

RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT  
OF FRANCE AT 10 DOWNING STREET AT 1200 HOURS ON MONDAY 17 MAY 1982

Present:

Prime Minister	President Mitterrand
The Rt. Hon. Douglas Hurd	M. Mauroy
Sir Robert Armstrong	M. Attali
Sir John Fretwell	M. Margerie
Mr. John Coles	M. Vedrine
Interpreter	M. Vauzelle
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In welcoming the President, the Prime Minister thanked him for his support over the Falklands issue. She also expressed thanks for M. Attali's contribution to the preparation of the Versailles Summit.

President Mitterrand said that he had originally seen his visit as one of courtesy. But its nature had been transformed by events. He would have little new to say on the Versailles Summit. But it was desirable to discuss the situation in the South Atlantic and, in view of various Community meetings taking place today, certain other subjects. As regards the Falklands, Britain had demonstrated her solidarity with France at critical times during the 20th century. It was natural for France to return that solidarity now. This did not undermine France's freedom of choice and frank private discussion was necessary. But he would ensure that France's relations

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with Britain remained strong.

Versailles Summit

President Mitterrand then described the state of preparations for the Versailles Summit, drawing on a note prepared by M. Attali. The meeting of personal representatives at the weekend had been preceded by meetings of the 7 Political Directors, the Economic Directors and a separate meeting on credit for Eastern Europe. A draft declaration had been prepared. There were in it a number of points which still required resolution. These included the question of economic priorities. Some considered that the fight against inflation was of overriding importance. Others believed that other economic problems should be placed on the same level. There had been an inconclusive discussion about trade with Japan. The question of global negotiations would need to be dealt with further. Then there was a need for a formula on employment and growth. Finally there was a new point relating to the principles which might be envisaged for an international monetary system.

There were also a number of political questions to be addressed. An indicative list had been drawn up and included the following subjects:

East-West relations, particularly Poland and Afghanistan;  
Arms control, especially the United Nations Special Session on Disarmament, the START talks and non-proliferation;  
Areas of crisis including North/South issues, Arab Israel, the Iraq/Iran war and Lebanon;  
and finally terrorism.

It would be impossible to deal with everything in two days. He thought that the main theme to be tackled should be East/West relations where the United States had a firm view on the issue of credit.

The above represented the work of personal representatives. But he wished to give the Prime Minister his personal views. The

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principal area of discussion would be economic problems but he did not wish to spend too much time on a theoretical discussion of priorities. It might well be common ground that inflation levels should be reduced without going beyond what countries could tolerate in respect of unemployment. Any steps which could promote the beginnings of an international monetary system would be useful. So would any measures which the GATT could take to reinforce the world trading system. There might have to be a frank discussion of protectionism. France was accused of protectionism but it was not the only country involved and there was a limit to the extent to which domestic problems could be allowed to grow. Revival of economic growth would need a greater commitment to technological development. Not all our preoccupations on strategic and nuclear matters need be reserved for Bonn. A big effort should be made at Versailles on North/South issues. The question of IDA lending was particularly important in the wake of United States withdrawal. The decision of France and the United Kingdom not to reduce its contributions was a good one.

The Prime Minister said that many of these matters were related. No international monetary system could function satisfactorily until all economies were soundly run. We should compare our methods of economic management and must recognise that there could be different views on economic policy. We had for some time been discussing the new information technology. The real difficulty between Japan and ourselves was the total self-discipline and dedication to work of the Japanese. They had also been quicker to apply fundamental research to commercial products. They had a new generation of high technology products which was way in advance of anything we ourselves possessed. Europe and the United States were the natural markets for this.

As she had told M. Mauroy on 15 May, it was important to tackle the Japanese at the Versailles Summit. This was difficult because they were very sensitive and their face had to be saved. At previous Summits we had all been determined to deal with the Japanese but had come away from them with a meaningless half-sentence in the communiqué.

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We should work out our tactics before the Summit. Japan was keeping the yen at a low level and was undercutting us on interest rates. We could not take this much longer. A really firm attitude at Versailles was therefore necessary.

She was very pleased that special emphasis would be put at Versailles on new technology. It was difficult to assess the future effects of this technology on employment. In previous industrial revolutions, the initial effect of new technology had been to increase unemployment but later it had created employment by making new activities possible. Was the new microchip fundamentally different in that it would lead to more unemployment in the future? If so, we should have to concentrate on the service industries.

As regards the foreign affairs issues to be discussed at Versailles, President Reagan's greatest concern was the conditions for credit to the Soviet Union. There was justification for his view that Western countries were together giving a greater volume of credit to the communist bloc than their economies could sustain. We might need to agree to limit the total. The question of interest rates for this credit should also be discussed. At present we applied consensus rates but if we did this the Japanese would always undercut us.

In general, there was a possibility of more fundamental discussion at Versailles than at previous Summits. She was delighted that France was aiming at a short communiqué.

