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Foreign and Commonwealth Office

London, SW1A 2AH  
28 January 1988

Dear Charles,

Visit of the French President and Prime Minister:  
European Community

I enclose some speaking notes on which the Prime Minister may wish to draw in her meetings with President Mitterrand and M. Chirac.

The key issues are agricultural stabilisers (with both), the Structural Funds (with President Mitterrand), and the abatement (with M Chirac).

AGRICULTURAL STABILISERS

There is now not much daylight between the French and German position. In so far as the Germans have moved in the last few days it is towards the French. On cereals, the Germans currently favour a maximum guaranteed quantity of 160m tonnes, well above recent harvests; a sharp shift of emphasis from price cuts to coresponsibility levy with an exemption on the first 20 tonnes of each farm's product which would exclude altogether one in every two Community farmers who produce grain; no price cuts this year; and very low limits on overall penalties. The French claim credit for having persuaded the Germans to accept an element of price cuts, but it is clearly too small; the French have hinted that they might be prepared to accept more, but they presumably expect the Germans to block such a move. Like us the French oppose the 20 tonne coresponsibility levy exemption. For oilseeds, the position is less bad but the proposed MGQs are too high, and the co-efficient for price cuts too low.

The Commission have themselves criticised some aspects of these proposals. For cereals they want an MGQ of 158 million tonnes, an upper limit on cereals price cuts of 3% rather than 2½%, and other restrictive arrangements to compensate for the lack of a price cut during the first year. They want lower MGQs for oilseeds or, failing that, higher co-efficients for price cuts, ie a ½% price cut for every 1% over the threshold rather than the 0.4% proposed by the Germans.

The Dutch remain robust on these issues. M. Delors told David Hannay yesterday that he acknowledged that the Commission could either work to bridge the gap between

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the Germans and themselves (in which case they would lose us and the Dutch and there would be no agreement) or they could try to influence the French and Germans towards more effective stabilisers than those now proposed. Delors said he would not hesitate to choose the latter course.

The Prime Minister will no doubt wish to tell President Mitterrand and M. Chirac that the proposals now on the table move too far from the Copenhagen proposals to constitute an effective stabiliser, especially on cereals.

On set-aside, the French position is closer to ours. The Prime Minister may wish to stress that, while she is prepared to agree to a set-aside scheme, be a complement to effective stabilisers, not an addition to ineffective stabilisers. She may also wish to stress the dangers of opening up the rest of the Copenhagen stabilisers package as the Germans (but not the French) have proposed.

#### STRUCTURAL FUNDS (primarily with President Mitterrand)

M Chirac is inclined to be more robust than President Mitterrand on this issue. There have been some indications that President Mitterrand would, in the end, be ready to accept a doubling of the Structural Funds in the interests of an agreement. M Chirac would presumably be unable to prevent him. The French have not yet, however, sold the pass. Given their own concern to control non-agricultural Community expenditure, it would be worth reminding them that an increase of 50% in the Funds in real terms would be feasible without crossing the important frontier of 1½ times the maximum rate, and that this would allow a doubling of overall Structural Funds receipts to Spain and Portugal, and regional fund receipts for the four poorest, ie Spain and Portugal plus Greece and Ireland. If we go beyond 1½ times the maximum rate, and have to enter into annual negotiations with the European Parliament on the overall level of Community expenditure, it will be very difficult to prevent an upward spiral, with the only control then being the own resources ceiling itself.

#### THE ABATEMENT (Primarily with M. Chirac)

The French support the Commission proposal on the abatement, ie 50% compensation of the gap between our contributions to, and receipts from, agricultural expenditure. They know this is unacceptable to us. They equally know that there will not be an overall agreement which dilutes the Fontainebleau mechanism. M Chirac has made some domestic play of this issue in the past, claiming that President Mitterrand made too many concessions to us in 1984.

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It would be worth pointing out to both of them that our net burden, even after abatement, has risen from an average of some 0.6 billion ecu in 1983/84 to some 1.2 billion ecu in 1987, and that we shall continue to be the second largest net contributor. The Prime Minister has made clear that we would forgo any benefit accruing from the introduction of the fourth resource, but we cannot go beyond that. On options for the fourth resource itself, it would be worth reminding the French that we prefer the one that suits them best, ie a levy on the difference between VAT and GNP shares.

On this occasion it seems unlikely that M Chirac will repeat his earlier pitch for an oils and fats tax.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robin Butler.

Yours ever

A handwritten signature in cursive script, appearing to read 'L Parker', with a small arrow pointing to the right below the signature.

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

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PRIME MINISTER'S MEETING WITH M MITTERRAND AND  
M CHIRAC : EUROPEAN COMMUNITY

Points to Make

- Need to build on progress at Copenhagen. Common interest with France in securing long-term agreement which gives certainty to farmer and reassurance to taxpayer and consumer.
  
- First steps towards effective budget discipline agreed at Fontainebleau. Agreement at European Council in Brussels last June to strengthen budget discipline and introduce stabilisers.
  
- Present system of budget discipline not worked effectively (if spending continued at present level would take up 85% of budget by 1992). Hence need for effective stabilisers.
  
- Stabilisation package on table at Copenhagen would still allow agricultural spending to grow by 1 billion ecu a year up to 1992. Agricultural spending would still be well over half total budget.



- Minimum compatible with our own undertakings, and with Community's viability and image. 50% of total budget now spent on storage and disposal of surpluses: problem must be tackled now.

#### STABILISERS (Detail)

##### Cereals

- Presidency proposal on cereals is quite inadequate.
- No justification for raising the MGQ for cereals to 160m tonnes (which implies extra annual budget cost of up to 900 mecu). The Commission's proposal of 155m tonnes already took account of Community consumption and trade.
- Cereals stabiliser should operate primarily through price cuts, not coresponsibility levies. Efficient French and British producers can adjust to lower support prices. Competitive position would be improved. Set-aside schemes would help those who find it difficult to adjust.
- German proposal offers no price cut in first year and a maximum of 2.5% in subsequent years. Some sense in linking cereals price cuts automatically to



increases in average yield but no justification for limit proposed or lack of first-year price cut.

- Oppose strongly the Commission proposal, taken up by the Presidency, to exempt each cereals producer from coresponsibility levy on the first 20 tonnes of his marketed production. Only 20% of all holdings in the Community would pay levy, and only 50% of production would be levied. The UK and France would pay 70% of the total.

- To make coresponsibility levy play a larger role and at the same time substantially to reduce the effect of the levy, would make a nonsense of the cereals stabiliser.

- We supported the oilseeds stabiliser proposed at Copenhagen. The German compromise raises the MGQs and reduces the size of the price penalties when the MGQs are exceeded. No justification for this dilution.

- Disturbed to hear that some delegations wish to reopen the Copenhagen package of stabilisers for other products. There are aspects which we do not like, For everyone, including the UK, it contains some bitter



pills, but reopening the package would make agreement at Brussels very difficult.

#### SET-ASIDE

- Accept in principle the introduction of a set-aside scheme as part of the future financing package.
  
- Set-aside should complement stabilisers, not substitute for them.
  
- Agriculture Ministers have made progress on this but a number of details remain to be resolved.

[As necessary]: Concerned green fallow would encourage surplus livestock production. Could only consider if rest of agricultural package satisfactory.

#### AGRICULTURAL GUIDELINE [If raised]

- Commission have confirmed that a 1988 stock-exclusive guideline, growing at 60% of GNP, should be adequate to finance CAP particularly given the Presidency's Copenhagen suggestion of an extra half-month delay in payment of FEOGA advances (would save 1.2 becu in 1988).



- Believe this is good basis for agreement. It makes provision for dealing with the costs of the past (ie existing stocks) without necessarily inflating the basis of the guideline for the future.

[If French argue for higher guideline base or 80% GNP growth]: Guideline has to take account of existing situation but also has to be a genuine ceiling and constraint, not a way of institutionalising overspending.

[If French argue for stock-inclusive guideline, and 100% GNP growth]: Cannot agree. To ensure that stock disposal happens, it makes sense to go for separate provision. And it must happen, to reduce costs, in the interests of farmers (for stocks overhanging the market depresses prices).

MONETARY RESERVE/EXCEPTIONAL CIRCUMSTANCES [If raised]

- Loophole provided by exceptional circumstances has been major weakness of current arrangements. The guideline limit should be a limit. It represents what the Community can afford. It should not be subject to alteration.





