



10 DOWNING STREET
LONDON SW1A 2AA

File off
CCPC
BI
HMA Paris

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Lyn,

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC

The Prime Minister travelled to Paris this afternoon for talks with M. Chirac followed by a working supper. Monsieur Bujon, diplomatic adviser to the French Prime Minister, was also present. It was a generally harmonious meeting. M. Chirac commented at the subsequent press conference that, apart from a few aspects of the Common Agriculture Policy, there was a remarkable and encouraging identity of views between Britain and France. The full transcript of the press conference should be available to you.

For convenience I am writing separately on the various issues covered in the meeting as follows:

- (i) European Community affairs
- (ii) East/West relations, arms control and defence co-operation
- (iii) Middle East
- (iv) Youth exchanges
- (v) Economic matters
- (vi) Terrorism

These are being copied to departments as appropriate.

I am copying this letter to Alex Allan (H M Treasury), John Howe (Ministry of Defence), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Chris Powell

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET
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File M
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HMA Paris

From the Private Secretary

22 November 1987

SUBJECT cc MASTER

Dear Hugh,

**PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC:
EUROPEAN COMMUNITY AFFAIRS**

The Prime Minister and Monsieur Chirac devoted a part of their meeting in Paris this afternoon to discussion of the European Community affairs. Their discussion consolidated the progress made in recent weeks in recognising French and British views without breaking any particular new ground.

Preparations for the European Council

The Prime Minister said that the prospects for reaching a solution to the problem of the future financing of the Community at the Copenhagen European Council depended crucially on progress on agricultural issues. There must be agreement on stabilisers which would prevent the accumulation of surpluses in future. There also had to be agreement on disposal of existing surpluses, either through the Community Budget or by national financing. Her own preference was for the latter. In addition arrangements for the United Kingdom's abatement agreed at Fontainebleau must be preserved; and increases in the Structural Funds must be contained within the maximum rate for non-obligatory expenditure and concentrated upon Spain and Portugal. There was no question of doubling the Structural Funds. M. Chirac said that he entirely agreed on the last point. France could accept a maximum of a 40 per cent increase up to 1992. Germany was prepared to go to 50 per cent. He agreed with the British position of concentrating the whole of the increase on Spain and Portugal.

The Prime Minister continued that we were generally content with the Commission's proposals for agricultural stabilisers. If there was agreement on a legally binding budget discipline and effective agricultural stabilisers, then we would need to consider by how much own resources should be increased. We recognised that the guideline for agricultural spending would have to be adjusted upwards. Germany seemed likely to be the main obstacle to agreement because of its determination to go on paying its farmers more than the rest of Europe could afford. If the Germans persisted in that, it might prove impossible to reach agreement in Copenhagen. Chancellor Kohl seemed to expect to have to deal with these

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problems under the German Presidency. But our own preference was to reach agreement at Copenhagen if we could.

M. Chirac said that the vital question was whether there was the political will to reach agreement in Copenhagen. Failure to do so would create an unfortunate image of disagreement in Europe at the very time when the United States and the Soviet Union were showing themselves capable of reaching agreements. Moreover he was not sure that the chances of reaching agreement under the German Presidency would be any better. Like the Prime Minister, he would prefer to see agreement in Copenhagen. That had also been the view of the Spanish and Portuguese Prime Ministers, both of whom he had seen recently. They were worried by the possibility of failure, not least for domestic political reasons. That said, there were still some major problems to be settled. A crucial question was the level of the agricultural guideline. This should be set at the level of the Community's agricultural spending in 1987 of 27 bn écu, increased by the rate of GNP growth to take it to 28.1 bn écu. There must also be provision for further increase if there were exceptional circumstances. He believed that Germany, Spain, Portugal, Belgium and the Netherlands could all agree on setting a guideline at this level. As for stabilisers, if there was agreement on the overall amount of the agricultural guideline, then it should be possible to reach agreement on stabilisers. In the context of stabilisers there was also the oils and fats tax to consider. France was for this, the United Kingdom against it. There was no point in talking further about it: neither was likely to change its view. But one could not ignore the financial consequences of failing to introduce the tax.

