

B.R.

cc Master Set

SUBJECT

ANGLO/FRENCH SUMMIT : PARIS : 4/5 NOVEMBER 1982

PLENARY SESSION

Present:

The Prime Minister

The Foreign and Commonwealth Secretary
Chancellor of the Exchequer

Secretary of State for Industry

Secretary of State for Trade

Minister of Agriculture

(Accompanied by officials)

President Mitterrand

M. Jobert, Minister for Foreign
Trade

M. Chevenement, Minister of
Research and Industry

M. Cheysson, Minister of External
Relations

M. Delors, Minister of Economy

Mme. Cresson, Minister of
Agriculture

(Accompanied by officials)

President Mitterrand said that he and the Prime Minister had talked about most of the important international topics, particularly East/West relations, the Community's relations with major countries, the problems of defence and security and the world economy. As regards the relations of the Community with its partners, they had referred particularly to Japan and to the forthcoming GATT Ministerial meeting. Bilateral relations between France and the UK had been left for discussion by individual Ministers. The climate of the conversations had been good. He had been very glad to have had the chance to talk to the Prime Minister about problems faced by both countries. Their relations were based on long friendship, shared ideas and common principles. He and the Prime Minister had agreed to take certain further steps for strengthening these relations by more systematic contact at the level of their senior representatives. This was important before forthcoming international meetings, particularly the European Council in Copenhagen and the GATT Ministers. This agreement represented one of the particularly positive aspects of their exchanges.

/ The Prime Minister

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The Prime Minister endorsed the President's words. She had found their talks valuable and friendly. She too had been pleased by their agreement on more frequent meetings of their representatives. It was important for the two sides to know each other's minds better. President Mitterrand invited Foreign Ministers to report on their talks.

M. Cheysson said that he and Mr. Pym had discussed the independence of Namibia and had agreed to continue to work for the implementation of SCR Resolution 435 as soon as possible. They also wanted a favourable conclusion at Madrid in order to get the Conference for Disarmament in Europe (CDE) off to a good start, even if its scope were limited, since it would be an important decision psychologically and therefore politically. The Middle East had been discussed by Sir Antony Acland and M. Gutmann. M. Cheysson noted that the possibility of British participation in the International Force in the Lebanon had been mentioned. He had explained the French role in the force. He and Mr. Pym had agreed that US efforts to obtain the withdrawal of troops from the Lebanon should be supported.

M. Cheysson referred to a recent meeting of Ministers of Education in London, where there had been agreement on two pilot projects aimed at increasing the number of exchanges in higher education. The two Ministers had discussed the difference in the taxes paid by their respective cultural institutions. French cultural institutions in Britain paid far more than British institutions in France. Discussions would be pursued by Sir Antony Acland and M. Gutmann. They had discussed differences in university fees - British fees were 15 times higher in the UK for French students than French fees for British students in France. There were 4,000 British students in France but only 400 French students in British universities as a result. Mr. Pym and he had agreed that the problem should be tackled by contact between universities. Mr. Pym had also said that budgetary problems were the cause of the decline of British lecturers in French universities but that he hoped there was a possibility of improvement.

/ M. Cheysson

M. Cheysson also reported that in the context of their agreement for 6 monthly contacts between summits he had invited Mr. Pym to visit Grenoble in 6 months' time.

Mr. Pym emphasised the depth of agreement in their discussion. He mentioned two points in particular:

- (a) the importance of 1983 because of the INF decision and the consequent need for increased effort in the CSCE and in disarmament talks; and
- (b) their close agreement over the Washington talks on the pipeline. In particular, they had agreed that Ambassadors should be in touch in Washington in relation to the meeting that day at which it was hoped to reach agreement. Mr. Pym emphasised that the opportunity should not be lost.

Their talks had touched on enlargement and they had agreed that negotiations with Spain should go ahead with all speed and be concluded in the near future. He was grateful to Mr. Cheysson for the invitation to Grenoble.

President Mitterrand said that he had for some time thought that the US sanctions over the pipeline were directed against the Soviet Union. He had then realised that they were in fact directed against Europe. The US offer to lift sanctions in exchange for European concessions was like a thief's offer to return his victim's wallet if he agreed to surrender his watch. He was not prepared to accept such an agreement. In particular, he could offer no more in terms of a public declaration on limiting credits to the Eastern bloc. The Prime Minister had spoken eloquently to him about the importance of preserving the alliance. But an alliance was not a protectorate or colony. He had, nevertheless, told the Prime Minister that, with effect from midday that day, he would begin reading the letter which President Reagan had addressed to him on the question of the pipeline dispute. Hitherto he had not read a word of it. The President reiterated however that there could be no question of any further conditions being met by France.

