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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 March 1990

Joe Greig

**PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF FRANCE**

The Prime Minister had a talk this morning with the French Prime Minister, followed by a working lunch. Mme. Guigou was present throughout. The French Ambassador and M. Petit, together with HM Ambassador Paris, attended the lunch. It was a sparky and good-humoured occasion, enlivened by M. Rocard's extravagantly erratic English. He will have gone back to Paris generally encouraged, I would guess, about Anglo-French relations, particularly on the defence side. But he will also have to report a major divergence of view on the future shape of Europe.

Introduction

The Prime Minister welcomed M. Rocard in the private talks: he had come at an opportune time. M. Rocard said that he had only one question: what should we do about the Germans?

German Unification

The Prime Minister said she was perfectly happy to take this question first. There would be more practical problems with unification than the Germans had expected, and it would take longer. She thought Chancellor Kohl was now being more realistic in speaking about 1992 as a target date. She continued to believe that Germany would come to dominate Europe unless Britain and France made certain that she did not. The smaller countries would rapidly be brought to heel unless they could see that Britain and France were ready to stand up to Germany. She did not accept that the right way to prevent Germany's dominance was to integrate Europe more closely. That would just give Germany Europe on a plate. It was better to maintain a degree of national independence. Separate governments and parliaments, like those in Britain and France, would be more robust in standing up to Germany than some amorphous amalgam. An integrated Europe would be a German Europe. Moreover it would mean increased centralisation, at the very moment when the Soviet Union and Eastern Europe were moving away from that. All over the world, the lesson was that greater prosperity and democracy came from devolving responsibility not trying to centralise power.

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M. Rocard said that he shared several of the Prime Minister's pre-occupations. But one had to find a framework in Europe which would allow German unification to take place without causing instability. Britain and France agreed in wanting to limit German dominance, but disagreed on the best way to do it. France did not share Britain's pessimism that increasing Europe's unity would make the Community into a German preserve. He would like to order the discussion under three headings: the defence aspects, British membership of the ERM, and the future shape of Europe.

Defence Aspects

The Prime Minister said she was rather surprised that M. Rocard chose to start with the defence aspects. Here he was talking of greater unity, but then turning first to the area where France almost alone in Western Europe failed to practice it.

M. Rocard said that one could not change the past. France believed that nuclear deterrence was not credible unless backed by strong national sovereignty. But she also wished to see NATO preserved, both for defence and as an instrument for negotiating arms control. In the new situation emerging in Europe, the views of and other NATO countries on strategy were coming much closer to those of France. It was clear that the strategies of flexible response and forward defence would have to change. There was no longer any significant threat from Eastern Europe, only from the Soviet Union. This meant that the importance of nuclear deterrence against Soviet territory would increase. In France's view, such deterrence was exercised at two levels: the pre-strategic which allowed for demonstration nuclear attacks to test the enemy's real intentions: and the strategic exchange itself. Britain and France were the only two nuclear powers in Europe. If they could signal their intention to co-operate more closely in this area, it would underline their key role in the defence of Europe. It would also be a clear signal to Germany. Britain and France had already demonstrated how effective they could be when they acted together, for instance over Oder-Neisse border. Since both countries were committed to their own solutions for strategic deterrence, the only signal available in the short term would be a political decision by Britain and France to co-operate on the next generation air-to-ground nuclear missile which they both needed. He believed that the United States would welcome such a decision and that it would draw the armed forces of the two countries closer together. We had to recognise there was now no real prospect that Germany would accept a follow-on to LANCE. That would only increase the importance of a new air-delivered missile. He understood the British position was we needed time to assess whether an American or French missile better suited our requirements. But this was not an industrial or technical problem, it was a political and diplomatic matter.

The Prime Minister said that Britain and France were really quite close in their thinking on defence. We both accepted the need to maintain a strong defence, we both understood the



importance of nuclear deterrence, and we both wanted to see NATO preserved. We did not agree that flexible response was no longer viable: in her view the only alternative to that was inflexible response, in other words a nuclear tripwire. We took the view that NATO needed to maintain a mix of nuclear and conventional weapons. She accepted that there was now little prospect of follow-on to LANCE and that this would increase the importance of effective air-delivered nuclear weapons. We certainly accepted the need for a long range stand-off missile to replace free-fall nuclear bombs. We had hoped that there could be three-way co-operation on this between Britain, France and the United States, but this was apparently not possible. At the same time we were not prepared to have diplomatic weapons: they had to work. We needed more time to assess the relative advantages of the American and French missiles on offer. The choice was genuinely open. Equally, she did not accept that our decision on this should be the sole test of our willingness for closer Anglo-French defence co-operation. There were many other areas in which she would like to see that co-operation become closer, for instance in the area of conventional defence. There were also other important defence issues which we ought to tackle together. We had to persuade Germany to allow American nuclear weapons to remain in the FRG.

M. Rocard agreed that these issues also needed to be considered. He understood from the Prime Minister's comments that we agreed on the need for a longer range stand-off missile, would consider the French missile, but were not yet ready to give the sort of political signal that France considered necessary.

#### Exchange Rate Mechanism

M. Rocard said that sterling's entry into the ERM would also be an important signal to Germany. He understood there were still technical difficulties, particularly with the current level of inflation. But once the pound was in the ERM, the balance of power within it would change. This was another way to limit German domination. The Prime Minister said that we must get our inflation down first: we could not go in with inflation or interest rates at their present levels. But the other conditions which she had set out in Madrid were gradually being fulfilled. We would stick absolutely to them and hoped that our inflation would be down substantially within a year. All that said, she could not but wonder what the effect of German economic and monetary union on the Deutschmark would be. In her own view it would probably weaken the DM in the short term but make it much stronger in the longer term. In a strange way it might actually help our entry into the ERM if Germany's inflation went up while ours was coming down.

