PART 5

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Anglo-French Relations

FRANCE

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Pt 1: October 1979

Pt 5: December 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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●PART 5 ends:-

foto COP 26.2.91

PART 6. begins:-

COP to foto 1.3.91

Foreign and Commonwealth Office

London SW1A 2AH

26 February 1991

Dear Charles,

Anglo-French Consultations

Thank you for your letter of ~~20 February~~ attached reporting your conversation with Pierre Morel about contacts with the Elysée on European Community matters.

Caroline de Margerie was in London a few weeks ago with Admiral Lanxade, from whom she detached herself to meet David Hadley, Michael Jay and Stephen Wall. (You were yourself abroad.) David Hadley, as he may have told you, is planning to go to Paris immediately after Easter for return talks, and to take Michael Jay with him. This arrangement would suit the Cabinet Office and us, and - despite what Morel said - seems to suit Caroline de Margerie too: she and Michael Jay confirmed the plan when he saw her in Paris last week during talks on EC matters with Pierre de Boissieu at the Quai.

When you are next talking to Morel, you might say that David Hadley and Caroline de Margerie have already been in touch, that he is planning to go to Paris in early April to see her, but that he would of course be delighted to see her if she would like to come to London again before that. (He will, however, be out of the UK from 15 - 27 March inclusive.)

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell KCMG
10 Downing Street

Qz043

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 071-270 0044

21 February 1991

CONFIDENTIAL

Sir Charles Powell
10 Downing Street
LONDON

Dear Charles

ANGLO FRENCH CONSULTATIONS

Thank you for sending me a copy of your letter of 20 February to Richard Gozney.

I saw Caroline de Margerie fairly briefly when she came to London in January and we agreed that it would be useful to have further contact when the political union IGC had gone some distance. I had envisaged going to Paris, partly because she came to London last and partly because it would be useful to see Bernard Vial at the SGCI who is in some senses my opposite number and who, like me, attends the IGC meetings. The plan was for Michael Jay to accompany me. Because I shall be away during the second half of March, the Embassy was asked to explore dates for the beginning of April.

If you feel in the light of your telephone conversation that you should invite her to London, I would of course wish to take part. But I will be out of the country from 15 to 27 March inclusive. I would like to consult Michael Jay, who happens to be in Paris today talking to his opposite numbers.

Yours sincerely
David

D A HADLEY

21.02.
PM 9 1

CONFIDENTIAL AND PERSONAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 February 1991

Prime Minister
This is now running well.
CDP
20/2.

Good news! A.

ANGLO/FRENCH CONSULTATIONS

When I telephoned Pierre Morel this evening about the Gulf, he also referred to President Mitterrand's recent reply to the Prime Minister's letter on Anglo/French consultations. The President had decided not to refer to the contacts between Madame Guigou and Mr. Garel Jones, because he drew a clear distinction between his personal collaborators and Ministers. But he would, of course, wish such contacts to continue and flourish.

As a first step in the new arrangements, the President thought that it would be useful for Caroline de Margerie to come over to talk about EC matters. I said that she would be very welcome. I would certainly be happy to see her, and we could arrange a programme covering David Hadley in the Cabinet Office and Michael Jay in the Foreign Office. Morel said rather hurriedly that the President was adamant that contact should be between personal collaborators: he would not want the talks to extend to specific and formal links with the Foreign Office. Foreign Ministries had their own counterparts. I reminded him that our structure was rather different. But we could easily arrange the discussions in such a way that they were conducted on a personal basis in No. 10 and/or the Cabinet Office. David Hadley might like to let me know when a first run with Caroline de Margerie would be possible.

Separately, Ewen Fergusson has told me that Admiral Lanxade is keen to have another round of contacts. I am following this up.

I am copying this letter to Simon Webb (Ministry of Defence) and to David Hadley (Cabinet Office).

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL AND PERSONAL

AMBASSADE DE FRANCE
LONDRES

CDL (2)

L'AMBASSADEUR

February 15, 1991

N° 415

Prime Minister
I have done a
translation

Dear Prime Minister, CDL 15/2.

I have just received the text of a message, the original of which will be sent to you shortly, addressed to you by Monsieur François Mitterrand, Président de la République.

I enclose it herewith.

yours faithfully

Bernard Dorin

Bernard Dorin

The Rt.Hon.John Major, MP
Prime Minister
10 Downing Street
LONDON S.W.1

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 77/91

UNOFFICIAL TRANSLATION

Subject cc Master
OPS

Dear Prime Minister,

I have read with interest your letter of 1 February following up our talk on 14 January about the handling of regular contacts between our personal advisers. I am quite happy to abide by the division of tasks which you propose. It seems to me entirely appropriate.

So far as defence questions are concerned, in particular nuclear cooperation and European defence matters, I propose that M. Hubert Vedrine [spokesman and formerly adviser on international security matters], Admiral Lanxade [defence adviser] and Pierre Morel [diplomatic adviser] will conduct the discussions from our side. The European Community affairs will be dealt with by Caroline de Margerie [advisor on European affairs to the President] and I am asking Pierre Morel to keep an oversight of the discussions as a whole in consultation with Sir Charles Powell.

May I take this opportunity of saying once again how much I appreciated our meeting last month. In the expectation of having the pleasure of seeing you very soon, I send you my best wishes.

Début de citation :

"Monsieur le Premier Ministre,

C'est avec intérêt que j'ai pris connaissance de votre lettre du ler février qui donne suite à notre conversation du 14 janvier dernier sur l'organisation d'échanges réguliers entre nos collaborateurs personnels.

Je reprends bien volontiers la répartition que vous proposez et qui me parait tout à fait appropriée .

S'agissant des questions de défense, notamment pour la coopération nucléaire et pour l'Europe de la Défense, je propose que M.Hubert Vedrine, l'Amiral Lanxade et Pierre Morel mènent les discussions de notre côté.

Quant aux affaires concernant la Communauté Européenne, elles seront traitées par Mme Caroline de Margerie.

Je demande enfin à M.Pierre Morel d'assurer la ccordination de ces contacts, en liaison régulière avec Sir Charles Powell.

Je saisis à mon tour cette occasion pour vous redire combien j'ai apprécié notre entretien du mois dernier. En attendant le plaisir de vous revoir, je vous prie d'agréer, Monsieur le Premier Ministre, l'expression de mes sentiments les mielleurs et de mon cordial souvenir.

Signé : François Mitterrand

Fin de citation"

FRANCE. Rels Pt 5

LE PRÉSIDENT DE LA RÉPUBLIQUE

Paris, le 14 février 1991

Monsieur le Premier Ministre,

C'est avec intérêt que j'ai pris connaissance de votre lettre du 1[illegible] février qui donne suite à notre conversation du 14 janvier dernier sur l'organisation d'échanges réguliers entre nos collaborateurs personnels.

Je reprends bien volontiers la répartition que vous proposez et qui me parait tout à fait appropriée.

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Quant aux affaires concernant la Communauté européenne, elles seront traitées par Madame Caroline de Margerie.

Je demande enfin à M. Pierre Morel d'assurer la coordination de ces contacts, en liaison régulière avec Sir Charles Powell.

Je saisis à mon tour cette occasion pour vous redire combien j'ai apprécié notre entretien du mois dernier. En attendant le plaisir de vous revoir, je vous prie d'agréer, Monsieur le Premier Ministre, l'expression de mes sentiments les meilleurs et de mon amical souvenir

François Mitterrand

François MITTERRAND

Monsieur John MAJOR
Premier Ministre de Grande-Bretagne

CONFIDENTIAL

KW

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 February 1991

ANGLO-FRENCH CONTACTS

I enclose President Mitterrand's reply to the Prime Minister's recent message about contacts between the Elysée and Whitehall.

I am copying this letter and enclosure to Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

CHARLES POWELL

Richard Gozney Esq
Foreign and Commonwealth Office

CONFIDENTIAL

MRH

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

7 February 1991

Dear Charles,

Prime Minister's Meeting with the French Ambassador: Contacts with the Iraqi Opposition

Your letter of 4 February records the Prime Minister as telling the new French Ambassador that he was unaware of any contacts with the Iraqi opposition.

You should know that we have had a number of meetings over the last few weeks with Iraqi opposition groups at senior official level. These followed the adoption by these groups at the end of last year of a common platform aiming at a democratic Iraq post-Saddam Hussein. Through the meetings we have set out the limited nature of our objectives in the conflict and encouraged the emergence of a non-military alternative to Saddam.

The Foreign Secretary believes that these contacts have been useful. They have attracted favourable publicity in the serious press (which is presumably where Dorin caught sight of them). He proposes that they should continue. There is no question of our recognising the opposition groups as a sort of government-in-exile. If they can put together a plausible team, which includes Iraqi exiles who are neither corrupt nor terrorists, the Foreign Secretary would not exclude receiving them at the Ministerial level.

However,

(S L Gass)
Private Secretary

Sir Charles Powell KCMG
10 Downing Street

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INFO PRIORITY OTHER MIDDLE EAST POSTS

FROM PRIVATE SECRETARY
SECRETARY OF STATE'S TALK WITH FRENCH FOREIGN MINISTER:
7 FEBRUARY
SUMMARY

1. IN TALKS LASTING 75 MINUTES (SHORT TETE-A-TETE AND WORKING LUNCH) IN LONDON ON 7 FEBRUARY, THE SECRETARY OF STATE AND THE FRENCH FOREIGN MINISTER, ROLAND DUMAS, DISCUSSED:

- POST-WAR ARRANGEMENTS IN THE GULF AND MIDDLE EAST
- QUAI SECRETARY-GENERAL SCHEER'S VISIT TO IRAN
- IRAQ INTERNAL
- GULF WAR AIMS
- JORDAN
- MAGHREB
- UK/FRENCH PRESS REACTIONS
- EUROPEAN COMMUNITY: THE IGCS
- TETE-A-TETE: G7 POLITICAL DIRECTORS, PROTECTION FOR THE FRENCH AMBASSADOR IN LONDON, AND THE ELF/AMOCO UK MERGER.

2. THE TALKS FOLLOWED ON FROM THE SECRETARY OF STATE'S MEETING WITH DUMAS IN PARIS ON 24 JANUARY. DUMAS WAS MORE RELAXED, OPEN AND HUMOROUS. HE AND THE SECRETARY OF STATE FLESHED OUT A LITTLE MORE THEIR MAIN LINES OF THINKING ON THE POST-WAR ISSUES. THEY AGREED THAT UK AND FRENCH OFFICIALS SHOULD MEET TO PURSUE THEM IN MORE DETAIL.

3. ON EUROPE, DUMAS SOUGHT OUR INITIAL REACTION TO THE FRANCO-GERMAN PAPER ON CFSP. THE SECRETARY OF STATE UNDERTOOK TO RESPOND LATER WITH SOME CONSIDERED, PERSONAL REACTIONS.

DETAIL

POST-WAR ARRANGEMENTS IN GULF AND MIDDLE EAST

4. THE SECRETARY OF STATE SAID THAT HE HAD BEEN GIVING THESE ISSUES MUCH THOUGHT SINCE THEIR MEETING IN PARIS. HE SAW THREE MAIN CHALLENGES. FIRST, INITIAL SECURITY IN THE GULF. THE LOCAL STATES WERE THINKING IN TERMS OF US, UK AND FRENCH

GUARANTEES. THE KUWAITIS WANTED THESE TO BE ON A BILATERAL BASIS. THIS WAS UNREALISTIC. SECOND, THE WIDER SECURITY FRAMEWORK REQUIRED IN THE REGION. THIS WAS RELATED TO SOME OF THE CSCM IDEAS WHICH HE KNEW DUMAS HAD BEEN EXPLORING WITH DE MICHELIS AND OTHERS. THIRD, THERE WAS ARAB/ISRAEL. IT WAS NOW CLEAR TO HIM THAT THE US WANTED TO PURSUE THIS THROUGH QUIET DIPLOMACY WITH NO PRECIPITATE MOVE TO AN INTERNATIONAL CONFERENCE. HE HAD TOLD SECRETARY BAKER THAT QUIET DIPLOMACY ALONE WAS NOT AN OPTION BECAUSE OF PUBLIC DEMAND FOR MORE VISIBLE ACTION. EXPECTATIONS FOR EARLY POST-WAR ACTIVITY ON ARAB/ISRAEL WERE HIGH. IN ALL THESE AREAS, OUR THINKING WAS STILL VERY PRIMITIVE. MORE WORRYING WAS THAT ARAB IDEAS WERE ALSO UNDEVELOPED.

5. DUMAS AGREED THAT THERE WAS GREAT DEMAND ALREADY FOR GOVERNMENTS TO BE THINKING ABOUT POST-WAR ISSUES. PRESIDENT MITTERRAND WOULD BE ADDRESSING THE NATION THAT EVENING, PARTLY TO RESPOND TO THIS DEMAND. HE WOULD BE SETTING OUT SOME BROAD IDEAS. THE POST-WAR ARRANGEMENTS IN THE REGION WOULD NEED TO BE BASED ON CERTAIN PRINCIPLES:

- REGIONAL STABILITY
- GREATER ECONOMIC COOPERATION
- RESPECT FOR INTERNATIONAL FRONTIERS
- RESTORATION OF SOVEREIGNTY
- CONTROL OF ARMAMENTS AND ARMS SALES.

MITTERRAND WOULD PUT THE CASE FOR A CONFERENCE, IN WHICH THESE ISSUES AND PRINCIPLES COULD BE DISCUSSED, AND WHICH WOULD ESTABLISH GUIDELINES.

6. DUMAS CONTINUED THAT ANY AGREEMENTS IN THESE AREAS WOULD NEED TO BE GUARANTEED. THE FRENCH SAW A PARTICULAR ROLE FOR THE PERMANENT FIVE AND WOULD NOT EXCLUDE AN EVENTUAL MEETING OF HEADS OF GOVERNMENT OF THE FIVE. THE AGENDA OF THE INTERNATIONAL CONFERENCE WOULD INCLUDE ARAB/ISRAEL, LEBANON AND THE GULF. EACH ISSUE WOULD HAVE ITS OWN SEPARATE INTERNAL STRUCTURE. IT WAS NOT POSSIBLE TO AVOID RAISING THESE ISSUES (THE SECRETARY OF STATE AGREED). IN PARTICULAR, ISRAEL COULD NOT BE ALLOWED TO STAND ON THE STATUS QUO OR TO CONTINUE TO DENY THAT THEY HAD ANY VALID PALESTINIAN INTERLOCUTORS.

7. THE SECRETARY OF STATE SAID THAT HE SAW THE ISSUES SIMILARLY. PALESTINIAN REPRESENTATION HAD TO BE RESOLVED OR IT WOULD BE A ROCK WHICH WOULD SINK EVERY SHIP WE LAUNCHED. EVEN THE SHAMIR PLAN HAD FORESEEN A PROCESS INVOLVING CONTACTS WITH PALESTINIANS. OUR THOUGHTS WERE TURNING TOWARDS FINDING PALESTINIAN REPRESENTATIVES THROUGH AN ELECTORAL PROCESS. HE HAD ASKED OFFICIALS TO THINK THIS THROUGH MORE PRECISELY. HE

HOPED UK AND FRENCH OFFICIALS COULD GET TOGETHER TO EXPLORE THE OPTIONS IN DETAIL.

8. DUMAS ASKED WHETHER WE FORESAW DISCUSSION AMONG THE TWELVE. FRANKLY, THE ONLY REAL PLAYERS IN THE MIDDLE EAST WERE THE US AND, AMONG THE EUROPEANS, THE UK AND FRANCE. BUT FOR FORM'S SAKE, IT WAS IMPORTANT TO INCLUDE THE TWELVE.

9. THE SECRETARY OF STATE SAID HE HAD A VERY STRONG IMPRESSION THAT ANY ATTRACTION WASHINGTON HAD SEEN IN INVOLVING THE FIVE HAD NOW WANED - LARGELY BECAUSE OF US UNCERTAINTIES ABOUT THE SOVIET ROLE. BUT THE WHOLE ISSUE OF GUARANTEES RAISED BIG PROBLEMS. WOULD FRANCE REALLY BE WILLING TO GIVE SUCH GUARANTEES AS DUMAS HAD DESCRIBED? THE BRITISH GOVERNMENT HAD NOT EXPLORED THIS QUESTION. IT WOULD BE A BIG STEP TO GUARANTEE FRONTIERS IN THE ARAB WORLD.

10. DUMAS SAID THAT HE HAD NOT DISCUSSED THIS WITHIN THE FRENCH GOVERNMENT, ONLY WITH PRESIDENT MITTERRAND HIMSELF, WHO WAS OPEN TO THE IDEA. THE ISSUE AT THE START OF A CONFERENCE WOULD BE WHETHER WE WERE PREPARED TO CONSIDER GUARANTEES IN PRINCIPLE. WHAT THOSE GUARANTEES MIGHT BE IN DETAIL WOULD DEPEND ON WHAT WAS AGREED AT THE CONFERENCE. THE FRENCH AT THIS STAGE DID NOT EXCLUDE SUCH GUARANTEES.

11. DUMAS ADDED THAT THE SOVIET UNION HAD BEEN HAPPY, AT LEAST WHEN SHEVARDNADZE WAS FOREIGN MINISTER, TO GO ALONG WITH US IDEAS FOR A BILATERAL APPROACH TO THE REGION. THE BAKER/BESSMERTNYCH STATEMENT ON THE GULF SHOWED THAT THIS MIGHT CONTINUE. BUT FRANCE AND THE UK COULD NOT LET THEMSELVES BE EXCLUDED IN THIS WAY. THE SECRETARY OF STATE SAID HE WAS NOT YET CLEAR ABOUT BESSMERTNYCH APPROACH. THE STATEMENT MIGHT NOT BE A GOOD INDICATOR - PRESIDENT BUSH AFTER ALL HAD NOT BEEN AWARE OF IT EITHER.

12. IN ANSWER TO A QUESTION, DUMAS CONFIRMED THAT THE INTERNATIONAL CONFERENCE, IN THE FRENCH CONCEPTION, WOULD BE CONVENED UNDER THE AEGIS OF THE UNITED NATIONS. ANY CONFERENCE WOULD ALSO NEED VERY CAREFUL PREPARATION. THE QUESTION WAS WHO SHOULD DO THIS. FRANCE'S ANSWER WAS THE PERMANENT FIVE. BUT THE US RESISTED BECAUSE OF ISRAELI FEARS THAT THE INTERNATIONAL CONFERENCE WOULD FOCUS EXCLUSIVELY ON THE ISSUE OF WITHDRAWAL. BUT THIS WAS NOT TRUE - IT WOULD BE ONLY ONE ITEM ON THE CONFERENCE AGENDA. AN ISRAELI-INSPIRED INTERDICTION ON DISCUSSION OF THIS ISSUE COULD NOT BE TOLERATED.

13. THE SECRETARY OF STATE AGREED THAT AS SOON AS THE FIGHTING ENDED, WE HAD TO SHOW THAT WE WERE ACTIVE ON ARAB/ISRAEL. IT WOULD NOT BE SAFE TO ALLOW A GAP. BUT HE WAS WORRIED ABOUT HOW TO LAUNCH THIS ACTIVITY. HE HAD DISCUSSED IT BY TELEPHONE WITH

SECRETARY BAKER BUT IT COULD NOT BE TAKEN FAR WITH THE US NOW. THEIR OFFICIALS WERE OVERWHELMINGLY TAKEN UP WITH THE CONDUCT OF THE WAR. BAKER'S EVIDENCE TO CONGRESS YESTERDAY WAS THE FIRST SIGN OF US THINKING. IT WAS URGENT TO ADDRESS THESE ISSUES, BECAUSE IN LITTLE MORE THAN A MONTH THEY MIGHT BE UPON US. THERE WERE SEVERAL OPTIONS: THE UK AND FRANCE COULD EXPLORE THE ISSUES IN DETAIL BETWEEN THEMSELVES, OR DUMAS, HE AND BAKER COULD TRY TO GET TOGETHER, OR THEY COULD BRING IN THE FRG AS WELL, WHO HAD NO MILITARY BUT AN IMPORTANT ECONOMIC ROLE. OF COURSE, ALSO, WE HAD TO LOOK FOR IDEAS FROM THE REGION. BUT HE DID NOT FEEL, FRANKLY, THAT INVOLVEMENT OF THE PERMANENT FIVE WOULD BE POSSIBLE AT THIS STAGE.

14. DUMAS AGAIN REHEARSED THE DIFFICULTIES. EACH OF THE REGIONAL PLAYERS HAD INCOMPATIBLE IDEAS ON WHAT SHOULD BE ADDRESSED URGENTLY AND WHAT HAD TO BE EXCLUDED FROM DISCUSSION. BUT THE WEST HAD TO TACKLE THIS. OUR FORCES WERE NOW FIGHTING, AND WOULD SOON BE DYING, IN THE GULF. WE COULD NOT REPEAT THIS EXERCISE EVERY 10 YEARS. THE SECRETARY OF STATE AGREED BUT WHAT WOULD BE THE BEST MECHANISM? HE HAD SPOKEN IN BRUSSELS ON 4 FEBRUARY OF ACTIVATING THE EC/US DECLARATION, IE WITH A MEETING OF BAKER AND THE TWELVE FOREIGN MINISTERS. THERE WERE THE OTHER OPTIONS HE HAD ALREADY DESCRIBED. PERHAPS BRITISH AND FRENCH OFFICIALS SHOULD TRY TO FIND A FORMULA. DUMAS AGREED THAT EXPERTS SHOULD MEET, PERHAPS 3 OR 4 ON EACH SIDE, TO EXPLORE ALL THIS IN GREATER DETAIL. (DUMAS AFTERWARDS TOLD THE PRESS HE ENVISAGED CLOSE BILATERAL CONSULTATIONS ON A RANGE OF ISSUES, INCLUDING THE GULF.)

15. FOR OTHER ISSUES, SEE MY 3 IFTS.

HURD

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 February 1991

ANGLO-FRENCH RELATIONS

Pierre Morel, the new Diplomatic Adviser to President Mitterrand, telephoned me at lunch time today. He had three points to make.

First he wanted me to know that President Mitterrand would be speaking on television this evening and answering questions, principally about the Gulf. In response to an expected question about how France would retaliate for a CW attack, he would make clear that France itself had no chemical weapons and did not envisage use of nuclear weapons in the context of the Gulf. (Morel cautioned that he did not know exactly what the President would say but believed it would be on these lines.) I said this was not dissimilar from what the Prime Minister had said in the House of Commons, although the Americans had preserved a greater degree of uncertainty.

Secondly, Morel said that he would like to come and talk to me on Tuesday next week about the Gulf situation, while en route to Washington. I said that he would be very welcome.

Third, Morel said that the President had been grateful for the Prime Minister's message about the organisation of contacts between the Elysée and senior British officials. It might take them a little time to organise a reply, but basically they were well content with what was proposed.

I am copying this letter to Simon Webb (Ministry of Defence) and to Sonia Phippard (Cabinet Office).

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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INFO ROUTINE BONN, UKREP BRUSSELS

YOUR TELNO 79 : FRANCO-BRITISH SUMMIT

1. WE HAVE FED IN THE DATES SUGGESTED IN TUR TO THE QUAI SOUS DIRECTEUR RESPONSIBLE FOR THE PREPARATIONS. HE SAID THAT THE ELYSEE ARE LIKELY TO PROPOSE DATES IN APRIL OR MAY, AND THEREFORE THAT DATES IN MARCH, LET ALONE FEBRUARY, WOULD BE TOO EARLY. DESCOUEYTE ARGUED THAT WE SHOULD NOT MOVE FASTER THAN SUMMITS AT YEARLY INTERVALS. WE REPLIED THAT THE 1989 SUMMIT HAD BEEN HELD IN FEBRUARY, BUT HE SAID SIMPLY THAT THE ELYSEE PREFERRED THE SPRING (CERTAINLY THE EXCELLENT MAY WEATHER AT THE WADDESDON SUMMIT HELPED THE ATMOSPHERE OF THAT OCCASION). DESCOUEYTE CONTINUED THAT THE FRENCH HAD IN MIND A MAJOR EVENT THIS TIME ROUND, WHEN THE AIM SHOULD BE TO MOVE RELATIONS UP TO A NEW LEVEL. THERE WOULD HAVE TO BE THOROUGH PREPARATION, INCLUDING ADVANCE MEETINGS BETWEEN THE NEW CO-ORDINATORS. IT WAS ALSO THE ASSUMPTION THAT THE SUMMIT SHOULD TAKE STOCK OF THE GULF AND MIDDLE EAST SITUATION AFTER THE WAR. ALL THIS ARGUED FOR DATES AFTER EASTER AT THE EARLIEST.

COMMENT
2. I AM NOT AT ALL SURPRISED AT THIS CAUTIOUS REACTION AND I DO NOT RECOMMEND THAT WE PRESS THE ELYSEE FOR EARLY DATES, UNLESS THERE ARE STRONG SUBSTANTIVE ARGUMENTS AGAINST APRIL/MAY. DESCOUEYTES' REACTION IS MORE THAT A RELUCTANCE TO TRY TO CRANK UP THE MACHINE EARLIER THAN THE QUAI WERE EXPECTING. THERE CLEARLY HAS BEEN SOME GENERAL GUIDANCE FROM THE PRESIDENT'S OFFICE ON TIMING (QUITE POSSIBLY, KNOWING MITTERRAND'S ATTENTION TO SUCH DETAILS, MOTIVATED BY A DESIRE TO MIRROR WADDESDON). WE HAVE MADE THE POINT THAT DIARIES WILL ALREADY BE FILLING UP FOR THE POST EASTER PERIOD, AND THE QUAI HAVE SAID THAT THEY WILL COME FORWARD WITH DATES SOON.

3. AS TO SUBSTANCE, APRIL/MAY SEEM TO ME AS GOOD AND PROBABLY BETTER THAN MARCH FOR A GOOD DISCUSSION OF THE VARIOUS SECURITY ISSUES, BOTH RELATING TO THE GULF AND TO EUROPEAN DEFENCE AND THE ALLIANCE.

4. IT WOULD BE USEFUL NOTWITHSTANDING TO FEED IN OUR IDEAS ON MINISTERIAL ATTENDANCE. THE PRESENT FRENCH PRESUMPTION AT OFFICIAL

LEVEL IS THAT WE SHALL FAVOUR 4 OR 5 MINISTERS A SIDE RATHER THAN A FRANCO-GERMAN STYLE BLOCKBUSTER (BUT MITTERRAND GREATLY PREFERS THE SMALL SCALE FORMAT AS WE WERE TOLD AFTER WADDESDON) DESCOUEYTE HIMSELF SAID THAT THEY WERE THINKING IN TERMS OF ATTENDANCE BY FOREIGN INTERIOR AND DEFENCE MINISTERS, BUT THEY HAD AN OPEN MIND.

FERGUSSON

YYYY

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10 DOWNING STREET
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From the Private Secretary

3 February 1991

Dear Christopher,

ANGLO-FRENCH CONTACTS

Thank you for your letter of 1 February, proposing a response to President Mitterrand's suggestions for Anglo-French contacts involving in particular his staff at the Elysée. The Prime Minister was broadly content with this. I enclose his letter to President Mitterrand, and should be grateful if the Embassy in Paris would secure its early delivery.

Yours sincerely,

Charles Powell

CHARLES POWELL

Christopher Prentice Esq
Foreign and Commonwealth Office

SECRET

ccPC

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

1 February 1991

Dear Charles,

Courtesy Call by New French Ambassador

The new French Ambassador, M Bernard Dorin, is seeing the Prime Minister on 4 February at 3.30 pm. I enclose M Dorin's CV, as requested in Sandra Phillips' letter of 8 January.

M Dorin is close to President Mitterrand and has a good reputation at the Quai d'Orsay. The Foreign Secretary took to him when he called here a week or so ago.

Gulf

The Prime Minister may wish to express satisfaction at the cooperation between us and the French since hostilities began (coordinated Jaguar missions, briefing in Paris).

President Mitterrand is likely to continue to look for ways of staking out a distinct French diplomatic posture in the next few weeks. The Secretary-General of the Quai d'Orsay, M Scheer, has visited Maghreb capitals and was in Tehran this week. French claimsthat Scheer's presence in Tehran (at the same time as the Iraqi Deputy Prime Minister and emissaries from Algeria and Yemen) was for routine bilateral business are not convincing.

The Prime Minister may like to emphasise the need for the Permanent Members of the Security Council to work together as closely as possible. The Iraqis should be given no encouragement to expect a ceasefire until they fulfill the Security Council Resolutions. The Prime Minister might also say that we wish to discuss with the French and others arrangements for regional security after Iraqi withdrawal. The Foreign Secretary valued his recent discussion with M Dumas on this and we shall wish to continue the dialogue as our thinking develops.

On other subjects the Prime Minister might draw on the following:

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WEU

- A unique chance in 1991 for new links between NATO, the Twelve and the WEU. Valuable role for WEU (M Dorin is French Representative on the WEU Council).

- The result should strengthen the European role in defence and preserve a strong alliance.

EC

- Should remain in close contact throughout both IGCs. Considerable agreement on political union, eg role of European Council and European Parliament. On EMU, meeting with President Mitterrand confirmed that British proposals were closer to France's view than originally thought.

- Should not lose sight of urgent need for GATT agreement. EC must negotiate constructively on agriculture. Believe US committed to achieving a solution.

M Dorin is in temporary accommodation at 23 St James's Place after a serious fire at the French Residence in January. Extensive rebuilding work will be necessary: the Residence is unlikely to be inhabitable for the next two years.

Yours ever,

Christopher Prentice.

(C N R Prentice)
Private Secretary

Sir Charles Powell
10 Downing Street

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BIOGRAPHICAL NOTE

BERNARD DORIN, FRENCH AMBASSADOR

1. M Bernard Dorin was born at Beauvais (Oise), France, on 25 August 1929. He married Christine du Bois de Meyrignac on 13 September 1971. They have four children (Hélene, Sophie, Philippe and Alban).

2. M Dorin studied at the law and literature faculties of Lyons and Paris. He has a degree from the Institut d'Etudes Politiques and is a former student of the École Nationale d'Administration. He has also studied at Harvard University.

3. M Dorin began his career as Attaché at the French Embassy at Ottawa (1957-59). From 1959-69 he held various administrative positions in Paris, including as Technical Counsellor to the Minister of Information, Education, and Research. After a year at Harvard University, he returned to Paris as a Private Secretary to the Personnel and Administration Director. He was appointed Ambassador to Port-au-Prince (1972-75); returned to the Quai d'Orsay as Deputy Director of Francophone affairs (1975-78); and then served as Ambassador at Pretoria (1978-81). After a spell in Paris as Americas Director (1981-84) he was appointed Ambassador at Brasilia (1984-87) and finally Tokyo (1987 to 1990). He arrived in London on 3 January 1991.

4. M Dorin holds the following French honours: Officier de l'Ordre National du Mérit; Officier de la Légion d'Honneur; Commandeur des Palmes Académiques; Chevalier des Arts et des Lettres; Officier du Mérite Agricole.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T40/91

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

1 February 1991

Dear Mr. President,

When we met in Paris on 14 January you made a number of interesting suggestions for reinvigorating Anglo-French cooperation; and you suggested that we should both involve our personal staff. I welcomed that, and would now like to suggest to you how we should proceed.

On the important question of Anglo-French defence and nuclear cooperation and the wider European context for that, I welcome your suggestion that there should be further discussions between British officials and Admiral Lanxade. I would envisage those discussions including members of my staff at No.10 Downing Street (Sir Percy Cradock and Sir Charles Powell) as well as senior officials in the Foreign Office and Ministry of Defence. The point of contact on our side would be Mr. Len Appleyard in the Cabinet Office.

For discussion of European Community questions, and in particular EMU and political union, I suggest that we continue the excellent contacts between Mme. Guigou and the Foreign Office Minister of State, Mr. Tristan Garel-Jones.

I shall ask Sir Charles Powell in my office, to keep me fully informed of the progress of these talks in the way that you suggested. I would like him to be in regular touch with whoever you nominate from your own personal staff.

May I take this opportunity to say once again how much I valued our discussions in Paris on 14 January: and how much I look forward to continuing these exchanges.

Yours sincerely,
John Major

His Excellency Monsieur le President François Mitterrand, G.C.B.

