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RECORD OF A MEETING, IN PLENARY SESSION, BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF FRANCE, PRESIDENT GISCARD D'ESTAING, AT 10 DOWNING STREET ON 20 NOVEMBER 1979 AT 0945

Present:

Prime Minister	President Giscard d'Estaing
Foreign and Commonwealth Secretary	Monsieur Francois-Poncet
Chancellor of the Exchequer	Monsieur Monory
Secretary of State for Industry	Monsieur Giraud
Secretary of State for Energy	HE, Monsieur Jean Sauvagnargues and other officials
Sir Robert Armstrong	
Sir Michael Palliser	
Sir Jack Rampton	
Sir Reginald Hibbert	
Sir Kenneth Couzens	
Mr. Michael Franklin	
Mr. C.W. Whitmore	
Mr. Bernard Ingham	
Mr. M.O'D.B. Alexander	

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Industry

The Prime Minister asked the Secretary of State for Industry to report on his discussions with M. Giraud. The Secretary of State for Industry said that he would like to begin by mentioning a point of concern which M. Giraud had mentioned to him. M. Giraud was worried about the links between British Leyland and Honda. The Secretary of State had reassured him that British Leyland would be producing a British car not a Japanese one.

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The Secretary of State for Industry then listed the areas where he and his French colleague had identified mutual interests. These included:-

- (a) co-operation in the production of titanium. Both countries were going to need additional supplies in the years ahead. Britain needed it for aero-engines, the French for their nuclear power stations. There was no question of either country subsidising the production of the metal. It was a question of supplying it on the right terms. There could be a common interest in constructing one or two plants. The product of the existing UK manufacturing capability did not altogether meet French requirements. But the production process could not be changed because the certification of Rolls Royce engines using the product was based on it and Rolls Royce could not wait while a new process was developed. It might be that a new plant would be built in this country using the present technology;
- (b) the need to reduce the level of subsidies to "mobile industries" i.e. multinational companies which have a choice of country in which to locate their investments;
- (c) concern about the level of US subsidies to their oil industry given the effect that this was having on the cost of various synthetic fibres;
- (d) the need to identify more precisely the threat from Japanese subsidies generally;
- (e) the possibility of co-operation in computer software and in the space industry;
- (f) French willingness to look at regulations limiting their UK exports of trucks to France.

M. Giraud said that he and the Secretary of State for Industry had also discussed the dumping of Italian woollen textiles and the Standards Code which had emerged from the recent Multilateral Trade Negotiations. The latter was particularly important if the Community was to keep control of unfair competition from Japan and the United

States. Both Ministers had agreed that there was a role for national action in dealing with this problem. The position of the Community as a whole was being discussed in the Foreign Affairs Council, The Prime Minister asked about Commission Davignon's investigation into the effect of US oil subsidies on the synthetic fibre industry. M. Giraud said the Community was progressing too slowly. This was an example of an area where national action could be important.

### Energy

The Secretary of State said that he and M. Giraud had discussed the present disturbing situation on the world oil market and the precarious nature of the supply/demand balance. There had been some difference of approach to the problems of the spot market but no divergence of view on the extreme seriousness of the situation. Both Ministers had agreed to keep in touch about the proposals which the United States would shortly be bringing to the IEA for strengthening the constraints on oil imports and for improving monitoring of the situation. (France is not a member of the IEA.)

The Secretary of State for Energy said that he and M. Giraud had identified common interests in the future development of civil nuclear power. Both countries intended to expand their nuclear power capacity. The UK would be reactivating the Westinghouse PWR licence. He and M. Giraud had agreed that there was a possibility of future construction of PWR reactors being conducted on a trilateral support basis. There might be component manufacturing and licencing arrangements embracing both Westinghouse and the French industry. He would be considering how to proceed with Westinghouse in the light of M. Giraud's remarks.

There had also been a discussion about the possibility of co-operation in the breeder reactor field in the years ahead. Finally he and M. Giraud had discussed the possibility of transporting gas from the Statfjord field through <sup>the</sup> British gas gathering system and onwards to France. He would be happy to

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look at this more carefully if the Norwegian authorities were willing to enter the arrangement. It would offer greater security of supply in the future.

M. Giraud said he had nothing significant to add on the nuclear front. But he hoped that Britain would not get too deeply entangled in Westinghouse. He would be investigating the question of supplying gas through the British system on his return to France. On North Sea oil, he noted that France would be receiving no UK oil next year. He did not find this a very satisfactory situation. On the international oil situation in general, M. Giraud said that the rise in prices and the complete disorganisation of the market threatened a short term disaster. An upheaval on the oil front would lead to disruption of the monetary system. The difficulty was that the gap in price between the spot market and the regular market had become so great as to force more and more oil on to the spot market. Regular patterns of trade were being destroyed and it was becoming impossible to regulate the trade. The spot market must be made as unattractive as possible. He was not aware of any substantive proposal to tackle the situation. He himself wondered whether it might not be possible to implement the Tokyo agreement more vigorously. He hoped that this could be discussed in the following month.

In replying to a question from the Prime Minister the Secretary of State for Energy said that information on what was happening about the supply of Iranian oil was confused. But there seemed likely to be an overall cut in production of 5%. The ban on supplies to the United States would only effect crude oil going to the United States in United States ships. Oil going elsewhere in United States ships would not be affected. On the question of sales of oil by BNOC to France, the Secretary of State for Energy confirmed that there would be no sales next year. This was the way the cards had fallen. The contracts had been made on commercial terms: Total had put in its bids too late for 1980/81. HMG's policy in general was where possible

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to supply the members of the Community and the IEA. 28% of our total production and 50% of our exports were at present going to the EEC.

