

## ANGLO-FRENCH SUMMIT, PARIS, 27 FEBRUARY 1989: PLENARY SESSION

After President Mitterrand had welcomed the Prime Minister and the British delegation to the Plenary Session, he invited the Ministers of Foreign Affairs to make their report.

EC Issues

M. Dumas said that he and Sir Geoffrey Howe, with Mme. Cresson also present, had discussed Community aims in the following areas:

- (i) EC/US trade, where they would like to see a reduction of all forms of support, without modifying the mechanisms forming the basis of Community policy, especially the CAP. The two sides agreed on the schedule of negotiations and felt that the Community should respond to US flexibility if it appeared;
- (ii) the prospects for the French Presidency and EC priorities up to 1993;
- (iii) social questions, where there was very general agreement. The British side had reservations on the European Company Statute, but there was agreement on aspects of the social dimension (health and safety at work). The British side said that it wanted more time to study the charter on social rights;
- (iv) taxation issues, where the two sides discussed the very difficult problems as regards VAT and taxation of savings. The positions of the two sides were beginning to come together on indirect taxation, but they took note of their strong disagreement on taxation of savings;

- (v) monetary co-operation, on which the British side stressed the need to concentrate on the practical aspects, while the French side underlined their wish to see monetary union between all twelve members in the longer term;
- (vi) audiovisual policy, on which the British side agreed with the French definition of Community aims.

#### Nissan

M. Dumas said that the British side had raised Nissan (UK) and that Mme. Cresson had referred to the problem of Japanese investment in the EC generally.

#### Bilateral Issues

He said that the two Ministers had three concrete decisions to submit to the Plenary:

- (i) the FCO and the Quai d'Orsay would begin an exchange of diplomatic staff in the Autumn of this year, with a senior diplomat coming to Paris. The French would send a senior diplomat to London in January 1990;
- (ii) he had accepted Sir Geoffrey Howe's invitation to Chevening on 15 and 16 May for further discussions;
- (iii) the two sides had agreed to increase the number of bilateral youth exchanges. A detailed communiqué had been prepared for release that afternoon.

#### International Issues

M. Dumas said that the two Ministers had discussed Iran, where the UK was affected more directly. He had asked Sir Geoffrey

Howe what the UK would do if Iran broke off diplomatic relations. They had also discussed the recent visits to London by Arens and to Paris by Mr. Shamir. The British shared the French view on the need to prepare for an international conference by informal discussion amongst the five permanent members. They had noted that European political co-operation had worked well recently in the Troika visit to the Middle East and over Satanic Verses. Finally, the British side had raised the Vienna negotiations on conventional arms reductions, which faced difficulties because of Turkey's position. The diplomats on the spot were preparing a solution which should enable discussions to begin on 6 March.

Sir Geoffrey Howe said that M. Dumas had correctly identified the three points of bilateral agreement. On EC issues, both sides were agreed on their approach to the GATT Round. On social questions, the British side had explained that the Social Dimension should not become social uniformity; proposals for worker participation should be neither standardised nor prescriptive. The UK valued greater share ownership. On indirect taxation, the two sides had agreed that officials should carry discussions forward. There was no meeting of minds on taxation of savings. On monetary co-operation, the UK awaited the Delors report. On Nissan (UK), he said that Mme. Cresson had raised no objection to exports from the Sunderland plant, but he doubted whether that dealt with the whole question.

On international issues, Sir Geoffrey Howe said that he warmly appreciated the French stand on Satanic Verses. In reality there could be no substance to French or British relations with Iran at present. The two Ministers had discussed what to do if Iran broke off relations. On Arab-Israel, they had discussed the sponsorship of an international conference by the Five and agreed on the need to promote progress in that direction. On the Vienna negotiations, they had discussed the efforts made by the HLTF the previous week to find a solution which would enable the discussions to begin on the basis of an

agreed mandate. More work on this would probably be necessary in the days ahead.