(1)

8

PRIME MINISTER

ANGLO-FRENCH CONTACTS

When you met President Mitterrand in Paris, he proposed to institute regular contacts between his personal advisers and yours. You agreed to pursue this.

The attached letter from the Foreign Secretary makes a number of proposals, in particular:

- contacts with Admiral Lanxade, Mitterrand's defence adviser, should be with Mr. Appleyard of the Cabinet Office supported by senior FCO and MoD officials;

- contacts on EMU and political union should be channelled through Mme. Guigou, Minister for European Affairs, and Tristan Garel-Jones (who believes that Mme. Guigou is hopelessly smitten with him);

- and that I should be the point of contact for members of his personal staff, notably Ann Lauvergeon and Caroline de Margerie.

Why? And is it right? And does Catherine know ???

I think this is generally all right, although the arrangements should not stop either Admiral Lanxade or Elizabeth Guigou coming into No.10 as well to see Percy Cradock and myself (and eventually Stephen Wall). If you agree, you may like to sign the attached letter to President Mitterrand.

CDP

(C. D. POWELL)
1 February 1991
c:\wpdocs\foreign\anglo (srw)

7(A-B)
cc

Foreign and Commonwealth Office

SECRET

London SW1A 2AH

1 February 1991

Jean Charles,

Anglo-French Contacts

Your letter of 14 January about the Prime Minister's meeting with President Mitterrand included the President's suggestion that ways should be found to give more concrete form to ideas for Anglo-French cooperation and that there might be contact between members of the President's and Prime Minister's staff to ensure and over-arching view.

The Foreign Secretary discussed the matter further on 24 January with M. Dumas, who was present during the earlier discussion between President Mitterrand and the Prime Minister. We suggest the following approach in response to President Mitterrand's suggestion.

Both sides agreed in Paris on 14 January that there should be further contacts with Admiral Lanxade on Anglo-French nuclear cooperation and the possible implications for the ASLP missile. The Foreign Secretary thinks we should put a proposal to President Mitterrand about establishing this dialogue. On our side, we would envisage a UK team led by the Cabinet Office, supported by senior MOD and FCO officials.

The President also spoke of the need for Britain and France to compare notes on EMU and political union. The Foreign Secretary is in favour of the existing channel between Tristan Garel-Jones and the French Minister for Europe, Mme Guigou, who enjoys President Mitterrand's full confidence. This would be underpinned by FCO/Quai talks at official level and would be supplemented by the long-standing Cabinet Office/FCO talks with the Elysee.

Finally, President Mitterrand said that members of his personal staff might from time to time talk to the Prime Minister's nominee to ensure the over-arching view. The Foreign Secretary learned from M. Dumas that on the French side this would mean either the newly appointed Assistant Secretary General in the Elysee, Ann Lauvergeon (who is to take over as the new French Sherpa) or the President's recently appointed diplomatic adviser Caroline de Margerie. M. Dumas described this new arrangement as a sign of President Mitterrand's personal interest.

His nominee is naturally for the Prime Minister to decide. As seen from here, the Foreign Secretary believes

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that the best person to reciprocate the spirit of the President's suggestion might be you and, later, Stephen Wall.

We probably owe President Mitterrand a message. I enclose a draft.

Yours ever,

(R H T Gozney)
Private Secretary

Sir Charles Powell
10 Downing Street

SECRET

1. Gulf Co-ord.
2. Pres. M., Paris, Press.,
3. W.E.U.
4. IGC's – Pol. EP., EC Adm. EHU Eu.
+ W.E.U.

PRIME MINISTER

5. GATT.
6. Come in Regularly.

MEETING WITH THE FRENCH AMBASSADOR

You are to see the new French Ambassador on Monday afternoon. He has been here about a month. I do not myself know M. Dorin. He has served as Ambassador in Haiti, Brazil and Japan. The Foreign Secretary took to him when they met last week. I have heard others say he is a bit of a pedant.

The French Ambassador's house in Kensington Palace Gardens has been extensively rebuilt over the last six months. Unfortunately, it was then destroyed by fire in January, as a result of which the French Ambassador is in temporary accommodation in St. James's Place. You will want to commiserate.

You might then say how very much you have valued your two meetings with President Mitterrand in Rome, first and then over lunch in Paris recently. Some of the press comment following the last minute French peace initiative was unfortunate and certainly received no encouragement from the Government. But we have deliberately drawn a line under that, and you do not intend to reply to the President's letter. Rather, you are writing to him to take forward the proposal which he put to you for much closer contact between his personal advisers and officials at No. 10 and elsewhere in Whitehall. You think it is an excellent idea and want to be kept in close touch with the discussions yourself. In that context, you might also welcome the fact that the new Defence Minister came to London within a day or two of his appointment. We were delighted to see him and defence is certainly a prime area for co-operation.

You might then go on to talk a bit about our views on the Gulf and the need for the Allies to keep in very close step, in particular about the conditions under which a ceasefire might become possible: and about the post-conflict security arrangements for the Gulf. It would be a very great pity, and

undo much of the good work of recent weeks, if we were to be confronted with another French private enterprise peace initiative. We hope they will keep us in very close touch with their thinking.

Two other issues on which you will want to touch are first the European Community, where you might make some reference to President Mitterrand's positive attitude to our proposals for a hard ECU. Secondly, you will want to mention the GATT negotiations and the vital importance of securing agreement before the deadline for the fast-track expires. Despite some recent comments, our understanding is that the deadline is very much a factor: it would be extended only if an agreement was virtually in place and nothing more than the final details remained to be written up.

All that should be enough to enable him to write a creditable telegram back to Paris about his first meeting with you.

C.D.P.

C. D. POWELL

1 February 1991
c:\foreign\french (slh)

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

MO 14/4S

1 February 1991

Dear Christopher,

VISIT BY FRENCH DEFENCE MINISTER

M Joxe paid a initial visit to the Defence Secretary today. This was curtailed to an hour by a summons to return to Paris to discuss a US request for overflying rights for B52s and basing of supporting tankers.

M Joxe arrived after visiting a French Airforce Jaguar base this morning where he made positive remarks to the press about co-operation between Britain and French airforces (our Defence Attache was in his party). During a photo call on arrival M Joxe spoke warmly about Anglo-French relations and common interests in the Gulf - dodging questions about what French diplomatists were doing in Iran.

During a tete-a-tete with the Defence Secretary, which occupied most of the available time, discussion centred on the Gulf. Mr Joxe, though obviously new to military affairs, showed a distinctly more supportive outlook than his predecessor.

The Defence Secretary said that the recent engagement in Khafji had been a useful introduction for the Saudis and Qataris. It looked as though the Allies had had much the best of the engagement with casualties of 20 compared to 350/400 Iraqi casualties or prisoners taken. The problem was getting the press to take a sensible view of Saddam Hussein's claims that this was some great victory for Iraq.

M Joxe referred in positive terms to the air campaign and the involvement of Jaguars. He found it difficult to discern how far the Allies were making an impact on Iraqi ground forces. The Defence Secretary commented that imagery of battle damage had been hard to get during recent periods of bad weather, but the air campaign did seem to be having a steadily mounting effect on Iraqi capability. There had been some spectacular successes (which prompted M Joxe to recall that 2,000 tons of munitions exploded in one recent raid). Nonetheless, the Iraqis probably still had over

Christopher Prentice Esq
Foreign and Commonwealth Office

90% of ammunition and other logistic depots for their ground forces intact and the air campaign would have to continue for some time.

M Joxe wondered whether it would be helpful or not for Saddam Hussein now to have returned to television. The Defence Secretary said that on the whole coverage had not been damaging. In particular, the precision of Allied bombing of Baghdad had been underscored by the press reporting (though this might have the side-effect of relieving pressure upon the civilian population).

In response to questions from M. Joxe, the Defence Secretary said that we were worried by CW attack by Iraq which might come on Scuds but more likely from artillery. We had vaccinated our forces against Anthrax and Plague but only had post-attack treatment available for Botulinum. There was a worry about whether such agents could be used by terrorists as well as normal forces.

At this point the conversation was interrupted by news of the early meeting of the French War Cabinet to discuss B52s. The Defence Secretary explained the UK had accepted the basing of 8 aircraft and 5 tankers. It would certainly shorten the mission time to targets in Iraq and Kuwait if the French could find their way to help.

The two Ministers agreed to meet again soon (M Joxe is visiting French forces in Saudi from 3rd to 5th February). The Defence Secretary said that although there had been difficulties from time to time in defence relations between France and Britain, interests were generally very close. M Joxe said, pointedly, that he had always thought that was the case. The Defence Secretary mentioned specifically the close relations between Sir Peter Levene and M. Sillard on equipment.

I am sending a copy of this letter to Sir Charles Powell (No 10), and Sonia Phippard (Cabinet Office).

Yours ever

Stuart Webb.

(S WEBB)
PS/S of S

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Prime Minister 6(a)

Useful background for your meeting with Mitterrand on Monday.

CDM 11/1

Jp 01260

SIR CHARLES POWELL

cc Mr Goulden, FCO
Mr Mottram, MOD
HM Ambassador, Paris
Air Commodore Adams, DA Paris

Meeting with Admiral Lanxade, 7 January 1991

I had a short meeting on 7 January with Admiral Lanxade, Military Adviser to President Mitterrand, and the new French Ambassador, Bernard Dorin. They were accompanied by Air Commodore Adams, our Defence Attaché in Paris.

Gulf

2. I asked Lanxade how the French saw the situation developing in the next few days. What was the likelihood of fresh initiatives? He said that the French analysis was that something positive might emerge from the Baker/Aziz talks. However, they thought there should be further initiatives and President Mitterrand was not prepared to exclude these. He would, however, be consulting President Bush and the Prime Minister. He agreed wholeheartedly when I emphasised the need for detailed consultation, especially between those countries with forces deployed in the Gulf area. He also agreed that it would be a very difficult manoeuvre to say something capable of influencing the Iraqis without appearing to reward aggression. France wanted to ensure that the approach was not so heavy that the door would become closed on any negotiations. He doubted whether Saddam would believe Baker; the French might be more readily believed. Any war would be exceptionally brutal and bloody. Although France was prepared to accept 1,000 casualties (10 per cent) he did not think that in Sadddam Hussein's eyes public opinion in the United States was ready for a comparable percentage.

[ho! hum!]

3. I asked whether Lanxade felt Saddam Hussein would withdraw or announce a withdrawal, or alternatively stand and fight. Reason dictated the first option, but with each day that passed, he seemed to be painting himself further into a corner. Lanxade said that the French had the impression that Saddam might take some action just before the deadline to avoid a total rupture, but he was taking a grave risk. The Ambassador added that perhaps Saddam saw himself in the role of a martyr; after the rest of the Arab world saw the destruction in Iraq wrought by an allied offensive, they would rally to his cause. Lanxade felt there might be sympathy following the destruction of Iraq's industrial capacity which had taken some 20 years to establish.

4. Lanxade was at great pains to stress that there should be no doubts about French participation if it came to war. Clear authorisation had been given to undertake joint planning for the use of force against Iraq. Public opinion in France was not entirely solid, but this factor had been taken into account.

European Security

5. Turning to European security, I asked for Lanxade's views, emphasising that it was our wish to work very closely with France to achieve a suitable compromise which would cater for a European defence identify but also preserve the NATO Alliance and keep the United States in Europe. Without US forces, defence arrangements for Europe would become a theoretical structure only. Lanxade agreed that the Alliance and US presence must be maintained. Nevertheless, with aspirations for political union, Europe should take action itself in defence matters using the WEU as a vehicle. We must not have a point of contention where the Alliance was played against European defence aspirations. The US must not force our hands. France

wanted the roles of the Alliance to continue for deterrence against a Soviet threat and maintaining European stability. She did not like the idea of it being used for other problems. The Turkish request was a case in point: some European countries had been obliged, perhaps reluctantly, to become involved in the name of the Alliance for a purpose nothing to do with countering Soviet aggression. The WEU should be the basis for this. If we did not develop some form of dynamic and credible European defence identity, Germany would find a role of her own.

6. I said that I found his remarks encouraging; NATO would have to change, but there would have to be a gradual evolution and the pace should not be forced. We should not dismiss the idea of a threat from the Soviet Union. Despite the present flux there, the Russian Republic at least would remain the largest and best armed state in Europe and would probably retain the old Russian ambitions in respect of influence over Western Europe. NATO must not be allowed to become a moribund organisation like CENTO. It was the only organisation which justified for the United States their military presence in Europe. There was a danger of US isolationism; they must be handled carefully. Furthermore, without any corporate defence identity, European defence would be renationalised. WEU linked both to NATO and the EEC must provide the answer, but a clear distinction was needed between "security", which should remain predominantly at the political level, and "defence" at the military. I said I hoped we could move forward together in Europe and provide the right answers in the coming year. Lanxade expressed general agreement, though dissenting on the distinction between security and defence.

ASLP

7. I explained that we had not yet made a decision on an air-launched nuclear missile. There was a consensus in Whitehall that we had not talked to France enough at a

senior official level about the issues involved in ASLP. Lanxade felt such discussion would be productive and described in outline the French requirement. With ASMP in service now, a new system was not required theoretically until 2007. The choice which would confront the Defence Council meeting on 16 January was basically between continuing with surface/surface systems or developing ASLP. The latter would be required in service in 2002 for strategic use and "sub-strategic" later; this would necessitate work starting in 1992. The basis for any British requirement must be jointly discussed, as would the implications of any extension to cover air-portable weapons in Europe. From his perspective it was more important that we maintain nuclear weapons in Europe than that we work together on an indvidual weapon system, but the usefulness, politically and economically, of a collaborative programme should not be understated. We must make a decision in 1991. France was prepared to assist with warhead development. I said I was aware of the need for a decision in 1991; but before this Anglo-French talks to clarify the situation would be helpful.

Soviet Union

8. I asked Lanxade for his views on the Soviet Union following his recent visit to Moscow. The apparent move to the right - now manifested by the day's news of Yazov sending a division to the Baltic States - was disquieting. Lanxade was not sure how far the Soviet Army would go; there could be a political limit to its involvement. Yeltsin, for example, was looking for budgetary constraints on military funds. It was also very naive of the Soviet armed forces to believe they could bypass CFE by moving personnel and equipment to the Navy. France felt that the West should retain a prudent approach to the USSR. He added that during his visit he had detected their traditional fear of the Germans; they had begun to view with anxiety German movement east and the first signs of

potential co-operation between NATO and former Soviet allies. We should be cautious on this front. The problem was that at the same time East European countries were virtually obliged to look to the Germans for economic support.

PERCY CRADOCK

9 January 1991

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 January 1991

The new French Ambassador, M. Bernard Dorin, has requested a courtesy call on the Prime Minister, which has been pencilled into the diary on Wednesday 23 January at 1000 am.

It would be very helpful if you could let us have a short brief, including the Ambassador's CV, on 21 January.

(SANDRA PHILLIPS)

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

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DESIGNATION OF NEW PRIME MINISTER: FRENCH PRESS REACTIONS
SUMMARY
1. EXCEPTIONAL PROMINENCE GIVEN TO BRITISH POLITICS OVER LAST FORTNIGHT CONTINUES WITH DETAILED ACCOUNTS OF PRIME MINISTER'S ELECTION. INITIAL JUDGEMENTS: LIKELIHOOD OF SOFTER TONE AT HOME AND ABROAD, BUT GENERAL POLICY CONTINUITY AND NO YIELDING ON GULF. ATTITUDE TO EC EXPECTED TO BE MORE POSITIVE, BUT BRITISH OPPOSITION TO CERTAIN SPECIFIC PROPOSALS UNCHANGED.

DETAIL
2. THE SELECTION OF THE NEW LEADER OF THE CONSERVATIVE PARTY/PRIME MINISTER IS THE LEAD STORY IN MOST PAPERS AND ON MOST NEWS BULLETINS. MUCH IS MADE OF THE SUPPORT MR MAJOR ENJOYED FROM THE OUTGOING PRIME MINISTER, THE ENCOURAGEMENT SHE GAVE TO HIS CAREER AND HIS READINESS TO ASSOCIATE HIMSELF CLOSELY WITH HER POLICIES. HIS VICTORY IS DESCRIBED BY SEVERAL PAPERS AS HER ''REVENGE'' ON MR HESELTINE, AND THERE IS ALSO SOME COMMENT ON THE PARADOXES THAT THE LEADERSHIP ELECTION SYSTEM HAS THROWN UP.

3. ON CLOSER ANALYSIS MOST COMMENTATORS CONCLUDE THAT THE PRIME MINISTER'S RAPID AND SUCCESSFUL POLITICAL CAREER DENOTES REAL ABILITY AND THAT THERE COULD BE EARLY SIGNS OF AN APPROACH DISTINCT FROM MRS THATCHER'S. THE CONSERVATIVE PARTY IS SEEN TO HAVE APPOINTED A LEADER WHO EXEMPLIFIES THE VIRTUES OF HARD WORK AND SELF ADVANCEMENT. ''THE ACCESSION OF MR MAJOR.... SHOWS THE CAPACITY OF THE CONSERVATIVE PARTY TO RENEW ITS LEADERSHIP BY DIGGING DEEP INTO BRITISH SOCIETY'' (LE MONDE). THERE IS ADMIRATION FOR THE SPEED AND LACK OF RANCOUR WITH WHICH THE OTHER CONTENDERS WITHDREW FROM THE CONTEST IN THE CAUSE OF THE PARTY UNITY (A CONTRAST WITH THE CONTINUED INTRA-PARTY BICKERING HERE).

4. MR MAJOR'S FINANCIAL EXPERIENCE IS EMPHASISED. HIS DOMESTIC POLICIES ARE WIDELY EXPECTED TO FOLLOW THE GENERAL LINES OF MRS THATCHER'S BUT WITH MORE OF A VELVET GLOVE AROUND THE IRON HAND AND MORE INSTINCTIVE SYMPATHY FOR THE DISADVANTAGED AND CONCERN FOR THE PROBLEMS OF HEALTH AND EDUCATION.

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MDLIAN [illegible]44

5. WITH COMMENTATORS HERE EXPECTING NO CHANGE AT THE FOREIGN OFFICE, IT IS ASSUMED THAT BRITAIN WILL REMAIN FIRM OVER THE GULF. ON EUROPE, THE NEW PRIME MINISTER IS EXPECTED TO BE LESS COMBATIVE IN TONE AND READIER TO ACKNOWLEDGE THE VALIDITY OF ASPIRATIONS TOWARDS EUROPEAN UNITY. BUT IT IS GENERALLY AGREED THAT BRITAIN MAY PROVE LITTLE MORE ACCOMMODATING THAN BEFORE OVER THE METHODS OF THE TIMETABLE OF PROPOSALS DESIGNED TO FURTHER IT.

LLEWELLYN SMITH

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MR JAY

ADDITIONAL 4

PS NO 10.

NNNN

Nor G/R

A: FERGUSSON

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 October 1990

Our newspapers tell us that Elizabeth Guigou has been appointed Minister for European Affairs. Assuming this is true, I should be grateful if you could kindly pass on the enclosed personal letter of congratulations.

C. D. POWELL

Sir Ewen Fergusson, K.C.M.G.

The National Archives

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CONFIDENTIAL AND PERSONAL

Foreign and Commonwealth Office

London SW1A 2AH

30 March 1990

CDM 30/3

Dear Charles.

Anglo-French Relations

Thank you for your letter of 16 March about the call by Vedrine, and his suggestion that you might visit Paris on 11 April for lunch with him and Attali to compare notes before the Prime Minister's meeting with President Bush on 13 April and President Mitterrand's meeting with him on 19 April.

We think this would be a good idea, as do the Embassy in Paris. I understand the Ambassador has telephoned you.

The Embassy would make the arrangements. As you may know, the Defence Secretary is visiting France from 9-11 April and the Ambassador is giving him a dinner on 10 April. You would be most welcome if this fitted in with your plans.

Yours.

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL AND PERSONAL

The National Archives

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CONFIDENTIAL AND PERSONAL

RP
EM
C: Foreign Relations
bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 March 1990

ANGLO-FRENCH RELATIONS

Monsieur Vedrine, who used to be President Mitterrand's diplomatic adviser and is now his spokesman, looked in to see me this morning. He was also seeing Michael Quinlan and John Weston.

The only point it may be worth recording is the suggestion that it would be useful for the two Governments to be in contact shortly before the Prime Minister's meeting with President Bush on 13 April and President Mitterrand's meeting with him on 19 April. Vedrine proposed that I might go over to Paris on 11 April to have lunch with him and Attali for this purpose. I have left this open, and there may be better ways of comparing notes about what we shall both be saying to the Americans. You may like to reflect and let me know what you think is the best way to proceed.

BF 11

CHARLES POWELL

J S Wall Esq
Foreign and Commonwealth Office

CONFIDENTIAL AND PERSONAL

FILE MJ

cc FCO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T56/90

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

Subject cc MCSTER
cc OPS

Dear Prime Minister,

Thank you for your letter of 2 March, explaining the task with which you have charged M. du Mesnil. We shall be pleased to co-operate with him and to provide him with information on our organisation.

May I suggest that M. du Mesnil should contact the British Ambassador in Paris so that the necessary arrangements for a visit can be put in hand without delay.

I am looking forward very much to our meeting in London on 26 March.

Warm regards.

Yours sincerely

Margaret Thatcher

Monsieur le Premier Ministre Michel Rocard

The National Archives

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 March 1990

PRIME MINISTER'S DINNER WITH FRENCH INDUSTRIALISTS

The Prime Minister had dinner at the French Embassy last night with twelve leading French industrialists (the list of those present has already been sent to you). It was quite a lively occasion and I think the main impressions that the industrialists will have received are:

- the Prime Minister's fierce pre-occupation with Germany's future economic strength and its implications for the rest of us. She did not spare them on the shift which has taken place in the relative power of Germany and France. They did not dispute her diagnosis but were less convinced about the solution (see below);

- the Prime Minister's strong interest in seeing a closer Franco/British partnership developed. The industrialists were positive in principle about this but a bit sceptical about what form it would take. The Prime Minister spoke in particular about a closer relationship in the defence field. The French Ambassador most unhelpfully said it would all depend on whether Britain chose to buy the ASMP missile;

- the divergence between French and British views on the way ahead in Europe. The industrialists clearly agreed with the Prime Minister on the difficulties and costs of the GDR's absorption into the European Community. They also agreed about the degree to which the FRG dragged up agricultural prices and maintained structural impediments which made it, for instance, very difficult for French or British firms to take over German companies. They were anxious about the implications for the Deutschmark and the ERM of German unification. But, generally, they parrotted the French Government's refrain that the way to cope with unification was to bind Germany into the European Community, above all by pressing ahead with economic and monetary union. The Prime Minister was pretty blunt in putting the opposite point of view. I think she rather shook their bland assumptions about this, but doubt that she convinced them;

- a clear difference of view about Japan, characterised by a very rugged debate between the Prime Minister and M. Calvet of Peugeot, who claimed in effect that the construction of Europe could not be carried out unless European firms were given a free run in their own market. This led to a lively discussion of whether the French were protectionist, with the Prime Minister insisting vigorously that the consequences of French policy in this field would be to turn the Community into a protectionist block, and encourage others such as North America and Japan to form exclusive blocks. M. Calvet rather gave himself away at one point, when he spoke of "allocating" Japanese investment among European countries. The Prime Minister drew the cheerful conclusion at the end of the discussion that there was not a free trader among them. They all chorused that they were for free trade but we should not over-simplify ...

It will be interesting to see what reactions Ewen Fergusson picks up, and whether any of the discussion finds its way into the French press. But I think the industrialists felt that they got their money's worth.

I am copying this letter to Martin Stanley (Department of Trade and Industry).

CHARLES POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

12 March 1990

Dear Ambassador.

Thank you for arranging the excellent dinner last night. I very much welcomed the chance to meet so many of the leading figures of France's industrial and financial world. It was good of them to come over for a Sunday evening and much appreciated. I found the discussion very worthwhile, although there are clearly some differences of view on trade matters and the degree to which markets should be open.

I am sure this is a time when Britain and France should be drawing closer together. I hope last night's talk will have helped that process forward. I am grateful to you for providing the occasion - and please thank your wife very much indeed for arranging it so beautifully.

With every good wish to you both.

Yours sincerely

Margaret Thatcher

His Excellency Vicomte Luc de La Barre de Nanteuil

AMBASSADE DE FRANCE
A LONDRES

L'AMBASSADEUR

1st March

Dear Charles,

Please find herewith

- the curriculum of the French people who will come to dinner on the 11th March (I don't think it necessary to send you something about Jimmy)
- a short memo about their business interests in UK.

I shall call you at the beginning of next week to hear your advice on how to "arrange" the conversation

Yours ever

Luc

CONFIDENTIAL

PRIME MINISTER

DINNER WITH FRENCH BUSINESSMEN

You are dining at the French Embassy on Sunday night to meet twelve leading French businessmen. You go there straight from the British Fashion Week reception at Lancaster House. It is not black tie.

You will find notes in the folder on the main guests (who include Jimmy Goldsmith). All have come over specially from France. The French Ambassador tells me he issued twelve invitations, expecting at least some to be unable to attend: in fact all accepted. They are an outstanding group.

The Ambassador's plan is to meet informally before dinner, and then try to have a more general discussion over dinner itself. Bearing in mind the enormous influence of this group in France, I think you should take the opportunity to talk about our wish to draw closer to France in the face of growing German economic and financial power. You will want to say that you have proposed this to President Mitterrand and detailed discussions are going on. You are personally committed to making a success of them. Other subjects on which they will want to hear your views are:

- Britain's economic prospects and - although they will probably be too polite to ask directly - the Government's political prospects. All their companies are major investors here. You will want to bear in mind that France is now our third largest market (and we are theirs) with exports growing at over 14 per cent a year.

- your views on Europe and especially on economic and monetary union and British membership of the ERM. While there are of course Anglo/French differences over Europe, I would counsel you not to dramatize them on this occasion but to talk also about the factors which draw us together - for instance our common interest in making the Germans open up their economy.

CONFIDENTIAL

- the implications of German unification.

- Japan and, in particular, the question of cars, on which there is scope for lively debate (particularly given the presence of the Chairman of Peugeot).

But I come back to my main point: there is no need to paper over real differences of opinion, it would be very helpful if they all went off feeling pretty positive about the prospects for Britain, for their investments here and about Anglo/French relations.

In addition to the personality notes, you will find in the folder:

- a background letter from the FCO;

- a note on Japanese cars;

- a note on take-over activity by French firms;

- a background note on Anglo-French trade;

- a despatch by Ewen Fergusson: "Economic Liberation: Where Do The French Stand?".

C.D.P.

C. D. POWELL
9 March 1990

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the department for Enterprise

Covering Commercial-in-Confidence and Market Sensitive

The Rt. Hon. Nicholas Ridley MP
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Our ref NP1APO
Your ref
Date 9 March 1990

Dear Charles,

BRIEFING FOR PRIME MINISTER'S DINNER WITH FRENCH BUSINESSMEN ON 11 MARCH

We spoke about briefing for the Prime Minister's dinner with French businessmen on 11 March.

I attach briefs as follows:

Annex A Takeover activities of major French state-owned industrial companies, May 1988-March 1990

Annex B Acquisitions of UK companies by Foreign state-owned companies (largely French)

Annex C Orkem's acquisition of Coates, in which both M Tchuruk and M Fourtou have an interest

Annex D Japanese cars, on which M Calvet has taken a rigidly protectionist stance

Annex E Anglo-French trade, as background.

I understand the FCO will provide background material on each of the guests and their companies.

I am copying this letter and the enclosures to Stephen Wall (FCO).

Yours ever
Ben Slocock.

BEN SLOCOCK
Private Secretary

Recycled Paper

Foreign and Commonwealth Office

London SW1A 2AH

8 March 1990

Dear Charles,

Prime Minister's Dinner with French Businessmen: 11 March

Thank you for your letters of 16 February and 2 March. Our Embassy in Paris have provided rather fuller information (copy enclosed) than that sent to you by the French Ambassador (your letter of 2 March).

The French Ambassador has got together a very good group representing the public and the private sectors, industry and finance, all with interests in Britain, and all with influence in France extending well beyond their own companies. They will be particularly interested in the Prime Minister's views on prospects for the British economy, and on a range of European issues, including:

- the Single Market;
- the Japanese threat (which should be a lively discussion with Calvet of Peugeot present);
- the prospect for economic and monetary union and for sterling's joining the ERM (which was the main topic of discussion at Mr Ridley's lunch with businessmen in Paris last week);
- the implications of German unification.

The Prime Minister in turn might ask the businessmen about the prospects for the French economy (1988 growth 3.7%, inflation 3.6%, unemployment 9.4% and a current account deficit of about FF 20 billion) and press them on:

- the competitiveness of French industry;
- the openness of the French economy (more open than it was but less open than ours);
- what Britain and France can do together to press the Germans to open their economy;
- how far public ownership helps or hinders French nationalised companies and to what extent they are subject to state control;

/- the

- the trend to liberalism and deregulation (abolition of exchange and price controls, development of financial market) in recent years, and how irreversible it is.

The British and French economies are increasingly linked, with each country's exports to the other growing faster than its exports overall, investment growing in both directions and British service industries increasingly active in France. UK visible exports to France totalled £9.5 billion in 1989, up 14.4% over 1988 (up 21.2% excluding oil). French exports to Britain last year totalled £10.8 billion, up 14.9%. France is our third largest market, after the United States and Germany, taking 10.1% of our exports; and we in turn are their third largest market. We have a 7.1% share of the French market; they have a 8.9% share of ours.

/ I enclose a copy of a recent despatch from Sir E Fergusson on "Economic Liberalism: where do the French stand?".

I am copying this letter and enclosures to Ben Slocock (Department of Trade and Industry).

Yours ever,

R. H. T. Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

FRENCH AMBASSADOR'S DINNER FOR THE PRIME MINISTER, 11 MARCH

Summary guest list

Bernard Arnault. Chairman of LVMH, world's largest luxury goods group - champagne, brandy, perfume etc. Close links with Guinness. Private sector.

Claude Bébéar. Chairman of Axa Financial group, mainly insurance. Owns Equity and Law. Private Sector.

André Benard. Chairman of Eurotunnel, after a career with Shell.

Jacques Calvet. Chairman of Peugeot SA, third largest European car producer (Peugeot and Citroen) behind VW-Audi and Fiat. Produces at Ryton and Stoke. Private sector.

Alain Gomez. Chairman of Thomson, consumers and defence electronics company. Public sector.

Jean Pierre Desgeorges. Chairman of GEC-Alsthom: heavy capital goods sector. Alsthom-GEC merger in 1989. Private sector.

Jean-René Fourtou. Chairman of Rhône-Poulenc. France's leading chemical group. Owns Barker and May (Dagenham) and RTZ Chemicals. Public sector.

Sir James Goldsmith. Founded and built up Générale Occidentale, French conglomerate with international interests. Left France in 1987. Current French interests unclear.

Jean-Luc Lagardère. Chairman of Matra (defence electronics/missile) and Hachette, France's largest publishing/media group. Private sector. (Matra nationalised in 1982, privatised in 1988).

Lindsay Owen-Jones. British Chairman of L'Oréal, world's leading cosmetics company. Private sector.

Renaud de la Genière. Chairman, Compagnie Financière de Suez, financial conglomerate. Former Governor of the Bank of France. Private sector (nationalised 1982, privatised 1987).

Serge Tchuruk. Chairman of Total CFP, France's second largest oil company. Minority but controlling state interest.

FRENCH AMBASSADOR'S DINNER FOR THE PRIME MINISTER, 11 MARCH 1990

ANNOTATED GUEST LIST

Bernard Arnault

Chairman of Louis Vuitton Moet Hennessy (LVMH)

Born 1949 in Roubaix, Northern France. Businessman in France and United States before taking control of LVMH - itself the result of a 1987 merger between Louis Vuitton and Moet Hennessy - in 1989 through Jacques Roher, a holding company owned jointly with Guinness PLC. A shrewd and tough businessman who in some very public battles has outmanoeuvred the heads of the original Louis Vuitton and Moet Hennessy family businesses.

LVMH is the world's leading luxury goods group, whose brand names include Dom Perignon and Veuve Clicquot Champagne, Hennessy and Hine cognacs, Louis Vuitton luggage and Christian Dior and Givenchy perfumes. In addition to its financial stake - the company, Guinness has important distribution agreements with LVMH in the United States and the Far East.

