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SUBJECT
cc Master

10 DOWNING STREET

12 July 1985

From the Private Secretary

Dear An,

PRIME MINISTER'S MEETING WITH FORMER
PRESIDENT GISCARD D'ESTAING

The Prime Minister saw former President Giscard for an hour this morning. This letter summarises my recollection of their talk.

The Prime Minister commented that there had been quite a change in the nature and the quality of the links between the leaders of the principal European countries since the time when M. Giscard, Herr Schmidt and she were leading their respective governments. There was no longer the same willingness - or ability - for intellectual argument about the economic and strategic future of Europe. M. Giscard acknowledged the implied compliment as his due.

M. Giscard then launched straight into the subject of the EMS. He had understood Britain's initial reluctance to join the Exchange Rate Mechanism (ERM). But he wondered whether those objections still applied. There was no likelihood of a major "reshuffling" between the principal currencies. The oil factor was no longer so important. Fears about the need for frequent intervention were exaggerated. If sterling remained outside the ERM, it would become steadily more vulnerable to speculation. At the least he hoped that there could be closer links between sterling and the ERM short of full participation, for instance sterling could be kept informally within certain margins in relation to the ERM currencies. The Prime Minister said that M. Giscard was fully justified in raising the question. Her mind was not closed on participation though the difficulties were greater than M. Giscard surmised, particularly the effect on domestic monetary policy.

In reply to the Prime Minister's question about the political prospects in France, M. Giscard said rather grandly that a liberal-conservative victory in next year's parliamentary elections was a foregone conclusion. It would be on a bigger scale than currently forecast. Many people expected President Mitterrand to go as a consequence. This was mistaken. Mitterrand would not willingly resign and he, Giscard, would not want to put him in a position which would compel him to go. None the less, a very difficult situation would be created, with the President at odds with the

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government. The constitution was not designed to cope with this circumstance and would in due course need to be amended. President Mitterrand was mistaken in believing that he would be able to maintain control of European policy: foreign and domestic issues could not be separated these days. The Prime Minister wondered whether President Mitterrand might not take upon himself the role of an opposition within the government. He would blame the government for everything that went wrong in the period up to the Presidential elections, thus making it easier for a Socialist candidate to run successfully. M. Giscard contrived to give the impression that he and his colleagues would be fully equal to countering such tactics.

M. Giscard said that a liberal-conservative government's first priority would be to change France's economic policy, though not sharply. Price controls would be abolished, absurdities in the tax system would be rectified, banks and insurance companies denationalised and state holdings in the information sector dissolved. The European policy of such a government would not differ substantially from that being pursued by President Mitterrand. There would be support for more active political cooperation - he spoke approvingly of the British draft agreement - and for better decision-taking without going to extravagant lengths. France would never accept pure majority voting without any right of veto, though it was right to require a procedure for explaining use of the veto. Because France had succeeded in eliminating hostility towards Germany she would always be better placed than Britain to deal with the government in Bonn. But a liberal-conservative government would not want to handle the Franco-German relationship in a way which excluded or operated against the United Kingdom.

The Prime Minister gave M. Giscard an account of the Milan European Council which had been a great disappointment. Britain had wanted to go further than the other member states, but they had opted for just another conference in preference to bold decisions. The result had been a set-back for the Community. We would go to the Inter-Governmental Conference, though did not expect much from it. Damage had been done to the Community, but it was not fatal and she expected to see matters back on course at the Luxembourg European Council. M. Giscard said he disapproved of the decision to take a vote at Milan. This was a bad precedent for the European Council.

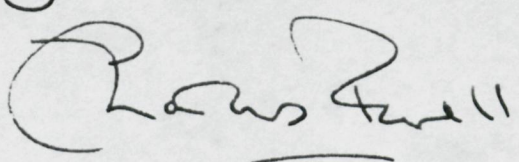
M. Giscard asked the Prime Minister whether she expected M. Delors to give up the Presidency of the Commission after two years in favour of Herr Genscher. The Prime Minister said that the rest of the Community would be justifiably irritated if this happened. It would smack of a Franco-German conspiracy. And anyway it was not possible to do an effective job as President of the Commission in only two years. She would not be surprised, however, if M. Delors were to emerge as a candidate in the Presidential election in France: indeed there was already some evidence that this prospect was affecting his decisions as President of the

Commission. She did not think that Herr Genscher would be regarded as a good replacement. There has been some suggestion that the Germans wanted to create a post of Secretary-General for Political Cooperation in order to give it to Herr Genscher. She had made clear that we did not envisage more than a very modest secretariat. M. Giscard said that he agreed with this.

There was some brief discussion of the prospects for a new international trade round, defence cooperation, SDI and Mr. Gorbachev.

The Prime Minister's conclusion afterwards was that M. Giscard retained all his old arrogance, lacking the energy and charisma of M. Chirac and the ebullience and character of M. Barre. But she noted, too, that he appeared to be sending out signals of a desire to work with Britain if he returned to government.

I am copying this letter to the Private Secretary to the Chancellor of the Exchequer and to Sir Robert Armstrong, but the Prime Minister would wish it be given only a very restricted distribution. A copy can also be sent to HM Ambassador in Paris strictly for his personal information.

Yours sincerely,


C.D. POWELL

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