- But accept arguments for allowing some provision for actual - and measurable - effects on costs of agricultural support due to substantial changes in \$/ecu rate.

- Case can be made for dealing with such changes through tightly-defined and carefully-targeted monetary reserve which must operate symmetrically ie expenditure must be reduced if dollar appreciates.

- This could, as Commission propose, automatically provide funds to compensate for the costs of \$/ecu depreciation above a certain level, high enough so that not every fluctuation gives rise to change in planned expenditure. Reserve must of course work symmetrically, collecting savings arising from dollar appreciation.

- Could not accept any other provision for exemptions to the guideline.

[If French argue for their proposal that breaches by third countries of substantial obligations should give rise to 'exceptional circumstances']: If third countries - eg the US - failed to live up to



obligations Community would have to consider response. No question of Community being defenceless in face of international trade negotiations. But impossible to define objectively, especially in this early stage in GATT negotiations, or to build into legally binding texts.

#### STRUCTURAL FUNDS

- Willing to see significant increase in size of Funds by 1992 with greater concentration on least prosperous regions and member states.

- Crucially important to ensure that non-obligatory expenditure does not exceed one and a half times the maximum rate. Beyond that vital threshold we would have an annual negotiation with the Parliament on setting a new rate. This is likely to lead to disagreed budgets and/or an upward pressure on the budget.

- On the assumption that other non-obligatory expenditure grows at the equivalent of the statistical maximum rate, this would permit an increase in the Structural Funds of 50%. This would allow for:



- a doubling of the commitments allocated to the four least prosperous member states under the Regional fund;
- a doubling of the commitments allocated to the two new member states under all three Funds.

UK ABATEMENT [If raised]

- Purpose of the abatement, as agreed by all member states under French Chairmanship in 1984, is to ensure that the UK makes no more than an equitable contribution to the Community budget.
- The burden that was recognised at Fontainebleau has increased substantially. Our receipts from all elements of Community expenditure have declined sharply. Commission figures show that since Fontainebleau our imbalance grew before abatement from 1.4 billion ecu to 3.4 billion ecu in 1987. After abatement, from an average of 0.6 becu in 1983/84 to some 1.2 becu in 1987.
- Thus, even with the existing abatement mechanism, the UK burden is increasing rapidly. No other member state's burden has increased as steeply.



- The increase in our net burden, after abatement, will continue. Indeed it will rise, even with the continuation of Fontainebleau, if own resources rise. But we cannot accept that it should rise faster still because of a change to the Fontainebleau system.
  
- Despite its high and rising net burden, UK is prepared to forego whatever benefit it would derive from the introduction of the fourth resource.
  
- I made this clear at Copenhagen. Should be possible to reach agreement on this basis.

EUROPEAN MONETARY CONSTRUCTION [If raised]

- We are considering carefully M Balladur's recent proposals. Note that he is looking ahead to time after completion of internal market. Right to suggest we must not run before we can walk.
  
- We must press ahead with the internal market. In particular, we agree with the importance which M Balladur gives to capital liberalisation.

**BACKGROUND**

**STABILISERS AND SET-ASIDE**

1. At the Agriculture Council on 23/24 January, the German Presidency tabled proposals on stabilisers and set-aside. As modified by subsequent discussion, they are as follows:

(a) Cereals

- MGQ of 160 m tonnes for marketing years 1988/89 to 1990/91.
  
- additional coresponsibility levy of 3% at beginning of each marketing year. If no MGQ overrun, or overrun is less than 3%, then full or partial reimbursement of additional levy.
  
- if MGQ exceeded, then intervention price for following year reduced by 1% for each 1% overrun subject to a ceiling of 2.5% (equivalent, according to the Germans, to the trend in yield over a period of years).
  
- coresponsibility levy system to be moved to first sales basis with first 20 tonnes marketed

exempt from levy for all producers.

(b) Oilseeds and Proteins

- MGQs of 4.5 m, 2.0 m, 1.3 m and 3.5 m tonnes for rapeseed, sunflower seed, soyabeans and proteins respectively (as opposed to 4.0, 1.9, 1.1 and 3.3 in Copenhagen compromise).

- If MGQ exceeded, prices to be reduced by 0.4% for each 1% overrun (0.5% in Copenhagen compromise).

(c) Set-Aside

- To be a complement to market management. Compulsory for member states but optional for producers.

- Set-aside period to be at least five years, although producers may opt out after three years. At least 20% of arable land be set-aside. Additional 20 tonne coresponsibility levy exemption for producers setting aside 30% or more of arable land.

- Premia to compensate for income loss. Minimum and maximum levels to be set (100-600 ecu per hectare). FEOGA to contribute 70% for first 200 ecu per hectare, 25% for second 200 and 15% for third (weighted average nearly 50%). Guidance and Guarantee Funds to contribute 50% each.

- Grazing fallow to be available for three years on trial basis. Premia to be at half the rate for set-aside proper.

(d) Early Retirement and Income Aids

Council to take decision introducing early retirement together with cereals stabilisers and set-aside by 1 April 1988. Council to take decision on income aids by 1 July 1988.

2. At the end of the Agriculture Council, M Guillaume declared himself content with the German compromise apart from:

- the omission of the oils and fats tax;
- the failure to limit the general 20 tonne coresponsibility levy exemption to small producers;

- the failure to abandon the further levy exemption for those setting aside 30% of land;
- failure to fund set-aside exclusively from FEOGA guidance.

3. The Presidency tabled four draft European Council declarations at the Agriculture Council. Presidency claimed they were of general concern, but all were an matters for which the French had been pressing, namely cereals substitutes, trade policy non-food uses of food, and inter-professional agreements. These texts have no connection with the stabiliser package and it is not appropriate to place them before the European Council. The draft statement on agricultural trade is, in our view, contrary to the agreed opening position of the Community on the agricultural aspects of the GATT Round negotiations, which was agreed in October.

4. We and the French are closer on set-aside than on stabilisers. Like us they object to the idea of exempting the first 20 tonnes of produce from all levy; we too dislike the further levy exemption for those setting aside 30% (as opposed to the basic 20%) of their land. We too want set-aside to be funded from FEOGA guidance which is likely to prove less costly in



the long run than FEOGA guarantee. We too want lower rates of Community contribution than those proposed.

5. The French want to allow land made fallow to be used for green pasture. We fear the implications for increased beef and sheep production. The Presidency have proposed allowing green fallow for a two-year trial. If other aspects of the package are satisfactory this will not be a sticking point for the UK.

#### AGRICULTURAL GUIDELINE

6. The French have continued to argue vigorously (together with the Germans) that non-adoption of the oils and fats tax implies a need for a guideline of 28.3 becu and a growth rate of 100% GNP, with disposal of old stocks inside the guideline (compared with the Danish Presidency text of 27.5 becu/60% of GNP growth and old stock disposal outside the guideline). In recent bilateral contacts, however, they have suggested that they might be able to accept a stock-exclusive guideline of 27.5 becu, growing at 80% of GNP (the Germans have privately floated a possible compromise of 27.5 becu and 72% growth).

7. Our view throughout has been that it is realistic to argue for a 1988 stock-exclusive guideline of 27.0 becu (rather than 27.5 becu). Even without the oils and fats tax 1988 FEOGA costs could be kept within a 27 becu guideline, especially with the Danish proposal for a further 15 days delay in FEOGA repayments which would save 1.2 becu in 1988.

#### MONETARY RESERVE/EXCEPTIONAL CIRCUMSTANCES

8. All member states can accept the idea of a monetary reserve limited to dollar/ecu movements above a franchise and allowing for savings in the event of a dollar appreciation. The French are continuing to insist that there should be additional "exceptional circumstances" to allow a change in the guideline in the event of "breaches by third countries of their international obligations" - a phrase aimed at the US. This, they argue, is essential for presentational reasons in France. In practice, such breaches would be impossible to define, and would render the guideline largely ineffective. Rather than operating automatically, as we intend, operation of the monetary reserve would become subject to political decisions. The French might, in the end, be prepared to accept a separate entry in the European Council conclusions

making clear that the Council would need to consider its response if other countries took trade restrictive or distorting measures.

#### UK ABATEMENT

9. The French have not taken the lead in attacking the UK abatement. At Copenhagen, they accepted the principle that the abatement should continue, provided that it took account of the fourth resource: we then accepted that any benefits to the UK from the 4th resource should be fully taken into account in the abatement calculations. They have also argued, however, that the abatement should diminish with time; should be stopped in 1992; and should be limited to 50% of the gap between our contributions to and receipts from the agricultural part of the budget (which would leave us 1 becu worse off in 1992).

