conventional Stability Talks and the CSCE process. As already agreed, the talks should be within the framework of the CSCE process but with participation limited to members of NATO and the Warsaw Pact. We cannot make our military dispositions subject to the views of the Swedes and Swiss.

NATO Summit

You will want to leave him in no doubt that you support the idea of a Summit next year. If he is unenthusiastic, never mind.

Middle East

The French are more enthusiastic about the PLO's recent decisions than we are. The key point is that we now have to get the Americans and Israelis on board again for negotiations. That is what we have to work out, and it will not be achieved by Europe appearing to be on the PLO's side.

Environment

We can find little good to say about M. Rocard's initiative. Equally, we do not want to damn it to the point where the French are unhelpful about our proposed conference. It's probably best to say we are still studying his ideas.

Defence Co-operation

The ideas which you put to President Mitterrand are being followed up at lower levels, but not as fast as you would like (French activity in support of NORTHAG, exercising reinforcement routes, more joint maritime activity).

EC Matters

You will want to have a word about the handling of the forthcoming European Council. You will also want to ask about his intentions for the French Presidency in the second half of next year. You will want to make sure he knows the size of our net contribution despite the Brussels Agreement.

Nissan

The French are arguing that Nissan cars from the United Kingdom must count against their quota for Japanese imports until the proportion of local content reaches 80 per cent (which will be 1991). This is just not acceptable. The rules state clearly that 60 per cent is enough.

A fuller letter is in the folder.

C.D.?

C. D. POWELL
25 November 1988

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cPc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 November 1988

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: PREPARATION

Thank you for your letter of 10 November covering Paris tel. No. 1074 about the Prime Minister's forthcoming meeting with President Mitterrand, together with a suggested draft reply.

My general comment is that the Prime Minister has not yet focussed on this meeting and does not have the time to do so now. It would be prudent not to hazard too much to Attali about her views. She will certainly want to discuss East/West relations. She will want to mention the importance she attaches to decisions, in the course of next year, to modernise NATO's nuclear weapons. She will no doubt wish to brief the President on her own visit to Washington and discuss the prospects for US/European relations. She will want to look ahead to the European Council and to future developments in the Community over the next twelve months. I would expect her to have the Middle East much on her mind. No doubt she will want to raise the Mid-Term Meeting in Montreal on the GATT. I suggest that Sir Ewen Fergusson lists these as being subjects which he thinks she will want to discuss without mentioning any others, while trying to find out from Attali what President Mitterrand will have in mind.

This will require some slimming down of your proposed telegram.

On the details, I understand the meeting will be at Mont St-Michel. I have agreed with the French that we will announce it at 1100 London time on Friday 18 November.

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

10 November 1988

Dear Charles.

Prime Minister's meeting with President Mitterrand: 30 November: Preparation

Sir Ewen Fergusson will be lunching with M. Attali on 14 November to prepare the Prime Minister's 30 November meeting with President Mitterrand. The Embassy have asked for input from us incorporating your views. I enclose a // copy of Paris telegram 1074 and of our draft reply.

Could you very kindly let me know if you have any comments?

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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OF 08 Z NOVEMBER 88

YOUR TEL 1074: PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 30 NOVEMBER

1. We agree generally with the themes for the Prime Minister's discussion with President Mitterrand identified in TUR, subject to the comments below.

2. East/West Relations. Clearly East/West and Transatlantic relations will be a key subject, with Mitterrand giving some account of his Moscow visit. However different the noises occasionally heard in various Western capitals, very wide agreement exists in the West and amongst the Twelve on our analysis of internal Soviet developments and of how we should respond to them. Everyone agrees that we should seek to use the appearance at last of a reasonable Soviet interlocutor to make progress on our practical goals of arms control (while resisting talk of denuclearisation as unrealistic), to hold the Russians to their human rights commitments, and to make progress possible on regional conflicts. In the European context, the prospects for opening up Eastern Europe and overcoming the division of Europe in the longer term seem better than for some time. It would be useful to be able to

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put across in public the message that the West has the high ground and a positive vision of the future of Europe in contrast to the Soviet status quo concept of the Common European Home. On economic assistance, we shall need to ensure between us that the Americans do not take idle talk of Marshall plans seriously or become over-concerned (as Congress seems to be doing) about the provision by various European countries of normal commercial credit for future trade with the USSR.

3. Discussion of the US Presidential Election and its implications for Europe will have to be against a background of the uncertainties of the transition period. The new President will not be inaugurated until 20 January. Even then the appointment of key personnel and formulation of policies will still be under way.

4. We expect the Prime Minister to raise with the US President-elect (before she sees Mitterrand) the question of a possible NATO Summit. She may therefore be in a position to say something to Mitterrand about this on 30 November but this is far from certain. It would be better to avoid trailing this with Attali.

5. On arms control and Franco-British Defence collaboration, we shall be briefing the Prime Minister to take a similar line to that I took with Dumas on 2 November (your tel 1080).

6. On EC matters, it will obviously make sense to compare notes on the main Rhodes subjects (the Commission's article 8b report, the 'wider world' item, and perhaps the environment and the 'social dimension'). We would expect the Prime Minister also to stress the need to make a success of the GATT Uruguay Round, and thus the importance of the MTM, paticularly on agriculture. But we agree that it would be good also to look beyond immediate issues. You could therefore tell Attali that the Prime Minister is well aware of the importance, for Mitterrand and for the Community, of the French Presidency next

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year. We would expect her to ask how he sees the priorities for it and to suggest close bilateral contact as the Elysee makes its plans.

7. Environment. We would expect this to be discussed on 30 November, particularly with reference to the Rocard telephone call.

8. Debt. We should like you to resist any suggestion by Attali that Mitterrand might discuss his debt proposal with the Prime Minister. If necessary, you could take the following line:-

- Until scheme's details have been more fully set out and discussions taken place between Treasury experts, discussion between Prime Minister and Mitterrand would be premature. We would expect the scheme to be fully discussed in the Economic Summit context in due course.

- (If necessary) Our initial reaction is concern that the scheme might breach the policy endorsed at Berlin that there should be no transfer of risk from commercial banks to creditor Governments. We are not convinced that schemes such as the French one offer greater prospect of success than the current case - by - case approach.

- UK's position on a new allocation of SDRs is well-known. We are sceptical about claims of a shortage of international liquidity, and fear the possible inflationary impact. Little to be gained by going over this ground again for the moment.

9. Regional Issues. It is too early to say whether we shall wish to brief the Prime Minister to raise Afghanistan with Mitterrand: much will depend upon the evolution of the Soviet position. Equally we see no reason at present for South Africa, Cambodia or the Gulf to be raised specifically.

10. Practical. Attali told Powell (No 10) on 12 October that Mitterrand was considering a venue for the talks close to the Channel to minimise travelling time. The earliest possible

CONFIDENTIAL IMMEDIATE

<<<<

indication of venue and timing would be helpful. We should of course have no difficulty with Paris.

HOWE

YYYY
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SEC POL DEPT
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SAD
SIR J FRETWELL
MR BAYNE
MR KERR
MR RATFORD

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FOR DAIN (WED) FROM LLEWELLYN SMITH

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND, 30 NOVEMBER

1. JACQUES ATTALI HAS INVITED THE AMBASSADOR TO LUNCH ON 14 NOVEMBER TO PREPARE FOR THE MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT MITTERRAND ON 30 NOVEMBER.

2. IN PREPARATION FOR THIS LUNCH THE AMBASSADOR HAS ASKED FOR A FULL BRIEF WHICH HE WILL WANT TO LOOK AT OVER THE WEEKEND 12/13 NOVEMBER. HE WOULD LIKE IT TO COVER THE MAIN SUBJECTS LIKELY TO COME UP ON 30 NOVEMBER. I SHOULD BE GRATEFUL FOR YOUR COMMENTS, REFLECTING AS APPROPRIATE NO 10'S, ON WHAT THESE SUBJECTS ARE, AND POINTS TO BEAR IN MIND IN PUTING THEM TO ATTALI. I HOPE YOU CAN REPLY BY 9 NOVEMBER.

3. MY OWN FIRST THOUGHTS ARE AS FOLLOWS.
THE TWO BIG SUBJECTS WILL BE (A) EAST/WEST AND TRANSATLANTIC RELATIONS, AND (B) THE EUROPEAN COMMUNITY.

MITTERRAND WILL HAVE JUST RETURNED FROM MOSCOW AND IS BOUND TO WANT TO CONVEY HIS IMPRESSIONS. (IT MIGHT BE TACTFUL TO ENCOURAGE HIM TO START WITH THESE). DISCUSSION OF EAST/WEST RELATIONS AND HOW TO DEAL WITH THE GORBACHEV PHENOMENON SHOULD BE COUPLED IN MY VIEW WITH DISCUSSION OF THE MAJOR PROBLEMS FACING THE ALLIANCE IN 1989 IN THE LIGHT OF (A) GORBACHEV'S LONG TERM AIMS IN EUROPE (DENUCLEARISATION) AND (B) THE OUTCOME OF THE UNITED STATES PRESIDENTIAL ELECTION AND ITS IMPLICATIONS FOR EUROPE.

4. MITTERRAND WILL NEED CAREFUL HANDLING IF HE IS TO BE PERSUADED TO COME TO A NATO SUMMIT IN THE UNITED KINGDOM. IT WOULD BE GOOD IF THE PRIME MINISTER COULD EXPLAIN OUR THINKING ON 1989 NATO SUMMITRY TO HIM. PLEASE LET US KNOW IF YOU WANT THE AMBASSADOR TO SAY ANYTHING TO ATTALI ON THIS SCORE: WE ARE NOT AWARE OF THE LATEST THINKING IN LONDON.

5. FRANCO/BRITISH DEFENCE COLLABORATION (WITHIN A WIDER EUROPEAN

FRAMEWORK) ENGAGES BOTH LEADERS (CF THEIR EXCHANGE OF LETTERS) BUT THE TWO COUNTRY'S PARTICULAR INTERESTS DO NOT EASILY FIT TOGETHER. MITTERRAND'S IHEDN SPEECH SHOWS THE SCOPE FOR MISREPRESENTATION. ATTALI HIMSELF IS LIKELY TO RAISE THE SUBJECT SINCE THE AMBASSADOR TOOK UP SOME OF MITTERRAND'S POINTS IN A LETTER TO BIANCO, SECRETARY-GENERAL OF THE ELYSEE (COPIED TO JOHN BOYD). THIS WHOLE AREA IS ONE WHERE I WOULD VALUE ANY STEER YOU CAN GIVE US FOR THE AMBASSADOR'S LUNCH, TAKING INTO ACCOUNT THE CONCERNS WHICH HE DISCUSSED RECENTLY WITH BOYD.

WHITHER EUROPE?

6. THE MEETING WILL TAKE PLACE JUST BEFORE THE RHODES EUROPEAN COUNCIL AND THE GATT MTM IN MONTREAL. IT WILL PROVIDE A GOOD OPPORTUNITY TO LOOK FOR A COMMON APPROACH TO ANY ITEMS WHICH LOOK LIKELY TO BE DIFFICULT TO HANDLE AT RHODES. BUT I SUGGEST THAT WE SHOULD AIM TO AVOID A DISCUSSION FOCUSSED TOO CLOSELY ON THE IMMEDIATE ISSUES AND INSTEAD TRY TO FOCUS ON THE LONGER TERM: ''WITHER EUROPE?'', MITTERRAND'S APPROACH TO THE FRENCH PRESIDENCY, HOW HE SEES THE BIG DOSSIERS, MONETARY, FISCAL AND SOCIAL. WHAT MITTERRAND HOPES TO ACHIEVE FROM THE FRENCH PRESIDENCY, IT SEEMS TO ME, IS A PLACE IN HISTORY. OUR AIM MIGHT THEREFORE BE TO LOOK FOR WAYS OF HELPING HIM TOWARDS A FRENCH ''ACHIEVEMENT'' WHICH AT THE SAME TIME ADVANCES OUR OWN NATIONAL INTERESTS.

7. AS TO THE GATT MTM, THERE IS PRECIOUS LITTLE GIVE IN THE FRENCH POSITION ON AGRICULTURE BUT THERE IS COMMON GROUND TO BE FOUND IN OTHER AREAS. BUT I DOUBT WHETHER IT WILL BE EASY TO GET MITTERRAND TO FOCUS ON THE DETAILS.

8. ANOTHER POSSIBLE SUBJECT IS THE ENVIRONMENT. DO YOU WANT THE AMBASSADOR TO FLAG THIS TO ATTALI AS ONE FOR DISCUSSION ON 30 NOVEMBER?

FERGUSSON

YYYY

10. XI.
PM 8

CONFIDENTIAL

ME PM2 AFT
cc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 October 1988

MEETING WITH PRESIDENT MITTERRAND

Monsieur Attali telephoned me yesterday evening to say that President Mitterrand would very much like a private and informal meeting on the pattern of those held in 1986 and 1987. He envisaged a talk over lunch, attended only by the President, the Prime Minister, Monsieur Attali and me. He would like to invite the Prime Minister to come to France for this and would propose a site close to the Channel, so as to minimise travelling time. After consulting the Prime Minister, I have told Monsieur Attali that the Prime Minister accepts the invitation with pleasure for 30 November. I have informed H.M. Ambassador, Paris. I understand that the French are likely to announce the meeting today.

11 BF

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

PRIME MINISTER

PRESIDENT MITTERRAND

Monsieur Attali telephoned me this afternoon to say that President Mitterrand very much wanted to have a private and informal meeting with you over lunch in the reasonably near future, on the lines of those you had about a year ago. It would involve only the two of you, Monsieur Attali and me. The President would like to invite you across to France for this, perhaps to somewhere close to the Channel to minimise the travelling time for you. He proposed 18 or 22 November.

I said that I knew you would be grateful to the President for his invitation and I thought you would certainly value a talk. You had found last autumn's sessions very useful. Unfortunately both 18 and 22 November were impossible for you. Indeed, it would probably be impossible to find any date before 22 November.

Monsieur Attali expressed disappointment at this. The President very much wanted to see you ahead of the European Council. He would look again at the President's diary and try to suggest an alternative date. He subsequently came back with the suggestion of Wednesday 30 November (which is only shortly before the European Council on 2/3 December).

I attach relevant pages from the long-term diary. As you will see, it would not be impossible to go over to France fairly early that day, have a talk and early lunch and be back in time to do the "A New Look for London" book launch in the afternoon (the timing of that is flexible) and drinks with MPs in the evening. A possible alternative might be Wednesday 23 November if you did not mind being away for the second day of the Debate on the Address. But I do not know whether President Mitterrand could manage it.

You have found these meetings useful in the past and it would be a pity to seem to rebuff President Mitterrand. On the other hand, the timing is far from convenient and the motive for the sudden meeting unclear. There is probably some deep French reason.

Agree to a meeting and lunch with Mitterrand?

Accept 30 November?

Or prefer to propose 23 November?

Or say you simply cannot manage dates before December?

C.D.P

Charles Powell

12 October 1988

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COPY NO: 13

Thursday, 17 November

RETURN TO NO.10

Friday, 18 November

0930 Professor Griffiths
Lunch Keep free for TG
Keep free for speechwriting
Overnight at No.10

Saturday 19 November

ADDRESS UK FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN - LONDON
KEEP FREE?

Sunday 20 November

1200 KEEP FREE

Monday 21 November

0800 Hair
1000 Week Ahead Meeting
1030 Diary Meeting
1215 Meeting of Colleagues
1300 followed by lunch
1430 Keep free for speech
1930 for 2000 KEEP FREE?

KEEP FREE?

Tuesday 22 November

0900-1030 Keep free for speech
1100 KEEP FREE
1130 STATE OPENING OF PARLIAMENT
LUNCH KEEP FREE
1430 DEBATE ON THE ADDRESS
1715 RETURN TO NO. 10
ATTEND DINNER TO MARK LORD FORTE'S 80th BIRTHDAY
GROSVENOR HOUSE +DT

Wednesday 23 November

KEEP FREE ?
1600 Interview with She Magazine + TP
1700 Chancellor of the Exchequer +PG
1730 Foreign Secretary +CDP
1800 LOOK IN AT LEAVING PARTY FOR SIR ANTHONY GARNER
1830 KEEP FREE

Thursday 24 November

1730 Moderator of the Church of Scotland +RC
1830-1900 LOOK IN AT LADY PORTER'S RECEPTION + JW
RETURN TO NO.10
2000 for 2015 Dinner for Chief of Defence Staff No.10

COPY NO: 13

Friday 25 November

0930	Professor Griffiths +PG
1000	Sir Robin Butler +NLW
1045	German Ambassador to say farewell + CDP
1100	Keep free?
	LUNCH WITH BRITISH SPORTS ASSOCIATION FOR THE DISABLED +DT

Saturday 26 November

Sunday 27 November

?	**KEEP FREE + DT**

Monday 28 November

0830	Hair
1000	Week Ahead Meeting
1030	Diary Meeting
1100	**PLANT A TREE TO MARK NATIONAL TREE WEEK**
1145	**RETURN TO NO.10**
1200	Mr. Papandreou +CDP
1300	Working lunch for Mr. Papandreou + CDP No.10
1600	Sir Angus Fraser +NLW
1630-1730	Value for Money Seminar

Tuesday 29 November

0900	Questions Briefing
0930	Lord Young +PG
1000	Keep free for speech
1300	Lunch and Questions Briefing
1515	**QUESTIONS**
1545	**CRANLEY ONSLOW +MLB**
1600	**KEEP FREE FOR MPs**
1700-1800	Interview with "Beeld" + CDP
1830	**AUDIENCE**

Wednesday 30 November

1030	**LAUNCH "A NEW LOOK FOR LONDON" +DM?**
Lunch	Keep free for TG [no engagement]
1430	Keep free for speech + PG [Ten per cent Club]
1700	Chancellor of the Exchequer +PG
1730	Foreign Secretary +CDP
1800-1900	Drinks with MPs +MLB
c1915	**LOOK IN AT RECEPTION FOR MARGARET PYKE TRUST**

Thursday 1 December

0830	Hair
0900	Questions Briefing Team
1030	Cabinet?
1300	Lunch and Questions Briefing
1515	**QUESTIONS**
1545	**KEEP FREE FOR MPs**
1700	Keep free for briefing + CDP
	Supper in Flat

NOT TO BE COPIED

COPY NO: 13

Keep free for packing

Friday, 2 - Saturday 3 December
EUROPEAN COUNCIL - RHODES

Sunday 4 December
Keep free for speech writing? + PG

Monday 5 December

0830	Hair
1000	Week Ahead Meeting
1030	Diary meeting
1100	Keep free for speech writing + PG
1215	Meeting with Colleagues
1300	followed by Lunch
1530	Admiral Fieldhouse + CDP
1600	Mr Rocard
1830	Reception for NSPCC No.10
c2015	**"NEW BOYS" DINNER ST. STEPHEN'S CLUB**

Tuesday, 6 December

0900	Questions Briefing Team
0930	Keep free for Briefing
1000-1100	Interview with US News and World Reporter +TP
1300	Lunch and Questions Briefing
1515	**QUESTIONS**
1545	**KEEP FREE FOR MPs**
1700	Chancellor of the Exchequer +PG
1730	Foreign Secretary +CDP
1830	**AUDIENCE**

Wednesday, 7 December
REGIONAL TOUR

Thursday 8 December

0830	Hair
0900	Questions Briefing Team
1030	Cabinet
1300	Lunch and Questions Briefing
1515	**QUESTIONS**
1545	**KEEP FREE FOR MPs** and/or speech
1700-1930	**ADDRESS PER CENT CLUB + PG**
	RETURN TO NO.10

Friday 9 December

0930	Professor Griffiths +PG
1000	Sir Robin Butler +NLW
1100	Sir Angus Fraser +NLW
1130-1230	Value for Money Seminar
	Lunch in Flat
	FINCHLEY
	TO CHEQUERS

CP
PM agreed
31 Oct
provided she
would be back in
good time for the
concert

CDP told PM's
decision 13/10
ecl

PRIME MINISTER

PRESIDENT MITTERRAND

Monsieur Attali telephoned me this afternoon to say that President Mitterrand very much wanted to have a private and informal meeting with you over lunch in the reasonably near future, on the lines of those you had about a year ago. It would involve only the two of you, Monsieur Attali and me. The President would like to invite you across to France for this, perhaps to somewhere close to the Channel to minimise the travelling time for you. He proposed 18 or 22 November.

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You have found these meetings useful in the past and it would be a pity to seem to rebuff President Mitterrand. On the other hand, the timing is far from convenient and the motive for the sudden meeting unclear. There is probably some deep French reason.

Agree to a meeting and lunch with Mitterrand? Yes

Accept 30 November?

Or prefer to propose 23 November? } Either - whichever suits him.

Or say you simply cannot manage dates before December?

C.D.?

Charles Powell

12 October 1988

Cf. Please add to file

TG. 10/10

Jessa

MR. THATCHER

The Anglo-French Summit has been set for Monday, 27 February, in Paris. Ewen Fergusson has suggested that you and the Prime Minister might like to stay at the Embassy in Paris for the weekend of 25-26 February. I gather from Joy that this is free in your diary. Could you confirm that you would like to go?

OK

Jessa

TG

6 October, 1988.

MRS. GAISMAN

You will remember that the Anglo/French Summit has been set for Monday 27 February in Paris. The Prime Minister has long wanted to spend a private weekend at the Embassy in Paris and Ewen Fergusson has suggested she should go there for 25/26 February. The Prime Minister would, in principle, very much like to do this and has asked that it be put in the diary. Could you please consult Mr. Thatcher to see whether it is convenient for him.