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M. Chevènement said that he and Mr. Younger had discussed, from the defence viewpoint, the opening of the CFE talks in Vienna and had quickly agreed on the need to keep nuclear weapons out of the negotiations. The Soviet Union had recently published a report on the talks which included a reference to tactical nuclear weapons, which showed that the Soviet government clearly wanted to move on to that subject in Vienna. The two Ministers had agreed that the approach developed in the high level task force to the mandate for Vienna was the right one. On bilateral military contacts, which they had agreed to continue at a high level, they were considering a joint exercise in Germany. They were also examining security measures for the Channel Tunnel. They had agreed on political conditions for France's participation in the ACCS. Both Ministers were anxious to extend co-operation in armaments procurement, by developing cross-purchasing and the joint manufacture of components for Rafale and for Sonars. They had considered their respective requirements for air to ground missiles and the British decision not to adopt the French ASMP. M. Chevènement said that he had told Mr. Younger that this missile could be improved; and he hoped the discussions could continue on longer term requirements. In general, given that the two countries shared approximately the same interests and the same geographical position, he was sure that these bilateral exchanges would continue with very satisfactory results.

Mr. Younger said that he agreed with this summary. On equipment collaboration, he wished to underline the notable progress made in the past year. Three joint seminars had been held on land, air and sea systems and had been well attended by French and British industry. The two sides had also exchanged bulletins of forthcoming contracts which were circulated amongst companies in either country. It was

important that this activity should concentrate on practical needs. As for their discussions on nuclear matters, these had proceeded well over the past year and had covered a wide range. The two sides were now looking for ways of extending these talks in the future.

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M. Joxe expressed his satisfaction that he and Mr. Hurd held regular meetings. On this occasion they had discussed police co-operation and the problems of wider European co-operation in the forums where Ministers of Interior or Justice met to try to harmonise their positions. They had identified specific problems where the legislation of different EC members was different. In such circumstances bilateral exchanges could often be more fruitful than multilateral ones.

The two sides had analysed the problems of drug control, where for some years the aim had been to align their approaches to judicial decisions. Officials would be continuing discussions in this area. The two Ministries had agreed on an exchange of staff and on a proposal for co-operation in police training which would be experimental in the first instance. Security for publishers of the Rushdie book had been discussed: the two sides were agreed on their overall approach. On the difficult question of frontier controls and immigration, where France and the UK had different requirements, the two sides had taken note of technological developments. Frontier controls, both domestic and external, needed further discussion. There were specific problems: France was the only EC country to have so many common land borders with her neighbours, whereas the UK was the only island (though the tunnel would change this). The borders of the Community themselves posed a general problem because the positions of member countries were not totally harmonised, e.g. on visas policy. The two Ministries would continue discussions on police and customs controls on Channel Tunnel trains, where M. Joxe hoped that acceptable common solutions could be found.

Mr. Hurd agreed fully with this summary. Both sides had been deeply impressed by the growing pressure of problems originating outside the Community, particularly in the Third World and Eastern Europe; there were geographical and historical factors involved. The UK had underlined the need for continuing checks at frontiers on non-EC nationals, whereas the French placed emphasis on a visa regime. Further intense work would be needed under the Spanish and French Presidencies.

#### Trade Issues

M. Fauroux said that he and Lord Young had discussed five subjects:

- (i) high definition television, on the importance of which both sides were agreed. The French side had insisted that the UK government should take the same approach to the Soviet Union as they had as regards the European definition of HDTV standards. Both sides thought it desirable that British and French industry should work within the same general structure on this question;
- (ii) Airbus, which both Ministers agreed was in excellent shape. The French government was happy with UK investment on the industrial side, but less so with British Airways' reluctance to buy Airbus;
- (iii) EC issues, especially merger control, which they had agreed was a significant area. There were no basic differences between France and the UK. Both wanted the Commission to look at merger control and were agreed that the level of funds at which the Community should come into play should be high. A compromise on this before the end of the year should not be difficult to achieve;
- (iv) procedures for public procurement, which they had

agreed should be as streamlined as possible and should involve some administrative control;

- (v) Nissan (UK). M. Fauroux had told Lord Young that the French favoured Community discussion on Japanese investment, which was growing fast. He was keen to avoid competition in this area between EC members.

Lord Young agreed that the two sides had found very few differences between them. On HDTV, he said that the UK interest stemmed from the role of the BBC and other programme makers rather than from manufacturers. He agreed the two sides should work closely together. He hoped that merger control policy would be resolved later this year and warned that cultural institutions might not be susceptible to this kind of control. France and the UK had different approaches to co-determination and certain other matters; but they were agreed that the electricity sector should be maintained as an open market. The UK hoped that Airbus would develop into a full public limited company at a later date. As for Nissan (UK), he regarded their products as being as much EC cars as, for instance, Peugeot. He was conscious of the fact that the EC ruling on local content, as far as EFTA products were concerned, was 60%; and Nissan's present percentage was well above that. He looked forward to receiving clarification of the terms of M. Rocard's recent letter to see whether Nissan (UK) was regarded as fully within that category.