#### STRUCTURAL FUNDS

10. There are signs that other Northern member states positions on the Structural Funds are weakening. The Germans have privately indicated that they expect eventual agreement to be reached on a 70% increase; the Dutch Secretary of State spoke to Mrs Chalker in terms of an increase of about 64%, while the Danes have

informed our Embassy in Copenhagen that they could accept doubling. The Belgians will find it difficult to pull back from Marten's acceptance of doubling at Copenhagen.

11. The French position is more complicated. Officials at the Matignon are still in favour of keeping within one and a half times the maximum rate, but latest indications from Paris are that Mitterrand may be prepared to accept doubling and that domestic political pressures may make it difficult for Chirac to resist this. Matignon officials say they would only contemplate an increase of above  $1\frac{1}{2}$  maximum rate in exchange for a Council agreement not to negotiate with the Parliament on extra spending above that required to meet the Council's commitments.

#### EUROPEAN MONETARY CONSTRUCTION

12. On 8 January M Balladur, the French Finance Minister, sent the Chancellor and other EC Finance Ministers a memorandum on "European Monetary Construction". This covered a number of subjects including the asymmetry of the burden of adjustment in the ERM; the need for others including the UK to join the ERM narrow band; greater cohesion in policies

towards third countries; reforms aimed at completing capital liberalisation; and (a possibility once the internal market has been completed after 1992) a European Central Bank.

13. The UK has not yet responded formally to the French proposals, which are supported by both Chirac and Delors and which will be discussed informally at ECOFIN on 9 February. Our Embassy in Paris has picked up signals that the French are keen to involve us as fully as possible as a counterweight to the Germans. Much of what the French propose, eg the attempt to make the Germans bear more of the brunt of supporting weaker currencies and the idea of a European Central Bank, is opposed by the Bundesbank, but the emphasis on further liberalisation of capital movements is welcome to us.

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[22 January 1988]

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ANGLO-FRENCH SUMMIT: 29 JANUARY 1988

BRIEF

By the Foreign and Commonwealth Office

Introduction

This brief is designed to serve the Prime Minister's meetings with both President Mitterrand and Prime Minister Chirac. On the key EC issues it will be right to go into more depth with Chirac, and to spend more time on defence/arms control with Mitterrand.

A full brief on EC future financing will be inserted after the Foreign Affairs Council on 25/26 January. A general note on this subject is included at Annex A.

The following are attached to the brief:

- Annex A: EC Future Financing
- Annex B: Programme
- Annex C: Personality notes on French Ministers participating
- Annex D: French internal scene
- Annex E: Basic statistics

OUR OBJECTIVES

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- To prepare the ground on EC issues for the special Brussels European Council on 11-12 February.

[Detailed objectives to follow]

B EAST/WEST RELATIONS AND ARMS CONTROL

- To maintain closeness of UK and French views on East-West relations.
- To urge French support for INF agreement during US ratification debate.

- To emphasise continued European requirement for SNF capability, particularly in view of Soviet conventional superiority.

- To confirm that verifiable global CW ban remains French objective.

- To stress the importance of early Alliance agreement on a conventional arms control proposal, based on sound military criteria.

- To confirm French approach on Afghanistan remains similar to ours.

C DEFENCE

- To emphasise our wish to continue to develop Anglo/French bilateral defence relationship.

- To underline that France's bilateral defence activities should strengthen, not undermine, NATO.

- To invite an initial response to British ideas for associating France more closely with collective defence.

OUR OBJECTIVES CONTD

D OTHER INTERNATIONAL ISSUES

- World Economy
- To promote continued G7 cooperation to secure greater exchange rate stability;
- To pursue the Chancellor's Sub-Saharan Debt initiative;
- To seek support for strengthened IMF adjustment programmes;
- Anti-Terrorist cooperation. To ensure continuing French cooperation (and flow of information over Eksund) and to hold France to her international commitments.
- Iran/Iraq/Gulf. To retain French cooperation in New York.

E BILATERAL

- Youth Exchanges. (Chirac)
- To improve quality of existing exchanges in most cost effective way, and encourage French to improve their administrative arrangements.
- To announce three measures agreed by officials.



**FRENCH OBJECTIVES**

General

- (for both Mitterrand and Chirac) to promote their image in France (with an eye to electoral advantage).

**A EUROPEAN COMMUNITY**

- to stress value of EMS as means of influencing members' (especially Germans') economic policy, and to promote stronger European monetary cooperation;  
[Other detailed French objectives to follow].

**B EAST/WEST RELATIONS AND ARMS CONTROL**

- To maintain closeness of UK and French views, stressing need for greater European role.
- To keep Moscow Conference proposal in play with an eye to hopes for CSCE Human Rights Conference in Paris, 1989 (bicentenary of French Revolution).
- To keep UK thinking on conventional reductions in line with their own and to resist any discussion of dual capable systems.
- To test UK position on Afghanistan.

**C DEFENCE**

- To underline political significance of evolution in French policy.
- To assert that French bilateral moves designed to strengthen, not weaken, Alliance and to tie in FRG. But rejoining NATO military structure ruled out.

## FRENCH OBJECTIVES CONTD

## D OTHER INTERNATIONAL ISSUES

- World Economy.
- To play down the need for Paris Club debt relief;
- To ensure that agricultural reform is not placed on fast track in GATT.
- Anti-Terrorist Cooperation. (Chirac) To profess France fully committed to policy of no concessions.
- Iran/Iraq/Gulf. To ensure arms embargo applies only to Iran.
- Arab/Israel. To probe UK views.
- South Pacific. (Chirac) To persuade us that current efforts will project a more positive image.
- South Africa. To probe UK views.

## E BILATERAL

- Youth Exchanges. (Chirac)
- To announce the agreed measures.
- To secure UK agreement to EC proposed scheme, "Youth for Europe".
- To secure UK agreement to a Youth Discount Card.
- Channel Fixed Link. To press for investment in a high speed rail link from the Tunnel to London.
- Territorial Sea Act. To ensure unchanged access rights for fishermen.
- Carriers' Liability Act. To persuade UK to waive fines.
- DOM Rum (Chirac). To persuade that adoption of Spirit Drinks Regulation not within French gift and UK demand therefore unreasonable; thereby to obtain UK agreement to lift our reserve on the DOM Rum derogation immediately, in return for French assurances that they will do what they can to advance the Spirit Drinks Regulation.

## ARGUMENTS FOR USE

## A EUROPEAN COMMUNITY

[TO FOLLOW]

## B EAST/WEST RELATIONS AND ARMS CONTROL

- Welcome outcome of Washington Summit. Closeness of UK and French views important factor in achieving INF Treaty on Western terms.
- Should keep working for progress on all fronts, not just arms control.
- Opportunities for further progress in 1988. Moscow Summit in late May/early June - may conclude START agreement. Good that Shultz and Shevardnadze meet roughly once a month.
- Gorbachev keen to press on with internal reforms but resistance deep rooted and results slow. Your impressions of Ligachev? His relationship with Gorbachev?
- Need to watch Eastern Europe. Gorbachev effect plus internal reform measures could lead to beneficial change, but also instability.
- Impressions of Honecker's visit to Paris?
- Doubt Western concessions at CSCE (eg on Moscow Conference) will improve human rights situation. Must continue to stress that without balanced progress there will be no "successful" outcome to Vienna: and without that, conventional stability talks would be jeopardised.
- Vital that INF agreement ratified. Hope you will voice support.
- Need also firmly to resist Soviet attempts to wedge-drive on SNF. Pleased to see robust line taken (by Mitterrand) against GDR proposal to forego modernising SNF.

ARGUMENTS FOR USE CONTD

- Important that Alliance reaffirm need to modernise and restructure SNF, whilst not circumventing INF Treaty.
- Substantial Soviet CW capability a serious threat.
- Global CW ban an important opportunity to deal with this. But verification must safeguard Western security.
- In conventional stability negotiations of reductions must be heavily asymmetric, but must be prepared to countenance cuts, albeit minimal, on Alliance side.
- See advantage in proposal based on equal ceilings close to present Alliance levels. Notion of Alliance collectivity which this implies may cause political difficulties for you but impact of equal ceilings less if applied to a more narrowly defined zone. Gorbachev has agreed to include European Russia: offer we should not refuse.
- Should not be deflected from addressing conventional imbalance and pressing CW for elimination before considering SNF negotiations.