Claude Bébéar

Chairman of Axa Financial Group

Born 1935 in Dordogne. Educated at Ecole Polytechnique. Chairman of Axa since 1989 after a career in insurance.

Axa is a financial holding company with banking and - primarily - insurance interests, notably Axa-Midi, France's second largest insurance company and the largest private sector insurance company. (The other top three insurance companies in France, UAP, AGF and GAN are all state owned). Axa-Midi was formed in 1989 by a merger of Axa and Compagnie du Midi, which bought the UK insurer Equity and Law in 1987. Axa-Midi has ambitions to expand its activities in Europe and elsewhere, and to climb from 30th to the top 15 or so insurance companies worldwide.

Andre Benard

Chairman of Eurotunnel

Born 1922 just outside Paris. Son of a banker. Educated at Ecole Polytechnique. Before joining Eurotunnel, had spent almost all his career with Shell. He was posted to London with them from 1949-50, was Managing Director of Shell (France) from 1967-70 and Director General of the Royal Dutch Petroleum Company from 1971-83.

He replaced Jean-Paul Paraye as Co-Chairman of Eurotunnel in 1986, working alongside Alistair Morton. Following a restructuring of the company in February 1990 M. Benard assumed the role of sole Chairman of the Eurotunnel Group, whilst Alistair Morton became Deputy Chairman and Chief Executive.

Jacques Calvet

Chairman of Peugeot SA (ie joint Peugeot-Citroen holding company)

Born 1931 in Boulogne. Graduate of ENA. Outstanding career as civil servant up to 1979, including three spells in the Private Office of Giscard. President of the Banque Nationale de Paris 1979-82. Chairman of PSA since 1984. Outspoken advocate of tough line on Japanese car imports into the EC.

Peugeot-Citroen is currently the third largest car producer in Europe (behind VW-Audi and Fiat). A private sector company. Following major restructuring they have been profitable since the mid-80's. They took over Chrysler plants at Ryton and Stoke in 1979.

Jean-Pierre Desgeorges

Chairman GEC/Alsthom

Born 1930, Paris. Educated at Ecole Polytechnique. Much of his career has been with Alsthom, of which he became Chairman in 1981 before becoming Chairman of GEC/Alsthom when the combined company was formed in 1989.

Alsthom is one of the world's leading manufacturers of heavy capital goods for the energy and transport sectors, with over 40,000 employees and a 1988 turnover of FF28 billion (£2.8 billion). 50% of turnover is exported, and it has a worldwide network of subsidiary companies. In 1989 Alsthom merged most of its activities with GEC's Power Systems Group, creating a new company jointly producing and distributing equipment for power generation and distribution, rail transport and industrial automation. The company also owns Chantiers de l'Atlantique at St Nazaire in Brittany, the only major private French shipyard specialising in cruise liners but having recently won orders for French warships, hitherto built only in public yards.

Jean-Réné Fourtou

Chairman of Rhone-Poulenc

Born 1939 near Bordeaux. Graduate of the Ecole Polytechnique. Career in industry. Appointed to his present post by the Chirac government but reappointed last year by the Rocard government.

Rhone-Poulenc is France's leading chemical group and ranks fifth in Europe. A public sector company. UK operations include Barker and May (Dagenham) and RTZ Chemicals.

Sir James Goldsmith

Businessman and financier of international renown, Sir James Goldsmith has dual British/French nationality. He is probably now more prominent in the UK than France where he founded in 1969 Générale Occidentale SA. He built it up into a company with widespread interests in food distribution, publishing and oil production operating through subsidiaries in the Bahamas, USA, Netherlands and Switzerland. The nationalised French insurance company UAP has a 6% stake. Sir James stood down as Chairman and Managing Director in 1987 and his present interests in the company, if any, are unclear. So too is the connection between it and General Oriental Investment Ltd which is based in the Cayman Islands. Sir James has been Chairman and Managing Director of this company since 1984.

Sir James has been in the UK business headlines for some months following his controversial bid for BAT industries.

Alain Gomez

Chairman, Thomson

Born 1938 in Paris. Educated at Sciences-Po, Havard Business School and ENA. Chairman of Thomson since 1982 after a career primarily in business. Dynamic, engaging and approachable, Gomez has been associated with the political left, but has won respect for his stewardship of Thomson in recent years.

Thomson, a state owned company, is one of the world's leading electronics groups, with turnover split equally between consumer electronics and defence systems. Thomson's strategy is to become a leading player on the world stage through acquisitions and alliances. It is already the largest European defence electronics company. It is collaborating closely with British Aerospace.

J[redacted]n-Luc Lagardere

Chairman of Matra/Hachette

Born 1928 in South western France. Electrical engineer. Career in industry. Joined Matra in 1963, became chairman in 1977 and acquired control of Hachette in 1981. Regarded in France as a dynamic entrepreneur, one of the rare French captains of industry not to have graduated from a prestigious 'grande ecole'.

Matra is essentially a defence electronics and missile producer, but with interests too in telecommunications, information technology and transport - eg light railways. Hachette is one of France's largest publishing/media groups. Matra was nationalised in 1982 and privatised in 1988. It recently agreed a 5% share swap with GEC Marconi.

Renand de La Genière

Chairman Compagnie Financière de Suez

Born 1925, Le Mans. Educated at ENA. Early career in the Ministry of Finance, before becoming Deputy Governor (1974) and Governor (1979-84) of the Bank of France. In his present post since 1986. A highly respected figure in the financial world, associated with the political right.

Founded by de Lesseps in 1958 to dig and operate the Suez Canal, Suez turned itself into a major financial group after the nationalisation of the Suez Canal in 1958. It was nationalised by the French government in 1982, privatised 1987, and acquired a majority interest in Société Générale de Belgique in 1987, thereby becoming one of Europe's largest - and currently most active - financial/industrial holding companies. Suez is hoping to expand its operation in the United Kingdom. Having lost out to Deutsche Bank in a bid to buy Morgan Grenfell, it is looking for other partners. It has recently denied that it is interested in extending its share in Hambros, but is rumoured to be about to buy Gartmore, the fund management arm of the British Commonwealth Group.

Mr Lindsay Owen-Jones

Chairman and Managing Director of L'Oréal since 1988.

He is British but, in keeping with the company's tradition, has spent his entire working life at L'Oréal. Unlike some cosmetics companies, L'Oréal sets great store by technical innovation with strong emphasis on research and development. The challenge to Mr Owen-Jones in the top position is to preserve that policy and at the same time generate greater international growth.

L'Oréal was created in 1907 to manufacture and sell hair care products. It is now the world's leading cosmetics company with a turnover in 1988 of FF24.4 billion (£2.6 billion). In addition to its core business of cosmetics, L'Oréal has interests in pharmaceuticals, baby and feminine hygiene goods, film production, publishing and a 7% stake in Canal Plus, the French pay television channel. Its brand names include Lancome, Elnett, Ambre Solaire and Guy Laroche. It acquired Helena Rubinstein in 1988. Outlets in the UK include Sainsbury, Tesco and Boots.

Serge Tchuruk

President of Total CFP

Born 1937 in Marseille. Graduate of the Ecole Polytechnique. Career in the oil and chemicals industries. Credited with an impressive turnaround of previously loss-making Orkem between 1986 and 1989. Present post since February 1990.

Total is France's no 2 oil company behind its arch-rival, Elf-Aquitaine. The French state has a minority (35%) but nonetheless controlling interest. Traditionally strong in the Middle East. 33.3% stake in Alwyn North, one of the largest North Sea fields, and 13% stake in Frigg. About to acquire the UK assets of Orkem, (including recently acquired Coates Bros.) which is being broken up and shared out between Elf and Total.

British Embassy
Paris
7 March 1990

Annex D

the department for Enterprise

PRIME MINISTER'S DINNER WITH FRENCH BUSINESSMEN: 11 MARCH

THE FRENCH POSITION ON JAPANESE CARS

M Jacques Calvet, Chairman of Peugeot SA, has been a prominent and outspoken campaigner for a rigidly protectionist stance against Japanese cars, and has no doubt been an influence behind the French Government's position in the current debate on EC policy towards Japanese cars. M Calvet has called for a long period of continued protection against exports from Japan after 1992; and for cars made in the Community (and elsewhere) by Japanese-owned firms to be subject to restraint as though they were made in Japan. The French Government have adopted this position. Mme Cresson has spoken privately and in public in terms of stopping "Japanese" (including UK-made) cars at the French border if necessary.

2 The vital point for the UK is to ensure that cars made in the UK by Japanese-owned firms are allowed to circulate freely within the single EC market just like any other EC-made goods, and that their treatment is in no way linked to that of cars imported from Japan. The issue is a rerun of the battle we fought and won in 1989 over British-built Nissan cars.

3 The Commission are still talking in vague terms of the need to "take into account" the output of Japanese-owned car plants in the EC during the proposed "transitional period" of post-1992 restraint.

4 Peugeot SA is the parent of Peugeot-Talbot Ltd, the Coventry-based UK subsidiary currently producing cars at an annual rate of about 100,000, for the UK market and for export.

Points to make

- Wholly unacceptable to count cars produced in the UK by Japanese-owned firms towards French ceiling on imports from Japan;
- Would conflict with Treaty of Rome; UK will not hesitate to take matter to the ECJ if necessary;
- If UK-built cars are not admitted to France free of restraint, what about the products of the many Japanese investments in France and elsewhere in the Community? Seriously damaging consequences for the internal market as a whole;
- UK wants to end protection in the car market as soon as possible, both for the sake of consumers and for the sake of the European vehicle industry, which is likely to continue lagging behind the Japanese so long as it remains cosseted by protection.

888-388

ANGLO-FRENCH TRADE BRIEF

The French Economy

1. Following the May 1988 general election and the appointment of the Rocard administration, a statement was made that the priorities would be the control of inflation and of the budget deficit, while accepting the previous administration's budgetary commitments. There would be no re-nationalisation or further privatisations. With effect from 1/1/90 virtually all exchange controls have been abolished.

2. Inflation in 1989 rose to 3.6% and unemplomont down to 9.5%. Economic growth was at its highest since 1976 at 3.6%. However, in 1989, the unemployment rate fluctuated, reaching a high of 10% in July but falling back to reach 9.5% again in November. The trade account was in deficit by F8.1 billion in October in adjusted terms but public sector industrial action has made accurate figures unobtainable. The original prediction for the whole of 1989 was therefore highly optimistic. Annual inflation rose to 3.6% and bank rates rose in October in response to the rise in German interest rates.

Bilateral Trade

3. France is the UK's third largest export market after USA and FRG. In 1989 British exports to France reached £9.50 billion (£8.5 billion excluding oil), while French exports to the UK were worth £10.8 billion.The deterioration in the overall balance from surplus to deficit after 1985 (see below) is due almost entirely to the fall in world oil prices. similarly, fluctuations in the overall balance since 1985 correspond fairly closely to fluctuations in the value of our oil exports. Between 1986 and 1988 the balance on our non-oil trade with France has remained little changed. Overall exports rose by 6% in 1988 and 14% in 1989.Excluding oil, the rises were 14% and 16% respectively, faster in both years than the rise in imports from France (12% in 1988 and 15% in 1989).

£ billion	1985	1986	1987	1988	1989
UK non-oil exports	4.8	5.2	6.4	7.3	8.5
UK oil exports	3.0	1.0	1.4	0.9	1.0
UK non-oil imports	6.4	7.3	8.3	9.3	9.8
UK oil imports	0.3	0.1	0.1	0.1	1.0
All exports	7.8	6.2	7.8	8.3	9.5
All imports	6.6	7.4	8.4	9.4	10.8
Balance	+1.1	-1.2	-0.6	-1.1	-1.3
Non-oil balance	-1.6	-2.1	-1.9	-2.0	-1.3

UK Market share

4. The UK was France's fifth largest supplier in 1988 with 7.3% of total French imports. This represented about 10.2% of the UK's global exports including oil, (9.7% of non-oil exports).

UK Exports

5. There are few sectors of manufacturing industry in which British exports achieve annual sales of less than £10 million. Major growth areas include transport equipment, telecommunications and power generating equipment, scientific instruments, clothing and chemicals and certain foodstuffs. Invisibles are an important export earner. Although the privatisation programme has halted there are still opportunities for UK companies in the invisibles sector, particularly for financial services and insurance. Three British merchant banks have already begun to market their expertise.

Investment

6. More than 2000 British companies are known to have established subsidiaries in France or some form of partnership with French companies. UK outward direct investment in France in 1987 (the latest available figure) totalled £ 232 Million.

7. Following the relaxation of foreign investment restrictions, French industry has sharply increased its direct overseas investment; in 1988 it reached FF 30.2 billion in the UK from a figure of FF 9 billion in 1987.

current examples include:-

PEUGEOT-TALBOT

In May 1987 Peugeot invested a further £20M in an expansion project at Ryton, Coventry which created an additional 550 jobs bringing the total number to in excess of 2000.

MONTUPET SA

In December 1988 Montupet SA made a decision to invest £90M in a project in Northern Ireland to manufacture cylinder heads. This will create 1000 new jobs.

PLASTIC OMNIUM

During 1988 Plastic Omnium invested a further £9.5M at their Telford plant making plastic components.

Exports to Europe Branch
January 1990

ANNEX A

TAKEOVER ACTIVITIES OF MAJOR FRENCH STATE-OWNED INDUSTRIAL COMPANIES MAY 1988 - MARCH 1990

Information supplied by British Embassy, Paris is as follows: Embassy officials emphasise that this table is based on that available in the public domain. It cannot be guaranteed to represent the full picture.

BULL

Extent of state ownership: 92%

Foreign acquisitions: 26.6% of Honeywell HN (US) FF1 billion
Zenith (US) FF4 billion

Government equity injections: FF1.5 billion (a further FF1 billion is thought likely to be forthcoming later in 1990)

Money raised on financial markets: FF1.2 billion (perpetual bonds)

Profits in 1988: FF300 million

ELF

Extent of state ownership: 55.8%

Foreign acquisitions: RTZ Oil and Gas (UK) FF3.2 billion

25.2% of Enterprise Oil (UK) FF3.7 billion

Pennwalt (US) FF6.5 billion

Government equity injections: FF1.6 billion

Money raised on the financial markets: FF1.6 billion (equity)

Profits in 1988: FF7.2 billion

ORKEM

Extent of state ownership: 100%

Foreign acquisitions: Coates Brothers (UK) FF3 billion approx

Bostik Adhesives (UK) FF2 billion

Government equity injections: FF1.1 billion

Money raised on the financial markets: ?

Profits in 1988: FF3 billion

PECHINEY

Extent of state ownership: 82% of total stock

100% of voting rights

Foreign acquisitions: American Can (UK) FF6 billion (net of asset disposals)

Government equity injections: FF1 billion

Money raised on the financial markets: FF5.3 billion (equity and certificates of Investment)

Profits in 1988: FF2 billion

RHONE POULENC

Extent of state ownership: 75% of total stock

100% of voting rights

Foreign acquisitions: RTZ Chemicals (UK) FF5.7 billion

GAF (US) FF3.2 billion

Rorer (US) FF2 billion (takeover not yet completed)

Connaught (Canada) FF5.2 billion (takeover not yet completed)

Government equity injections: zero

Money raised on the financial markets: FF7.4 billion (various types of bond)

Profits in 1988: FF3.4 billion

THOMSON

Extent of state ownership: 100%

Foreign acquistions: the defence interests of Phillips (Netherlands) FF2 billion

Government equity injections: zero (FF2 billion likely to be forthcoming later in 1990)

Money raised on the financial markets: FF1.2 billion

Profits in 1988: FF2.37 billion

11TH08MR.MB

ACQUISITIONS OF UK COMPANIES BY FOREIGN STATE OWNED ENTERPRISES

1987	Country	Product Range	Value of Bid
Elf Acquitaine/Tricentrol	France	oil exploration production	£135m
1988			
Orkem/Coates (40%)	France	chemicals, inks, coatings	£301m
KIO/Burnett and Hallamshire Holdings	Kuwait	coal production and distribution	assets £113m
KIO/BP	Kuwait	oil	
Elf Acquitaine/assets of RTZ	France	oil and gas exploration	£308m
Rhone Poulenc/assets of ICI	France	silicones	assets £12m
1989			
Elf Acquitaine/Enterprise Oil	France	oil and gas exploration	not known
Thomson/Inmos	France	VSLI semi-conductors	assets £44m
Rhone Poulenc/assets of Monsanto	France	bulk analgesics	assets £70m
Repsol/Carless	France	oil and gas	assets £46m
Rhone Poulenc/Assects of RTZ	France	speciality chemicals	£265m
[Orkem/Coates (remaining 60%)	France	chemicals, inks, coatings	]

ANNEX R

Annex C

BRIEFING FOR PRIME MINISTER ON ORKEM / COATES

ORKEM'S ACQUISITION OF COATES - UK COMPETITION CONSIDERATION

LINE TO TAKE (IF RAISED)

- You may know that the Secretary of State for Trade and Industry is now considering this case under the Fair Trading Act 1973. In the circumstances there is no further comment I can make.

BACKGROUND - COMMERCIAL IN CONFIDENCE AND MARKET SENSITIVE

1. The Secretary of State is presently considering the acquisition by Orkem, a French state-owned chemicals company of Coates, a UK company carrying on an international speciality chemicals business: the bid was declared wholly unconditional on 22 December 1989. M. Serge Tchuruk, who is attending the dinner on 11 March may have an interest in this matter, for he has been a director of an Orkem group company since 1987 and has been a director of Coates since 1988. He was also previously on the board of Rhone Poulenc, another interested company. Rhone Poulenc's Chairman and CEO, M. Jean Rene Fourtou, is also attending the dinner.

2. The merger involves competition concerns in the market for radiation curing resins, in which there is now a significant French government interest through Craynor (a joint venture company owned, prior to the merger, by Orkem and Coates) and through Radcure (another joint venture, in which Rhone Poulenc, another French state-owned company, have a 49.9% stake). Because of the French Government's involvement in both joint ventures, there may not be full competition between the enterprises, and the companies might be considered to be under the ultimate common control and strategic direction of the French Government. However, the Director General of Fair Trading has recommended that the merger should not be referred to the MMC because in his view the particular circumstances of the market do not confer market power, even if the two companies, Craynor and Radcure, seek to act in concert. The Secretary of State for Trade and Industry is still considering the merger, and is expected to announce his decision shortly.

3. While it is not a new policy, the Secretary of State is currently considering the possibility of making an announcement to the effect that acquisitions by state owned and privately owned companies will be treated in the same way as companies under common ownership as a group.

Competition Policy Division
Department of Trade and Industry
7 March 1990

ECONOMIC LIBERALISM: WHERE DO THE FRENCH STAND?

Summary

1. The French used to be archetypal interventionists and protectionists (and at one time were admired as such by some in Britain). They have, however, come a long way since a change of course in 1983. Central planning has been abandoned; subsidised credit has dwindled to a trickle; state aids have been cut; capital movements have been liberalised; the financial market has been modernised and liberalised; restrictions on foreign investments have been eased; stock market takeovers have been made easier; prior approval for redundancies is no longer necessary; competition policy has been sharpened up. Public sector managers now have more autonomy than in the past (paras 1-5).

2. There are several reasons for this trend towards greater economic freedom; budgetary pressures, the Single Market programme, EC competition policy, economic self-interest. Above all, underlying attitudes are evolving, a process underpinned by social change and an upsurge of interest in overseas markets (paras 6-11).

3. This is not to say that French policy has become completely liberal. Examples of old style interventionism and protectionism can still be found. Sizeable chunks of the industrial, banking and insurance sectors remain under public control; ministers and officials still think in nationalistic terms and like to direct; French vehicles, textiles, steel, television, footwear and agricultural producers benefit from import restrictions; some of the service sectors and professions are being opened up only slowly and reluctantly (para 12).

4. Many of these remaining restrictions will disappear with the completion of the Single Market, and privatisation will be resumed one day; but mainstream attitudes look unlikely ever to evolve beyond the soft end of liberalism. On the other hand a return to dirigisme looks unlikely (paras 13-17).

5. These changes do not mean France will necessarily seem an easy or congenial place to British businessmen. Yet British exports have a larger share of the French market than of the FRG or US markets, and recently France has been the second largest recipient of British corporate investment after the US (para 18).

6. Conclusions: we should keep in mind how far the French have moved and see EC trade and industrial policy differences in perspective. The rhetoric of a Socialist government will not be liberal, but we may find them ready to work with us against protectionism elsewhere in the EC. We should react to specific examples of anti-competitive practice but avoid throwing stones (para 19).

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The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
LONDON

21 February 1990

Sir

ECONOMIC LIBERALISM: WHERE DO THE FRENCH STAND?

"France's reputation for interventionism is centuries old but now unjustified" - Roger Fauroux, French Minister for Industry, June 1989

1. Not long ago, a Minister in the Foreign Office spoke to me with some envy of the Ecole Nationale d'Administration, the mobility of whose former students helped to bridge the gap between government service and business. In the 1970's many of those who were dismayed by Britain's relatively poor post-War industrial performance, were attracted by the French paradigm. French success in building up their industry after the War suggested that there must be useful lessons from the French industrial policy model, characterised by indicative planning of investment in major industries, the centralisation of credit control and a broad range of support programmes. The Government prompted businessmen (often ex-ENA-trained civil servants) to start up new industries, ensured that capital was available, subsidised

credit, contributed to R&D, subsidised exports, and erected barriers against unwelcome foreign competition. The French concept of "The Plan" carried widespread prestige.

2. Even under Labour governments, and despite the intellectual attraction to many of the French model, there remained a wide gap between British and French approaches. After the May 1979 elections, which moved British policy in a different direction, the gap between our practices and those of the French widened. Monsieur Mitterrand's election in 1981, the Mauroy government's commitment to a strong public sector and the nationalisation programme of 1982 contributed to this.

3. It was only in 1983 that France came to a turning point. Socialist policies, applied to a production system that had been weakened by the oil shocks of 1973 and 1979, unexpected changes in demand for industrial products and the emergence of new industrial nations, had brought on a crisis. Government spending had risen to 48% of GDP, the trade deficit had sunk to FF 90 billion, the Franc had been twice devalued within the European Monetary System in two years. A change of course was decided.

4. This new course has brought France much greater economic freedom. Among the landmarks that have been passed:

- Old-style central planning and indictive targetting have been abandoned. The Ninth Plan (1984-88) prepared by the Socialists in 1983 was short on specifics and was put to one side by the Chirac government in 1986. The tenth Plan (1989-1992), prepared after the Socialists' return to power in May 1988, is little more than a statement of government economic policy. It is not a working document, either for officials or for business.

- Subsidised credit to the corporate sector has dwindled to a trickle. Leaving aside export credits (where subsidies are governed by OECD consensus rules) the cost to government of subsidising interest payments on loans taken out by French industrial companies has shrunk from FF 36 billion in 1984 to FF 2.5 billion in 1989. The only beneficiaries now are small and medium sized companies, many of them in Corsica and France's overseas territories. The government's aim is to eliminate all credit subsidies.

- State aids to the corporate sector have also been cut back, from a high-point in 1984-85 (the result of commitments made in the 1981-83 period). Some British industrialists seem convinced that their French competitors get a much better deal than themselves (eg Sir Robert Haslam of British Coal who has recently talked about "huge subsidies" to the French nuclear industry). Seen from here there is not much evidence of this. The only industries now

in receipt of operating subsidies are the coal industry (FF 3 billion approximately in 1989) and the shipbuilding industry (just over FF 1 billion in 1989). The main emphasis is on support for civil R&D (FF 17 billion in 1989) as opposed to equity injections into public sector industrial groups (FF 4.1 billion in 1989) or regional and small and medium sized business support (FF 4 billion approximately in 1989). Total spending last year, excluding aids to exporters, was probably not very different from that of the United Kingdom where in 1988-89 central government spent over £ 2 billion on sectoral, regional and general industrial support and around £ 1 billion on the advancement of technology.

- Capital movements have been liberalised progressively. The process began in 1986. The last remaining exchange controls were lifted on 1 January 1990.

- The French financial market has been modernised and liberalised. Investment banking has boomed thanks to the lifting of credit controls in 1984, the 1986-88 privatisation programme, and a surge in mergers and acquisitions activity. Foreign owned banks have been able to win a good share of this business. French stockbroking firms have now been opened up to foreign capital, fixed commissions have been abolished and limited market-making has been introduced. Futures and options markets have been established and are flourishing.

- Restrictions on foreign investments in France have been progressively eased, most recently in September 1988 and January 1990. No prior authorisation is required for green-field investments, and apart from three reserved sectors (defence, public order and public health) established European Community companies can now acquire French companies without obtaining prior authorisation from the Ministry of Finance, while for non-European Community companies the Ministry has only one month to withhold authorisation. In 1988 United Kingdom acquisitions in France were worth £ 934 million and involved 56 different deals. From mid-1987 to end 1988, 3000 non-European Community companies sought permission to acquire French companies: fewer than a dozen were refused. Even the Japanese are generally welcome. More than 60 Japanese companies now have industrial plants in France and an effort is being made to attract more. The public attacks on the Japanese by the Minister for European Affairs, Madame Edith Cresson, give a false impression of government policy, though her main target, the vehicles sector, is a special case (see below).

- Stock market rules on takeovers have been clarified, some barriers have been removed, and hostile takeovers have become a feature of the French market. Various barriers remain, eg golden shares in comapnies privatised between 1986-88, defensive cross-shareholdings and double voting rights. But a study of European Community markets commissioned from Coopers and Lybrand showed that France was at the [illegible] end of the spectrum, well ahead of the German and Italian

- A requirement that employers seek prior authorisation for redundancies was scrapped by the Chirac government and has not been reintroduced by the Rocard government.

- A new competition law was enacted at the end of 1986 and competition policy has been sharpened up. A Competition Council imposed fines of FF 358 million in 1989. In recent months, two cartels involving companies bidding for public interest contracts have been exposed and heavy fines imposed. It has been made clear that action against anti-competitive agreements and abuses of monopoly power is regarded as an essential feature of economic policy.

5. The nature of government's relations with public sector managers has changed too. Public sector managers now have greater autonomy than they did in the past. The government's policy is to encourage them to run their companies as though they were commercial enterprises. They are required to agree general strategies with Ministers and to operate on the basis of a corporate plan which includes manning, financial and investment targets. Government does not, however, interfere in day-to-day management. Monsieur Alan Gomez of Thomson has made this point forcibly to me (though "he would, wouldn't he"). A strong and confident personality at the head of a public

sector group, as most of them are, can set the pace in his dealings with Ministers, in the knowledge that a good case will generally find acceptance. Moreover political affiliations have ceased to count for much; only two of the Chairmen appointed by the Chirac government have been ousted since the Socialists returned to power; several others have been reappointed. That said, there is little doubt that public sector companies do not have quite the same freedom of action as those in the private sector, notably in the area of fund-raising or where rapid decision-making may be desirable.

6. What lies behind this trend towards greater economic freedom? One important factor has been the pressure to cut back government spending to which government has felt subject. Since 1983 reducing the burden of taxation, particularly on the corporate sector, and settling the PSBR at non-inflationary levels, have been cardinal objectives of French macroeconomic policy, the aim being to keep the Franc pegged to the DM and to improve the competitiveness of French producers.

7. More recently, the pressure exerted by the liberal Single Market programme, and by the more vigorous competition policy which the Commission has pursued, has been important. Though French Ministers and officials may fight hard in individual instances to adulterate or delay the coming

into effect of new proposals, they do so in the knowledge that in the last analysis President Mitterrand requires the political commitments made in the Single European Act to be honoured. The French record on implementation, nearly as good as our own, bears this out. In the field of state aids, a ruling made by Monsieur Rocard in the autumn of 1988 requires a 'transparency' in dealings with the Commission that was not always a feature of the French approach.

8. Economic self-interest is a third factor. The liberalisation of the French financial market is the prime example. The aim has been to improve the terms on which French business can gain access to capital and to turn Paris into a major (invisibles earning) financial centre. The logic of the easing of restrictions on foreign investments is to create new employment and to compensate for possible outflows of French capital following capital movement liberalisation. The sharpening up of competition policy reflects an awareness that liberalised markets require tough and attentive regulation (cf our own monopolies and mergers policy).

9. Beyond all this, underlying attitudes are evolving. Leaving aside the Left of the Socialist Party and the Communists, where thinking continues to be influenced by Hegelian and Marxist ideas, there is now a greater

readiness among politicians, senior officials and leading businessmen to believe that it is in French interests for economic policy to be based on more liberal principles than in the post-War period. Doubts about interventionism were sown by the failure of French policy between 1973 and 1983. The impact of liberal policies on the United States and United Kingdom economies has been noted. Above all, it is increasingly recognised that opening up the French economy to outside forces is essential to its health and dynamism. The broad political base of this emerging orthodoxy helps explain why the trend towards liberalism began and has continued under Socialist governments, notwithstanding that it gathered pace between 1986 and 1988 when Monsieur Chirac was Prime Minister and several members of the radically free-market Parti Republicain were in his government.

10. The process is underpinned by social change. Among the under-40s esteem for the entrepreneur has grown at the expense of the civil servant. Many of the young flyers who join the Civil Service after graduating from ENA or the Ecole Polytechnique now do so only to qualify for membership of a useful club (which is what the elite 'corps d'Etat' are). They often leave for the private sector once this aim has been achieved. There they find a new type of French businessman who has been to business school, studied in the United States and travelled the

world, who is less wary of foreign competition than preceding generations, more confident of his ability to handle the consequences of liberalism. Indeed to this younger generation liberal economic policies seem the natural order of things in a way that they did not to the post-War generations. They have acquired a taste for business. Moreover the prestige of the ENArque in industry is in decline. Those moulded in a pattern evolved for the purpose of centralised government direction have the reputation, whatever their intellectual abilities, of being slow to adapt to modern entrepreneurial skills, marketing, risk-taking and the competitive instincts likely to be at a premium in the Single Market after 1993.

11. Further underpinning is provided by an upsurge in interest in overseas markets on the part of French industrialists. A recent survey of thinking in the board-rooms of 300 major French companies revealed that 95% of them believed that their main strategic objective must be to develop their activities outside France. The net figure of direct overseas investments in 1988 was FF 76.1 billion. Between January and June 1989 French acquisitions in other European Community states were worth more than any other single country's acquisitions in those states. French industrial and service sector acquisitions in the United States in 1989 are thought to have been worth US$ 6 billion, 50% up on 1988, and [illegible] billion from the [illegible]

12. It is time to look at the other side of the picture. To say that the French economic policy has become more liberal is not to say that it has become completely liberal. Examples of old style interventionism and protectionism can still be found:

- sizeable chunks of the industrial, banking and insurance sectors remain under public control. The privatisation programme launched by Monsieur Chirac and his Fina ce Minister, Monsieur Balladur, was abandoned in May 1988. President Mitterrand's by now famous ruling that there were to be no further privatisations or re-nationalisations until the completion of the Single Market (ie before 1993) was designed to limit the risk of damaging doctrinal squabbles within the Socialist camp. However, it has had the effect of ensuring that a significant part of the French economy remains off limits to foreigners, and gives the companies concerned the benefit of an implicit state guarantee.

- Though the national plan has become a dead letter, Ministers and officials still like to think in terms of market share goals for specific industrial and service sectors and of national champions. They have proprietorial feelings towards large French companies, private as well as public sector, that are generally absent in the United States or the United Kingdom. Their instinct if a company

like CGE or Peugeot-Citroen were to be the object of a hostile takeover would be to attempt to block it, though it is not to be excluded that liberal principles would end up dominant (once the EC Merger Control Regulation is in force there should be little they can do). They have close links with the business community that can compensate for the absence of formal powers. Even now most leading bankers and industrialists were once civil servants, went to the same schools as Ministers and officials, especially the Ecole Nationale d'Administration, and share their values and outlook. They seem to me to be more responsive to direction than their Anglo-Saxon counterparts; and it occurs to the French Government to direct in a way that would not seem easily thinkable to British Ministers. When Monsieur Chirac was Prime Minister and British Airways' purchase of a new generation of aircraft was at issue, he found it impossible to understand that Lord King, at the head of a recently privatised company, could not be "influenced" by the Prime Minister to buy Airbus. If she did not pick up the telephone, it could only be because she lacked the political will.