CDP

CHARLES POWELL

5 October 1988

(1)

PRIME MINISTER

ANGLO-FRENCH SUMMIT

We have fixed the next Anglo-French Summit for Monday 27 February in Paris. Ewen Fergusson reminds me that you are looking forward to spending a weekend with him there at some stage. Would you and Mr. Thatcher like to spend the Saturday and Sunday of that weekend in Paris? I attach the relevant part of the long term diary so that you can see your other commitments at that time.

Love to do that

CDP

(C. D. POWELL)

4 October 1988

COPY NO:

Wednesday 8 February
NUEC DINNER

Saturday 11 - Sunday 12 February
YC CONFERENCE

Tuesday, 14 February
DINNER AT LAMBETH PALACE

Friday, 17 February

Monday, 20 February

Wednesday, 22 February
Keep free

Friday 24 February
REGIONAL TOUR?

Monday, 27 February
KEEP FREE

Saturday 4 March
LOCAL GOVERNMENT CONFERENCE

Monday 6 March
FINCHLEY AGM

Friday, 10 March
SUMMIT?

Monday 13 March
1515 COMMONWEALTH DAY OBSERVANCE - WESTMINSTER ABBEY

Friday 17-Saturday 18 March
CENTRAL COUNCIL

Monday 20 March
General Reception

Tuesday 28-Friday 31 March
KEEP FREE - OVERSEAS?

Monday 3 April HOUSE RETURNS?

Friday 7 April
REGIONAL TOUR?

Monday 10 April
FINCHLEY WESTMINSTER FORUM DINNER

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Fergusson 27/9

YOUR TELNO 423: ANGLO-FRENCH SUMMIT.

1. THE QUAI HAVE JUST CONFIRMED THAT THE ELYSEE HAVE AGREED TO 27 FEBRUARY FOR THE ANGLO-FRENCH SUMMIT, TO BE HELD IN PARIS.

FERGUSSON

YYYY

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 June 1988

PRIME MINISTER'S MEETING WITH M. ROCARD

The Prime Minister had a talk in Paris this afternoon with M. Rocard, following her lunch with President Mitterrand. The French Ambassador in London and M. Petit were present on the French side and HM Ambassador Paris on our side. It was a notably friendly and good humoured discussion in which M. Rocard spoke English virtually throughout. Since the discussion covered much of the same ground as with President Mitterrand, I have not thought it necessary to record the Prime Minister's comments in detail.

Introduction

M. Rocard recalled the very kind reception which he had received from the Prime Minister on a number of occasions when he had been out of office. He also had wartime memories of listening to the BBC from London. France could talk in a quite different way to the United Kingdom than to other countries. He wanted the Franco-British relationship to have a special role. He had spoken with some emotion because this was what he felt. The Prime Minister thanked M. Rocard for his remarks. Emotion had a place in politics as did respect for history.

Debt

The Prime Minister gave an account of her discussion with President Mitterrand on debt. There should be a clear result from the Economic Summit on this issue, which must include conditionality. There should also be fair burden sharing.

M. Rocard said that the French proposals were clearly conditional upon countries concerned agreeing IMF programmes. They were also intended to cover all debt, that is aid debt and export credit debt. He agreed that the aim should be a concrete outcome from the Toronto Summit. France, for its part, was clearly committed to the option of writing off one third of the debt of the poorest countries.

Single Market

The Prime Minister said that it would be important that the Community should not erect new barriers against the

outside world when the single market was completed in 1992. She was however concerned by the way in which the Commission's competence was being steadily extended, for instance into the field of mergers and monopolies. M. Rocard agreed that completion of the single market should be accompanied by an increase in the Community's trade with the rest of the world.

Agriculture

M. Rocard expected agriculture to be the most difficult subject at the Toronto Economic Summit. He could accept the concept of an agreement to reduce subsidies progressively. But a number of conditions had to be met. All forms of subsidy had to be covered: the United States tended to argue that some of its measures were not really subsidies. It had to be recognised that you could never have full free trade in agriculture. And there was a need to identify other ways of utilising land. He himself was a strong supporter of using cereals for ethanol. He had discussed these problems with the Americans and found that Mr. Yeutter agreed with him on the need for a long term plan to reduce subsidies. Nonetheless, he hoped that the Toronto Economic Summit would not go too deeply into these issues before the Community had been able to prepare its position better. There would need to be a major study done in the Community. But he believed that agreement could be reached internationally, just as had been done with details of the Multi Fibre Agreement.

The Prime Minister said that Europe could not just rest on the results of the Brussels European Council, although she accepted that the Community's position needed to be well prepared. It would be necessary at Toronto to agree to negotiate for a positive result to the Mid Term Meeting in December which covered both short term measures and longer term commitments. M. Rocard said that he was basically the Prime Minister's ally in this. He needed more funds for education and other social policies in France and they could only be found by reducing spending on agriculture. But more time and study was needed. The Community could not commit itself to a series of reductions without knowing where they would lead and without offering some vision of the future to its farmers. He envisaged a process of progressive reductions in subsidies stretching over 15 years or so. But it must be on a planned basis and not involve staggering blindly from measure to measure. That was why he was insistent on the need to explore the subject more thoroughly within the European Community first.

Financial and Monetary Co-operation

M. Rocard said that he accepted that a European Central Bank was only a long term prospect. The immediate issue was liberalisation of capital movement and France had already taken two further steps in this direction since he had become Prime Minister. The subject would again be discussed in ECOFIN on 14 and 15 June. He was not sure that complete agreement could be reached. For one thing, he was not certain that the EMS could survive if all foreign exchange controls

were removed. That was why France wanted a parallel commitment to discuss growing monetary co-operation between Central Banks.

The Prime Minister said that she agreed that the EMS would not have held together without foreign exchange controls. That was one reason why Britain had not joined the Exchange Rate Mechanism. She was very sceptical about a European Central Bank for reasons which she had explained at some length to President Mitterrand. She agreed that there were possibilities for further monetary co-operation in Europe such as greater use of the ecu and wider cross-holdings of Community currencies in foreign exchange reserves. But there was no need for wise men to address these issues: that was only an excuse for avoiding action. They should be left to Finance Ministers and Central Bank governors.

M. Rocard said that France would approach these matters in a pragmatic spirit and would not have a rigid position at ECOFIN. What he was really after was a procedure for co-ordination between Central Banks. He shared the Prime Minister's dislike of generalities. He would prefer any study to be carried out by the Central Bank governors although he would not exclude their efforts being supplemented by others. But decisions must remain in the hands of those with responsibility. The central problem, in his mind, was the need to proceed with capital liberalisation and removal of foreign exchange controls without making the EMS more fragile vis-à-vis other major currencies. This required better co-ordination of intervention between central banks. The Prime Minister said that she detected that she and M. Rocard agreed that any study should be limited in scope, pragmatic in approach and conducted by those with direct responsibility.

New Caledonia

M. Rocard said that he would like to give the Prime Minister a brief account of developments in New Caledonia. The issue had been very badly handled by the last government and France had gone back on its word over the Pisani plan. A mission of church leaders and others had recently visited New Caledonia and he had seen them on their return. He believed they had helped to achieve reconciliation between the two communities and had identified the outline of an agreement which could be accepted by both of them, although it would probably take until the autumn to finalise this. He would not tire the Prime Minister with the details but he was optimistic that a solution would be found. Meanwhile his first priority was to stop New Caledonia from being exploited as a political issue within France.

I am copying this letter to Alex Allan (HM Treasury), Shirley Stagg (MAFF) and to Trevor Woolley (Cabinet Office).

Lyn Parker, Esq.,
Foreign & Commonwealth Office.

(C.D. POWELL)

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JD
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SUBJECT
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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 June, 1988.

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

The Prime Minister visited Paris today to see President Mitterrand. The Prime Minister and President talked for an hour, with M. Attali also present, and then continued their talk over lunch which was attended in addition by Mde. Guigou. This was followed by a brief walk in the Elysee Garden. The President was almost jovial and seemed to enjoy the discussion, but was vague on the detail of several of the issues covered (in particular his own proposal on debt). I was struck by the fact that he never mentioned M. Rocard, indeed seemed unaware that the Prime Minister was going to see him. For his part, M. Rocard made no mention of the President. One feels that cohabitation is not necessarily dead.

It was agreed at the beginning to concentrate on the immediate issues to be taken at the Toronto Economic Summit and the Hanover European Council. There was only the briefest of exchanges at the end on East/West relations and defence cooperation.

Introduction

The Prime Minister congratulated the President on his re-election. It was useful that no further elections were due in the major European nations for at least two years. This would give continuity and stability to European affairs, particularly important at a time of change in East-West relations. She hoped that Britain and France could continue to work closely together.

The President echoed the Prime Minister's views. The main question mark was over the United States Presidential election. He did not know Mr. Dukakis. He appeared to have no international experience. But at present he seemed likely to win. Vice-President Bush, on the other hand, was one of of the few American leaders who knew Europe and had an interest in it.

Economic Summit

President Mitterrand said that the Toronto Economic Summit would come at the end of President Reagan's second term. He would quite legitimately wish that term to end on an upbeat note. He would probably want, therefore, to avoid difficult issues. The Summit was unlikely to be very productive. The Prime Minister disagreed: there were important issues to tackle, and the Americans would be ready to play their part.

Debt

The Prime Minister thanked President Mitterrand for his letter on debt. There were now several proposals on the table. There were marked similarities between those of Britain and France. The common factor was the wish to do something to help. We should aim for a positive result at the Economic Summit. While the precise steps taken to alleviate the position of the very poorest countries might vary, it was important that creditors should share the burden equally. In particular, the United States should be persuaded to do more. There were a number of points about the French proposals on which we were not clear. Were they intended to make relief conditional on debtor countries reaching agreements with the IMF? Did cancellation apply to aid debts alone or to all official debt? What provision would there be to enable creditors who offered lower interest rates or cancellation in return for early repayment to have their claims given priority in future reschedulings? The details should be worked out carefully. We attached great importance to conditionality: without it, the debtor countries would simply slip back into their bad old ways.

President Mitterrand said that he had deliberately not gone into detail but had just sketched out some possibilities. They could be discussed at Toronto, indeed he would welcome that. They were intended to cover all forms of official debt. At one stage he had considered proposing that all the debt of the poorest countries should be written off, but had decided to settle for one-third. There was no explicit conditionality. But the fact that two-thirds of the debt would not be written off left the IMF plenty of leverage. Heads of Government should not get involved in minutiae. The aim at Toronto might be to agree general guidelines and leave Finance Ministers to work out details. But France could not submit its decisions to others: it would be up to each government to settle on the steps it wished to take.

Agriculture

The Prime Minister said that just as important to the developing countries was help over trade, in particular trade in agriculture. The Economic Summit should make a commitment to early and concrete steps towards reducing agricultural subsidies. The European Community had made some important progress in this direction at the Brussels European Council,

but much more remained to be done.

President Mitterrand said that France's starting point was the interests of the large proportion of her people still active in agriculture, and the overall importance to the French economy of the food industry. That was why, at the Bonn Economic Summit, he had refused to allow agriculture to be singled out for discussion in the GATT. An arrangement had eventually been found which allowed agricultural and industrial trade to be dealt with in parallel. But the results had been disappointing: protectionism and competitive subsidies had actually increased, in the United States in particular. He agreed that a way had to be found to improve the situation, but not one which sacrificed vital interests. He hoped that European governments would not be divided on this issue at the Summit.

The Prime Minister said that, if matters were allowed simply to continue as at present, we should get into a spiral of competitive subsidies. The richest countries would be the victors, but it would be ruinously expensive for everyone, not least the developing countries, and undermine the results of the Brussels European Council. The American proposal to phase out all subsidies by the year 2000 was not realistic, but there must be significant reductions. She did not accept that Europe had done all that was needed. The Toronto Summit must give impetus to discussions in the GATT.

President Mitterrand said that he was very ready to discuss the problem of agriculture as part of a wider debate. He agreed that the problem had to be tackled. But he was sceptical about United States' intentions.

Single Market

The Prime Minister said that other countries feared that completion of the single market in Europe would lead to the raising of new barriers against them. The Community should make clear that the intention was to increase trade, not to increase protectionism. President Mitterrand said that the European Community was not just a free-trade area: it must have its own rules.

Terrorism

President Mitterrand said that he understood the Prime Minister wanted terrorism to be discussed at the Summit. A priori he was on her side on this issue. His only doubts were on the role of the Summit in this area as in others: he did not want it to become an institution as such. The Summit could reach conclusions, but they should be implemented in other bodies. The Prime Minister commented that Britain and France worked very well together in dealing with terrorism. It would be necessary to retain frontier controls in Europe after 1992 if the war against terrorism was to be waged successfully. President Mitterrand commented that he agreed in principle although France might differ from Britain over detailed arrangements.

Presidency of the Commission of the European Communities

President Mitterrand said that a decision would be needed at Hanover on the Presidency of the Commission of the European Communities. France was not pressing any particular appointment: they had held the Presidency for four years and recognised it was not theirs by right or entitlement. If others wanted a change, France would agree. That said, there seemed to be a general current in favour of the re-appointment of M. Delors. He had discussed the matter with Chancellor Kohl who seemed to be thinking in terms of Delors' re-appointment for two years. He probably had in mind the possibility that Mr. Bangemann might take over thereafter, although he did not think Kohl was very keen on Bangemann.

The Prime Minister said that no alternative candidate of Delors' stature had emerged. But the European Council should not try to settle now what should happen in two years time. Situations could change: for instance Mr. Lubbers might become available. President Mitterrand said that would be excellent.

Financial and Monetary Cooperation

President Mitterrand introduced the subject of financial and monetary cooperation over lunch. He had no difficulty with the principle of liberalising capital movements and dismantling exchange controls. But we were in a Community, and no government wanted to see its capital flee to other countries. There should therefore be a basic minimum of similarity in the taxation of capital throughout the member states. Even Germany had concerns on this score in relation to Luxembourg. So France would pose certain questions, both at ECOFIN on 13 June and at the European Council. The President continued that Herr Genscher had put forward his proposal for a study by a group of wise men of a European Central Bank. In his own view it would be difficult to deal with these matters without the participation of Central Bank Governors. But it could not be left to them alone, any more than agriculture could be left to Agriculture Ministers. In particular, Herr Poehl would be an obstacle to progress. He therefore favoured an independent group which would work in parallel with Central Bank Governors.

The Prime Minister said that the United Kingdom already had full freedom of capital movement and no exchange controls. Far from hurting our economy, this had stimulated growth. She understood that agreement had already been reached in the Community on a capital liberalisation directive: she hoped that there would be no going back on this or any attempt to set pre-conditions. President Mitterrand interjected that he was not putting pre-conditions or saying that there had to be tax harmonisation before there could be capital liberalisation. But certain questions had to be asked.

The Prime Minister continued that the idea of a European Central Bank just did not stand up to examination at this

stage of the Community's development. It presupposed a common currency, common economic policies and a readiness to surrender national control over monetary policy. None of these conditions was remotely likely to be met, so a study was pointless. She was fully behind Herr Poehl on this. We already had a European Investment Bank and a Bank for International Settlements which performed their functions admirably. There was scope for study of more technical ideas such as greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves. But this was not an area for wise men who were likely to recommend all sorts of absurd things. It should be left to ECOFIN and to Central Bank Governors. The European Central Bank proposal was clearly motivated by political not technical considerations. But this was not an area for playing games.

President Mitterrand commented that it was nice to be reminded that the Prime Minister knew how to say no. He agreed that there was a distinction between the proposal for a European Central Bank, which was a long-term goal, and more immediate measures such as capital liberalisation. He was certainly not saying that a European Central Bank should be discussed in the early stages. But other governments wanted to set a goal towards which they could work. There was a feeling that Europe was losing out vis-a-vis the rest of the world. The Prime Minister said that she was not against discussing monetary cooperation, but it must be on the basis of feasible objectives, not pipe-dreams. She had set out the areas where progress might be made, but they were pre-eminently matters for experts not wise men. There was no point in discussing a European Central Bank when no-one knew what it meant. We had excellent Central Banks - and Central Bankers - of our own and should not interfere with them.

Channel Tunnel

The Prime Minister and President Mitterrand agreed that they would travel through the Channel Tunnel together in 1993 (it was not agreed in which direction this would be). President Mitterrand added a "God willing" proviso.

Economic Summit 1989

The Prime Minister said that we could accept the date of 14 July for the next Economic Summit. The President made clear that he envisaged Heads of Government attending the usual Bastille Day military parade.

East/West Relations and Defence Cooperation

The Prime Minister regretted that there had not been time to discuss East/West relations or defence cooperation. They should be taken up at a further meeting. We wished to strengthen our defence cooperation with France, and she hoped that the ideas in her message of January to the President could be studied.

Circulation of this letter within Departments should be

strictly controlled. I am copying it to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Stephen Ratcliffe (Department of Trade and Industry), Myles Wickstead (Overseas Development Administration), and to Trevor Woolley (Cabinet Office).

C.D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

mjd 2/131Jn

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

9 June 1988

Charles Powell, Esq
PS/Prime Minister
No.10 Downing Street
London SW1

Prime Minister
A good note.
N.L.W.
9.6

Dear Charles

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

... I attach briefing on the debt issue.

I am copying this letter and enclosure to Lyn Parker (FCO).

Yours sincerely

J M G TAYLOR
Private Secretary

mjd 2/130Jn

CONFIDENTIAL

HM TREASURY

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

10th JUNE 1988

SUB-SAHARAN AFRICA: CHANCELLOR'S INITIATIVE

Line to Take

Eager to reach agreement at Summit on helping the poorest, most debt-distressed countries. Thank President Mitterrand for his letter. Glad he endorsed reductions in interest rates - as proposed by Chancellor - which are a positive way to help such countries. French proposal for cancellation of part of rescheduled debt also offers useful option and we shall want to study it further. US proposal for rescheduling over longer periods does not go far enough. It will be important to ensure burden-sharing between creditors. Important that we who have so much at stake in Africa should work together at the Summit to secure agreement.

Background

2. The Chancellor's initiative was announced in April 1987. He proposed that very poor debt-distressed countries - with per capita incomes of less than $425 a year - who were carrying out adjustment programmes approved by the IMF and the World Bank should be helped by writing off aid loans, by rescheduling their other official debts over longer periods, and by cutting interest rates to prevent the compounding of debt. So far as we are concerned, for further aid loan write-off - the UK has already done this for most countries. Longer grace and rescheduling periods (over 15 and 20 years) have been allowed to 10 countries in the Paris Club. Little progress, however, has been made so far in reducing interest rates, largely because of US opposition.

3. But reducing interest rates - or an equivalent measure that actually reduces the debt burden - is essential. The bottom line is that, at present, a number of countries simply have no prospect of repaying their debts in full. Recognising this is simply enlightened realism. But for the same reason, rescheduling alone will not be enough: the burden has to be reduced in some way.

4. The US line is that they are prevented by 'political, legal and budgetary constraints' from reducing interest rates. The US Treasury Secretary, Mr James Baker, stated this at the African Development Bank conference in Abidjan earlier this month but announced that the US was "willing to extend the range of options within the Paris Club": some countries could offer concessiona interest rates while others could reschedule over a longer period. This is an idea that comes from the Canadians who were hoping to produce it at the Summit as a compromise.

5. The French variant described in President Mitterrand's letter of 7 June to the Prime Minister gives creditors three options: first a new option for these countries to cancel a third of debt being rescheduled at each Paris Club exercise with repayments of the remaining two-thirds of this debt over 10 years; second, an interest rate subsidy as proposed by the UK (he suggests halving the rate) with repayments spread over 15 years; and third, a variant of the US-Canadian proposal by suggesting that countries not willing to give a subsidy by either of the first two routes should reschedule over 25 years. The French plan to pursue the first option.

6. The key issue with these three options of interest relief, longer maturities and debt cancellation will be to ensure equality of burden-sharing between creditors. The Chancellor's original proposal was for an interest reduction of perhaps 3 per cent which would provide debtors with immediate relief on their interest payments and help to prevent cumulative increases in debt from

the compounding of high interest rates; debtors would also receive a grace period of 5-10 years before repayments began. The French option of debt cancellation would also result in lower interest payments as a result of the reduced stock of debt, but principal repayments would be likely to start earlier than under the Chancellor's proposal. The US proposal for longer maturities would imply no reduction in interest payments, and the US so far has resisted lengthening maturities beyond the 20 years already granted to some African countries. It will be important that we push the Americans as hard as we can, at least to 25 years.

7. An important aspect from the creditors' point of view will be whether those who offer either lower interest rates or debt cancellation in return for early repayment will be able to have their claims given seniority in any future reschedulings. The US has resisted this so far. It will be helpful to have President Mitterrand's view on this. The French are expected to suggest that Summit leaders should agree a menu of options and remit the details to be agreed by a special Paris Club working party in July.

8. Other countries have also shown signs of movement. The Germans are considering more RTA in tranches related to IMF or World Bank conditionally. The Japanese (according to Press sources) are likely to make a proposal aimed primarily at middle income debtors. This is that the IMF set up a special trustee fund which would be used as collateral to back bonds to be issued by debtor nations. These bonds would then be swapped, at a discount to their face value, for debts owed to commerical banks.

PRIME MINISTER

VISIT TO PARIS

You are to visit Paris on Friday for talks with President Mitterrand and Prime Minister Rocard. The date is not quite as auspicious as when we selected it, with the second round of the parliamentary elections on Sunday. Nonetheless, there are a lot of pressing issues to be discussed.

Programme

We shall need to leave No.10 at 0910 for take off at 0945 from Northolt. The programme is:

1200	Arrive Paris
1230	Meeting with President Mitterrand
1315	Working lunch
1445	Meeting with M. Rocard
1630	Depart for London

You should be back in No.10 shortly after 5 pm.