Afghanistan

- Must keep up pressure on Russians to withdraw this year and back US and Pakistani efforts on disengagement and transition arrangements
- (Tactical Arguments: CW only). United Western approach to CW negotiations will outflank Soviet attempts to exploit US and French CW programmes.

## ARGUMENTS FOR USE CONT

## C DEFENCE

- I wrote to you (Mitterrand) earlier this month with (think you (Chirac) will have been briefed on my) views on European defence and the Anglo/French relationship. Would welcome initial reactions to:

- (i) closer involvement of French forces in support of NORTHAG;
- (ii) exercising reinforcements for British Forces Germany through France, using French Channel ports and French airfields; developing further our joint exercise programme;
- (iii) examining scope for further joint naval planning and exercises in Eastern Atlantic and Channel.
- (iv) NATO commanders taking greater account of France's force plans in defence planning.

## D OTHER INTERNAIONAL ISSUES

World Economy

- Correction of trade imbalances and promotion of non-inflationary growth will be helped by cooperation between G7. Greater exchange rate stability will contribute to bolstering confidence.
- Joint UK/French political interest in helping Africa. Countries cannot repay debts in full. Lower interest rates needed most equitable way to share creditor burden;
- Recent weakening in IMF programmes in no one's interest: not solve debtors' economic problems, or improve repayment prospects.
- Extra finance under Fund's Extended Structural Adjustment Facility should be accompanied by extra and sustained adjustment. Need joint G5 action in IMF board;
- Recent concerns about world economy make progress against protectionism more urgent; Uruquay Round therefore increasingly important in successful outcome.

## OUR ARGUMENTS CONTD

Anti-Terrorist Cooperation

- Eksund good example of cooperation, which remains essential.
- Important to make no concessions to terrorists or their sponsors.

Iran/Iraq/Gulf

- Still no substantive movement by Iran and Iraq.
- Important that Five have now working on arms embargo resolution.
- Not allow USSR to distract attention with proposals for UN force: suggest West take interrogative line to reveal propaganda intent.
- (Tactical Arguments). Existing UK arms sales guidelines very strict; so keen to see UN embargo as tight as possible. If Iraq continues to raid shipping, embargo might also apply to Iraq.

## E BILATERAL

Youth Exchanges (Chirac)

- Number of exchanges (almost all non-official) is broadly sufficient but quality and content need improvement.
- We can announce:- (a) Colloquium on school exchanges (to identify ways to get more out of existing activity); (b) Joint study on vocational training exchanges (which hardly exist at present); (c) A doubling over the next two years of the volume of officially sponsored exchanges.
- To achieve (c) need to improve take-up - recently low on French side, partly because of organisational inadequacies (recognised in recent joint evaluation).

OUR RESPONSE TO THEIR ARGUMENTS

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- Our views on EMS well known. Studying Balladur's latest ideas carefully;

[Further Responses To Follow]

B EAST/WEST RELATIONS AND ARMS CONTROL

- Agree West Europeans should be active on East/West front. But must be wary of Soviet wedge-driving.

- Our position on Moscow Conference well known. Possibility of CSCE Conference in Paris in 1989 consistent with Western Human Dimension proposal already on table in Vienna. Best to stick to this. Western solidarity will suffer if some partners push for more flexibility than is politically realistic.

- On conventional arms control, accept that any Western cuts must be minimal. But our own mandate talks of stability and security "at lower levels" of forces. Have stressed need for "overall balance": before any further nuclear reductions. Do not see how reductions can be considered except in context of total forces of the two Alliances.

- Agree that there should be no provision for dual capability in the mandate and that an explicit exclusion of nuclear weapons is essential. But avoid impression that discussion of dual capable systems is automatically excluded. Could encourage Warsaw Pact intransigence over inclusion of nuclear weapons. To our advantage to address some Warsaw Pact dual capable systems eg heavy artillery.

C DEFENCE

- Welcome indications of gradual transition in French thinking.

- Support French moves which would strengthen Alliance. Specific proposals put forward with this in mind.

## OUR RESPONSE CONTD

## D OTHER INTERNATIONAL ISSUES

World Economy

- IMF, World Bank and bilateral initiatives important but debt relief needed, particularly in countries with large arrears (Sudan, Zambia);
- Agricultural reform is a major element in GATT round and is the responsibility of all.

Iran/Iraq/Gulf

- Iraq also non compliant: prepared to see embargo against either side, or both.

Arab/Israel

- Occupied Territories unrest underlines need for progress. Useful responses by UN Security Council and Twelve.
- Continue to press case for international conference, including with US. US/Israeli elections no reason to give up. Scope for more preparatory work this year.

South Pacific

- Desirable to get good will of Australia and New Zealand West must work together to retain influence: counter Soviet efforts.

South Africa

- Agreed with Moi and Babangida to differ over sanctions but that all share aim to end apartheid. Both pragmatic in private.
- Working to promote negotiation within South Africa. Would consider a visit there if I thought it could help.
- US sanctions and disinvestment proving counter-productive. Influence lost and positive benefits of Sullivan code for employer practice largely disappeared.
- Internal forces will end apartheid: system unworkable in a modern economy. But will take time. Aid to black community and to neighbour countries important.



## OUR RESPONSE CONTD

E BILATERAL

- Youth Exchanges.
- No UK decision yet on Youth for Europe. We want EC budget as a whole settled first.
- We (as Government) not considering a Youth Discount Card at the moment. Many discounts already available to young Britons.
- Channel Fixed Link. Await BR review of rail link (due June 1988).

Territorial Sea Act

- Access rights modified, as base lines (from which the territorial sea and fishery zones are measured) vary from time to time.
- European Court ruling would resolve the matter.

Carriers' Liability Act

- Will consider French arguments carefully: need to consider effect on air and sea carriers generally. Appreciate French willingness to introduce legislation.

DOM Rum

- Understand importance to you of securing derogation. But UK Spirits industry strongly opposed: see derogation as dangerous precedent for their important export trade.
- Only way we could justify removing our reserve on DOM derogation would be to link it to adoption of EC Spirit Drinks Regulation (strongly supported by UK Spirits industry). Have proposed that we should agree to DOM Rum derogation at same time of adoption of Spirits Drinks Regulation.
- Most major outstanding issues on Spirit Drinks Regulation could be resolved by more active French role: await clear indication of French commitment to reach early agreement.
- FRG have indicated to us readiness to work for Spirit Drinks Regulation agreement early in Presidency: positive French support would help remove remaining obstacles.

## BACKGROUND CONTD

- General agreement that within an Atlantic-Urals regime there should be special focus on Soviet forces in Central Europe, particularly on tanks and artillery; that reductions must be heavily asymmetrical and involve only minimal reductions on the Western side. Most Allies also subscribe to the notion of parity expressed in the form of equal ceilings at or slightly below current NATO levels. Hitherto France has argued instead for a complex system of "ratios" between the forces of the 23 participants: this reflected political sensitivities in Paris over associating France with collective Alliance-to-Alliance ceilings. But recently the French have said they can accept equal ceilings, if limited to an inner "zone of concentration" in Central Europe and not to the Atlantic/Urals area as a whole. But still no agreement on how to define such a zone. French prefer one based on political criteria, involving WEU countries on Western side; or a zone that excludes France entirely. But WEU zone makes little military sense and a proposal that does not address entire Atlantic/Urals area would fail to achieve the desired asymmetries and deal with Soviet reserve forces in European Russia.

- French have displayed particular sensitivity over dual capable weapons (which they are determined to exclude from the forthcoming negotiations). They criticised our line with Russians that, while the conventional stability mandate should not make provision for dual capable systems, we were not automatically excluding discussion of them. French consider that such discussion would compromise the Alliance's position on the exclusion of nuclear weapons.

[They are surely right]

- CW. The Soviet Union has increased propaganda against US and French chemical weapons programmes. Genscher also recently spoke publicly against Western (ie US/French) opponents of CW ban. While French pay lip service to idea of ban, sympathetic to argument that unverifiable: therefore West must retain CW deterrent.

BACKGROUND CONTD

- Afghanistan. French are sound. Chirac appointed Deniau (former Minister) as government's Special Representative on Afghanistan. European Council Statement on Afghanistan orchestrated by UK and French.