/ President Mitterrand

President Mitterrand said that he fully agreed with the comments of the Prime Minister and her colleagues on the desirability of the early accession of Spain and Portugal to the Community. But enlargement would bring with it many problems and uncertainties. There were institutional problems, problems of decision-making, and specific problems such as the nature of support regimes for different agricultural products. The President hoped that Britain would support French efforts to ensure that the full extent of these problems was spelt out before enlargement took place.

M. Delors reported that he and Sir Geoffrey Howe had examined European and other international issues and exchanged views about their domestic economies. He had fully described France's economic situation and the successes of the French Government in increasing production and in fighting inflation. France had limited its public sector deficit to 3% of GNP and had a lower deficit than any other country in Europe except the UK. The French were channelling savings into industry and were giving priority to the building industry. But the problem had been that while France had stimulated a certain level of increased economic activity, its partners in Europe had not done so. This had affected France's balance of trade. The expected recovery in the world economy in 1982 had not occurred. This was why France had been obliged to change its economic policies.

On the Community budget, M. Delors stressed four points:

- (a) a problem arose because the UK had received too much money from the 1981 and 1982 agreements. There should be clear rules for preventing this type of distortion in future.
- (b) the need not to confuse VAT and customs duties/ agricultural levies. The latter did not always arise in the countries where they were listed as having done so.

- (c) if France agreed that it was important to rationalise agricultural spending, she also thought it was necessary to ensure that the Social and Regional Funds were made more effective.

- (d) if one thought in terms of unacceptable situations, the situation of France in 1982 was not acceptable because of its trade deficit (which had arisen because its efforts to reflate had helped other countries in the Community, and because MCAs had distorted agricultural markets. Why should they exist for agriculture when they did not exist for industry?)

He and Sir Geoffrey Howe had discussed the important decision taken at the European Council on 28/29 June in relation to investment. Public opinion would be closely watching the results of the meeting between Finance and Labour Ministers on 16 November. There was a need for Community countries to learn from each other about dealing with unemployment, especially youth unemployment.

He and Sir G. Howe had also noted, in their discussion of the international scene, that if there were no world economic recovery, the LDCs could be in a disastrous position. They had both tried to tell the United States Government over the last year that their economic policies were an obstacle to world recovery. The Versailles decision on exchange rates was a key factor. The Ministers had agreed on the importance of the role of international financial organisations. In particular, they had agreed on the size of the increase needed in IMF funding.

Sir G. Howe said that M. Delors had touched on the key problems, many of which had been discussed at a useful meeting with M. Mauroy the previous night.

The discussion with M. Delors had been helpful. Sir G. Howe had stressed the successes of French economic policies, especially in fighting inflation. As a Finance Minister, he had recognised

/ the distortions

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the distortions caused by MCA. He had explained to M. Delors the need for a long-term solution to the Community budget problem and the need to find rules which could settle it permanently. What M. Delors had said might be helpful in this respect.

He and M. Delors had agreed that the Jumbo Council should result in useful conclusions. He had emphasised the need for the Community to help, in particular, smaller companies to take advantage of the size of the market. He and M. Delors had similar views on the role of the Community in trade: it was responsible for trade policy but it was essential that its conduct of that policy should really be effective. President Mitterrand commented that the Prime Minister and he had agreed on the need to review the functioning and methods of the Community, while remaining faithful to the original principles upon which it was based. The main constraint to the harmonious development of relations within the Community was the question of the budget contribution. He understood Britain's point of view. French minds were not closed. But France also had difficulties. On the UK side, the main problem arose from the pattern of British trade. France could not accept the principle of a "juste retour" for any member state. The subject was a delicate one which French and British Ministers needed to examine together frequently.

He went on to say that the 30 May Agreement, which the Government had inherited from its predecessor, posed increasing problems each time it had to be renewed. The idea of a permanent system of refunds for Britain would be difficult for France to accept. The sums on the basis of which refunds were calculated were frequently not clear; and there were related problems of the volume of repayments and the duration of any agreement. The problem could not be solved at this Summit. It was, however, encouraging that the subject had been discussed frankly and without hostility on either side. Any solution that was found would have to be transitory; even three years was a lot. He knew what was not acceptable to France but he could not say what was acceptable. Additional problems on the French side were arising from the worrying imbalance in trade between France and other member states, including Britain and in particular Germany.

/ The Prime Minister

The Prime Minister said she recognised that it would be difficult to solve the budget problem. But she wanted to state clearly that it had to be solved. It was fundamentally unjust that two member states should bear the entire burden of financing the Community. Three problems had to be solved together - enlargement, the 1% VAT ceiling and the budget imbalance. The President should be in no doubt about our determination to solve the budget problem. The Prime Minister was sure that he would take the same view if he were in the same position. This formed the basis of an understanding between France and Britain. The problem could not be solved that day but she suggested that neither she nor President Mitterrand should dwell on it at their press conference.

