



Foreign and Commonwealth Office

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London SW1A 2AH

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Dear Charles,

CD 207i

Prime Minister's visit to Paris: 20 January

The Prime Minister is to have talks with President Mitterrand at 1230 hrs, followed by a working lunch. The Foreign Secretary has sent separate minutes on Germany, on Western security arrangements and on the bilateral defence relationship. Apart from these issues, two important points to get across to President Mitterrand are:

- Eastern Europe: the European Bank for Reconstruction and Development should be designed to promote the private sector rather than to loan finance for infrastructure; the G24 exercise should be given a wider mandate so as to cover more countries than Poland and Hungary.
- Soviet Union: our view of recent developments as they affect President Gorbachev's position and the continued importance of Western support for his efforts.

French Diplomacy

Since the Strasbourg European Council, President Mitterrand has met President Bush (on 12 December); visited GDR and East Berlin (20-22 December); and has met Chancellor Kohl (on 4 January). He had previously met President Gorbachev in Kiev on 6 December. Now that the French EC Presidency is over, we can expect President Mitterrand to concentrate on the wider future of Europe, East and West. In his New Year's message to the French people, he called for the creation of a "European Confederation", associating all the countries of Eastern and Western Europe when the countries of Eastern Europe had set up genuinely democratic institutions and existing EC structures had been strengthened.

Assistance for Eastern Europe

The French are keen to keep the lead on President Mitterrand's proposal for a European Bank for Reconstruction and Development (EBRD) for Eastern Europe (made on 18 November). Discussions in Paris (14-16 January) emphasised differing UK and French views on the Bank's priorities. The French are prepared to countenance Soviet borrowing from EBRD; the US and Japan have indicated that they would withdraw from participation in these circumstances. We agree with the US and Japan. We risk an EBRD with full Soviet participation with the US and Japan excluded. It would be useful if the

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Prime Minister could underline the need to promote the growth of the private sector in Eastern Europe rather than duplicate the efforts of other organisations providing infrastructural advice and support. The UK and at least eight others have bid for its headquarters. The Prime Minister might say:

- we are determined to do all we can to help Eastern Europe's move towards genuine democracy and a market economy;
- important to preserve the approach developed by EC/G24 to assist Poland and Hungary: generous, but geared to circumstances of each country - eg Stabilization Fund to bolster Poland's foreign exchange reserves; prospective balance of payments loan to Hungary. Both conditional on IMF programme of reform and adjustment;
- differentiation according to extent of political and economic reform should govern the level of EC help to all reforming countries and the form of future relationships. UK "Framework Paper", distributed before Strasbourg, still valid;
- EBRD can play important role as catalyst for nascent private sectors in Eastern Europe, including equity investments. Must not add to debt problems. Other institutions (EIB, World Bank) exist to provide loans for infrastructure;
- issue of Soviet borrowing from EBRD is difficult. Do not believe the Soviet Union can profit from private sector support which EBRD will provide. US and Japan have made clear their opposition and would withdraw their support if this is pushed. This is in no-one's interest. EC should stand firm against Soviet pressure;
- Commission have handled G24 exercise for Poland/Hungary well. G24 should be given a wider mandate to coordinate help to other reforming countries, with continued Commission lead;
- (if raised) Foreign Ministers discussing loan to Hungary in Dublin. UK favours one billion dollars (not ECU which equals 15% more) guaranteed from national budgets (not EC) with participation by G24.

Romania

The French want to resume their traditional strong links with Romania. France, with the UK, played the main role in supporting dissidents, especially Doina Cornea, during Ceausescu's later years. M Dumas has just been to Bucharest, as has Mr Waldegrave. There is mounting resentment against the National Salvation Front and growing fears of a military coup among ordinary Romanians. The prospects are, at best, for a prolonged period of uncertainty, if not outright

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instability. The Prime Minister might say that EC emergency aid is clearly right, but until the dust settles caution is needed on political rapprochement and long-term economic assistance.

Soviet Union

The only constant is an economy in deep crisis. President Gorbachev's institutional position is strong but on a number of key issues he is likely to face stark choices between faster reform and retrenchment.