C DEFENCE

- Mitterrand's letter of 6 October to the Prime Minister and the Prime Minister's reply of 12 January (attached at Annex F). Our Embassy have briefed Chirac's advisers on the proposals contained in the message, without mentioning the existence of the message itself.

D OTHER INTERNATIONAL ISSUES

World Economy

- G7 statement of 23 December made clear that cooperation on managing exchange rates continues, and efforts to reduce external imbalances will be intensified. Concerted intervention taking place. Policy changes in right direction, though greater US willingness to use interest rates to stabilise dollar would be helpful.
- Two elements of Chancellor's initiative (Retrospective Terms Adjustment and longer Paris Club rescheduling) being implemented. Other G5 still oppose Paris Club interest rate cuts.
- Examples of recent weak IMF programmes include Argentina, Cote d'Ivoire. We are concerned about possible weak programmes for Egypt, Nigeria, Brazil. UK has received little G5 support for strengthened conditionality. French tend to accept whatever IMF management proposes. Best to keep discussion of the problem with the French general and not country specific. They may well tell the countries concerned that UK was proposing taking a hard line against them. UK has pledged a substantial contribution to the enhanced Structural Adjustment Facility of the IMF sufficient to subsidise the interest rate on over \$1 billion of SAF lending. French are also contributing.

## BACKGROUND CONTD

- Consensus emerging for Mid Term Review of Uruguay Round in winter 1988-89. US pressing for it to be held before the new Administration takes office: want a decision next month. EC position currently being worked out. While we do not want to direct attention away from the substantive negotiations by arguing over the precise contents of the MTR package we would want to include agriculture; the French may well try to exclude or water down relevant references.

Anti-terrorist cooperation

- French intercepted Eksund on 30 October 1987. French have given valuable information: but we hope for more as investigation continues.

Iran/Iraq/Gulf

- Work started in New York on elements for inclusion in arms embargo resolution. French keen to name Iran as non-compliant party, leaving way open to continue selling aircraft, missiles etc to Iraq.

Arab/Israel

- Upsurge in violence in West Bank and Gaza: at least 25 Palestinians killed in December 1987. UN Security Council passed two Resolutions: 605 (22 December) calling for restraint (US abstained); and 607 (5 January) urging Israel to refrain from deporting Palestinians (unanimous: even US supported). Demarches by Twelve in parallel to Resolutions.

- Mr Mellor visited Israel and Occupied Territories on 2-6 January. Pressed case for international conference, but with no response from Shamir, and criticised conditions in refugee camps in Gaza.

BACKGROUND CONTD

South Africa

- French line on South Africa similar to ours - Chirac more so than Mitterrand.

- Mitterrand refused to accept new South African Ambassador's credentials in June 1987 because of arrest in Ciskei of a French National (Albertini). Chirac negotiated Albertini's release in September: received Pik Botha in Paris on 8/9 October.

- French keen to expand influence beyond Francophone Africa. Chirac's Government looking to promote exports to South Africa, and taking higher profile in Southern Africa as a whole; believe that regional cooperation involving South Africa is desirable and possible.

South Pacific

- France seeking to improve image in the Pacific. Flosse (Minister for South Pacific) promised considerable French aid to some island states. But not clear that he has full backing of French administration for this (French aid to non-French territories in region in 1988 expected to be FF 35m: FF 27m in 1987; FF 10m in 1986 also, technical cooperation ranged between FF 10m and FF20m. France also offered FF 50m to Cook Islands as soft loan and similar amount to Fiji).

- Australian and French Ministers now talking again after 12 months hiatus following Australian moves to have New Caledonia reinscribed on UN list of non-self governing territories. New Zealand objected to unilateral removal of French Rainbow Warrior agent from Pacific exile for medical checks in Paris.

## BACKGROUND CONTD

## E BILATERAL

Youth Exchanges

- Prime Minister agreed with M Chirac last November on a study of ways to expand youth exchanges. Officials and experts from both sides have agreed to recommend the three items for announcement.
  
- A successful Anglo-German Colloquium was held last month on school exchanges and how to improve them. DES can fund an Anglo-French Colloquium and perhaps some subsequent research. Preparation could begin at once and Colloquium could be this summer. It would also cover exchanges of teachers, and French want to include art and music colleges.
  
- Department of Employment could fund a joint study by experts to elaborate a programme of vocational training exchanges (and hope to be able to fund the exchanges too). Britain and France have hardly explored this area so far. But French and Germans already active.
  
- So far as existing officially sponsored exchanges are concerned, French programme is our second largest - in 1986/87 £52,400 of grants for 1940 participants. But take-up on French side recently so poor that half our budget allocation for France has been redistributed to other countries. The main reason seems to be organisational inadequacies on French side, which were usefully defined in recent joint evaluation.
  
- EC youth exchange programme Youth for Europe still not settled. We cannot therefore assess the implications for our bilateral programmes. France is ready to accept a YFE programme of up to 30m ecu over three years.

## BACKGROUND CONTD

- French launched Youth Discount Card in 1985. About 300,000 young French people now have one. Portugal, Belgium, Netherlands, Spain and Scotland have cards and reciprocal arrangements. French authorities would like to extend card to all UK youth as it should facilitate youth exchanges (eg cheaper rail fares). They will invite a UK Minister (probably from the DES) to a meeting on 10 March to brief foreign neighbours. At present the card is not a priority for HMG. The Young Scot Discount Card is administered by the Scottish Community Education Council, a voluntary organisation.

- In general, most exchanges between Britain and France are unofficial. At least half a million young people travel in each direction every year. We do not know how many visits are on an exchange basis. The Central Bureau for Educational Visits and Exchanges, funded by DES, has helped to set up about 2,000 school links, but probably only about a third of all visits by schools involve such links. An increase in this proportion should lead to more real contacts, linguistic opportunities and other curricula activities. Many other exchanges take place - sporting, twinning, young farmers etc - but are self-financing, and there is no good reason for government involvement in them.

Channel Fixed Link

- Chirac raised French interest in improvements to Tunnel-London rail link with the Prime Minister in Berlin in September. Officials since explained situation to French, underlining BR study in progress and environmental and Parliamentary difficulties about a completely new track.

BACKGROUND CONTD

Territorial Sea Act

- Certain Member States have fishing rights in UK 6-12 mile belt laid down in Act of Accession and subsequently prolonged and redefined in basic Common Fisheries Policy Regulation.
- Territorial Sea Act 1987 came into force 1 October 1987. Certain low tide elevations outside 3 but within 12 miles now constitute basepoints from which territorial sea and 6 to 12 mile belt are measured. The effect is that belt moved outwards in these areas (eg off Goodwins) and that access for fishing was changed.
- We have no doubt extension of territorial sea and consequent new baselines in accordance with international law and Community legislation. French (supported by Commission and certain other Member States) argue that areas of fishing access were fixed in time and place, and cannot be changed unilaterally.
- UK replied on 8 January to Commission's Article 169 letter challenging our decision. Now await reasoned opinion. Meanwhile have agreed to exercise restraint, eg over policing of disputed area.

Carriers' Liability Act

- French have requested waiving of fines imposed since March 1987 until legislation introduced in France empowering French sea carriers to carry out necessary controls. Joint meeting of officials on 25 January.

DOM Rum

- French have repeatedly pressed us to support their request for formal derogation allowing them to continue to charge lower excise rate on rum from French overseas departments than on rum from other sources. Article 95 of Treaty of Rome provides that member states' indirect taxation shall not discriminate against products of other member states; any recognition of derogation requires unanimity. UK has been main opponent. French wish agreement on derogation before their presidential elections.



BACKGROUND CONTD

- We have suggested to the French a deal: UK support for their derogation (which must be both time limited and degressive conditional on simultaneous adoption of EC Spirit Drinks Regulation which would set standards and minimum strengths for spirit drinks and thus help to reduce unfair competition. Regulation under discussion for five years (limited progress): UK Spirit Drinks industry would consider early adoption reasonable quid pro quo for DOM Rum derogation.

- French now attempting to persuade us to support early derogation in advance of agreement on Spirit Drinks Regulation. In return, they are offering to specify, through exchange of letters, those issues on which they would be prepared to lift their existing reserves and support UK positions on Spirits Drinks Regulation. (Other member states have outstanding problems over Regulation, but unlike French have indicated willingness to compromise to secure agreement.)

- Despite bilateral contacts on possibility of a deal since March 1987, seen no real evidence of more positive French attitude in Spirit Drinks Working Group. We require considerably more positive approach from French before being prepared to reconsider our approach.