- There are still a number of sectors in which French producers are protected from non-European Community competition by import restrictions and local content requirements for inward investments. The instinct to protect the producer rather than the consumer remains strong. The vehicles

sector is the prime example. Japanese car producers are allowed only 3% of the French market, and have been told that they must achieve a local content of 80% at or shortly after start-up if they want to build plants in France. Even the Minister for Industry, Monsieur Fauroux, one of the most liberal members of the present government, considers the vehicles industry a special case. For the best part of a year the French tried to enforce a ruling that UK-made Nissan Bluebirds should count as Japanese until a European Community content of 80% was achieved. They are arguing for continuing restrictions on Japanese imports into the European Community well beyond the date when we are content to abandon our own Voluntary Restraint Agreement with the Japanese producers. The other economically important sectors where French producers continue to benefit from import restrictions are textiles (under the Multi-Fibre Arrangement), steel (under a European Commission-administered VRA system), television (specific QR's) and footwear (specific QR's) and agriculture (under the Common Agricultural Policy).

- As in every other major economy, government authorities and publicly owned service providers have tended to discriminate against foreign suppliers in their purchasing practice. Transport, power, telecoms and defence equipment are the principle sectors concerned. At the sub-assembly and component level, however, British companies have been able to supply without restriction.

- In some of the service sectors and the professions there has been little evidence of readiness to open up the domestic market to foreign competition any faster than necessary under the Single Market programme. Some notable rear-guard battles against liberalisation in the transport and telecommunications sectors have been fought in Brussels. Our auctioneers have so far found themselves banned from holding public auctions in France by a provision in French law which reserves this activity for members of an official corps, the commissaires-priseurs. Our ski instructors have recently encountered a reluctance to recognise the qualifications issued by the Ski Club of Great Britain. Our estate agents can only go into business in France if they have acquired certain French academic qualifications or worked for a certain period for their French counterparts. British lawyers in Paris are currently threatened by a reform of the French legal profession that would require them to qualify for entry into the French profession even if they are intended only to advise on English or EC law.

13. Many of these remaining restrictions will disappear with the completion of the Single Market (eg through mutual recognition of qualifications and public purchasing directives). A resumption of the privatisation programme seems a certainty as and when the Right next forms a government (but "when" could be some time away) and may even happen in an ad hoc

basis under a Centre-Left government after 1993. There is undoubtedly a limit to how far attitudes will evolve. It is hard to see a majority of French politicians and officials ever abandoning a nationalistic way of thinking about the French economy: it is a habit of thought that is deeply ingrained, part of their mental tradition. They will retain protectionist instincts - and will find it difficult to accept the logic of extending free access to European Community markets so long as their major competitors include those who restrict access to their own markets.

14. Not only Socialists but also many reared in the Catholic tradition in the Centre and on the Right will remain uneasy about the central position of the profit motive in economic liberalism and doubtful whether there is anything intrinsically fair about the market-place. There is a centuries-old mistrust for capitalism ("usury" or "money which corrupts" to quote President Mitterrand). They will see a greater need for interference and regulation than would be acceptable to the free-marketeer. French theoreticians point out that the most successful economies of the post-War period, Japan and the FRG, have been run on anything but free-market principles: they suggest that France should seek to steer a middle-course between the Japanese and Anglo-Saxon models. Businessmen continue to be susceptible to the charms of collaboration in preference to competition. Monsieur Delors

the way the British Government tolerated takeover bids. In short, the soft end of liberalism is probably about as far as mainstream opinion in France will get.

15. On the other hand a return to dirigisme looks equally unlikely. Even were opinion to swing back in favour of it, policy makers would find themselves subject to a number of constraints. It must be doubtful, for instance, whether the civil service is still capable of playing the role it did in the post-War period. It has been weakened by the decline in prestige referred to above. Key posts continue to be filled by top quality people but most Ministries now lack strength in depth and there are some signs of demoralisation. Secondly the decentralisation process that began in 1982 has reduced central government's right to intervene. Regional and local governments are jealous of their new-found powers. Dependent for their own careers on local power bases national politicians will be reluctant to take them on.

16. Thirdly, many of the traditional weapons in the armoury of the interventionist are no longer available to French policy-makers or will shortly become unuseable. Controls on capital, state aids, the blocking of takeovers, quantitative restrictions, the reserving of professions for nationals: the Single Market programme is rendering these instruments of policy obsolete or handing control over their use to

the Commission - which, since the appointments of Herr Bangemann and Sir Leon Brittan, they no longer perceive as an ally. There has certainly been more to French liberalism since 1983 than simply putting a good face on changes rendered inevitable by their political commitment to the Single Market; but undoubtedly European Community obligations would limit their options if ever they were tempted to go into reverse.

17. Finally, French industrialists and service providers, as they expand overseas, have an increasing stake in ensuring that foreigners can enjoy access to the French market. They know that the sword of reciprocity which they brandish so frequently in their dealings with the Japanese and others could be turned against them if the barriers were to go up again.

18. None of this means that British businessmen will necessarily find France an easy or congenial place to do business. For the time being, employer social benefits contributions and corporate tax rates look set to remain higher than in the United Kingdom. The French place less of a premium on good humour and friendliness in business contacts. Fewer French businessmen speak English than an English businessman might wish, though more and more are doing so better and better. The retail distribution system is more fragmented than in the United Kingdom.

have to deal. These difficulties will no doubt continue to make many feel that they are unwelcome here and will fuel a belief that little has changed. But impressions can be misleading. British non-oil exports to France grew by over 20% in 1989, and from an already strong base. British exports to France in 1987 and 1988 represented 1.44% and 1.55% respectively of French GDP. Measured in these terms the French market is more open to our goods than either the German (1.37% and 1.41%) or the American (0.4% and 0.39%) markets. And in recent years France has been the second largest recipient of British fixed corporate investment after the United States.

Conclusions

19. Few French are radical free-marketeers, and there are still many examples of interventionism and protectionism in France. But there has been a pronounced trend towards liberalism in recent French policy, and France is now relatively open to foreigners wishing to sell, invest or practise here, probably more open than several other members states of the European Community, and certainly more open than Japan and most of the Newly Industrialising Economies. When we differ on trade or industrial policy issues in brussels, as we shall undoubtedly continue to do in the period ahead (for instance on policy towards Japanese car imports, air services liberalisation and

of pan-European infrastructure networks) these differences should be seen in perspective. We should continue to apply pressure for the removal of the restrictions that remain, and we need never hesitate to take up with the Commission or bilaterally examples of anti-competitive practice. Nevertheless, we need also to keep in mind how far the French have moved in recent years. It would be surprising if a predominantly Socialist government, relying as it dos for its political support on the Civil Service and the public sector, were to make public professions of faith in the virtues of economic liberalism. Yet they are not at the opposite end of the spectrum from us and we are likely to find that they are increasingly ready to work with us against protectionism elsewhere in the Community, eg barriers to takeovers in the FRG and state aids in Italy. Nor are they always the obvious target for our attacks. Above all, we should not throw stones if we ourselves are vulnerable.

20. I am sending copies of this despatch to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, Her Majesty's Ambassadors at Washington, Tokyo, Bonn, Rome, Madrid, Brussels and The Hague, to the United Kingdom Permanent Representatives to the EC and OECD, to Charles Powell at No 10 and to the Governor of the Bank of England.

Le Premier Ministre

PARIS, le 2 Mars 1990

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T45c/90
Subject cc Master
cc OPS.

Madame,

L'évolution actuelle des technologies m'a conduit à confier à M. Maurice DU MESNIL, ingénieur général des télécommunications, secondé par les représentants des différents services chargés du recueil et de l'exploitation du renseignement, une mission d'examen des systèmes français d'interception et d'écoute.

A ce titre, je souhaiterais qu'il puisse profiter de l'expérience de pays amis, acquise dans ce domaine. C'est pourquoi, je serais heureux que cette personnalité se rende en GRANDE BRETAGNE au cours du mois de mars afin de s'informer sur les méthodes adoptées par les services britanniques et les moyens techniques mis en oeuvre.

M. DU MESNIL serait accompagné lors de sa visite de M. Jérôme VENTRE de la Direction générale de la sécurité extérieure (D.G.S.E.), M. Jean-Pierre BRUT de la Direction de la surveillance du territoire (D.S.T.), et du colonel de l'armée de terre Georges DIEULAFAIT du Centre d'exploitation du renseignement militaire (C.E.R.M.).

Je tiens à vous remercier pour l'accueil que vous voudrez bien réserver à ma demande et pour les contacts qui pourraient être pris à cette occasion.

Je vous prie de bien vouloir agréer, Madame le Premier Ministre, l'expression de mes hommages respectueux.

Je voudrais en outre, dans la perspective de notre prochaine rencontre, vous assurer de ma profonde gratitude.

M. Rocard

Madame Margaret THATCHER
Premier Ministre du Royaume Uni

Michel ROCARD

DU MESNIL (Maurice)

Né le 21 juin 1923 à Mont-de-Marsan (Landes).

Situation de famille : Marié, 4 enfants

Diplômes : Ancien élève de l'Ecole polytechnique, Ingénieur de l'Ecole nationale supérieure des télécommunications.

Carrière :

1948-57 : Ingénieur des télécommunications à Bordeaux, chargé du service des lignes puis des installations télex et téléphoniques rurales,
1957-66 : Ingénieur en chef des télécommunications à Rouen, Chef du département commmunication et bâtiments pour la Haute et Basse-Normandie,
1966-72 : Directeur régional des télécommunications à Orléans,
1972-78 : Ingénieur général des télécommunications, Directeur des télécommunications du réseau national,
1977-82 : Chargé de missions par le ministre des PTT,
1980-81 : Rapporteur à temps partiel à la Cour des comptes,
1979-82 : Président du GIE vidéotransmission international,
1982-83 : Directeur des affaires de télécommunications civiles du groupe Thomson
1983-87 : Directeur de l'enseignement supérieur des télécommunications,

Haut-fonctionnaire de défense auprès du ministre de la Poste et des Télécommunications (depuis 1987 et jusqu'à son départ à la retraite au mois de juillet 1989)

Depuis 1988 : Chef du service de défense et de sécurité du ministère, Vice-président du comité de coordination des télécommunications,
1961-64 : Président de l'Associations française des ingénieurs des télécommunications,
1961-64 : Vice-Président de la Fédération des ingénieurs des télécommunications de la Communauté européenne.

Décorations : Officier de la Légion d'honneur, Commandeur de l'ordre national du Mérite.

FILE KK

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 March 1990

PRIME MINISTER'S DINNER WITH THE FRENCH AMBASSADOR

The department were kindly going to prepare some briefing for the Prime Minister's dinner at the French Embassy on 11 March, to meet French businessmen. I enclose some notes which the Ambassador has sent me, which the department may find helpful.

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

le 1er mars 1990

BERNARD ARNAUD

As Chairman of Louis Vuitton Moët Hennessy (LVMH), Mr Arnaud entertains important business relations with Guinness which has a share of 24% in LVMH. The two companies have extensive distribution agreements.

Besides, the company owns Moët and Chandon which ranks first in the Champagne market in the UK.

CLAUDE BEBEAR

Mr BEBEAR is Chairman and Chief Executive Officer of AXA-MIDI ASSURANCE, which owns EQUITY AND LAW and has 57% share in WESTGATE INSURANCE.

JACQUES CALVET

PSA Group, manufactures cars in their Ryton plant near Coventry for British and European markets.

JEAN RENE FOURTOU

RHONE POULENC has had for more than 50 years an important subsidiary in this country : RHONE POULENC UK (formerly MAY AND BAKER) which manufactures and sells chemical and pharmaceutical products.

Recently, Rhone Poulenc added to its subsidiary the fine chemicals division of RTZ and the silicon business of ICI both acquired in the course of last year.

ALAIN GOMEZ

THOMSON CONSUMER ELECTRONICS manufactures television sets and video recorders in the UK under the brand name of Ferguson.

Last January, Thomson merged its missile activities with those of British Aerospace to form a new company : EURODYNAMICS.

Further, Thomson agreed to buy half of FERRANTI INTERNATIONAL, SONAR operations, subject to the UK government approval.

Previously, in 1989, Thomson-SGS bought INMOS from THORN-EMI which received in return a 10% stake in the enlarged franco-italian semi conductor group.

RENAUD de la GENIERE

Banque INDOSUEZ, has a branch in London.

JEAN- LUC LAGARDERE

MATRA ESPACE and MARCONI AEROSPACE merged in October 89 their missiles operations to form a new company : MATRA MARCONI SPACE.

LINDSAY OWEN-JONES

L'OREAL has a manufacturing plant in Wales.

SERGE TCHURUK

TOTAL has a two third stake in the FRIGG and ALLWYN NORTH fields in the North Sea and various other interests in the UK including oil refining and distribution.

In his previous capacity as Chairman of ORKEM, Mr Tchuruk linked up its printing ink subsidiary LORILLEUX with COATES BROTHERS and set up a partnership with MTM the Liverpool based concerned. Following those first agreements, COATES AND NORSOCHEM (joint venture with MTM) have been fully acquired.

JEAN-PIERRE DESGEORGES

GEC ALSTHOM . Has been set up in June 1989 by a merger between ALSTHOM and POWER HEAVY EQUIPMENT division of GEC.

ANDRE BENARD

EUROTUNNEL. Co-Chairman from September 1986 to February 1990. Chairman of Eurotunnel since then.

The National Archives

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

1 March 1990

Dear Martin.

TRADE AND INDUSTRY SECRETARY'S VISIT TO PARIS

The Prime Minister has seen Paris telegram no. 247 reporting the Trade and Industry Secretary's discussions in Paris. She is most disturbed to learn of the line being taken by the French Government on Japanese cars, and has commented that we cannot let them get away with that.

I am copying this letter to John Gieve (HM Treasury), Richard Gozney (Foreign and Commonwealth Office) and Sonia Phippard (Cabinet Office).

Yours sincerely,

Charles Powell

Martin Stanley Esq
Department of Trade and Industry

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TELNO 247
OF 271821Z FEBRUARY 90
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(FRAME EXTERNAL)
VISIT TO PARIS BY SECRETARY OF STATE FOR TRADE AND INDUSTRY, 26-27 FEBRUARY 1990

SUMMARY

1. USEFUL DISCUSSIONS WITH FAUROUX, MME CRESSON AND BEREGOVOY. MR RIDLEY PRESSED THE UK CASE ON JAPANESE CAR IMPORTS INTO THE EC: NO GIVE ON THE FRENCH SIDE. FRENCH POSITION CLOSER TO OUR OWN ON GATT TEXTILES, EC COMPETITION POLICY, AND ECONOMIC CONSEQUENCES OF GERMAN UNIFICATION, THOUGH MR RIDLEY ARGUED THAT THE CONSEQUENCES OF THE LATTER FOR THE DM AND ERM WEAKENED RATHER THAN STRENGTHENED THE CASE FOR STERLING JOINING THE MECHANISM. MR RIDLEY PUT ACROSS OUR VIEW ON FINANCIAL SERVICES ISSUES AND LOBBIED ON BEHALF OF THE BRITISH LAWYERS IN PARIS AND ON LONDON AS THE SITE OF THE EBRD.

DETAIL

2. MR RIDLEY WAS IN PARIS ON 27 FEBRUARY FOR TALKS WITH THE FRENCH MINISTERS FOR INDUSTRY (FAUROUX), EC AFFAIRS (MME CRESSON) AND FINANCE (BEREGOVOY), AND FOR LUNCH WITH A SELECTION OF FRENCH BUSINESSMEN. A FULL RECORD WILL BE PREPARED IN LONDON. THE MAIN POINTS ARISING WERE AS FOLLOWS.

JAPANESE CARS

3. MR RIDLEY ARGUED THAT ANY TRANSITIONAL PERIOD SHOULD BE AS SHORT AS POSSIBLE, THAT IT WOULD BE QUITE WRONG, IN TERMS OF LAW, PRINCIPLE AND PRAGMATIC SELF-INTEREST TO COUNT CARS PRODUCED BY JAPANESE-OWNED PLANTS IN THE EC AGAINST NATIONAL QUOTAS, AND THAT THE COSTS OF PROTECTIONISM WERE HIGH. NEITHER FAUROUX NOR MME CRESSON GAVE ANY GROUND. THEY ARGUED THAT THE FRENCH INDUSTRY WOULD GO UNDER WITHOUT A LONG PERIOD OF TRANSITIONAL PROTECTION, INCLUDING FROM TRANSPLANTS, AND THAT THEY WERE NOT READY TO BECOME AS DEPENDENT ON THE JAPANESE IN THIS SECTOR AS WE WERE. MME CRESSON

SUGGESTED THAT A DISTINCTION BETWEEN US AND JAPANESE TRANSPLANTS WAS JUSTIFIED BY DIFFERENCES IN STRATEGY: THE US COMPANIES HAD NEVER SET OUT TO CRUSH ALL OPPOSITION. SHE SAID CARLA HILLS HAD URGED HER TO AVOID MAKING THE MISTAKE THE AMERICANS HAD MADE IN OPENING THEIR MARKET TO THE JAPANESE. SHE INTENDED TO ENSURE THIS ADVICE WAS FOLLOWED: THE FRENCH WOULD CLOSE THEIR BORDERS TO PARALLEL IMPORTS IF NECESSARY. SHE DOUBTED WHETHER FORMAL AGREEMENT ON A MANDATE FOR THE COMMISSION WAS NECESSARY. SHE WOULD PREFER TO SEE ANDRIESSEN NEGOTIATING WITHIN A FAIRLY GENERAL FRAMEWORK AND REPORTING BACK TO THE COUNCIL FROM TIME TO TIME. IN THE CASE OF BOTH MEETINGS, HOWEVER, THE CONCLUSION WAS THAT THE CENTRAL SUBJECT FOR DEBATE WAS NOT THE ULTIMATE DESTINATION BUT THE DURATION OF THE TRANSITIONAL PERIOD (LARGE THOUGH THE GAP BETWEEN US WAS).

GATT URUGUAY ROUND

4. MR RIDLEY PRESSED THE CASE FOR PROGRESS IN THE AGRICULTURAL AND TEXTILES SECTORS. NEITHER FAUROUX NOR MME CRESSON REJECTED THE ARGUMENT THAT A PHASING OUT OF THE MULTI FIBRE AGREEMENT WAS NECESSARY AND DESIREABLE. FAUROUX IMPLIED HE WAS READY TO TELL FRENCH TEXTILES PRODUCERS THAT THE CONSEQUENCES WOULD HAVE TO BE FACED. IT WAS CLEAR THIS SECTOR WAS MUCH LESS SENSITIVE IN FRENCH EYES THAN THE VEHICLES SECTOR. BEREGOVOY, WHO WAS ENCOURAGINGLY FAMILIAR WITH THE DOSSIER, SAID THAT OF THE MAJOR OUTSTANDING ISSUES, TEXTILES AND SERVICES WOULD BE SETTLED AFTER NEGOTIATION. THE REAL DIFFICULTY WOULD BE WITH THE AMERICANS OVER AGRICULTURE. THEY CONSTANTLY REPEATED THAT SUBSIDIES MUST BE ELIMINATED. THE FRENCH ON THE OTHER HAND WERE STRONGLY ATTACHED TO THE CAP. BEREGOVOY CONCLUDED THAT THE ISSUE WOULD HAVE TO BE RESOLVED AT HEAD OF GOVERNMENT LEVEL.

COMPETITION POLICY

5. MR RIDLEY PRESSED FOR A LEVELLING OF THE PLAYING FIELD ON STATE AIDS AND TAKEOVERS, AND POINTED OUT THE INJUSTICE OF FRENCH PUBLIC SECTOR COMPANIES BEING ABLE TO ACQUIRE COMPANIES OVERSEAS WHILE THEMSELVES REMAINING IMMUNE TO TAKEOVERS. FAUROUX ASSURED HIM THE FRENCH WERE NO LONGER IN THE BUSINESS OF LAVISHING SUBSIDIES ON FRENCH INDUSTRY. THEY WISHED FOR POLITICAL REASONS TO MAINTAIN AN INDUSTRIAL PUBLIC SECTOR: BUT THE RENAULT-VOLVO DEAL HAD SHOWN THAT THEY WERE READY TO SEE FOREIGN COMPANIES ACQUIRE MINORITY STAKES IN FRENCH PUBLIC SECTOR COMPANIES. IF A BRITISH COMPANY SOUGHT TO ACQUIRE SUCH A STAKE, THE CASE WOULD BE CONSIDERED ON ITS INDUSTRIAL MERITS.

GERMAN UNIFICATION

6. FAUROUX AND MME CRESSON AGREED WITH MR RIDLEY THAT THE GERMANS SHOULD BEAR THE COSTS OF THE ECONOMIC DEVELOPMENT OF THE GDR LANDER, THOUGH MME CRESSON WAS READY TO SEE SOME EC INVESTMENT IN INFRASTRUCTURE PROJECTS (TRAINS, TELECOMMUNICATIONS, ENERGY SUPPLY LINES) THAT WOULD ALSO BENEFIT THE EAST EUROPEAN COUNTRIES BECAUSE THAT IN TURN WOULD HELP OPEN UP THE MARKETS TO FRENCH AND OTHER SUPPLIERS. FAUROUX ALSO AGREED THAT UNIFICATION WOULD CREATE INFLATIONARY PRESSURES IN THE FRG AND PUT THE ERM UNDER PRESSURE.

7. THIS AND RELATED SUBJECTS WERE COVERED AT GREATER LENGTH WITH BEREGOVOY. ON EASTERN EUROPE MR RIDLEY AND BEREGOVOY AGREED ON THE IMPORTANCE OF HELPING FLEDGLING DEMOCRACIES THROUGH A DIFFICULT PERIOD OF ECONOMIC REFORM, MR RIDLEY STRESSING THE NEED IN PARTICULAR FOR PRIVATE INVESTMENT. ON GERMANY, BEREGOVOY SAID UNIFICATION WAS INEVITABLE, BUT MUST TAKE PLACE WITHIN THE CONTEXT OF THE ALLIANCE AND THE COMMUNITY. THE 2 + 4 FORMULA AGREED AT OTTAWA WAS SENSIBLE. BUT THE PROCESS WOULD TAKE TIME. ECONOMIC AND MONETARY UNION ON THE OTHER HAND COULD HAPPEN MORE QUICKLY. THE FRG HAD A STRONG INTEREST IN PUTTING ORDER BACK INTO THE EAST GERMAN ECONOMY AND STOPPING THE FLIGHT TO THE WEST. THERE WOULD BE DIFFICULTIES NOTABLY OVER THE DM/OM CONVERSION RATE, AND THERE COULD BE A BOOST TO INFLATION IN WEST GERMANY, WITH HIGHER INTEREST RATES. CLOSER ECONOMIC AND MONETARY COOPERATION WAS NEEDED TO AVOID THIS EFFECT SPILLING OVER INTO OTHER EUROPEAN ECONOMIES, INCLUDING BRITAIN AND FRANCE. STERLING'S PARTICIPATION IN THE ERM WOULD BE AN IMPORTANT ASPECT OF THIS.

8. MR RIDLEY SAID HE AGREED WITH NEARLY ALL THIS ANALYSIS, BUT THOUGHT THAT BEREGOVOY UNDERESTIMATED THE TURBULENT SHORT TERM EFFECT ON THE WEST GERMAN ECONOMY OF GERMAN ECONOMIC AND MONETARY UNION, PARTICULARLY IF THE COSTS WERE MET BY MONETARY EXPANSION RATHER THAN TAXATION. HE FAVOURED DISCUSSION AND COOPERATION TO LIMIT THE EFFECT OF THIS ON OUR ECONOMIES. BUT HE DREW THE OPPOSITE CONCLUSION FROM BEREGOVOY ABOUT STERLING AND THE ERM. TURBULENCE IN GERMANY WOULD WEAKEN THE ERM AND IN TURN WEAKEN NOT STRENGTHEN THE CASE FOR STERLING JOINING.

BRITISH LAWYERS IN PARIS

9. MR RIDLEY STRESSED TO MME CRESSON HIS CONCERN THAT A REFORM OF THE FRENCH LEGAL PROFESSION UNDER CONSIDERATION WOULD IMPOSE

UNWARRANTED RESTRICTIONS ON BRITISH LAWYERS PRACTISING IN PARIS. MME CRESSON SAID SHE ENTIRELY AGREED AND THAT SHE HAD URGED THE FRENCH JUSTICE MINISTER TO MODIFY THE OFFENDING PROVISIONS. HE WAS UNDER PRESSURE FROM THE FRENCH PROFESSION WHO WERE RELUCTANT TO MAKE THE EFFORT TO COMPETE WITH BRITISH LAWYERS, BUT SHE SAW GROUNDS FOR OPTIMISM ABOUT THE OUTCOME. (I HAD ALREADY ARRANGED TO CALL ON ARPAILLANGE ON 5 MARCH AND SHALL FOLLOW UP MR RIDLEY'S APPROACH).

EBRD SITE

10. MR RIDLEY LOBBIED BEREGOVOY ON LONDON AS THE SITE FOR THE EBRD. BEREGOVOY SAID THE FRENCH WERE NOT BIDDING FOR THE SITE AND HAD NO OBJECTION IN PRINCIPLE TO LONDON, THOUGH THERE WERE OTHER CANDIDATES. THEY HOPED THE PRESIDENT MIGHT BE FRENCH.

FCO PLEASE PASS PS/SECRETARY OF STATE, MR ROBERTS, MR THORNTON (IEP), MR JOHNSON (EEP), MR BOWEN (CVM) IN THE DTI, MR EVANS, MR R I G ALLEN IN HM TREASURY, MR WHITE IN THE LORD CHANCELLOR'S DEPARTMENT, MR KERR, MR ARTHUR, MR JONES-PARRY IN THE FCO.

FERGUSSON

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MEETING Record
Subject cc Master

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file

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 February 1990

Dear Maurice,

PRIME MINISTER'S MEETING WITH M. GISCARD D'ESTAING

The Prime Minister had a talk this afternoon with M. Valéry Giscard d'Estaing. I am writing separately to Stephen Wall about the main part of the discussion. But you may find it helpful to have this separate note on the Party aspects.

M. Giscard said that his Liberal Group in the European Parliament enjoyed good relations with the European Democratic Group. Might it not make sense for the two of them to merge to form a larger group of 100 or so members? He would be interested to know what the Prime Minister thought.

The Prime Minister said it was not a matter of tactics but of principles and policies. The two groups had to consider whether they stood for the same principles. She would talk to Sir Christopher Prout about this.

M. Giscard said that he saw two possibilities. The first would be to create a large centre-right group including the European People's Party. This would probably be very difficult to achieve, given the propensity of the EPP to co-operate with the Socialists. The second would be a smaller grouping of Liberals and Conservatives. In his experience the two groups adopted very similar positions on domestic issues. Where they tended to differ was on European questions, in particular the future shape of Europe. He hoped the Prime Minister would let him know her views once she had talked to Sir Christopher Prout.

I am copying this letter to John Whittingdale here at No.10 and to Sir James Spicer in Conservative Central Office.

Yours sincerely,

Charles Powell

Maurice Fraser, Esq.,
Foreign and Commonwealth Office

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CONFIDENTIAL AND PERSONAL

Meeting Record
Subject cc Master

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 February 1990

Dear Stephen.

PRIME MINISTER'S MEETING WITH MONSIEUR GISCARD D'ESTAING

The Prime Minister had a talk this afternoon with Monsieur Valéry Giscard D'Estaing. I have written separately to your Special Adviser about their exchange on possible co-operation between the Liberals and the EDG in the European Parliament. The rest of their discussion was concerned entirely with German unification.

The Prime Minister said that it was clear that German unification was going to happen. Her main objective was to persuade the German Government that they must take into account the interests and sensitivities of others in Europe. Monsieur Giscard said that he and Helmut Schmidt had read and discussed the Prime Minister's remarks on the subject to the Board of Deputies of British Jews the previous day and supported the substance of them. Their differences with her lay over the strategy which the rest of Europe should adopt. Broadly, the choice lay between establishing alliances to counter-balance Germany, and tying the Germans into a framework in which they were compelled to behave. He wondered whether the Prime Minister had made up her mind about this. Or was she just waiting and watching?

The Prime Minister said that she did not think the right answer was a tighter, federal Europe. That ran contrary to people's instincts: and it was clear from what was happening in Eastern Europe that nationalism was still a factor. Moreover, we could not leave the Soviet Union out of account. She was more inclined to think in terms of a looser structure of confederation in a larger Europe. Monsieur Giscard suggested that the Helsinki framework already provided this: there was no need for a confederation. Helsinki offered a loose structure of meetings and conferences within which regional disputes in Europe could be resolved. But on its own it was not enough. He therefore saw a need for a stronger structure in western Europe. He knew that the Prime Minister did not like that. But we were at a cross-roads. A 'dispersed' Western Europe coping with an increasingly powerful Germany was not an attractive option.

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The Prime Minister said that she thought this point of view contained a fundamental miscalculation. The basic fact was that Germany was going to get steadily stronger. When the European Community had been founded, France had been in the ascendant. That had changed. Germany was now dominant in the Community: and attempts to create a tighter European Community would only extend Germany's power still further. It would not be a case of tying Germany into the Community: the reality was that the Community was tied to Germany. That was particularly true in the monetary field where the DM ruled supreme. Monsieur Giscard said that he was beginning to doubt whether the ERM was still the best instrument: the situation had changed since its creation. The DM had not been so powerful then. But he still did not see how the Prime Minister's view of a 'dispersed' Europe could keep Germany in check. If the Community halted at its present stage of development, that would ensure its domination by Germany. The Americans and Japanese would be interested only in the DM. Trade negotiations would centre on Germany rather than anyone else. Indeed, Europe would equal Germany. Within a tighter European Community, Britain and France together would still be stronger than Germany.

The Prime Minister said she found this hard to reconcile with the thesis in the joint article by Monsieur Giscard and Helmut Schmidt, which was predicated on Franco-German co-operation. The fact was the European Community was no longer the same as it had been when Monsieur Giscard and Helmut Schmidt were in office. Germany was now the dominant partner in that relationship. There were also constant attempts to enlarge the power of the Commission. The time had come to put a stop to that. The power of initiative which the Commission enjoyed had been appropriate at the time of the Community's foundation but was no longer necessary. Monsieur Giscard said that his purpose in creating the European Council in 1975 had been precisely to avoid concentrating too much power in the Commission. It was a great pity that Britain and others had reduced the number of times that the European Council met.

The Prime Minister said the immediate problem confronting us was to make Germany discuss the consequences for the rest of Europe of unification. The decision to establish the Four plus Two Group had been a step forward. Genscher seemed to understand the need to reassure others better than Kohl. There were very real concerns among other European countries about Germany's behaviour, particularly the way in which Bonn was trying to dragoon the GDR into unification. She had found the Polish Prime Minister very agitated. Monsieur Giscard commented that he was quite right to be worried. Within a very few years a united Germany would want to move back the Polish border, which would run only 50 kms from Berlin.

Monsieur Giscard asked what the Prime Minister would be proposing at the special meeting of the European Council in Dublin. the Prime Minister said the first priority must be to get the consequences of unification for defence and for borders in Europe worked out. This would be done in the Four plus Two Group, although others would have to be consulted.

She fully supported Poland's wish to have its border confirmed by a treaty. The task of the Dublin meeting would be to negotiate the terms on which East Germany would be absorbed into the European Community. It was likely to be a difficult discussion.

Monsieur Giscard said that he found it hard to believe that unification could take place without there being an election covering Germany as a whole. In his view, Chancellor Kohl would be defeated in that and we would be faced with a Socialist Germany. The Prime Minister thought that a gloomy prospect.

Monsieur Giscard continued that Britain's position in all this was a key one. France would prefer a federal Europe, but did not wish to be left alone with Germany in such a structure. It was only feasible with Britain's participation. France needed to know Britain's ultimate position. What progress did the Prime Minister envisage in Europe? The Prime Minister said she was not at all surprised to hear that Monsieur Giscard did not relish the prospect of a federal Europe in which Germany was dominant. She thought the Community should continue to develop on its present course but without further centralisation of power. We would not accept Delors Stages II and III. Britain was pledged to join the ERM, but she was glad we were not in it at the moment. Monsieur Giscard said that if matters just went on as at present, the DM would become even more dominant. If there was a central bank, the DM would still be important but would be only one among many. He had come to the conclusion that the worst system was a fixed exchange rate based on a strong but under-valued DM. Rather than Delors' structure, it might be better to envisage a tighter association of Community central banks.