Substance

You took the initiative for suggesting this meeting and the French will see it as a significant gesture intended to continue the improvement of relations of the last year or two. The fact that M. Rocard is an Anglophile will help. President Reagan's visit to London and your known special relationship with Mr. Gorbachev puts us very much centre stage. We should make the most of the meeting to underline Britain's position as the country which best encompasses the European, transatlantic and East-West roles.

Even so one is conscious of quite a number of problems looming in Anglo-French relations. President Mitterrand feels reinforced by his election victory and glad to be rid of the burden of co-habitation. He intends to make the construction

of Europe a priority and wants France to take the lead, counting on his ability to transfix Kohl and get him to agree to whatever France wants. We are likely to be seen and presented as an obstacle. The difference compared with past phases of Anglo-French confrontation is that we are in a much stronger overall position this time.

Disagreements are not likely so much on the defence and East/West relations side, although even here President Mitterrand is by no means sound on modernisation of short range nuclear weapons or in his opposition to negotiations on the further reduction of such weapons in Europe. Rather they will arise primarily in the EC. The French profess to be keen to make progress on long-term economic and monetary cooperation in Europe, partly to be seen to be taking a lead and partly as an alibi for not taking the steps required of them to liberalise capital movements. They are getting cold feet on agricultural reform and are likely to be very difficult on agriculture in the GATT. They intend to make the "social dimension" the theme of their Presidency of the EC next year. So far as this means anything, it is concerned with "a minimum threshold of social rights" for workers throughout the EC and worker participation in the decision-making. They seem increasingly unhappy about some of the implications of the single market and do not want third countries to have access to it unless they provide reciprocal access to their home market. Another issue on which we could fall out is South Africa where they are working on a list of possible additional sanctions including a ban on imports of South African fruit and vegetables. Trouble on some of these issues is closer than on others and we do not want to precipitate unnecessary rows. You probably won't want, therefore, to tackle all of them head on. The two most urgent are monetary cooperation and agriculture.

You might therefore take the issues in the following order:

East/West relations

You will want to discuss the recent Summit and

developments in the Soviet Union. You might sound him out gently to see if and when he expects to meet Gorbachev. You will also want to establish the maximum of common ground on nuclear matters. It will be important for Britain and France to be seen to be united in their determination to maintain independent nuclear deterrents, particularly if there is a change of Administration in the United States.

Defence

You will want to encourage further consideration of the proposals you put to him in your message in January (copy in the folder). You ought also to mention where we are on the stand-off missile: we are conducting feasibility studies with a view to reaching a decision in 1989. He may ask you about our forthcoming Presidency of WEU. One of the main issues here will be the question of enlargement to bring in Spain and Portugal. We continue to believe that Brussels is the right place for the WEU to be sited.

Bilateral matters

You might ask whether he is yet in a position to agree the proposed dates for the major visit by the Prince and Princess of Wales (7-11 November).

Middle East

You will want to tell him of your concerns about developments in the area both in the Gulf and on Arab/Israel where there seems little hope for results from the Shultz initiative. The important thing is to keep up activity, so that there is not a vacuum and the next US Administration have something to take up. You should mention our concern about the spread of ballistic missile technology. You will probably want to keep well away from the subject of hostages.

Hanover European Council

The main problem we are likely to encounter with the

French is on monetary cooperation. There is a note by the Treasury in the folder which sets out the main points to be made on this. The key is to try to hold the French to their commitment to go ahead with liberalisation of capital movements and not make harmonisation of withholding tax on savings a pre-condition. He seems bound to raise the question of a study by wise men on future monetary cooperation. There are two important points to make on this. First there are some practical and attainable objectives like greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves which could usefully be studied. But there is no point in a study of futuristic propositions like a European Central Bank or a common currency. Second, any study should be done by those with a direct responsibility in the area rather than just a dilettante political interest. This points firmly to Finance Ministers in ECOFIN and Central Bank Governors. He is also likely to urge you to reconsider British membership of the ERM of the EMS. You will want to elicit from him a statement that the French continue to see progress on the single market as the first priority in the EC.

Toronto Economic Summit

The main problem here is of agriculture where the French seem to take the view that the Community has done quite enough to put its house in order and that agriculture should not anyway be singled out for special treatment in the GATT. You might say that we certainly agree that the Americans should stop denigrating the steps to reform the CAP which the Community has already taken, and should abandon their unrealistic insistence on eliminating all agricultural subsidies by the year 2000. But we cannot just reject any further movement or discussion: there is going to have to be a serious negotiation in the GATT otherwise we shall face an American Farm Bill next year which will get Europe involved in a subsidy war which will be hideously expensive.

South Africa

You will want to caution him against getting on the slippery slope of further sanctions. There are some signs that Botha is prepared to resume progress towards reform while behaving more sensibly towards South Africa's neighbours (notably in relations with Mozambique and in agreeing to negotiate with the Angolans).

You will want to cover much the same ground in your talk with Rocard. It is not yet clear how much responsibility he will have for these matters, and he will not attend either the Toronto Economic Summit or the European Council. But President Mitterrand's intention seems to be to keep strategic direction to himself while leaving Rocard to supervise detailed implementation of policies. There is therefore everything to be said for getting the main points of your thinking over to him.

C.D?

CHARLES POWELL
8 June 1988

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CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

8 June 1988

Dear Charles,

Prime Minister's Visit to Paris: 10 June

The Prime Minister will have about 2¼ hours' discussion with President Mitterrand, including lunch, and one hour with M Rocard, when she visits Paris on 10 June. There is plenty of current business to discuss, eg before Toronto and Hanover, but President Mitterrand is likely to want also a broader discussion of the place of Britain and France in the European and international context over the next few years. We believe that he and M Rocard would agree on the desirability of laying the groundwork at this meeting for future Anglo-French initiatives (what the Elysée call "projets mobilisateurs").

France Internal

President Mitterrand's convincing victory (54-46%) over M Chirac has given him a clear mandate and fresh authority. Although the Socialist Party did less well than expected in the first round of the legislative elections, they are still expected to win an overall majority in the National Assembly in the second round. The voting percentages were:- Communists 11.35; Socialists 37.5%; UDF/RPR 40.4%; Front National 9.7%. If the same pattern prevails in the decisive second round the Socialists will emerge as the largest single party; the Front National will be virtually eliminated. The message seems to be that President Mitterrand's victory was a personal one, and that the voters are seeking a moderate, centrist government, but the exceptionally low turn-out makes all interpretation subject to caution.

A Socialist victory would in some respects recall their success in 1981. It would certainly mean an end to cohabitation for the next 5 years. But the parallel also brings out the changes since the 1981 euphoria - a much more pragmatic Socialist Party, an incumbent President who claims he will preside and leave the detail to his Ministers, a deeply divided Right and an active debate over whether either individuals or a group from the centre-right can be detached to join M Rocard's government. All this gives the President a strong tactical position. What is less clear is how he intends to use it. There is little sign of any radical departure from the policies already being pursued.

On the economy for example, M Rocard has already announced that he is prepared to see unemployment rise rather than increase the budget deficit and renew special employment schemes. The recent further, if minor, relaxation of capital controls also signals continued commitment to some at least of the previous administration's micro-economic objectives. The economic situation is not however particularly good. Growth is not expected to exceed 2% in 1988; unemployment is 10.5%; the external current account moved into deficit in 1987, and trade in manufactures was in deficit for the first time in 18 years. Inflation was however down to 2.5% in March this year. / Statistics are attached.

Agenda

Although there is no agenda as such, Elysée officials have identified four main headings:-

- East/West Relations (following the Moscow Summit).

- The Hanover European Council meeting (in broad terms) and the main priorities for Europe in the period up to 1992, including monetary cooperation.

- The bilateral relationship (follow-up to the January Summit and priorities for the future).

- The Toronto Summit (International, Economic and Financial matters, Third World debt, Terrorism).

Although M Rocard will almost certainly not attend the Toronto and Hanover meetings, he will probably want to discuss, possibly in greater detail than President Mitterrand, some of the main international and EC subjects which will come up. This reflects the general division of tasks between President and Prime Minister.

East/West Relations

In many respects the French analysis of the changes in Soviet policy, particularly in foreign affairs, is very close to our own, if not even more cautious. They share our concern about the effect of Gorbachev and his smile on Western public opinion and our desire to bolster support for nuclear deterrence. Traditional French suspicions about a US-Soviet condominium fixing world affairs over Europe's head have also resurfaced, most notably over Afghanistan. Even so, there is much scope for us to work together to persuade other Western governments to make realistic assessments and to discourage moves to "help" Gorbachev.

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The Foreign Secretary recommends that in Paris the Prime Minister:-

a) explain our support for Gorbachev's reform efforts and our readiness to acknowledge genuine change; but that is matched by our caution about how far withdrawal from Afghanistan will lead to the emergence of a genuinely independent government there, or to the peaceful solution of other regional conflicts (Soviet and Cuban military support on the ground for the regimes in Angola and Ethiopia has been unaffected so far) and by our concern that the Soviet military threat continues unchecked, not least in Europe.

b) stress that despite the lack of major new agreements or breakthroughs, the Moscow Summit was a real success. It consolidated the recent improvement in US/Soviet relations and was a symbol of the steady, stable management of East/West relations which has long been our aim. The Prime Minister could give President Mitterrand her personal impression of the Summit on the basis of her talks with President Reagan last week. She could also take the opportunity to emphasise that the President was quite right to put the spotlight on human rights. This is a key issue and lies at the very heart of differences between East and West. To gloss over it would give the wrong impression to the Russians (who now accept that Western leaders have a right to comment on these questions).

c) stress the need for Britain and France to concert closely on the challenges and opportunities of the present period. Specifically, the Foreign Secretary recommends that the Prime Minister seek to maximise the common ground on nuclear issues. President Mitterrand's attitude to France's theatre nuclear modernisation was at best ambivalent during the Presidential election campaign. By extension, French resistance to SNF negotiations cannot perhaps be taken for granted in future. The political danger of appearing to sanction progress towards the denuclearisation of Europe is, however, something that President Mitterrand should be alive to. The Prime Minister might remind him of the impact on German public opinion of his support, expressed in a speech in the Bundestag, for the INF decision of 1979; and express the hope that he will use his influence helpfully over SNF modernisation as well.

d) underline the need for early Alliance agreement on proposals to put forward at the forthcoming conventional stability negotiations. The French have hitherto resisted what other Allies favour, namely an equal ceilings regime covering the entire Atlantic/Urals area. They have said

that they can only accept equal ceilings in a much narrower zone of the WEU countries on the Western side and an equivalent zone on the Eastern side, or in a zone which excludes France entirely. These proposals have attracted no support because they make little military sense. The Prime Minister could make clear to both President Mitterrand and M Rocard that we should not enter into complex conventional arms control negotiations except on the basis of zonal arrangements reflecting sound security considerations; and that equal ceilings covering the entire area represent an effective and publicly defensible method for securing the asymmetrical reductions by the East which we seek.

A number of other subjects may come up in discussion:-

- on Soviet internal developments, the Prime Minister could draw attention to the struggle going on in the run-up to the Party Conference at the end of June. It involves attempts by both sides to fix the choice of delegates and (for the first time) some argument in public. In the end, the Conference is unlikely to produce large-scale personnel changes, but endorsement of Gorbachev's overall approach may make resistance to reform more difficult in the future. In the longer term, Gorbachev's ability to put more food and consumer goods in the shops may be a critical factor in his success or failure.

- on Eastern Europe, the French may be interested to hear the Prime Minister's impressions of Grosz in view of his elevation to the Party leadership. She might also mention that she hopes to use the prospect of her visit to Poland to put pressure on the Poles to pursue economic reform and political dialogue.

- on CSCE, we still hope the negotiation can be completed in July, but this depends on Eastern willingness to agree a balanced and substantial outcome. There remains much to negotiate, particularly on military security, human rights/human contacts and follow-up activities. Soviet hints to the Americans about a more forthcoming attitude in Vienna have not so far borne fruit, and the obstructive Romanian attitude to human rights looks increasingly like a major stumbling block. The issue of a Moscow Conference on human rights has receded into the background (it was not mentioned at the US-Soviet Summit) but is not yet dead. The Prime Minister might say that it would now be timely for the West to consider how to kill off the idea.

- on chemical weapons, the French support a global and effective ban but, like us, believe that complex issues remain to be resolved in the Geneva negotiations and that this will take time. They have been particularly irritated by FRG

pressure for speedy progress. It would be useful to sound them out about their attitude to the German approach, while encouraging them to do what they can to maintain Western unity in public, in particular at a time when Soviet propaganda risks putting the West on the defensive. We informed the French about the exchange of visits between the chemical defence establishment at Porton Down and the Soviet CW facility at Shikhany. We shall brief them and other allies in detail on the Shikhany leg (30 June - 3 July). They have no intention of arranging a similar exchange between a French and Soviet establishment.

EC ISSUES

All the signs are that President Mitterrand will want the European Council to take a significant step further in the field of monetary construction. He will also want to mark the return to power of a Socialist government by giving fresh impetus to Community involvement in social issues. This fits with M Delors' priorities and those of the Greek Presidency.

There are obvious difficulties for us in this agenda but no reason to assume that we and the French must be at loggerheads. For a start, the French agree with us that the single market must be top of the EC agenda. They will also be very aware that progress may be slow under the next two (Greek and Spanish) Presidencies and that it will be for them to give real impetus to the single market campaign in their Presidency in the second half of 1989.

The Prime Minister may therefore wish to stress to President Mitterrand the importance we attach to the French Presidency and to outline the areas we see as priorities to end-1989. She may wish to suggest that we should work with the Germans to get Hanover to endorse these priorities for future work in the knowledge that this will help us to keep up the momentum between now and the French Presidency next year. The priorities are:

- financial services (further progress beyond the likely agreements on capital movements and non-life insurance) eg banking, securities and life insurance;

- mutual recognition of testing and certification procedures and further agreement covering product standards;

- further opening up of public purchasing in member states and measures to ensure compliance;

- further transport liberalisation (including shipping cabotage; further opening up of air transport services and road transport cabotage);

- opening up the market in telecommunications.

For the immediate future, Chancellor Kohl's letter to EC Heads of Government outlines the areas in which the Presidency hope to see progress by Hanover, including;

- capital liberalisation
- mutual recognition of diplomas
- rights of residence
- road haulage market acces
- public procurement
- intellectual property (trade marks and patents
- food law

With the exception of rights of residence, these are all UK priorities. The letter also identifies some 31 individual measures which the Presidency hope to see agreed between now and Hanover. Few of these present any substantive problems for the UK. However, the French may try to insist that liberalisation of capital movements should be accompanied by a withholding tax on savings. The new French Government has made encouraging noises about agreeing to move swiftly to end the remaining French exchange controls. However, the French, who tax investment income relatively heavily, have also expressed disquiet about the increased scope for tax evasion which they believe will follow from abolition. Hence the French pressure for a harmonised withholding tax on savings. We have naturally opposed this (not least because it will simply drive business away from Europe altogether) and ECOFIN had earlier accepted that while, discussion should continue on this issue, agreement on it should not be regarded as a precondition for the adoption of the Directive. The heightened concern recently shown by the French on this issue may be linked to President Mitterrand's manifesto commitment to the introduction of a substantial wealth tax. If the French raise the issue, the Prime Minister may wish to point out that their view ignores the fact that third countries will still be able to offer beneficial rates. Investment would be driven out of Europe, taking business, jobs and taxable profits with it. EC Finance Ministers rightly agreed at ECOFIN on 14 May that there should be no question of making tax harmonisation a precondition for the liberalisation of capital movements.

Unlike us, the French do not see the creation of a Single Market as part of a necessary wider liberalisation, internal and external. They remain more protectionist, and keen to ensure that third countries do not have access to the liberalised internal market without providing reciprocal access in their home market. This is not an issue which need be raised with the French at this stage. But if the French raise it, the Prime Minister may wish to say that the Single Market is about dismantling barriers to trade, not about erecting new ones. What is true for the Community is true for

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the Community's relations with the outside world: putting barriers in the way of competition removes much of the pressure for innovation and efficiency. In the short term the consumer suffers through higher prices. In the long term even the workforce in the protected industries suffer.

Social Issues

President Mitterrand, and to a lesser extend M Rocard, may press the French Government view that the Community should be making progress on the "social area", ie harmonisation of legislation relating to wages, social security, working hours and working conditions. Such ideas have considerable support in the Commission. The proposals involve a "minimum threshold of social rights" for workers; a right to permanent training based on a system of credits over a lifetime; and chnages in Community company law to promote worker participation in decision making.

In response to any approach, the Prime Minister may wish to make the following points:

- Europe's biggest social problem is unemployment. The Single Market will provide new opportunities for growth and job creation. There is scope for building on the 1986 Employment Resolution and implementing its provisions for greater labour market flexibility and training and retraining of the long-term unemployed.

- Rights and duties of employees should be decided by discussions between employers and employees. We must not create new burdens on businesses that destroy the benefits of the single market including the capacity of firms to generate new jobs.

- We have not neglected the social dimension in our national policy: we are spending more than ever before on training and retraining. But it is much easier to engage the interest and support of firms in training programmes for eg young school leavers if they themselves are operating in a climate of deregulation and therefore of opportunities for growth. The UK unemployment rate is falling faster than in any other EC country (and is lower than that of France: 8.9%/10/5%).

Monetary Cooperation

President Mitterrand favours the establishment of some kind of independent group of 'wise men' to look into monetary construction, including the possible establishment of a European Central Bank. Reports (from Paris) of his meeting with Chancellor Kohl on 3 June suggest that he may have made

/progress

progress in overcoming Chancellor Kohl's scepticism about "wise men". It is likely that, without going into detail, he will want to explain to the Prime Minister how he sees greater monetary cooperation as essential to the development of the Community and urge that the UK join the ERM. French interest is motivated partly by a political desire to be seen to be giving a greater impetus to economic and monetary union; and partly a wish to see what they call greater symmetry in the present system: a less DM-centred zone and a greater Bundesbank willingness to support the weaker currencies. They favour sterling's membership of the ERM in part because they think that would make it less of a DM-centred system. Some of M. Mitterrand's advisers argue, however, that the task of developing the ERM further must now proceed without waiting any longer for the UK.

The ex-French Finance Minister, M Balladur, wrote to his EC Finance Minister colleagues in January with a paper on 'European Monetary Construction'. This proposed various steps including early liberalisation of capital movements, lessening the 'asymmetry' within the ERM, adopting a common stance towards non-Community currencies and, finally, the long-term development of a single currency area with a common central institution. French spokesmen have subsequently made it clear that they see the last step as a long-term one; and have stressed the need to concentrate on points of more immediate operational interest. The French appear to wish to proceed by building up a central role for the European Monetary Cooperation Fund. The new French Finance Minister, Bérégovoy, has indicated his support for the thrust of these proposals - though not for the idea of countries ceding sovereignty to a supra-national European Central Bank.

Since M Balladur put his paper to other Finance Minister, French officials have made a number of more detailed suggestions. These include intensified coordination of economic policies, greater 'symmetry' in intervention, the diversification of reserve assets (encouraging the growth of cross-holdings of currencies between central banks over the medium-term) and a timetable for phasing out the 'special arrangements' in relation to the EMS exchange rate mechanism (ie a timetable for sterling and other currencies to join and for the Italians to move to narrower margins).

Our priority has been to press for the removal of all remaining exchange controls in the Community. We hope that agreement can be reached on this at ECOFIN on 13 June. But there are other, more technical, issues where we believe some progress can be made. We, and others, support the French proposal for the removal of obstacles which deter Member States from holding other Community currencies in their reserves (The Germans seek to limit intervention by other

central banks in DM, and refuse to hold anything other than dollars in their own reserves). We also support moves to encourage Member States to maintain greater holdings of private ecus in their official foreign currency reserves and to make greater use of the ecu as an intervention currency. The Chancellor has indicated, both at the informal ECOFIN last month, and publicly, that the UK does not believe it is worth pursuing the more "visionary" ideas of a European Central Bank and a Common currency.

When these issues come up the Prime Minister may wish to draw on the following points:

- Have been interested to hear of variety of French ideas relating to European economic and monetary union;

- First essential step is to agree quickly on full capital liberalisation, and a timetable for dismantling exchange controls in Europe. Should focus efforts initially on achieving that. Therefore warmly welcome new French Government's removal of remaining exchange controls on corporate sector. Hope this will quickly be followed by abolition of controls on individuals. Scrapping UK exchange controls in 1979 was wholly beneficial;

- There are also a number of other more technical ideas in the monetary area on which early progress could be made, including a greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves;

- Any remit from Hanover should seek to give further impetus to work on these points - rather than to a wider study of more futuristic ideas, such as establishment of a European Central Bank, which in any event could not be a true Central Bank so long as nation states exist;

- Any further work on monetary co-operation should be taken forward by Finance Ministers themselves in ECOFIN, together with Monetary Committee and Central Bank Governor's Committee;

- [if asked] Government policy is that sterling will join the ERM when the time is right. Not sensible to try to set a timetable.

Bilateral Relations

East-West relations and Community issues will both be major areas for concertation with the French during Mitterrand's second term. We agreed in our earlier correspondence that defence was also a promising area for future Anglo-French initiatives. We recommend that the Prime Minister underline to President Mitterrand the importance

which she attaches to taking forward practical defence cooperation between our two countries in the context of strengthening the collective defence of European. As mentioned in my earlier letter, the ideas in the Prime Minister's January letter to President Mitterrand were remitted for study to his military adviser, General Fleury. The Elysee have not offered a substantive reaction, and the new government have not yet had time to study the queston. It would nevertheless be helpful if the President would agree that work should be taken forward after the elections.

On TASM, there will be feasibility studies over the next 6-9 months with a view to a final decision in 1989. The MOD are considering which options to include in these studies. If the subject is discussed, we recommend that the Prime Minister adopt a neutral line.