President Mitterrand said he wished to comment on four points raised by the Prime Minister. It was correct that there could be no international monetary system without harmonisation of economic policies. For 25 years the Bretton Woods system had allowed each country to advance. When in 1971 Nixon had broken the Bretton Woods agreements, disorder had resulted. This had led to greater disparities between individual economies. But we should not use these disparities as an excuse for trying to make progress towards an international monetary system. On Japan, he had found in earlier discussions with the Japanese that they were not prepared to go beyond generalities.

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After his last talk at the Elysée, when escorting Mr. Suzuki to the steps outside, he had invited the photographers to say what make of cameras they were using. Suzuki had taken the point. On a visit to Tokyo, he had told the Japanese that he could not blame them for their economic success but nor could he allow the French economy to flounder because of it. He understood that personal representatives had concluded that some progress could be expected at Versailles. But he agreed with the Prime Minister that discussion with the Japanese must be frank. As regards technological change, he thought that the immediate result of the new technology was likely to be growing unemployment. It was essential to act immediately if this development was to be prevented. In particular, the service sector should be developed and professional training greatly increased. Finally, President Reagan put great emphasis on the question of credits for the Soviet Union. For historical and geographical, though not political, reasons Europe was bound to take a different view. We had to tread a narrow path between the two extremes of a) giving excessive credit and foreign currency for building up the Soviet economy and arms industry, and b) an economic blockade, which would be impossible to achieve.

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EC Mandate

The Prime Minister said that she had had some discussion of this question with Monsieur Mauroy in Edinburgh on 15 May. She wanted to tell President Mitterrand how we saw the position. There had been an earlier agreement that changes in the CAP and in the budget system should proceed together. At the Lancaster House discussion last year, France had wanted special provision for small milk producers. We understood that this was politically important to the President and had therefore agreed to it. Italy and Greece, as their part of the bargain, had wanted new provisions on Mediterranean products and had obtained an arrangement. Chancellor Schmidt had required that agricultural expenditure should grow less than the EC budget as a whole. It was debatable whether this would be helped by the present farm prices proposals. For our part, we had wanted a restructuring of the budget. It was sadly true that fundamental changes could only be negotiated in the Community when we were at the brink. It would be no easier to negotiate structural changes to the budget in the future and we would prefer to do it now. But if this was not possible, then we had made it clear that we could agree to the May 1980 agreement being implemented for a third year. This would involve a refund of two-thirds of the expected outturn. If the outturn was larger, then the 1980 formula for sharing expenditure could be employed. The present expectation was that the outturn for 1982 would be 1530 million ecu's. Two-thirds of that would mean a refund of 1010 million ecu's. We would much prefer a four-year arrangement because we disliked an annual argument. We were as anxious as France to find a speedy settlement but it must be stressed that the agreement had been to treat all the disputed subjects together.

Finally, a refund of 1,000 million ecu's was a good deal less than had been contemplated in 1980, when it had been thought that about 2,000 million ecu's would be necessary.

President Mitterrand said that the difference between us was that he could not regard the 1980 agreement as a model and

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had said so in 1980. The conclusions made then had proved to be inexact because the sums which had been promised had not corresponded to what happened in practice. The Prime Minister commented that if the formula which we had suggested in 1980 had been accepted, there would have been much less uncertainty. We had argued for a percentage of the gap, not a fixed amount. This would have been much better for Europe but others had wanted an absolute sum to be fixed.

President Mitterrand said that there might be a political link between reform of the CAP and the budget, but there was not a juridical one. The concession on small milk producers had been itself a compromise. So was the arrangement on Mediterranean products and that had not been signed yet. As regards the budget, in his view the Common Market was based on the principle that those who bought from outside the Community must make restitution. If that principle disappeared, the Community could not work. This posed a particular problem for the United Kingdom because of its trade with the Commonwealth, especially Australia and New Zealand. He recognised that that pattern of trade led to a very heavy British contribution to the EC budget. It was not to be denied that a reduction in that contribution was necessary but the principle of own resources must be maintained. He would not have signed the 1980 agreement. And he did not regard himself as bound by an agreement for the third year. He also had economic difficulties. He had inherited 14 per cent inflation and his economic policies had to be as tight as possible. Reimbursement of two-thirds of the expected outturn could lead to an unacceptably large contribution from France.

The Prime Minister suggested that the two sides should agree to differ. She quoted figures to show that France had done very well out of the existing agreement. She had never expected a "juste retour". Nor did she expect to be a net beneficiary.

President Mitterrand said that he understood that a proposal for a one-year agreement was under discussion in Brussels.

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He would not have been opposed to an agreement lasting for three or four years. But the Commission proposal was directed at one year and envisaged compensation of up to 800 million ecu's on the basis of a deficit of 1530 million ecu's. If the outturn went beyond that figure, our European partners would pay 50 per cent of it up to a certain point and 75 per cent beyond that. France could agree to that and indeed the system could spill over for several years. But a 66 per cent contribution was too much.

The Prime Minister said that a 50 per cent contribution by our partners would leave us paying a colossal net contribution. It was ridiculous that we should subsidise countries like Denmark and the Netherlands; we ought rather to be paying this money to help third world countries.

A. J. C.

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