The Prime Minister said that we had entered the last decade of the century with high hopes. But fresh worries were piling up fast. Monsieur Giscard said that he had been impressed by the Prime Minister's remarks and found himself reluctantly agreeing with some of them. He asked whether the Prime Minister had talked equally frankly to President Mitterrand. The Prime Minister said that she had indeed discussed these matters with him. She had found him very concerned about German unification.

I am copying this letter on a personal basis to John Gieve (Treasury) and to Sir Robin Butler.

Yours sincerely,

CHARLES POWELL

J S Wall Esq
Foreign and Commonwealth Office

PRIME MINISTER

MEETING WITH FORMER PRESIDENT GISCARD D'ESTAING

Former President Giscard is coming to see you on Monday afternoon. You will recall that he is now a member of the European Parliament, where he leads the Liberal group. The main reason for his visit to the United Kingdom is to attend a conference at Ditchley Park, at which Helmut Schmidt, former President Ford and Lord Callaghan will also be present. I dare say they will be up to no good.

Giscard has become a strong federalist and ardent proponent of economic and monetary union. He favours bringing forward the IGC to earlier in the year: indeed, he has said this is the first question he would like to discuss with you. He has also taken a very positive line on German unification: and he and Helmut Schmidt have written an article, which he has sent you, arguing that unification should strengthen the Franco-German axis. Indeed, in the article Europe is seen largely as the preserve of France and Germany. He may also raise with you a proposal he has made to merge the Liberals, the EPP and the EDG in the European Parliament under his leadership. Sir Christopher Prout appears amenable to this, but it is unlikely that the EPP would agree.

If you are allowed to speak, you might explain your views and pre-occupations about German unification, emphasising the need to examine the external consequences very thoroughly. You welcome the creation of the Berlin Four plus two Germanies Group, and the proposed informal meeting of the European Council to look at the consequences for the Community. You may also like to make some comment on his article if you have time to read it. It has some positive aspects: the importance of formal recognition of the frontier between Germany and Poland, and the need to ensure that East Germany's absorption into the Community is not at the expense of others. But you strongly disagree with the assertion that the aim must be a federal Europe: and you do not accept that the future of Europe should be a function of Franco-German co-operation. Indeed, you hope that one result of recent

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developments over Germany will be closer Anglo-French co-operation, particularly in defence.

On European Community matters, you will want to make clear that you see no reason to bring forward the date of the IGC. The preparatory work has not yet been done. Anyway, Chancellor Kohl has declared himself firmly opposed to holding an IGC before the German elections. You will want to reiterate our scepticism about economic and monetary union. Giscard wants the European Parliament to play a bigger role, both in the IGC and more generally. You might make the point that, if institutional reform is to become a subject for discussion in the Community again, you will have some radical ideas to put forward on the powers of the Commission (and possibly the Parliament).

If he raises the question of an alliance in the European Parliament between the Liberals, the EPP and the EDG, you will want to make clear this is not for you to decide. In general, you are all in favour of strengthening the centre-right, but are sceptical whether it is possible to embrace the views of all the parties concerned in a single organisation.

You will find in the folder:

- a note from the FCO;
- the record of a talk between Giscard and Ewen Fergusson;
- the Giscard/Schmidt article.

C.D.

CHARLES POWELL
16 February 1990

CONFIDENTIAL

cc PE

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

16 February 1990

Dear Charles,

Call by M Valéry Giscard d'Estaing: 19 February at 1430

M Valéry Giscard d'Estaing is calling on the Prime Minister at 1430 on Monday 19 February. He will see the Lord President at 1600 and the Foreign Secretary at 1700.

M Giscard d'Estaing resigned his National Assembly seat last year, following his election as an MEP but remains an influential figure on the French right and a potential Presidential candidate in 1995. As President of the UDF (Union pour la Démocratie Française), he has long been at loggerheads with M Chirac, the leader of the RPR (Gaullists). The latter has just survived a challenge at the RPR "Assizes" on 11 February. He remains leader of the RPR, but will have been weakened. This can only be to M Giscard d'Estaing's advantage.

M Giscard d'Estaing is in Britain for a conference at Ditchley Park on 17-19 February. The organisers have been rather coy about the conference, but we understand that it is an initiative of Lord Callaghan's. In addition to M Giscard d'Estaing, the other participants include former President Ford and Dr Helmut Schmidt. The subjects to be tackled at the conference include political developments in Europe, the future of the Alliances, the structure of Europe and East/West relations.

EC Issues

M Giscard d'Estaing leads the Liberal, Democratic and Reformist group (the third largest) in the European Parliament and is an influential member of the Parliament's Institutional Affairs Committee. He still has hopes of succeeding the Spanish Socialist Enrique Baron as EP President in January 1992, despite last year's deal between the Socialists and the Christian Democrats under which the latter backed Baron in return for Socialist support for a CD candidate next time. We expect Giscard to float the suggestion that the three moderate groups of the Right in the EP - the Christian Democrats, the Liberal Democratic Reformist Group and the European Democratic Group - should link up, to shift the balance of power away from the Socialist group and make the EDG's contribution more

/effective

effective: it would also help his Presidential aspirations. (Maurice Fraser will be in touch separately with John Whittingdale about this.)

M Giscard d'Estaing may raise current EC subjects. The French Presidency made significant progress (65 measures) on a number of difficult Single Market issues including merger control, life assurance and air transport liberalisation. The Prime Minister might like to urge the need for all, including the EP, to maintain the Single Market momentum; and to press our current priorities - financial services, and further transport liberalisation.

M Giscard d'Estaing has been a consistent advocate of rapid progress towards Economic and Monetary Union and favours bringing forward the IGC, from the end of the year to the Summer. The European Parliament is bidding for a role at the IGC. We do not agree - and nor do most member states, including the French. We would prefer arrangements as in 1985, when the Parliament was consulted informally in the margins of the IGC. The EP also envisages a pre-Inter-Governmental Conference of the three institutions (Parliament/Council/Commission): this would be somewhat less objectionable, though we would argue that the member states should not allow themselves to be drawn into any pre-negotiation and that the Council could therefore have no more than a watching brief.

/ M Giscard d'Estaing has asked us to forward an article which he has written, jointly with Helmut Schmidt, entitled "Strengthening the Franco-German Axis in response to recent events in Eastern Europe", which appeared in the Los Angeles Times on 11 February 1990. The theme is what he describes as "incorporating the unity of the two Germanies within the strategy of establishing a federal union of the member States of the EC".

/ A personality note on M Giscard d'Estaing is attached,
/ together with telegrams describing a recent conversation
/ between M Giscard d'Estaing and Ewen Fergusson and the recent
/ "Assizes" of M Chirac's RPR.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 February 1990

The Prime Minister is going to have dinner with the French Ambassador on 11 March, in order to meet a number of prominent French businessmen. I enclose a copy of the guest list. It would be helpful to have comments on them from the Embassy in Paris.

(CHARLES POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

MR POWELL

I have received the attached letter from Maurice Fraser, the Foreign Office Special Adviser specialising in European matters, concerning the Prime Minister's meeting with Giscard d'Estaing next week. You will see that Giscard intends to raise with the Prime Minister his idea that a umbrella Centre-Right Grouping in the European Parliament should be formed, with him as its leader. Maurice reports that Christopher Prout, in typical door-mat fashion, would be quite happy for Giscard to take on this role. I cannot believe that many other people would share his enthusiasm.

JTW
7

JOHN WHITTINGDALE
16th February, 1990

CC/PC

Foreign and Commonwealth Office

London SW1A 2AH

16 February 1990

Dear Charles,

C90 1492

I enclose a letter to the Prime Minister from M. Chirac, which has been sent through our Embassy in Paris, together with an unofficial translation.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

AMBASSADE DE FRANCE
A LONDRES

L'AMBASSADEUR

16th Feb.

Dear Charles,

Please find herewith the list of the French people who will come to dinner at my house on Wednesday 21st to meet Mr Thatcher and yourself.

I shall have their CVs sent to you as soon as they are completed.

I should then wish to have a word with you on the phone about the way the conversation should be "arranged" or "conducted" at dinner & after dinner.

Yours ever

Luc

DINER DU DIMANCHE 11 MARS 1990

Monsieur Bernard ARNAULT
Président du Groupe Louis Vuitton - Moët et Chandon

Monsieur Claude BEBEAR
Président du Groupe AXA

Monsieur André BENARD
Co-Président EURO-TUNNEL

Monsieur Jacques CALVET
Président du Directoire de Peugeot

Monsieur Jean-Pierre DESGEORGES
P.D.G. de JEC ASLTHOM

Monsieur Jean-René FOURTOU
P.D.G. de Rhône-Poulenc

Monsieur Alain GOMEZ
Président de Thomson CFE

Monsieur Renaud DE LA GENIERE
Président de la Compagnie Financière de Suez

Monsieur Jean-Luc LAGARDERE
Président de MATRA/HACHETTE

Monsieur Serge TCHURUK
Président TOTAL CFP

Monsieur Lindsay OWEN-JONES
Président de l'Oréal

Sir James GOLDSMITH

PERSONAL AND CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

15 February 1990

J Whittingdale Esq
Political Adviser
10 Downing Street
London SW1

Dear Mr Whittingdale

PRIME MINISTER'S MEETING WITH VALERY GISCARD D'ESTAING

Further to our brief word this morning, see paragraph 6 of the attached reporting telegram.

- Giscard made similar (rather nebulous) overtures to the EDG last summer, though at the time, he was only talking about EDG-Liberal merger.

- The Liberals, as you are no doubt aware, are a small and notably ineffectual grouping in the EP, not least because of their poor organisation and attendance record. As such, they are a totally inadequate vehicle for Giscard's ambitions.

- Sir Christopher Prout is quite amenable to the sort of arrangement which Giscard is proposing, and in principle would be prepared to accept fusion with either the European People's Party, the Liberals, or both. He remains of the view that the EDG can maximise its influence most effectively by fusion with the EPP. There is, of course, no prospect of this in the foreseeable future, although the EPP are to review the EDG's application for associate membership in eighteen months' time.

- Sir Christopher would be quite happy to have Giscard as the leader of a new centre-right grouping. He has always had a high personal regard for him, and dines with him regularly.

- The likelihood of the EPP agreeing to this idea is extremely slim, however. This would therefore leave only the Liberals as potential partners. Such a merger would in itself do little to increase the effectiveness of the British Conservatives in Strasbourg.

- Clearly, in the unlikely event of such a merger coming about, there would be considerable difficulties about the banner under which British Conservatives would contest European Elections in the future. They would, of course, continue to campaign as Conservatives, but they would have to explain to voters that they would be sitting in Strasbourg as part of some grouping with a name which, at present, we can only guess at. This would certainly be an unfamiliar idea for British voters, to say the least.

Yours sincerely

Lindsey Bradford

for MAURICE FRASER
Special Adviser

V.GISCARD d'ESTAING and Helmut SCHMIDT :

"STRENGTHENING THE FRANCO-GERMAN AXIS IN RESPONSE TO RECENT EVENTS IN EASTERN EUROPE"

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Published by the Los Angeles Times Syndicate
11 February 1990.

*

STRENGTHENING THE FRANCO-GERMAN AXIS IN RESPONSE TO RECENT EVENTS IN EASTERN EUROPE

In 1950, inspired by Jean MONNET, Robert SCHUMAN proposed that the coal and steel resources of France and Germany be pooled. Since then, the Franco-German axis has played a decisive role in progress towards European unification.

Not only our two countries but also Italy, the Benelux and, more recently, other countries such as Spain, have boosted progress towards European unification. But none of the decisive steps forward could have been taken without the impulse provided jointly by France and West Germany.

Acknowledgement of this fact first brought the leaders of both countries closer together, and later the ordinary people. Today, opinion polls show the French and the West Germans are "best friends" of the other nation.

Can this close friendship survive the situation created by recent events in Eastern Europe, particulary in East Germany ? Has the Franco-German axis a specific role to play in the policy that will redraw the map of Europe ?

We firmly believe that it has. Joint Franco-German action is necessary.

What do we expect it to achieve ?

The political leaders of Western Europe are going to have to face up to three problems : the reuniting of the two Germanies, unification of the 12 European Community Member States, and the definition of new relations with the democratic countries of Eastern Europe. Regarding the reunion of the two Germanies --a word which we prefer to "reunification", since that last word suggests a return to a previous situation-- three attitudes are possible for West Germany's partners, especially France :

-- They may try to slow down the process ;

-- They may seek new alliances to act as a counterweight to growing German power ;

-- They may act to incorporate the gradual reunion of the two Germanies in the process leading to a federal union of the states of Europe.

.../.

A word of warning against the first two options :

Any obvious intention to oppose the two Germanies' desire to unite would destroy the climate of confidence so patiently built up between France and West Germany. Opposition to German reunion might ignite a dangerous outburst of German nationalism.

As for seeking new alliances to act as a counterweight to German influence --with the Southern European countries, the United Kingdom or even, as some people have imprudently suggested, with the Soviet Union-- this would take us back to a trial of strength, particularly to the type of relations existing between European countries before the two world wars. It would set us back 80 years.

In pratical terms, the problem of the gradual reunion of the two Germanies will arise just after March, 18, 1990, when elections will be held in East Germany. The proclamation of these election results will have an outstanding impact on world public opinion : it will signal the death of 45 years of communist rule over Eastern Europe. The two German states will then understand the necessity of a long, drawn-out pragmatic process leading to a common political structure.

It is clear that rapprochement between the two Germanies will be at the heart of the political debate in Europe. The only approach consistent with the maintenance of Franco-German friendship and understanding is to incorporate the reunion of the two Germanies within the strategy of establishing a federal union of the Member States of the EC.

Such a federation would include not only economic and monetary union, but also the integration of foreign policies and ultimately of military and security policies --in which France and Germany will have a special role to exercise jointly.

Acting in this way would avoid going against the tide of history by setting the problem of reunion in pre-war terms. Rather, it would place German reunion in a contemporary context at the intersection of two major movements : the construction of a united Europe and the awareness of ethnic solidarity.

The German leaders must take into account the common concern of all other Europeans to prevent the restoration of German hegemony. And no nation in the world is better positioned than France to lend credibility to the German people's legitimate wish to unite.

.../.

Opting to deal with this problem in a postwar perspective entails pratical consequences that will provide a real test of the Germans' intentions. The German Government's answers to the following question will decisively influence the options for the future of a united Europe : From the German perspective, will a united Europe be only a large economic and monetary area with no common personality, or a federal union of the states of Europe ?

The first consequence of the German acceptance of a federal union would be the strict and clear recognition, with no legal niceties and no strings attached, of the frontier between East Germany and Poland.

The second consequence would be that reunion must take into account all the rules and obligations that the Member States of the EC have laid down for themselves in their progress toward a united Europe. East Germany will not join forces with a West Germany isolated in a national context, but with a state that is already part of the European Community, abiding by its operational procedures and participating in its institutions.

This means that the steps towards the reunion of the two Germanies will have to take full account of East Germany's capacity to comply with Community obligations. Those obligations are strict and precise.

They led new member countries such as Spain and Portugal to seek and obtain a transitional period for accession.

Similarly, the uniting process will have to guarantee the equilibria laid down in the Treaty of Rome, and confirmed with each subsequent accession, which have seen the EC expand from being a Community of Six to a Community of Twelve. With regard to the weighting of votes in the Council of Ministers and the number of Members of the European Parliament, demographic proportions are not strictly adhered to : The countries with the smallest population are better represented, and a rule of parity is applied to the four most populous countries : West Germany, Italy, France and the United Kingdom. The parity will have to be maintained in the event the two Germanies unite.

.../.

The reunion of the two Germanies must be seen as part of the process leading toward the establishment of the Union of the Member States of the Community.

The current outlook toward European unity lacks dynamism and clarity. Is Europe seeking a single market with monetary stability where all member states retain their sovereign powers or a federation to which member states allot joint powers ? It is time that the objective must be clearly set out : the institution of a federal organization that respects the diversity of its Member States. The realization of this option requires a strong political impulse that can only be provided jointly by France and Germany.

The first task to undertake without delay is to clear up any misunderstandings, especially those affecting the United Kingdom. A specific and exhaustive list of the areas that will be the responsibility of the Union, and of those which will remain the responsibility of the Member States and their local authorities, must be drawn up. That list will be based on the "subsidiarity principle", which restricts the powers and responsibilities of central government to those that can't be handled at lower levels.

This federation, of a type never seen before, will require a Constitution or a "Basic Law" because the existing institutions can no longer cope with the rapid pace of European developments.

It is essential that this task be carried out during the 1990s. There are no insurmountable problems, although certain compromises will obviously have to be sought.

However, it will not come about without a political will operating at the Community's three levels : the European Council, the Commission and the Parliament. To maintain its momentum, the EC must concentrate its energies to complete its union. Any enlargement that may slow down the process, or dilute the political will, must be postponed until the EC has definitely agreed on its future structure and rules.

.../.

We call on the French and German leaders to join together to demonstrate this political commitment. Without their common will, progress will be slow and minimal, as has been the case in the monetary sphere since 1980.

If we succeed in setting into motion the process leading toward the political unification of Europe, the process for uniting the two Germanies will be incorporated in a movement of which it will only be one part, and it will have to take into account both the political substance and the time-table for achieving the other parts of the whole.

Until the recent events occurred, relations between the Community and the communist countries of Eastern Europe developed on a progressive, case-by-case basis. Trade agreements were negotiated bilaterally. The GDR enjoyed special terms for its trade with the Federal Republic. Some countries participated in the activities of international economic institutions as members or observers. Until recently it seemed probable that, ten years or so from now, isolated applications would have been submitted for association agreements with the Community. The Community would have negotiated such agreements cautiously and, no doubt, concluded one or two.

The democratic uprisings of recent months have changed the picture completely. The public in Western Europe has been made aware by TV's daily and brutal images that another Europe also existed, that it as in a desperate economic situation and that it was turning towards Western Europe, even before turning towards the United States, to seek help and benchmark against which to base its reorganization. And the public in the West is growing impatient at the delay in the response from Western governments.

The call from the East is a simple one : "We want to live like you", but the response must vary because, as the tide of Communism ebbs, the land left uncovered differs from country to country.

France and Germany must together prepare an appropriate response to the popular pleas for rapprochement.

There are two different cases :

Some countries will have the capacity and desire to become incorporated into the Community. At the moment, the only probable candidate for a relatively early accession is East Germany. Others, such as Poland, Hungary and, no doubt, Czechoslovakia, will set as the goal of their economic restructuring a standard of living like that which exists within the EC.

.../.

The strengthening of their links with the Community may range from association to accession. The proper approach for dealing with these countries is to provide aid : emergency aid, transfert of know-how, technology and investment aid. Since this aid comes mainly from public funds, it ought to be channelled exclusively through the Community, with France and Germany acting as one.

Although it is right and proper for industrial experts to undertake missions to these countries, why are they undertaken on a strictly national basis ? Measures should be taken to send joint French and German business missions, for banks and insurance companies of both countries, to set up joint subsidiaries in those countries. The next Franco-German summit should be devoted to the coordination of the economic and financial operations undertaken by Germany and France in the Eastern European countries.

Since they have been cut off from Western political life for so long, the public and the new leaders in the countries of Eastern Europe are unaware of the close friendship that now exists between France and Germany. They still imagine that our two countries are suspicious and jealous of each other. This both reassures them and worries them.

In the next few months, they must be persuaded that the Europe with which they will be associated will be based on a close and irreversible friendship between our two countries, each of which, in the past, sought to attract them into hostile alliances against the other. Joint visits by the foreign ministers would demonstrate the new climate of friendship and understanding to which these countries will have to become accustomed.

The growth in economic power of the combined Germanies will have to be offset. If the Community has been able to equip itself with federal structures,and if it respects the principle of parity, this increase in power will not become manifest at a national level. But it is clear that industrial and financial cooperation will occur more rapidly based on a common German culture, thus making Germany economically larger than the others. Here we will have to rely on the joint undertakings of the other European countries, within a market context, to balance the new German economic might.

This must be accompanied by the use of Community resources for accelerating the development of Southern Europe --Italy, Spain and Portugal-- to maintain the existing equilibrium between the different parts of the European Community.

.../.

We do believe that, at the beginning of an entirely new era in Europe, France and Germany must act jointly to overcome the dangers and to seize the opportunities as they did daringly through the pooling of resources in the 1950s.

We call on leaders of our two countries to clearly set the new objective of the Union of the European States in which Germany may enjoy its unity while Europe keep the balance it vitally needs.

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EX-PRESIDENT GISCARD D'ESTAING'S VISIT TO LONDON ON 18 FEBRUARY

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2. GISCARD SAID THAT HIS FIRST QUESTION WOULD BE ON THE BRITISH ATTITUDE TO THE INTER-GOVERNMENTAL CONFERENCE AND HOW WE FELT ABOUT PROPOSALS THAT IT OR A SEPARATE IGC SHOULD CONSIDER THE ISSUE OF FURTHER INSTITUTIONAL DEVELOPMENT. I SAID THAT, AS HE WOULD KNOW, WE HAD ACQUIESCED IN THE SETTING OF A DATE FOR THE OPENING OF AN IGC BECAUSE THE DECISION WAS PROCEDURAL AND WOULD HAVE GONE THROUGH WHATEVER OUR VIEWS. HOWEVER, WE THOUGHT THAT THERE WAS MORE THAN ENOUGH FOR THE CONFERENCE TO FOCUS ON, IN RESPECT OF WHAT ECONOMIC AND MONETARY UNION SHOULD CONSIST OF, WITHOUT PRE-JUDGING OR SIMULTANEOUSLY IDENTIFYING NEW INSTITUTIONAL ACTIVITY. AT A LATER STAGE IN OUR DISCUSSION I MADE THE POINT THAT RECENT EVENTS REINFORCED THE NEED FOR THE COMPLETION OF ALL ASPECTS OF THE SINGLE EUROPEAN MARKET. IN RESPONSE TO HYPOTHETICAL FEARS IN THE SOVIET UNION, EASTERN EUROPE AND ELSEWHERE OF THE CONSEQUENCES OF GERMAN DOMINANCE AFTER REUNIFICATION, ONE COULD ARGUE THAT THE COMPLETION OF THE MARKET WOULD REINFORCE WHAT HAD BEEN THE TARGET IN 1952 OF THE ECSC TREATY, IE SUFFICIENT OUTSIDE CONTROL OVER THE COMMANDING HEIGHTS OF THE GERMAN ECONOMY AS TO ENSURE THAT THE RISK OF INDEPENDENT GERMAN ACTION WAS ELIMINATED. THAT WAS, FOR INSTANCE, ONE REASON WHY IT SHOULD BE MADE EASIER FOR OTHER EUROPEANS TO BUY CONTROL OF GERMAN COMPANIES, SO AS TO BREAK OPEN THE HERMETIC QUALITY OF GERMAN FINANCIAL, COMMERCIAL AND INDUSTRIAL INSTITUTIONS.

3. GISCARD TOOK THAT POINT. HE PERSONALLY DISCOUNTED THE PROSPECT OF ANY LONGER TERM DANGER OF MILITARY ACTIVITY BY A REUNIFIED GERMANY AND HE THOUGHT THAT, EXCEPT FOR A FEW OLDER PEOPLE, THIS WAS NOT A CONCERN FOR FRENCH PUBLIC OPINION AT LARGE. NEVERTHELESS, REUNIFICATION WOULD SIGNIFICANTLY TILT THE BALANCE WITHIN THE COMMUNITY (ADDING 20 PER CENT TO THE FRG'S GDP) AND HE SAW IT AS A VERY STRONG AND SHARED BRITISH AND FRENCH INTEREST TO WORK TO MAINTAIN THE CURRENT BALANCE WITHIN THE COMMUNITY INSTITUTIONS. THE

COMMUNITY HAD TWO OPTIONS. THE FIRST WAS TO ACCEPT THAT REUNIFICATION AND THE TURMOIL OF CHANGE ASSOCIATED WITH IT SHOULD JUSTIFY ORIENTING THE COMMUNITY TOWARDS NOTHING MORE THAN A LOOSE ASSOCIATION OF STATES. HE COULD SEE THE TEMPTATION FOR THE UNITED KINGDOM TO EXPLOIT CURRENT EVENTS IN THAT WAY. ON THE OTHER HAND, DE FACTO THAT WOULD PERMIT A EUROPE TO EVOLVE IN WHICH THE DOMINANT INFLUENCE ECONOMICALLY AND THEREFORE POLITICALLY WOULD BE A RESURGENT GERMANY. HE WAS NOT SURE THAT THAT WAS WHAT EITHER OF US WANTED. THE ALTERNATIVE WAS TO EXPLOIT A MORE COHERENT DEVELOPMENT OF THE COMMUNITY AND ITS INSTITUTIONS AS A WAY OF KEEPING CONTROL OVER GERMANY AND OF MAINTAINING THE BALANCE BETWEEN FRANCE, THE UNITED KINGDOM AND GERMANY.

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Le Maire de Paris

Paris, le 6 FEVR. 1990

Madame le Premier Ministre,

Vous avez eu la très grande amabilité de m'adresser ainsi qu'à mon épouse vos voeux pour 1990, et je tiens à vous en remercier chaleureusement.

Permettez-moi de vous présenter, à mon tour, ceux que je forme pour vous-même et votre famille, ainsi que pour le peuple britannique.

Vous savez l'importance toute particulière que j'attache aux rapports privilégiés entre nos deux pays et nos deux capitales.

Puisse donc l'année 1990 voir se renforcer encore leur amicale coopération dans leur intérêt commun.

Je vous prie, Madame le Premier Ministre, de bien vouloir agréer l'expression de mes très respectueux hommages et de mon bien fidèle et cordial souvenir.

Jacques CHIRAC

Madame Margaret THATCHER
Premier-Ministre du Royaume-Uni

LETTER FROM JACQUES CHIRAC TO THE PRIME MINISTER, 6 FEBRUARY: UNOFFICIAL TRANSLATION

Dear Prime Minister

I should like to thank you most warmly for your kindness in sending me and my wife your best wishes for 1990. I should like to take this opportunity of sending my own best wishes for you and your family as well as for the British people.

You are aware of the particular importance I attach to the privileged relationship which exists between our two countries and our two capitals. I hope that 1990 will see this friendly cooperation strengthened further in our common interests

[Courtesy close;
Signed Jacques Chirac]

RK2AEJ/1

BRITISH EMBASSY,
PARIS.

FROM THE AMBASSADOR

P J Weston Esq CMG
DUSS
FCO

31 January 1990

Dear John,

UK/FRANCE DEFENCE CO-OPERATION: 1989-1990

1. In January 1988 the Prime Minister put to President Mitterrand proposals for improving our co-operation in conventional defence matters. She asked him to consider the following:

(a) Collective defence/NATO: to help strengthen collective defence:

(i) by avoiding separate defence arrangements with other European countries which might seem to substitute for, or diminish the importance of NATO's consultative and force planning procedures: and

(ii) by finding ways of associating France more closely with NATO's collective defence arrangements.

(b) Central Front: to discuss bilaterally ways of achieving closer French involvement in the forward defence of the FRG, particularly by French forces contributing to the NORTHAG area and by our exercising reinforcement plans through French Channel ports and the use of French airfields.

(c) Other Joint Exercises: further developing joint exercises.

(d) Naval Co-operation: further joint planning and exercises in the Eastern Atlantic and Channel areas.

(e) Force Planning: to find ways in which the Alliance's Major Military Commanders could take greater account of France's own force plans in their defence planning.

2. I thought it would be useful to measure what has been done against these proposals, and asked my staff to do so. I enclose a summary note of what has been achieved. It shows that over the past two years progress has been made in the areas identified by the PM and thus in improving France's contribution to the strength of the Alliance.

France has not of course abandoned its long-standing refusal to participate in NATO's integrated military structure or in forward defence arrangements under integrated command. It has also continued to oppose elements of NATO's flexible response doctrine, particularly the role, range and number of tactical nuclear weapons. But as the enclosure shows, these theological problems have not proved a bar to steady and significant improvement of France's performance in the areas we defined two years ago.

3. As was recognised in January 1988, there are many other aspects to the Anglo-French defence and security relationship than those noted above. In these other areas also there has been movement:

(a) Defence equipment collaboration. Steady progress since the signature of the Reciprocal Purchasing Arrangement in December 1987: I enclose a short note. New industrial alliances are also leading to a deepening of co-operation.

(b) WE 177 replacement. The UK decision to look again seriously at the possibility of co-operating with France, putting the US and French options to compete on a level playing field.

(c) Arms control. Continuing close agreement on a politico-military approach to arms control and on the priorities - START, Conventional, CW, with no enthusiasm for SNF negotiations - has been capped by an increasingly intense collaboration on the CFE negotiations: UK interests, analysis and approach have tended to coincide more often with France than with any other Ally.

(d) Pol-mil consultations. On other Pol-mil subjects too the dialogue has broadened and is beginning to deepen, at all levels from Ministers downwards, with a particular focus on how we can work together to maintain the legitimacy and credibility of nuclear deterrence in Europe in the 1990's and thereafter. The paper which Philippe Guelluy recently gave John Goulden, with high level approval, could prove to be something of a land-mark, and a stepping-stone to more effective co-operation as its message sinks in among the upper reaches of the French administration.

(e) Other nuclear questions. Continuing progress in the highly classified exchanges between experts, including in areas which we know to be of interest to President Mitterrand. Richard Motram could spell this out further if you wish.

4. I had the impression from the Prime Minister when she was here on 20 January for talks with President Mitterrand that, though well aware of the reasons for working closely with France in the new situation which we face in Europe, she was sceptical whether much had been achieved in the defence field, and retained a rather negative impression of the outcome of her 1987/88 exchange with President Mitterrand. I should not want to exaggerate progress. It is still only a start. But you may think it worth letting Charles Powell have a note on where we have got to. If so, I hope this letter and its enclosures will provide the material.

Yours ever,

Ewen Fergusson

cc: Sir M Quinlan KCB, MOD
Sir M Alexander KCMG, UKDel NATO
Sir C Mallaby KCMG, Bonn

UK/FRANCE DEFENCE CO-OPERATION: CONVENTIONAL

SUMMARY OF PROGRESS ON UK PROPOSALS OF JANUARY 1988

1. COLLECTIVE DEFENCE/NATO

(a) President Mitterrand broke with precedent to attend NATO Summits in 1988 and 1989.

(b) The French made a substantial contribution to the naval operations in the Gulf in 1988, in close operative liaison with forces of WEU members and the US, though avoiding "political co-ordination".

(c) They worked closely with us in drafting NATO's Comprehensive Concept in spring 1989.

(d) They decided to participate in the new NATO Air Command and Control Systems (ACCS).

(e) They gave NATO's Military Committee a detailed briefing on the confidential defence co-operation agreements between France and NATO Commands.

(f) They invited members of the NATO Political Committee to visit French nuclear installations in September 1989 and arranged a full briefing programme.

(g) They have agreed to adopt NATO standards for air-to-air refuelling. (French Fighters regularly refuel from RAF tankers.)

(h) In May 1989 France hosted the 8-nation mine warfare Exercise NORMANEX off Cherbourg, with a clear NATO reinforcement scenario.

(i) Bilateralism: The French have not attempted to extend the Franco-German Defence Council and Joint Brigade experiments to other countries or other units; they have confined themselves to getting the Brigade off the ground and using it as a practical means of improving the interoperability of French and German units.

2. CENTRAL FRONT

(a) Contacts between NORTHAG and 1st French Army have improved, and the two commanders have met regularly.

(b) The French agreed to exercise the CHANGING JULIET option for French support to NORTHAG in the Command Post Exercise (CPX) CRESTED EAGLE in March 1990.

(c) They agreed to participate in the high-profile Field Training Exercise (FTX) LIONHEART in Germany in September 1992 and in the preparatory CPXs, SUMMER SALES AND JAVELIN, in 1991 and 1992. An exchange of helicopter pilots is being set up in preparation for these exercises.

