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10 DOWNING STREET

From the Private Secretary

26 April 1986

Dear Tony,

PRIME MINISTER'S MEETING WITH M. CHIRAC: NEW ZEALAND

In the course of his meeting with the Prime Minister today M. Chirac raised the question of France's relations with New Zealand.

M. Chirac said that he had been very grateful for the help which had been given to his Government in making discreet contact with New Zealand to discuss a solution to the Rainbow Warrior affair. When he had become Prime Minister he had found various restrictions in force against New Zealand exports. He had decided to try to relieve tensions in relations between France and New Zealand. He had therefore lifted most of the restrictions. He had also set out terms on which France was prepared to negotiate. These were in essence readiness: to apologise for the Rainbow Warrior incident, provided that the apology was not expected to be in humiliating terms: to pay compensation: to eliminate all restrictions on imports from New Zealand: to make various gestures to strengthen relations between France and New Zealand: and finally to allow the agreement between New Zealand and the European Community to be renewed without difficulty. In return, France sought the freeing of the two French officers but would give a guarantee that this would not be exploited politically. The officers would be installed on some remote island out of the reach of journalists. They would not be in prison but would be confined to their place of residence until after the New Zealand Elections in December.

M. Chirac continued that the problem was that he could not establish what Mr. Lange had in mind. He continued to issue contradictory statements and refused to nominate anyone to conduct negotiations. The date for a discussion of New Zealand's arrangements with the European Community was approaching rapidly. If contact were not made soon, France would be compelled to place a non-negotiable veto on the EC/New Zealand agreement and reintroduce restrictions on New Zealand imports.

The Prime Minister said that she agreed that Mr. Lange was not easy to deal with. He positively enjoyed the role of a small nation flouting big ones. On the other hand, one

should not underestimate the difficulties for New Zealand of releasing the French officers. A serious offence had been committed, and it would be hard to justify their release after such a short period. Was it not possible to arrange for the French officers to serve their sentence or part of it in France? M. Chirac said that this was not a solution. He condemned the ridiculous operation in which they had participated. But it was not acceptable to France that they should be in prison.

The Prime Minister said that a way clearly had to be found to induce Mr. Lange to address his mind to the problem quickly. To help M. Chirac she would be ready to send an entirely private message to Mr. Lange. This would simply say that M. Chirac had told her of his desire to find a solution and to get negotiations under way but was finding this difficult. If Mr. Lange had any suggestions to make on a procedure for such negotiations, she would be happy to pass his views on. But Britain could not be involved in the substance.

Mr. Chirac expressed gratitude for this offer. He wanted to avoid a row within the Community over New Zealand if at all possible.

I should be grateful if you could provide me with a draft message from the Prime Minister to Mr. Lange in these strictly limited terms

The Prime Minister will wish to despatch it before her departure for the Economic Summit in Tokyo on Thursday, 1 May.

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I am copying this letter to Sir Robert Armstrong.

Yours sincerely,
(C.D. Powell)
(C.D. POWELL)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office

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SUBJECT
re Master



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10 DOWNING STREET

26 April 1986

From the Private Secretary

Dear Tony,

**PRIME MINISTER'S MEETING WITH M. CHIRAC:
DEFENCE CO-OPERATION**

During the course of his meeting with the Prime Minister at Chequers today, M. Chirac raised the subject of defence co-operation between France and the United Kingdom.

M. Chirac said Sir John Fretwell had recently called on the French Minister of Defence to seek France's views on intensification of high level military contacts with the United Kingdom, particularly concerning questions of nuclear strategy. He recalled that such talks had been held at Chief of Defence Staff level in 1984, but the information available to him suggested that they had petered out. For his part he was very much in favour of a high level discussion of strategic issues on the same lines as the talks now instituted between France and Germany. Such talks had an essential contribution to make towards strengthening co-operation between France and the United Kingdom.

