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*From the Private Secretary*

10 June, 1988.

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

The Prime Minister visited Paris today to see President Mitterrand. The Prime Minister and President talked for an hour, with M. Attali also present, and then continued their talk over lunch which was attended in addition by Mde. Guigou. This was followed by a brief walk in the Elysee Garden. The President was almost jovial and seemed to enjoy the discussion, but was vague on the detail of several of the issues covered (in particular his own proposal on debt). I was struck by the fact that he never mentioned M. Rocard, indeed seemed unaware that the Prime Minister was going to see him. For his part, M. Rocard made no mention of the President. One feels that cohabitation is not necessarily dead.

It was agreed at the beginning to concentrate on the immediate issues to be taken at the Toronto Economic Summit and the Hanover European Council. There was only the briefest of exchanges at the end on East/West relations and defence cooperation.

Introduction

The Prime Minister congratulated the President on his re-election. It was useful that no further elections were due in the major European nations for at least two years. This would give continuity and stability to European affairs, particularly important at a time of change in East-West relations. She hoped that Britain and France could continue to work closely together.

The President echoed the Prime Minister's views. The main question mark was over the United States Presidential election. He did not know Mr. Dukakis. He appeared to have no international experience. But at present he seemed likely to win. Vice-President Bush, on the other hand, was one of the few American leaders who knew Europe and had an interest in it.

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### Economic Summit

President Mitterrand said that the Toronto Economic Summit would come at the end of President Reagan's second term. He would quite legitimately wish that term to end on an upbeat note. He would probably want, therefore, to avoid difficult issues. The Summit was unlikely to be very productive. The Prime Minister disagreed: there were important issues to tackle, and the Americans would be ready to play their part.

### Debt

The Prime Minister thanked President Mitterrand for his letter on debt. There were now several proposals on the table. There were marked similarities between those of Britain and France. The common factor was the wish to do something to help. We should aim for a positive result at the Economic Summit. While the precise steps taken to alleviate the position of the very poorest countries might vary, it was important that creditors should share the burden equally. In particular, the United States should be persuaded to do more. There were a number of points about the French proposals on which we were not clear. Were they intended to make relief conditional on debtor countries reaching agreements with the IMF? Did cancellation apply to aid debts alone or to all official debt? What provision would there be to enable creditors who offered lower interest rates or cancellation in return for early repayment to have their claims given priority in future reschedulings? The details should be worked out carefully. We attached great importance to conditionality: without it, the debtor countries would simply slip back into their bad old ways.

President Mitterrand said that he had deliberately not gone into detail but had just sketched out some possibilities. They could be discussed at Toronto, indeed he would welcome that. They were intended to cover all forms of official debt. At one stage he had considered proposing that all the debt of the poorest countries should be written off, but had decided to settle for one-third. There was no explicit conditionality. But the fact that two-thirds of the debt would not be written off left the IMF plenty of leverage. Heads of Government should not get involved in minutiae. The aim at Toronto might be to agree general guidelines and leave Finance Ministers to work out details. But France could not submit its decisions to others: it would be up to each government to settle on the steps it wished to take.

### Agriculture

The Prime Minister said that just as important to the developing countries was help over trade, in particular trade in agriculture. The Economic Summit should make a commitment to early and concrete steps towards reducing agricultural subsidies. The European Community had made some important progress in this direction at the Brussels European Council,



but much more remained to be done.

President Mitterrand said that France's starting point was the interests of the large proportion of her people still active in agriculture, and the overall importance to the French economy of the food industry. That was why, at the Bonn Economic Summit, he had refused to allow agriculture to be singled out for discussion in the GATT. An arrangement had eventually been found which allowed agricultural and industrial trade to be dealt with in parallel. But the results had been disappointing: protectionism and competitive subsidies had actually increased, in the United States in particular. He agreed that a way had to be found to improve the situation, but not one which sacrificed vital interests. He hoped that European governments would not be divided on this issue at the Summit.

The Prime Minister said that, if matters were allowed simply to continue as at present, we should get into a spiral of competitive subsidies. The richest countries would be the victors, but it would be ruinously expensive for everyone, not least the developing countries, and undermine the results of the Brussels European Council. The American proposal to phase out all subsidies by the year 2000 was not realistic, but there must be significant reductions. She did not accept that Europe had done all that was needed. The Toronto Summit must give impetus to discussions in the GATT.

President Mitterrand said that he was very ready to discuss the problem of agriculture as part of a wider debate. He agreed that the problem had to be tackled. But he was sceptical about United States' intentions.

### Single Market

The Prime Minister said that other countries feared that completion of the single market in Europe would lead to the raising of new barriers against them. The Community should make clear that the intention was to increase trade, not to increase protectionism. President Mitterrand said that the European Community was not just a free-trade area: it must have its own rules.