(d) Reinforcement: They agreed to hold a first RED WINDMILL CPX in June 1988 and a second in May 1990; a future FTX is under discussion between Staffs.

(e) Staffs have begun to consider arrangements for using the Channel Tunnel in reinforcement.

(f) France's increasing willingness to contribute more visibly and effectively to defence of the Central Front was also marked by the unprecedented participation of substantial German units in a French exercise (CHAMPAGNE) in North-East France in September 1989.

3. OTHER JOINT EXERCISES

(a) Exercise PURPLE VENTURE, held in Brittany in November 1989, was the first Joint Out-of-Area (OOA) CPX since Suez.

(b) The French have invited a UK battalion to participate in their OOA FTX Exercise KORRIGAN in 1991. A French battalion will take part in a UK OOA FTX in 1992.

(c) A number of Special Forces joint exercises and bilateral training projects will take place in 1990 following a series of reciprocal visits in 1989.

(d) France's increasing willingness to participate in OOA exercises with major allies was also underlined by Exercise PHINIA held in March 1989 in the Mediterranean and Corsica with large-scale US participation, including two aircraft carriers.

4. NAVAL CO-OPERATION

(a) France has stepped up its level of participation in NATO naval exercises: eg more than 30 ships and submarines took part in Ex SHARP SPEAR in September, which provided opportunities to test the effectiveness of France/NATO naval co-ordination arrangements.

(b) Bilateral exchanges continue at steady rhythm: each year c 100 ships' visits (including resumption of SSN visits), 20-30 passage exercises, and major exercises with participation of both navies. Additional exchanges of personnel have been instituted.

(c) Regular staff liaison in some 20 areas of naval business is proving increasingly fruitful. In particular contacts between British and French naval commanders in the Channel and Eastern Atlantic have deepened significantly, leading to the updating of numerous standing agreements and to increasingly effective day-to-day co-operation in training, submarine operating and surveillance activities.

5. FORCE PLANNING

(a) The French have agreed to take close part in Allied consideration of the Force Planning implications of CFE reductions: France is fully engaged in the key grouping, the High level Task Force (Reinforced). This involvement may prove to represent a radical departure in France's approach to the collective defence.

6. AIR FORCE CO-OPERATION

(Not mentioned in January 1988 because of good existing co-operation: eg the French offer up to 400 sorties per day to Allied Air Forces, Central Europe and up to 300 RAF transits of French air space per month.)

(a) Recent French agreement to all UK proposals for increased low-flying over France (made in response to increased German restrictions and sensitivities).

(b) Continued close co-operation in planning AWACs. The two countries will share the use of a front-end simulator installed at RAF Waddington.

(c) Exercise ARC in October 1989 implemented joint control procedures for the air defence of the South-Western approaches. French and UK radar units controlled fighter and tanker aircraft from both countries using standard NATO procedures.

1. DEFENCE EQUIPMENT ISSUES

(a) There have been significant developments in the field of defence equipment collaboration in the last two years. In December 1987, the then Defence Ministers Mr Younger and M Giraud signed the Reciprocal Purchasing Arrangements which provided for reciprocal consideration of each other's defence equipment within certain price bands. In the 15 months to March 1989, some £60 million of business resulted from this agreement with a rough balance in each direction; this was in addition to a similar volume of 'normal' business.

(b) The Reciprocal Purchasing Agreement was strengthened by French willingness to publish a new 'Bulletin des Marchés de la DGA' thus increasing access to the French Defence market; many UK firms now subscribe. There has also been a series of conferences designed to promote the Arrangement which has served to improve mutual knowledge and understanding between officials and industry on both sides of the Channel. To date, there have been four such government-sponsored conferences;

a) Land Systems on 17/18 Sept 1987 in London
b) Sea Systems on 14/15 March 1988 in Paris
c) Air Systems on 23/24 Nov 1988 in London
d) Opportunities for French subcontractors on 7 December 1989 in London

A further conference, Opportunities for UK Subcontractors, is planned in London on 15 June this year. UK and French Trade Associations have also been sponsoring their own in-house seminars.

(c) As a direct result of the warmer climate created by the Reciprocal Purchasing Arrangement, many new subjects, hitherto unthinkable, are under discussion between the two MOD's eg cooperation on nuclear missiles, decontamination, decommissioning, and future naval projects. Most encouragingly, the Anglo-French Defence Research Group has been given a new lease of life, and its activities in the upstream research area may well lead on to the collaborative programmes of tomorrow.

31 January 1990

FILE KK

c/Foreign/Nanteuil

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 January 1990

Thank you very much for your letter and for sending me the list of guests you have in mind to invite. My inclination would be to go for a total of 16. I think any of the names on your list would be splendid. I would only point out that the Prime Minister did meet M. Seilliere and M. Monod fairly recently at a dinner which Ewen Fergusson gave in Paris. In the interests of justice it might be better to put them relatively low in the order of priority.

(C. D. POWELL)

His Excellency Vicomte Luc de La Barre de Nanteuil

6

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

29 January 1990

Dear Charles,

Could you let me know as soon as possible whether the names on the enclosed list are acceptable, and whether Mrs. Thatcher would have certain preferences within or without the list.

We might be -The Prime Minister, You and I- either 12 or 16 in toto. Would you be kind enough to ask her which number she would prefer.

I met Denis Thatcher at dinner last week and invited him of course but he said he could not come because he would be in the States.

Yours ever

Mr. Charles Powell
10 Downing street
London SW1A 2AA

29th January 1990

AMBASSADE DE FRANCE

LONDRES

List of possible guests to be contacted, if their names are agreed, to arrive at a total of around nine (or thirteen if the Prime Minister prefers) to meet the Prime Minister (and Mr Powell) at dinner on Sunday March 11th with the French Ambassador at 11 Kensington Palace Gardens.

Sir James GOLDSMITH	
Mr Michel DAVID-WEILL	Chairman LAZARD
M. Renaud DE LA GENIERE	Chairman SUEZ
M. Jean-Yves HABERER	" CREDIT LYONNAIS
M. Edouard DE RIBES	" Banque RIVAUD
M. Charles de CROISSET	Dir. Gen. CCF
M. François PERIGOT	Chairman CNPF
M. Ernest Antoine SEILLIERE	Vice-Chairman CNPF
M. André BENARD	Chairman French Branch Eurotunnel
M. Jacques FOURNIER	Chairman SNCF
M. Bernard ATTALI	" AIR FRANCE
M. Jean PIERSON	" Airbus Industrie
M. Serge TCHURUK	" TOTAL
M. Jean-René FOURTOU	" RHONE-POULENC
M. Jean-Louis BEFFA	" St GOBAIN
M. Jean GANDOIS	" PECHINEY
M. Antoine RIBOUD	" BSN
M. Jacques CALVET	" PEUGEOT
M. Bernard VERNIER-PALLEZ	Former Chairman RENAULT and former Ambassador to the U.S.A.
M. Claude BEBEAR	Chairman AXA
M. Jean PEYRELEVADE	" UAP
M. Michel ALBERT	" AGF
M. Bernard ARNAULT	" LVMH
M. Lindsay OWEN-JONES	Chairman L'OREAL (or
M. François DALLE	Former Chairman)
M. Jean-Luc LAGARDERE	Chairman MATRA
M. Yves SABOURET	" HACHETTE
M. Edouard de ROYERE	Chairman L'AIR LIQUIDE

M. Jerome MONOD	"	LYONNAISE DES EAUX
M. Jean-Pierre DESGEORGES	"	ASLTHOM
M. Jean-Paul PARAYRE	"	DUMEZ
M. Alain GOMEZ	"	THOMSON
M. Bertrand COLLOMB	"	LAFARGE-COPPEE
M. Vincent BOLLORE	"	BOLLORE-TECHNOLOGIES
M. Alain MERIEUX	Chairman Institut MERIEUX (Rhône-Poulenc Subsidiary)	
M. Francis MAIRE	Chairman USINOR	
M. Yves CANNAC	Chairman INSTITUT DE L'ENTREPRISE (Just appointed)	

N.B. The only person I have already contacted in the above list is André BENARD who would be very pleased to come.

10 DOWNING STREET

Charles

O.K.

CR

The French Ambassador rang me to confirm he was happy with Sunday 11 March. He will send you a list of possible guests.

AP

25/1/90

PRIME MINISTER

Further to Charles Powell's minute about you dining with the French Ambassador, I have been looking at possible dates. On Sunday 11 March you are looking in, at Lady Henderson's request, to a Reception for British Fashion Week at Lancaster House. As you will have already cut into the evening I wondered if you would be prepared to use that date to go on to dine at the French Embassy. If we leave it much later we run into a very busy speech period when you will want all the free time you can get at weekends.

Agree to dine with the French Ambassador on Sunday 11 March?

Amanda

Yes

(AMANDA PONSONBY)

23 January 1990

diary\french.dca

MRS. PONSONBY

FRENCH AMBASSADOR

Please see the attached note. Could you possibly identify a Sunday night some months hence when the Prime Minister might attend a dinner at the French Embassy. This has been hanging over us for nearly three years now and we really ought to do it.

CDP

CHARLES POWELL

21 January 1990

(1)

PRIME MINISTER

cc: Amanda Ponsonby

FRENCH AMBASSADOR

You told the French Ambassador at the Diplomatic Reception at the Palace last November that you would like to take up his offer to host a dinner for 8 - 10 of the top French businessmen. It was suggested that a Sunday evening might be a good time.

The Ambassador has now come back to me to say that he would very much like to move ahead with this. To ensure that he gets the top French businessmen, he would need to give a fair amount of notice. He wonders if we are in a position to offer him a date.

I can discuss this with Amanda, but it would be helpful if you could just confirm that you would be willing to do this on a Sunday evening in say three or four months time. Although very reluctant to cut further into your time, I think it would be a good idea for you to go to the French Embassy. You have not been since the State Visit in 1985.

CDP

Yes

CHARLES POWELL
19 JANUARY 1990

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 January 1990

VISIT OF FORMER PRESIDENT GISCARD D'ESTAING

Thank you for your letter of 8 January about President Giscard's multiple visits to Britain. The Prime Minister would be able to see him at 1430 on Monday 19 February.

C. D. POWELL

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

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RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

8 January 1990

Dear Charles,

Visit by former French President Giscard d'Estaing

M. Giscard d'Estaing's Chef de Cabinet has told our Embassy in Paris that M. Giscard d'Estaing will be travelling to London twice in February to attend conferences. He has asked whether it would be possible to reinstate the call on the Prime Minister, which was to have taken place on 8 June. He had to pull out at the last minute because a televised debate between the leaders of the lists of candidates for the European elections had been fixed for the same day. Convenient times for M. Giscard d'Estaing are as follows: February 16 (afternoon only), 17 (morning only), 19, 23 or 24 (not late afternoon).

Since last June, M. Giscard d'Estaing has been elected an MEP (he led the RPR/UDF Joint List for the European elections, and exchanged letters with the Prime Minister about the European election campaign) and has given up his seat as Deputy and resigned from the Chairmanship of the French National Assembly's Foreign Affairs Committee. French politicians are allowed a maximum of two political mandates. M. Giscard d'Estaing has decided to concentrate on being an MEP and Chairman of the Regional Council of the Auvergne, his local political base. He remains an influential figure on the French Right. The Foreign Secretary would not press the Prime Minister to receive him if the diary is difficult.

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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PM30

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

8 June 1989

R N Peirce Esq
PS/Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Robert,

MEETING WITH M STRAUSS-KAHN, CHAIRMAN OF THE FINANCE COMMISSION OF THE FRENCH NATIONAL ASSEMBLY

M Dominique Strauss-Kahn, Chairman of the Finance Commission of the French National Assembly, paid a courtesy call on the Chancellor and the Economic Secretary yesterday at No 11 Downing Street. He was accompanied by M Jean de Rosen, Financial Counsellor at the French Embassy, and a representative of the Central Office of Information. Mr Lankester (HM Treasury) was also present. Although the tone of the discussions was relaxed, the line of M Strauss-Kahn's questioning suggested that he was uneasy about the UK's sincerity in wanting improved economic and monetary co-operation in the European Community.

UK Monetary Policy

M Strauss-Kahn asked for how long UK interest rates would remain at their present level, indicating that this had some bearing on French monetary policy. He wondered whether there was a danger, when UK interest rates eventually did come down, that consumer spending would pick up and there would be a further worsening of the trade balance. The Chancellor explained that controlling inflation was the primary objective of macroeconomic policy and that interest rates played a crucial role in achieving this objective. He said he expected interest rates would have to remain at around their present levels for some time yet (this seemed to surprise M Strauss-Kahn) but he foresaw no untoward consequences for the trade balance when interest rates were reduced in due course.

M Strauss-Kahn asked whether the Chancellor shared his analysis that the recent resurgence in inflationary pressures in Europe was due primarily to price increases in the services sector. The Chancellor said that in the UK the strength of domestic demand was the main factor. He also reminded M Strauss-Kahn of the anomalous and unhelpful inclusion of mortgage interest payments in the UK retail prices index.

EC Issues

M Strauss-Kahn said that France had a number of difficulties with reducing its taxation of savings in advance of full capital liberalisation next year. These concerned the scale of the adjustment France was having to make (he implied that other member states should help out by raising their taxes on savings) and the relatively short timescale for implementing it. In addition, lower taxation of wealth was contrary, in French minds, to notions of fiscal justice. He suggested a link between harmonising taxation of savings and the Delors proposals, implying that French progress on the former might be faster if other Community countries were willing to move forward with the latter.

The Chancellor said he saw no connection between the two sets of issues. On the taxation of savings, there was now no prospect of agreement on an EC withholding tax. The proposal made no sense in the global context of "footloose" capital; it would just drive savings overseas. The Chancellor said that, in any case, he believed it implicit in the Lebegue report that France stood to gain by reducing its taxes on savings; M Strauss-Kahn was thus wrong to see lower taxation of wealth as a sacrifice except possibly in immediate revenue terms. He pointed out that the UK had enjoyed complete freedom of capital movement since it abolished exchange controls ten years ago and had not found the experience problematic. He also noted that only the previous day the Swedes had announced that they were abolishing exchange controls; in view of the high level of taxation in Sweden, France should find this decision reassuring.

M Strauss-Kahn asked when the UK would be joining the exchange rate mechanism of the EMS. The Chancellor said that the UK was extremely interested in improving economic and monetary co-operation within the Community; with the exception of the ERM, the UK already played a very full part in the Community's monetary arrangements and had been instrumental in promoting the development of the ECU and already had free movement of capital. As for joining the ERM, only the timing was in doubt. (At this, M Strauss-Kahn shrugged Gallicly.) It would not be appropriate for the UK to join until our rate of inflation was closer to the EC average. The UK Government had, however, very serious reservations about the Delors report's recommendations for monetary union. He did not believe that the proposals had been properly thought through; monetary union as envisaged by Delors required new political institutions for which the UK and other member states were not ready. Instead, the UK wanted to improve co-operation within the framework of the existing Treaty. The Chancellor very much hoped that the French would not try to force

the pace of reform; more discussion was required and impatience would only cause unnecessary divisions between member states.

In reply to a question by the Economic Secretary, M Strauss-Kahn said France wanted UK participation in the ERM for two reasons. First, it was not possible to establish the EC bloc as a key third player in world monetary arrangements if sterling remained outside the ERM. Secondly, the essentially bilateral nature of the ERM at present, by which he meant the overwhelming importance of the DM/FF nexus, was not ideal for French purposes. The British and French philosophies of monetary policy were much closer than those of France and Germany. The French thus saw the British as an ally in their dealings with the Bundesbank.

M Strauss-Kahn concluded by emphasising that once the single market had been successfully completed the French were convinced that European monetary union was the next logical goal. He was evidently troubled that the UK did not appear to share this aspiration.

Public Sector Pay and Efficiency

Finally, M Strauss-Kahn asked how public sector pay was determined in the UK and how the Government was attempting to increase efficiency in the public sector. He remarked that for the past six years the French Government had controlled the public sector payroll very tightly but had now got to the stage where further economies were difficult to secure. The Economic Secretary elaborated on the situation in this country.

I am copying this letter to Charles Powell (No 10) and Paul Tucker (Bank of England).

Yours sincerely,

Duncan Sparkes

DUNCAN SPARKES
Assistant Private Secretary

08. VI.

no

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

7 June 1989

CDP 7/6.

Dear Charles,

Cancelled Visit of M Giscard d'Estaing

/ I enclose a letter from M Giscard d'Estaing to the Prime Minister about the cancellation of his visit to London this week. It was delivered to the Embassy in Paris, apparently without any indication of who had sent it, and therefore opened by them before being forwarded.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

VALÉRY GISCARD D'ESTAING

Paris, le 5 Juin 1989

Madame le Premier Ministre,

Je tiens à vous présenter mes excuses, et à vous exprimer mon profond regret de ne pouvoir me rendre au rendez-vous que vous aviez bien voulu fixer pour Jeudi prochain, à Downing Street, sur la demande que je vous avais faite.

Comme vous le savez sans doute, je conduis la liste unique de l'opposition aux prochaines élections au Parlement européen. Un seul débat a été organisé à la télévision française entre l'ensemble des têtes de listes. Malheureusement, sans que je puisse m'y opposer, ce débat dût être fixé à Jeudi prochain.

Ayant vous-même l'expérience de la vie politique, vous savez qu'il m'est impossible de m'y dérober. Aussi, je compte sur votre compréhension et votre bienveillance pour excuser ma défaillance.

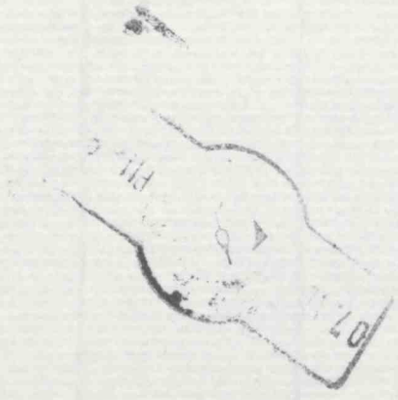
Je souhaite que vous ne la mettiez pas au compte de la réputation de légèreté parfois faite à nos compatriotes, et que vous vouliez bien donner une suite favorable à la nouvelle demande de rendez-vous que je vous présenterai, lorsque nous serons sortis de la campagne électorale des européennes.

Veuillez agréer, Madame le Premier Ministre, l'expression de ma haute considération,

et celle de mon souvenir le meilleur -

V. Giscard d'Estaing

Mrs Margaret THATCHER
Premier Ministre
IO, Downing Street
LONDON SW1A 2AA.



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You will be disappointed!
Of course!

GISCARD'S CALL ON THE PRIME MINISTER, 8 JUNE

1. GISCARD D'ESTAING HAS JUST TELEPHONED ME TO SAY, WITH MUCH REGRET, THAT A TELEVISED DEBATE BETWEEN THE LEADERS OF THE LISTS OF CANDIDATES FOR THE EUROPEAN ELECTIONS IN FRANCE HAS NOW BEEN FIXED FOR THE AFTERNOON OF 8 JUNE AND HE WILL THEREFORE BE UNABLE TO KEEP HIS APPOINTMENT WITH THE PRIME MINISTER THAT MORNING. HE WILL BE WRITING PERSONALLY TO THE PRIME MINISTER TO EXPLAIN. I HAVE FORWEARNED POWELL (NO 10) BY TELEPHONE.

FERGUSSON

YYYY

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MR POWELL, NO 10.

NNNN

Foreign and Commonwealth Office

London SW1A 2AH

2 June 1989

CDP 2/6

Dear Charles

I enclose a copy of a letter from the French Prime Minister (with our translation) expressing thanks for a message apparently sent by the Prime Minister.

no record of this

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

PARIS, le 22 mai 1989

Le Premier Ministre

Cher Monsieur l'Ambassadeur,

Je vous serais reconnaissant de faire savoir à votre Premier Ministre, Madame THATCHER, combien j'ai été sensible au message que vous m'avez fait parvenir de sa part à la suite de l'assassinat de Messieurs Jean-Marie TJIBAOU et Yeiwene YEIWENE en Nouvelle Calédonie.

Transmettez-lui, je vous prie, mes remerciements, et recevez, Monsieur l'Ambassadeur, l'expression de mes sentiments les meilleurs.

M Rocard

Michel ROCARD

Sir Ewen FERGUSSON
Ambassadeur de Grande-Bretagne
35, rue du Faubourg-Saint-Honoré

75008 PARIS

TRANSLATION OF LETTER FROM M ROCARD TO HMA PARIS DATED 22 MAY

Dear Ambassador

I would be grateful if you would inform your Prime Minister, Mrs Thatcher, how much I appreciated the message she sent following the assassination of Messrs Jean-Marie Tjibaou and Yeiwene Yeiwene in New Caledonia.

Please pass my thanks to her and accept, Mr Ambassador, my best wishes.

SP8ABK

CONFIDENTIAL

FCO
Sam

cc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 May 1989

FORMER PRESIDENT GISCARD D'ESTAING

I have seen a copy of Paris telegram number 618 about former President Giscard's request for a meeting with the Prime Minister in June. I think the Prime Minister ought to see him and suggest 1230 on Thursday, 8 June. I am afraid there really isn't much flexibility so I hope he can accept that.

BF

CHARLES POWELL

R H T Gozney Esq
Foreign and Commonwealth Office

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nem

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cc Mr Powell No 10
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RS 12/5

POSSIBLE VISIT TO LONDON BY FORMER PRESIDENT GISCARD D'ESTAING

SUMMARY

1. GISCARD HAS ASKED FOR A MEETING WITH THE PRIME MINISTER IN EARLY JUNE.

DETIAL

2. WE RECEIVED A TELEPHONE CALL TODAY FROM GISCARD'S CHEF DE CABINET, OLIVIER REVOL, TO SAY THAT GISCARD WOULD LIKE TO CALL ON THE PRIME MINISTER BEFORE THE 18 JUNE EUROPEAN ELECTIONS. HE ASKED IF A CALL WOULD BE POSSIBLE AT ANY TIME ON 5,6,8 OR 12 JUNE. HE CITED GISCARD'S ROLE AS PRESIDENT OF THE NATIONAL ASSEMBLY FOREIGN AFFAIRS COMMISSION AND HIS POSITION AS HEAD OF THE RPR-UDF JOINT LIST FOR THE EUROPEAN ELECTIONS, AND SAID THAT GISCARD WS PRIMARILY INTERESTED IN DISCUSSING EUROPEAN ISSUES.

3. GISCARD ASKED TO SEE THE THE PRIME MINISTER AT APPROXIMATELY THE SAME TIME LAST YEAR. THE PRIME MINISTER WAS NOT THEN ABLE TO SEE HIM.

4. WE HAVE SAID THAT GIVEN THE RELATIVELY SHORT NOTICE AND THE CONSTANT PRESSURE ON THE PRIME MINISTER'S PROGRAMME, THERE MAY BE DIFFICULTY IN ARRANGING A CALL: BUT WE UNDERTOOK TO REPORT THIS REQUEST AND TO GET BACK TO REVOL.

LLEWELLYN SMITH

YYYY

Prime Minister

Would you wish to see him this year?

I had better not

CDP
14/5

chex.ps/jmt2/27 **CONFIDENTIAL**

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

30 March 1989

Richard Gozney Esq
PS/Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Richard,

MEETING WITH RPR SECRETARY GENERAL

M. Alain Juppe, the Secretary General of the French RPR, paid a call on the Chancellor on 23 March . He was accompanied by his chef de cabinet, Voye. The Paymaster General was also present.

There was some discussion of the recent French municipal elections. Juppe said that, although the RPR had not done well, they had not done as badly as he had expected. The National Front had caused problems. The RPR's prospects for the forthcoming European elections depended on whether a single list could be agreed for the parties of the right. The Centrists were currently insisting on their own list. It was more likely than not that agreement on a single list would be reached; even if it were not, provided that Madame Veil headed the Centrists' list, that would not be so bad for the RPR since she would tend to drive away the more conservative voters. But it would not be helpful to have two lists. The Socialists' list would probably be led by Fabius.

Juppe asked about the Commission's proposals for fiscal harmonisation. The Chancellor explained our difficulties with the proposals for indirect tax approximation. He noted that the Commission's proposals for excise duties created major problems for most member states. The VAT clearing house proposal also caused great difficulties. We had put forward our own alternative proposals, which would allow frontiers to be abolished without forced harmonisation. There would be a residual problem with cross-border shopping - but this would also arise with the

Commission's proposals, and was in any case not significant. The Chancellor noted that the French had also produced an alternative proposal, which had similarities with our own.

Turning to other tax harmonisation proposals, the Chancellor noted that there was some talk of harmonising company tax. This, if developed, could also cause problems. The main proposal on direct taxes was, however, that for a withholding tax. This would be pointless and damaging. It would drive capital out of the Community altogether. The German experience with their recently introduced withholding tax was illuminating, here. The Chancellor recalled our own experience with capital liberalisation. The lifting of exchange controls had not given rise to any detectable increase in tax evasion. There was no reason to suppose that capital liberalisation would drive money out of France - indeed, the recent partial liberalisation had strengthened the franc. All in all, the Commission's proposal was most unwise.

Juppe asked about our reactions to the likely proposals from the Delors Group. The Chancellor said that we did not know what proposals would emerge. But the achievement of the single market was a major endeavour, and the Community should devote its energies to that. It was premature and distracting to talk of any further Treaty amendment: even if the UK Government could agree to that, it was certain that the House would not. We should devote our efforts to improving co-operation within the existing framework. Juppe commented that he thought that the Germans would also have difficulties with any radical proposals. The Chancellor agreed that it seemed that both Stoltenberg and the Bundesbank had considerable reservations.

I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

Yours sincerely,

Duncan Sparkes

p.p. J M G TAYLOR
Private Secretary

SUBJECT cc MASTER

FILE
DA
FE

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 March 1989

Dear Richard,

PRIME MINISTER'S MEETING WITH
THE SECRETARY GENERAL OF THE RPR

The Prime Minister had a talk this morning with M. Alain Juppé, the Secretary General of the RPR. Mr. Jim Spicer M.P. was also present.

French Politics

The Prime Minister congratulated Mr. Juppé on the RPR's performance in the recent municipal elections, particularly in Paris and Lyons. The Socialist Party also appeared to have done well. Mr. Juppé said that the Socialist gain of 10 cities had to be measured against the 37 which they had lost in 1983. The RPR still faced difficulties in various parts of the country, in particular the West and the South East, where they needed new faces. The RPR had also suffered because of its refusal to ally itself with the extreme right. This had been the cause of their losing Avignon.

The Prime Minister commented on the success of the extreme Right in recent elections in Germany. M. Juppé said that the reasons were the same in both France and Germany. It was linked to crime, drugs and immigration. He continued that the Greens had also done well in France, winning some 10% of the vote in Paris. He believed that they would do well in the European Elections, probably polling more than 10%. Unlike the Greens in Germany they were not anti-nuclear or pacifist.

The Prime Minister asked how M. Juppé intended to revive the RPR's fortunes nationally. She regretted the divisions among the parties of the Right. M. Juppé said that he was optimistic about achieving a single list for the European elections, although the Centrists might in the end insist on their own list. But he was more pessimistic about the prospects of uniting the Right in France and reconciling various leadership ambitions. Meanwhile, he agreed that the divisions of the Right were a great advantage for the Socialists, as in Spain. In the longer term he expected the Socialists also to split. The Prime Minister commented that it was never a good idea to rely on the weaknesses of your opponents, you had to rely on your own strength.

Europe

M. Juppé said that he would be interested in the Prime Minister's views on a number of current issues in Europe, in particular tax harmonisation.

The Prime Minister said that tax harmonisation was in no way necessary for the Single Market. Nor would Parliament in the United Kingdom ever agree to surrender its power to set taxes to the Commission in Brussels. To the extent that differing tax rates affected competitiveness, then the market would operate and rates would be adjusted. M. Juppé asked whether the United Kingdom would accept the Commission's proposals for an EC withholding tax. The Prime Minister said that we would certainly not do so. It was in no way a necessary corollary of free movement of capital. M. Juppé commented that this implied that Europe would have to keep its fiscal frontiers even after 1992. The Prime Minister said that frontiers would certainly remain, not least for control of terrorism, drugs and immigration. M. Juppé said that he agreed with this particularly in respect of immigration.

The Prime Minister said that she was increasingly inclined to question how effective the Single Market would be in practice. The barriers to genuine fair competition in Europe were enormous and not all of them could be removed by directives. For instance Germany maintained a permanent trade surplus and subsidised both its industry and agriculture heavily. The different structure of ownership of German industry, with the banks having a preponderant role, made it unlikely that there would ever be genuine equality of conditions for mergers and acquisitions. Countries continued to place obstacles in the way of free movement of goods, as France was doing over the import of Nissan cars from the United Kingdom. Attempts to introduce a minimum wage and equal social benefits throughout the Community would result in the Community becoming uncompetitive in world markets. This in turn was likely to lead to increased calls within Europe for protection.

M. Juppé said that he was less worried about fortress Europe than fortress Japan and fortress America. The Prime Minister said that the CAP was thoroughly protectionist, although the Americans and Japanese were no better. At least the Americans were willing to negotiate to reduce agricultural support. The European Community had been reluctant to respond. It was very important to make a success of the forthcoming GATT Round. The Community must not be responsible for its failure.

I am copying this letter to Neil Thornton (Department of Trade and Industry), Shirley Stagg (MAFF) and Roger Lavelle (Cabinet Office).

Yours sincerely,

(C.D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

BRITISH EMBASSY
35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08

Telephone : 42 66 91 42 Facsimile : 42 66 95 90

Your reference

Our reference

Date

FACSIMILE TRANSMISSION

To : 10 DOWNING STREET Facsimile : 270 3000
FAO : CHARLES POWELL ESQ

From : V CATON
CHANCERY

SUPPLEMENTARY MESSAGE

N° OF PAGES 4 LEADER + 3.

LONDRES
22 et 23 Mars 1989

AVION

(Beechcraft King Air 200 - Immatriculation FGBBC)
Compagnie Aigle Azur
Message en vol par le 30.31.30.51

Concernant :

- M. Alain JUPPE
- M. Jean-Paul DELEVOYE
- M. Pierre LELOUCHE
- M. Ian MORLING à l'aller
  et M. Christopher MICHELL HEGGS au retour
- M. Pascal HOUZELOT
- Melle NATAFF (TF1) à l'aller
  et Turlik FEDEROWSKI (caméraman TF1) au retour
- M. BRESSON (LIBERATION)
- M. VIOUJARD (GAMMA)

Jeudi 23 mars :

7H30 : Départ d'Alain JUPPE de la Résidence - 11 Kensington Palace Garden - Tél : 19.44.1.229.04.11
(minibus de l'Ambassade conduit par M. STEPHENS)

7H50 : Rendez-vous avec la délégation à Charring Cross pear pour le départ en river bus à 8H précise.

8H20 : Arrivée West India docks pear - Visite des Docklands - Isle of the dogs , sous la conduite de Miss WRIDJWAY
Tél : 515.30.00

9H20 : Départ de l'île des chiens en river bus

9H40 : Le minibus attend la délégation à Charring Cross

9H50 : Accueil au Parti Conservateur par Sir James SPICER, Député, Vice-Président du Parti Conservateur

10H : Entretien avec Peter BROOKE,
Président du Parti Conservateur
Smith square - London SW1
Tél : 19.44.1.222.90.00

11H : Entretien avec Mme THATCHER
10 Downing Street
Tél : 19.44.1.270.30.00

11H30 : Entretien avec M. Nigel LAWSON, Chancelier de l'Echiquier
11 Downing Street
Tél : 19.44.1.270.45.19

12H05 : Entretien avec Lord TREFGARNE Secrétaire d'Etat à la Défense
Room 6181, Main Building, Whitehall, London SW1
Tél : 19.44.1.218.66.21

12H45 : Visite d'un immeuble de la City - Broadgate

13H15 : Déjeuner privé, DEWE ROGERSON LTD
3 1/2 London Wall Building - London Wall - London EC 2M 5PY
Tél : 19.44.1.638.95.71

14H45 : Point presse (même adresse)

15H15 : Départ pour Heathrow

16H : Départ pour Paris - Aéroport d'Heathrow - Cie British Airways Commuter - Terminal 1 - Comptoir 73
Tél : 19.44.1 562.04.51

18H15 : Atterrissage Le Bourget

1989-03-22

LONDRES
22 et 23 Mars 1989

PROGRAMME DE LA VISITE D'ALAIN JUPPE

Mercredi 22 mars :

16H : Décollage Le Bourget (Euralair)

16H15 (local) : Arrivée Gatwick Sud (Cie Ogden)
Tél : 19.44.293.50.70.00

16H30 : Départ du salon d'honneur de la Cie Ogden pour le ministère des Affaires Etrangères.