#### Statements by Delegation Leaders

The Prime Minister thanked M. Mitterrand for his excellent hospitality and arrangements for the Summit. She referred to the very pleasant private weekend which she had spent in Paris immediately before the Summit.

#### East-West Relations

The Prime Minister said that she and the President had agreed

that the situation in the Soviet Union was uncertain. A people which had never known personal responsibility or democracy was now trying to telescope into a few years what it had taken the countries of Western Europe centuries to develop. The change of attitudes required was enormous. Both France and the UK earnestly hoped Gorbachev would succeed and agreed that we should do all we could, in public and in private, to help him. Nevertheless, because it was an uncertain period, Western defences should be kept strong, up-to-date and sure. Only then could Gorbachev's reforms be fully welcomed. Because nowadays it took longer to develop weapon systems, care must be taken to keep both conventional and nuclear weapons modernised and up-to-date. It was essential that American nuclear weapons should remain in Europe: one could not otherwise be sure that they would be used if necessary. Since the Soviet Union were modernising their own weapons, for instance all their aircraft for carrying short-range nuclear arms, she had emphasized most strongly to the French President the need to deploy the up-dated Lance when it was ready. To delay the decision on this would make it more difficult: she had said this to Chancellor Kohl the previous week. Chancellor Kohl had agreed that it was necessary to be cautious over Gorbachev's reforms: but this meant caution over maintaining Western defences as well. She had arranged to meet Herr Kohl again before the NATO Summit to refine their discussions on this point. Meanwhile the British and German sides had reaffirmed the communiqué of last year's NATO Summit about the mix of conventional and nuclear forces and the need to keep them up-to-date.

#### Middle East

The Prime Minister said that she and the President had briefly reviewed the current negotiations between Iran and Iraq and had noted that no ceasefire was yet in place. Turning to the visit of Mr. Arens to London, she said that he had been firm in his view that the present situation in Israel and the Occupied Territories could not continue. She believed that



now was the time for negotiations, but it was essential that negotiations should succeed and so they must be most carefully prepared. The five permanent members of the Security Council should be the initial framework, not the US and the USSR alone, as some quarters preferred. She emphasised most strongly that to have one superpower on each side was not the way forward. Both France and the United Kingdom had a long experience of friendship with the region and must be involved. The British navy would continue its presence in the Gulf.

The Prime Minister thanked the French government for their supportive action over Ayatollah Khomeini's death threat against Rushdie. Whatever one thought of Rushdie and his book, the UK was absolutely clear in its insistence on free speech. It was an extra bonus that all Twelve members of the Community were taking joint action on the issue: that kind of co-operation strengthened us all.

#### EC issues

On Nissan (UK)'s exports to the EC, the Prime Minister said that all members of the Community wanted extra inward investment, now that world trade was more competitive. It was important that countries with balance of payments surpluses should invest elsewhere. The UK experienced no difficulties whatsoever over the export within the community of Ford cars, wherever they were manufactured: this indeed was what the Community was all about. There should be no difference in the case of Nissan. The French position on Nissan failed to reflect a community spirit and presented a problem which must be resolved soon.

On the question of monetary co-operation, she said that she had talked the previous week with Herr Poehl and leading German bankers and had agreed with them on the need for a starkly clear report from the Delors Committee setting out precisely what the consequences of economic and monetary union in terms of transfer of national powers. She recalled the disadvantages of the Bretton Woods system. Some Community

countries would not be able to participate in a single currency without major resource transfers through the structural funds. It was essential to set out clearly the loss of independent political action by Member States and the Commission and to ensure that political decisions were taken in the full light of knowledge of the consequences.

The Prime Minister said that the Single Market represented a huge leap forward. But it would not be created just by regulations and directives. Some way had to be found to deal with cultural differences, which continued to act as an obstacle to a genuine Single Market, in particular in such areas as mergers. Such problems were encountered in particular in Germany. The whole point of the Single Market was that there should be fair competition and we should all play the game by the same rules.

