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*From the Private Secretary**Dear Richard,*PRIME MINISTER'S MEETING WITH THE FRENCH PRIME MINISTER

The Prime Minister had an hour's talk this afternoon with the French Prime Minister. They covered three main issues: the French Environmental Initiative, European Community matters and Nissan. They agreed to discuss defence at their next meeting. M. Rocard spoke English throughout, which was very decent of him. But it did mean the sacrifice of a certain amount of precision.

M. Rocard was accompanied by the French Ambassador and a member of his Cabinet. H.M. Ambassador, Paris, was also present.

Introduction

The Prime Minister spoke with appreciation of the arrangements made for the visit of the Prince and Princess of Wales to France, about France's prompt convening of a meeting of Summit Seven terrorism experts following the Lockerbie disaster and the success of the Conference on Chemical Weapons held in Paris. She looked forward to reading the text of M. Rocard's Monnet lecture.

Environmental Initiative

The Prime Minister said that she would tackle head on M. Rocard's proposed environmental initiative and speak frankly. Both Governments were concerned about global environmental issues and rightly so. But they were tackling them in different ways. We believed in treating them within existing international bodies, and fixing practical targets for action. The French approach was to create new structures and institutions and endow them with new powers. As she had made plain from the beginning, she had difficulties with this approach. We did not see a need to multiply institutions. That only detracted from the effectiveness of existing bodies. We did not like the concepts of economic sanctions or of compensation. Sanctions were never effective. And we already gave help to third world countries to deal with problems such as deafforestation. We were sceptical about giving a new body supra-national powers, which would raise awkward problems of sovereignty. There was a need for very careful preparation in dealing with complex environmental issues. Solutions

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adopted in haste, for example three-way catalysts, often ended up creating more problems.

The Prime Minister emphasised that we were not opposed to international co-operation. We were all for increasing international awareness of the problems through conferences, scientific symposia and so on. We did not want to appear to be torpedoing the French initiative. But we could not subscribe to the draft declaration which M. Rocard had circulated for the Conference in The Hague. We could only support a much more general declaration.

M. Rocard said that he admired the Prime Minister's grasp of the technical issues. We all agreed on the scale of the problems. His objective was not so much to create new organisations, but to use existing ones more effectively and give them more authority. There had to be rules, and a world-wide authority to set and implement them. There were precedents, for instance in the Law of the Sea. Twenty-six nations had agreed to attend the meeting in The Hague and sign the Declaration. These countries would be prepared to move ahead on their own if necessary.

M. Rocard continued that a new authority would not initially be very strong. Time would be needed to run it in. He noted the Prime Minister's misgivings about sanctions and compensation. He agreed that sanctions had not in the past been very effective. But there had to be some way of exerting pressure on countries to comply with rules. A system of incentives was also needed. Perhaps compensation was not the right word. What he had in mind was negotiated multilateral help. He did not underestimate the difficulties of persuading countries to surrender some of their sovereignty. This would be a problem in France. But it had to be faced. There would need to be a Treaty and an international authority (he mentioned a membership of thirteen) to set rules.

The Prime Minister said that M. Rocard's explanation increased her reservations. Where would the money for 'negotiated multilateral help' come from? How would the powers of the new international body fit in with those of the European Community? Why were the United States, the Soviet Union and China excluded? It seemed to her that much more thought and preparation was needed. M. Rocard replied that it would be a mistake to criticise the new authority on the grounds that it would be endowed with excessive powers immediately. The process would be more gradual. The reason for the absence of the United States was that neither Vice-President Bush nor Governor Dukakis had been able to find an hour to discuss the matter with the Prime Minister of France last year. And without the Americans, he had not thought it right to have the Russians and Chinese. But all three would shortly be briefed on it. Indeed, the Russians already knew, since they had been consulted about Hungarian and Czechoslovakian participation.