**EC FUTURE FINANCING**

- Before the December European Council the French tried to construct a joint position with the Germans on agricultural issues in the hope that this would either dictate the terms of agreement at Copenhagen or effectively isolate the UK. That tactic did not work and the French may be more cautious as a result but the following factors will still weigh heavily with the French:

- Although their substantive interests as an efficient cereals producer are different from those of the Germans, neither Chirac nor Mitterrand will wish to do anything which will be unpopular with French farmers before the elections.

- Each will be determined not to lose points to the other, which means that neither is likely to take a bold step to clinch an agreement.

- It is, on the whole, safer for the French to be lined up with the Germans on the side of the status quo than with the UK on the side of radical change. We cannot therefore expect the French to exert useful pressure on the Germans on agriculture except perhaps in two areas:

- (i) the level of the maximum guaranteed quantity for cereals where they are likely to be more willing to compromise in our direction than the Germans; and
- (ii) set aside for which they have no enthusiasm but which they, like us, see as an essential component of an agreement acceptable to Germany. Like us, the French will wish to keep down the proportion of EC finance to around 25%, whereas the Germans would like an EC contribution as high as 50%.

The French share our concern to constrain the growth of the structural fund expenditure within  $1\frac{1}{2}$  times the maximum rate. It will be important to try to make common cause with them (and the Germans) in advance of the Brussels meeting.

## EC FUTURE FINANCING CONTD

The French have not so far made a major issue of the UK abatement. They would probably live with its adaptation to the revised system of own resources on the basis discussed at Copenhagen, ie continuation of the present mechanism with any UK gain from the fourth resource offset from the abatement, leaving the overall UK position as it would have been under the Fontainebleau mechanism. They would, however, like the Germans, attempt to make the abatement issue more prominent if they found themselves under pressure on agriculture and wanted to divert the heat to us.

At the Summit we shall wish to narrow the gap as far as possible on agricultural issues on the following lines:

- stabilisers: the French argue that their proposals involving higher MGQs and restricting price cuts on cereals and oilseeds to the level of yield increase would be almost as effective in reducing costs as those of the Commission; and that they represent an effort to coax the Germans away from their outright opposition to stabilisers. We shall want to convince them of the need to hold the cereals MGQ at 155 m tonnes, as proposed by the Commission, and to settle for oilseeds MGQs no higher than in the Presidency's Copenhagen text. We shall also want to persuade the French that price cuts limited to yield increases will not control expenditure, particularly on oilseeds, and thus will not be consistent with binding and effective budgetary discipline.

- Set-Aside: The French have indicated that they want to limit the cost of, and FEOGA contribution to, any set-aside scheme. We are therefore likely to adopt similar attitudes towards the Commission proposal. But we shall wish to question the French idea of using set-aside land to grow a green crop used for pasture ("green fallow") since this would encourage increased beef and sheep production.

## EC FUTURE FINANCING CONTD

- Agricultural Guideline: the French argued at Copenhagen that non-adoption of the Oils and Fats Tax implied the need for a guideline of 28.3 becu and a growth rate of 100% GNP, with stocks inside the guideline. Our view is that a guideline of 27 becu excluding the cost of disposal of old stocks, and growing at 60% of GNP (as proposed by the Danish Presidency) would be sufficient to cover 1988 costs and to allow for adequate future growth.
- The French are still mourning the demise of the oils and fats tax. Their line seems to be that it is (a) indispensable but (b) effectively blocked. There should be no need for a discussion.
- Exceptional Circumstances/Monetary Reserve: We shall wish to continue to emphasise to the French our general opposition to any form of exceptional circumstances, whilst acknowledging that a tightly-defined monetary reserve, limited to dollar/ecu movements and above a franchise might be an acceptable way to compensate for the effects of exchange rate variations on agricultural expenditure.
- Structural Funds: at the Copenhagen Council, the French argued for a 40% increase in structural fund commitments in real terms. This would be compatible with our objective of keeping expenditure with  $1\frac{1}{2}$  times the maximum rate. We shall wish to establish a firm Anglo-French-German position on containing the growth of expenditure within one and a half times the maximum rate (effectively 40-50%).
- UK Abatement: at Copenhagen, the French accepted the principle of the abatement, provided that it took account of the fourth resource. They also argued that it should diminish with time and should be discontinued from 1992. We shall wish to make sure they understand the UK position, ie continuation of Fontainebleau, and that we are not seeking to make any profit from the benefits of the fourth resource.

MITTERRAND, FRANCOIS

President.

Born 1916. Son of a railway official. Trained as a lawyer in Paris. Distinguished war service including escape from a prisoner of war camp and Resistance work (mission to London in 1943). Represented Nievre in North Central France from the end of the war until election as President. Was one of the few French politicians to oppose De Gaulle's return to power in 1958 which he considered imposed by the armed forces. From 1958-81 he was de facto leader of the opposition 1965 and 1974: ran unsuccessfully for President in 1965 and 1974. From 1971-81 was First Secretary of the renovated Socialist Party (PS) which, under his leadership has become the dominant force on the left of French politics. A skilful party tactician Mitterrand did much to hold the warring factions of the PS together during the long period of opposition and of difficult relations with the Communist Party (PCF).

Mitterrand is not a doctrinaire socialist but rather a humanist with egalitarian instincts and a sense of public responsibility. By nature aloof with few personal friends. Keeps his own counsel. He is keen on books, painting and writing. His air of self-possession and unflappability is part cultivated and part natural. As President, adopted an outward air of confidence and serenity during difficult periods and low popularity ratings. Cohabitation has not shaken this image.

His wife had a good resistance record and has a strong interest in Human Rights causes (this influence can sometimes be detected in her husband's actions). Of his two sons, one was elected a PS Deputy in 1981.

## CHIRAC, JACQUES

Prime Minister, President of the RPR, Mayor of Paris.

Born 1932. Education included a summer course at Harvard. Fought in Algeria. ENA. Member of M Pompidou's Cabinet in 1962. Entered politics in 1967. Several Ministerial posts before being appointed Giscard's first Prime Minister (1974). Resigned in August 1976. President of the new Gaullist movement (RPR) 1976. Mayor of Paris since 1977. Member of the European Parliament 1979-80. 1986 appointed Prime Minister for second time.

Chirac rose meteorically, bent on making it to the top. He is a tireless schemer, his calculation that Chaban-Delmas would be a bad candidate in the 1974 presidential elections and encouragement of defections from the Gaullist camp put Giscard in his debt and helped to make him the obvious choice for Prime Minister. In foreign affairs his role was restricted and his performance uneven. It was in economic affairs that he committed his worst mistake: his response to the first oil shock was to reflate the economy by greatly increasing the budget deficit. Inflation accelerated and the balance of payments deteriorated.

After his resignation in 1976, Chirac quickly relaunched himself in national politics. In an attempt to revitalise and rejuvenate the UDR, he changed its name to the RPR and was elected President in 1976. He stood against Giscard in 1981, receiving 17.99% of first round vote.

Chirac is a man of action rather than reflection nicknamed the bulldozer; but there is no doubt that his combination of authority, drive and nationalism appeals to a wide range of conservative opinion.

Despite their temperamental and political differences, Chirac and Mitterrand have made cohabitation work.

He is married to an attractive and socially assiduous wife, niece of de Courcel. Two daughters. He speaks reasonably good English.

RAIMOND, JEAN-BERNARD

Minister for Foreign Affairs.

Born 1926 ENA. Formerly a career diplomat. Adviser to Pompidou as Prime Minister (1968-9) and as President (1969-73). Ambassador to Rabat (1973-7), Warsaw 1982-5, Moscow 1985 until his appointment as Minister in March 1986.

He is an East-West specialist, well-versed in the intricacies of French Government. Raimond was almost certainly a compromise candidate, Chirac's first choice having been vetoed by Mitterrand who wanted someone less politically committed and less independent. Raimond's appointment reflected a desire by both Mitterrand and Chirac to have a Minister who would efficiently execute rather than initiate policy.

He has succeeded in maintaining a reasonably coherent and credible foreign policy in spite of the difficulties of cohabitation. Despite difficulties in putting himself across publicly as an actor in his own right he has grown in confidence and has conducted business effectively. He has generally taken care to consult and inform the UK of major decisions and to take our interests into account eg over South Africa.

Married with 2 daughters. Speaks fair English.