Turning to fraud in the Community, the Prime Minister said that the present situation was intolerable. According to different estimates, between L 2 billion and L 6 billion per annum was being lost. The quickest way to eliminate fraud would be to abolish MCAs in agriculture. Urgent action was needed.

In conclusion, the Prime Minister said that she had benefited greatly from M. Mitterrand's experience on East-West, Middle East and Community issues. As for the bilateral discussions that morning, she was sure that they had been much more interesting than the accounts in the plenary session had indicated. This should be conveyed to the press. These meetings were part of the steadily growing habit of co-operation in Europe, while Europe itself played its part in the steadily growing co-operation among like-minded nations around the world, with the underlying aim of safeguarding freedom and democracy.

M. Mitterrand said that the Prime Minister had covered the essential points of their meeting. The following was a summary of his own views.

East-West

M. Mitterrand said that the success of Gorbachev's reforms depended only to a small extent on overseas reactions. What did not depend on the West was his own capacity to improve the average purchasing power of the Soviet man in the street. There was considerable resistance to the reforms within the USSR, not only because of the lack of democracy which the Prime Minister had underlined, but also because of the lack of adaptable structures. Another point beyond the West's control was Gorbachev's inability to contain nationalist pressures within the USSR. There would be strong reactions from economic and military quarters in the Soviet Union if they identified a threat to Soviet unity. Though the results in these areas depended little on the West, we could help or hinder Gorbachev to a small extent. It would be wrong to define Western policy solely on the basis that we could not control the consequences in the East: this was a basic principle for all East-West issues.

M. Mitterrand continued that the fact remained that East-West relations had improved immeasurably in recent years. The INF Treaty was a good one; the US and the USSR had outlined an agreement on strategic nuclear weapons, though we did not know the full details; the outcome of the Paris Chemical Weapons conference was satisfactory; he believed the conventional arms reductions talks would soon begin on a good basis. All these areas must be watched carefully, and also the question of short-range nuclear weapons, where the options were to modernise now, to delay a decision or not to modernise at all. The Prime Minister's views on this question had been clearly stated. He had reminded her that French policy was simple, even simplistic: if the Soviet Union was modernising its short-range weapons, then the West should modernise theirs; if it was not, then we should wait. There was no point in creating additional tension. Our experts seemed to have concluded that the Soviet Union was modernising and also increasing quantity. So the French government did not reject

the idea of modernisation. France had her own strategy, which might include some modernisation. It would be for the NATO Summit to decide at the time what decisions should be taken; but he did not see why NATO should tolerate an imbalance when we were seeking a balance in other areas. The important point was that there should not be a unilateral process of disarmament.

M. Mitterrand said that this issue was clouded by an additional factor, only partly within the control of the UK and France - the fact that short-range weapons were stationed in the FRG. This was not the case for France; and no increase in the stationing of such weapons was planned for the UK. The German response was therefore of great importance. The FRG was nevertheless fully committed to the Alliance and so the discussion at the NATO Summit in May would have an impact. From what the French government knew of FRG policy and the development of German relations with the USSR, the FRG government would not rush headlong into modernisation, as Mrs Thatcher would prefer. German public opinion and, it seemed, general German policy was in favour of taking time. German psychology was important here: Gorbachev was the most popular politician in Germany and the country had been greatly relieved by the recent reduction in tension with their former World War enemy and the country with a decisive role in the future of the two Germanies. The discussion of these points would be difficult, but nonetheless important for France's future.

#### Middle East

M. Mitterrand said that he had nothing to add on Iran. The recent demonstrations in Paris against Satanic Verses were indicative of a worrying development. Perhaps the issue sprang mainly from Iranian domestic considerations. He regarded the action decided upon by the Twelve as appropriate and was content that it should continue.

M. Mitterrand said that Shamir's recent visit to Paris had

left a small hope of change in the region. On the one hand, Shamir had reiterated that he wanted no international conference as conceived by the Twelve; no involvement of the five permanent members (and, in M. Mitterrand's view, the present realities forbade it for the moment); and no negotiations with the PLO. The Israeli government might force elections on the West Bank and subsequent negotiations with elected officials (M. Mitterrand had expressed scepticism on all this to Mr. Shamir, mentioning France's colonial experience that one could not choose one's negotiating partners). There was no doubt of the Occupied Territories' solidarity with the PLO and Mr. Shamir had not taken account of recent developments. On the other hand, real changes had taken place in the Arab world, and particularly in the PLO. Shamir's rejection of an international conference seemed not to go as far as to reject an American contribution to the debate; and there might also be a Soviet presence. But it would be detrimental to peace if a conference involved just one superpower on each side, with the USSR left defending the Arab world. Neither France nor the UK would want to see these problems encapsulated in a US-USSR dialogue.

