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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH M. ROCARD

SUMMARY

1. THE SECRETARY OF STATE HAD A LIVELY ONE HOUR MEETING WITH ROCARD IN PARIS TODAY. DISCUSSION CENTRED ON EC ISSUES. DEFENCE COOPERATION ALSO TOUCHED ON. ROCARD EMPHASISED WILLINGNESS TO WORK WITH THE UK BUT WARNED OF PITFALLS AHEAD.

DETAIL

FOLLOW-UP TO RHODES SUMMIT

2. ROCARD SAID THAT RHODES HAD POSTPONED SOME PROBLEMS. THE SECRETARY OF STATE SAID THAT IT HAD ILLUMINATED THEM AS WELL. DISCUSSION HAD SHOWN CLEARLY THAT WE SHOULD NOT TAKE AN ABSOLUTIST APPROACH ON TAX APPROXIMATION. MARKET FORCES WOULD LEAD TO SOME APPROXIMATION. THE ISSUE COULD NOT BE FORCED. ROCARD DESCRIBED THE FRENCH TAX STRUCTURE AND THE PRESSURE FOR DOWNWARD REDUCTIONS ON THE HIGHER LEVELS OF PERSONAL TAXATION. HE WOULD MAKE A SISCAL SACRIFICE OF OVER POUNDS STERLING 1 BILLION IN FY 1990. HE DID NOT WANT TO SEE FRENCH BANKS AND FINANCIAL INSTITUTIONS PUT INTO A LESS COMPETITIVE POSITION THAN THOSE OF THE UK. AS FAR AS VAT WAS CONCERNED, HE DID NOT WANT TO HAVE TO DO MUCH MORE THAN WAS CONTEMPLATED ALREADY. THE SECRETARY OF STATE DESCRIBED OUR REQUIREMENT TO MAINTAIN ZERO RATES ON CERTAIN ITEMS. ROCARD SAID HE UNDERSTOOD THE POLITICAL IMPERATIVE. THERE HAD TO BE FLEXIBILITY. HE DOUBTED, HOWEVER, WHETHER OUR ZERO RATES WERE SUSTAINABLE OVER MORE THAN ABOUT A 20 YEAR PERIOD. THERE WOULD BE PRESSURE ON INTERNAL FISCAL POLICY POINTING TOWARDS CHANGE.

FRONTIER CONTROLS

3. THE SECRETARY OF STATE DESCRIBED OUR POLICY AS BEING ONE IN WHICH CHECKS WERE REDUCED TO THE MINIMUM COMPATIBLE WITH THE COMMON FIGHT AGAINST DRUG TRAFFICKING, TERRORISM AND ILLEGAL IMMIGRATION. HERE AGAIN, ABSOLUTISM WAS THE ENEMY OF PROGRESS. ROCARD SAID THAT HE

TOO HATED VERBAL VIOLENCE. THERE WERE, HOWEVER, TWO DIFFERENCES BETWEEN US. ON TAX, HE COULD NOT ACCEPT THAT EVERYBODY ELSE SHOULD HARMONISE TO BRITAIN'S ZERO RATES. MORE GENERALLY, HE HOPED THAT BRITAIN WOULD NOT DENY THAT PROGRESSIVELY THERE SHOULD BE HARMONISATION OF BEHAVIOUR IN THE SOCIAL, FISCAL AND MONETARY SPHERES. BUT IT WOULD HAVE TO BE DONE SLOWLY. THE SECRETARY OF STATE SAID THAT WE HAD LEARNED THE HARD WAY IN BRITAIN THAT FOR SOME PROBLEMS THERE WAS NO SINGLE RIGHT ANSWER WHICH APPLIED NATIONWIDE. THERE HAD TO BE ROOM FOR LOCAL INITIATIVE. JUST AS OREGON COULD DECIDE TO EMULATE CALIFORNIA'S SOCIAL SECURITY SYSTEM - OR NOT AS THE CASE MIGHT BE - SO WE NEEDED A SIMILAR DIVERSITY WITHIN THE COMMUNITY.

SOCIAL POLICY

4. THE SECRETARY OF STATE SAID THAT WE SHOULD NOT ALLOW CULTURAL/LINGUISTIC DIFFERENCES TO DIVIDE US. THE TERM QUOTE SOCIAL SPACE UNQUOTE, SO WIDELY USED ON THE CONTINENT, WAS VIRTUALLY MEANINGLESS IN THE UK. ON THE OTHER HAND, IF YOU TALKED ABOUT THE SOCIAL DIMENSION OF THE SINGLE MARKET ECONOMY, THERE WAS IMMEDIATELY COMMON GROUND BETWEEN BRITAIN AND THE REST OF HER PARTNERS. A LOT WAS ALREADY BEING DONE, IN HELP TO SMES, EMPLOYMENT TRAINING ETC. WHAT WE COULD NOT DO WITH WAS A RETURN TO TRADE UNION BOSSISM - REIMPOSED FROM BRUSSELS. WE SHOULD ENCOURAGE GREATER WORKER INVOLVEMENT THROUGH, EG, SHARE OWNERSHIP SCHEMES.

