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From the Private Secretary

26 November 1986

Dear Colin,

**PRIME MINISTER'S MEETING WITH M. GISCARD D'ESTAING**

The Prime Minister had a talk this afternoon with M. Giscard.

Political situation in France

M. Giscard said that, because of divisions in the Centre-Right who would probably field at least three candidates in the Presidential elections, the Socialists were quite likely to win in 1988. His own judgement was that President Mitterrand would stand again and be re-elected. He would be regarded by voters as the wise man above the fray. There was evidence that French voters rather liked co-habitation. A conservative government guaranteed prudence in financial matters and a Socialist President symbolized a social conscience. M. Giscard also said that, in his view, there should be a grand coalition government for two or three years after Presidential elections as a means of locking the Socialist Party into moderate policies. He did not say - though no doubt meant - that this would give him an opportunity to play a central role.

M. Giscard particularly asked that his views on the political situation should be treated as confidential.

EMS

M. Giscard said that he and Helmut Schmidt were setting up a study group to look at the future of the EMS. He had noted the Prime Minister's views about the British membership of the ERM as most recently expressed in her interview with the Financial Times. He could understand the political problems of joining before an election. But he hoped that the United Kingdom would make a move fairly soon afterwards if, as he assumed, the Conservatives were to be re-elected. In his judgement, the conditions would exist from late 1987 onwards for the European Community to move forwards towards European Monetary Union. There was a risk that the United Kingdom would be left behind and that it would become more difficult for us to join subsequently. He and Helmut Schmidt would be touring a number of European capitals early next year and would like to have a meeting with the Prime Minister to discuss the prospects. The Prime Minister said that she would

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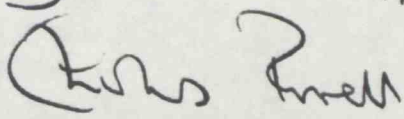
be happy to see M. Giscard and Herr Schmidt although her answer on the question of membership of the ERM would be no different from now.

Nuclear cooperation

M. Giscard said that a debate was taking place in France on future defence plans. There was a wide feeling that there should be more cooperation with the United Kingdom than in the past and, in particular, that there was scope for cooperation on the next generation of nuclear weapons, which would come into service in the early part of the next century. He wondered what the Prime Minister's views on this were. The Prime Minister gave an account, in general terms, of our plans for modernising the United Kingdom deterrent with Trident. It was very difficult at this stage to say what would follow Trident. It would depend both on technical developments in Soviet defences as well as political developments in east/west relations. It was unlikely that we would begin to think about the future generation of nuclear weapons until well into the first decade of the next century. She was not sure, therefore, whether there was much scope in practice for collaboration.

There was some further conversation about oil prices, about nuclear energy and about the difficulties of the United States' Administration over Iran and Nicaragua.

I am copying this letter to Alex Allan (H.M. Treasury) and John Howe (Ministry of Defence).

Yours sincerely,  
  
CHARLES POWELL

Colin Budd, Esq.,  
Foreign and Commonwealth Office.