GIRAUD, ANDRE

Minister for Defence

Born 1925. Qualified as engineer and a very successful early career in the French Petroleum Institute (Deputy Director General by 33).

Joined the government in 1964 as Director of Fuel Division, Ministry of Industry. 1986-70, Directeur de Cabinet to Minister of Education. 1970-78 Administrator-General of the Atomic Energy Commission. Minister for Industry 1978-81.

Generally considered to be a success as Minister of Defence, he has established himself in control in spite of the tug of war between President and Prime Minister. He has said that it is not his job to protect French jobs in the Defence industries and is in favour of European specialisation of production rather than France making everything itself. At Chirac's request he has embarked on a major defence review.

Married with 3 children. Speaks excellent English.



GUILLAUME, FRANCOIS

Minister of Agriculture since March 1986.

Born 1932. A substantial farmer in Lorraine. He has been prominent on the farmer' representational scene since 1968. But a surprise appointment.

Guillaume is tough and has long defended French farmers' interests energetically and aggressively. He generally sticks to a rigid French view of what the CAP is about and has no particular liking for Britain. Nevertheless he responded eagerly to an invitation to go to Britain as a Category I visitor in April 1981. As Minister he has proved unexpectedly loyal to overall government policy. While naturally anxious to be as generous to farmers as possible he has bravely resisted calls for large-scale budgetary assistance, disavowing his own previous stance as head of the Farmers Union (1979-86) when necessary eg over aid for drought-stricken areas in summer 1986. As a result there is increasing dissatisfaction with his performance from his former troops in the agricultural lobby.

Married, 4 children.

PANDRAUD, ROBERT

Minister Delegate responsible to the Minister of the Interior for Security.

Born 1928. ENA 1951. Entered Ministry of the Interior 1953. Subsequently served in various prefectures. Appointed Directeur-Général de la Sécurité Publique in 1970 and Directeur du Personnel et du Matériel de la Police in 1973. Assistant Chef de Cabinet to Chirac in Ministry of the Interior March-May 1974. Directeur-Général de la Police Nationale 1975-78. Establishment Officer, Ministry of the Interior 1978-81. At the Hôtel de Ville since 1981, first as Establishment Officer, later Deputy Secretary-General and as Directeur du Cabinet to Chirac since 1983, still maintaining close links with the Police. Elected MP March 1986, resigning his seat to become a Minister. Concentrates on Police questions. Forms an effective team with Interior Minister Pasqua.

Reputed down to earth, competent and straightforward. Apparently well disposed towards the UK.

Married. Three children.

BOSSON, BERNARD

Minister of State for European Affairs.

Born 1948. Trained as a lawyer. Following a family tradition was prominent in local politics (Haute-Savoie): Mayor of Annecy since 1983.

Member of the CDS (Social Democrats: Centrists) with Barriste sympathies. Elected CDS MP in 1986 but resigned his seat to join Chirac's government as Minister for Local Authorities. Promoted after performing well to become junior Minister for Europe in August 1986.

Very friendly towards Britain largely because of contacts forged through Annecy's twinning link with Cheltenham.

Married with one daughter.

NOIR, MICHEL

Minister of State for Foreign Trade.

Born 1944. Studied law and politics. Several years in industry. Elected RPR deputy for his home town of Lyon in 1978: firm political base there.

A prominent critic of nationalisation programme after 1981 and an outspoken advocate of denationalisation in 1984. As Minister for Foreign Trade he has shown considerable continuity with the policies of his predecessors eg over GATT and multi-fibre arrangement.

Visited UK as a sponsored visitor in 1985 and speaks good English.

Married with 6 children. A keen sportsman.

## FRENCH INTERNAL SCENE

Political

"Cohabitation" between a Right-wing Prime Minister and a Socialist President has been made to work for nearly two years, but the jockeying for position in the run-up to the 1988 Presidential is becoming more intense and the atmosphere more confrontational.

The first round of the elections is likely on 24 April; the second two weeks later. The major difficulty for the Right remains the competition between Chirac and former Prime Minister Barre (although the appeal - approx 10% - of the extreme right Front National is a complicating factor). The supporters of the one eliminated in the first round must be persuaded to move solidly behind the other if the Right's candidate is to beat his Socialist opponent. Opinion polls currently suggest that Barre would get more votes than Chirac in the first round but still be defeated by Mitterrand in the second. But Chirac has a reputation as a formidable campaigner, and much remains to play for.

The key issue for the Left is whether Mitterrand will stand. He seems increasingly likely to do so but is not expected to announce his decision until the eleventh hour: he will probably be heavily influenced by the degree of certainty of victory. At present he is high in the polls, but ratings might slip when he exchanges the role of President for Socialist party candidate. If Mitterrand does not stand, the most likely Socialist candidate is Rocard.

These political uncertainties are matched by wider uncertainties about France's future. Frenchmen have been questioning their tradition of close State involvement in the economy and industry, Gaullist isolationism over defence, the ability of France to maintain the status of a world power into the next century. One of the results has been a greater emphasis by political parties of Left and Right on the need for closer European cooperation.

Economy

The French government remains committed to a macro-economic policy that features cutting government expenditure, reducing the budget deficit, diminishing the tax burden on businesses and households, and encouraging wealth creation. Policy aimed at consolidating inflation gains (cautious fiscal policy high real interest rates and EMS) and boosting output wherever possible (privatisation; deregulation). Despite the stock market slump the economy has emerged from 1987 in better shape than looked likely at mid-year, although performing below potential (about 2.75% growth) - less well than UK. OECD forecasts French growth fall to 1.5% 1988; 1.25% 1989. Links to German economy via EMS partly responsible. Good for inflation (down from 5.7% 1985 to 3.1% 1987) but bad for competitiveness and output. Overall deterioration in foreign trade.

The French privatisation programme, launched in autumn 1986 marked time after October 87 but is now resuming with sale of Matra stock. Roughly one third of the 65 companies on the government's list (total value FF200 bn approx) have been privatised.

Unemployment has fallen in recent months to 2.5 million (10.4%). However this is due at least in part to special measures (youth training, community programmes) and the figures are expected to worsen after the Presidential elections.

## FRANCE: BASIC STATISTICS

		<u>France</u>	<u>UK</u>
Population (millions)	1986	55.4	56.8
Labour Forces (millions)	1985	23.9	27.6
Unemployed (% OECD standardised rate)	1985	10.2	11.3
	1986	10.5	11.5
	Q3 1987	10.5	10.2
Gross Domestic Product (\$ bn)	1986	711.1	547.1
GDP per head (dollars)	1986	12835	9632
Annual Rate of Growth of GDP (%)	1985	1.1	3.7
	1986	2.0	2.7
Annual Rate of Growth of Industrial Production (%)	1985	1.6	4.7
	1986	2.0	2.0
Inflation (%)	1985	5.8	6.1
	1986	2.7	3.4
	12 months to 10/87	3.2	4.5
Annual Increase in Manufacturing Unit Labour Costs (%)	1985	2.9	3.9
	1986	2.3	4.1
Balance of Payments on Current Account (\$ bn)	1985	0.9	4.9
	1986	3.4	-0.2
	Q1 1987	0.03	0.3
Trade Balance (\$ bn)	1985	-4.5	-2.4
	1986	-2.3	-12.1
	Q1 1987	-2.7	-2.5
Defence Spending (% of GDP)	1985	3.5	5.0
Total Armed Forces (thousands)	1986	546.9	318.7
Trade			
UK Exports to France (£ m)	1985	7771.4	
	1986	6210.2	
	1st 10 months 1987	6298.1	
UK Imports from France (£ m)	1985	6635.8	
	1986	7348.6	
	1st 10 months 1987	6897.6	

Economic Advisers  
8 January 1988

LETTER FROM PRESIDENT MITTERRAND TO THE PRIME MINISTER,  
6 OCTOBER

As we agreed, I am writing to you to continue our dialogue on the current state and future prospects of Franco/German cooperation and Franco/British cooperation on Defence and Security.

With Chancellor Schmidt and later Chancellor Kohl I have been seeking consistently for six years now, to give body to and take forward the Franco/German rapprochement which began 25 years ago. The Elysee Treaty signed on 22 January 1963 by General De Gaulle and Chancellor Adenauer laid down indeed that on Defence "the competent authorities of the two countries will make efforts to bring their doctrines together so as to reach common assessments".