The Prime Minister said that she also favoured military contacts. She had thought that these were continuing but would check. The fact that France and Britain were both nuclear powers gave a particular importance to contacts in this area. She would also like to see regular discussions on arms control issues. M. Chirac agreed that there were certain problems which affected France and Britain but not other countries. He would also welcome close liaison on arms control.

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

John Howe
Michael Stark
(C.D. POWELL)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office

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10 DOWNING STREET

26 April 1986

From the Private Secretary

Dear Tony,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF FRANCE

I enclose a record of the main part of the Prime Minister's conversation with M. Chirac at Chequers today. This lasted some three and a half hours. I am recording separately and for a more limited circulation their discussion about Libya, about the problems between France and New Zealand, and about defence co-operation.

M. Chirac was at pains to say that he did not want his remarks reported widely. Circulation of this record must therefore be restricted, and there should be no direct reference to the Prime Minister's discussion with M. Chirac in dealings with French Ministers and officials. Where it is thought necessary for an exception to be made, a check should be made first with No. 10. I am aware that this will be regarded as irksome. But the Prime Minister is anxious that we should not be inadvertently responsible for any complications between M. Chirac and President Mitterrand as a result of the former's remarks to her, which might result damage this particular channel of communication.

I am copying this letter and enclosure to Rachel Lomax (HM Treasury), John Howe (Ministry of Defence), John Mogg (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Michael Stark (Cabinet Office).

Yours sincerely

(C.D. POWELL)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRIME
MINISTER OF FRANCE AT CHEQUERS ON SATURDAY 26 APRIL 1986 AT
1230 HOURS

Present:

Prime Minister	M. Chirac
Mr. Charles Powell	French Ambassador
	M. Bujon de L'Estang

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EUROPEAN/AMERICAN RELATIONS

The Prime Minister said that she was very concerned at the strength of feeling in the United States about lack of European support for American action against Libya. We had to restore American faith in the Europeans as proper, reliable allies. To some extent this was a question of taking effective measures against Libya. But there was a need, too, for wider action aimed at convincing the United States that Europe had a contribution to make to solving problems outside its own immediate area. She was not certain how best to tackle this. There might be some informal discussion of the problem in the margins of the Tokyo Economic Summit. It would help if the main European countries were to meet regularly to discuss wider issues and to keep in close touch with the United States.

M. Chirac said that he entirely agreed on the importance of restoring solidarity between Europe and the United States. This should have a high priority. He recalled that he had been one of the few European leaders to condemn the Soviet pipeline contract and to approve the United States action in Grenada. He agreed with the Prime Minister on the need for the principal European countries to keep in close touch with

the United States.

EUROPEAN COMMUNITY

The Prime Minister said that it was no less important to develop a stronger sense of common purpose within Europe. Enlargement of the Community had made this task more difficult. The key lay in Britain, France and Germany working closely together. M. Chirac said that once again he was in full agreement. With his own appointment as Prime Minister, there were now conservative governments in France, Germany and the United Kingdom. This was a very important fact. It meant that they shared a common approach and philosophy. The economic liberalisation which was his priority would bring France's economic policies more closely into line with those of Britain and Germany. The result would be to make co-operation between the three countries much easier.

The Prime Minister agreed that this was an important development and a timely one. With enlargement, there was now a more powerful lobby of South European countries, with socialist governments in Italy, Spain and Greece, all of whom would want to extract more money from the Community. M. Chirac observed that France was a net contributor to the Community for the first time this year. There were patent abuses in the way in which Southern European governments exploited Community rules to extract more money. He agreed with the Prime Minister that it was vital for France, Germany and Britain to stand together on the main Community issues.

M. Chirac continued that, returning to Government, he was struck by how much time in the Community was devoted to discussing technical issues. This was not appropriate for Heads of Government. At the same time, the political will to take the Community forward seemed to be lacking. This again pointed up the need for close collaboration between Britain, France and Germany. He also wondered whether the time had not come for Europe to talk more about defence and security

problems and to give priority to them over other issues.