#### EC issues

M. Mitterrand said that the French government awaited the results of the Spanish Presidency and clear proposals from the Commission on monetary union. These could be discussed further before the French Presidency. The French government's position was well-known: they wished monetary union to be strengthened, but the French were not integrationists in this or any other area and there was no particularly hurry. Mrs Thatcher's desire for crystal clarity was apposite: it was essential to know precisely what we were deciding. The tiny details must be closely looked at. In the end, however, each government had to decide whether it was for or against monetary union. We all knew that we were for a Single Market and we must ensure that competition was undistorted: tax issues in particular needed further discussion. It was clear that the UK did not want quick progress towards monetary

union. France would like to see reasonable progress made, but thought that this could be done without harming UK interests. It would mean a delicate balancing act.

M. Mitterrand said that France and the UK had differences on monetary, tax and social issues. On the last of these, he felt that progress must be possible, since the Community was starting from zero. If there was no progress before the end of the year, that would be a distinct minus, and a failure difficult to tolerate. French and British approaches in the audiovisual area were similar and we could continue to work together. The environment had not been discussed that morning, but was a considerable concern to both sides.

#### Nissan

M. Mitterrand said that he and the Prime Minister had not discussed Nissan. M. Rocard was handling this for the French government. France was keen to comply with Community regulations, but did not want to see a distorted procedure allowing the Japanese to batter down the EC's commercial defences. He was prepared to be flexible on components produced in the EC. But when one looked at the advances made by the FRG in trade with the rest of the Community, important issues were raised. More than half of the French trade deficit with the FRG occurred in the automobile sector. France did not want to face a wave of Japanese products in addition coming through another Community country. He was sure that the two sides would reach agreement in the end.

#### Conclusion

M. Mitterrand said that he had valued the day's discussions. The Prime Minister held wide-ranging views and had a detailed experience of EC issues, an experience even longer than his own. She was always a welcome visitor to France. The bilateral dialogue between France and the UK was a complicated one in many respects, largely for historical reasons. When one said that, one said almost everything: history lay behind us all.

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FILE DAS



to PC

SUBJECT CC MASTER

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

1 March 1989

Dear Stephen,

ANGLO-FRENCH SUMMIT: PLENARY SESSION

I enclose a record of the Plenary Session of the Anglo-French Summit held at the Elysee Palace in Paris on Monday 27 February for which I am indebted to Mr. Greenstock in the Paris Embassy.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,

(C.D. POWELL)

Stephen Wall, Esq.,  
Foreign and Commonwealth Office.

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DSR 11 (Revised Sept 85)

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- Confidential
- ~~RESTRICTED~~
- ~~Unclassified~~

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CAVEAT.....

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some administrative control;

- (v) Nissan (UK). M Fauroux had told Lord Young that the French favoured Community discussion on Japanese investment, which was growing fast. He was keen to avoid competition in this area between EC members.

15. Lord Young agreed that the two sides had found very few differences between them. On HDTV, he said that the UK interest stemmed ~~more~~ from the role of the BBC and other programme makers rather than from manufacturers. He agreed the two sides should work closely together. He hoped that merger control policy would be resolved later this year and warned that cultural institutions might not be susceptible to this kind of control. France and the UK had different approaches to co-determination <sup>and</sup> ~~of~~ certain other matters; but they were agreed that the electricity sector should be maintained as an open market. The UK hoped that Airbus would develop into a full public limited company at a later date. As for Nissan (UK), he regarded their products as being as much EC cars as, for instance, Peugeot. He was conscious of the fact that the EC ruling on local content, as far as EFTA products were concerned, was 60%; and Nissan's present percentage was well above that. He looked

/forward

forward to receiving clarification of the terms of M Rocard's recent letter to see whether Nissan (UK) was regarded as fully within that category.