M. Chirac continued that there were also likely to be difficulties over the United Kingdom's abatement. France had no problem with the United Kingdom on this score, although they would wish to see the abatement phased out over an extended period. If the Community moved from a VAT base to a GNP base for own resources, the United Kingdom's problem would sort itself out. But at the recent Franco/German Summit he had found Chancellor Kohl absolutely adamant against the United Kingdom abatement. He had replied that it was not reasonable to expect this to be phased out rapidly, but had found Kohl very difficult. Going back to the Structural Funds, he would like to see France, the United Kingdom and Germany reach a common position on an increase of 40 per cent over five years with concentration on Spain and Portugal. He thought that the two countries concerned would accept this, provided it could be presented as a solution reached by applying Community logic. It must not seem to be a bribe. Summing up, he was going to Copenhagen with an open mind and ready to reach agreement, but with the problems of agriculture very much to the fore. Farming opinion in France was very tricky and he was facing an election. These factors restricted his room for manoeuvre.

The Prime Minister asked whether M. Chirac could accept

the Commission's proposals for agricultural stabilisers. M. Chirac said that he could only do so if they did not diminish the existing level of provision for agriculture. France shared the United Kingdom's view on cereals. They wanted to bring down prices, although they could not accept quotas. Again Germany was the problem here. He thought, however, that the German interest in set-aside could be met satisfactorily. They were ready to see up to 50 per cent of the cost of this met from national budgets.

The Prime Minister said that the United Kingdom could broadly accept the Commission's proposal for regular depreciation of stocks taken into intervention. The costs of this should be met within the agricultural guideline. There remained the problem of disposing of existing surplus stocks. She urged M. Chirac to consider the possibility of relying on national financing for this. But if the cost were to be met from the Community Budget, it too should be included within the guideline. She noted M. Chirac's comments about the level of the guideline. 1987 had been a particularly high-spending year and it would be wrong to take the 1987 figure as a guide to the future. She did not like the concept of exceptional circumstances. Past experience showed that this would simply become a generalised excuse for ignoring the guideline. The only circumstances in which she could see any justification for relaxing the guideline would be if there were rapid and substantial changes in the dollar/écu rate.

M. Chirac said that a rather wider definition of exceptional circumstances would be needed if French farmers were not to be alarmed. As for the level of the guideline, France already considered the 1987 figure for agricultural spending to be inadequate. The danger he saw with stabilisers was that Europe would reduce its production while North America and Latin America increased theirs. Moreover, the United Kingdom's position was not entirely consistent, since the most obvious stabiliser was the oils and fats tax. The Prime Minister said that it did not make sense to increase the price of products in surplus. She was confident that a blocking minority would be found against the oils and fats tax. She came back again to the crucial points: there must be agreement at Copenhagen upon effective stabilisers, on the disposal of surpluses, on legally binding budget discipline and on continuation of the United Kingdom's abatement. Only then could we consider an increase in own resources. The prospects for the Council's success would depend on our being satisfied on these points. She was not prepared to see decisions fudged. The Community must face up to its problems. But even if final agreement was not reached at Copenhagen, she hoped that there could be a positive statement listing points where progress had been made. We should avoid creating an impression of deadlock or breakdown.

It was agreed that, in talking to the press, both the Prime Minister and M. Chirac would emphasise their commitment to work for a solution to these problems at the Copenhagen European Council while acknowledging the difficulties which remained.

President of the Commission

M. Chirac said that he had recently been approached by M. Bangemann, the German Economics Minister, who wanted support for his candidature to succeed M. Delors as President of the Commission. He would not be a bad choice. The Prime Minister said that he would certainly be better than Herr Genscher. But if the Germans were getting the top job in NATO, one should not necessarily think of a German candidate for President of the Commission. M. Chirac suggested that Mr. Andriesen, the present Agriculture Commissioner, would be a good choice.

Afghanistan

M. Chirac asked whether the Prime Minister thought that the European Council should issue a statement on Afghanistan. The Prime Minister said that she was in favour of this. It would be useful in off-setting Soviet propaganda at the time of the US/Soviet Summit.

I am copying this letter to Alex Allan (H M Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Tim Walker (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Chris Powell

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET
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From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Sir,

**PRIME MINISTER'S MEETING WITH M. CHIRAC: EAST/WEST RELATIONS
ARMS CONTROL AND DEFENCE CO-OPERATION**

During her meeting with M. Chirac in Paris this afternoon, the Prime Minister discussed a number of aspects of East/West relations, arms control and defence co-operation.

Arms Control

The Prime Minister said that the European members of NATO should give a warm endorsement to the INF agreement. But we would need to watch carefully that President Reagan did not slip back into his habit of talking about a non-nuclear world. It would also be necessary to follow the START negotiations very closely although she doubted whether in the time remaining to the present Administration, there would be any serious inclination to go beyond 50 per cent reductions. There would in any case be congressional opposition to this. Britain and France should continue to insist on the exclusion of their independent nuclear deterrents.

