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From the Private Secretary

27 February 1989

Dear Stephen,

**ANGLO/FRENCH SUMMIT: PRIME MINISTER'S MEETING WITH  
PRESIDENT MITTERRAND**

The Prime Minister had an hour and a half discussion with President Mitterrand at the beginning of the Anglo/French Summit in Paris this morning. The President was accompanied, fleetingly, by Monsieur Attali and throughout by Madame Guigou.

The United States

The conversation began with some exchanges about the United States. The Prime Minister observed that the vote by the Senate Armed Services Committee against Senator Tower had been a blow to President Bush. The Committee had divided on party political lines, which suggested there was not much bipartisanship around. She thought that Senator Tower's rejection would be a setback for NATO: he had very considerable experience in defence matters and was pro-Europe. She thought it would be more and more difficult to get good people to accept political office in the United States if the price was such extensive prying into their private lives.

President Mitterrand said that, even if Senator Tower's nomination got through the full Senate, his authority would be diminished. He shared the Prime Minister's dislike of the puritanical approach which was now fashionable. The President added that he had lunched with President Bush in Tokyo and found him generally relaxed and friendly.

Salman Rushdie

The Prime Minister said that she held no brief for Mr Rushdie. He must have known that his book would give offence to Moslems. But there had been no option but to react as we had to murder threats by a foreign state. We had been grateful for support from Europe. President Mitterrand said it was a case of standing up for the principle, not the person. Ayatollah Khomeini's action had been stupid. It probably stemmed from political in-fighting in Iran and a desire to gain prestige in the Islamic world. The President



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noted that the Soviet Union was not showing solidarity and that Japan had refused to take steps. He himself entirely approved of the Western reaction. Khomeini's threats were insupportable. The Prime Minister observed that Khomeini seemed to be in distressingly good health. President Mitterrand commented that this was our bad luck.

The Prime Minister said that the meeting between Shevardnadze and Khomeini was an interesting development. The Iranians presumably saw it as a way of getting back at the West. She thought that the Soviet Union had cause to be cautious in its dealings with Iran, if fundamentalism was not to spill over into the Islamic Republics in the Soviet Union itself.

#### East West Relations and Defence

President Mitterrand invited the Prime Minister to give her analysis of developments in the Soviet Union. The Prime Minister said that there was growing evidence of underlying resistance to reform and a consequent lack of progress in modernising the Soviet economy. The basic problem was the inadequacy of the human material. People simply feared taking responsibility. We had also to remember that Gorbachev was trying to compress into a decade or so changes which had taken centuries in Western Europe. There was a limit to the amount of practical help which the West could give, apart from obvious steps such as management training and joint ventures. She did not think that Gorbachev himself knew what to do next. It would be interesting to hear what he had to say during his forthcoming visits to European capitals. But there was no doubt in her mind that the West must go on expressing its moral support for what Mr Gorbachev was trying to do.

The Prime Minister continued that she and President Mitterrand agreed on the proper response to the uncertainty in the Soviet Union. That was to maintain a strong defence based on up-to-date weapons. The problem was Germany. There had been an obvious collapse of political morale there following the Berlin elections, creating a dangerous situation. Chancellor Kohl agreed on the need to be cautious about the Soviet Union but was not ready to draw the right conclusions, in particular on modernisation of SNF. NATO needed a decision in principle this year to deploy a successor to LANCE if Congress was to authorise the necessary funds for its development. She had discussed the problem with Chancellor Kohl the previous week. The most he had been prepared to do publicly was to reaffirm the communiqué of last year's NATO Summit and agree to a further meeting with her. If NATO failed to take an appropriate decision on modernisation, this would be a clear signal of weakness going far wider than the SNF issue itself. It would signify a lack of will to face up to difficult decisions. The Prime Minister added that she was also somewhat concerned about the United States' position on the issue. They had started off strongly but now seemed to be wobbling a bit. The key points were for NATO to keep together, stay strong and be ready to take difficult decisions.



President Mitterrand said that Mr Gorbachev faced three threats. First, there was no prospect of bringing about an increase in purchasing power in the Soviet Union, because of the chaotic nature of the economic reforms and the lack of response to them. If greater freedom failed to produce material advantages, people in the Soviet Union would lose interest in Gorbachev. Secondly, there was the problem of the nationalities. If the army and the Party began to criticise Gorbachev for dislocating the Soviet Empire, he would be in serious trouble. Thirdly, there were developments in Eastern Europe which must contain dangers for him. It would be wrong for the West to exploit the nationalities issue against Gorbachev. Indeed, he agreed with the Prime Minister that the right course was to continue to support his reforms. He believed that Gorbachev had no choice but to continue to move forward. He seemed intent on building his own instrument, not the army or the Party, but the State, which would act as a third force.

President Mitterrand continued that he entirely agreed with the Prime Minister that the West could not base its policy on hypothesis or speculation. We had to be ready for anything, and this meant keeping our defence strong. Against this background, his reasoning on SNF modernisation was simple, some would say over-simple. If the Russians were modernising their SNF, NATO must do so too. If they were not, NATO need not. The military opinion in France was that the Soviet Union was modernising its capabilities in this area, but he would like to see a more detailed assessment before making up his mind. The West should not be the first to start a new SNF arms race. But any Soviet effort should be off-set by a corresponding Western effort. He agreed with the Prime Minister that the problem lay in Germany. There was a strangely sentimental approach to Gorbachev there which had eroded public support for defence. The SPD seemed ready to open the doors wide to the Soviet Union. The coalition was not strong and within it the conservatives were also divided. He found it hard to see the German Government coming out in favour of modernisation this year, although he might be wrong. His own contacts suggested that the Government was increasingly pessimistic about next year's Federal elections and not in the right frame of mind to take a decision in May. That said, the Prime Minister was quite right to focus on Chancellor Kohl. Could she bring him round? The Prime Minister said that she was trying to bring home to Chancellor Kohl that the decision would not be any easier for being postponed. We also had to convince the Germans that we risked ending up with no land-based US missiles in Europe. That would be a clear victory for the Soviet Union. The longer the delay, the greater the risk of this. The only safe course was to take the decision on modernisation now. She would talk to Chancellor Kohl again in late April or early May. She felt very strongly that this was no time for weakness in NATO.