The Prime Minister might also wish briefly to touch on conventional defence equipment cooperation. The recent Anglo/French reciprocal procurement initiative is unique within the Alliance and points the way to a more open defence equipment market among all the Allies.

In his reply to the Prime Minister's message of congratulations, the President hinted that he might raise the WEU. If he does, the Prime Minister might say that our objectives during our WEU Presidency will be to develop practical measures for implementing the Platform agreed in The Hague last October; and to bring the enlargement negotiations with Spain and Portugal to a successful conclusion in parallel with a satisfactory definition of Spain's relationship with NATO. On the administrative side, we continue to believe that Brussels is the right site for the organisation to be co-located. We would be prepared to offer London as a second best, but could not agree to Paris. We do not think however that the organisation should waste too much time on this issue if agreement is not in prospect; and we shall not want it to get in the way of other higher priorities.

President Mitterrand may be in a position to confirm French agreement on dates for the major visit to France planned by the Prince and Princess of Wales (7-11 November). The proposed highlight is TRH's attendance at the ceremony on 11 November at the Arc de Triomphe to celebrate the 70th Anniversary of the Armistice. However, announcement of this and the visit's date would be best delayed until nearer the time.

Work on youth exchanges is being taken forward. We are concentrating on doubling the number of government funded youth exchanges within two years, on vocational training exchanges and on a colloquium on educational exchanges.

/We

We would not expect President Mitterrand or Prime Minister Rocard to raise the Channel Tunnel in other than general terms. However should the familiar French case for the high speed rail link from London to Dover be pressed, the Prime Minister could respond that BR are still studying this possibility and are expected to produce their findings later this month.

Toronto Economic Summit

The new Foreign Minister, M Dumas, has said that agriculture and debt will be French priorities for Toronto. Briefing on debt will follow separately. Agriculture will be a key issue at the Mid Term Meeting (MTM) in Montreal in December. The Prime Minister may wish to say that the Americans must stop denigrating the February Brussels CAP reforms, relax their insistence on zero support by the year 2000, and engotiate sensibly; but that the Community cannot just rest on its February laurels. The main objective at Toronto will be to get a serious negotiation on agriculture going in GATT, without trying to spell out what might or might not be achieved at the MTM.

On the closely linked subject of trade, the Prime Minister could say that UK and French objectives are similar in many areas of the GATT Round. We attach great importance to more effective dispute settlement procedures and closer observance of existing GATT rules. The Toronto Summit can again give new impetus to the negotiations. If the French insist on a narrow interpretation of "globality" the Prime Minister could say that to progress on all issues at the pace of the slowest is a sure recipe for failure. We should make progress at Montreal where we can.

President Mitterrand may refer to his proposal for a discussion (during the informal session on the second day of the Summit) of the impact of fast changing technologies on the labour market and education system. This would fit well with the wider field of demographic change that the Americans may plan to raise. These are issues of growing importance to all European (and Japanese) economies.

On the political agenda at Toronto, apart from East-West relations, we have been seeking discussion of terrorism and the Middle East. Both issues, as well as South Africa, are worth raising with President Mitterrand if time permits.

On terrorism, the French continue to show hesitancy over including any language in the political statement at the summit. It would be useful if the Prime Minister could impress on them the importance we attach to covering terrorism

in the statement (on the lines of draft already prepared). We recommend that she also take this opportunity to thank both President Mitterrand and M Rocard for allowing us access to recently released French hostages, and to express concern at the deal which M Chirac is alleged to have struck with Iran. Could the President assure her that no convicted terrorists will be released as part of the deal?

On Iran/Iraq, the Prime Minister could:-

- reiterate our support for the UNSG's proposal for proximity talks on the implementation of UNSCR 598;

- assure the French of our continuing support for an arms embargo against the Iranians if they remain intransigent;

- underline the valuable role played by western navies in the Gulf, and urge the French to maintain their contingent. (There has been speculation that they might be considering reducing their force.)

The Prime Minister could also restate our concern at the proliferation of ballistic missiles in the region. The Missile Technology Control Regime, designed to control the sale of longer range nuclear capable missiles from Summit 7 countries, owes much to Anglo-French cooperation. We wish to see it extended to include the proliferation of other types of missiles, including those with a CW capability, and to cover other European suppliers, the Russians and Chinese.

On Arab/Israel, in advance of her planned meeting with King Hussein on 15 June, the Prime Minister might compare notes with the French on recent developments in the peace process - the US/Soviet talks in Moscow, the latest shuttle by Mr Shultz (3-8 June), and the Arab Summit in Algiers (7-8 June). Prospects for early progress on the US intiative are poor: Shamir remains obdurately opposed to a land-for-peace deal, and to an international conference; and the Algiers Summit is likely to result in an increasingly tough Arab position. However, we recommend that the Prime Minister stress the importance of keeping faith with US efforts, and maintaining pressure on the Arabs not to adopt more radical policies. These are the best tactics for helping Peres in the run-up to the Israeli elections. The Prime Minister might also test whether there is any French appetite for specific higher profile activity by the Twelve: we doubt that this would be effective (particularly under a Greek Presidency) and suspect that any European move would risk undermining US efforts.

/Recent

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Recent contacts with the French indicate that the end of "cohabitation" may lead to a change in French attitudes to South Africa. They have drawn up a list of possible additional sanctions, including a limited range of economic measures to be applied if South African behaviour was such as to require (in their view) additional Western pressure. They are toying with the idea of a ban on imports of South African fruit and vegetables. The French are well aware of our views. But the Prime Minister may wish to remind President Mitterrand of the familiar slippery slope. Concessions to sanctions pressure in one area - which may be relatively painless for the imposing country - invariably lead to pressure for concessions in other less welcome areas. A ban on fruit and vegetable imports would not just hit Afrikaner farmers. It would increase black rural poverty and accelerate the drift to the towns, without beneficial effect on South African policies.

I am copying this letter to Ian Andrews (MOD), Alex Allan (Treasury) and Trevor Woolley (Cabinet Office).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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FRANCE: BASIC STATISTICS

		France	UK
Population	1985	55.2	56.6
	1986(P)	55.4	56.8
Labour Force	1986	24.0	27.8
Unemployed (% OECD standardised rate)	1987	10.8	10.3
	Mar 1988	10.5	8.9
GDP ($bn)	1986	724.2	548.2
	1987(P)	870.3	658.9
GDP per head ($)	1986	13,070	9,650
Annual Growth Rate of real GDP (%)	1986	2.1	2.3
	1987	2.1	4.4
Annual Growth Rate of Industrial Production (%)	1986	1.0	1.9
	1987	2.0	3.6
Inflation (%)	1986	2.5	3.4
	1987	3.3	4.2
	Feb 1988	2.4	3.3
Changes in Relative Labour Unit Costs (% change)	1986	3.0	-6.6
	9 mths 1987	-1.7	-4.7
Balance of Payments on Current Account ($ bn)	1986	3.7	-1.4
	1987	-3.9	-2.8
Trade Balance (fob-cif, $bn)	1986	-4.6	-19.2
	1987	-10.0	-23.2
Volume Growth (%):			
Exports	1986	-.2	3.7
	1987	1.3	6.1
Imports	1986	7.1	6.4
	1987	6.3	8.3

Bilateral Trade	1985	1986	1987
UK Exports to France (£m)	7,771	6,210	7,782
UK Imports from France	6,635	7,349	8,382
Trade Balance	1,136	-1,139	-600

Economic Advisers
31/05/1988

PAM24

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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 June 1988

L Parker Esq
PS/Secretary of State
FCO
King Charles Street
LONDON SW1

Dear Lyn

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND: 10 JUNE

I attach a brief on European monetary integration. This has been approved by the Chancellor. We agreed to hold up the brief on the Chancellor's sub-Saharan debt initiative until we have seen the French proposals.

I am copying this letter to Charles Powell (No.10).

Yours ever

J M G TAYLOR

EUROPEAN MONETARY INTEGRATION

President Mitterand seems likely to raise this subject. Reports (from Paris) of his meeting with Chancellor Kohl on 3 June suggest he favours the establishment of some kind of independent group of "wise men" to look at the long-term monetary development of Europe, including ideas for a common currency and European Central Bank. He is also likely to urge the UK to join the ERM.

Line to Take

The Prime Minister might like to draw on the following points:

(i) Have been interested to hear of variety of French ideas relating to European economic and monetary union.

(ii) First essential step is to agree quickly on full capital liberalisation, and a timetable for dismantling exchange controls in Europe. Should focus efforts initially on achieving that. Therefore warmly welcome new French Government's removal of remaining exchange controls on corporate sector. Hope this will quickly be followed by abolition of controls on individuals. Scrapping UK exchange controls in 1979 was wholly beneficial.

(iii) [If tax difficulties raised] Concerned to hear France may be seeking to make progress on fiscal issues a precondition of agreement to draft capital liberalisation Directive in Brussels. Understand ECOFIN had earlier agreed no preconditions should be attached to adoption of Directive. Clearly right. Ending UK exchange controls caused us no serious tax problems.

(iv) There are also a number of other more technical ideas in the monetary area on which early progress could be made, including a greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves.

(v) Any remit from Hanover should seek to give further impetus to work on these points. Do not believe it is sensible to devote time and resources to wider study of more futuristic ideas, such as establishment of a European Central Bank, which in any event could not be a true Central Bank so long as nation states exist.

(vi) [If pressed to agree a study] No point at all in a study by "wise men". Any further work on monetary co-operation should be taken forward by Finance Ministers themselves in ECOFIN, together with Monetary Committee and Central Bank Governor's Committee.

(vii) [If asked] Government policy is that sterling will join the ERM when the time is right. Not sensible to try to set a timetable.

BACKGROUND

French views on European Monetary Integration

The French are motivated partly by a political desire to be seen to be giving a greater impetus to economic and monetary union; and partly a wish to see what they call greater symmetry in the present system: a less DM-centred zone; and a greater Bundesbank willingness to support the weaker currencies. They favour sterling's membership of the ERM in part because they think that would make it less of a DM-centred system. Some of M.Mitterand's advisers argue however that the task of developing the ERM further must now proceed without waiting any longer for the UK.

The ex-French Finance Minister, Balladur, wrote to his EC Finance Minister colleagues in January with a paper on "European Monetary Construction". This proposed various steps including early liberalisation of capital movements, lessening the "asymmetry" within the ERM, adopting a common stance towards non-Community currencies and, finally, the long-term development of a single currency area with a common central institution. French spokesmen have subsequently made it clear that they see the last step as a long-term one; and have stressed the need to concentrate on points of more immediate operational interest. The French appear to wish to proceed by building up a central role for the European Monetary Co-operation Fund. The new French Finance Minister, Bérégovoy, has indicated his support for the thrust of these proposals - though not with the idea of countries ceding sovereignty to a supra-national European Central Bank.

Since M. Balladur put his paper to other Finance Ministers, French officials have made a number of more detailed suggestions. These include intensified co-ordination of economic policies, greater "symmetry" in intervention, the diversification of reserve assets (encouraging the growth of cross-holdings of currencies between central banks over the medium-term) and a timetable for phasing out the "special arrangements" in relation to the EMS exchange rate mechanism (ie a timetable for sterling and other currencies to join and for the Italians to move to narrower margins).

UK response

Our priority has been to press for the removal of all remaining exchange controls in the Community. We hope that agreement can be reached on this at ECOFIN on 13 June. But there are other, more technical, issues where we believe some progress can be made. We, and others, support the French proposal for the removal of obstacles which deter Member States from holding other Community currencies in their reserves. (The Germans seek to limit intervention by other central banks in DM, and refuse to hold anything other than dollars in their own reserves.) We also support moves to encourage Member States to maintain greater holdings of private ecus in their official foreign currency reserves and to make greater use of the ecu as an intervention currency.

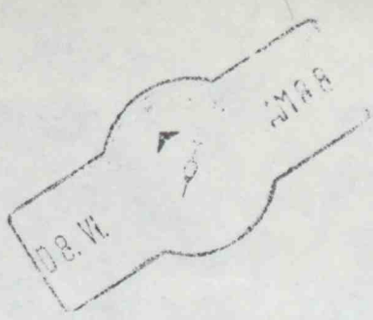
The Chancellor has indicated, both at the informal ECOFIN last month, and publicly, that the UK does not believe it is worth pursuing the more "visionary" ideas of a European Central Bank and a Common currency - especially when even those advancing them are not sure what they mean.

Capital liberalisation

The new French Government has made encouraging noises about agreeing to move swiftly to end the remaining French exchange controls. Indeed the informal ECOFIN was moved from 6 June to 13 June specifically so that French agreement to a new Community directive on this would fall after the French assembly election.

However, the French have also expressed disquiet about the increased scope for tax evasion which they believe will follow from abolition. If this subject comes up it might be useful for the Prime Minister to repeat our belief from our own experience with abolishing exchange controls, that the French fears are groundless. The French have been pressing within the Community for a harmonised withholding tax on savings. We have naturally opposed this (not least because it will simply drive business away from Europe altogether) and ECOFIN had earlier accepted that while discussion should continue on this issue agreement on it should not be

regarded as a precondition for the adoption of the Directive. However, the latest signs are that the French may be seeking to impose just such a condition. The heightened concern recently shown by the French on this issue may be linked to President Mitterand's manifesto commitment to the introduction of a substantial wealth tax.



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MIPT: PRIME MINISTER'S VISIT: MAIN POINTS FOR DISCUSSION

SUMMARY

1. MITTERRAND AND ROCARD BOTH LIKELY TO BE INTERESTED IN EAST/WEST RELATIONS FOLLOWING THE REAGAN/GORBACHEV MEETING, THE TORONTO AND HANOVER MEETINGS, AND BILATERAL QUESTIONS. COUNTER-TERRORISM WORTH MENTIONING.

DETAIL

2. I CALLED TODAY ON HUCHON (ROCARD'S DIRECTEUR DE CABINET), ROCARD HAVING CANCELLED AT THE LAST MINUTE BECAUSE OF ELECTORAL PRE-OCCUPATIONS, TO DISCUSS THE PRIME MINISTER'S VISIT. THIS CALL, TOGETHER WITH THE MINISTER'S CALL ON THE ELYSEE ON JUNE 3 (PARIS TELNO 558), SUGGESTS THAT MITTERRAND AND ROCARD WILL EACH WANT TO CONCENTRATE ON 4 MAIN SUBJECTS: EAST/WEST RELATIONS FOLLOWING THE REAGAN GORBACHEV SUMMIT, THE TORONTO AND HANOVER MEETING AND BILATERAL QUESTIONS.

2. THE BALANCE OF RESPONSIBILITY BETWEEN MITTERRAND AND ROCARD FOR FOREIGN POLICY REMAINS UNCLEAR. HUCHON TOLD ME TODAY THAT THE PRESIDENT WOULD TAKE A STRATEGIC OVERVIEW OF ALL GOVERNMENT POLICIES, WITH PARTICULAR CONCERN FOR FOREIGN AFFAIRS AND DEFENCE, IN LINE WITH HIS CONSTITUTIONAL RESPONSIBILITES. UNDER THAT UMBRELLA HE WOULD CONCERN HIMSELF WITH EUROPEAN AFFAIRS SO FAR AS MAJOR POLICIES AND FUNDAMENTIAL DECISIONS ON EUROPEAN CONSTRUCTION WERE CONCERNED. FOR THE REST HE APPEARED FIRMLY TO WISH TO DELEGATE THE RESPONSIBILITY FOR RUNNING THE GOVERNMENT TO THE PRIME MINISTER SINCE EVEN WITHIN THE SPECIAL AREAS OF FOREIGN AFFAIRS AND DEFENCE THERE WERE MANY ISSUES REQUIRING DETAILED GOVERNMENTAL DECISION. THE PRIME MINISTER'S MEETINGS WITH MITTERRAND AND ROCARD ARE THEREFORE LIKELY TO COVER BROADLY THE SAME AGENDA.

EAST/WEST

3. MITTERRAND AND ROCARD WILL BOTH BE KEEN TO GET A FIRST-HAND IMPRESSION FROM MRS THATCHER OF THE REAGAN/GORBACHEV MEETINGS IN THE

LIGHT OF PRESIDENT REAGAN'S VISIT TO LONDON AND TO ALLOW THAT TO LEAD INTO AN ANALYSIS OF THE PRESENT STATE OF EAST/WEST RELATIONS.

TORONTO ECONOMIC SUMMIT

4. MITTERRAND WILL BE ACCOMPANIED TO TORONTO BY DUMAS (FOREIGN MINISTER) AND BEREGOVOY (FINANCE MINISTER). HUCHON CONFIRMED THIS MORNING THAT ROCARD WILL NOT (NOT) ATTEND. MITTERRAND'S PRIORITIES AT THE SUMMIT WILL BE AGRICULTURE AND DEBT. HE WILL BE DETERMINED TO ENSURE THAT AGRICULTURE IS NOT GIVEN ANY PRIORITY TREATMENT AT THE GATT MID-TERM MEETING IN DECEMBER, AND EQUALLY DETERMINED THAT FULL CREDIT BE GIVEN TO THE EC FOR THE EFFORTS MADE TO CONTAIN AGRICULTURAL SPENDING. ROCARD WILL SHARE THESE VIEWS. HUCHON UNDERLINED TO ME THIS MORNING THE SENSITIVITY OF AGRICULTURE BOTH IN THE GATT AND IN THE EC CONTEXT: ROCARD WAS INCREASINGLY CONCERNED AT THE POTENTIALLY NEGATIVE IMPACT ON FRENCH PUBLIC OPINION OF THE DIFFICULTIES OF ABSORBING RECENT REFORMS OF AGRICULTURAL POLCIY IN THE COMMUNITY. IT WAS ALSO CLEAR THAT THE IMPACT OF CAP REFORM COULD MAKE IT MORE DIFFICULT TO PERSUADE PUBLIC OPINION TO ACCEPT THE COMPLEX OF DECISIONS NEEDED IN THE RUN UP TO 1992. ROCARD WOULD BE SUGGESTING THAT THE COMMUNITY WHOULD PROCEED MORE SLOWLY ON AGRICULTURAL REFORM.

They are beginning to back off

5. ON DEBT, THE SIGNS ARE THAT MITTERRAND WILL COME FORWARD WITH IDEAS FOR EASING THE BURDEN ON THE POOREST COUNTRIES, BUT THAT THE DETAILS HAVE NOT YET BEEN WORKED OUT. WE HAVE STRESSED THE IMPORTANCE OF CONSISTENCY BETWEEN FRENCH IDEAS AND THE CHANCELLOR'S INITIATIVE, AND THE NEED FOR CONSULTATION.

6. THE PRIME MINISTER'S MEETINGS WILL PROVIDE AN OPPORTUNITY TO EMPHASISE TO BOTH MITTERRAND AND ROCARD THE IMPORTANCE WE ATTACHE TO REAL PROGRESS (ON AGRICULTURE AND OTHER SUBJECTS) IN THE GATT URUGUAY ROUND, AND TO THE NEED FOR CONSISTENCY BETWEEN FRENCH AND BRITISH IDEAS ON DEBT.

HANOVER EUROPEAN COUNCIL

7. HUCHON TOLD ME TODAY THAT A FINAL DECISION ON ATTENDANCE AT HANOVER HAD NOT YET BEEN TAKEN, BUT THAT ROCARD WOULD PROBABLY NOT (NOT) GO. AT HANOVER, MITTERRAND WILL WANT A REAL IMPULSE TO BE GIVEN TO THE COMPLETION OF THE SINGLE MARKET. BUT HE WILL SEE THIS IN A BROADER SENSE THAN WE DO, TO INCLUDE PROGRESS ON MONETARY COOPERATION. LIKE KOHL, HE WILL WANT TO AVOID DETAILED DISCUSSION OF DIRECTIVES. THE PRIME MINISTER'S MEETING WILL PROVIDE AN OPPORTUNITY TO UNDERLINE OUR COMMON INTEREST IN MAPPING OUT AT HANOVER THE PRACTIVAL STEPS NEEDED TO MOVE FORWARD TOWARDS 1992 OVER THE NEXT

YEAR, SO THAT THE MOMENTUM IS MAINTAINED BETWEEN HANOVER AND THE FRENCH PRESIDENCY IN THE SENCOND HALF OF 1989. RECENT CONVERSATIONS HERE AND IN BONN SUGGEST THAT THE FRENCH AND GERMANS - WHO WILL NO DOUBT TRY TO MAKE THE RUNNING AT HANOVER - ARE NOT YET AGREED ON HOW WORK ON MONETARY COOPERATION MIGHT BE TAKEN FORWARD. THERE WILL THUS BE A CHANCE TO FEED IN OUR OWN IDEAS.

BILATERAL DEFENCE RELATIONSHIP

8. MITTERRAND AND ROCARD WILL BE KEEN THAT DEFENCE SHOULD BE ONE AREA FOR CONTINUING IMPROVEMENT IN UK-FRENCH RELATIONS. IT REAMINS A MATTER OF DOGMA ACROSS THE POLITICAL SPECTRUM THAT A RETURN TO THE INTERGRATED COMMAND STRUCTURE OF NATO IS NOT A POLITICAL POSSIBILITY, THOUGH MITTERRAND'S ATTENDENCE AT THE NATO SUMMIT WAS A SIGNIFICANT PUBLIC ACT AND THERE ARE NUMEROUS EXAMPLES OF FRENCH WILLINGNESS TO CREEP UNOBTRUSIVELY CLOSER TO NATO. THEY WILL BE LOOKING TO SEE WHAT CAN BE DONE TO BUILD ON THE PRIME MINISTER'S EXCHANGE WITH MITTERRAND. THEY WILL BE HOPEFUL BUT NOT CONFIDENT OF THE POSSIBILITY OF PROGRESS IN THE SENSITIVE AREA OF NUCLEAR EXHCNAGES, AND WELL AWARE OF THE ADVANTAGE OF OUR CONTINUING TO WORK TOGETHER ON RATIONALISING EQUIPMENT COLLOBORATION. THEY WILL BE AWARE OF MR YOUNGER'S POSITIVE PRELIMINARY MEETING WITH M. CHEVENEMENT AT CAEN ON 6 JUNE - WITH A SUBSTANTIVE MEETING IN LINE FOR 7 JULY.