President Mitterrand said France too felt that she was paying for others in many areas, particularly industry. The benefits derived from agriculture and other easily quantifiable operations of the Community could not be looked at in isolation from the overall effect of membership of the Common Market. He nevertheless agreed with the Prime Minister's conclusion that it was right to continue discussions as between partners. He agreed that the press might try to emphasise the gap that existed between the British and French positions. But its existence could not be hidden. There was, however, no other major misunderstanding between the two Governments and he considered that the disagreement on the Budget should not prejudice bilateral relations in general. It was normal that such differences should exist between allies.

M. Jobert said that his discussions with Lord Cockfield had contained elements of understanding, mainly on multilateral questions, and elements of the traditional irritation which could arise between partners on bilateral trade matters. He had stressed the desirability of countries giving each other mutual support where common interests were at stake and had dealt with questions from the Secretary of State for Trade on French policy towards GATT, Japan and protectionism in that spirit. On protectionism, however, he had felt it necessary to sound a note of warning against verbal escalation. Industrial exchanges with Spain had also been discussed. Where differences existed on trade policy matters,

/ M. Jobert

M. Jobert thought it better not to reduce them to the level of everyday squabbles. If one did so, much could be said on both sides. M. Jobert added that he had discussed the Guangdong nuclear power project with Lord Cockfield and had agreed that close contact should be maintained between the French and British Governments. The two sides needed to speak the same language. The next visit to Europe of the Chinese Minister responsible for light and power would give an opportunity for both Governments to ensure that they kept each other fully in the picture.

Lord Cockfield reported that he had found his discussions with M. Jobert both interesting and illuminating. The Ministers had almost fallen into the trap of discussing principles instead of real problems, against which President Mitterrand had earlier warned them. The two Ministers had looked for common ground on Japan and the application of the Community's 1970 Agreement with Spain. Lord Cockfield said he had made a point of expressing the anxieties felt in Britain about the potential effects on trade within the Community of the measures announced by the French Government on 20 October to improve external trade. The Community consisted of a single market, as M. Delors had said. Britain wished to see that market develop with regard to both goods and services. Oil apart, France currently had a substantial trade surplus with the UK. It was in this context that he had wished to sound a warning against the possibility that the measures announced by the French Government might have a damaging effect on trade between the two countries to which we attached great value, as well as on intra-Community trade in general.

President Mitterrand intervened briefly to say that the French Government was, as Britain knew, particularly worried about imports from Japan. He considered it essential for the Community to decide what it wanted to do about this problem before the European Council met at Copenhagen. His Minister

of Foreign Trade had said little about protectionism in his account of his meeting with Lord Cockfield. He suggested that partners should avoid hypocrisy on this subject.

Mme Cresson gave an account of her talk with Mr. Walker. In a general introduction, she said that French public opinion attached importance to the CAP. On balance it had been successful. There was a difference of concept - as President Mitterrand had pointed out in another context - between Britain and France in relation to the CAP, with free trade the objective on the one hand and economic self-sufficiency on the other. The present system was somewhere between the two; in France's view Europe should be open to the outside world, but import costs needed to be reduced.

Turning to specific points discussed with Mr. Walker, Mme Cresson said that no solution had yet been found to the problems of trade in poultry, but she remained hopeful. The French Government had gone to considerable lengths to comply with new UK health requirements, but the final British demand for large sized labels presented a major difficulty. French producers were ready to resume exports, but wanted to know that a smaller label would be acceptable. Mme Cresson saw some prospect for agreement on regulating trade in sheepmeat and poultrymeat. She mentioned the European Court's judgment on UHT milk, due in January, and said that France hoped for some relaxation of the UK's position on imports. She claimed that the relatively high level of UK excise duties on wine limited British consumption. French tax discrimination against whisky would end in January 1983 when tax on French-produced spirit drinks would be brought into line with the tax on whisky.

Mme Cresson regretted the lack of progress in Brussels on agricultural aspects of enlargement. France attached particular importance to securing satisfactory regimes for Mediterranean products in advance of enlargement. Finally, she referred to the UK's positive MCA's which she claimed gave British farmers an unfair advantage in selling cereals and milk.

/Mr Walker

Mr. Walker said that the talks on the detailed questions mentioned by Mme Cresson had been useful and frank. The CAP had proved itself as a guarantor of stable food supplies, though surplusses were a problem. He had some understanding of the French position on MCAs. High agricultural input costs had been criticised but agriculture should not be an area where investment and technology were penalised and inefficiency rewarded.

There was a need for better surveillance of national aids to avoid market distortion. On poultry, the Court had ruled that the UK health measures were legal, though Britain had been asked to consider with the Commission the possibility of a less restrictive import policy. Britain had followed this up without delay. French difficulties in meeting the labelling requirements had surprised him. Mr. Walker noted that wine consumption was increasing in the UK.