### Terrorism

President Mitterrand said that he understood the Prime Minister wanted terrorism to be discussed at the Summit. A priori he was on her side on this issue. His only doubts were on the role of the Summit in this area as in others: he did not want it to become an institution as such. The Summit could reach conclusions, but they should be implemented in other bodies. The Prime Minister commented that Britain and France worked very well together in dealing with terrorism. It would be necessary to retain frontier controls in Europe after 1992 if the war against terrorism was to be waged successfully. President Mitterrand commented that he agreed in principle although France might differ from Britain over detailed arrangements.



### Presidency of the Commission of the European Communities

President Mitterrand said that a decision would be needed at Hanover on the Presidency of the Commission of the European Communities. France was not pressing any particular appointment: they had held the Presidency for four years and recognised it was not theirs by right or entitlement. If others wanted a change, France would agree. That said, there seemed to be a general current in favour of the re-appointment of M. Delors. He had discussed the matter with Chancellor Kohl who seemed to be thinking in terms of Delors' re-appointment for two years. He probably had in mind the possibility that Mr. Bangemann might take over thereafter, although he did not think Kohl was very keen on Bangemann.

The Prime Minister said that no alternative candidate of Delors' stature had emerged. But the European Council should not try to settle now what should happen in two years time. Situations could change: for instance Mr. Lubbers might become available. President Mitterrand said that would be excellent.

### Financial and Monetary Cooperation

President Mitterrand introduced the subject of financial and monetary cooperation over lunch. He had no difficulty with the principle of liberalising capital movements and dismantling exchange controls. But we were in a Community, and no government wanted to see its capital flee to other countries. There should therefore be a basic minimum of similarity in the taxation of capital throughout the member states. Even Germany had concerns on this score in relation to Luxembourg. So France would pose certain questions, both at ECOFIN on 13 June and at the European Council. The President continued that Herr Genscher had put forward his proposal for a study by a group of wise men of a European Central Bank. In his own view it would be difficult to deal with these matters without the participation of Central Bank Governors. But it could not be left to them alone, any more than agriculture could be left to Agriculture Ministers. In particular, Herr Poehl would be an obstacle to progress. He therefore favoured an independent group which would work in parallel with Central Bank Governors.

The Prime Minister said that the United Kingdom already had full freedom of capital movement and no exchange controls. Far from hurting our economy, this had stimulated growth. She understood that agreement had already been reached in the Community on a capital liberalisation directive: she hoped that there would be no going back on this or any attempt to set pre-conditions. President Mitterrand interjected that he was not putting pre-conditions or saying that there had to be tax harmonisation before there could be capital liberalisation. But certain questions had to be asked.

The Prime Minister continued that the idea of a European Central Bank just did not stand up to examination at this



stage of the Community's development. It presupposed a common currency, common economic policies and a readiness to surrender national control over monetary policy. None of these conditions was remotely likely to be met, so a study was pointless. She was fully behind Herr Poehl on this. We already had a European Investment Bank and a Bank for International Settlements which performed their functions admirably. There was scope for study of more technical ideas such as greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves. But this was not an area for wise men who were likely to recommend all sorts of absurd things. It should be left to ECOFIN and to Central Bank Governors. The European Central Bank proposal was clearly motivated by political not technical considerations. But this was not an area for playing games.

President Mitterrand commented that it was nice to be reminded that the Prime Minister knew how to say no. He agreed that there was a distinction between the proposal for a European Central Bank, which was a long-term goal, and more immediate measures such as capital liberalisation. He was certainly not saying that a European Central Bank should be discussed in the early stages. But other governments wanted to set a goal towards which they could work. There was a feeling that Europe was losing out vis-a-vis the rest of the world. The Prime Minister said that she was not against discussing monetary cooperation, but it must be on the basis of feasible objectives, not pipe-dreams. She had set out the areas where progress might be made, but they were pre-eminently matters for experts not wise men. There was no point in discussing a European Central Bank when no-one knew what it meant. We had excellent Central Banks - and Central Bankers - of our own and should not interfere with them.

#### Channel Tunnel

The Prime Minister and President Mitterrand agreed that they would travel through the Channel Tunnel together in 1993 (it was not agreed in which direction this would be). President Mitterrand added a "God willing" proviso.

#### Economic Summit 1989

The Prime Minister said that we could accept the date of 14 July for the next Economic Summit. The President made clear that he envisaged Heads of Government attending the usual Bastille Day military parade.

#### East/West Relations and Defence Cooperation

The Prime Minister regretted that there had not been time to discuss East/West relations or defence cooperation. They should be taken up at a further meeting. We wished to strengthen our defence cooperation with France, and she hoped that the ideas in her message of January to the President could be studied.

Circulation of this letter within Departments should be

strictly controlled. I am copying it to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Stephen Ratcliffe (Department of Trade and Industry), Myles Wickstead (Overseas Development Administration), and to Trevor Woolley (Cabinet Office).

C.D. Powell

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