/Statements by Delegation Leaders

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16. The Prime Minister thanked M Mitterrand for his excellent hospitality and arrangements for the Summit. She referred to the very pleasant private weekend which she had spent in Paris immediately before the Summit.

East-West relations

De Rie Rust  
17. ~~She~~ said that she and the President had agreed that the situation in the Soviet Union was uncertain. A people which had never known personal responsibility or democracy was now trying to telescope into a few years what it had taken the countries of Western Europe centuries to develop. The change of attitudes required was enormous. Both France and the UK earnestly hoped Gorbachev would succeed and agreed that we should do all we could, in public and in private, to help him. Nevertheless, because it was an uncertain period, Western defences should be kept strong, up-to-date and sure. Only then could Gorbachev's reforms be fully welcomed. Because nowadays it took longer to develop weapon systems, care must be taken to keep both conventional and nuclear weapons modernised and up-to-date. It was essential that American nuclear

/weapons

weapons should remain in Europe: one could not otherwise be sure that they would be used if necessary. Since the Soviet Union were modernising their own weapons, for instance all their aircraft for carrying short-range nuclear arms, she had emphasized most strongly to the French President the need to deploy the up-dated Lance when it was ready. To delay the decision on this would make it more difficult: she had said this to Chancellor Kohl the previous week. ~~The Germans themselves~~ had agreed that it was necessary to be cautious over Gorbachev's reforms: but this meant caution over maintaining Western defences as well. She had arranged to meet Herr Kohl again before the NATO Summit to refine their discussions on this point. Meanwhile the British and German sides had reaffirmed the ~~latest NATO~~ communiqué about the mix of conventional and nuclear forces and the need to keep them up-to-date.

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Middle East

18. The Prime Minister said that she and the President had briefly reviewed the current negotiations between Iran and Iraq and had noted that no ceasefire was yet in place. Turning to the visit of Mr Arens to London, she said that he <sup>had been</sup> ~~was~~ firm in his view that the present situation in Israel and the Occupied Territories could not continue. She believed that now was the time for negotiations, but it was essential that negotiations should succeed and so they must be most carefully prepared. The five permanent members of the Security Council should be the initial framework, not the US and the USSR alone, as some quarters preferred. She emphasized most strongly that to have one superpower on each side was not the way forward. Both France and the UK had a long experience of and friendship with the region and must be involved. The British Navy would continue its presence in the Gulf.

19. The Prime Minister thanked the French government for their supportive action over Ayatollah Khomeini's death threat against Rushdie. Whatever one thought of Rushdie and his book, the UK was absolutely clear in its insistence on free speech. It was an extra bonus that all Twelve members of the Community were taking joint action on the issue: that kind of

/cooperation

cooperation strengthened us all.

EC issues

20. On Nissan (UK)'s exports to the EC, the Prime Minister said that all members of the Community wanted extra inward investment, now that world trade was more competitive.

It was important that countries with a balance of payments surplus should invest elsewhere.

The UK had <sup>experienced</sup> no difficulties whatsoever over <sup>the export</sup> ~~the manufacture of Ford cars for export to the~~ ~~Community~~ <sup>within the Community of Ford cars, whereas they were manufactured</sup>

this indeed was what the Community was all about. <sup>failed to reflect a community spirit</sup> The French position on Nissan was ~~non-communitaire~~ and presented a problem which she <sup>was</sup> ~~hoped~~ could be resolved soon.

There ~~was~~ should be no difference in the case of Nissan.

21. On the question of monetary cooperation, she said that she had talked the previous week with Herr Poehl and leading German bankers and had agreed with them on the need for a

starkly clear report from the <sup>Debat Committee</sup> Commission setting

out precisely what the <sup>consequences</sup> ~~conclusions~~ would be of <sup>economic and</sup> ~~monetary~~ ~~cooperation~~ and what ~~latitude~~ <sup>the effects would be</sup> there

<sup>of limiting movements between</sup> ~~would be for~~ exchange rates differences. She

recalled the disadvantages of the Bretton Woods

system. ~~With a single currency, there would be~~

~~Some Community countries who would not be able to~~ ~~to maintain it~~ and structural funds would be

in terms of transfer of national pounds.

~~Some Community countries who would not be able to safeguard their own economic welfare by exchange rate changes and resource transfers through~~

stay idea

participate in a single currency

/needed called

without major resource transfers through the structural funds.

