

Subject

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Sept 1980

SUMMARY RECORD OF DISCUSSION AT THE LUNCH GIVEN BY THE PRESIDENT OF THE REPUBLIC AT THE ELYSEE ON FRIDAY 19 SEPTEMBER 1980 AT 1300 HOURS

Present:

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| The President of the Republic | The Prime Minister |
| M. Raymond Barre (Prime Minister) | The Chancellor of the Exchequer |
| M. Jean Francois-Poncet (Foreign Minister) | The Secretary of State for Industry |
| M. Rene Monory (Minister of Economy) | The Lord Privy Seal |
| M. Joel le Theule (Minister of Transport) | The Secretary of State for Trade |
| M. Andre Giraud (Minister of Industry) | Sir Reginald Hibbert |
| M. Pierre Bernard-Raymond (Minister, Foreign Affairs) | Sir Robert Armstrong |
| M. Jean Sauvagnargues (French Ambassador, London) | |
| M. Jacques Wahl (Secretary General, Presidency of the Republic) | |

The Middle East

The President of the Republic raised the subject of the Middle East.

Monsieur Francois-Poncet said that the situation in the Middle East had reached a very dangerous point. The danger was compounded by the Presidential election in the United States: both the main candidates would be impelled by domestic political considerations to say things that would be better unsaid. They would eventually have to be gainsaid; but that process would take time. The initiative taken by the European Council at Venice had been timely and important, and had been welcomed in the Middle East. The Arab countries in particular had responded positively to an initiative which came from another source than the United States. Monsieur Gaston Thorn had been well received in the Arab countries he had visited; less well received in Israel, though since his visit he had received a number of more encouraging messages from Mr. Begin. The European

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NOTE FOR THE FILE

Extract from the record of a discussion between the Prime Minister and the President of France at the Elysee on 19 September 1980 about Nuclear Defence, is filed on Defence:
The future of the UK Nuclear Deterrent:
Pt 3 on Cabinet 1.

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Community must now follow up the initiative by giving more precision and detail to the ideas and concepts in the Venice declaration, with a view to making further progress at the December meeting of the European Council.

The Lord Privy Seal agreed generally with Monsieur Francois-Poncet's analysis and in particular upon the need for building on, and giving greater detail and precision to, the European Council's initiative; but he emphasised the importance of ensuring that any proposals made by the European Community were at least not unacceptable to the United States, whose support was indispensable to progress towards peace in the region.

In discussion it was agreed that one of the matters which would require further discussion in the European Community was the future of the West Bank. The Prime Minister favoured federation of the West Bank in the State of Jordan: there was reason to believe that this could be acceptable to King Hussein. In her judgment the future of Jerusalem was likely to be the most intractable problem, given the views of the Saudi Government. The President of the Republic agreed that inclusion of the West Bank in a federal state of Jordan would be an acceptable solution if it were the choice of the PLO, but it could not be imposed on the PLO. He believed that it would not be possible to withhold recognition from the PLO after 1981. The Prime Minister said that recognition of the PLO must be dependent upon the PLO and the Arab states recognising the right of the state of Israel to exist. The President of the Republic agreed, and said that Arab leaders were in practice ready to accept and recognise the existence of the State of Israel. It was difficult, however, for the PLO and the Arab states to concede Israel's right to exist until the PLO was recognised: some way would have to be found of making the two steps simultaneous.

Iraq-Iran

The Prime Minister said that it was known that France was closer than other Western powers to Iraq: what view did France take of recent developments in relations between Iraq and Iran? Monsieur Francois-Poncet said that until recently he would have said that

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would be likely to they/prosecute their claims upon territory held by Iran with words rather than with organised military force: in the light of recent reports that view might need to be re-evaluated. The Prime Minister asked whether there was a danger that the Iraqis might use the nuclear reactor and the weapons-grade uranium supplied to them by France to make nuclear weapons. The President of the Republic and Monsieur Giraud argued at considerable length that the French Government had considered this possibility in great detail and were satisfied that there was no such danger. It was because they were not satisfied that the same could be said about the Pakistanis and the South Koreans that they had cancelled their nuclear contracts with those countries. The fact that the uranium supplied for the Iraqi reactor was weapons-grade uranium was not itself significant: it was a research reactor, and all the thirty or so research reactors in the world used weapons-grade uranium. The amount supplied would be sufficient to make only one or two weapons, and the Iraqis had agreed to its being supplied in instalments in such a way as made it technically impossible to use it for the manufacture of weapons. The Iraqis had accepted perfectly readily all the requirements of international inspection. If their aim was to be able to make a nuclear weapon, they had chosen an unlikely and technically cumbersome way of going about it. If it was argued that Iraq's resources of oil made it unnecessary for her to develop nuclear power for the supply of energy, the Iraqis said that that oil would not last forever, and now was the time for them to begin development of a nuclear power capacity so as to be able to prolong the availability of oil and to replace it as a source of energy when it ran out.

Aid Policy and North-South Relations

Turning to questions of aid policy and North-South relations, there was general agreement that the resources which the industrialised countries had available to help the Third World were considerably restricted by the effects of the increase in oil prices. In international discussion of aid policies, it would be important to emphasise a number of points:

- (a) For several reasons the emphasis should be switched from multi-lateral aid more towards bilateral aid. Multi-lateral aid was in danger of becoming little more than a

kind of international income tax to redistribute wealth; and it tended not to serve the political interests of, or to confer the deserved degree of political benefit upon individual donor countries. Moreover if too great a part of the resources available for aid was hypothecated for multi-lateral aid, there was a danger that there would not be enough to give necessary help when emergencies arose.