MONETARY COOPERATION

5. ROCARD ASKED WHEN BRITAIN WAS GOING TO JOIN THE ERM. THIS WAS A REAL PROBLEM. THERE COULD NOT BE A COMPLETE OPENING UP OF FINANCIAL MARKETS WITHOUT MUCH GREATER AND DEEPER COORDINATION OF MONETARY POLICY. IF EXCHANGE CONTROLS WERE COMPLETELY REMOVED, THERE COULD BE REAL DISORDER IN THE MONEY MARKETS IF, FOR EXAMPLE, THE DEUTSCHMARK CAME UNDER REAL PRESSURE AS A RESULT OF MOVEMENTS IN THE DOLLAR OR THE YEN. IT WOULD BE IMPOSSIBLE TO RESIST SUCH PRESSURES WITHOUT, FOR EXAMPLE, COMMON MANAGEMENT OF RESERVES. EVEN POEHL TOOK THAT VIEW. IN DUE COURSE BRITAIN'S OIL RESOURCES WOULD RUN OUT AND THE POUND WOULD BE UNDER THREAT. IT WOULD BE MUCH MORE DIFFICULT FOR BRITAIN TO NEGOTIATE ITS WAY INTO THE ERM IN THOSE CIRCUMSTANCES. THE SECRETARY OF STATE POINTED OUT THAT EVEN AT THE HIGHT OF PRODUCTION, OIL HAD NEVER REPRESENTED MORE THAN 8 PER CENT OF OUR GNP. OUR POSITION ON JOINING THE ERM (WHEN THE TIME WAS RIGHT) HAD NOT CHANGED. WE SHOULD NOT ENLARGE THE AREAS OF DIVERGENCE THAT ALREADY EXISTED. WE WERE GOING ALONG WITH THE WORK OF THE DELORS COMMITTEE. WHEN PEOPLE TALKED OF A SINGLE CURRENCY OR A SINGLE CENTRAL BANK, IT WAS RIGHT TO QUESTION WHAT THEY MEANT, HE HAD SO

QUESTIONED SCHMIDT IN A RECENT RADIO INTERVIEW, AND SCHMIDT HAD ACKNOWLEDGED THAT WHEN HE TALKED IN THESE TERMS HE MEANT GREATER COOPERATION AND COORDINATION RATHER THAN THE CREATION OF NEW INSTITUTIONS. HERE AGAIN, ABSOLUTISM WAS THE ENEMY. ROCARD COMMENTED QUOTE BOTH OUR COUNTRIES KILLED A KING FOR ABSOLUTISM UNQUOTE. HE AGREED MONETARY ISSUES NEEDED CAREFUL WATCHING AND THAT WE SHOULD AVOID EXACERBATING DIFFERENCES. HE ADDED SOMEWHAT DELPHICLY, THAT ANY COMMUNITY REGULATORY MONETARY AUTHORITY SHOULD HAVE THE POLITICAL STATUS WHICH THE GERMANS WANTED IT TO HAVE.

6. ROCARD SAID HE WAS NO FEDERALIST, NOR WERE 99 PER CENT OF THE FRENCH PEOPLE. BUT OUR ECONOMIES WOULD INEVITABLY BECOME MORE AND MORE INTEGRATED IN THE SINGLE AND HIGHLY COMPETITIVE MARKET OF 1992. THAT INCREASE IN COMPETITION HAD TO BE MATCHED BY PROGRESS IN OTHER SPHERES.

COMPANY LAW

7. THERE WAS A BRIEF EXCHANGE ON COMPANY LAW. ROCARD INDICATED THAT THE FRENCH WERE PREPARED TO CONTEMPLATE A PERMISSIVE RATHER THAN A COMPULSORY APPROACH. HE HOPED THAT PROGRESS COULD BE MADE IN THE FRENCH PRESIDENCY ON DIALOGUE BETWEEN THE SOCIAL PARTNERS AND THOUGHT IT WOULD BE A GOOD IDEA IF BRITAIN AND FRANCE EXCHANGED WRITTEN IDEAS ON THE SUBJECT. THE SECRETARY OF STATE FENDED THIS OFF. ROCARD SAID THAT FRANCE WOULD WISH TO MAKE SOME PROGRESS ON THIS ISSUE DURING HER PRESIDENCY.