M. Chirac said that he was worried by the risk that the United States Administration might be lured into negotiations on reductions in short range nuclear weapons in Europe. The Germans were pressing hard for this. Herr Genscher appeared to favour a third zero option. Given the Soviet Union's great superiority in short range nuclear systems, they would inevitably try to bring nuclear artillery and dual-capable aircraft into the negotiations. The Prime Minister said that the United Kingdom was firmly opposed to any further reductions in nuclear weapons in Europe until the imbalance in the Soviet Union's favour in chemical and conventional weapons had been dealt with. Our main concern was to ensure the continued efficacy of NATO's strategy of flexible response by modernising short range systems and securing the assignment of SLCMs and more dual-capable aircraft to SACEUR.

Anglo/French Nuclear Co-operation

M. Chirac said that this last point led him to raise the question of Anglo/French nuclear co-operation. France was about to embark on modernisation of its air-to-ground missile (ASMP) in order to extend its range. He would like to see

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France and Britain collaborate on this to underline their role as Europe's nuclear powers.

The Prime Minister said we had begun to give some thought to the modernisation of our existing Theatre Nuclear Weapons. In principle we were inclined to favour collaboration, not least on grounds of cost. But she wondered whether it would not be better to consider triangular co-operation with the United States. The great advantage of involving them was that it would offer economies of scale given that US requirements would be very large. That would bring down the cost of the project very considerably. She wanted to emphasise that this was just a tentative proposal at this stage. But we were committed to modernising our capability in this area.

M. Chirac said that France would proceed with the modernisation of the ASMP on its own in any event. He would prefer collaboration with Britain, not for financial or technical reasons - France had all the necessary technical capability - but to strengthen Franco-British relations and balance France's defence co-operation with Germany. As regards triangular co-operation with the United States, he was ready to discuss this but was not sure it would be easy. The Americans had never agreed to co-operation in the nuclear field with any other country except the United Kingdom. He wanted to underline that he was proposing a political initiative in Anglo/French relations.

The Prime Minister said that she did not think M. Chirac's reasoning was valid. We were not in fact talking about nuclear co-operation, since each country would produce its own warhead. The collaboration would come on the missiles. The United States was beginning to reduce its defence spending and this would give them an incentive to collaborate. We were certainly interested in a collaborative approach. She suggested that there should be further more detailed discussion of these points between Mr. Younger and M. Giraud.

Franco/German Defence Co-operation

The Prime Minister said that she was concerned about some aspects of Franco/German defence co-operation for reasons which I had explained to M. Bujon. In particular she was concerned that it would lead to an erosion of NATO. She regarded the proposed Franco/German defence council with particular suspicion.

M. Chirac said that he wished to put France's defence co-operation with Germany in perspective. Such co-operation was necessary to maintain balance in Europe, and even more necessary because of the growing neutralist tendency in German public opinion. Defence co-operation had a long history, going back to an article in the Elysée Treaty which provided for consultations on strategic and tactical issues. Little progress had been made on this until President Mitterrand had revived it in 1982 and agreed with Chancellor Kohl on the introduction of regular consultations between military staffs.

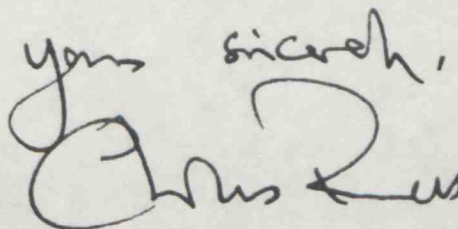
This had been supplemented by increased co-operation on defence procurement, evident in the new anti-tank helicopter.

M. Chirac continued that, more recently President Mitterrand had proposed to Chancellor Kohl - without consulting him - two further steps: the establishment of a Franco/German Brigade and the setting up of a Franco/German Defence Council. The Brigade raised a host of technical problems. He was not inclined to give great importance to it. Its task would be to act as a reserve unit. He would only note that the NATO authorities had not objected to it. As for the Defence Council, it was so far just a title. It was a political initiative taken mainly for domestic reasons by President Mitterrand ahead of the Presidential elections, in the hope of attracting for himself the support of the centre parties in France. In reality it would not have much substance. For his own part, he had insisted that it should be matched by economic and monetary co-operation, about which the Germans were much less enthusiastic, and that the two aspects should proceed in step. He repeated that he did not expect either to have much substance.

