



SUBJECT CEMASTER

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PRIME MINISTER'S MEETING WITH M. ROCARD

The Prime Minister had a talk in Paris this afternoon with M. Rocard, following her lunch with President Mitterrand. The French Ambassador in London and M. Petit were present on the French side and HM Ambassador Paris on our side. It was a notably friendly and good humoured discussion in which M. Rocard spoke English virtually throughout. Since the discussion covered much of the same ground as with President Mitterrand, I have not thought it necessary to record the Prime Minister's comments in detail.

Introduction

M. Rocard recalled the very kind reception which he had received from the Prime Minister on a number of occasions when he had been out of office. He also had wartime memories of listening to the BBC from London. France could talk in a quite different way to the United Kingdom than to other countries. He wanted the Franco-British relationship to have a special role. He had spoken with some emotion because this was what he felt. The Prime Minister thanked M. Rocard for his remarks. Emotion had a place in politics as did respect for history.

Debt

The Prime Minister gave an account of her discussion with President Mitterrand on debt. There should be a clear result from the Economic Summit on this issue, which must include conditionality. There should also be fair burden sharing.

M. Rocard said that the French proposals were clearly conditional upon countries concerned agreeing IMF programmes. They were also intended to cover all debt, that is aid debt and export credit debt. He agreed that the aim should be a concrete outcome from the Toronto Summit. France, for its part, was clearly committed to the option of writing off one third of the debt of the poorest countries.

Single Market

The Prime Minister said that it would be important that the Community should not erect new barriers against the

outside world when the single market was completed in 1992. She was however concerned by the way in which the Commission's competence was being steadily extended, for instance into the field of mergers and monopolies. M. Rocard agreed that completion of the single market should be accompanied by an increase in the Community's trade with the rest of the world.

Agriculture

M. Rocard expected agriculture to be the most difficult subject at the Toronto Economic Summit. He could accept the concept of an agreement to reduce subsidies progressively. But a number of conditions had to be met. All forms of subsidy had to be covered: the United States tended to argue that some of its measures were not really subsidies. It had to be recognised that you could never have full free trade in agriculture. And there was a need to identify other ways of utilising land. He himself was a strong supporter of using cereals for ethanol. He had discussed these problems with the Americans and found that Mr. Yeutter agreed with him on the need for a long term plan to reduce subsidies. Nonetheless, he hoped that the Toronto Economic Summit would not go too deeply into these issues before the Community had been able to prepare its position better. There would need to be a major study done in the Community. But he believed that agreement could be reached internationally, just as had been done with details of the Multi Fibre Agreement.

The Prime Minister said that Europe could not just rest on the results of the Brussels European Council, although she accepted that the Community's position needed to be well prepared. It would be necessary at Toronto to agree to negotiate for a positive result to the Mid Term Meeting in December which covered both short term measures and longer term commitments. M. Rocard said that he was basically the Prime Minister's ally in this. He needed more funds for education and other social policies in France and they could only be found by reducing spending on agriculture. But more time and study was needed. The Community could not commit itself to a series of reductions without knowing where they would lead and without offering some vision of the future to its farmers. He envisaged a process of progressive reductions in subsidies stretching over 15 years or so. But it must be on a planned basis and not involve staggering blindly from measure to measure. That was why he was insistent on the need to explore the subject more thoroughly within the European Community first.

Financial and Monetary Co-operation

M. Rocard said that he accepted that a European Central Bank was only a long term prospect. The immediate issue was liberalisation of capital movement and France had already taken two further steps in this direction since he had become Prime Minister. The subject would again be discussed in ECOFIN on 14 and 15 June. He was not sure that complete agreement could be reached. For one thing, he was not certain that the EMS could survive if all foreign exchange controls

were removed. That was why France wanted a parallel commitment to discuss growing monetary co-operation between Central Banks.

The Prime Minister said that she agreed that the EMS would not have held together without foreign exchange controls. That was one reason why Britain had not joined the Exchange Rate Mechanism. She was very sceptical about a European Central Bank for reasons which she had explained at some length to President Mitterrand. She agreed that there were possibilities for further monetary co-operation in Europe such as greater use of the ecu and wider cross-holdings of Community currencies in foreign exchange reserves. But there was no need for wise men to address these issues: that was only an excuse for avoiding action. They should be left to Finance Ministers and Central Bank governors.

M. Rocard said that France would approach these matters in a pragmatic spirit and would not have a rigid position at ECOFIN. What he was really after was a procedure for co-ordination between Central Banks. He shared the Prime Minister's dislike of generalities. He would prefer any study to be carried out by the Central Bank governors although he would not exclude their efforts being supplemented by others. But decisions must remain in the hands of those with responsibility. The central problem, in his mind, was the need to proceed with capital liberalisation and removal of foreign exchange controls without making the EMS more fragile vis-à-vis other major currencies. This required better co-ordination of intervention between central banks. The Prime Minister said that she detected that she and M. Rocard agreed that any study should be limited in scope, pragmatic in approach and conducted by those with direct responsibility.

New Caledonia

M. Rocard said that he would like to give the Prime Minister a brief account of developments in New Caledonia. The issue had been very badly handled by the last government and France had gone back on its word over the Pisani plan. A mission of church leaders and others had recently visited New Caledonia and he had seen them on their return. He believed they had helped to achieve reconciliation between the two communities and had identified the outline of an agreement which could be accepted by both of them, although it would probably take until the autumn to finalise this. He would not tire the Prime Minister with the details but he was optimistic that a solution would be found. Meanwhile his first priority was to stop New Caledonia from being exploited as a political issue within France.

I am copying this letter to Alex Allan (HM Treasury), Shirley Stagg (MAFF) and to Trevor Woolley (Cabinet Office).

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(C.D. POWELL)