The Prime Minister said that there were well known problems about discussing defence in the Community itself, because of the position of Ireland and Greece. It was also important, particularly in the present climate, not to tackle defence issues in a way which was divisive of the Alliance. She agreed, however, that defence had to be given priority and that the necessary resources must be found for it. This was an argument against allowing the Community to drain off funds to areas of lesser priority. One of the striking factors of the recent crisis was the extent to which public opinion in Europe had been easily frightened. European Governments had to stiffen their public opinion and lead it towards greater awareness of the need for Europe to play a role outside the immediate Community/NATO area. This brought her back to the advantage of a closer consultation between the principal members of the Community, both about defence and about out-of-area problems.

COMMON AGRICULTURAL POLICY

The Prime Minister welcomed the way in which France and Britain had been able to work together during the recent agricultural price fixing which had come to a reasonably satisfactory conclusion. Nonetheless, some way had to be found to improve the functioning of the CAP and deal with the problem of surpluses and the excessive costs of storage arising from the intervention system. There was nothing inherently wrong with the CAP: the problem was in the way in which it was run.

M. Chirac said that France was very attached to the intervention system. The details of the way it operated could legitimately be discussed but the principle could not be called into question. He noted that the United Kingdom was amongst those which benefited from the intervention system.

The Prime Minister said that the problem was that farmers tended to produce for intervention. M. Chirac said that this was often asserted but was not necessarily true. However, he recognised that the Community faced grave financial problems. France supported a very strict management of the Community budget. But priority must be given within the budget to CAP expenditure. There was scope for reducing actions financed by the structural funds which had expanded unreasonably. The Community could not go on indefinitely raising the VAT ceiling. The Prime Minister said that the Community was not even due to consider any further increase in the ceiling until 1 January 1988. M. Chirac said that the problem was that there was not enough money to keep going until then. The Prime Minister repeated that Britain was not seeking to undermine the CAP. The problem lay in the management of it. She accepted that there could be no sudden change but we had to work to modify it year by year through a combination of price restraint and other measures.

M. Chirac said that there was an alternative solution. Did the United Kingdom approve of the enormous increase in spending on olive oil? Would it not be possible for the Community to tax imports of vegetable oils and fats? Europe was not naturally in surplus on oils and fats. The surplus was the result of imports. If the Community were to tax these, it would solve many of the financing problems of the CAP. It was sometimes alleged that this would simply mean exporting the Community's problems. The fact was that United States exports to the Community had grown enormously since 1967. They were the ones who were exporting their problems.

The Prime Minister said that the United States would most certainly retaliate against any such action by the Community which would also be contrary to GATT. The Community's interest lay in bringing down barriers to trade, not in erecting new ones. One consequence of an oils and fats tax would be to lead the Americans to increase still further their challenge to the Community in third country markets. Their ability to subsidise exports was greater than

that of the Community. A better solution would be to adopt policies which brought olive oil production in the Community under control. The United Kingdom had long pressed for this. M. Chirac said that he was in of favour of bringing down down barriers to trade if all other countries did the bringing same. But in practice the United States market was more protected than that of the European Community.

The Prime Minister said that it would be useful to explore the possibilities of set-aside as a partial contribution to solving the problems of surplus agricultural production in the Community. M. Chirac expressed scepticism. Set-aside had been tried in the United States but had not worked and had been abandoned. It was likely to prove very expensive in the Community.

MIDDLE EAST

The Prime Minister said that she was concerned with the current vacuum in Middle East peace efforts. She was constantly pressing the United States Administration to be more active but they continued to give low priority to the problem, although she had heard that Secretary Shultz might shortly visit the area to discuss a new initiative. The Americans were also being unhelpful about King Hussein's modest proposal for establishing a United Nations representative on the West Bank to co-ordinate the work of the various UN agencies. With the fall in the oil price, there was a growing risk of unrest in a number of Middle East countries. It was very important to have some proposals under discussion if only to give the appearance of efforts to make progress.