President Mitterrand commented that it was inappropriate for EC partners to proceed by wrangling on trade matters. Difficulties such as those over poultry ought to be fully discussed; otherwise there was a risk of hypocritical protectionism developing.

M. Chevenement described his discussion with Mr Jenkin about industrial collaboration. The Fast Breeder Reactor was an important subject for long term collaboration. The French were waiting for a British response to their proposal for collaboration. He noted that the UK were using American technology for the PWR and that British industry might well follow Framatome's example and gradually make themselves technologically independent of the US in this field. On the nuclear power station for Guangdong, he mentioned the possibility of a joint bid.

/He reported

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He reported a slight divergence of view on Airbus. His discussion with Mr. Jenkin had emphasised three main aspects: economic viability; approaches to potential new partners, particularly the Italians because of the importance of Alitalia as a market for Airbus; and the development of an engine for the proposed A320. He mentioned Mr. Jenkin's concern about offering credit for new orders for the A300.

In the field of motor components M. Chevenement said that the two Ministers had agreed to a meeting of senior officials to try to move forward the current negotiations between Lucas and Valeo. He restated the view he had expressed in Brussels on 4 November that France would not agree to liberalise the telecommunications market in Europe so long as the Japanese, the US and others operated what amounted to closed markets for these goods. He reported the great concern felt in both France and the UK about policing the Community's anti-crisis measures on steel. Both countries were anxious to ensure that the Community's quotas were respected and views on this matter in general had been very close.

Mr Jenkin remarked on the frank and useful discussion that he had had with M. Chevenement and emphasised four main points.

- (a) The question of new partners for Airbus was a matter for the existing partners and not for AI.
- (b) The news from Lord Nelson in Peking was that Li Peng would tell the French during his forthcoming visit to Europe what the Chinese told the Prime Minister about their preference for an Anglo/French project at Guangdong.
- (c) He welcomed Chevenement's suggestion of official talks on the future of Lucas/Valeo and their joint subsidiary, Ducellier.

/(d)

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- (d) The important economic and political consequences of the present situation in the steel industry made it vital for the Community's steel regime to be strengthened at the meeting in Elsinor.

President Mitterrand commented that technology was a field in which it was generally easy to co-operate. If Britain and France joined forces, the two countries would achieve results.

The overall spirit of the talks had shown that the two sides were so close that he believed the only way for them to go faster now would be to have very regular meetings between representatives of the two sides, Ministers and officials, perhaps once a month.

The Prime Minister, in thanking the President, stressed again that they should not allow problems between the two countries to dominate relations. She agreed with the President's suggestion for meetings of their representatives.

The meeting ended at 1240 hours.

A.S.C.

8 November 1982

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10 DOWNING STREET

From the Private Secretary

8 November 1982

ANGLO/FRENCH SUMMIT

I enclose a copy of the record of the plenary session which was held in Paris on 5 November 1982.

I am copying this letter and enclosure to John Kerr (HM Treasury), Jonathan Spencer (Industry), John Rhodes (Trade), Robert Lawson (MAFF) and Richard Hatfield (Cabinet Office).

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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British Embassy
35 rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08
Téléphone : 266.91.42

Your reference

Our reference

Date 5 November 1982

A J Coles Esq
No 10 Downing St
LONDON SW1

Type in final form please

MR 8/11

Dear John,

ANGLO/FRENCH SUMMIT : PARIS : 4-5 NOVEMBER 1982

1. I enclose the draft record of the Plenary Session.

*Yours
H J*

H J Arbuthnott

DSR 11 (Revised)

RECORD

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

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SUBJECT:

ANGLO/FRENCH SUMMIT : PARIS : 4/5 NOVEMBER 1982

..... In Confidence

PLENARY SESSION

CAVEAT.....

Present:

Prime Minister
Chancellor of Exchequer
Minister of Agriculture
Secretary of State for
Industry
Secretary of State for
Trade
Other officials
(accompanied by officials)

President Mitterrand
Prime Minister
M. Jobet, Minister for Foreign
Trade
M. Chevenement, Minister of
Research & Industry
M. Cheysson, Minister of External
Relations
M. Delors, Minister of Economy
Mme Cresson, Minister of
Agriculture
(accompanied by officials)

Foreign and
Commonwealth Security

~~The Meeting started at 10.45.~~

~~By 1. The President~~ ^{Mitterrand} said that he and the Prime Minister had talked about most of the important international topics, particularly East/West relations, the Community's relations with ~~other great powers~~ ^{major countries}, the problems of defence and security and the world economy. ~~In speaking on~~ ^{As regards} the relations of the Community with its ~~other~~ partners, they had referred particularly to Japan; and to the forthcoming GATT Ministerial meeting. Bilateral relations between France and the UK had been left for discussion by individual Ministers. The climate of the conversations had been good.