Set out clearly

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needed. It was essential to define the loss of independent political action by member States and the Commission and to ensure that political decisions were taken in the full light of knowledge of the consequences.

22. The Prime Minister said that the Single Market was a huge leap forward. It involved some difficult questions, and there were already differences of view on certain issues. These included mergers and <sup>political and economic</sup> "cultural" issues. On mergers, different Community members at present had different rules - shares in German companies, for instance, were mostly held by German banks - and it was important that we should play the game by the same rules. As for cultural differences, the whole point of the Single Market was that there should be equal competition, and "cultural matters" would have to be looked at in this context.

23. Turning to fraud in the Community, the Prime Minister said that the present situation was ~~simple~~ <sup>intolerable</sup> terrible. According to different estimates, between £ 2 billion and £ 6 billion per annum was being lost. The quickest way to eliminate fraud would be to abolish MCAs in agriculture. Urgent action was needed.

a represented a huge leap forward. But it would not be created just by regulations & directives. Some things led to be found to deal with cultural differences, which continued to act as an obstacle to a genuine market, in particular areas as mergers. These and problems were encountered in Germany.

The whole point of the single market was that we should all play the game by the same rules.



24. In conclusion, the Prime Minister said that she had benefited greatly from M Mitterrand's experience on East-West, Middle East and Community issues. As for the bilateral discussions that morning, she was sure that they had been much more interesting than the accounts in the plenary session had indicated. This should be conveyed to the press. These meetings were part of the steadily growing habit of cooperation in Europe, while Europe itself played its part in the steadily growing cooperation <sup>among like-minded nations</sup> around the world, <sup>with the underlying aim of safeguarding freedom and democracy.</sup>

25. M Mitterrand said that the Prime Minister had covered the essential points of their meeting. The following was a summary of his own views.

#### East-West

*M. Mitterrand*

26. ~~He~~ said that the success of Gorbachev's reforms depended only to a small extent on overseas reactions. What did not depend on <sup>the West</sup> ~~us~~ was his own capacity to improve the average purchasing power of the Soviet man in the street. There was considerable resistance to the reforms within the USSR, not only because of the lack of democracy which the Prime Minister had underlined, but also because of the lack of adaptable structures. Another point beyond the West's control was

/Gorbachev's

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Gorbachev's inability to contain nationalist pressures within the USSR. There would be strong reactions from economic and military quarters in the Soviet Union if they identified a threat to Soviet unity. Though the results in these areas depended little on the West, we could help or hinder Gorbachev to a small extent. It would be wrong to define Western policy solely on the basis that we could not control the consequences in the East: this was a basic principle for all East-West issues.

*N. Aitkenhead central*

27. He ~~said~~ that the fact remained that East-West relations had improved immeasurably in recent years. The INF Treaty was a good one; the US and the USSR had outlined an agreement on strategic nuclear weapons, though we did not know the full details; the outcome of the Paris Chemical Weapons conference ~~looked~~ <sup>was</sup> satisfactory; he believed the conventional arms reductions talks would soon begin on a good basis. All these areas must be watched carefully, and also the question of ~~their~~ <sup>nuclear</sup> short-range weapons, where the option <sup>was</sup> ~~was~~ to modernise now, to delay a decision or not to modernise at all. The Prime Minister's views on this question had been clearly stated. He had reminded her that French policy was ~~straightforward~~ <sup>simple</sup>, even simplistic: if the Soviet Union ~~was~~ <sup>was</sup> modernising ~~their~~ <sup>its</sup> short-range weapons, then the West should modernise theirs; if ~~they were~~ <sup>it was</sup> not, then we should wait. There was no point in creating

/additional

additional tension. Our experts seemed to have concluded that the Soviet Union was modernising and also increasing quantity. So the French government did not reject the idea of modernisation. France had her own strategy, which might include some modernisation. It would be for the NATO Summit to decide at the time what decisions should be taken; but he did not see why NATO should tolerate an imbalance when we were seeking a balance in other areas. The important point was that there should not be a unilateral process of disarmament.

28. M Mitterrand said that this issue was clouded by an additional factor, only partly within the control of the UK and France - the fact that short-range weapons were stationed in the FRG. This was not the case for France; and no increase in the stationing of such weapons was planned for the UK. The German response was therefore of great importance. The FRG was nevertheless fully committed to the Alliance and so the discussion at the NATO Summit in May would have an impact. From what the French government knew of FRG policy and the development of German relations with the USSR, the FRG government would not rush headlong into modernisation, as Mrs Thatcher would prefer. German public opinion and, it seemed, general German policy was in favour of taking time.