M. Chirac said that he was pessimistic and saw no scope for action by the Community. The last time that Europe had taken an initiative, with the Venice Declaration, it had not been a great success.

STRATEGIC DEFENCE INITIATIVE

M. Chirac said that the former French Government had taken a critical and hostile attitude towards participation by France in SDI research work. In his view research on SDI was inevitable and irreversible and the attitude taken by the previous government was unrealistic. His Government would express approval of SDI research while waiting to see the results before drawing conclusions. He had no objection to participation by French companies in the research work. He did not know what was in the Memorandum of Understanding between the United Kingdom and the United States. But that which the Germans had signed appeared to be devoid of substance. France would not therefore seek any formal arrangements. The change in the overall French attitude towards the SDI research would emerge only slowly as he had no wish to humiliate President Mitterrand. But we could be assured that the basic French approach was now the same as that of the United Kingdom and Germany.

The Prime Minister welcomed M. Chirac's remarks. The United Kingdom had consistently supported SDI research and believed it was essential not to allow the Soviet Union to gain a lead in this area.

ARMS CONTROL

The Prime Minister said that she was concerned by the Soviet attitude towards arms control. They continued to put forward proposals which were high on propaganda content and designed to appeal to Western public opinion, but seemed to have no real intention of making progress in the negotiations in Geneva.

M. Chirac said that he had met Mr. Gorbachev during the latter's visit to Paris. He felt very strongly that Gorbachev was a dangerous man whom the West would not trust at all. In his view Western Governments needed to be much firmer in dismissing Soviet arms control proposals when their motive was quite clearly no more than propaganda.

The Prime Minister said that Britain and France shared the view that their own nuclear deterrents should not be drawn into current arms control negotiations. It was important to stand firm on this point. M. Chirac agreed.

The Prime Minister said that she had remonstrated with President Reagan over his apparent intention to announce that the United States would breach the SALT II limits in November unless the Soviet Union improved its record of compliance with existing arms control agreements. It was important that the United States should not appear to put itself in the wrong before a United States/Soviet Summit. She had met the United States Ambassador in Moscow the previous evening. He had seemed to exclude any possibility of such a Summit before the Congressional elections in November.

M. Chirac said that he had seen President Reagan's message about compliance with arms control agreements and entirely shared the Prime Minister's views.

SOUTH AFRICA

M. Chirac said that his Government's approach to South Africa would differ substantially from that of their predecessors. He took the view that sanctions were dangerous and useless. He intended to take the first suitable opportunity to send France's Ambassador back to South Africa.

France would align itself with the British approach.

The Prime Minister welcomed M. Chirac's remarks. The best prospect of progress in South Africa lay with the Commonwealth Eminent Persons Group. Some members of this appeared to want to bring their mission to a precipitate end. Her intention was to encourage them to carry on with their efforts, to give time to make progress. The key to such progress was a suspension of violence which would enable talks to start. But she was not certain that the ANC was capable of delivering this. M. Chirac agreed that such a suspension of violence would be difficult to achieve even if Mandela were released. He himself was in close touch with President Botha as well as with the more moderate elements of his Government. He believed that the South African Government were now genuinely open to dialogue with black representatives. Such dialogue should start with Chief Buthelezi rather than the ANC. Measures to isolate South Africa would not help.

The Prime Minister said that she thought that United States' opposition to sanctions was firm although the Administration had given some ground earlier. She intended to raise the matter again with President Reagan in the margins of the forthcoming Economic Summit.

SOUTH PACIFIC NUCLEAR FREE ZONE

M. Chirac said that he very much hoped that the United Kingdom would not support the proposed Treaty establishing a South Pacific nuclear free zone. The Prime Minister said that a number of Pacific Heads of Government, including Mr. Hawke, had spoken to her about this. She was very sceptical of nuclear free zones and the United Kingdom was not likely to agree to subscribe to one. We recognised the need for nuclear weapons states to be able to carry out tests.