~~The President~~ ^{He}

Enclosures - flag(s).....

^{He}
~~The President~~ had been very glad to have had the chance to talk to the Prime Minister about problems faced by both countries. Their relations were based on long friendship, shared ideas and common principles. He and the Prime Minister had agreed to take certain further steps for strengthening these relations by more systematic contact at the level of their senior representatives. This was important before forthcoming international meetings, particularly the European Council in Copenhagen ^{and} the GATT ^{Ministers} ~~and the UNLOSC~~. This agreement represented one of the particularly positive aspects of their exchanges.

2. The Prime Minister endorsed ~~all that to~~ the President's ^{words}. She had found their talks valuable ^{and} friendly ~~and enjoyable~~. She too had been pleased by their agreement ^{on} ~~for~~ more frequent meetings of their representatives. It was important for the two sides to know each others' minds better. ~~The~~ ^{President} ~~invited~~ ^{invited} Foreign Ministers to report on their talks.

3. M. Cheysson said that he and Mr Pym had discussed the independence of Namibia and had agreed to continue to work for ^{the} implementation of SCR Resolution 435 as soon as possible. ~~In particular~~ ^{also} They wanted a favourable conclusion at Madrid in order to get the Conference for Disarmament in Europe (CDE) off to a good start, even if its scope were limited, since it would be an important ^{decision} ~~psychologically~~ and therefore politically ~~decision~~. The Middle East had been discussed by Sir A Acland and M. Gutman. M. Cheysson noted that the possibility of British participation in the ^{(International) in the Lebanon} Force had been mentioned. He had explained the French role in the force. He and Mr Pym had agreed that US efforts ^{to obtain the} ~~over~~ withdrawal of troops from the Lebanon should be supported. // S.M. Cheysson referred to a recent meeting of Ministers of Education in

/London

London, where there had been agreement on two pilot projects aimed at increasing the number of exchanges in higher education. The two Ministers had discussed the difference in the taxes paid by their respective cultural institutions. ~~in~~ French cultural institutions in Britain paid far more than British institutions in France. Discussions would be pursued by Sir A Acland and M. Gutmann. They had discussed differences in university fees - British fees were 15 times higher in the UK for French students than French fees for British students in France. There were 4,000 British students in France but only 400 French students in British universities as a result. Mr Pym and he had agreed that the problem should be tackled by contact between universities. Mr Pym ^{had} also said that ~~their~~ budgetary problems were the cause of the decline of British lecturers in French universities but that he hoped there was a possibility of improvement.

4. ~~Mr~~ ^{also} ~~mentioned~~ M. Cheysson reported that in the context of their agreement for 6 monthly contacts between summits ~~that~~ he had invited Mr Pym to visit Grenoble in ~~the next~~ 6 months ~~or so~~ time.

5. Mr Pym emphasised the depth of agreement in their discussion. He ^{mentioned} ~~emphasised~~ two points in particular:

(a) the importance of 1983 because of the INF decision and the consequent need for increased effort in the CSCE and in disarmament talks; and

(b) their close agreement over the Washington talks on the pipeline. In particular, they had agreed that Ambassadors should be in touch in Washington ~~the day~~ ^{the day} in relation to the meeting ^{the day} at which it was hoped to reach agreement. Mr Pym emphasised that the opportunity should not be lost.

6. Their talks had touched on enlargement and they had agreed that negotiations with Spain should go ahead with all speed and be concluded in the near future. He was grateful to M. Cheysson for the invitation to Grenoble.

17.

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7. President Mitterrand said that he had for some time thought that the US sanctions over the pipeline were directed against the Soviet Union. He had then realised that they were in fact directed against Europe. The US offer to lift sanctions in exchange for European concessions was like a thief's offer to return his victim's wallet if he agreed to surrender his watch. He was not prepared to accept such an agreement. In particular, he could offer no more in terms of a public declaration on limiting credits to the Eastern bloc. The Prime Minister had spoken eloquently to him about the importance of preserving the alliance. ~~and had articulated many fine principles~~ But an alliance was not a protectorate or colony. He had, nevertheless, told the Prime Minister that, with effect from midday that day, he would begin reading the ~~mail~~ ^{letter} which President Reagan had addressed to him on the question of the pipeline dispute. Hitherto he had not read a word of it. The President reiterated however, that there could be no question of any further conditions being met by France.

8. ~~On enlargement~~, President Mitterrand said that he fully agreed with the ~~desirability~~ ^{correctness of} expressed by the Prime Minister and her colleagues ^{on the desirability} of the early accession of Spain and Portugal to the Community. But enlargement would bring with it many problems and uncertainties. There were institutional problems, problems of decision-making, and specific problems such as the nature of support regimes for different agricultural products. The President hoped that Britain would support French efforts to ensure that the full extent of these problems was spelt out before enlargement took place.