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German psychology was important here: Gorbachev was the most popular politician in Germany and the country had been greatly relieved by the recent reduction in tension with their former World War enemy and the country with a decisive role in the future of the two Germanies. The discussion of these points would be difficult, but nonetheless important for France's future.

Middle East

29. M Mitterrand said that he had nothing to add on Iran. The recent demonstrations in Paris against Satanic Verses were indicative of a worrying development. Perhaps the issue sprang mainly from Iranian domestic considerations. He regarded the action decided upon by the Twelve as appropriate and was content that it should continue.

*M. Mitterrand*  
30. ~~He~~ said that Shamir's recent visit to Paris had left a small hope of change in the region. On the one hand, Shamir had reiterated that he wanted no international conference as conceived by the Twelve; no involvement of the five permanent members (and, in M Mitterrand's view, the present realities forbade it for the moment); and no negotiations with the PLO. The Israeli government might force elections on the West Bank and subsequent negotiations with elected

/officials

officials (M Mitterrand had expressed scepticism on all this to Mr Shamir, mentioning France's colonial experience that one could not choose one's negotiating partners). There was no doubt of the Occupied Territories' solidarity with the PLO and MR Shamir had not taken account of recent developments. On the other hand, real changes had taken place in the Arab world, and particularly in the PLO. Shamir's rejection of an international conference seemed not to go as far as to reject an American contribution to the debate; and there might also be a Soviet presence. But it would be detrimental to peace if a conference involved just one superpower on each side, with the USSR left defending the Arab world. Neither France nor the UK would want to see these problems encapsulated in a US-USSR dialogue.

EC issues

*A. Mitterrand*  
31. He said that the French government awaited the results of the Spanish Presidency and clear proposals from the Commission on monetary union. These could be discussed further before the French Presidency. The French government's position was well-known: they wished monetary union to be strengthened, but the French were not integr<sup>arabists</sup>~~ists~~ in this or any other area and there was no particular hurry. Mrs Thatcher's desire for

/crystal

~~Was one for, or was one against monetary union?~~

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crystal clarity was apposite: it was essential to know precisely what we were deciding. The tiny details must be closely looked at ~~this was his~~ <sup>an</sup> special forte. In the end, however, each government had to decide whether it was for or against monetary union. We all knew that we were for a Single Market and we must ensure that competition was undistorted: tax issues in particular needed further discussion. It was clear that the UK did not want quick progress towards monetary union.

France would like to see reasonable progress made, but <sup>though</sup> ~~not if this jeopardised the UK position.~~ <sup>that this could be done without harming UK interests.</sup> It would mean a delicate balancing act.

32. M Mitterrand said that, ~~in particular,~~ France and the UK had differences on monetary, tax and social issues. On the last of these, he felt that progress must be possible, since the Community was starting from zero. If there was no progress before the end of the year, that would be a distinct minus, and a failure difficult to tolerate. ~~As for the audiovisual area,~~ <sup>in</sup> this was a powerful vector of culture. French and British approaches were similar and we could continue to work together. The environment had not been discussed that morning, but was a considerable concern to both sides.

Nissan

*A. Mitterrand*

33. ~~He~~ said that he and the Prime Minister had not discussed Nissan. M Rocard was handling this for the

/French

French government. France was keen to comply with Community regulations, but did not want to see a distorted procedure allowing the Japanese to batter down the EC's commercial defences. He was prepared to be flexible on components produced in the EC. But when one looked at the advances made by the FRG in trade with the rest of the Community, important issues were raised. More than half of the French trade deficit with the FRG occurred in the automobile sector. France did not want <sup>to see a</sup> wave of Japanese products in addition coming through another Community country. He was sure that the two sides would reach agreement in the end.

### Conclusion

34. M Mitterrand said that he had valued the day's discussions. The Prime Minister ~~had~~ held wide-ranging views and had a detailed experience of EC issues, an experience even longer than his own. She was always a welcome visitor to France. The bilateral dialogue between France and the UK was a complicated one in many respects, largely for historical reasons. When one said that, one said almost everything: history lay behind us all.

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