East/West Relations

There was some discussion over supper of Mr. Gorbachev's prospects. M. Chirac described him as pure Leninist. His aim was to preserve socialism but make it more efficient. While he was showing some flexibility internally, there was no significant change in the Soviet Union's external policies. In his view, if Gorbachev wanted to keep power he would have to compromise with the system. He thought that the phase of dynamism was already over. The Prime Minister said that, for the first time, she was worried whether Mr. Gorbachev was going to survive. Perestroika was an attempt to galvanise the Soviet population but it seemed to be running into mute resistance. She had been discouraged by a recent talk with Mr. Aganbegyan. She was not convinced that it was possible to adapt the Soviet system in the way Mr. Gorbachev wanted to. The Prime Minister and M. Chirac agreed that they both hoped that they were wrong in their assessment.

I am copying this letter to John Howe (Ministry of Defence), Alex Allan (HM Treasury) and to Trevor Wolley (Cabinet Office).

Yours sincerely,


(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
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File M 2
aPC
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HMA Paris

From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear Mrs.

PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC:
MIDDLE EAST

The Prime Minister raised various aspects of the Middle East situation during her meeting with Monsieur Chirac in Paris this afternoon.

Arab/Israel

The Prime Minister said that she was concerned about the Soviet Union's active diplomacy in the Middle East, both on Arab/Israel issues and on the Gulf. She had warned the United States that, by failing to make progress on an international conference, they risked leaving the field free to the Russians. Britain and France should continue to support the understanding between Mr. Peres and King Hussein on an international conference, even if there was unlikely to be much progress in the immediate future.

M. Chirac said that there had been an important change in the United States' approach to Arab/Israel problems. He himself had recently been in Israel and his diplomatic adviser, M. Bujon had seen King Hussein. During his visit to Israel, Mr. Shultz evidently proposed a new initiative whereby President Reagan and Mr. Gorbachev would invite Israel and Jordan to attend their Summit meeting and launch bilateral negotiations. Shamir appeared to have accepted this proposal but King Hussein had not surprisingly turned it down, insisting on a proper international conference attended by all five Permanent Members of the United Nations Security Council. Shultz had apparently replied to this that King Hussein was wrong to look to has-beens like Britain and France: he should rely on the countries of the future like Germany and Japan. M. Chirac said that he had found this very offensive. More generally, he was concerned to see the Americans moving to a new strategy of trying to sort out Middle Eastern problems bilaterally between themselves and the Russians, pushing other countries to one side. All in all, he found the American approach very far from subtle and doomed to failure.

The Prime Minister agreed that the recent American proposal had been mistaken. She had found it particularly hard to understand why the Americans wanted to give the Soviet

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Union a direct role in the Middle East. This amounted to a U-turn in their policy. Moreover, it was quite clear that King Hussein could only proceed on the basis of a proper international conference as a framework for negotiations with Israel. The American proposal would have made the United States into Israel's lawyer, driving the Arab countries into the arms of the Soviet Union. Countries such as Britain and France, which had a long experience in the area and were widely trusted, had a contribution to make in shading this stark division. Perhaps most worrying of all was the impression that the United States had more or less discarded the objective of an international conference.

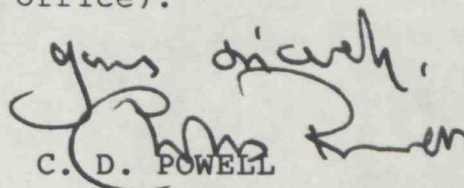
M. Chirac said that it was even more worrying because Mr. Peres had very recently indicated to the French Government that he also supported the proposed US/Soviet initiative, although he envisaged some modification whereby once the United States and the Soviet Union had reached agreement, others would be invited to join in. This suggested that the American ideas were taking hold in Israel. The Prime Minister said that she found this astonishing and quite out of kilter with Mr. Peres' previous approach. She would be seeing him shortly and would discuss the matter with him. Our own impression had been that the American proposals were no longer active. Like M. Chirac, she disliked the notion that the Arab/Israel problem could be solved between the super-powers alone. It was important that she and M. Chirac should confirm publicly their continuing support for an international conference as the way forward.

The Gulf

M. Chirac said that he shared the Prime Minister's concern about Soviet policy in the Middle East. This extended to their advances in Iran. The Prime Minister said that the Soviet Union was dragging its feet at the United Nations over measures to enforce Security Council Resolution 598. The United Nations Secretary-General seemed to be making little progress. Britain and France should step up efforts to secure agreement on an arms embargo.