19. M. Delors reported that he and Sir Geoffrey Howe had ^{examined} ~~looked~~ ^{extensively into} ~~at~~ their European and other international issues and ^{at} their domestic economies. He had fully described France's economic situation and the successes of the French Government in increasing production and in fighting inflation. France had limited its public sector deficit to 3% of GNP and had a lower deficit than any other country in Europe except the UK. ^{The French} ~~They~~ were channelling savings into industry and were giving priority to the building industry. But the problem had been that while France ^{had} stimulated a certain level of increased economic activity, its partners in Europe had not done so ~~and~~ ^{and} this had affected France's balance of trade. The expected recovery in the world economy in 1982 had not occurred. This was why France had been obliged to change its economic policies.

10. On the Community budget, M. Delors stressed four points:

- (a) ^a ~~the~~ problem ^{arose} ~~was caused by the fact~~ ^{because} that the UK had received too much money from the 1981 and 1982 agreements. There should be clear rules for preventing this type of distortion in future.
- (b) the need not to confuse VAT and ~~Customs Duties/~~ Agricultural Levies. The latter did not always arise in the countries where they were listed as having done so.
- (c) if France agreed that it was important to rationalise agricultural spending, she also thought it was necessary to ensure that ^{the} social and ~~Regional~~ ^{Regional} Funds were made more effective.
- (d) if one thought in terms of unacceptable situations, ^{the situation} that of France in 1982 was not acceptable because of ^{its} ~~its~~ trade deficit (which ^{had arisen} ~~arose~~ because ~~of~~ its ^{efforts}

of efforts to reflate had helped other countries in the Community, and because MCAs had distorted agricultural markets. Why should they exist for agriculture when they did not exist for industry?)

#1 He and Sir Geoffrey Howe had discussed the important decision taken at the European Council on 28/29 ^{June} ~~January~~ in relation to investment. Public opinion would be closely watching the results of the meeting between Finance and Labour Ministers on 16 November. There was a need for Community countries to learn from each other about dealing with unemployment, especially youth unemployment.

#2 ~~Mr Delors said that~~ ^{also} He and Sir G Howe had noted, in their discussion of the international scene, that if there were no world economic recovery, the LDCs could be in a disastrous position. They had both tried to tell the United States Government over the last year that their economic policies were an obstacle to world recovery. The Versailles decision on exchange rates was a key factor. The Ministers had agreed ~~to~~ on the importance of the role of international financial organizations. In particular, they had agreed on the size of the increase needed in IMF funding.

#3. Sir G Howe said that M. Delors had touched on the key problems, many of which had been discussed at a very useful meeting with M. Mauroy the previous night.

#4. The discussion with M. ^{Delors} ~~Mauroy~~ had been very helpful. Sir G Howe had stressed the successes of French economic policies, especially in fighting inflation. As a Finance Minister, he had recognised the distortions caused by MCA. He had explained to M. Delors the need for a long-term solution to the Community budget problem and the

/need

need to find rules which could settle it permanently.

What M. Delors had said might be helpful in this respect.

14. ^{He and M. Delors} They had agreed that the Jumbo Council should result in useful conclusions. He had emphasised the need for the Community to help, in particular, smaller companies to take advantage of the size of the market. He and M. Delors had similar views on the role of the Community in trade: it was responsible for trade policy but it was essential that its conduct of ^{the} policy should really be effective.

main difficulty between France and the UK was over the British contribution to the Community budget.

President Mitterrand ^{commented} ~~said~~ that ~~the~~ ^(He and the) Prime Minister and he had agreed on the need to review the functioning and methods of the Community, while remaining faithful to the original principles upon which it was based. The main constraint to the harmonious development of relations within the Community was the question of the budget contribution. He understood Britain's point of view. French minds were not closed. But France also had difficulties. On the UK side, the main problem arose from the pattern of British trade. France could not accept the principle of a "juste retour" for any member state. The subject was a delicate one which French and British Ministers needed to examine together frequently.

15. ^{He} ~~The President~~ went on to say that the 30 May Agreement, which the Government had inherited from its predecessor, posed increasing problems each time it had to be renewed.

The idea of a permanent system of refunds for Britain would be difficult for France to accept. The sums on which ^{the basis of} refunds were calculated were frequently not clear; and there were related problems of the volume of repayments and the duration of any agreement. The problem could not be /solved

solved at the ^{the} Summit. It was, however, encouraging that the subject had been discussed frankly and without ~~aggression~~ ^{hostility} on either side. Any ~~resolution~~ ^{agreement} that was found would have to be transitory; even ~~three~~ ^{two} years was a lot. He knew what was not acceptable to France but he could not say what ~~was~~ ^{was acceptable}. Additional problems on the French side were arising from the worrying imbalance in trade between France and other member states, including Britain and in particular Germany.