COUNTER-TERRORISM

9. IT MIGHT BE WORTH CONSIDERING A REFERENCE TO THE EXCELLENT PRACTICAL COOPERATION WE HAVE HAD FROM THE FRENCH (EG EKSUND) OVER THE PAST TWO YEARS, EXPRESSING THE HOPE THAT THIS WILL CONTINUE. THE SOCIALIST GOVERNMENT PRE-1986 (WITH JOXE AS INTERIOR MINISTER) WAS NOT (NOT) AS SOLID, ESPECIALLY ON COUNTERING IRA ACTIVITY, AS CHIRAC/PASQUA, ALTHOUGH MR HURD HAD A USEFUL INFORMAL MEETING WITH M. JOXE ON 21 MAY. A FORTHCOMING RESPONSE FROM ROCARD TO THE PRIME MINISTER WOULD BE USEFUL TOOL IN THE FUTURE.

FERGUSSON

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PRIME MINISTER'S VISIT ON 10 JUNE: THE FRENCH SCENE

SUMMARY

1. CONVINCING SOCIALIST VICTORY ON 12 JUNE NOW LESS CERTAIN. BUT THE ODDS ARE THAT ROCARD WILL REMAIN PRIME MINISTER. THE CHANCES FOR A CONSTRUCTIVE COALITION WITH THE CENTRE WILL BE ON BOTH MEN'S MINDS. THE FRENCH ECONOMY IN REASONABLE SHAPE. EARLY MEASURES OF THE NEW GOVERNMENT GIVE PROMINENCE TO SOCIAL AFFAIRS. FEW CHANGES LIKELY IN FOREIGN POLICY OR DEFENCE FIELDS. BILATERAL RELATIONSHIP SMOOTH.

DETAIL

FRENCH INTERNAL POLITCS

2. MITTERRAND DEFEATED CHIRAC BY A CONVINCING 8 PERCENT MARGIN IN THE PRESIDENTIAL ELECTIONS LAST MONTH. HE DID SO BY PLAYING DOWN HIS SOCIALIST CREDENTIALS AND APPEALING TO THE MODERATE CENTRE. HIS APPOINTMENT OF ROCARD AS PRIME MINISTER SYMBOLISED HIS COMMITMENT TO WORK FOR A POLITICAL OPENING (QUOTE OUVERTURE UNQUOTE) TO THE CENTRE-RIGHT, WHICH HE HAS SAID HE WILL CONTINUE AFTER THE SECOND REOUND OF THE LEGISLATIVE ELECTIONS ON 12 JUNE. ALTHOUGH THE SOCIALISTS DID LESS WELL IN THE FIRST ROUND THAN EXPECTED (PARIS TELNO 566 OF 6 JUNE), THEY STILL SEEM LIKELY TO SECURE AN OVERALL MAJORITY IN THE NEW ASSEMBLY. MITTERRAND WILL NOT MIND IF IT IS A NARROW ONE SINCE THIS SHOULD FURTHER THE PROCESS OF OUVERTURE. (A NARROW RIGHT WING VICTORY CANNOT HOWEVER BE ENTIRELY EXCLUDED, IN WHICH CASE THERE COULD BE A RETURN TO COHABITATION, SOMETHING THAT WOULD BE MOST UNWELCOME TO MITTERRAND.)

3. ROCARD IS ONE OF THE MOST POPULAR POLITICIANS IN FRANCE. ON THE SOCIAL DEMOCRATIC WING OF THE PS, HE HAS A REPUTATION FOR MODERATION AND INTELLECTUAL INDEPENDENCE. HE IS A KEEN ADVOCATE OF OUVERTURE AND IS LIKELY TO REMAIN AT MATIGNON, ASSUMING THE SOCIALISTS WIN A MAJORITY. HE HAS SAID HE WANTS TO INCLUDE MORE CENTRISTS IN THE GOVERNMENT ONCE THE ELECTIONS ARE OVER. HE HAS GIVEN SOCIAL ISSUES A HIGH PRIORITY (SEE PARA 6), NOT LEAST WITH THE AIM OF COUNTERING THE

APPEAL OF LE PEN'S EXTREMIST FRONT NATIONAL.

ECONOMIC AND SOCIAL AFFAIRS

4. THE FRENCH ECONOMY IS PERFORMING RATHER BETTER THAN EXPECTED, THOUGH THE OUTLOOK REMAINS UNCERTAIN. PROVISIONAL FIGURES INDICATE THAT GDP GROWTH IN THE FIRST QUARTER OF 1988, FED BY CONSUMER DEMAND, ROSE BY 1.2 PERCENT, SUGGESTING A 1988 GROWTH RATE OF 2.3 PERCENT, COMPARED WITH PREVIOUS ESTIMATES OF AROUND 1.5 PERCENT. THE LATEST TRADE FIGURES POINT TO A 1988 DEFICIT OF SOME 20 BILLION FRANCS (POUNDS 2 BILLION), AN IMPROVEMENT ON 1987 BUT WITH EXPORTS OF MANUFACTURED GOODS REMAINING SLUGGISH. INFLATION HAS EDGED UP TO 2.5 PERCENT AFTER BAD APRIL FIGURES AND IS CAUSING THE GOVERNMENT SOME CONCERN, AS IS THE UPWARDS UNDERLYING TREND IN UNEMPLOYMENT (10.3 PERCENT IN APRIL).

5. THE NEW GOVERNMENT'S COMMITMENT TO BROAD CONTINUITY OF ECONOMIC POLICY, WITH PRIORITY GIVEN TO THE CONTROL OF INFLATION AND THE BUDGET DEFICIT, HAS REASSURED THE MARKETS, CONTRIBUTING TOWARDS A STRONG STOCK MARKET AND A STABLE FRANC. THE GOVERNMENT REAMINS COMMITTED TO THE REINTRODUCTION OF A WEALTH TAX, PERHAPS IN THE 1989 BUDGET TO BE PUT TO THE NATIONAL ASSEMBY THIS AUTUMN, AND A MINIMUM INCOME MEASURE IS EXPECTED TO BE INTRODUCED LATER THIS SUMMER.

6. THERE HAVE BEEN CLEAR SIGNALS THAT THE GOVERNMENT PUTS GREATER WEIGHT THAN ITS PREDECESSOR ON SOCIAL ISSUES. ROCARD HAS ALREADY HAD FORMAL TALKS WITH TRADE UNIONS AND EMPLOYERS' ASSOCIATIONS AND THE MINISTER FOR SOCIAL AFFAIRS HAS CALLED FOR NEGOTIATIONS ON REDUNDANCY PROCEDURES. THE ELYSEE HAS TOLD US THAT THE SOCIAL DIMENSION IS TO BE A MAJOR THEME FOR THE FRENCH EC PRESIDENCY IN 1989, WITH EMPHASIS ON A DIALOGUE BETWEEN QUOTE SOCIAL PARTNERS UNQUOTE AT COMMUNITY LEVEL. DELORS'S CALL FOR A MINIMUM SET OF BASIC SOCIAL RIGHTS, A RIGHT TO TRAINING AND A EUROPEAN STATUTE ON COMPANY LAW, IS LIKELY TO FIND A SYMPATHECTIC AUTIENCE HERE.

FOREIGN POLICY AND DEFENCE

7. THERE HAVE SO FAR BEEN FEW SIGNS OF CHANGES IN THE FOREIGN POLICY AND DEFENCE FIELDS SINCE THE NEW GOVERNMENT TOOK OFFICE. MITTERRAND'S PERSONAL COMMITMENT TO THE CONSTRUCTION OF EUROPE AND TO HELP FOR THE THIRD WORLD, PROMINENT IN HIS LETTER TO THE FRENCH PEOPLE, IS BOUND TO LEAD TO THEIR RECEIVING GREATER ATTENTION FROM A SOCIALIST GOVERNMENT: WE MAY WELL SEE SIGNS OF THIS AT HANOVER AND TORONTO. THE PRESIDENT MAY ALSO SEEK A HIGHER FRENCH PROFILE ON ARMS CONTROL AND EAST/WEST RELATIONS THAN OVER THE PAST TWO YEARS: IN HIS TIME MAGAZINE INTERVIEW OF 16 MAY, HE MADE PEACE AND DISARMAMENT AN

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EQUAL FOREIGN POLICY PRIORITY WITH ECONOMIC AND POLITICAL PROGRESS IN EUROPE. THERE HAVE BEEN RUMOURS OF A MITTERRAND-GORBACHEV SUMMIT SOON, THOUGH THE ELYSEE TELL US THAT THIS IS NOT ENVISAGED BEFORE THE END OF THIS YEAR. IN THE SAME INTERVIEW HE GAVE PROMINENCE TO EUROPEAN DEFENCE COOPERATION, AND HE AND ROCARD BOTH UNDOUBTEDLY SET STORE BY A CONTINUING IMPROVEMENT IN BILATERAL DEFENCE COOPERATION WITH THE UK, AS WELL AS WITH THE FRG AND SPAIN. ONE AREA IN WHICH CHANGE COULD OCCUR THAT WOULD BE UYNWELCOME TO US IF SANCTIONS AGAINST SOUTH AFRICA, AS THE QUAI AFRICAN DIRECTOR HINTED IN TALKS IN LONDON ON 20 MAY (FCO TELNO 320 TO PARIS).

BILATERAL

8. THERE ARE NO SERIOUS CURRENT PROBLEMS, BUT BOTH FRENCH LEADERS WILL BE KEEN TO IDENTIFY WAYS IN WHICH UK-FRENCH RELATIONS CAN BE GIVEN MORE SUBSTANCE (SEE MIFT PARA 8).

RECENT MEETINGS

9. THE FOLLOWING LEADERS HAVE RECENTLY BEEN IN FRANCE:

MULRONEY:	26 MAY
KOHL:	2 JUNE
DE MITA:	3 JUNE
TAKESHITA:	6/7 JUNE

10. SEE MIFT FOR COMMENT ON SUBSTANCE LIKELY TO BE RAISED AT THE RIFME MINISTER'S MEETINGS.

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ADDITIONAL 2

ASSESSMENTS STAFF, CABINET OFFICE

MR P J WESTON CABINET OFFICE

NNNN

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 April 1988

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

Thank you for your letter of 25 May about the Prime Minister's meeting with President Mitterrand on 10 June and the possibility of using it to take an initiative in Anglo-French relations.

I think that the subjects mentioned in your letter all need to figure in the briefing for the meeting. But the Prime Minister's instinct is that it would be wrong to aim for any specific initiative in the closing stages of the legislative election campaign. She would not, therefore, on this occasion want us to propose in advance to the French a joint statement on defence or any other specific issue. But this need not of course inhibit discussion of the scope for a future initiative on defence; and the Prime Minister will certainly want to press for French support for the Chancellor's debt initiative.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (H.M. Treasury) - with a copy of yours - and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

(i)

PRIME MINISTER

MEETING WITH PRESIDENT MITTERRAND

I wrote to the FCO recently suggesting that your meeting with President Mitterrand ought to be marked by some sort of initiative in Anglo-French relations, and identifying defence relations as the most promising area. I suggested that you might agree to instruct Ministers, military staffs and officials to make recommendations on how such co-operation could be improved, within the context of strengthening the collective defence of Europe.

The FCO response attached agrees that something might be done on defence, but there are no other areas for an initiative except possibly Sub-Saharan African debt.

Content for us to pursue with the French a possible joint statement, of a limited sort, on defence co-operation?

CDP

I am hesitant - either we need to do it for its own sake or not at all. I do not like these special efforts for summits. Moreover we are in an election - or rather they are not

C. D. POWELL

26 May 1988

psl/77A

CONFIDENTIAL

CDPC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

26 May 1988

C D Powell Esq
10 Downing Street
LONDON SW1

CDP 265

Dear Charles,

file with CDP

Thank you for your letter of 19 May, asking whether there were any issues in the financial or monetary area which might form the basis for an initiative to be taken at the Prime Minister's meeting with President Mitterrand.

It would be well worth the Prime Minister seeking the President's support for interest subsidies on the official (non-aid) debts of the poorest Sub-Saharan African countries, on the lines of the initiative put forward by the Chancellor a year ago. The President seems committed to the complete writing-off of old aid loans, something which itself is part of the Chancellor's initiative for these countries, providing they pursue appropriate domestic policies; but it is not absolutely clear what he is prepared to do for commercial (ECGD-type) loans, which is the key issue on which we seek French support. In any case, the Prime Minister could give warning that the UK intends to press this subject at Toronto. We shall supply a full brief for the meeting.

You asked whether the Prime Minister and the President might make a joint statement on the development of the ecu. Certainly, we would like to see the ecu developed, inter alia as a European reserve currency and currency of intervention. This would effectively get round the problems we faced recently over the attempted German veto on our purchases of deutschmarks. But it may not be wise to raise this. The French have floated a number of ideas relating to European economic and monetary union including, in the short-term, a timetable for all EC currencies to join the ERM and, in the longer-term, the development of a single currency area and the possible creation of a European central bank. There must be a risk that if the Prime Minister were to raise a subject like the role of the ecu, President Mitterrand would seek to broaden the discussion to cover these other proposals. He may, of course, raise them anyway on his own initiative, and we shall be supplying a brief for the meeting.

Yours Alex

A C S ALLAN
Principal Private Secretary

FRANCE: Relations Pt 4.

dti

the department for Enterprise

CCPC

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

.C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1A 2AA

CDP
2/5

Department of Trade and Industry

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Direct line 215 5422
Our ref DW3AIB
Your ref
Date 26 May 1988

Dear Charles,

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

Thank you for sending me a copy of your letter of 18 May to Tony Galsworthy, in which you asked for suggestions for a possible agreement on increased Anglo-French cooperation.

As you say in your letter, European Community issues are bound to feature heavily in the talks. My Secretary of State has seen your letter and has commented that it would be worth considering making a general joint commitment with the French to work closely together on Single Market issues in the run up to 1992, stressing the common ground we share on many of the key issues.

If the Prime Minister is attracted by this idea, we could of course work it up in more detail with other Departments.

I am copying this letter to Tony Galsworthy (FCO), Brian Hawtin (MOD) and Trevor Woolley (Cabinet Office).

Yours sincerely

Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

the Enterprise initiative

FRANCE: Atlas pt 4.

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Foreign and Commonwealth Office

London SW1A 2AH

25 May 1988

Dear Charles,

Prime Minister's meeting with President Mitterrand

Thank you for your letter of ~~18~~ 19 May about the Prime Minister's meeting with President Mitterrand. We very much agree on the need to use this occasion to take a step forward in Anglo-French relations, although we shall have to be careful not to appear to pre-judge the outcome of the legislative elections two days later.

Your letter covers the main areas where some kind of joint initiative might be possible. We agree with your comments on Community issues: while some joint statement of our commitment to action on the single market may possibly be worth considering (with DTI) we would not - subject to DTI's views - see scope for any particular initiative in this field on 10 June. Nor do we think that this is the moment for initiatives on Arab/Israel. But we shall probably want to recommend that the Prime Minister use this meeting to seek French support for the Chancellor's debt initiative. We know that the new French Government is re-examining its position on African debt (though it may have a different initiative in mind). We shall cover this in our briefing, in conjunction with the Treasury, and are meanwhile taking soundings in Paris.

In the bilateral field, the Prince and Princess of Wales are to visit France in November, but firm dates and an outline programme can probably be agreed with the French government only after the elections, and hence too late for any announcements on 10 June. We agree with you that there is no scope to announce more regular consultation at the level of President and Prime Minister.

That leaves defence. We agree with your suggestion that the Prime Minister and President Mitterrand should agree a statement on the importance of taking further in practical ways defence cooperation between Britain and France in the context of strengthening the collective defence of Europe. Our Embassy in Paris have been told that the ideas in the Prime Minister's earlier letter were remitted for study to the President's military adviser, General Fleury. The Elysée have not offered a substantive reaction, and the new Government have not yet had time to study this in detail. Our conclusion is that a general statement on the lines above is probably the most that we can expect at this stage. Given the electoral background in France, it might be wise to avoid "instructing Ministers".

X

Further contacts with the French and Americans on possible collaboration for a TASM are planned, and there will be a national feasibility study over the next 6-9 months with a view to a final decision in mid-1989. It would be premature in our view to start steering public opinion away from the idea of collaboration with the French, not least because there could be technical and political uncertainties in the US programme. If the subject is discussed, we recommend that the Prime Minister maintain an open position.

The Prime Minister might also wish briefly to mention conventional defence equipment cooperation in her talks with President Mitterrand. The recent Anglo/French reciprocal procurement initiative is unique within the Alliance. It is not something we wish to draw public attention to (mainly for EC reasons). But we are working separately, eg in the IEPG, for a more open defence equipment market among the Allies.

Arms control probably does not offer scope for a separate joint initiative on 10 June, but we hope the Prime Minister might seek to maximise the common ground on nuclear issues. President Mitterrand's attitude to France's theatre nuclear modernisation was at best ambivalent during the Presidential election campaign. By extension, French resistance to SNF negotiations cannot perhaps be taken for granted in future. The political danger of appearing to sanction progress towards the denuclearisation of Europe is, however, something that President Mitterrand should be alive to.

On conventional arms control, it would be helpful if the Prime Minister could emphasise the importance of early agreement on a Western negotiating position within the Alliance, and specifically the merit of proposing equal ceilings on specified conventional force categories in the Atlantic/Urals zone. The French position hitherto has been to reject proposals that would imply that France is a full member of a military bloc. The political bonus of the full Atlantic/Urals area now offered by Gorbachev (which to some extent derives from a French proposal) should not be thrown away, and we need to ensure that militarily there is no scope for circumvention, as would be the case if zonal arrangements did not cover the whole of European Russia.

We shall, nearer the time, supply full briefing on all these topics, including a draft statement on defence.

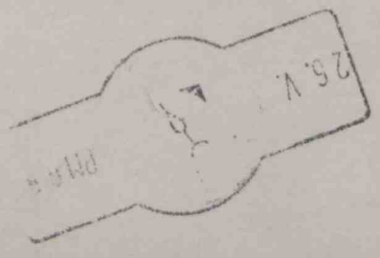
I am copying this letter to Brian Hawtin (MOD) and to Trevor Woolley (Cabinet Office).

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

FRANCE : Relations PTA



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 May 1988

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

I enclose a copy of a letter which I have sent to FCO and MOD seeking ideas for a possible initiative at the Prime Minister's meeting with President Mitterrand in Paris on 10 June.

It occurs to me that it might be worth extending the trawl to the Treasury, in case there is something in the financial and monetary area where an advance could be registered. One possibility might, for instance, be a joint statement on the development of the private ecu on which I gather the Treasury have had discussions with the French Ministry of Finance. If something were possible here, it might stand us in good stead in the discussion of financial matters at the European Council. More practically, I suppose it could also benefit the London market in ecu.

I may be wide of the mark. But perhaps you could let me know whether you see any possibilities here?

(C. D. POWELL)

Alex Allan, Esq.,
HM Treasury.

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10 DOWNING STREET

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From the Private Secretary

19 May 1988

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I may be wide of the mark. But perhaps you could let me know whether you see any possibilities here?

(C. D. POWELL)

Alex Allan, Esq.,
HM Treasury.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 May 1988

Dear Tony,

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

You are, I am sure, giving thought to how we can take advantage of the Prime Minister's meeting with President Mitterrand to take a step forward in Anglo-French relations. The speed and warmth of the Prime Minister's message of congratulations, the fact of her telephone call and the suggestion of an early meeting have been useful in themselves but have also created a certain expectation which we shall need to meet. A routine consultation will appear a let-down. On the other hand, the fact that the visit comes in the middle of the election campaign for the National Assembly will presumably be something of a damper on the French side.

The most promising area for an initiative might be an attempt to build on the Prime Minister's earlier message to President Mitterrand about Anglo-French Defence Cooperation. There are constraints. We cannot plausibly agree anything which suggests a step forward on cooperation over TASM: indeed we may - in the light of the experts' judgment of what the French have to offer - need to start steering public expectations away from that. It would presumably be too much to expect the French to endorse the specific proposals in the Prime Minister's letter at this juncture. But perhaps an agreed statement from the meeting that both sides had instructed their respective Ministers, military staffs and officials to consider how defence cooperation between Britain and France could be taken further in practical ways in the context of strengthening the collective defence of Europe and to report to them could have a useful impact.

Although European Community issues and the Economic Summit are both bound to feature largely in the talks, the scope for any particular initiative or practical step looks to me a good deal less. I assume that we are in fact likely to face some difficulties with the French in both areas, and in particular over the prospects for the GATT round and the discussion of agriculture in it. Unless there is something lurking in the bilateral field of which I am unaware, the only other possible area to announce some form of enhanced Anglo-French consultations, cooperation or initiative might be the Middle East. I confess that I do not see at all clearly what form this might take. But we both have a clear common

interest in avoiding Arab/Israel matters becoming a preserve of the US/Soviet bilateral contacts. We neither of us want to be excluded from an eventual international conference or framework meeting. I find it harder to see what joint action we could take: we should certainly encounter strong resistance from the United States, and French conduct over the hostages does not make them very credible partners just at present. But it might be worth looking at for the longer term.

A final possibility is some sort of commitment to more regular Anglo-French consultation at the highest level in future. But I think that we are already finding the obligation to hold regular and full-dress Summits a bit of an albatross. I doubt there is really scope for anything new here.

In short, defence seems the only candidate for an initiative. What do you think?

