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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 March 1989

Richard Gozney Esq
PS/Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Richard,

MEETING WITH RPR SECRETARY GENERAL

M. Alain Juppe, the Secretary General of the French RPR, paid a call on the Chancellor on 23 March . He was accompanied by his chef de cabinet, Voye. The Paymaster General was also present.

There was some discussion of the recent French municipal elections. Juppe said that, although the RPR had not done well, they had not done as badly as he had expected. The National Front had caused problems. The RPR's prospects for the forthcoming European elections depended on whether a single list could be agreed for the parties of the right. The Centrists were currently insisting on their own list. It was more likely than not that agreement on a single list would be reached; even if it were not, provided that Madame Veil headed the Centrists' list, that would not be so bad for the RPR since she would tend to drive away the more conservative voters. But it would not be helpful to have two lists. The Socialists' list would probably be led by Fabius.

Juppe asked about the Commission's proposals for fiscal harmonisation. The Chancellor explained our difficulties with the proposals for indirect tax approximation. He noted that the Commission's proposals for excise duties created major problems for most member states. The VAT clearing house proposal also caused great difficulties. We had put forward our own alternative proposals, which would allow frontiers to be abolished without forced harmonisation. There would be a residual problem with cross-border shopping - but this would also arise with the

Commission's proposals, and was in any case not significant. The Chancellor noted that the French had also produced an alternative proposal, which had similarities with our own.

Turning to other tax harmonisation proposals, the Chancellor noted that there was some talk of harmonising company tax. This, if developed, could also cause problems. The main proposal on direct taxes was, however, that for a withholding tax. This would be pointless and damaging. It would drive capital out of the Community altogether. The German experience with their recently introduced withholding tax was illuminating, here. The Chancellor recalled our own experience with capital liberalisation. The lifting of exchange controls had not given rise to any detectable increase in tax evasion. There was no reason to suppose that capital liberalisation would drive money out of France - indeed, the recent partial liberalisation had strengthened the franc. All in all, the Commission's proposal was most unwise.

Juppe asked about our reactions to the likely proposals from the Delors Group. The Chancellor said that we did not know what proposals would emerge. But the achievement of the single market was a major endeavour, and the Community should devote its energies to that. It was premature and distracting to talk of any further Treaty amendment: even if the UK Government could agree to that, it was certain that the House would not. We should devote our efforts to improving co-operation within the existing framework. Juppe commented that he thought that the Germans would also have difficulties with any radical proposals. The Chancellor agreed that it seemed that both Stoltenberg and the Bundesbank had considerable reservations.

I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

Yours sincerely,

Duncan Sparkes

p.p. J M G TAYLOR
Private Secretary