17. The Prime Minister said she recognised that it would be difficult to solve the budget problem. But she ~~would~~ ^{wanted} to state clearly that it had to be solved. It was fundamentally unjust that two member states should bear the entire burden of financing the Community. Three problems had to be solved together - enlargement, the 1% VAT ceiling and the budget imbalance. The President should be in no doubt about our determination to solve the budget problem. The Prime Minister was sure that ~~President Mitterrand~~ ^{he} would take the same view if he were in the same position. This formed the basis of an understanding between France and Britain. The problem could not be solved that day but she suggested that neither she nor President Mitterrand should dwell on it at their press conference.

18. President Mitterrand said France too felt that she was paying for others in many areas, particularly industry. The benefits derived from agriculture and other easily quantifiable operations of the Community could not be looked at in isolation from the overall effect of membership of the Common Market. ~~The President~~ ^{he} nevertheless agreed with the Prime Minister's conclusion that it was right to

/continue

Continue discussions as between partners. He agreed that the press might try to ~~enlarge~~^{emphasize} the gap that existed between the British and French positions. But its existence could not be hidden. There was, however, no other major misunderstanding between the two Governments and he considered that the disagreement on the budget should not ~~be~~^e prejudicial to bilateral relations in general. It was normal that such differences should exist between allies.

Trade

19 M. Jobert said that his discussions with Lord Cockfield had contained elements of understanding, mainly on multilateral questions, and elements of the traditional irritation which could arise between partners on bilateral trade matters. He had ~~endeavoured~~ to stress ~~the~~^{the} desirability of countries giving each other mutual support where common interests were at stake and had dealt with questions from the Secretary of State for Trade on French policy towards GATT, Japan and protectionism in ~~that~~ spirit. On protectionism, however, he had felt it necessary to sound a note of warning against verbal escalation. Industrial exchanges with Spain had also been discussed. Where differences existed on trade policy matters, Mr. Jobert thought it better not to reduce them to the level of everyday squabbles. If one did so, much could be said on both sides. M. Jobert added that he had discussed the Guangdong nuclear power project with Lord Cockfield and had agreed that close contact should be maintained between the French and British Governments. The two sides needed to speak the same language. The

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next visit to Europe of the Chinese Minister responsible for light and power would give an opportunity for both Governments to ensure that they kept each other fully in the picture.

20 Lord Cockfield reported that he had found his discussions with M. Jobert both interesting and illuminating. The Ministers had almost fallen into the trap of discussing principles instead of real problems, against which President Mitterrand had earlier warned them. The two Ministers had looked for common ground on Japan and the application of the Community's 1970 Agreement with Spain. Lord Cockfield said he had made a point of expressing the anxieties felt in Britain about the potential effects on trade within the Community of the measures announced by the French Government on 20 October to improve external trade. The Community consisted of a single market, as M. Delors had said. Britain wished to see that market develop with regard to both goods and services. Oil apart, France currently had a substantial trade surplus with the UK. It was in this context that he had wished to sound a warning against the possibility that the measures announced by the French Government ^{might have a} ~~should have any~~ damaging effect on trade between the two countries to which we attached great value, as well as on intra-Community trade in general.

21. President Mitterrand intervened briefly to say that the French Government was, as Britain knew, particularly worried about imports from Japan. He considered it essential for the Community to decide what it wanted to do about this problem before the European Council met at Copenhagen. His Minister of Foreign Trade had said little about protectionism in his account of his meeting with Lord Cockfield, and ~~He~~ suggested that partners should ~~not~~ avoid ~~unnecessary~~ hypocrisy ^{on the subject}.

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AVEAT.....

22.
4. ~~At President Mitterrand's invitation,~~ Mme Cresson
gave an account of her talk with Mr Walker. ~~In a general~~ ^{In a general}
~~introduction,~~ ^{introduction, she} ~~she~~ said that French public opinion attached
importance to the CAP. On balance it had been successful.
There was a difference of concept - as ^{President} Mitterrand had
pointed out in another context - between Britain and
France in relation to the CAP, with free trade the
objective on the one hand ^{and} economic self-sufficiency on
the other. The present system was somewhere between the
two; in France's view Europe should be open to the
outside world, but import costs needed to be reduced.

23
2. Turning to specific points discussed with Mr Walker
~~earlier that morning,~~ Mme Cresson said that no solution
had yet been found to the problems of trade in poultry,
but she remained hopeful. The French Government had
gone to considerable lengths to comply with new UK health
/requirements ...

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requirements, but the final British demand for large sized labels presented a major difficulty. French producers were ready to resume exports, but ^{wanted to} were ~~waiting~~ ^{to} ~~an~~ ^{know} indication that a smaller label would be acceptable.