NISSAN

8. THE SECRETARY OF STATE REMINDED ROCARD OF THE PROBLEM AND SAID THAT WE WERE GLAD THAT AT HIS TALKS WITH THE PRIME MINISTER LAST WEEK, PRESIDENT MITTERRAND HAD INDICATED THAT THE ISSUE WAS NOW RESOLVED. IT WAS FOOLISH TO PENALISE VEHICLES WITH 70 PER CENT LOCAL CONTENT. ROCARD SAID THAT THAT WAS WHY THEY HAD BEEN ABLE TO PUT AN END TO THE PROBLEM.

AGRICULTURAL PROTECTIONISM

9. ROCARD DESCRIBED THE EXTENT OF JAPANESE AGRICULTURAL PROTECTIONISM AND WHAT HE CALLED THE FOOLISH LINE BEING TAKEN BY THE UNITED STATES. THE US COULD NOT CREDIBLY CALL FOR AN END TO SUBSIDIES WHEN THEIRS WERE FIVE TIMES HIGHER THAN THOSE OF THE COMMUNITY. HE COMMENDED A RECENT SPEECH ON AGRICULTURAL SUBSIDY BY BOB HAWKE AND SAID HE HAD MANAGED TO GET SOME SENSE OUT OF CLAYTON YEUTTER ON THE SUBJECT. ROCARD SAID THE FRENCH WERE COMMITTED TO AGRICULTURAL REFORM AND HOPED WE WOULD WORK TOGETHER. THE SECRETARY OF STATE COMMENDED THE OECD APPROACH TO MEASURING PROCEDURE SUBSIDY

EQUIVALENTS. ROCARD AGREED WITH THE SECRETARY OF STATE THAT HELP TO FARMERS SHOULD FOCUS ON RESTRUCTURING RATHER THAN ON PRODUCTION SUBSIDIES.

DEFENCE

10. THE SECRETARY OF STATE COMMENDED THE COOPERATION BETWEEN OUR SECURITY SERVICES IN TACKLING TERRORISM. ROCARD AGREED IT WAS ESSENTIAL. THE SECRETARY OF STATE ALSO COMMENDED CLOSER DEFENCE COOPERATION. THE FACT THAT WE HAD NOT BEEN ABLE TO COLLABORATE ON THE EUROPEAN FIGHTER AIRCRAFT DID NOT MEAN THAT WE SHOULD GIVE UP THE EFFORT. WE NEEDED MORE SPONTANEOUS INDUSTRIAL COOPERATION. ROCARD SAID HE WAS PLEASED TO HEAR THAT. IT HAD BEEN POLITICALLY IMPOSSIBLE TO RESIST THE PRESSURE FROM FRENCH INDUSTRY BUT HE HOPED THERE MIGHT BE SOME OPEN TENDERING AND SOME COOPERATION ON PARTS AND MAINTENANCE. THE TWO AIRCRAFT SHOULD BE COMPLEMENTARY, NOT COMPETITIVE.

11. THE SECRETARY OF STATE SAID THE FACT THAT WE HAD NOT BEEN ABLE TO AGREE ON COOPERATION ON THE PRESENT GENERATION OF NUCLEAR MISSILES SHOULD NOT RULE OUT COLLABORATION OVER THE NEXT GENERATION. ROCARD SAID HE WAS PREPARING A MEMORANDUM TO BE SENT TO US ON THIS SUBJECT. HE HOPED FOR CLOSER COOPERATION, (PERHAPS STARTING WITH RESEARCH) MORE CROSS-PURCHASING AND POSSIBLY EVEN JOINT VENTURES IN SHIP-BUILDING. FRANCE WAS GOOD ON SUBMARINES, BRITAIN ON SURFACE SHIPS. WE WERE NOW PRODUCING THE LAST GENERATION OF WEAPONS THAT COULD BE FINANCED FROM NATIONAL BUDGETS ALONE.

COMMENT

12. ROCARD WAS FRIENDLY, LIVELY AND ENTHUSIASTIC, SPEAKING FLUENT, IF FRACTURED, ENGLISH. HE STRESSED HIS LIKING FOR THE UK, FOR WHICH TENDANCY HE WAS REGARDED WITH SUSPICION IN FRANCE. THE DESIRE FOR CLOSE COOPERATION SEEMED QUITE GENUINE, ALTHOUGH ROCARD DID NOT ATTEMPT TO DISGUISE WHERE DIFFERENCES LAY, PARTICULARLY ON MONETARY AND SOCIAL ISSUES WITHIN THE COMMUNITY. HIS WISH FOR CLOSER DEFENCE COOPERATION WAS VERY EMPHATIC.

ALEXANDER

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