(b) The resources available for aid should be concentrated upon the poorer recipients. Some countries which were receiving aid were already relatively prosperous; and some of them were also in receipt of trade preferences because they enjoyed unrestricted access for their exports to industrialised markets but imposed considerable barriers to imports from the industrialised countries. They really should not have it all ways.

(c) The industrialised countries could not continue to carry so large a proportion of the burden of assisting the less developed countries. The oil exporting countries must be brought to do more; and the Western countries should expose the inadequacy of the contribution made by the socialist countries by describing publicly what they did.

The President of the Republic and the Prime Minister agreed that these points should be followed up in the course of the study of aid policies and practices put in hand at the Venice Economic Summit, and agreed that their Personal Representatives should be instructed accordingly for the forthcoming meeting of Personal Representatives in Washington.

There was a brief discussion of the possible timing of the North-South Summit Meeting proposed by President Lopez Portillo and Chancellor Kreisky. The Prime Minister said that she supposed that neither the President of the Republic (who nodded his agreement with her) nor she was enthusiastic about it, but that neither would think it right to refuse to attend: it was preferable to be present rather than to face the possible embarrassment of decisions taken in their absence. Her recent discussion suggested that Chancellor

Kreisky was thinking in terms of holding a meeting early in 1981. The President of the Republic said that he thought that the meeting could wait and should not be held until after the French Presidential election. He and the Prime Minister agreed that it would be preferable if the North-South Summit were postponed until after the Ottawa Economic Summit.

In the context of the OPEC contribution to aid, Monsieur Giraud drew attention to the dangers inherent in the proposals discussed by the OPEC strategy committee:-

(a) The proposals for indexation of oil prices were so constructed as to be highly disadvantageous to the industrialised countries;

(b) The proposals for helping the less developed countries were so constructed that a considerable part of the benefit to those countries would in practice come out of the resources of the industrialised countries, who would thus be paying not only their own share of oil price increases, but also part of the share of the less developed countries.

Monsieur Barre was sceptical about the practical effect of any proposals for indexation of oil prices. Whatever the nominal prices, the actual cost to consuming countries would be determined by supply and demand. Decisions on levels of production would be what mattered; and it was very important for the industrialised countries to reduce their demand for oil by sustained efforts to save energy and develop alternative sources.

Imports from Japan

There was then a discussion of the threat of Japanese imports to European industries. Monsieur Giraud said that the threat was not generalised, but the Japanese concentrated their efforts on particular goods: on radio and television, on watches, on photographic equipment, on motorcars, and perhaps in future on information technology. The technique was always the same: the market was flooded with Japanese imports; the resulting payments surplus was then invested in local manufacture or in the distribution system, which served to keep down the exchange value of the Yen, preserve

the competitiveness of the goods and increase the market penetration, at the expense of the locally manufactured product. European industry could not stand much more of this type of competition. Even if it was assumed that European industry could match the technological efficiency of Japanese industry, it could not match the social factors which served to make Japanese labour more productive than European labour.

The Prime Minister said that she did not favour protectionism, though she accepted the need for a measure of voluntary self-limitation agreed between Japanese manufacturers and their European counterparts in circumstances of special difficulty. In considering whether to impose any measures of import freeze or control, it would be necessary to have regard for the possible political consequences for Japan's relations with other industrialised countries of the Western world.

Monsieur Barre did not favour protection. The problem was to get European goods into Japan. As the Prime Minister pointed out, they tended to be kept out not only by a "Buy Japanese" prejudice but also by the opacity and complexity of the Japanese distribution system. Rather than restrict Japanese imports into Europe, he would prefer to induce the Japanese to match their imports into Europe with imports of European goods into Japan. They should be invited to import European goods to the same degree of market penetration as that enjoyed by Japanese goods in Europe. He believed that they could do this if they wanted to; and he suggested that their willingness to do so could be re-inforced by the threat that, if they failed to do so, Japanese imports into Europe could be frozen, and only permitted to increase in proportion with increases in European exports to Japan.

The President of the Republic said that he was not a protectionist, though he was slightly more inclined that way than Monsieur Barre - a fact that might help his standing in France, which according to the latest opinion polls had slipped slightly while Monsieur Barre's had risen, since the French were naturally protectionist. In answer to a question from the Prime Minister, he confirmed that imports of Japanese cars into France were held at a very low level by an agreed measure of self-limitation. They would not be allowed to go

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above that level, and the Japanese were well aware that, if self-limitation was not honoured, other measures would have to be adopted. The President went on to say that there were differences between the Europeans and the Japanese for which no amount of technological efficiency could compensate. What European worker would give up one of his three weeks holiday to come down to the Japanese worker's two weeks? Or, still less, spend that holiday under his employer's aegis being subjected to instruction and propaganda about the need for and benefits of increased production. It was not a matter of protection but of correction for ineradicable national differences.

The discussion concluded at about 3 p.m., when the President of the Republic and his guests moved to the Plenary meeting.

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