#### Future Shape of Europe

M. Rocard continued that the most difficult point was the future shape of Europe. France did not agree that closer integration in Europe would simply strengthen Germany: rather it would compel the Germans to take account of the interests of others and co-operate with them. This was the reason why France



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was keen to start work on economic and monetary union and had proposed bringing forward the date of an Inter-Governmental Conference by two or three months. The sooner we began, the sooner we would give the Germans a signal that Europe was moving forward in parallel with unification. But he did not think it was realistic to set a deadline to complete the work of an IGC: he expected it to last at least two years. (This is of course in contrast to President Mitterrand's reported views.)

The Prime Minister said that Europe would need to rethink its strategy in just the same way as NATO. At the time of the Community's founding there had been a need for strong central direction, and that was why the Commission had been created and been given powers of initiative. But now the trend everywhere was away from centralism and bureaucracy and she could not accept that the Community should choose this moment to move in the opposite direction. If we made ourselves more of a bloc, it would make life more difficult for the Soviet Union and Eastern Europe. Just as France believed that she must preserve her sovereignty in defence, so Britain thought that each nation should keep its sovereignty within the Community. Indeed she found it hard to understand how France could reconcile support for political union and insistence on maintaining national sovereignty in defence. Her own vision was one of independent nations working closely together, ceding some powers to the centre, but not moving to a federal Europe or giving up the sovereignty of national parliaments.

After a short break, the discussion continued over lunch. M. Rocard said he would like to reply to the Prime Minister's points about the future of Europe. France felt that there must be European solidarity in the face both of the political threats which could arise from almost any quarter and the commercial, industrial and technological threat from Japan. There had to be a common organisation which enabled Europe to act on the same level as the Soviet Union, Japan and China. There had to be quicker and more effective decision-making. He agreed with the Prime Ministers' views on the lack of democracy in the present Community. He had certainly not come to London to plead indulgence for the Commission. The Prime Minister persisted that the Community would be stronger by not merging the sovereignty of its individual members. A federal Europe went right against the grain. Moreover we needed to remain open to the countries of Eastern Europe. M. Rocard said that he had not himself used the word federal, although the federalist perspective was certainly accepted in France. In essence he was talking about a progressive transfer of sovereignty over major issues where Europe could only defend its interests by acting as a unit. He had in mind, for instance, the area of new technologies. You could not just rely on market forces. The Prime Minister suggested that M. Rocard was really speaking up for interventionist policies. She could easily live with organisations such as EUREKA, which had been a great success, but had not involved government money. M. Rocard retorted that he could see that the Labour Party had given interventionism a bad name in Britain. What he was really seeking was something on the Japanese model. They had demonstrated a superb ability to co-ordinate the

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activities of banks, companies and government. That is what Europe needed, not a public sector approach. France wanted more out of the EC and French public opinion was readier than opinion in Britain to accept some further surrender of sovereignty. The Prime Minister asked whether this was all brought on by the prospect of German unification. M. Rocard said it was only partly so. The Prime Minister said that she thought more effective results could be achieved by better and closer Anglo-French co-operation in the face of German attempts to get their own way.

#### EC Aspects of German unification

The Prime Minister said that we did not see the informal meeting of EC Heads of Government on 28 April as an occasion to take decisions. Rather there should be a general discussion of the consequences for the Community of unification, and Heads of Government should agree the procedures for negotiation. It would also be helpful to get the principle that the FRG must pay for the rehabilitation of the GDR accepted formally.

#### Lithuania

The Prime Minister described the careful position we were adopting. We had to keep our eye on the long term interest of preserving Mr Gorbachev's position. M. Rocard said that he fully agreed: there was no doubt that Gorbachev was under great pressure.

#### South Africa

The Prime Minister said that British and French positions on lifting sanctions against South Africa differed slightly. She had been a bit disappointed by some of the things which Mr Mandela had said since his release. M. Rocard said that it would be asking a lot of Mandela to be more moderate after 27 years in prison. But the situation was undoubtedly changing, and President de Klerk hoped to visit Paris in the summer.

#### European Bank for Reconstruction and Development

The Prime Minister said that we very much hoped that the Bank would be based in London. M. Rocard said that he and President Mitterrand had more or less agreed on this some weeks ago, but now found that a number of non-Community countries were reluctant. He did not think that London's chances were very good. The Prime Minister expressed surprise at this and said that she would immediately tackle some of the East European Governments about their attitude.

#### Economic and Monetary Union

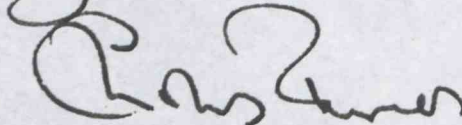
The Prime Minister reiterated that we could not accept Stages 2 and 3 of the Delors Report as they stood. M. Rocard indicated that things had been made easier for France by the Commission's decision not to try to impose constraints on national budgetary policies.

Conclusion

The Prime Minister regretted the lack of time to take matters further and expressed the hope that M. Rocard might come over again in a few months and perhaps come down to Chequers. The issue on which they needed to talk through their views further was the future of Europe.

I should be grateful for advice on how the Prime Minister should best pursue further with the East European Governments the question of the site of the EBRD.

I am copying this letter to John Gieve (HM Treasury), Martin Stanley (Department of Trade and Industry), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

*Yours sincerely,*  


Charles Powell

Stephen Wall, Esq.,  
Foreign and Commonwealth Office.