But this undertaking remained unimplemented, until Chancellor Kohl and I decided on 22 October 1982 to revive this forgotten section of the Treaty by establishing the regular consultations between Ministers, military staffs and officials which flow from it.

Three points have always been clear for Chancellor Kohl and myself, and I believe for our Alliance partners, whom we have kept regularly informed. First, this rapprochement takes place within the framework of our Alliance. It permits developments which are useful for our two countries and for all our Allies. Finally neither France or the FRG is required to modify in any way its own position on nuclear weapons or on belonging to the Alliance's integrated structure.

Franco/German rapprochement has made progress in recent years. In 1983 I decided to create the Rapid Action Force which is intended, among other functions, to act alongside German forces. Common training of officers has been encouraged. At the Franco/German Summit of 28 February 1986 Chancellor Kohl and I looked forward to the organisation of large scale Franco/German manoeuvres, which indeed have just taken place in Bavaria. At that Summit I said that I was ready, if time permitted, to consult the Chancellor of the FRG about eventual use of French pre-strategic weapons on German



territory, although I made clear that the decision on this question cannot be shared.

More recently in May 1987 Chancellor Kohl proposed that France and the FRG should organise a joint military unit. I endorse this idea which is currently being studied and should come to fruition in the near future.

In the light of these developments, Chancellor Kohl and I feel the need to crown the edifice, and we plan to coordinate still better our meetings on these questions to inform each other, to take decisions and to spur us on. We are continuing to reflect on the role and content of a Franco/German Defence Council. This too would be intended to move in the same direction of a greater Franco/German complementarity, or interoperability to use a military term. In my view this cannot inconvenience or weaken the Alliance; on the contrary.

It is because I place Franco/British Military cooperation in a similar perspective that I should like to see it intensified, particularly in the nuclear field, since France and Great Britain are the only Western European powers to possess these weapons. We have discussed this question several times, in particular during our meeting in London after the Reykjavik Summit. I said at Chatham House on 15 June 1987 that I welcomed this Franco/British nuclear coordination.

I therefore found promising and useful the conversations between Mr Younger and M Giraud which have followed the first contacts on this subject which M Hernu and M Quiles had with their opposite numbers. The most worthwhile aims in my view would be coordinating the patrols of our ballistic nuclear submarines; dividing their task of surveillance of patrol zones; exchanging information on our strike plans in such a way as to coordinate them; producing together a nuclear air to ground missile; and various technological exchanges.

The attempts begun by our two countries to cooperate better together, respond to the need for Europe to safeguard better her own security and therefore to strengthen the common security of the Alliance.

In various ways Spain, Italian, Belgian and The Netherlands have in recent months shown interest in one or another form of European cooperation on defence. I underlined on Thursday 24 September in the FRG that our thinking was open to European partners who wished to join.

I wanted you to be kept up to date with these requests, and I was pleased to talk to you on the telephone last week.



10 DOWNING STREET  
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THE PRIME MINISTER

12 January 1988

*Dear Mr. President.*

I wanted to think carefully before replying to your letter of 6 October dealing with our cooperation in defence matters.

We have to recognise that in some ways we approach things from a different viewpoint because France is not part of NATO's integrated military structure.

But there are many areas of common ground: firm commitment to the principle of nuclear deterrence, determination to maintain the independence of our national deterrent forces, the importance we both attach to a strong Western alliance. We are also in close agreement about the right priorities for the next steps in arms control.

Both our countries have a close defence relationship with the Federal Republic of Germany. Ours is illustrated by the fact that one third of the British Army and half of the Royal Air Force's active units are based forward to defend German territory, indeed that of France and other European members of NATO as well. France too maintains some troops in Germany although not on this scale. You have recently taken steps to develop closer Franco/German cooperation in this field.

NATO has developed very effective consultative and force planning procedures, which have a vital role in Europe's

defence. My concern is that separate defence arrangements between France and other European countries, either bilaterally or in small groups, may give the appearance of substituting for these or diminishing their importance. That would undermine NATO's cohesion which is not in the interests of any of us. I know that this is not your intention. But I very much hope that ways can be found of associating France more closely with these collective defence arrangements. The fact that the main European members of NATO were able to set out clearly in the WEU Platform the key points on which they agree was a useful step.

Against this background of efforts to strengthen collective defence, I believe that there is more that we can do together bilaterally. I welcome the discussions which Mr. Younger has had with M. Giraud about nuclear defence cooperation, as well as our growing practical cooperation in the equipment procurement field.

There are also other areas which we might encourage our people to discuss. For instance we could look at ways in which French forces could be more closely involved in the forward defence of the FRG, particularly whether they could make a contribution in the NORTHAG area. Because of the numerical advantages enjoyed by the Warsaw Pact, assuring an adequate forward defence of this region is vitally important. This is also an area where the forces permanently deployed in peacetime come from the European members of the Alliance. In times of crisis or war it would be of great value to have French forces actively committed to its defence.

There is also the area of reinforcement, where plans have existed for some years to allow British reinforcements destined for Germany in times of crisis or war to use certain French facilities, subject to the agreement of the French Government of the day. I should like to see us exercise these plans on a contingency basis by deploying

British forces through French Channel ports and by the use of French airfields by RAF aircraft. I believe that our military experts should also examine other ways in which our current joint exercises could be further developed.

I would also like to see consideration given to the scope for further joint naval planning and exercises in the Eastern Atlantic and Channel areas, where our two Navies have particular responsibilities.

More generally, I would hope that France might be able to consider ways in which the Alliance's major military commanders could take greater account of France's own force plans in their defence planning.

I believe that cooperation in all these ways would serve to supplement the important work already done on nuclear and other matters and would contribute to the strength of the NATO Alliance as a whole. They could have a particularly important influence at a time when the United States is likely to be looking ever more closely at how to tailor its overseas commitments to its resources.

These ideas are put forward in a positive spirit. I would be interested to hear your personal reaction to them at our forthcoming Anglo/French Summit.

Yours sincerely  
Raymond Stalder

His Excellency Monsieur François Mitterrand, G.C.B.

PLENARY HANDLING

The Prime Minister will chair the plenary. Ministers will report to Heads of State/Government as follows:

- Foreign Secretary/M Raimond
  - EC future financing
  - East/West and arms control
  - Gulf
  - Bilateral issues
- Defence Secretary/M Giraud
  - Bilateral defence cooperation
  - Defence equipment issues
  - Arms Control
- Home Secretary/M Pandraud
  - Terrorism
  - Immigration
- Minister for
  - Agriculture, Fisheries and Food/M Guillaume
  - EC agricultural negotiations
  - Stabilisers, set aside, etc
- Mr Alan Clark/M Noir
  - Trade Issues

Mrs Chalker and M Bosson would also be at the table.

## BACKGROUND

## A EUROPEAN COMMUNITY

- Balladur has sent Chancellor (and other EC Finance Ministers) a memorandum on 'European Monetary Construction': covers familiar ground - asymmetry of the burden of adjustment in ERM, need for others including UK to join the ERM narrow band, greater cohesion in policies towards third countries and reforms aimed at completing capital liberalisation. Some progress in most of these areas made at Nyborg (September 1987). Now suggested that idea of European Central Bank be studied. Study likely to show the practical and political difficulties of the idea and may be an effective way to bury it.

-[Further EC background to follow].

## B EAST/WEST RELATIONS AND ARMS CONTROL

- Soviet number two Ligachev paid unofficial visit to France for December French Communist Party Congress. He called on Mitterrand and Chirac. Chirac visited Moscow in May 1987. Atmosphere cool: Soviet criticism of French positions on deterrence and human rights. French (except Mitterrand) remain reserved about the INF agreement and suspicious about Gorbachev's motives and the reality of changes in Soviet policy. GDR President Honecker visited Paris 7-9 January: mood "frank" rather than warm.

- CSCE: Eastern intransigence causing stalemate in Vienna on human rights/contacts. But good progress on military security - main Soviet goal. French have put forward 'human dimension' package in Twelve (leaked to Russians) which envisages Paris human rights conference in 1989 and subsequent Human Contacts conference in Moscow. We have resisted this and encouraged partners/allies to push human dimension proposal originally tabled by West.

- Conventional stability mandate talks resume in Vienna at end of January. Having initially insisted that tactical nuclear weapons be included, the Warsaw Pact now seem to have relented (in face of united Alliance opposition), provided their concerns over dual capability are met. There is some prospect of agreeing a mandate by Easter and negotiations proper beginning towards end of year.