18H30 : Entretien avec Sir Geoffrey Howe
Whitehall - London SWIA 2AS
Tél : 19.44.1.270.30.00

19H15 : Passage de la délégation à l'hôtel
Royal Horseguards Thistle Hotel
Whitehall Court - London SWIA 2EJ
Tél : 19.44.1. 839.34.00)

20H : Alain JUPPE : dîner avec l'Ambassadeur au Méridien
Offert par Peter LUFF, Mouvement Européen
Picadilly WI
Tél : 19.44.1.734.80.80

.../..

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

22 March 1989

Richard Gozney Esq
PS/Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

1. COP — to see
2. Prime Minister
You will wish to note these exchanges, particularly paper 2-3 on EMS etc.

Dear Richard

23/3

CHANCELLOR'S MEETING WITH FRENCH FINANCE MINISTER

M. Pierre Beregovoy, the French Finance Minister, had lunch with the Chancellor today. The lunch was followed by a further discussion. Beregovoy was supported by various French officials, and the French Ambassador. The Economic Secretary, Mr Wicks, Mr Lankester, Mr R I G Allen, and Mr Tyrie (all Treasury) were also present.

Recent economic developments

The Chancellor explained why it had been necessary to tighten monetary policy in the UK. We already enjoyed a tight fiscal policy - there was a substantial budget surplus - and monetary policy was in current circumstances a more effective tool of economic management than fiscal policy: it was quicker acting, and acted on consumer spending rather than investment. Beregovoy said that he had been successful in bringing down the French rate of inflation. There were upward pressures on wages, particularly in the public sector. These would need to be resisted. Generally, however, investment remained buoyant; the budget deficit was declining; and the monetary aggregates were reasonable.

The Chancellor said that the strong growth in the world economy over the last three years had been followed by a resurgence in inflation. Commodity prices, especially metals, were up. It was

inevitable in these circumstances that interest rates had to be increased.

European monetary matters

Beregovoy asked the Chancellor whether the UK would join the exchange rate mechanism of the EMS this year. The Chancellor said we would join when the time was right. Beregovoy said that the decision whether or not to join the ERM had been as controversial in France as it now was in the UK. But, taking stock of France's ten years' membership, the decision to join had been most beneficial, eg in terms of imposing monetary discipline. That process now needed to be taken forward. He noted that the Delors Group would soon be making its report. The Chancellor said that membership of the ERM was not necessary for monetary discipline. More generally, there was scope for greater co-operation within the existing framework. There was, for example, greater scope for using the ecu. There should also be wider cross-holdings of each other's currencies. But there was no possibility of the UK agreeing to anything which might arise from the Delors Group which would require Treaty amendment. Even if the Government were prepared to agree to any such proposal, there was no possibility of the House doing so. (The Chancellor emphasised this point again later.) Greater co-operation should be achieved within the limits of the existing Treaty.

Beregovoy said that he did not know what conclusions the Delors Group would reach. There might be proposals for Treaty amendment, or perhaps a more limited monetary agreement. He agreed that there should be wider cross-holdings amongst central banks. But, he suggested, it might be helpful to delegate the responsibilities of intervention to some autonomous central body.

Continuing, Beregovoy said that the value of the ecu was determined by the value of its component currencies. Eight of these had accepted the discipline of the ERM; two had not. There should be the same constraints and disciplines on all the currencies in the ecu basket. It was contradictory to argue for the development of the ecu while maintaining the independence of some of its component currencies. The Chancellor noted that it was desirable to maintain the stability of sterling whether or not it formed part of the ERM. And, to be blunt, sterling was more important to the ecu than vice versa. If sterling were left outside the ecu, that would be to the ecu's detriment. It was true that having sterling in the ecu did give rise to a very slightly greater volatility between eg the ecu and the deutschmark. But it gave greater stability to the ecu vis a vis the dollar.

Beregovoy said that he did not see how closer economic policies could be developed without closer monetary cooperation. This was a political problem. The ecu reweighting would necessarily give rise to debate over sterling's inclusion. The Chancellor said

that, for the ecu, it was important that currencies retained weightings appropriate to their importance.

Beregovoy said that he would get down to brass tacks. If Member States could not advance together, a two speed Europe must be a possibility. The Chancellor said that such a development was clearly undesirable. But comparisons between Member States should not be limited to ERM membership. An alternative comparison might be made between those countries which enjoyed full capital liberalisation, and those which did not. We needed to confront the practical issues. For example, some of the peripheral countries would no doubt argue that they should be compensated for their loss of exchange rate flexibility through resource transfers. This was a false analogy. But they would nonetheless argue it. It was premature to ignore these practical issues, and instead to focus on the more general, idealistic, proposals.

Beregovoy said that France had taken a number of steps since 1984 to bring its economic management into line with other major European countries. Price controls had been eliminated; exchange controls had been largely removed. In return, France was asking for the other participants in the EMS to play by the same rules. The Chancellor noted that these things had been in France's own interests. The French economy had grown stronger as a result of these changes - a fact which he welcomed.

Withholding tax

The Chancellor said that there seemed to be a misunderstanding over the UK's position in relation to the Commission's proposals for withholding tax. In particular, he detected a feeling that we objected to withholding taxes on philosophical or ideological grounds. In fact, we already had a quasi-withholding tax in the form of CRT. He had himself extended CRT to the banks. But he had been very conscious that, unless exemptions were made, business would be driven offshore. For that reason, CRT had been designed to catch only small accounts. The Commission's proposals, on the other hand, would simply drive business outside the Community altogether. This would be the result even if there were numerous exemptions, because of the apparent invasion of privacy perceived by potential offshore investors. It was for this reason that we opposed the tax.

Beregovoy said this was a practical issue, but with a high political content. It was necessary that the same principles should apply to all EC residents, and non-residents. The French wanted to avoid tax evasion, and imbalances between Community countries. The Commission's proposals seemed reasonable: income from capital was already taxed in all major countries. There was a link - which he admitted was not juridical - between capital flows and tax harmonisation. How could capital flows be liberalised in the Community without common principles of taxation?

The Chancellor said that we had abolished exchange controls in 1979, without any corresponding tax changes - and had suffered no detectable increase in tax evasion nor any loss of yield. It was quite correct that there was no juridical linkage between capital liberalisation and withholding taxes: capital liberalisation had been agreed without pre-conditions. We welcomed closer co-operation between fiscs. But the Commission's proposals would simply drive business offshore. The German experience had been very illuminating here.

Beregovoy said it was essential to make plain to the public that Member States shared common principles for the taxation of savings. The Chancellor said he understood the political pressures. But it was not obvious why taxes on income from savings should be the same in the various Member States, when there were great differences in the taxation of earnings. We were not proposing to exempt from tax the income from capital. Indeed, it was compulsory that such income should be declared in the UK. The point at issue was simply how that tax should be levied. We were satisfied that our own procedures allowed us to control evasion. He would be happy to arrange a meeting between fiscs to explain this in more detail, if Beregovoy would find it helpful. Beregovoy said he would like to send a delegation to discuss this with the Revenue experts. But there was a real political problem here for him. In effect, if a withholding tax were not agreed, the French parliament would argue that only wage-earners would be forced to pay any tax.

Indirect tax approximation

Beregovoy said that the UK and France were much closer on this topic. We agreed to disagree with the Commission's proposals. The Chancellor agreed. Everyone thought that the Commission's excise duties proposals were non-starters, and that the clearing house mechanism for VAT was a monstrosity. We also had particular concerns about our zero rates. These must be retained; any apparently time-limited derogation would not be enough. He did not think that the zero rates were, in any case, a real economic distortion. Beregovoy said he thought there was room for agreement here. Each country should be able to set its own VAT levels. Member States would need to be practical and take account of each other's rates. But there should not be forced harmonisation. The Chancellor agreed.

Debt

Beregovoy said there were now three proposals on the table for dealing with the problem of middle income debt: the Japanese, the French, and the recent US proposals. The Chancellor said that there would be no UK proposal, so we could afford to be dispassionate. We would be guided by three principles - the need to reach a market based solution; to avoid any further shift of

the burden from the private to the public sectors; and to ensure no further contribution from taxpayers. Beregovoy made a pitch for Government and public sector guarantees. The Chancellor said he was suspicious of these; they let the commercial banks off the hook, and transferred risk. There was no longer a systemic threat to the banking system. Trichet (head of French Treasury) said that creditors should perhaps devise something which forced the banks to take the responsibility for reducing their outstanding loans, or their interest rates. The Chancellor agreed. Beregovoy said that we should nonetheless seek to alleviate the debtors' problems by enabling fresh flows of capital to be provided. The Chancellor said that we should be alert to these fresh flows simply turning into flight capital: Beregovoy said this was a very good point.

Beregovoy said that he hoped that there would be a fruitful discussion in Washington, which could then give rise to a "step forward" at the Paris summit.

Comment

I think I should record that although the talking was tough, the atmosphere was friendly throughout. Beregovoy himself remarked, at the end of the discussion, that he always enjoyed his discussions with the Chancellor because although the talk was frank, the "divergences" were "cordiales"!

I am copying this letter to Charles Powell (No.10), John Footman (Bank), and Trevor Woolley (Cabinet Office).

Yours ever

Jonathan Taylor

J M G TAYLOR
Private Secretary

PRIME MINISTER

MEETING WITH THE SECRETARY GENERAL OF THE RPR

You are to meet M. Juppe, the Secretary General of the RPR briefly tomorrow morning. You will remember talking to him at Ewen Fergusson's dinner in Paris a few weeks ago. He is very much Chirac's man, and it is in response to Chirac's request that you agreed to see him. He is making a tour of European capitals before the European Elections to give himself and his party a rather higher profile. He will also have seen the Foreign Secretary and the Chancellor.

There are a number of talking points which you could use:

- The recent municipal elections in France. Although the Socialists did best, the right wing, and particularly the RPR, did better than they expected. In particular they won a spectacular victory in Lyons, while M. Chirac maintained his tight hold on Paris. In general, the results are seen as vindicating M. Juppe's efforts to spruce up the party.

- EC issues. You will want to tell him of our opposition to a withholding tax on savings, and say that we hope the Delors Committee will spell out in full the implications of economic and monetary union. You will want to underline the importance of maintaining an open market in Europe after 1992. You should mention the Nissan problem. On frontiers, you should say that we are streamlining procedures - indeed, we are well ahead of others on this - but must retain the controls essential for security.

- Defence issues. You might discuss with him the political situation in Germany and the difficulties this is likely to create when it comes to getting a decision on SNF modernisation at the NATO Summit. You can also emphasise our continuing interest in stronger bilateral defence cooperation with France.

- Environmental issues. You could refer to the growing importance of these in politics, and explain why we did not attend the recent meeting at The Hague.

- European Parliament. As you know, the Spanish Conservatives are going to pull out of the EDG which will leave us rather isolated except for the Danes. You might ask, in a very tentative way, whether he sees any prospect for cooperation between the RPR and the British Conservatives in the European Parliament.

CDP

CDP

22 March, 1989.

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

21 March 1989

Dear Charles,

Visit by RPR Secretary General

The Prime Minister has agreed to a request by M Chirac to see the RPR Secretary General. She will see M Juppé briefly at 1100 on 23 March; he will be unaccompanied; there will be no need for interpretation as he speaks excellent English. A biography is attached (The Prime Minister met M Juppé at a dinner given by Sir Ewen Fergusson on 26 February). M Juppé will also see the Foreign Secretary (22 March), the Chancellor of the Exchequer and Lord Trefgarne (23 March). M Juppé is making a European tour before the European elections. He has already visited Brussels (Martens and Tindemans), Madrid (Gonzalez) and The Hague (Lubbers).

France Internal

M Chirac's RPR (Rassemblement Pour la République) is the largest and best organised of the French right-wing parties. It was formed by M Chirac in 1976 following his resignation as President Giscard's Prime Minister that year. The RPR's brand of Gaullism stresses individual responsibility, supports small businesses and is deeply hostile to Socialism and Communism. The party's appeal runs through all sections of the community and is particularly strong among agricultural workers.

Important municipal elections took place in France on 12 and 19 March. The Socialists have done well with a net gain of 12 towns including Strasbourg and Blois. M Rocard was re-elected with ease. The right-wing were braced for considerable losses but fared better than expected. The RPR's performance vindicates M Juppé's efforts to rejuvenate the party and portray a younger, more modern image. For the Right the major event has been the spectacular victory of Michel Noir (RPR) in Lyons against the sitting (UDF) Mayor. M Barre (second on the UDF list in Lyons) was eliminated in the first round and will not even become a municipal councillor. Sir Ewen Fergusson's telegram of assessment should be available shortly.

The Economy

The economy has shown greater strength in recent months. Inflation is currently about 3%. Growth estimates have been revised upwards to 3.6%. Unemployment has fallen but remains

/a cause

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a cause for concern at about 10.1%. M Rocard continues the fight against inflation (currently 3.3%), but the impetus of the Chirac government's deregulatory policies has been lost.

We understand that M Juppé wishes while in London to concentrate on economic, monetary and defence isssues. As time permits, the Prime Minister may wish to draw on the following.

EC Issues

The main issues on which the French government will wish to make progress during their Presidency in the second half of 1989 are monetary and social issues, audio-visual developments, and the taxation of savings. These priorities are broadly shared by the RPR.

The Prime Minister will wish to underline our commitment to progress on the Single Market, and to the Hanover/Rhodes priorities. She will wish to explain that we see grave dangers in the Commission's proposal for 15% minimum national withholding taxes on savings by EC nationals: capital from outside the EC would be withheld, to avoid identification, and EC capital would move out of the Community. On monetary issues she might say that we await the Delors Group report, and hope it will spell out in full the many hurdles on the road to Economic and Monetary Union, and the need for a practical, step-by-step approach.

The Prime Minister might remind M Juppé that 1992 must not lead to a "Fortress Europe". The Community should be a force for liberalisation in the GATT Uruguay Round. A protectionist approach would stifle the dynamism of the Single Market.

The Prime Minister might say, on social measures, that the Community needs to concentrate on getting down unemployment. Useful work can be done at Community level on health and safety at work, labour mobility and training. But we are against a regulatory approach and could not accept compulsorary worker participation in any European Company Statute.

If the question of frontiers comes up, the Prime Minister might point out that we are streamlining procedures (eg we have this month combined our UK and EC immigration controls into a common channel), but that we must retain, at water's edge, those controls essential for security. Meanwhile it is important to increase EC police/customs cooperation against terrorism, drugs and illegal immigration.

/Security Issues

Security Issues

The French are as opposed as we are to SNF negotiations, fearing that their own systems might be dragged in. But if they thought that NATO's modernisation of LANCE could be achieved only at the price of some form of SNF negotiations, they might see their interest lying in postponement of modernisation. The Prime Minister might therefore confirm our view of the dangers of negotiations but emphasise the importance of modernisation, something the French have already undertaken for their own nuclear weapons. On conventional arms control, the Prime Minister need only underline the importance we attach to the two security negotiations that began in Vienna on 9 March, conventional armed forces in Europe (CFE); and on confidence-building. Prospects for progress are better now than they have been for some years. But Alliance unity will be a key requirement. On bilateral defence relations, the Prime Minister might confirm our continuing interest in increasing practical cooperation between our forces where this can enhance the Europeans' overall defence contribution to the Alliance (we are pursuing in particular more joint maritime activity; exercising of our reinforcement routes through Northern France; and increased French activity in support of NORTHAG).

Bilateral Issues

The Prime Minister might refer to her meeting with President Mitterrand at the 27 February Anglo-French Summit in Paris and to her visit to Paris in July for the bicentenary celebrations and the Economic Summit (we shall write separately with recommendations on the Prime Minister's bicentenary participation).

The Prime Minister might confirm that good progress is now being made on the Channel Tunnel.

Should the environment come up, the Prime Minister might say that we believe in a global approach to global problems and see the way forward as being through strengthening the existing UN framework, not by creating new international institutions.

I am copying this letter to Alex Allan (HM Treasury) and to Brian Hawtin (MOD).

Yours,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

JUPPE, ALAIN

Secretary-General of the RPR. Former Ministre délégué responsible to the Minister of the Economy and Finance for the Budget.

Born 1945. Educated at the prestigious Ecole Normale Supérieure, Sciences-Po and ENA, becoming and Inspecteur de Finances in 1972. Worked in Chirac's Prime Ministerial cabinet in 1976 and subsequently for the then Minister for Co-operation (Aid). He joined Chirac in the Hotel de Ville in Paris in 1978, becoming Deputy Mayor of Paris in 1983 and taking on responsibility for the city's financial and budget affairs. He became RPR National Secretary for Economic Recovery in 1984 and played a leading (and liberal) role in preparation of RPR and subsequently RPR/UDF economic policy. Elected a député for the Paris area in March 1986. Appointed Secretary-General of the RPR by Chirac in June 1988.

Demonstrated a vigorous approach to budgetary problems whilst Minister, juggling with the difficult task of reducing simultaneously taxation, expenditure and the budget deficit. But clearly found Balladur's close supervision irksome. Since Chirac's defeat in the 1988 presidential elections, Juppé has loyally held the fort for him within the RPR, fending off those, like Philippe Séguin (qv), who questioned Chirac's leadership. He has forged a new team of députés in their thirties and forties (Barzach, Perben, Sarkozy, Alliot-Marie) with the aim of rejuvenating the party's image. Favours building bridges with the same generation in the Parti Républicain (Léotard, Madelin). But accused by some in the RPR of neglecting its traditional, provincial Gaullist base for superficial Parisian slickness.

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21. III
A1 n 9

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MDTTAN 4431

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TELELETTER NFR
OF 091525Z MARCH 89

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FROM: V CATON, PARIS
FOLLOWING FOR: JOHN RAMSDEN, ESQ, WED, FCO
COPIED TO: CHARLES POWELL, ESQ, NO 10

RPR SECRETARY-GENERAL'S CALL ON THE PRIME MINISTER: 23 MARCH 1989.

1. ALAIN JUPPE'S CABINET YESTERDAY GAVE ME THE FOLLOWING DETAILS ABOUT HIS PROGRAMME IN LONDON AND ABOUT THE BACKGROUND TO HIS VISIT.

PROGRAMME IN LONDON

2. SO FAR ONLY A CALL ON PETER BROOK, CHAIRMAN OF THE CONSERVATIVE PARTY, AT 10AM AND THE CALL ON THE PRIME MINSITER AT 11AM ARE FIRMLY FIXED. I UNDERSTAND THAT IT HAS PROVED IMPOSSIBLE FOR DIARY REASONS FOR MR YOUNGER TO RECEIVE JUPPE, BUT THAT THE SECRETARY OF STATE MIGHT BE ABLE TO SEE HIM ON THE EVENING OF 22 MARCH. JUPPE HAS ALSO ASKED FOR CALLS ON THE CHANCELLOR AND ON THE IISS, WHICH HAVE YET TO BE CONFIRMED. CHRISTOPHER MITCHELL-HEGGS, A BRITISH LAWYER RESIDENT IN PARIS AND ACTIVE IN THE CONSERVATIVE ASSOCIATION, IS ARRANGING A LUNCH WITH CONSERVATIVE PARLIAMENTARIANS AND OTHERS ON THE 23RD.

3. JUPPE WILL BE ACCOMPANIED BY JACQUES BOYON, FORMER JUNIOR DEFENCE MINISTER UNDER CHIRAC, AND JEAN-PAUL DELEVOYE, RPR DEPUTY FOR PAS-DE-CALAIS AND RPR NATIONAL SECRETARY RESPONSIBLE FOR ECONOMIC QUESTIONS.

BACKGROUND TO THE VISIT

4. JUPPE'S VISIT TO LONDON IS PART OF HIS GRAND TOUR OF EUROPEAN CAPITALS BEFORE THE EUROPEAN PARLIAMENT ELECTIONS IN JUNE. HE HAS SO FAR TAKEN IN BRUSSELS (31 JANUARY - CALLS ON MARTENS AND TINDEMANS), MADRID (17 FEBRUARY - CALLS ON GONZALEZ AND DEFENCE MINISTRY), AND THE HAGUE (28 FEBRUARY - CALLS ON LUBBERS, VAN VOORST AND VAN ROOY). LONDON WILL BE NEXT, PROBABLY FOLLOWED BY ROME. OTHER DATES ARE NOT YET FIXED.

5. ACCORDING TO HIS CABINET, JUPPE EXPECTS EUROPE AND 1992 TO BE THE MAJOR POLITICAL THEME OF 1989 IN FRANCE. HE WANTS TO DETERMINE WHERE THE FLEXIBILITY AND THE STICKING POINTS OF OTHER MEMBER STATES LIE

not yet received

BEFORE FINALISING THE RPR'S LINE. HE IS ALSO USING HIS VISITS TO PUBLICISE THE IDEAS IN THE RPR'S EUROPEAN ELECTION MANIFESTO (COPY BY BAG TO WED). IN LONDON HE WILL CONCENTRATE ON ECONOMIC, MONETARY AND DEFENCE ISSUES.

6. I HOPE THIS GIVES YOU ENOUGH OF A STEER FOR BRIEFING PURPOSES. THE ISSUES LIKELY TO BE COVERED SOUND FULLY FAMILIAR. WE HAVE NOTHING TO ADD TO THE RECENTLY REVISED VERSION OF JUPPE'S CV, AND DO NOT KNOW WHAT PASSED BETWEEN HIM AND THE PRIME MINISTER WHEN THEY MET AT THE AMBASSADOR'S DINNER ON 26 FEBRUARY 1989.

SIGNED V CATON

FERGUSSON

YYYY

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 March 1989

Dear Richard,

SECRETARY GENERAL OF THE RPR

The Prime Minister has agreed to a request from M. Chirac to see the Secretary General of the RPR, M. Alain Juppé. The Prime Minister will see him briefly at 11.00 on 23 March. I should be grateful if you could provide briefing before then.

I am sending a copy of this letter to John Whittingdale here who will no doubt want to inform Conservative Central Office.

Yours ever,

CHARLES POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

Charles
These dates are over the Easter w/e! I can only offer 11.00 on 23 March but is this meeting really necessary?
AP 28/2

MRS PONSONBY

cc Mr Whittingdale

M. ALAIN JUPPÉ

M. Chirac asked the Prime Minister last night at dinner in Paris whether she would be so kind as to receive M. Alain Juppé, Secretary General of the RPR (the Gaullist Party) when he visited London on 25 March. He was making a tour of European capitals and was seeing almost all other Heads of Government. The Prime Minister said that she would be ready to do so, subject to her diary.

I should be grateful if you could find up to half an hour for M. Juppé on 25 March. Failing that, could you offer me a time on 23 or 24 March which I could suggest to him.

C D.P

Charles Powell

~~27~~ February March 1989

FCO dealing CF

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

16 February 1989

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T34/89

Subject cc masters
ORS

Dear Prime Minister,

I have just received the original text of the message addressed to you by Monsieur François Mitterand, Président de la République, which I conveyed to you last Friday.

I enclose it herewith.

Yours ever

Luc de La Barre de Nanteuil

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London, S.W.1

LE PRÉSIDENT DE LA RÉPUBLIQUE

PARIS, le
8 Février 1989

Madame le Premier Ministre,

En vue de préparer le prochain Sommet des Sept je souhaiterais engager une réflexion sur le développement des transactions financières internationales.

Si ces activités constituent une composante essentielle du commerce international et du développement économique, l'absence de transparence et de contrôle de certaines transactions financières internationales conduit à des abus multiples et rend possible la couverture d'opérations financières illicites et le "blanchiment" de profits réalisés dans le commerce de la drogue.

C'est pourquoi je pense qu'il serait bon que nos gouvernements, avec le concours du Fonds Monétaire International dans son domaine de compétence, étudient ensemble ces problèmes et les solutions envisageables.

Je vous prie de croire, Madame le Premier Ministre, à l'assurance de ma haute considération et de mes fidèles sentiments

François Mitterrand

François MITTERRAND

Madame Margaret THATCHER
Premier Ministre du Royaume-Uni
de Grande Bretagne et
d'Irlande du Nord

TYLER MFJ

PRIME MINISTER
PERSONAL MESSAGE
SERIAL No. T25a/89

cc FCO

10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT: cc Market OPS.

THE PRIME MINISTER

31 January 1989

Dear Mr. President,

I was most grateful for your letter of 6 January inviting me to participate in the celebrations on 13-14 July of the Bicentenary of the French Revolution. In principle, I should be delighted to accept. However, 13 July is a Thursday, the day on which our Cabinet meeting takes place and on which I must take questions in Parliament which do not finish until 3.30 pm. I know you will understand that it would be very difficult for me to miss these events. It would therefore be most helpful to have as firm an indication as possible of what is planned for 13 and 14 July so that I can better judge the length of my likely absence from London.

Yours sincerely,

Margaret Thatcher

His Excellency Monsieur le Président Mitterrand, GCB.

8W

042606

PS TO PRIME MINISTER
NO 10 DOWNING ST

RESTRICTED
FM UKREP BRUSSELS
TO ROUTINE FCO
TELNO 245
OF 311355Z JANUARY 89
INFO ROUTINE PARIS
INFO SAVING OTHER EUROPEAN COMMUNITY POSTS

FRAME INDUSTRIAL

EC STATE AIDS: RENAULT

SUMMARY

1. SIR L BRITTAN HAS WRITTEN TO FAUROUX SAYING THAT THE FRENCH ACTION OF DECEMBER DOES NOT COMPLY WITH THE COMMISSION'S DECISION.

DETAIL

2. LORD YOUNG RAISED THIS ISSUE WHEN HE CALLED ON SIR L BRITTAN ON 30 JANUARY. SIR L BRITTAN SAID THAT HE HAD THAT DAY SIGNED A LETTER TO FAUROUX SAYING THAT HE DID NOT BELIEVE THAT WHAT THE FRENCH HAD OFFERED AMOUNTED TO COMPLIANCE WITH THE COMMISSION'S DECISION OF 29 MARCH: THAT HE HOPED THEY WOULD COME UP WITH SOMETHING ELSE: AND THAT, IF THEY DID NOT DO SO, HE WOULD HAVE TO CONSIDER WHAT ADVICE TO GIVE TO THE COMMISSION. IF THE FRENCH DID COME UP WITH SOME CHANGES, HE WOULD HAVE TO CONISER THEM. IF THEY DID NOT, THE NEXT STEPS WOULD BE FOR THE FULL COMMISSION (RATHER THAN FOR HIM ALONE) TO DECIDE.

3. LORD YOUNG WELCOMED THIS ACTION. IT WOULD HAVE BEEN DIFFICULT TO EXPLAIN DOMESTICALLY ANY WEAKENING OF THE COMMISSION'S POSITION VIS-A-VIS RENAULT. A FIRM COMMISSION STANCE WAS ALSO IMPORTANT AS REGARDS FUTURE COMMISSION DECISIONS, EG FIAT.

HANNAY

YYYY

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

30 January 1989

Dear Mr. President.

I was most grateful for your letter of 6 January inviting me to participate in the celebrations on 13-14 July of the Bicentenary of the French Revolution. In principle, I should be delighted to accept. However, 13 July is a Thursday, the day on which our Cabinet meeting takes place and on which I must take questions in Parliament. I know you will understand that it would be very difficult for me to miss these events. It would therefore be most helpful to have as firm an indication as possible of what is planned for 13 and 14 July so that I can better judge the length of my likely absence from London.

which do not finish until 3.30 p.m.

Kind regards.

Yours sincerely

Margaret Thatcher

~~P.S. 'Questions' finish at 3.30p.m.~~

His Excellency Monsieur le Président Mitterrand, GCB.

cc ec

Foreign and Commonwealth Office

London SW1A 2AH

26 January 1989

Dear Charles,

French Bicentenary: Invitation to the Prime Minister

Thank you for your letter of 12 January about President Mitterrand's invitation to the Prime Minister to participate in the Bicentenary celebrations in Paris on 13-14 July.

The programme for the Bicentenary celebrations is still to be confirmed but is likely to involve:

13 July

- lunch
- celebrations
- formal opening of Bastille Opera
- dinner

14 July

- military procession
- reception followed by lunch at the Elysee

1500 Economic Summit begins.

On participation, the Paris Embassy understand that all Summit Seven Heads of Delegation are being invited to participate in the Bicentenary celebrations and that some (as yet unspecified) Third World Heads of State and Government are also being invited. They expect Francophone Africans to attend in force and understand that Mr Mubarak is likely to attend. They also expect either Heads of State or Heads of Government of all EC Member States to be invited. No invitation has been received so far by a member of the Royal Family and Sir Ewen Fergusson has made clear to the Elysee that it is most unusual for The Queen and Prime Minister to attend the same event overseas, except for the Commonwealth Heads of Government Meeting, which The Queen attends in her capacity as Head of the Commonwealth. In the circumstance, Sir Ewen thinks it most unlikely that an invitation will also be extended to HM The Queen.

/The

The Bicentenary celebrations on 13-14 July will combine a large element of ceremony aimed at the promotion of France and its leadership. The French, and President Mitterrand personaly, will attach great importance to high level attendance from France's closest partners and allies. It seems probable that Chancellor Kohl would himself go. Given that the Economic Summit would lead on directly from the celebrations, it would be difficult to attend only the Summit without appearing deliberately to cold-shoulder the Bicentenary. The Foreign Secretary is in favour of the Prime Minister's presence for as much of the celebrations as other commitments permit. He accordingly recommends that the Prime Minister accept the invitation in principle. I attach a draft reply in this sense to President Mitterrand.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

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PM

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Unclassified

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CAVEAT .....

Enclosures flag(s) .....

TO:
His Excellency
President Francois Mitterrand GCB
Palais de l'Elysée
Paris

Copies to:

SUBJECT:

I was most grateful for your letter of 6 January inviting me to participate in the celebrations on 13-14 July of the Bicentenary of the French Revolution. In principle, I should be delighted to accept. However, 13 July is a Thursday, the day on which our ~~weekly~~ Cabinet meeting takes place and on which I must take questions in Parliament. I know you will understand that it would be very difficult for me to miss these events. It would therefore be most helpful to have as firm a ~~view~~ an indication as possible of what is planned for 13 and 14 July so that I can better judge the length of my likely absence from London.

CH..

FRANCS : Belgian
PTS.

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TO IMMEDIATE FCO
TELNO 56
OF 121147Z JANUARY 89
INFO ROUTINE UKREP BRUSSELS, ROME, MADRID, TOKYO

FRAME EXTERNAL

NISSAN(UK) EXPORTS TO FRANCE

SUMMARY

1. THE FRENCH INDUSTRY MINISTER CONFIRMS IMPLICITLY THAT THE LINE TAKEN BY HIS OFFICIALS WITH US AND WITH NISSAN'S FRENCH IMPORTER HAS HIS BLESSING. THE FRENCH INTEND TO CONTINUE COUNTING NM(UK)'S PRODUCTS AGAINST NISSAN'S QUOTA. I HAVE REGISTERED FIRMLY THAT THE PRIME MINISTER AND YOU WILL BE DISAPPOINTED AT THIS DISCREPANCY WITH THE ASSURANCES GIVEN BY THE PRESIDENT AND M ROCARD THAT THE PROBLEM WAS RESOLVED AND WILL WANT TO CONSIDER FURTHER ACTION. PRIME MINISTERIAL MESSAGE RECOMMENDED.