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours ever,

(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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PRIME MINISTER'S MEETING WITH CHIRAC, 22 NOVEMBER: PRESS COMMENT.

SUMMARY

1. HIGH PROFILE AND POSITIVE COVERAGE IN LE FIGARO, CONCENTRATING ON PROSPECTS FOR THE COPENHAGEN EUROPEAN COUNCIL. LOWER KEY, MORE FACTUAL COMMENT ELSEWHERE, WITH THE COMMUNITY THE MAIN FOCUS, BUT OTHER SUBJECTS, INCLUDING YOUTH EXCHANGES, TOUCHED ON IN LA TRIBUNE DE L'ECONOMIE.

DETAIL

2. THE RIGHT-WING DAILY, LE FIGARO, DEVOTES ITS MAIN PAGE, ONE HEADLINE, A FRONT PAGE EDITORIAL AND ITS MAIN INSIDE PAGE STORY TO THE PRIME MINISTER'S MEETING WITH CHIRAC YESTERDAY EVENING. THE HEADLINES ON THE FRONT PAGE (QUOTE EEC: THATCHER - CHIRAC CONVERGENCE UNQUOTE) AND PAGE 2 (QUOTE CHIRAC - THATCHER: AGREEMENT ON THE ESSENTIALS UNQUOTE) SET THE TONE. THE STORIES UNDERLINE THE BROAD AGREEMENT ON FUNDAMENTALS IN THE RUN-UP TO THE COPENHAGEN COUNCIL, QUOTING CHIRAC AS SAYING THAT HE WAS STRUCK BY THE IDENTITY OF VIEW ON KEY ISSUES. THE PAPER STRESSES THE BRITISH VIEW ON THE NEED TO HAVE EFFECTIVE BUDGET DISCIPLINE, INCLUDING AGRICULTURE STABILISERS, IN PLACE BEFORE ANY AGREEMENT ON INCREASING OWN RESOURCES, ADDING THAT THE FRENCH ARE NOT OPPOSED TO STABILISERS, WHICH ARE UP FOR DISCUSSION AGAIN THIS WEEK BY AGRICULTURE MINISTERS. IT SUGGESTS THAT THE UNITED KINGDOM IS KEEN TO BREAK A NEW FRANCO-GERMAN ALLIANCE ON STABILISERS, AND THAT ONE EFFECT OF YESTERDAY'S TALKS WILL BE A DEGREE OF GERMAN ISOLATION.

3. THE FIGARO LEADER NOTES THAT THE PRIME MINISTER WAS READING THE COHABITATION SIGNALS RIGHT IN SEEING CHIRAC NOT MITTERRAND, AGAIN NOTES THE AGREEMENT ON FUNDAMENTALS, BUT DRAWS ATTENTION TO DISAGREEMENT OVER DETAILS, INCLUDING REBASING THE GUIDELINE AND THE EXCEPTIONAL CIRCUMSTANCES CLAUSE.

4. IN A BACK PAGE ARTICLE LA TRIBUNE DE L'ECONOMIE (FINANCIAL DAILY) RANGES WIDELY OVER THE SUBJECTS COVERED AT THE MEETING, NOTING THE SATISFACTION OF BOTH PRIME MINISTERS ON AMERICAN DECISIONS ON THE

BUDGET DEFICIT, SIMILAR APPROACHES TO THE FORTHCOMING REAGAN/GORBACHEV SUMMIT AND TO THE IRAN-IRAQ CONFLICT, A WILLINGNESS ON BOTH SIDES TO REACH AGREEMENT AT COPENHAGEN, UNDERLINING THE CLOSE CO-OPERATION ON TERRORISM, AND NOTING THE AGREEMENT TO STUDY HOW TO DEVELOP YOUTH EXCHANGES.

5. COVERAGE IS LOWER-KEY IN OTHER PAPERS, AND MAINLY CONCENTRATES ON COMMUNITY ISSUES. LE MONDE NOTES IN A SHORT ACCOUNT THAT DIFFERENCES PERSIST OVER AGRICULTURE QUESTIONS. LIBERATION (LEFT-WING DAILY) NOTES THAT THE MEETING CLEARED AWAY SOME OF THE UNDERGROWTH BEFORE TODAY'S FAC AND THE COPENHAGEN SUMMIT. LES ECHOS (FINANCIAL DAILY) NOTES THE PRIME MINISTER'S DETERMINATION TO ENSURE BUDGETARY DISCIPLINE.

6. FCO ADVANCE TO ECD(I), WED, INGHAM (NO 10) LAVELLE, HOLROYD, BUDD (CABINET OFFICE), HADLEY (MAFF).

WESTON

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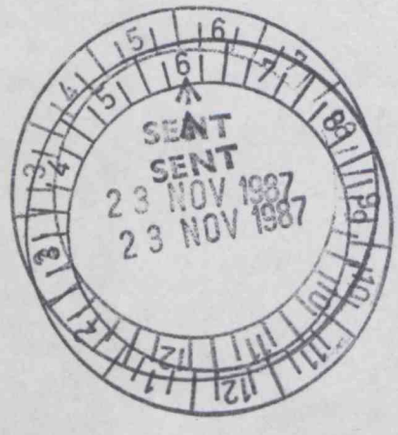

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FRAME GENERAL

THE PRIME MINISTER'S MEETING WITH THE FRENCH PRIME MINISTER, PARIS, SUNDAY 22 NOVEMBER 1987: PRESS CONFERENCE

1. AFTER TWO HOURS OF DISCUSSION, AND BEFORE ADJOURNING TO AN INFORMAL WORKING SUPPER, THE PRIME MINISTER AND MR CHIRAC MET JOURNALISTS AT THE HOTEL MATIGNON AT 1915 HOURS.

DETAIL

OPENING STATEMENTS

2. INTRODUCING THE PRESS CONFERENCE, MR CHIRAC SAID THAT HE AND THE PRIME MINISTER HAD DISCUSSED A WIDE RANGE OF SUBJECTS. THEY HAD NOTED WITH SATISFACTION THE RECENT AMERICAN DECISION ON THE BUDGET, WHICH BRITAIN AND FRANCE WELCOMED AS A POSITIVE STEP TOWARDS CALMING THE MONETARY AND FINANCIAL SITUATION. THEY HAD REVIEWED THE PROSPECTS FOR THE REAGAN/GORBATCHEVY SUMMIT, AS A WELCOME DEVELOPMENT IN DISARMAMENT, AND AS A FIRST MOVE IN A PROCESS THAT SHOULD EVENTUALLY COVER STRATEGIC, CONVENTIONAL AND CHEMICAL WEAPONS. IN REVIEWING THE PROSPECTS FOR THE COPENHAGEN SUMMIT, BOTH SIDES HAD CONFIRMED THEIR DESIRE TO SEE THE SUMMIT REACH AN AGREEMENT, WHILST AWARE OF THE PROBLEMS THAT EXISTED WHICH WERE CURRENTLY BEING EXAMINED BY THE APPROPRIATE MINISTERS. THEY ALSO WELCOMED THE RESULTS OF THE RECENT AMMAN SUMMIT WHICH IN PARTICULAR RESTATED THE NEED FOR AN INTERNATIONAL CONFERENCE IN THE PRESENCE OF THE FIVE PERMANENT MEMBERS OF THE SECURITY COUNCIL, A FRAMEWORK THAT COULD ULTIMATELY LEAD TO BILATERAL NEGOTIATIONS. ON THE GULF WAR, THEY HAD NOTED THE URGENCY OF FOLLOW UP

ACTION TO SC RESOLUTION 596: AND TO THE EXTENT THAT ONE OF THE PARTIES (IRAN) DID NOT ACCEPT THAT RESOLUTION, OF THE NEED TO EXAMINE THE SANCTIONS FORESEEN IN THAT RESOLUTION, NOTABLY AS REGARDS AN ARMS EMBARGO. ON TERRORISM, BOTH PRIME MINISTERS HAD NOTED THAT COLLABORATION WAS AT A HIGH LEVEL, AND SHOULD BE MAINTAINED. MR CHIRAC HAD GIVEN THE PRIME MINISTER AN ACCOUNT OF HIS RECENT MEETINGS WITH ISRAELI LEADERS. HE HAD ALSO GIVEN HER A DETAILED ACCOUNT OF THE FRANCO/GERMAN SUMMIT AT KARLSRUHE. FINALLY, THEY HAD BOTH WELCOMED THE SATISFACTORY RESOLUTION OF PROBLEMS OVER THE CHANNEL TUNNEL. IN THE LIGHT OF THIS, OF THE PROSPECTS FOR THE SINGLE MARKET IN 1992, AND OF THE PROSPECTS THIS OPENED UP FOR GREATER CLOSENESS BETWEEN BRITAIN AND FRANCE, THEY HAD AGREED TO STUDY MACHINERY THAT WOULD GREATLY INCREASE OR FACILITATE YOUTH EXCHANGES BETWEEN BRITAIN AND FRANCE (FOLLOWING THE LONG-STANDING ARRANGEMENT BETWEEN FRANCE AND WEST GERMANY).

3.THE PRIME MINISTER ADDED HER GRATITUDE FOR MR CHIRAC'S MESSAGE OF SYMPATHY ON THE KINGS CROSS FIRE. AND FOR THE PROFESSIONALISM DISPLAYED IN THE FRENCH SEIZURE OF ARMS DESTINED FOR THE IRA. ON COPENHAGEN, WE WOULD GO THERE HOPING TO ACHIEVE A SETTLEMENT AT THIS SUMMIT: THE PROBLEMS WERE CONSIDERBLE AND WE WOULD BE IN A BETTER POSITION TO JUDGE PROSPECTS AT THE END OF THIS WEEK, ESPECIALLY AFTER THE AGRICULTURAL COUNCIL. THE VERY SPECIAL RELATIONSHIP BETWEEN FRANCE AND BRITAIN, ACCENTUATED BY THE CONSTRUCTION OF THE CHANNEL TUNNEL, AND THE PROSPECT OF 1992, MADE THIS THE RIGHT MOMENT TO ACCEPT MR CHIRAC'S SUGGESTION TO SET UP A WORKING PARTY TO EXAMINE THE POSSIBILITY OF INCREASING EXCHANGES AMONG YOUNG PEOPLE.

QUESTIONS AND ANSWERS

4. PROSPECTS FOR COPENHAGEN AGREEMENT ON BUDGET?
MR CHIRAC: WOULD NOT WISH TO PREJUDGE: THERE WERE DIFFICULT TECHNICAL QUESTIONS, ESPECIALLY IN THE AGRICULTURAL SECTOR. BUT THERE WAS A SHARED FRENCH AND BRITISH WISH TO ARRIVE AT A SOLUTION THAT BOTH SIDES COULD ACCEPT AS REASONABLE. QUOTE I CANNOT GIVE YOU AN ASSURANCE THAT WE SHALL SOLVE ALL THE PROBLEMS UNQUOTE.

THE PRIME MINISTER : TWO THINGS NEEDED TO BE SOLVED

TOGETHER. FIRSTLY, THE COMMISION'S PROPOSALS FOR A PROGRAMME OF STABILISERS FOR EACH COMMODITY. IN OUR VIEW THEY MUST BE EFFECTIVE AND ENFORCEABLE FOR EACH COMMODITY, TO STOP THE BUILD UP OF NEW SURPLUSES. ON EXISTING SURPLUSES, THE COMMISSION'S PROPOSALS NEEDED TO BE IMPLEMENTED AT THE SAME TIME (BY 1992): WE NEED TO AGREE ON THESE PROPOSALS TOO. THE COMMUNITY HAS CONSISTENTLY DUCKED THE SURPLUS PROBLEM. WE NOW HAVE PROPOSALS WHICH WOULD ALLOW FARMERS TO KNOW WHERE THEY ARE AND TO PLAN ACCORDINGLY.

5. BRITAIN'S ATTITUDE IF THESE PROPOSALS NOT IMPLEMENTED BY 1992?
THE PRIME MINISTER : SHE SAW IT AS HER TASK, AND THAT OF OTHER HEADS OF GOVERNMENT, TO ENSURE THAT THEY DID DEAL WITH THE PROBLEM DURING THE COMING PERIOD. THERE HAS ALREADY BEEN PROGRESS ON SURPLUSES OF CERTAIN COMMODITIES. WITHIN THE AGRICULTURAL GUIDELINES, PROVISION CAN BE MADE FOR THE DISPOSAL OF SURPLUSES OVER A 5-YEAR PERIOD, PROVIDED THE STABILISERS ARE EFFECTIVE AND ENFORCEABLE. OTHERWISE, WE SHALL BE BACK WHERE WE STARTED, AND THE DISPOSAL OF EXISTING SURPLUSES WOULD ONLY LEAD TO THE PRODUCTION OF MORE. WE REALLY MUST GET IT RIGHT THIS TIME. QUOTE I BELIEVE WE CAN: IT IS AS QUESTION OF POLITICAL WILL AND OF DOING IT AT A SPEED WHICH PEOPLE FEEL THEY CAN TAKE REASONABLY UNQUOTE.

6. DIFFERENCES BETWEEN FRANCE AND BRITAIN ON STABILISERS?
THE PRIME MINISTER : NONE, ON STABILISERS: WE ACCEPT THE COMMISSION'S PROPOSALS.

MR CHIRAC: DIFFERENCES ARE NOT ON STABILISERS. FRANCE FAVOURS A SYSTEM OF STABILISERS IF IT COVERS THE TOTALITY OF PRODUCTION. OUR PROBLEM IS TO ENSURE THAT THE COMMUNITY BUDGET IS ENDOWED WITH SUFFICIENT MEANS: ON WHICH ISSUE FRANCE TAKES A QUOTE HIGHER UNQUOTE VIEW THAN BRITAIN. A SECOND POINT OF DIVERGENCE CONCERNS THE OILS AND FATS TAX, WHICH BRITAIN OPPOSES FOR ECONOMIC REASONS BUT WHICH FRANCE FAVOURS.

THE PRIME MINISTER : MUCH DEPENDS ON THE MEETING OF AGRICULTURAL MINSITERS THIS WEEK. THERE WILL BE NO CHANGE IN THE POSITION ON THE OILS AND FATS TAX. THERE WILL BE VERY CONSIDERABLE ARGUMENT ABOUT THE BASELINE FOR

AGRICULTURAL EXPENDITURE FOR THE COMING YEARS.

7. THREAT TO VETO BUDGET DEAL?
THE PRIME MINISTER : THREAT? SHE HAD BEEN THROUGH THIS SEVERAL TIMES BEFORE. IT WAS IMPORTANT BOTH TO DEAL WITH THE EXISTING SURPLUSES AND TO STOP THE BUILD UP OF NEW SURPLUSES. WE HAVE TO DO THAT ON THIS OCCASION. SHE HOPED THAT THE WILL WOULD BE FORTHCOMING ON THE PART OF OTHER LEADERS. IT WOULD BE A FAILURE IF THE COMMUNITY RAN AWAY FROM THE FUNDAMENTAL PROBLEM. SHE WOULD ALSO TRY TO INSIST, IN THE LIGHT OF PAST EXPERIENCE, THAT ANY AGREEMENT WAS ENSHRINED IN EFFECTIVE COMMUNITY LEGISLATION, NOT JUST IN COUNCIL MINUTES. AND THAT THE REGULATIONS MADE THE PRICE MECHANISM AUTOMATIC, SO THAT IF SURPLUSES DEVELOPED, IMMEDIATE MEASURES COULD BE TAKEN TO LIMIT THE AMOUNT TAKEN INTO INTERVENTION., AND THE PRICE AT WHICH THAT HAPPENED. QUOTE ON THAT I DO ANTICIPATE A CERTAIN AMOUNT OF FIRMNESS, WHICH WILL BE FAMILIAR TO YOU FROM PAST OCCASIONS UNQUOTE.

MR CHIRAC: ADMITTED TO A SLIGHTLY DIFFERENT APPROACH. BUT IMPORTANT TO LET AGRICULTURAL MINISTERS TRY TO NARROW THE GAP. BUT IF THE EC OUGHT TO BE WORK TO REDUCE SURPLUSES, THERE SHOULD BE SIMILAR ACTION ON A GLOBAL SCALE. (STATE AIDS FOR U.S. FARMERS MUCH HIGHER THAN IN EC). SO DID NOT MAKE SENSE TO LIMIT OUR PRODUCTION TOO MUCH WHEN OTHERS IN NORTH AMERICA OR SOUTH AMERICA WERE INCREASING THEIRS. BUT ON CEREALS FOR INSTANCE, HE ENTIRELY SUPPORTED BRITAIN'S INSISTENCE ON THE NEED FOR REDUCTIONS. THERE WERE MANY ISSUES WHERE FRANCE AND BRITAIN WERE IN TOTAL AGREEMENT, EVEN IN THE AREA OF AGRICULTURE.

8. NEED FOR: TIMING OF NEXT G7 MEETING?

THE PRIME MINISTER : AFTER WE SEE HOW IT WORKS OUT IN CONGRESS, WE SHALL NEED A G7 MEETING. THE MOST OBVIOUS NEED IS FOR THE COUNTRIES THAT ARE IN ENORMOUS CURRENT ACCOUNT SURPLUS SHOULD BE PREPARED TO INCREASE DEMAND IN THEIR ECONOMIES, THE BETTER TO BRING THEIR TRADE POSITIONS INTO BALANCE WITHOUT INCURRING INFLATIONARY PRESSURES. NO COUNTRY HAS A RIGHT TO PURSUE ECONOMIC AND CULTURAL POLICIES WHICH ENTRENCH AN ENORMOUS TRADE SURPLUS INTO ITS WAY OF LIFE. WE OURSELVES HAVE ECONOMIC POLICIES WHICH ARE LEADING TO GROWTH THIS YEAR: WE ARE PLAYING OUR PART

ALREADY. VITAL TO RESIST PROTECTIONISM, WHICH WOULD DIMINISH WORLD TRADE AND THE POSSIBILITY OF EACH COUNTRY TO REDUCE ITS UNEMPLOYMENT.

MR CHIRAC'S CONCLUDING STATEMENT ON ANGLO/FRENCH RELATIONS

9. ON THE CAP, FOR EXAMPLE, FRANCE AND BRITAIN DIVERGED ON CERTAIN POINTS. BUT WE HAVE THE WILL TO FIND SOLUTIONS. AND ON ALMOST ALL THE MAJOR PROBLEMS FACED BY BOTH COUNTRIES, THERE IS A COMMON POINT OF VIEW. QUOTE MORE THAN A CONVERGENCE, GENERALLY AN IDENTITY OF VIEW UNQUOTE. ON THE U.S. BUDGET, E/W DISARMAMENT, MIDDLE EAST, GULF, TERRORISM - ON THESE ISSUES, FRANCE AND BRITAIN WERE INCREASINGLY AT ONE. LOOKING FORWARD OVER THE NEXT FIVE YEARS, THE PRIME MINISTER HAD MENTIONED THE TUNNEL AND YOUTH EXCHANGES: THIS DEMONSTRATED THIS INEVITABLE AND GROWING TREND TOWARDS GREATER CLOSENESS AND QUOTE FRATERNITY UNQUOTE BETWEEN FRANCE AND BRITAIN. HE SAW THIS AS OF GREAT IMPORTANCE FOR A BALANCED EUROPE AND FOR BALANCE ON A GLOBAL SCALE (GIVEN OUR TWO COUNTRIES' INTERNATIONAL OBLIGATIONS). AS WELL AS FOR THE DEFENCE OF OUR SHARED DEMOCRATIC AND HUMAN VALUES. HE WAS STRUCK, AT HIS MEETINGS WITH THE BRITISH PRIME MINISTER, BY THE EXTENT TO WHICH THIS CLOSENESS OF VIEW ON EVERYTHING THAT MATTERED WAS CONTINUALLY GROWING MORE SOLID.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT cc MASTER

Dear Lyn,

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC

The Prime Minister travelled to Paris this afternoon for talks with M. Chirac followed by a working supper. Monsieur Bujon, diplomatic adviser to the French Prime Minister, was also present. It was a generally harmonious meeting. M. Chirac commented at the subsequent press conference that, apart from a few aspects of the Common Agriculture Policy, there was a remarkable and encouraging identity of views between Britain and France. The full transcript of the press conference should be available to you.

For convenience I am writing separately on the various issues covered in the meeting as follows:

(i) European Community affairs
(ii) East/West relations, arms control and defence co-operation
(iii) Middle East
(iv) Youth exchanges
(v) Economic matters
(vi) Terrorism

These are being copied to departments as appropriate.

I am copying this letter to Alex Allan (H M Treasury), John Howe (Ministry of Defence), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

yours ever,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

File ..
cc PC
B1
HMA Paris

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT cc MASTER

Dear Lyn,

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC: EUROPEAN COMMUNITY AFFAIRS

The Prime Minister and Monsieur Chirac devoted a part of their meeting in Paris this afternoon to discussion of the European Community affairs. Their discussion consolidated the progress made in recent weeks in recognising French and British views without breaking any particular new ground.

Preparations for the European Council

The Prime Minister said that the prospects for reaching a solution to the problem of the future financing of the Community at the Copenhagen European Council depended crucially on progress on agricultural issues. There must be agreement on stabilisers which would prevent the accumulation of surpluses in future. There also had to be agreement on disposal of existing surpluses, either through the Community Budget or by national financing. Her own preference was for the latter. In addition arrangements for the United Kingdom's abatement agreed at Fontainebleau must be preserved; and increases in the Structural Funds must be contained within the maximum rate for non-obligatory expenditure and concentrated upon Spain and Portugal. There was no question of doubling the Structural Funds. M. Chirac said that he entirely agreed on the last point. France could accept a maximum of a 40 per cent increase up to 1992. Germany was prepared to go to 50 per cent. He agreed with the British position of concentrating the whole of the increase on Spain and Portugal.