On nationalities, the Lithuanian party's decision to leave the CPSU has forced President Gorbachev to address the future political structures of the country. It seems that he no longer sees either the Union or the one party state as immutable. There are many indications that he is trying to buy time to allow others to come to terms with these previously heretical ideas before they become a reality. The critical Party Congress in October may well mark the first stage in moving away from the one party system.

On the wider questions of East West relations the Prime Minister may like to draw on the following:

- Gorbachev catalyst of reformist explosion in Eastern European. Stood by commitment not to interfere, even during Romanian revolution - perhaps most serious test of Soviet nerves so far;
- important to support Gorbachev: politically; training for managers, contacts with legislators; support for progressively greater integration of Soviet Union into world economic system;
- Soviet concern at pace of recent developments and wider implications for post-war borders (including those of Soviet Union) genuine and understandable. Western policy should reflect this;
- important to give thought to future institutional arrangements as reform continues and new security situation develops. May need to reconsider roles of CSCE, Council of Europe;
- must also continue to co-ordinate very closely with US.

CSCE

France supports President Gorbachev's suggestion of a CSCE Summit in 1990. They see it as the occasion for the signature of agreements on CFE and CSBM (Confidence and Security Building Measures) and a review of the European political situation. It could prepare the ground for the

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Helsinki Follow-up Meeting in 1992 and consider institutional changes to the CSCE process.

The idea of a CSCE Summit has support from many CSCE participants. We do not wish to set any artificial deadline for the conclusion of the CFE negotiations but a Summit might give a political impulse to developing the entire CSCE process.

President Mitterrand has proposed that Paris should be the venue for a Summit. The Austrians have suggested Vienna.

EC Internal Issues

The Prime Minister may wish to acknowledge again the achievements of the French Presidency, particularly in responding to the challenge of events in Eastern Europe. After a slow start, the French Presidency also finished strongly on the Single Market programme, helped by Strasbourg's encouragement, at our suggestion, of a package of measures for the December Internal Market Council, including the mergers regulation and life insurance directive. Sixty-five Single Market measures were agreed (only the Spaniards have done better, with 68). Leftover business includes the directive on public purchasing in the excluded sectors, and turning the guidelines on air transport liberalisation into legal texts. We also want the Irish Presidency to make progress on the Investment Services Directive (so that it comes into force with the Second Banking Directive at the beginning of 1993); on barriers to takeovers (Commission proposals are due by end-March); and on insurance (Sir Leon Brittan has announced that he intends to extend the "single passport" approach to insurance).

As promised at Strasbourg, France abolished all remaining exchange controls on 1 January, following a four-year period of progressive liberalisation. ECOFIN agreed in December that further work on EMU should be undertaken in the Monetary Committee, which will report by the end of March, when the Commission paper promised at Strasbourg will be presented to the Informal ECOFIN.

Bilateral relations

Bilateral relations are currently good, with no particular problems. The last few months have seen separate meetings between the Foreign, Defence, Home and Education Secretaries and their French counterparts. The Defence Secretary is visiting Paris in early April for further talks. The annual bilateral summit will take place on 4 May.

President Mitterrand may refer to the Channel Tunnel. Eurotunnel announced on 11 January that they had reached agreement with Trans-Manche Link on cost projections. The

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banks are content in principle, and are to review the terms for additional funding. The Prime Minister could say that she is satisfied that the financing problems of the Channel Tunnel seem to have been resolved - for the time being at least.

IMF questions are currently under review. President Mitterrand may refer to the relative rankings of Britain and France. The Chancellor's Private Secretary will be sending you separately a suggested line to take.

France Internal

President Mitterrand and M Rocard continue to dominate the domestic scene and are the most popular politicians in France. The French economy is performing well, though unemployment (9.5%) is still high. M Rocard's minority government, although secure, has used emergency powers under the Constitution unusually frequently. Meanwhile the opposition is in disarray and the communists have been severely weakened.

The Socialist Party Congress in March could witness a split in the majority "Mitterrandiste" faction (which could work to M Rocard's advantage) but, despite some strains in relations between the President and M Rocard, the latter is unlikely to be replaced.

Immigration remains a hot political issue. The Front National's gain of two parliamentary seats from the mainstream right in early December alarmed the other parties. The Government has responded by signalling a tougher stance on illegal immigration.

Press Arrangements

The French do not envisage holding a press conference after the talks.

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