ECONOMIC SUMMIT

M. Chirac said he had studied the documents prepared for the forthcoming Summit by the Sherpas. They seemed singularly devoid of content. The Prime Minister said that she was inclined to agree with this judgement. The declaration on terrorism in particular would need considerable strengthening. She thought that one of the more difficult issues at the Summit would be the question of a new round of multilateral trade negotiations.

M. Chirac said that France had some reservations about such a round. He feared that the Community would find itself in the dock and forced to make concessions without compensating gains. He would much prefer to see a separate negotiation between the European Community and the United States on agricultural problems. If this could be brought to a successful conclusion, it would be relatively simple to move on to a successful multilateral round. He stressed that this was only a personal idea. The Prime Minister said it was essential for the Summit to give a clear signal of determination to reverse protectionism. She did not consider M. Chirac's proposal adequate.

The Prime Minister said it would also be important to take a very firm line with Japan at the Economic Summit. Despite the increase in the value of the yen, Japan continued to run a very substantial trade surplus.

M. Chirac said that he did not entirely accept the orthodox view of Japan's trade practices. In his view, Japan was actually less protectionist than the United States in the normal sense of the word. Japan's protectionism was a cultural protectionism. The real problem arose because American and European firms were simply not prepared to devote the time and effort to the Japanese market which success required. Those few who did make an effort were able to

succeed. M. Chirac continued that he had great respect for Mr. Nakasone. His aim was to strengthen Japan's political status. But he realised he could not achieve this while running a trade surplus on the present scale. He thought, therefore, that Mr. Nakasone was genuinely ready to take effective action to stimulate imports.

The Prime Minister said that she did not fully accept M. Chirac's analysis. It would be open to the Japanese to alleviate the imbalance by increasing purchases of, for instance, civil or military aircraft from Europe. The Japanese also pursued questionable tactics in overseas markets. With the rise in the value of the yen, the Government were now talking of giving low interest loans to their exporters. She thought it would be a mistake to relax pressure against Japan. M. Chirac commented that he did not want to be seen as a Japanese agent. But he genuinely believed that a good part of the fault lay with the failure of American and European companies to exploit the opportunities which already existed in the Japanese market.

AIRBUS

M. Chirac said that Chancellor Kohl was putting strong pressure on France to agree to start development of a new long-haul version of the Airbus. France had some reservations about this. But it was probably right to develop the Airbus family. Moreover, he in principle favoured co-operation on aerospace projects. As a result, France was likely to agree and the necessary financial means would be provided in the 1987 budget. Chancellor Kohl was anxious to know whether the United Kingdom would follow suit.

M. Chirac continued that he had, in return, sought German adherence to the Hermes project. His assessment was that, if the present German Government was re-elected in 1987, such adherence would be forthcoming. He was aware that the United Kingdom also had plans for HOTOL but he did not believe that

the two projects were competitors. More generally, he was concerned to discover that co-operation in aerospace between France and the United Kingdom seemed virtually to have come to a halt.

The Prime Minister said that the United Kingdom was ready in principle to consider extending the Airbus family and would look at the proposals on their merits although she could give no commitment. Her understanding was that the HOTOL project was different in character to Hermes and the two were not direct competitors. M. Chirac repeated that he wanted to find areas, preferably in the military field, where co-operation between France and Britain or between France, Britain and Germany, on aerospace projects could be resumed. He was not talking about the European Fighter Aircraft. The Prime Minister said that she would be willing to examine proposals for such co-operation.

CHANNEL FIXED LINK

The Prime Minister said that she assumed that the new French Government would proceed with the Channel Fixed Link project on the basis which had been agreed.

M. Chirac said that the project had his unqualified support.

ROYAL VISIT

M. Chirac said that he intended to invite the Prince and Princess of Wales to pay a visit to France. The Prime Minister said that she believed such an invitation would be well received though she could not of course say when it might be possible for a visit to be undertaken.

The meeting ended at 1550 hours.

C.D.P.
C.D. POWELL

26 April 1986

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