M. Chirac referred to an informal approach by Prince Saud to the United States, France and the United Kingdom about the possibility of extending protection to tankers flying flags of convenience, many of whom were engaged in shipping Saudi oil. The Prime Minister said that this would be contrary to our policy of protecting British-flag shipping only and she did not see any scope for meeting the Saudis request. M. Chirac agreed.

I am copying this letter to John Howe (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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HMA Paris

From the Private Secretary

22 November 1987

SUBJECT CCMASTER

Dear Sir,

PRIME MINISTER'S MEETING WITH M CHIRAC: YOUTH EXCHANGES

During the Prime Minister's meeting with M. Chirac in Paris today, M. Chirac proposed a new initiative to expand exchanges of young people between Britain and France.

M. Chirac recalled that there were extensive youth exchanges between France and Germany which had played an important part in improving relations between the two countries at a very small cost. He would like to see action taken to develop such exchanges between France and the United Kingdom. The first step might be to agree a joint study. He would like to be able to announce this to the press, as a practical result of his meeting with the Prime Minister.

The Prime Minister asked how the Franco/German system worked in practice. M. Chirac was misty on the details. The Prime Minister asked what the cost of the scheme was. M. Chirac said that it was almost nothing. I said that our information was that it cost some £10 million a year. M. Chirac had first denied this but, after some calculations agreed that this was probably right. As he had said, it was very small.

The Prime Minister said that the next few years should be an exciting time for Europe with completion of the single market in 1992 and the Channel Tunnel in 1993. Both should give young people an incentive to discover more about neighbouring countries and help to make Europe come alive. She would be prepared to agree to a study of ways of expanding Franco/British youth exchanges, although it might be necessary to start on a more modest basis than the Franco/German scheme. She had no objections to informing the press that she and M. Chirac had agreed to a joint study of ways and means to expand such exchanges.

M. Chirac subsequently announced this at the press Conference, in more or less these terms. You will wish to

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consider how to take discussions² forward with the French Government.

I am sending a copy of this letter to Alex Allan (HM Treasury), Tom Jeffery (Department of Education and Science), Martin Dinham (Overseas Development Agency) and to Trevor Woolley (Cabinet Office).

Yours sincerely,
Charles Powell

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
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File *SM*
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From the Private Secretary

22 November 1987

SUBJECT CC MASTER

Dear dyn.

**PRIME MINISTER'S MEETING WITH MONSIEUR CHIRAC:
ECONOMIC MATTERS**

During their talk in Paris this afternoon, the Prime Minister proposed to Monsieur Chirac that they should publicly welcome the agreement reached between the United States' Administration and Congress to reduce the budget deficit. This should help restore confidence to markets. In due course there would need to be a meeting of the G7 at which the countries in substantial surplus should be asked to take measures to stimulate their economies. M. Chirac agreed and the matter was subsequently covered in these terms at the press conference.

I am copying this letter to Alex Allan (H M Treasury) and Trevor Woolley (Cabinet Office).

Yours sincerely,
Chris [Signature]

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET
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22 November 1987

From the Private Secretary

SUBJECT cc MASTER

Dear Sir,

PRIME MINISTER'S MEETING WITH M. CHIRAC: TERRORISM

At her meeting with M. Chirac in Paris this afternoon, the Prime Minister expressed appreciation for the excellent work of the French authorities in intercepting the shipment of weapons for the PIRA on board the Eksund. M. Chirac said that the Prime Minister's earlier message of thanks had been much appreciated. Did we believe that there had been earlier shipments of a similar size which had got through? The Prime Minister said that we certainly took the evidence of such shipments seriously and had to work on the assumption that they had indeed got through. We were working very closely with the Irish Government to follow this up. M. Chirac commented that it had been suggested in the press that the interception of the Eksund had been a windfall, and that it was suspected of carrying drugs. This was not the case.

M. Chirac continued that the French Government had had considerable success in recent months in intercepting various terrorist groups sent to France from Lebanon by the Iranians. They had deliberately made little public comment about this. They had received particularly valuable co-operation from Algeria.

The Prime Minister commented that there seemed to have been some modification of Syria's support for terrorism and evidence that Syria was trying to work its way back towards good relations with western countries. M. Chirac agreed that Syria had stepped down its support for terrorist activities. He was also impressed by the degree to which Qadafi had been de-stabilised and was now much less active in supporting terrorism, apart of course from the shipment of arms for the IRA.

I am copying this letter to Philip Mawer (Home Office), John Howe (Ministry of Defence), David Watkins (Northern Ireland Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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