The Prime Minister said that the United Kingdom would press ahead with its existing policies and initiatives such as the "Saving the Ozone Layer" Conference. We were already doing most of what M. Rocard envisaged, in terms of practical action. M. Rocard asked whether this meant that the United Kingdom would not sign The Hague Declaration. The Prime Minister confirmed that we would not do so. She thought that M. Rocard had a great deal of work still to do to give real substance to his initiative.

The Prime Minister commented after the meeting that, since M. Rocard was evidently bent on getting agreement to his draft declaration in its present form, it was probably better for us not to be present at The Hague meeting.

European Community

M. Rocard said that he had spent an unhappy morning reading the Commission's recommendations for an EC-wide tax on savings. It leaned too far towards the British position. But if the United Kingdom accepted it, France would have to do so too. If not, France risked devastating consequences from going ahead with the liberalisation of capital movements.

The Prime Minister said that she had not yet seen the Commission proposal. But the fact was that several Community countries had full freedom of capital movement without a tax on savings. M. Rocard should not underestimate the strength of the French economy. Harmonisation of taxation was not essential either to the single market or to free movement of capital. She could not accept that the United Kingdom should be told to introduce extra regulations and put on extra taxes in return for free movement of capital, which we already had. There were also more fundamental issues at stake, affecting Parliament's control over taxation by the Executive. Once we allowed the Community to determine tax in one area, it would spread to others. The same principle applied in the case of VAT zero-rating.

M. Rocard said that he did not fully understand the difficulties which the Prime Minister saw. He was only pleading the case for strict equality of treatment for all Community residents. The United Kingdom already had a tax on savings. It was only a question of levying it at source and at a lower rate than at present. The Prime Minister repeated that once you allowed the Community to regulate tax in one area, it would claim the right to do so in others too.

The Prime Minister referred to other developments in the Community which she found disturbing. There was a trend towards increasing regulation, particularly evident in various proposals being discussed under the heading of the social dimension. She also feared a tendency to increased protectionism, for example in the case of Nissan. We did not want a fortress Europe. M. Rocard said that France was no less opposed to protectionism: she wanted to sell

world-wide.

Nissan

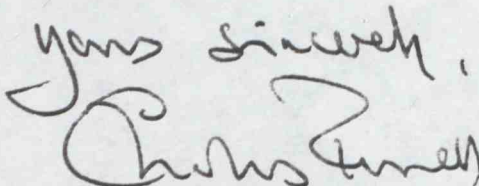
The Prime Minister referred to the obstacles put in the way of export of Nissan cars from the United Kingdom to France. She had been disappointed that the assurances she had received from President Mitterrand about this had not been vindicated in practice. She had recently written to the President about it once more. The French action in counting Nissans from the United Kingdom against the overall quota for Nissans imported from Japan was contrary to Community rules. We would look to the Commission to defend our position.

M. Rocard protested that the Nissan issue was not a Franco-British problem or a European problem but a Franco-Japanese problem. He hoped that it would soon be solved. France was already engaged in painful restructuring of its steel and shipbuilding industries and could not confront a major threat to its car industry as well. The Prime Minister said that, whatever the reason, it was a case of protectionism. You could not solve problems that way. M. Rocard said that the problem would be solved progressively. Time was needed for discussions with the Japanese. But it would be settled as quickly as possible. The Prime Minister said that she wondered what France would say if Nissan had invested in Lyon rather than Sunderland, and Britain had restricted imports of cars from there. M. Rocard said, rather unconvincingly, that France would show understanding for local difficulties. He repeated that solving the problem was just a question of time.

The Prime Minister referred to the subsidies which the French Government was giving to Renault. The aim should be to get rid of such subsidies altogether. But the worst offenders were the Germans. M. Rocard heartily agreed.

The Prime Minister concluded that she and M. Rocard should talk more often. It was nice to be able to speak frankly. M. Rocard took this manfully in the circumstances and said that he would be pleased to do so.

I am copying this letter to Alex Allan (H.M. Treasury), Neil Thornton (Department of Trade and Industry), Roger Bright (Department of the Environment) and Trevor Woolley (Cabinet Office).

Yours sincerely,

CHARLES POWELL

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