The Prime Minister continued that we were generally content with the Commission's proposals for agricultural stabilisers. If there was agreement on a legally binding budget discipline and effective agricultural stabilisers, then we would need to consider by how much own resources should be increased. We recognised that the guideline for agricultural spending would have to be adjusted upwards. Germany seemed likely to be the main obstacle to agreement because of its determination to go on paying its farmers more than the rest of Europe could afford. If the Germans persisted in that, it might prove impossible to reach agreement in Copenhagen. Chancellor Kohl seemed to expect to have to deal with these

problems under the German Presidency. But our own preference was to reach agreement at Copenhagen if we could.

M. Chirac said that the vital question was whether there was the political will to reach agreement in Copenhagen. Failure to do so would create an unfortunate image of disagreement in Europe at the very time when the United States and the Soviet Union were showing themselves capable of reaching agreements. Moreover he was not sure that the chances of reaching agreement under the German Presidency would be any better. Like the Prime Minister, he would prefer to see agreement in Copenhagen. That had also been the view of the Spanish and Portuguese Prime Ministers, both of whom he had seen recently. They were worried by the possibility of failure, not least for domestic political reasons. That said, there were still some major problems to be settled. A crucial question was the level of the agricultural guideline. This should be set at the level of the Community's agricultural spending in 1987 of 27 bn écu, increased by the rate of GNP growth to take it to 28.1 bn écu. There must also be provision for further increase if there were exceptional circumstances. He believed that Germany, Spain, Portugal, Belgium and the Netherlands could all agree on setting a guideline at this level. As for stabilisers, if there was agreement on the overall amount of the agricultural guideline, then it should be possible to reach agreement on stabilisers. In the context of stabilisers there was also the oils and fats tax to consider. France was for this, the United Kingdom against it. There was no point in talking further about it: neither was likely to change its view. But one could not ignore the financial consequences of failing to introduce the tax.

M. Chirac continued that there were also likely to be difficulties over the United Kingdom's abatement. France had no problem with the United Kingdom on this score, although they would wish to see the abatement phased out over an extended period. If the Community moved from a VAT base to a GNP base for own resources, the United Kingdom's problem would sort itself out. But at the recent Franco/German Summit he had found Chancellor Kohl absolutely adamant against the United Kingdom abatement. He had replied that it was not reasonable to expect this to be phased out rapidly, but had found Kohl very difficult. Going back to the Structural Funds, he would like to see France, the United Kingdom and Germany reach a common position on an increase of 40 per cent over five years with concentration on Spain and Portugal. He thought that the two countries concerned would accept this, provided it could be presented as a solution reached by applying Community logic. It must not seem to be a bribe. Summing up, he was going to Copenhagen with an open mind and ready to reach agreement, but with the problems of agriculture very much to the fore. Farming opinion in France was very tricky and he was facing an election. These factors restricted his room for manoeuvre.

The Prime Minister asked whether M. Chirac could accept

the Commission's proposals for agricultural stabilisers. M. Chirac said that he could only do so if they did not diminish the existing level of provision for agriculture. France shared the United Kingdom's view on cereals. They wanted to bring down prices, although they could not accept quotas. Again Germany was the problem here. He thought, however, that the German interest in set-aside could be met satisfactorily. They were ready to see up to 50 per cent of the cost of this met from national budgets.

The Prime Minister said that the United Kingdom could broadly accept the Commission's proposal for regular depreciation of stocks taken into intervention. The costs of this should be met within the agricultural guideline. There remained the problem of disposing of existing surplus stocks. She urged M. Chirac to consider the possibility of relying on national financing for this. But if the cost were to be met from the Community Budget, it too should be included within the guideline. She noted M. Chirac's comments about the level of the guideline. 1987 had been a particularly high-spending year and it would be wrong to take the 1987 figure as a guide to the future. She did not like the concept of exceptional circumstances. Past experience showed that this would simply become a generalised excuse for ignoring the guideline. The only circumstances in which she could see any justification for relaxing the guideline would be if there were rapid and substantial changes in the dollar/écu rate.

M. Chirac said that a rather wider definition of exceptional circumstances would be needed if French farmers were not to be alarmed. As for the level of the guideline, France already considered the 1987 figure for agricultural spending to be inadequate. The danger he saw with stabilisers was that Europe would reduce its production while North America and Latin America increased theirs. Moreover, the United Kingdom's position was not entirely consistent, since the most obvious stabiliser was the oils and fats tax. The Prime Minister said that it did not make sense to increase the price of products in surplus. She was confident that a blocking minority would be found against the oils and fats tax. She came back again to the crucial points: there must be agreement at Copenhagen upon effective stabilisers, on the disposal of surpluses, on legally binding budget discipline and on continuation of the United Kingdom's abatement. Only then could we consider an increase in own resources. The prospects for the Council's success would depend on our being satisfied on these points. She was not prepared to see decisions fudged. The Community must face up to its problems. But even if final agreement was not reached at Copenhagen, she hoped that there could be a positive statement listing points where progress had been made. We should avoid creating an impression of deadlock or breakdown.

It was agreed that, in talking to the press, both the Prime Minister and M. Chirac would emphasise their commitment to work for a solution to these problems at the Copenhagen European Council while acknowledging the difficulties which remained.

President of the Commission

M. Chirac said that he had recently been approached by M. Bangemann, the German Economics Minister, who wanted support for his candidature to succeed M. Delors as President of the Commission. He would not be a bad choice. The Prime Minister said that he would certainly be better than Herr Genscher. But if the Germans were getting the top job in NATO, one should not necessarily think of a German candidate for President of the Commission. M. Chirac suggested that Mr. Andriesen, the present Agriculture Commissioner, would be a good choice.

Afghanistan

M. Chirac asked whether the Prime Minister thought that the European Council should issue a statement on Afghanistan. The Prime Minister said that she was in favour of this. It would be useful in off-setting Soviet propaganda at the time of the US/Soviet Summit.

I am copying this letter to Alex Allan (H M Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours ever,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

SECRET

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Tyn.

PRIME MINISTER'S MEETING WITH M. CHIRAC: EAST/WEST RELATIONS ARMS CONTROL AND DEFENCE CO-OPERATION

During her meeting with M. Chirac in Paris this afternoon, the Prime Minister discussed a number of aspects of East/West relations, arms control and defence co-operation.

Arms Control

The Prime Minister said that the European members of NATO should give a warm endorsement to the INF agreement. But we would need to watch carefully that President Reagan did not slip back into his habit of talking about a non-nuclear world. It would also be necessary to follow the START negotiations very closely although she doubted whether in the time remaining to the present Administration, there would be any serious inclination to go beyond 50 per cent reductions. There would in any case be congressional opposition to this. Britain and France should continue to insist on the exclusion of their independent nuclear deterrents.

M. Chirac said that he was worried by the risk that the United States Administration might be lured into negotiations on reductions in short range nuclear weapons in Europe. The Germans were pressing hard for this. Herr Genscher appeared to favour a third zero option. Given the Soviet Union's great superiority in short range nuclear systems, they would inevitably try to bring nuclear artillery and dual-capable aircraft into the negotiations. The Prime Minister said that the United Kingdom was firmly opposed to any further reductions in nuclear weapons in Europe until the imblance in the Soviet Union's favour in chemical and conventional weapons had been dealt with. Our main concern was to ensure the continued efficacy of NATO's strategy of flexible response by modernising short range systems and securing the assignment of SLCMs and more dual-capable aircraft to SACEUR.

Anglo/French Nuclear Co-operation

M. Chirac said that this last point led him to raise the question of Anglo/French nuclear co-operation. France was about to embark on modernisation of its air-to-ground missile (ASMP) in order to extend its range. He would like to see

France and Britain collaborate on this to underline their role as Europe's nuclear powers.

The Prime Minister said we had begun to give some thought to the modernisation of our existing Theatre Nuclear Weapons. In principle we were inclined to favour collaboration, not least on grounds of cost. But she wondered whether it would not be better to consider triangular co-operation with the United States. The great advantage of involving them was that it would offer economies of scale given that US requirements would be very large. That would bring down the cost of the project very considerably. She wanted to emphasise that this was just a tentative proposal at this stage. But we were committed to modernising our capability in this area.

M. Chirac said that France would proceed with the modernisation of the ASMP on its own in any event. He would prefer collaboration with Britain, not for financial or technical reasons - France had all the necessary technical capability - but to strengthen Franco-British relations and balance France's defence co-operation with Germany. As regards triangular co-operation with the United States, he was ready to discuss this but was not sure it would be easy. The Americans had never agreed to co-operation in the nuclear field with any other country except the United Kingdom. He wanted to underline that he was proposing a political initiative in Anglo/French relations.

The Prime Minister said that she did not think M. Chirac's reasoning was valid. We were not in fact talking about nuclear co-operation, since each country would produce its own warhead. The collaboration would come on the missiles. The United States was beginning to reduce its defence spending and this would give them an incentive to collaborate. We were certainly interested in a collaborative approach. She suggested that there should be further more detailed discussion of these points between Mr. Younger and M. Giraud.

Franco/German Defence Co-operation

The Prime Minister said that she was concerned about some aspects of Franco/German defence co-operation for reasons which I had explained to M. Bujon. In particular she was concerned that it would lead to an erosion of NATO. She regarded the proposed Franco/German defence council with particular suspicion.

M. Chirac said that he wished to put France's defence co-operation with Germany in perspective. Such co-operation was necessary to maintain balance in Europe, and even more necessary because of the growing neutralist tendency in German public opinion. Defence co-operation had a long history, going back to an article in the Elysée Treaty which provided for consultations on strategic and tactical issues. Little progress had been made on this until President Mitterrand had revived it in 1982 and agreed with Chancellor Kohl on the introduction of regular consultations between military staffs.

This had been supplemented by increased co-operation on defence procurement, evident in the new anti-tank helicopter.

M. Chirac continued that, more recently President Mitterrand had proposed to Chancellor Kohl - without consulting him - two further steps: the establishment of a Franco/German Brigade and the setting up of a Franco/German Defence Council. The Brigade raised a host of technical problems. He was not inclined to give great importance to it. Its task would be to act as a reserve unit. He would only note that the NATO authorities had not objected to it. As for the Defence Council, it was so far just a title. It was a political initiative taken mainly for domestic reasons by President Mitterrand ahead of the Presidental elections, in the hope of attracting for himself the support of the centre parties in France. In reality it would not have much substance. For his own part, he had insisted that it should be matched by economic and monetary co-operation, about which the Germans were much les enthusiastic, and that the two aspects should proceed in step. He repeated that he did not expect either to have much substance.

East/West Relations

There was some discussion over supper of Mr. Gorbachev's prospects. M. Chirac described him as pure Leninist. His aim was to preserve socialism but make it more efficient. While he was showing some flexibility internally, there was no significant change in the Soviet Union's external policies. In his view, if Gorbachev wanted to keep power he would have to compromise with the sytem. He thought that the phase of dynamism was already over. The Prime Minister said that, for the first time, she was worried whether Mr. Gorbachev was going to survive. Perestroika was an attempt to galvanise the Soviet population but it seemed to be running into mute resistance. She had been discouraged by a recent talk with Mr. Aganbegyan. She was not convinced that it was possible to adapt the Soviet system in the way Mr. Gorbachev wanted to. The Prime Minister and M. Chirac agreed that they both hoped that they were wrong in their assessment.

I am copying this letter to John Howe (Ministry of Defence), Alex Allan (HM Treasury) and to Trevor Wolley (Cabinet Office).

Yours sincerely,

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

SECRET

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HMA Paris

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Alyn,

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC: MIDDLE EAST

The Prime Minister raised various aspects of the Middle East situation during her meeting with Monsieur Chirac in Paris this afternoon.

Arab/Israel

The Prime Minister said that she was concerned about the Soviet Union's active diplomacy in the Middle East, both on Arab/Israel issues and on the Gulf. She had warned the United States that, by failing to make progress on an international conference, they risked leaving the field free to the Russians. Britain and France should continue to support the understanding between Mr. Peres and King Hussein on an international conference, even if there was unlikely to be much progress in the immediate future.

M. Chirac said that there had been an important change in the United States' approach to Arab/Israel problems. He himself had recently been in Israel and his diplomatic adviser, M. Bujon had seen King Hussein. During his visit to Israel, Mr. Shultz evidently proposed a new initiative whereby President Reagan and Mr. Gorbachev would invite Israel and Jordan to attend their Summit meeting and launch bilateral negotiations. Shamir appeared to have accepted this proposal but King Hussein had not surprisingly turned it down, insisting on a proper international conference attended by all five Permanent Members of the United Nations Security Council. Shultz had apparently replied to this that King Hussein was wrong to look to has-beens like Britain and France: he should rely on the countries of the future like Germany and Japan. M. Chirac said that he had found this very offensive. More generally, he was concerned to see the Americans moving to a new strategy of trying to sort out Middle Eastern problems bilaterally between themselves and the Russians, pushing other countries to one side. All in all, he found the American approach very far from subtle and doomed to failure.

The Prime Minister agreed that the recent American proposal had been mistaken. She had found it particularly hard to understand why the Americans wanted to give the Soviet

Union a direct role in the Middle East. This amounted to a U-turn in their policy. Moreover, it was quite clear that King Hussein could only proceed on the basis of a proper international conference as a framework for negotiations with Israel. The American proposal would have made the United States into Israel's lawyer, driving the Arab countries into the arms of the Soviet Union. Countries such as Britain and France, which had a long experience in the area and were widely trusted, had a contribution to make in shading this stark division. Perhaps most worrying of all was the impression that the United States had more or less discarded the objective of an international conference.

M. Chirac said that it was even more worrying because Mr. Peres had very recently indicated to the French Government that he also supported the proposed US/Soviet initiative, although he envisaged some modification whereby once the United States and the Soviet Union had reached agreement, others would be invited to join in. This suggested that the American ideas were taking hold in Israel. The Prime Minister said that she found this astonishing and quite out of kilter with Mr. Peres' previous approach. She would be seeing him shortly and would discuss the matter with him. Our own impression had been that the American proposals were no longer active. Like M. Chirac, she disliked the notion that the Arab/Israel problem could be solved between the super- powers alone. It was important that she and M. Chirac should confirm publicly their continuing support for an international conference as the way forward.

The Gulf

M. Chirac said that he shared the Prime Minister's concern about Soviet policy in the Middle East. This extended to their advances in Iran. The Prime Minister said that the Soviet Union was dragging its feet at the United Nations over measures to enforce Security Council Resolution 598. The United Nations Secretary-General seemed to be making little progress. Britain and France should step up efforts to secure agreement on an arms embargo.

M. Chirac referred to an informal approach by Prince Saud to the United States, France and the United Kingdom about the possibility of extending protection to tankers flying flags of convenience, many of whom were engaged in shipping Saudi oil. The Prime Minister said that this would be contrary to our policy of protecting British-flag shipping only and she did not see any scope for meeting the Saudis request. M. Chirac agreed.

I am copying this letter to John Howe (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

File JA

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B1
HMA Paris

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Lyn,

PRIME MINISTER'S MEETING WITH M CHIRAC: YOUTH EXCHANGES

During the Prime Minister's meeting with M. Chirac in Paris today, M. Chirac proposed a new initiative to expand exchanges of young people between Britain and France.

M. Chirac recalled that there were extensive youth exchanges between France and Germany which had played an important part in improving relations between the two countries at a very small cost. He would like to see action taken to develop such exchanges between France and the United Kingdom. The first step might be to agree a joint study. He would like to be able to accounce this to the press, as a practical result of his meeting with the Prime Minister.

The Prime Minister asked how the Franco/German system worked in practice. M. Chirac was misty on the details. The Prime Minister asked what the cost of the scheme was. M. Chirac said that it was almost nothing. I said that our information was that it cost some £10 million a year. M. Chirac had first denied this but, after some caculations agreed that this was probably right. As he had said, it was very small.

The Prime Minister said that the next few years should be an exciting time for Europe with completion of the single market in 1992 and the Channel Tunnel in 1993. Both should give young people an incentive to discover more about neighbouring countries and help to make Europe come alive. She would be prepared to agree to a study of ways of expanding Franco/British youth exchanges, although it might be necessary to start on a more modest basis than the Franco/German scheme. She had no objections to informing the press that she and M. Chirac had agreed to a joint study of ways and means to expand such exchanges.

M. Chirac subsequently announced this at the press Confernce, in more or less these terms. You will wish to

consider how to take discussions forward with the French Government.

I am sending a copy of this letter to Alex Allan (HM Treasury), Tom Jeffery (Department of Education and Science), Martin Dinham (Overseas Development Agency) and to Trevor Woolley (Cabinet Office).

yours sincerely,

Charles Powell

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Lyn.

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC: ECONOMIC MATTERS

During their talk in Paris this afternoon, the Prime Minister proposed to Monsieur Chirac that they should publicly welcome the agreement reached between the United States' Administration and Congress to reduce the budget deficit. This should help restore confidence to markets. In due course there would need to be a meeting of the G7 at which the countries in substantial surplus should be asked to take measures to stimulate their economies. M. Chirac agreed and the matter was subsequently covered in these terms at the press conference.

I am copying this letter to Alex Allan (H M Treasury) and Trevor Woolley (Cabinet Office).

Yours ever,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

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10 DOWNING STREET
LONDON SW1A 2AA

22 November 1987

From the Private Secretary

SUBJECT cc MASTER

Dear Lyn,

PRIME MINISTER'S MEETING WITH M.CHIRAC: TERRORISM

At her meeting with M. Chirac in Paris this afternoon, the Prime Minister expressed appreciation for the excellent work of the French authorities in intercepting the shipment of weapons for the PIRA on board the Eksund. M. Chirac said that the Prime Minister's earlier message of thanks had been much appreciated. Did we believe that there had been earlier shipments of a similar size which had got through? The Prime Minister said that we certainly took the evidence of such shipments seriously and had to work on the assumption that they had indeed got through. We were working very closely with the Irish Government to follow this up. M. Chirac commented that it had been suggested in the press that the interception of the Eksund had been a windfall, and that it was suspected of carrying drugs. This was not the case.

M. Chirac continued that the French Government had had considerable success in recent months in intercepting various terrorist groups sent to France from Lebabon by the Iranians. They had deliberately made little public comment about this. They had received particularly valuable co-operation from Algeria.

The Prime Minister commented that there seemed to have been some modification of Syria's support for terrorism and evidence that Syria was trying to work its way back towards good relations with western countries. M. Chirac agreed that Syria had stepped down its support for terrorist activities. He was also impressed by the degree to which Qadafi had been de-stabilised and was now much less active in supporting terrorism, apart of course from the shipment of arms for the IRA.

I am copying this letter to Philip Mawer (Home Office), John Howe (Ministry of Defence), David Watkins (Northern Ireland Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

SECRET

cc BKP

PRIME MINISTER

MEETING WITH M. CHIRAC

You are to spend some three hours with M. Chirac on Sunday. The format is one and a half hours of talks followed by a brief meeting with the press and then a working supper. Christopher Thierry will interpret. The only other people present will be M. Bujon and me. Briefs are in the folder attached. There is a separate note on Franco-German defence co-operation.

Things do not look too good for Chirac. The economy is in a bind, he is having to give up or postpone his privatisation plans, Barre has overtaken him in the opinion polls, and it looks ever more likely that Mitterrand will run. M. Chirac needs friends.

You will want to start by thanking M. Chirac for his message of sympathy about the King's Cross fire and for the excellent work of the French security services in intercepting the arms for PIRA on the Eksund.

The main purpose of the meeting is to prepare for the Copenhagen Summit. Your message will be that we are ready for a deal if the terms are right. But our basic requirements are legally binding financial discipline, effective agricultural stabilisers (not the watered-down version which the French and Germans are discussing), a method to dispose of existing surplus stocks and maintenance of the Fontainebleau abatement. Only if we are satisfied on these points can we agree to an increase in own resources. We recognise that there will have to be a rebasing of the agricultural guideline at a realistic level. If he raises the oils and fats tax, you might suggest an agreement to disagree: we are confident of our blocking minority. It would be helpful to try to agree a common approach on the Structural Funds on the basis (a) that we remain within the maximum rate, and (b) that any increase is

skewed in favour of Spain and Portugal. If Britain, France and Germany keep together on this, we can win.

Chirac may raise with you the subject of Franco-German defence co-operation (I have included in the folder the notes of my meetings with M. Bujon and Mr. Teltschik on this). You will want to leave him in no doubt about our concerns: loosening of NATO's cohesion, substitution of privileged bilateral relations, discussion of strategic issues in the Franco-German defence council which are of legitimate interest to others like us.

Chirac may also raise nuclear co-operation. You might say that the present French air-to-ground missile (ASMP) is not of interest to us: but we do not exclude possible trilateral Anglo/American/French co-operation on a future generation missile.

You should mention the US/Soviet Summit and the need for the (1) European members of NATO to give a warm public welcome to the INF Agreement. We shall need to watch the next round of (2) negotiations, on reductions in strategic nuclear weapons, carefully to ensure that the British and French independent deterrents are not compromised. You might also have a word (3) about Gorbachev's position in the light of Yeltsin's downfall (telegram in folder).

Chirac wishes to discuss the Middle East where he has been recently. I doubt he will be aware of the specific ideas which the Americans put to Shamir and King Hussein. The Arab Summit and the subsequent restoration by many Arab countries of diplomatic ties with Egypt is a positive development. We should continue to work together on Iran/Iraq at the UN.

You will want to discuss the international financial situation in the light of progress made - if any - on the US deficit. Will the French be ready to join at a G7 meeting in pressing the Germans and Japanese to stimulate their domestic economies?

(1) C.A.P.