President Mitterrand said he would think further about the problem and would be seeing Chancellor Kohl himself in early April. The question was whether we were prepared to have a political crisis with Germany. The Prime Minister



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suggested that the alternative was a defence crisis within NATO. President Mitterrand continued that President Bush had urged him to return to Bonn and make another speech like the one he had made to the Bundestag in 1983. The difference between the situation then and now was that the new-look Soviet policies were impressing Germany far more than he had ever imagined. The Prime Minister said that she felt that the German Government were simply failing to put the case for modernisation. It was the same thing on low flying. She and President Mitterrand should both have another go at Chancellor Kohl.

#### Middle East

The Prime Minister said that she had recently met Mr Arens, the new Israeli Foreign Minister. She had found his views hard-line in substance although not aggressive. The Israeli Government did not yet appear to have worked out a coherent position. Perhaps it would not do so at all. In due course the United States would have to put pressure on Israel to negotiate. But we should not rush them.

President Mitterrand said that he had been left pessimistic by his own meeting with Mr Shamir. The problem was that Shamir wanted nothing. He believed that time was on his side and that if Israel were simply to hang on long enough, the lack of unity in the Arab world would prevent any serious threat from developing. His views were part historical, part mystic. He appeared to lay claim to parts of Jordan: perhaps in this he was only the mirror image of President Assad who claimed that Jesus Christ was a Syrian! There were one or two glimmers of light: Shamir seemed ready for contacts with the Palestinians and was talking of elections on the West Bank. But this was off-set by his absolute refusal to consider an international conference or any contact with the PLO. Frankly, he had got nothing at all out of his talks with Shamir.

The Prime Minister commented that, unless Israel was prepared to concede territory for peace, Jordan would not be persuaded to return to negotiations. Shamir tended to argue for a bilateral US/Soviet framework for negotiations. This was undesirable and would lead to polarisation. Britain and France also had contributions to make. President Mitterrand said that an attempt to establish a bilateral framework would be diplomatic madness.

#### European Community

The Prime Minister said that she was not reassured by what she heard of the work of the Delors Committee on Economic and Monetary Union. It was vital that the Committee's report should spell out the full extent to which EMU would involve the transfer of national governments' decision-making powers over economic and monetary policy. When the matter came back to the Council, heads of government must not be able to say that they had not realised the consequences. She imagined that there would be no more than a first debate at the



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European Council in June. She wondered how President Mitterrand saw the way ahead on this and what his priorities were for the French Presidency in the second half of the year.

President Mitterrand said that the European agenda would be dominated by four issues: economic and monetary union, environmental problems, the social dimension and France's audio-visual initiative. On economic and monetary union, he shared the Prime Minister's wish that the Delors Committee's report should be clear. The Prime Minister asked whether France was really prepared to see the Bundesbank take charge of its economic and monetary policies. President Mitterrand said that it was certainly the case that Germany would prefer a deutschmark zone to an ecu zone. The Prime Minister observed that Governments in the Community did not seem to have thought through the full implications of a single European currency, with the inevitable demands from the Southern member states for vast additional transfers through the regional and social funds to sustain their participation in it.

President Mitterrand continued that he was not a maximalist about the European Community. His aim for the French Presidency was simply to move forward on all four of the issues which he had identified. There had been very little progress under the Greek Presidency and not much more could be expected from the Spanish. The Prime Minister said that she hoped that President Mitterrand would include the single market among his priorities. She was increasingly coming to the view that directives and regulations were only one aspect of achieving a genuine single market. Whatever the rules said, cultural differences would remain as an obstacle to a real single market. For instance, it was very difficult for British or French companies to take over companies in Germany. One could find many other examples where the German economy was not truly open. We needed to give more attention to overcoming these cultural differences, which were the biggest single obstacle to a genuine single market. President Mitterrand said he would reflect further on this. The Prime Minister added that she hoped that the French Presidency would also encourage action to deal with fraud in the Community.

#### Nissan

The Prime Minister quoted the case of Nissan to show the extent to which we were still far short of a genuine single market in Europe. The fact was that France's actions had been non-communautaire. She would take up the matter with Monsieur Rocard. This she did with some passion during lunch, but without any sign of movement in the French position.

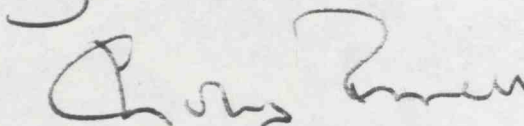
#### Environment

Environmental matters were not discussed between the Prime Minister and President Mitterrand. But the Prime Minister raised the meeting in The Hague on 11 March with Monsieur Rocard over lunch, explaining once again our

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objections to the proposals which the French Government had circulated. Monsieur Rocard continued to argue the need for a new supra-national authority, as well as for sanctions and compensation.

I am copying this letter to Alex Allan (Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office). I am also sending a copy on a personal basis to Sir Ewen Fergusson in Paris.

Yours sincerely,  


CHARLES POWELL

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