Mme Cresson saw some prospects for agreement on regulating trade in sheepmeat and poultrymeat. She mentioned ^{the} ~~ECJ's~~ ^{European Court's} judgement on UHT milk, ~~was~~ due in January, and said ^{that} France hoped for some relaxation of the UK's position on ~~this~~ ^{imports}. She claimed that the relatively high level of UK excise duties on wine limited British consumption. ~~But~~ French tax discrimination against whisky would end in January 1983 when tax on French-produced spirit drinks would be brought into line with the tax on whisky..

24
By Mme Cresson regretted the lack of progress in Brussels on agricultural aspects of enlargement. France attached particular importance to securing satisfactory regimes for Mediterranean products in advance of enlargement. Finally, she referred to the UK's positive MCAs which she claimed gave British farmers an unfair advantage in selling cereals and milk.

25
47 Mr Walker said that the talks on the detailed questions mentioned by Mme Cresson had been useful and frank. The CAP had proved itself as a guarantor of stable food supplies, though surplusses were a problem. He had some understanding of the French position on MCAs. High agricultural input costs had been criticised but agriculture should not be an area where investment and technology were penalized and inefficiency ~~was~~ rewarded.

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26.

There was a need for better surveillance of national aids ~~with a common agricultural price system,~~ ^{to avoid market distortion.} such aids distorted market operations. On poultry, ~~the ECJ~~ ^{Court} had ruled that the UK health measures were legal, though Britain had been asked to consider with the Commission the possibility of a less restrictive import policy. Britain had followed this up without delay, ~~and details of the new British requirements had been passed to the French as rapidly,~~ ^{French} and their difficulties in meeting the labelling requirements had surprised him. Mr Walker noted that wine consumption was increasing in the UK.

27.

~~52~~ Summing up, President Mitterrand commented that it was inappropriate for EC partners to proceed by wrangling on trade matters. Difficulties such as those over poultry ought to be fully discussed; otherwise there was a risk of hypocritical protectionism developing.

28.

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 M. Chevènement described his discussion with Mr Jenkin about industrial collaboration. The Fast Breeder Reactor was an important subject for long term collaboration. The French were waiting for a British response to their proposal for collaboration. He noted that the UK were using American technology for the PWR and that British industry might well follow Framatome's example and gradually make themselves technologically independent of the US in this field. On the nuclear power station for Guangdong, he mentioned the possibility of a joint bid.

2829
 M. Chevènement reported a slight divergence of view on Airbus. His discussion with Mr Jenkin had emphasised three main aspects: ~~the~~ economic viability; approaches to potential new partners, particularly the Italians because of the importance of Alitalia as a market for Airbus; and the development of an engine for the proposed A320. He mentioned Mr Jenkin's concern about offering credit for new orders for the A300.

2930
 In the field of motor components M. Chevènement said that the two Ministers had agreed to a meeting of senior officials to try to move forward the current negotiations between Lucas and Valeo. He restated the view he had expressed in Brussels on 4 November that France would not agree to liberalise the telecommunications market in Europe so long as the Japanese, the US and others operated what amounted to closed markets for these goods. He reported the great concern felt in both France and the UK ~~with~~ about policing the Community's anti-crisis measures on steel.

[VALEO]

/Both

Both countries were anxious to ensure that the Community's quotas were respected and views on ~~the~~^{the} matter in general had been very close.

30
Mr Jenkin remarked on the frank and useful discussion that he had had with ^{M.} Chevènement and emphasised four main points:

(a) The question of new partners for Airbus was a matter for the existing partners and not for AI.

(b) The news from Lord Nelson in Peking was that Li Peng would tell the French during his forthcoming visit to Europe what the Chinese told the Prime Minister about their preference for an Anglo/French project at Guangdong.

(c) He welcomed Chevènement's suggestion of official talks on the future of Lucas/Valeo and their joint subsidiary, Ducellier.

(iv) The important economic and political consequences of the present situation in the steel industry made it vital for the Community's steel regime to be strengthened at the meeting in Elsinor.

31
President Mitterrand commented that technology was a field in which it was generally easy to cooperate. If Britain and France joined forces, the two countries would achieve results.

32 The overall spirit of the talks had shown ^{that} the two sides ^{was} so close that ^{he} ~~President Mitterrand~~ believed the only way for them to go faster now would be to have ~~extremely~~^{very} regular meetings between representatives of the two sides, Ministers and officials, perhaps once a month. ~~Because~~ of

the

the closeness of the two countries, this would not be too hard and in any case it would only mean that each side had to make a journey once every two months.

34 The Prime Minister, in thanking the President, stressed again that they should not allow problems between the two countries to dominate relations. She agreed with the President's suggestion for meetings of their representatives.

The meeting ended at 12.40 pm.

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