There are a number of other issues which might come up. There can be mutual congratulation on the Channel Tunnel, but he remains sore about our relative lack of investment in new high-speed rail track. He may also complain about our attitude on the European Space Agency. There are still problems over our extension of our Territorial Sea. We have offered referral to the European Court. Chirac did not like the CHOGM communique language on New Caledonia.

Finally, there is Mr. Maxwell's point about student exchanges (please see letter in folder). There is a massive Franco-German investment in this of some £10 million a year. Before committing us to anything with the French, you will need to consider where the money will come from.

C.D.P.

Charles Powell

20 November 1987

Bremen

Bf. Rudolf

Sekretär

Whsg. geschlossen

Bf. exp -

(1) Bf. Ludwig

(2) Fritz Karl

(1) U. S. Lc.

(2) Regent/Carlsen - Ja Mond

(3) Grenzgen

(4) Bahnhof Bremen

Middle East I. C.

Dr

Gallup. 598.

Ludwig v. d. K.

(5) Terrorism

(6) Trend. - Young People

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MR POWELL
(No 10 Downing Street)

CHIRAC

Following the Prime Minister's meeting with Mr Williamson this morning, you might like to consider adding two points to those which Mr Parker's letter of 19 November suggests.

2. First, it is possible that French hesitations on stabilisers owe something to fears that we might pocket their concessions, but not agree at Copenhagen to an increase in the own resources ceiling. If so, it would be useful if the Prime Minister were to assure M. Chirac that she remains ready to agree to a realistic increase in the ceiling provided our conditions on spending control are met.

3. Secondly, it will be important to keep in close contact with the French on the issue of the "financial objective" for the structural funds. The Prime Minister might wish to confirm that M. Chirac remains opposed to "doubling" and in favour of keeping to the maximum rate. If M. Chirac says that it may in practice be necessary to concede an increase in excess of the maximum rate, the Prime Minister might say that she believes the outcome is something which the Northern member countries can in fact control: but it will be essential to keep in close touch.

R G LAVELLE

20 November 1987

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Foreign and Commonwealth Office

London SW1A 2AH

20 November 1987

Dear Charles,

Prime Minister's Visit to Paris: 22 November

The three hours the Prime Minister will spend with M Chirac during her visit to Paris on 22 November will be devoted principally to discussion of European Community issues before Copenhagen. Chirac is likely to be accompanied only by Bujon and an interpreter. The Elysée are aware of the visit, but President Mitterrand has not (so far) invited the Prime Minister to call on him also.

Internal Political Situation

As the Presidential elections in late April/early May 1988 approach, the jockeying for position in Paris becomes more intense and the atmosphere more confrontational. The basic rules of cohabitation continue to be respected, in that Chirac and Mitterrand avoid direct criticism of each other. In private, however, the Elysee and the Matignon are each more and more inclined to act without consulting the other, and mutual suspicion runs deep. Even in public, the restraint shown by the two principals does not extend to their political lieutenants.

A series of scandals, one of which gave rise to allegations against Mitterrand himself, have been published and exploited for partisan advantage; but they have probably not much altered the balance of support for either side. At present, according to the opinion polls, Barre would get more votes than Chirac in the first round of the election, but be defeated by Mitterrand in the second. The major difficulty for the Right continues to be the competition between Chirac and Barre and in particular how to ensure that in the second round Chirac supporters vote for Barre or vice versa. The main questions for the Left are whether Mitterrand will stand again and how to build up a viable alternative in case he does not. He is not expected to announce his decision until the last moment. I enclose a copy of Sir Ewen Fergusson's despatch of 27 October "Impressions of France", which provides a comprehensive account of the current state of the country.

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French Economy

Chirac's Presidential prospects are not much helped by the economic news. Growth in 1987 will be only about 1.5%, and forecasts of 2.5% for 1988 were criticised as over-optimistic even before the falls on world stock markets. These events have now further complicated fiscal and exchange rate policy and slowed plans for privatisation. On the other hand, inflation is only running at 3-4% and may fall, and unemployment has stabilised at around 2.65 million (11%) although slower economic growth may cloud the prospects here.

Non-EC Issues

There are two other subjects which the Prime Minister might mention briefly to Chirac and a few issues which Chirac himself may raise.

Operation Beer

We recommend that the Prime Minister express again her gratitude to Chirac for the French interception of the Eksund. She could also thank him for French approval of the paper on the implications of the seizure which we are circulating to EC partners before the Foreign Affairs Council on 23/24 November, and for the French support that has been promised us at that meeting. She could add that she hopes that we can continue to cooperate closely on counter-terrorist matters.

If there is opportunity, we also recommend that the Prime Minister emphasise the need for Britain and France to work closely together in the UN on Iran/Iraq. She could refer with regret, but little surprise, to the lack of progress by the UN Secretary General towards implementation of Security Council Resolution 598. The urgent need is for pressure on the Russians to begin work within the Five on an arms embargo. The three Western Permanent Members must keep closely in step on this. We are concerned that there may be divergences between our views on ways forward, even if not on the objectives.

Chirac may raise the difficulties resulting from the Territorial Sea Act 1987 (which at one stage led French fishermen to blockade French Channel ports). Officials will meet for the second time on 20 November in Paris to try to resolve this dispute. We have proposed to the French a joint referral to the European Court of Justice as the best (and quickest) way to do so, though the Commission may make difficulties.

The prospects on the Channel Tunnel are generally looking good with the news of the successful underwriting of Eurotunnel's share issue. The French have now formally approved a new high-speed track from the Tunnel to Paris. But French resentment of the disparity between French and UK investment in the Tunnel project remains. The Prime Minister will remember that Chirac, who has been heavily involved in decision-making on railways for the Tunnel, raised this with her when they met in Berlin on 25 September. Since then officials have been trying to ensure that the position is better understood on the French side, particularly in Chirac's office. Another area where British policy has encountered some criticism in France is European space policy.

Chirac may also raise defence cooperation. A paper prepared by officials in response to your letter of 22 October is now being considered by the Foreign and Defence Secretaries. They intend to submit it to the Prime Minister, with their conclusions, before she meets Chirac. On arms control, the Prime Minister may wish to underline the importance of public European support for the INF agreement, in order to help its passage through the United States Senate.

I am writing separately about EC issues.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH CHIRAC, 22 NOVEMBER: FRENCH POLITICAL BACKGROUND.

SUMMARY

1. THE PRESIDENTIAL PRE-CAMPAIGN HAS STARTED. SPOTLIGHT ON SCANDALS. CHIRAC IS ATTEMPTING TO CONCENTRATE ON GOVERNMENT BUSINESS, BUT ECONOMIC DEVELOPMENTS ARE CAUSING HIM PROBLEMS. HIS MAJOR RIGHT-WING CHALLENGER, BARRE, IS GAINING GROUND. EAST/WEST ISSUES AND FRANCE/FRG RELATIONS TOP HIS INTERNATIONAL POLITICAL AGENDA. THE BILATERAL ATMOSPHERE IS SATISFACTORY.

DETAIL

2. FRANCE IS IN THE THROES OF WHAT HAS BEEN DUBBED THE PRESIDENTIAL PRE-CAMPAIGN. THE ELECTIONS MAY STILL BE SIX MONTHS AWAY BUT MANOEUVRING IN THE RUN UP TO THEM DOMINATES POLITICAL LIFE. SINCE PARLIAMENT REASSEMBLED AT THE BEGINNING OF OCTOBER, OSTENSIBLY TO DEBATE NEXT YEAR'S BUDGET, THE PARTIES HAVE BEEN ATTACKING EACH OTHER VIGOROUSLY, CULMINATING TWO WEEKS AGO IN THE LUCHAIRE AFFAIR. THIS TOUCHES MITTERRAND DIRECTLY SINCE IT IS ALLEGED THAT HE CONNIVED AT, OR AT LEAST FAILED TO HALT, THE EXPORT OF NEARLY HALF A MILLION ARTILLERY SHELLS TO IRAN BETWEEN 1983-86 IN CONTRAVENTION OF A GOVERNMENT EMBARGO WHICH HE HAD HIMSELF IMPOSED, WITH A SIDE BENEFIT TO THE SOCIALIST PARTY. MITTERRAND HAS REJECTED THE ACCUSATION OF CONNIVANCE AND, SO FAR, THE AFFAIR HAS HAD NO EFFECT ON HIS POPULARITY (HE REMAINS AHEAD OF ALL HIS RIVALS). NEVERTHELESS, THE RIGHT HOPE THAT IT WILL DAMAGE HIM AND HELP TO DETER HIM FROM STANDING FOR A SECOND TERM. FOR THE MOMENT ALL MITTERRAND WILL SAY ABOUT HIS INTENTIONS IS THAT HE HAS NOT YET MADE UP HIS MIND (WHICH IS PROBABLY TRUE).

3. CHIRAC PERSONALLY HAS TRIED TO DISTANCE HIMSELF FROM THE MUD-SLINGING, LEAVING IT TO LOYALISTS IN HIS OWN PARTY (RPR) TO DIRTY THEIR HANDS. HE ARGUES THAT AS THE LEADER OF THE GOVERNMENT SINCE MARCH 1986 HE IS THE PRESIDENTIAL CONTENDER BEST QUALIFIED TO ENSURE FRENCH ECONOMIC RECOVERY AND LEAD THE COUNTRY INTO THE BRAVE

NEW WORLD OF THE SINGLE EUROPEAN MARKET AFTER 1992. IN THE SUMMER THERE WERE SIGNS THAT THIS APPROACH WAS HAVING SOME EFFECT. BUT MUCH OF THE OPTIMISM HAS RECENTLY EVAPORATED. DISAPPOINTING PROGNOSES FOR THE FRENCH ECONOMY AND THE SHOCK OF THE STOCK MARKET CRASH (SEE MY TELNO 1174) HAVE COMPROMISED CHIRAC'S HOPES THAT HIS RECORD AS PRIME MINISTER WOULD HELP TO BOOST HIS PRESIDENTIAL CHANCES.

4. APART FROM THE DIFFICULTIES POSED BY A WILY MITTERRAND, AND A SLUGGISH ECONOMY, CHIRAC MUST ALSO CONTEND WITH THE CHALLENGE FROM BARRE, WHOSE PREVIOUS EXPERIENCE MAKES HIM WELL PLACED TO CAPITALISE ON THE PRESENT MOOD OF UNCERTAINTY. HIS OWN UNDOUBTED PROBITY MAY ALSO ATTRACT VOTERS ALIENATED BY A POLITICAL LANDSCAPE STREWN WITH DISFIGURING SCANDALS. LATEST POLLS SUGGEST THAT HE HAS GAINED GROUND IN RECENT DAYS AT CHIRAC'S EXPENSE AND MIGHT NOW BEAT HIM IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTIONS.

5. THE PRIME MINISTER WILL THEREFORE MEET CHIRAC AT A TIME WHEN HIS GOVERNMENT IS IN SEARCH OF SUCCESS, AND HE SHOWS SIGNS OF FLAGGING IN THE POLLS. NEVERTHELESS, HIS ENERGY IS BOUNDLESS, HE IS A FIRST-RATE CAMPAIGNER AND HE CAN BE EXPECTED TO FIGHT ALL THE WAY.

FOREIGN POLICY ISSUES.

6. THE WORLD ECONOMY AND EC MATTERS APART, FRANCE'S RELATIONSHIP WITH THE FRG AND THE EUROPEAN CONTRIBUTION TO ALLIANCE DEFENCE FOLLOWING AN INF TREATY COMTUNUE TO BE CHIRAC'S MAIN FOREIGN POLICY PREOCCUPATIONS (HE IS TO MAKE A MAJOR SPEECH ON DEFENCE ON 12 DECEMBER). ON INF CHIRAC AGAIN VOICED DOUBTS ON THE IMPLICATIONS OF DOUBLE ZERO FOR EUROPE WHILE IN LISBON LAST WEEK: HE IS THUS OUT OF STEP WITH US REQUESTS FOR PUBLIC SUPPORT TO HELP CARRY CONGRESS ALONG. SOME COHABITATIONAL STRAINS SHOWED IN HIS JOINT VISIT WITH MITTERRAND TO THE FRG FOR THE SUMMIT LAST WEEK. THE GUARDIANSHIP OF FRANCE'S ROLE IN EUROPE, AND PARTICULARLY THE RELATIONSHIP WITH THE WEST GERMANS, WILL NO DOUBT FIGURE IN THE CAMPAIGN RIVALRY OVER THE NEXT FEW MONTHS. ON IRAN/IRAQ FRANCE'S PROFILE HAS DROPPED IN RECENT WEEKS, WITH THE GORDJI AFFAIR STALEMATED AND FRANCE'S HABITUAL INCLINATION TOWARDS IRAQ INHIBITING THEIR HELPFULNESS AT THE UN (WE HAVE BEEN TRYING HARD TO GET THEM TO PLAY A MORE COOPERATIVE ROLE IN THE WESTERN TEAM - PARIS TELNO 1162). NEW CALEDONIA/FRENCH POLYNESIA REMAIN SORE SPOTS FOR CHIRAC BOTH IN FRENCH RELATIONS WITH REGIONAL STATES AND IN DOMESTIC POLITICS. WE NEED TO WATCH FRENCH ATTEMPTS TO REINSURE THEIR POSITION IN THE REGION BY CULTIVATING RABUKA IN FIJI.

BILATERAL

7. THE TEMPERATURE HAS FOR THE MOMENT BEEN LOWERED IN THE DISPUTE

OVER FISHING RIGHTS IN THE CHANNEL, BUT THE PROBLEM REMAINS TO BE SOLVED. FURTHER MEETINGS ARE IN PROSPECT. OTHER BILATERAL BUSINESS IS CALM. THE GOVERNMENT'S REPUTATION REMAINS HIGH AND THE UK CONTINUES TO RECEIVE BROADLY SYMPATHETIC TREATMENT IN THE FRENCH MEDIA, EG OVER THE UK ECONOMY, ENNISKILLEN, THE EUROTUNNEL LAUNCH AND DEFENCE MATTERS, THE ONE MAJOR EXCEPTION BEING SPACE POLICY AND OUR DECISION NOT TO PARTICIPATE IN THE THREE ESA PROJECTS (FCO TELNO 1133).

FERGUSSON

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Foreign and Commonwealth Office

London SW1A 2AH

19 November 1987

Dear Charles,

Prime Minister's Meeting with M. Chirac:
EC Future Financing

We have kept in close touch with the French. Our views on a number of central issues in the negotiation are similar. They broadly agree with us on the need to control agricultural spending. They favour our proposed improvements to budget management. They oppose the Commission's proposal for a large increase in the own resources ceiling, but see the merits of the proposed fourth resource. They oppose the doubling of the structural funds, and favour limiting the overall increase by skewing it towards the poorest member states, particularly Spain and Portugal.

There are four areas where we and the French clearly do not agree. First, M. Chirac is still wedded to the oils and fats tax (probably rather more so than President Mitterrand). There is no point in further detailed discussion with him: if he raises the issue this weekend, the Foreign Secretary's view is that the right answer is to agree to disagree. We believe that the Germans, Dutch and Danes remain with us in blocking the proposal: we hope that M Chirac too will establish that before Copenhagen, and conclude that time spent on the issue there would be time wasted. But if he were to take the line, this weekend, that if the tax does not go through the Community must face the financing consequences (it would have raised 1.3 billion ecu in the first year), that would not be unreasonable, and the Prime Minister might wish to say that the question is certainly relevant to the future agricultural guideline level, due to be set as part of an overall Copenhagen deal.

Secondly, while the French accept the continuation of a UK abatement, they want it to be on a degressive basis, and are therefore likely to support the Commission's proposal (which would leave the UK some £700 million worse off in 1992). The French also know, however, that we will not accept anything less than Fontainebleau, and they reject the German suggestion that the FRG should not

contribute. The Prime Minister will wish to confirm that the Fontainebleau abatement is for us an absolute requirement: there can be no agreement at Copenhagen which does not include its continuation. If appropriate, she might wish to add that the introduction of the fourth resource (since it would benefit us) could in fact enable the abatement numbers to be rather lower.

Third, on the key issues of stabilisers/CAP reform, there clearly now are major Franco-German efforts to find common ground before Copenhagen. The French, while they have this autumn accepted the concept of stabilisers, are still reluctant to accept that they should become an automatic in-year "financial guillotine". They are talking of the possibility of setting a limit to price falls, and of treating the whole arable sector as one unit. This would mean that increased wheat production could be offset by, for example, reduced barley production. They would also only penalise increases in yield per acre rather than increases in total acreage under a particular crop. Both suggestions may in part be sops to the Germans: neither is of course welcome to us: both would substantially weaken impact on the Budget. These issues are being argued out in the Agriculture Council, which will resume on 23 November. But they are unlikely to be resolved there.

Finally, the French also say that agreement to an exceptional circumstances clause is essential for any agreement to a reinforced guideline/stabilisers regime. Though they talk of wider formulae, they might in the end settle for some provision to cope only with large dollar/ecu changes, in-year, in either direction (ie the guideline would be reduced if the $ rose steeply, and increased if there were a further substantial fall). At the ECOFIN council this week M. Delors, responding to the Chancellor, said that in his view exceptional circumstances could be limited to fluctuations in the rate of the ecu.

It is in our interests to try to discourage the French from slipping back still closer to the Germans (and away from us, the Dutch and the Commission) on the agricultural issues. The pressures on both sides to avoid an open row in Copenhagen, shortly before the Elysée Treaty anniversary, will be considerable. Our best tactic is to convince the French that we are ready for a deal, if the terms are right. This offers the best chance of encouraging them to avoid selling out to the Germans on stabilisers. Our chances of securing effective CAP reform - at Copenhagen or next year at

Hanover - will be much improved if we can retain the support of the French, as well as the Dutch and the Commission.

I enclose a speaking note on which the Prime Minister may wish to draw in Paris.

I am copying this letter and attachments to Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture and the Cabinet Secretary.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

MEETING WITH M. CHIRAC : POINTS TO MAKE

General

- it is clear from our contacts since Brussels that our thinking on the key issues is similar. Control of non-agricultural spending; limiting increases in the structural funds: better budget management. It is important that we continue to work together for the agreement in Copenhagen we both want.

- agreement has to be on right terms; above all, an agreement on effective and binding control of agricultural expenditure.

- If achieved, we can then focus on the more important tasks which confront the Community, in particular completing the single market by 1992.

Agriculture

- effective control of agricultural spending means a guideline which is binding.

- the starting point for the agricultural guideline must be such as to keep spending within reasonable limits. Similarly we should keep the rate at which the guideline grows between now and 1992 below the rate of growth of GNP. But a realistic rebasing clearly will be necessary.

- no agreement on the guideline will however be possible at Copenhagen unless we are sure that it will in future be enforced. This means stabilisers for all commodities, and proper monitoring and control systems.

- some, but not yet sufficient, progress in Agriculture Council. Vital to have effective controls in all commodities.

- and to ensure that the guideline is not riddled with loopholes for exceptional circumstances. The logic of budgetary discipline is that there should be no such loopholes.

- the least objectionable form of "exceptional circumstances" would be strictly $/ecu related, symmetrical (ie covering movements in both directions), with a high threshold, and provision if necessary for national financing of any excess spending permitted in this way. The wider formulae so far tabled go much too far.

Structural Funds

- it is important that we work together to damp down the expectations of unrealistic increases in Structural Funds. There has already been a substantial increase (47% in real terms) since 1984.

- but don't exclude possibility of some additional resources from the Regional Fund for the 4 poorest states (Portugal, Greece, Ireland, Spain), or Spain and Portugal. Know you have raised these ideas with Spain and Portugal: regard them as useful.

Own Resources

- similarly we should stand together with the FRG and the Netherlands in our opposition to a 1.4% GNP ceiling on own resources.

- indeed, we cannot agree to any increase in own resources until the British Parliament can be satisfied that Community spending will really be under control in future.

- should certainly not agree to an interim increase for 1988; would remove all incentive to reach agreements on the really important issues: budget discipline and agricultural stabilisers.

- if measures to control Community spending are not agreed by Copenhagen, the Community will have to deal with the 1988 problem by the normal, legal way of starting the year on a regime of provisional twelfths.

- any change to the Fontainebleau abatement system must make UK's budget burden less, not more, onerous. The UK abatement was agreed at Fontainebleau as a fair and equitable way of dealing with that burden. Even with abatement, the UK was still a substantial net contributor to the Community in 1984. Since then, our underlying

budgetary imbalance has more than doubled, as UK press/Parliament/public are well aware. After abatement we remain the second largest net contributor, despite being about average in Community prosperity.

[As necessary] - our views on the oils and fats tax have not changed, so we shall have to agree to differ on that. But accept that the absence of the tax will have financing consequences, which will need to be dealt with in the overall package.

FROM THE AMBASSADOR

BRITISH EMBASSY,
PARIS.

C D Powell Esq
No 10 Downing Street
LONDON SW1

13 November 1987

My dear Charles,

I am delighted - indeed relieved - that the meeting between M. Chirac and the Prime Minister has now been arranged. It is a symptom of the heating-up of the pre-electoral atmosphere that he has decided, clearly, that it will be to his advantage in the game of one-upmanship with M. Mitterrand if Mrs Thatcher is seen to be coming to Paris to visit him, in contrast to his enthusiasm last July for flying to London, or wherever, to suit the Prime Minister's convenience.

I am obviously sorry that the "standard procedures" apply, since I got much out of being at the 29 July meeting, but there it is.

Although I had originally intended to be in the UK that weekend (and had received an oral message that you would not want me to change my plans) I should prefer to be on hand for the Prime Minister's visit. It is not yet clear whether M. Chirac will be at Villacoublay to meet her, but if not I should welcome the opportunity of a conversation in the car — and if he is there, you and I can have a chat.

Best wishes,

Ewen.

Ewen Fergusson

PART 5 ends:-

CDP to PM 30.10.87

PART 6. begins:-

Ferguson to CDP 13.11.87

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