DETAIL

2. I CALLED ON THE INDUSTRY MINISTER, FAUROUX, ON 11 JANUARY. I SAID THAT THE PRIME MINISTER AND YOU HAD BEEN PLEASED TO BE TOLD BY PRESIDENT MITTERRAND AND M ROCARD THAT THERE WAS NO LONGER A PROBLEM OVER NM(UK)'S EXPORTS TO FRANCE. THEY HAD UNDERSTOOD THIS TO MEAN THAT NM(UK)'S PRODUCTS WOULD BE TREATED IN ALL RESPECTS NO DIFFERENTLY FROM ANY OTHER CARS MANUFACTURED WITHIN THE COMMUNITY, AND IN PARTICULAR THAT NO CONNECTION WOULD BE MADE BETWEEN SALES OF NM(UK) CARS IN FRANCE AND ANY ARRANGEMENTS FRANCE MIGHT HAVE FOR CARS OF NON-EC ORIGIN. THEY HAD THEREFORE BEEN PUZZLED TO HEAR THAT WHEN NISSAN'S IMPORTING AGENT, RICHARD, SAW MINISTRY OF INDUSTRY OFFICIALS ON 22 DECEMBER HE HAD BEEN TOLD THAT UNTIL FURTHER NOTICE HE SHOULD COUNT ANY CARS IMPORTED FROM NM(UK) AGAINST HIS 1989 QUOTA. THIS APPEARED TO RUN COUNTER TO THE ASSURANCES MINISTERS HAD BEEN GIVEN. I HOPED FAUROUX COULD TELL ME THAT THERE HAD BEEN A MISUNDERSTANDING AND THAT IN THE LIGHT OF THE ASSURANCES GIVEN BY PRESIDENT MITTERRAND AND M ROCARD NM(UK)'S EXPORTS WOULD NOT BE COUNTED AGAINST NISSAN'S QUOTA.

3. FAUROUX SAID HE HAD DIFFICULTY IN UNDERSTANDING WHY FRANCE'S QUOTA ARRANGEMENTS WITH NISSAN SHOULD BE OF CONCERN TO US. SURELY WHAT MATTERED TO US WAS THAT NM(UK)'S PRODUCTS SHOULD ENTER THE FRENCH MARKET WITHOUT RESTRICTION. THIS WAS HAPPENING. WHAT THE

FRENCH AGREED WITH JAPANESE COMPANIES LIKE NISSAN WAS ANOTHER MATTER. THEY COULD NOT BUT FEEL FREE TO SET NISSAN'S QUOTA AT WHATEVER LEVEL THEY THOUGHT APPROPRIATE AND COULD PERSUADE THE COMPANY TO ACCEPT.

4. I SAID THIS WAS AN ARTIFICIAL ARGUMENT. MINISTERS HAD A RIGHT TO TAKE AN INTEREST IN THE ARRANGEMENT BETWEEN FRENCH OFFICIALS AND NISSAN'S IMPORTER BECAUSE THE PRACTICAL EFFECT OF COUNTING NM(UK)'S CARS AGAINST NISSAN'S QUOTA WAS TO EQUATE UK EXPORTS TO JAPANESE EXPORTS AND THUS SUBJECT UK EXPORTS TO RESTRICTIONS. MOREOVER IT WOULD CLEARLY BE WRONG FOR US TO FAIL TO INTERVENE ON BEHALF OF A COMPANY WHICH HAD BROUGHT EMPLOYMENT TO AN AREA OF INDUSTRIAL DECLINE, WAS HELPING INSTIL EFFECTIVE MANAGEMENT PRACTICES AND WAS HONOURING THE CONDITIONS WE HAD SET FOR ITS OPERATIONS IN THE UK.

5. FAUROUX SAID IT WAS IN NISSAN'S HANDS WHETHER OR NOT THE FRENCH ARRANGEMENT HAD THE PRACTICAL EFFECT OF RESTRICTING NM(UK)'S EXPORTS. NISSAN WERE FREE TO SET THEIR EXPORTS FROM THE UK AT WHATEVER LEVEL THEY WANTED. HE WENT ON TO SAY THAT HE KNEW OF THE EXCHANGE BETWEEN THE PRESIDENT AND MRS THATCHER AND OF THE INTERPRETATION WE PUT ON IT, FROM THE AIDE MEMOIRE LEFT WITH MINISTRY OF INDUSTRY OFFICIALS ON 9 DECEMBER. HE HAD NOT, HOWEVER, HAD A DIRECT ACCOUNT FROM THE PRESIDENT OR M ROCARD OF THEIR EXCHANGES WITH BRITISH MINISTERS AND HAD NOT RECEIVED ANY INSTRUCTIONS WHICH WOULD JUSTIFY A LINE DIFFERENT FROM THE ONE HE HAD TAKEN.

6. I SAID MINISTERS WOULD BE DISAPPOINTED THAT FAUROUX HAD NOT BEEN ABLE TO RESOLVE A DISCREPANCY BETWEEN THE ASSURANCES THEY HAD BEEN GIVEN AND THE LINE TAKEN BY MINISTRY OF INDUSTRY OFFICIALS. THEY WOULD WANT TO CONSIDER FURTHER ACTION BEARING IN MIND THAT THE COMMISSION HAD TOLD US IN WRITING THAT IN THEIR VIEW THERE WOULD BE NO JUSTIFICATION FOR TREATING NM(UK)'S PRODUCTS DIFFERENTLY FROM ANY OTHER VEHICLES PRODUCED WITHIN THE COMMUNITY.

7. FAUROUX SAID THE FRENCH WOULD BE IN TOUCH WITH THE COMMISSION SHORTLY. THEY WERE OWED A REPLY TO A LETTER THEY HAD SENT IN EARLY NOVEMBER IN WHICH THEY HAD ASKED THE COMMISSION TO LOOK INTO NM(UK)'S LOCAL CONTENT LEVELS. HE UNDERSTOOD THAT WE WOULD WANT TO REFLECT FURTHER. HE REMAINED OPEN TO FURTHER DISCUSSION.

COMMENT

8. FAUROUX'S PARTING SHOT WAS CLEARLY INTENDED TO BE CONCILIATORY, BUT HIS BASIC MESSAGE WAS UNAMBIGUOUS: DESPITE THE ASSURANCE GIVEN

BY THE PRESIDENT AND M ROCARD HIS MINISTRY INTENDS TO CONTINUE OBLIGING NISSAN'S IMPORTER TO COUNT NM(UK)'S PRODUCTS AGAINST HIS QUOTA UNTIL 80 PER CENT LOCAL CONTENT IS REACHED.

9. NOW THAT THIS MESSAGE HAS BEEN CONFIRMED AT MINISTERIAL LEVEL, I RECOMMEND THAT THE NEXT STEP SHOULD BE A MESSAGE FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND REMINDING HIM OF THE ASSURANCE GIVEN AT MONT ST MICHEL ON 30 NOVEMBER, (CONFIRMED BY ROCARD'S SUBSEQUENT CONVERSATION WITH YOU), EXPRESSING SURPRISE AND CONCERN THAT THE LINE TAKEN BY FAUROUX AND HIS OFFICIALS WAS AT VARIANCE WITH IT, AND ASKING HIM TO LOOK INTO THE QUESTION ONCE MORE WITH A VIEW TO CONFIRMING AT OR BEFORE THE ANGLO-FRENCH SUMMIT ON 27 FEBRUARY THAT THE ASSURANCES WOULD BE HONOURED AND THAT NMUK EXPORTS WOULD BE TREATED IN ALL RESPECTS AS COMMUNITY VEHICLES.

10. I WOULD RECOMMEND THAT YOU YOURSELF SEND A COPY OF THE LETTER TO ROCARD REINFORCING THE MESSAGE. THERE WILL BE AN OPPORTUNITY FOR THE PRIME MINISTER TO RAISE THE SUBJECT WITH ROCARD WHEN HE VISITS LONDON ON 8 FEBRUARY.

11. FCO PLEASE ADVANCE PRIVATE SECRETARY, KERR, ARTHUR (ECD(I)): PS/LORD YOUNG, COCHLIN, BOWEN, BRIDGE, NEVILLE-ROLFE (DTI): LAVELLE, ALTY (CABINET OFFICE).

LLEWELLYN SMITH

YYYY

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MR RATFORD
MR MCLAREN

ADDITIONAL 1

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 January 1989

I attach a copy of a letter the Prime Minister has received from President Mitterrand.

I should be grateful for a draft reply, if appropriate, to reach me by Thursday 26 January.

Charles Powell

Richard Gozney Esq
Foreign and Commonwealth Office.

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

12th January, 1989

Dear Prime Minister

I have just received through the diplomatic bag two letters addressed to you by Monsieur François Mitterrand, Président de la République.

I enclose them herewith.

Yours sincerely,

Luc de La Barre de Nanteuil

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street,
London, S.W.1.

ccpe

LE PRÉSIDENT DE LA RÉPUBLIQUE

T'

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T10/89

SUBJECT cc Marbe
OPS

Paris, le 6 janvier 1989

Madame le Premier Ministre,

Au cours de l'année 1989 sera célébré avec un éclat particulier le bicentenaire de la Révolution française, qui fut, pour des millions d'hommes et de femmes, l'espérance d'une émancipation.

La France souhaite associer à ces cérémonies tous ceux qui, comme vous, oeuvrent à la construction d'un monde plus juste et plus libre.

C'est pourquoi je serai très honoré de vous avoir à mes côtés pour les manifestations des 13 et 14 juillet 1989, qui constitueront le point culminant de ces cérémonies.

Je vous prie d'agréer, Madame le Premier Ministre, l'expression de ma très haute considération et de mes fidèles sentiments

François Mitterrand

François MITTERRAND

Son Excellence
Madame Margaret THATCHER
Premier Ministre du Royaume-Uni
de Grande-Bretagne et d'Irlande

140514
MDLIAN 6388

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FRAME ECONOMIC

FRANCE AND THE EC

SUMMARY

1. BEREGOVOY CONFIRMS FRANCE WILL NOT BLOCK EC CAPITAL LIBERALISATION IN 1990, AND SUGGESTS NATIONAL MEASURES TO OBVIATE A DISPLACEMENT OF CAPITAL IF NO AGREEMENT ON TAX HARMONISATION IS POSSIBLE. COMMENTS ON OTHER EC SUBJECTS INCLUDING FRANC/DM IN THE EMS.

DETAIL

2. TAKING QUESTIONS ON THE FRENCH ECONOMY IN 1989 BEFORE A CONFERENCE OF BUSINESSMEN ON 5 JANUARY, BEREGOVOY (MINISTER OF THE ECONOMY) MADE A NUMBER OF OBSERVATIONS ON EC SUBJECTS.

TAXATION OF FINANCIAL ASSETS

3. BEREGOVOY SAID HE WAS AWAITING COMMISSION PROPOSALS ON THE HARMONISATION OF TAXATION OF FINANCIAL ASSETS. HOWEVER, HE EMPHASISED THAT THE DECISION TO ABOLISH CAPITAL CONTROLS IN 1990 WAS ALREADY TAKEN. FRANCE WAS NOT GOING TO CHALLENGE IT. HE HOPED AND BELIEVED THAT, WITH THE HELP OF THE GERMANS, AGREEMENT ON THE FORTHCOMING COMMISSION PROPOSALS WOULD BE POSSIBLE. BUT IF NOT, HE WOULD TAKE THE NECESSARY STEPS TO AVOID A DISPLACEMENT OF FRENCH CAPITAL BY CUTTING THE RELEVANT FRENCH TAXATION RATES BEFORE 1990. THESE WOULD HAVE A BUDGETARY COST OF SOME F15 BILLION. BUT THEY WOULD ALSO HAVE THE ADVANTAGE OF ENCOURAGING FRENCH SAVINGS - A SEPARATE IMPORTANT MACROECONOMIC OBJECTIVE TO HELP CURB EXCESS DEMAND.

VAT APPROXIMATION

4. BEREGOVOY SAID VAT HARMONISATION DID NOT MEAN UNIFORMITY. BUT HE DID THINK NARROWING OF EC RATES WAS NECESSARY AND DESIRABLE BY 1992. FRENCH VAT RATES WOULD BE LOWERED, AND ALTHOUGH THERE WOULD BE A BUDGETARY COST OF SOME F20-25 BILLION PER ANNUM FOR THE FOUR BUDGETS OVER THE PERIOD 1990-1993, THIS WOULD BE MANAGEABLE IF THE ECONOMY

CONTINUED TO GROW AT ITS PRESENT RATE (WHICH IN TURN WAS A FUNCTION OF THE GROWTH OF THE EUROPEAN ECONOMY).

EMS

5. BEREGOVOY UNDERLINED THE CARDINAL IMPORTANCE OF EXCHANGE RATE STABILITY, AND IN PARTICULAR TYING THE FRANC TO THE DM. THERE WAS NO QUESTION OF FRANCE SEEKING A DEVALUATION OF THE FRANC OR A REALIGNMENT IN THE EMS. ASKED IF THAT MEANT THAT IF THE DM WERE REVALUED THE FRANC WOULD BE TOO, BEREGOVOY SAID YES. HE AND STOLTENBERG HAD MADE IT CLEAR THEY WERE SATISFIED WITH THE CURRENT FRANC/DM PARITY.

EC/US

6. BEREGOVOY SAID HE WANTED TO DE-DRAMATISE THE CURRENT EC/US DIFFERENCES. EUROPE HAD TO BE A GREAT MARKET, NOT A FORTRESS. IT WAS VITAL TO COMBAT PROTECTIONISM EVERYWHERE. THE BIG PROBLEM WAS AGRICULTURE, WHERE EVERYONE WAS COMPETING TO PROVIDE SUBSIDIES TO THEIR FARMERS. THE IMPORTANT THING WAS TO PLACE ALL SUBSIDIES ON THE TABLE. IT WOULD NOT BE EASY, BUT A NEGOTIATION IN THE GATT WAS POSSIBLE. NO ONE HAD ANYTHING TO GAIN IN A TRADE WAR.

FRANCE AND 1992

7. ASKED HOW A FRENCH GOVERNMENT OBLIGED BY THE PARLIAMENTARY SITUATION TO TAKE ACCOUNT OF COMMUNIST VIEWS COULD SQUARE UP TO 1992, BEREGOVOY SAID THAT FOR FRANCE THE EUROPEAN COMMUNITY WAS A SOCIAL NECESSITY. THE LIBERALISATION OF CAPITAL, TRADE AND LABOUR WAS NEEDED TO STIMULATE ENTERPRISE AND CREATE JOBS. THE SOCIAL DIMENSION COULD NOT BE IGNORED, BUT WHAT IT REALLY AMOUNTED TO WAS A BETTER SHARING OF THE FRUITS OF CREATED WEALTH.

LLEWELLYN SMITH

YYYY

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CONFIDENTIAL
FM PARIS
TO IMMEDIATE FCO
TELNO 1267
OF 091356Z DECEMBER 88
INFO PRIORITY UKREP BRUSSELS, ROME, MADRID, TOKYO

FRAME EXTERNAL
NKSSAN (UK) EXPORTS TO FRANCE

SUMMARY

1. MINISTRY OF INDUSTRY OFFICIALS UNAWARE OF ASSURANCES GIVEN BY PRESIDENT MITTERRAND AND M ROCARD. THEY ARE UNABLE TO CONFIRM THAT NM(UK)'S EXPORTS WILL NO LONGER COUNT AGAINST NISSAN'S UNOFFICIAL QUOTA. THEY HAVE UNDERTAKEN TO CONSULT AND REVERT AS SOON AS POSSIBLE.

DETAIL

2. AS AGREED IN TELECON JENKINS/BOWEN (DTI), FIRST SECRETARY (ECONOMIC) CALLED ON THE HEAD OF THE VEHICLES DIVISION IN THE MINISTRY OF INDUSTRY (BUFFET) ON 9 DECEMBER TO CHECK FRENCH UNDERSTANDING AT OFFICIAL LEVEL OF THE ASSURANCES GIVEN BY PRESIDENT MITTERRAND ON 30 NOVEMBER AND M ROCARD ON 7 DECEMBER. FIRST SECRETARY (ECONOMIC) SAID THAT MINISTERS HAD BEEN PLEASED TO BE TOLD THAT OUR DIFFICULTIES OVER NM(UK)'S EXPORTS TO FRANCE WERE OVER AND THAT THERE WAS NO LONGER A PROBLEM. THEY UNDERSTOOD THIS TO MEAN NOT ONLY THAT THESE CARS WOULD CONTINUE TO BE GIVEN ACCESS TO THE FRENCH MARKET WITHOUT RESTRICTION, BUT ALSO THAT THEY WOULD BE TREATED IN ALL RESPECTS NO DIFFERENTLY FROM ANY OTHER CARS MANUFACTURED WITHIN THE COMMUNITY. IN PARTICULAR, THEIR UNDERSTANDING WAS THAT THERE WOULD BE NO CONNECTION BETWEEN SALES OF NM(UK) CARS IN FRANCE AND ANY ARRANGEMENTS FRANCE MIGHT HAVE, VOLUNTARY OR OTHERWISE, CONCERNING SALES OF CARS OF NON-EC ORIGIN.

3. FIRST SECRETARY (ECONOMIC) HANDED BUFFET AN AIDE MEMOIRE CONTAINING THESE POINTS AND ASKED FOR CONFIRMATION THAT THESE UNDERSTANDINGS WERE CORRECT. BUFFET SAID THAT HE WAS NOT IN A POSITION TO GIVE SUCH CONFIRMATION. HE WOULD NEED TO CONSULT, AND WOULD LET US HAVE A REPLY AS SOON AS POSSIBLE.

4. IN SUBSEQUENT DISCUSSION IT BECAME CLEAR THAT BUFFET WAS NOT AWARE OF ANY CHANGE IN THE LONG-ESTABLISHED FRENCH POSITON. IN HIS MIND, WHILE NM(UK)'S CARS WOULD HAVE UNRESTRICTED ACCESS TO THE

FRENCH MARKET, THEY WOULD CONTINUE TO COUNT AGAINST NISSAN'S UNOFFICIAL QUOTA UNTIL THE 80 PERCENT LOCAL CONTENT LEVEL WAS REACHED.

COMMENT

5. COMMUNICATION WITHIN THE FRENCH ADMINISTRATIVE MACHINE IS OFTEN POOR. WE ARE NOT SURPRISED THAT THE PRESIDENT'S AND PRIME MINISTER'S VIEWS HAD NOT YET FILTERED DOWN INTO THE MACHINE. BUFFET HAS BEEN GIVEN THE NAMES OF TWO OFFICIALS WHO WERE PRESENT AT THE MEETINGS ON 30 NOVEMBER AND 7 DECEMBER (MME GUIGOU AND M PERREAU). WE MUST NOW GIVE HIM TIME TO CONTACT THEM AND TO BE INSTRUCTED TO ABANDON THE PLAN TO MAKE NISSAN'S FRENCH IMPORTER COUNT NM(UK)'S BLUBIRDS AGAINST HIS QUOTA. WE SHALL CHECK THE POSITION AGAIN SHORTLY.

6. FCO PLEASE ADVANCE COCHLIN, BOWEN, BRIDGE, MS NEVILLE-ROLFE (DTI): KERR, ARTHUR (ECD(I)): ALTY (CABINET OFFICE).

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH M. ROCARD

SUMMARY

1. THE SECRETARY OF STATE HAD A LIVELY ONE HOUR MEETING WITH ROCARD IN PARIS TODAY. DISCUSSION CENTRED ON EC ISSUES. DEFENCE COOPERATION ALSO TOUCHED ON. ROCARD EMPHASISED WILLINGNESS TO WORK WITH THE UK BUT WARNED OF PITFALLS AHEAD.

DETAIL

FOLLOW-UP TO RHODES SUMMIT

2. ROCARD SAID THAT RHODES HAD POSTPONED SOME PROBLEMS. THE SECRETARY OF STATE SAID THAT IT HAD ILLUMINATED THEM AS WELL. DISCUSSION HAD SHOWN CLEARLY THAT WE SHOULD NOT TAKE AN ABSOLUTIST APPROACH ON TAX APPROXIMATION. MARKET FORCES WOULD LEAD TO SOME APPROXIMATION. THE ISSUE COULD NOT BE FORCED. ROCARD DESCRIBED THE FRENCH TAX STRUCTURE AND THE PRESSURE FOR DOWNWARD REDUCTIONS ON THE HIGHER LEVELS OF PERSONAL TAXATION. HE WOULD MAKE A SISCAL SACRIFICE OF OVER POUNDS STERLING 1 BILLION IN FY 1990. HE DID NOT WANT TO SEE FRENCH BANKS AND FINANCIAL INSTITUTIONS PUT INTO A LESS COMPETITIVE POSITION THAN THOSE OF THE UK. AS FAR AS VAT WAS CONCERNED, HE DID NOT WANT TO HAVE TO DO MUCH MORE THAN WAS CONTEMPLATED ALREADY. THE SECRETARY OF STATE DESCRIBED OUR REQUIREMENT TO MAINTAIN ZERO RATES ON CERTAIN ITEMS. ROCARD SAID HE UNDERSTOOD THE POLITICAL IMPERATIVE. THERE HAD TO BE FLEXIBILITY. HE DOUBTED, HOWEVER, WHETHER OUR ZERO RATES WERE SUSTAINABLE OVER MORE THAN ABOUT A 20 YEAR PERIOD. THERE WOULD BE PRESSURE ON INTERNAL FISCAL POLICY POINTING TOWARDS CHANGE.

FRONTIER CONTROLS

3. THE SECRETARY OF STATE DESCRIBED OUR POLICY AS BEING ONE IN WHICH CHECKS WERE REDUCED TO THE MINIMUM COMPATIBLE WITH THE COMMON FIGHT AGAINST DRUG TRAFFICKING, TERRORISM AND ILLEGAL IMMIGRATION. HERE AGAIN, ABSOLUTISM WAS THE ENEMY OF PROGRESS. ROCARD SAID THAT HE

TOO HATED VERBAL VIOLENCE. THERE WERE, HOWEVER, TWO DIFFERENCES BETWEEN US. ON TAX, HE COULD NOT ACCEPT THAT EVERYBODY ELSE SHOULD HARMONISE TO BRITAIN'S ZERO RATES. MORE GENERALLY, HE HOPED THAT BRITAIN WOULD NOT DENY THAT PROGRESSIVELY THERE SHOULD BE HARMONISATION OF BEHAVIOUR IN THE SOCIAL, FISCAL AND MONETARY SPHERES. BUT IT WOULD HAVE TO BE DONE SLOWLY. THE SECRETARY OF STATE SAID THAT WE HAD LEARNED THE HARD WAY IN BRITAIN THAT FOR SOME PROBLEMS THERE WAS NO SINGLE RIGHT ANSWER WHICH APPLIED NATIONWIDE. THERE HAD TO BE ROOM FOR LOCAL INITIATIVE. JUST AS OREGON COULD DECIDE TO EMULATE CALIFORNIA'S SOCIAL SECURITY SYSTEM - OR NOT AS THE CASE MIGHT BE - SO WE NEEDED A SIMILAR DIVERSITY WITHIN THE COMMUNITY.

SOCIAL POLICY

4. THE SECRETARY OF STATE SAID THAT WE SHOULD NOT ALLOW CULTURAL/LINGUISTIC DIFFERENCES TO DIVIDE US. THE TERM QUOTE SOCIAL SPACE UNQUOTE, SO WIDELY USED ON THE CONTINENT, WAS VIRTUALLY MEANINGLESS IN THE UK. ON THE OTHER HAND, IF YOU TALKED ABOUT THE SOCIAL DIMENSION OF THE SINGLE MARKET ECONOMY, THERE WAS IMMEDIATELY COMMON GROUND BETWEEN BRITAIN AND THE REST OF HER PARTNERS. A LOT WAS ALREADY BEING DONE, IN HELP TO SMES, EMPLOYMENT TRAINING ETC. WHAT WE COULD NOT DO WITH WAS A RETURN TO TRADE UNION BOSSISM - REIMPOSED FROM BRUSSELS. WE SHOULD ENCOURAGE GREATER WORKER INVOLVEMENT THROUGH, EG, SHARE OWNERSHIP SCHEMES.

MONETARY COOPERATION

5. ROCARD ASKED WHEN BRITAIN WAS GOING TO JOIN THE ERM. THIS WAS A REAL PROBLEM. THERE COULD NOT BE A COMPLETE OPENING UP OF FINANCIAL MARKETS WITHOUT MUCH GREATER AND DEEPER COORDINATION OF MONETARY POLICY. IF EXCHANGE CONTROLS WERE COMPLETELY REMOVED, THERE COULD BE REAL DISORDER IN THE MONEY MARKETS IF, FOR EXAMPLE, THE DEUTSCHMARK CAME UNDER REAL PRESSURE AS A RESULT OF MOVEMENTS IN THE DOLLAR OR THE YEN. IT WOULD BE IMPOSSIBLE TO RESIST SUCH PRESSURES WITHOUT, FOR EXAMPLE, COMMON MANAGEMENT OF RESERVES. EVEN POEHL TOOK THAT VIEW. IN DUE COURSE BRITAIN'S OIL RESOURCES WOULD RUN OUT AND THE POUND WOULD BE UNDER THREAT. IT WOULD BE MUCH MORE DIFFICULT FOR BRITAIN TO NEGOTIATE ITS WAY INTO THE ERM IN THOSE CIRCUMSTANCES. THE SECRETARY OF STATE POINTED OUT THAT EVEN AT THE HIGHT OF PRODUCTION, OIL HAD NEVER REPRESENTED MORE THAN 8 PER CENT OF OUR GNP. OUR POSITION ON JOINING THE ERM (WHEN THE TIME WAS RIGHT) HAD NOT CHANGED. WE SHOULD NOT ENLARGE THE AREAS OF DIVERGENCE THAT ALREADY EXISTED. WE WERE GOING ALONG WITH THE WORK OF THE DELORS COMMITTEE. WHEN PEOPLE TALKED OF A SINGLE CURRENCY OR A SINGLE CENTRAL BANK, IT WAS RIGHT TO QUESTION WHAT THEY MEANT, HE HAD SO

QUESTIONED SCHMIDT IN A RECENT RADIO INTERVIEW, AND SCHMIDT HAD ACKNOWLEDGED THAT WHEN HE TALKED IN THESE TERMS HE MEANT GREATER COOPERATION AND COORDINATION RATHER THAN THE CREATION OF NEW INSTITUTIONS. HERE AGAIN, ABSOLUTISM WAS THE ENEMY. ROCARD COMMENTED QUOTE BOTH OUR COUNTRIES KILLED A KING FOR ABSOLUTISM UNQUOTE. HE AGREED MONETARY ISSUES NEEDED CAREFUL WATCHING AND THAT WE SHOULD AVOID EXACERBATING DIFFERENCES. HE ADDED SOMEWHAT DELPHICLY, THAT ANY COMMUNITY REGULATORY MONETARY AUTHORITY SHOULD HAVE THE POLITICAL STATUS WHICH THE GERMANS WANTED IT TO HAVE.

6. ROCARD SAID HE WAS NO FEDERALIST, NOR WERE 99 PER CENT OF THE FRENCH PEOPLE. BUT OUR ECONOMIES WOULD INEVITABLY BECOME MORE AND MORE INTEGRATED IN THE SINGLE AND HIGHLY COMPETITIVE MARKET OF 1992. THAT INCREASE IN COMPETITION HAD TO BE MATCHED BY PROGRESS IN OTHER SPHERES.

COMPANY LAW

7. THERE WAS A BRIEF EXCHANGE ON COMPANY LAW. ROCARD INDICATED THAT THE FRENCH WERE PREPARED TO CONTEMPLATE A PERMISSIVE RATHER THAN A COMPULSORY APPROACH. HE HOPED THAT PROGRESS COULD BE MADE IN THE FRENCH PRESIDENCY ON DIALOGUE BETWEEN THE SOCIAL PARTNERS AND THOUGHT IT WOULD BE A GOOD IDEA IF BRITAIN AND FRANCE EXCHANGED WRITTEN IDEAS ON THE SUBJECT. THE SECRETARY OF STATE FENDED THIS OFF. ROCARD SAID THAT FRANCE WOULD WISH TO MAKE SOME PROGRESS ON THIS ISSUE DURING HER PRESIDENCY.

NISSAN

8. THE SECRETARY OF STATE REMINDED ROCARD OF THE PROBLEM AND SAID THAT WE WERE GLAD THAT AT HIS TALKS WITH THE PRIME MINISTER LAST WEEK, PRESIDENT MITTERRAND HAD INDICATED THAT THE ISSUE WAS NOW RESOLVED. IT WAS FOOLISH TO PENALISE VEHICLES WITH 70 PER CENT LOCAL CONTENT. ROCARD SAID THAT THAT WAS WHY THEY HAD BEEN ABLE TO PUT AN END TO THE PROBLEM.

AGRICULTURAL PROTECTIONISM

9. ROCARD DESCRIBED THE EXTENT OF JAPANESE AGRICULTURAL PROTECTIONISM AND WHAT HE CALLED THE FOOLISH LINE BEING TAKEN BY THE UNITED STATES. THE US COULD NOT CREDIBLY CALL FOR AN END TO SUBSIDIES WHEN THEIRS WERE FIVE TIMES HIGHER THAN THOSE OF THE COMMUNITY. HE COMMENDED A RECENT SPEECH ON AGRICULTURAL SUBSIDY BY BOB HAWKE AND SAID HE HAD MANAGED TO GET SOME SENSE OUT OF CLAYTON YEUTTER ON THE SUBJECT. ROCARD SAID THE FRENCH WERE COMMITTED TO AGRICULTURAL REFORM AND HOPED WE WOULD WORK TOGETHER. THE SECRETARY OF STATE COMMENDED THE OECD APPROACH TO MEASURING PROCEDURE SUBSIDY

EQUIVALENTS. ROCARD AGREED WITH THE SECRETARY OF STATE THAT HELP TO FARMERS SHOULD FOCUS ON RESTRUCTURING RATHER THAN ON PRODUCTION SUBSIDIES.

DEFENCE

10. THE SECRETARY OF STATE COMMENDED THE COOPERATION BETWEEN OUR SECURITY SERVICES IN TACKLING TERRORISM. ROCARD AGREED IT WAS ESSENTIAL. THE SECRETARY OF STATE ALSO COMMENDED CLOSER DEFENCE COOPERATION. THE FACT THAT WE HAD NOT BEEN ABLE TO COLLABORATE ON THE EUROPEAN FIGHTER AIRCRAFT DID NOT MEAN THAT WE SHOULD GIVE UP THE EFFORT. WE NEEDED MORE SPONTANEOUS INDUSTRIAL COOPERATION. ROCARD SAID HE WAS PLEASED TO HEAR THAT. IT HAD BEEN POLITICALLY IMPOSSIBLE TO RESIST THE PRESSURE FROM FRENCH INDUSTRY BUT HE HOPED THERE MIGHT BE SOME OPEN TENDERING AND SOME COOPERATION ON PARTS AND MAINTENANCE. THE TWO AIRCRAFT SHOULD BE COMPLEMENTARY, NOT COMPETITIVE.

11. THE SECRETARY OF STAE SAID THE FACT THAT WE HAD NOT BEEN ABLE TO AGREE ON COOPERATION ON THE PRESENT GENERATION OF NUCLEAR MISSILES SHOULD NOT RULE OUT COLLABORATION OVER THE NEXT GENERATION. ROCARD SAID HE WAS PREPARING A MEMORANDUM TO BE SENT TO US ON THIS SUBJECT. HE HOPED FOR CLOSER COOPERATION, (PERHAPS STARTING WITH RESEARCH) MORE CROSS-PURCHASING AND POSSIBLY EVEN JOINT VENTURES IN SHIP-BUILDING. FRANCE WAS GOOD ON SUBMARINES, BRITAIN ON SURFACE SHIPS. WE WERE NOW PRODUCING THE LAST GENERATION OF WEAPONS THAT COULD BE FINANCED FROM NATIONAL BUDGETS ALONE.

COMMENT

12. ROCARD WAS FRIENDLY, LIVELY AND ENTHUSIASTIC, SPEAKING FLUENT, IF FRACTURED, ENGLISH. HE STRESSED HIS LIKING FOR THE UK, FOR WHICH TENDANCY HE WAS REGARDED WITH SUSPICION IN FRANCE. THE DESIRE FOR CLOSE COOPERATION SEEMED QUITE GENUINE, ALTHOUGH ROCARD DID NOT ATTEMPT TO DISGUISE WHERE DIFFERENCES LAY, PARTICULARLY ON MONETARY AND SOCIAL ISSUES WITHIN THE COMMUNITY. HIS WISH FOR CLOSER DEFENCE COOPERATION WAS VERY EMPHATIC.

ALEXANDER

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PART 4 ends:-

FCO to LDP 29.11.88

PART 5 begins:-

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