President Giscard said that he shared the gloomy estimates which had just been advanced. There was probably not a great deal that Governments could do. The most likely scenario was that prices would go on rising until they reached a point where the production of synthetic alternatives became profitable. He did not know where this level was but it was clearly far above the present price. (M. Giraud interjected that it was not only a question of price: the production of synthetic alternatives on an adequate scale would take 15 years.) The only alternative scenario was the organising of a Western cartel to regulate the allocation and distribution of oil. This would be a radical change but, given the West's lack of control of production, was the only way open. In the past the same people had determined the production level and the price. This had given consistency to the market. Now the oil companies were dealing with distribution; the individual producing countries with the level of production; and OPEC with prices. Operating individually, consumer countries had no leverage on the producers. The larger producers would probably be prepared to co-operate with a cartel: if so, the smaller ones would have no option but to go along. / <sup>Meanwhile</sup> The West would have to take what action it could but without any great hope of success. The right time to take a first look at the structure of the market might come in the spring of next year.

#### Finance

The Chancellor of the Exchequer said that he and M. Monory had not had a bilateral talk the previous day since they had been in Brussels. He was far from underestimating the importance of the Community in the present troubled international economic situation. The British Government thought the EMS had an important role to play. They wanted it to prosper and would support it. However the British Government still had some hesitation

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about joining the exchange rate mechanism. Owing to the recent abolition of exchange controls, to Britain's domestic economic situation, and to sterling's petro-currency status the position of sterling was still too unstable.

The Chancellor said that the Budget problem was a distressing one. The British Government sought a solution commensurate with the scale of the problem. They thought that the language approved by the Council in 1970 applied in the present case. The proposals under discussion were not contrary to the *acquis communautaire*. On the contrary it was part of the Community philosophy that the Budget should not be an instrument for the transfer of resources from one member state to another. It was an instrument for the implementation of Community policies. The basis for Britain's case was set out in the Commission documents already prepared for Dublin. We awaited with interest the further document which we understood the Commission was preparing. It was important that the problem should be solved. It inhibited Britain's ability to participate in the Community as fully as we would like.

M. Monory said that the budgetary problem had been fully discussed in Brussels the previous day. The mood of the meeting was that the general philosophy of the EEC should not be brought into question. Equally any idea of a "juste retour" should be put aside. Solutions should be sought in development of the Dublin mechanism or in Article 131. There was also a feeling that the figures produced by the Commission did not give sufficient weight to the disequilibrium in UK trade with non-member countries and member countries. Nobody had closed their mind to agreement in Dublin on a suitable mechanism but equally nobody envisaged a miracle solution.

#### Foreign Affairs

The Foreign and Commonwealth Secretary said that he and M. Francois-Poncet had discussed the political situation in Iran following President Carter's telephone call to the Prime Minister and President Giscard. It had been agreed that the Community should issue a statement after the political co-operation meeting later that day. They had sent a draft of the statement

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to Herr Genscher the previous evening since President Carter had spoken to Chancellor Schmidt. He and M. Francois-Poncet hoped that if the Nine were ready to stand up and be counted, this might have some effect on Iran.

In their discussion on Africa M. Francois-Poncet had emphasised the importance of not looking at problems like Rhodesia, Chad and Namibia in isolation and he had suggested that it would be a good idea if Britain and France had bilateral discussions from time to time to agree upon an Anglo/French position on Africa as a whole. He had welcomed this proposal. They had then gone on to discuss Rhodesia. He had explained that it was not a foregone conclusion that the negotiations on the cease fire would be successful. He did not propose to allow the Conference too long to talk about the cease fire. His experience with the earlier stages of the negotiations showed that it was important to set out the British position and then to demand a response to it from the other parties at the Conference. He would soon have to do the same on the cease fire.

They had agreed that there would be little movement on Namibia until the South Africans were clearer about how the Rhodesian situation was going to develop.

They had discussed South East Asia in the light of the talks which both Governments had recently had with Premier Hua and they had concluded that there was no easy solution to the problems of that part of the world in sight.

The Prime Minister said that she would like to thank President Giscard and our other European partners for the support which they had given us on Rhodesia. The Foreign and Commonwealth Secretary had handled the negotiations with great skill and she hoped and believed that he would bring the Conference to a successful conclusion. If this were done it could turn the tide of events in Central Africa and stem the Communist advance in that part of the Continent.

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President Giscard said that he had followed closely the efforts of the British Government to resolve the situation in Rhodesia. He had a very high opinion of the efforts the Prime Minister and the Foreign and Commonwealth Secretary had made. It was difficult to imagine what more could have been done. The next great difficulty would be the reaction of the African states e.g. Nigeria, to whatever was agreed at Lancaster House: would they support the solution or not? The French Government could perhaps contribute to the way the African community in general reacted. It would be helpful therefore if they could be kept fully in the picture about the developing situation.

The situation in Cambodia was lamentable and shameful. But there was little that the Western Governments could do. France hoped to maintain the idea of a solution ultimately being found which would restore to the Cambodians their normal rights. No doubt this was largely theoretical at present. But Prince Sihanouk might have a role to play in giving the concept creditability. President Giscard had been interested to hear Premier Hua refer to "my friend Sihanouk". The Soviet Union equally had occasionally given signs that it would not exclude some movement in a positive direction. The French Government therefore hoped to keep alive the feeling that an initiative might be taken and a political solution found.

The Prime Minister concluded the discussion by stressing the value she attached to bilateral talks with France. Meetings at all levels should continue. Meetings between officials should become much more regular. The two Heads of Government agreed that the next bilateral would take place in September 1980 when they would meet at Fontevraud at the first session of the Anglo/French Conference that the Franco/British Council were setting up.

The discussion ended at 1050.