

MEETING RECORD
Subject cc Navster



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 February 1990

Dear Maurice,

PRIME MINISTER'S MEETING WITH M. GISCARD D'ESTAING

The Prime Minister had a talk this afternoon with M. Valéry Giscard d'Estaing. I am writing separately to Stephen Wall about the main part of the discussion. But you may find it helpful to have this separate note on the Party aspects.

M. Giscard said that his Liberal Group in the European Parliament enjoyed good relations with the European Democratic Group. Might it not make sense for the two of them to merge to form a larger group of 100 or so members? He would be interested to know what the Prime Minister thought.

The Prime Minister said it was not a matter of tactics but of principles and policies. The two groups had to consider whether they stood for the same principles. She would talk to Sir Christopher Prout about this.

M. Giscard said that he saw two possibilities. The first would be to create a large centre-right group including the European People's Party. This would probably be very difficult to achieve, given the propensity of the EPP to co-operate with the Socialists. The second would be a smaller grouping of Liberals and Conservatives. In his experience the two groups adopted very similar positions on domestic issues. Where they tended to differ was on European questions, in particular the future shape of Europe. He hoped the Prime Minister would let him know her views once she had talked to Sir Christopher Prout.

I am copying this letter to John Whittingdale here at No.10 and to Sir James Spicer in Conservative Central Office.

Yours sincerely,

Charles Powell

Maurice Fraser, Esq.,
Foreign and Commonwealth Office

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From the Private Secretary

19 February 1990

Dear Stephen.

PRIME MINISTER'S MEETING WITH
MONSIEUR GISCARD D'ESTAING

The Prime Minister had a talk this afternoon with Monsieur Valéry Giscard D'Estaing. I have written separately to your Special Adviser about their exchange on possible co-operation between the Liberals and the EDG in the European Parliament. The rest of their discussion was concerned entirely with German unification.

The Prime Minister said that it was clear that German unification was going to happen. Her main objective was to persuade the German Government that they must take into account the interests and sensitivities of others in Europe. Monsieur Giscard said that he and Helmut Schmidt had read and discussed the Prime Minister's remarks on the subject to the Board of Deputies of British Jews the previous day and supported the substance of them. Their differences with her lay over the strategy which the rest of Europe should adopt. Broadly, the choice lay between establishing alliances to counter-balance Germany, and tying the Germans into a framework in which they were compelled to behave. He wondered whether the Prime Minister had made up her mind about this. Or was she just waiting and watching?

The Prime Minister said that she did not think the right answer was a tighter, federal Europe. That ran contrary to people's instincts: and it was clear from what was happening in Eastern Europe that nationalism was still a factor. Moreover, we could not leave the Soviet Union out of account. She was more inclined to think in terms of a looser structure of confederation in a larger Europe. Monsieur Giscard suggested that the Helsinki framework already provided this: there was no need for a confederation. Helsinki offered a loose structure of meetings and conferences within which regional disputes in Europe could be resolved. But on its own it was not enough. He therefore saw a need for a stronger structure in western Europe. He knew that the Prime Minister did not like that. But we were at a cross-roads. A 'dispersed' Western Europe coping with an increasingly powerful Germany was not an attractive option.

The Prime Minister said that she thought this point of view contained a fundamental miscalculation. The basic fact was that Germany was going to get steadily stronger. When the European Community had been founded, France had been in the ascendant. That had changed. Germany was now dominant in the Community: and attempts to create a tighter European Community would only extend Germany's power still further. It would not be a case of tying Germany into the Community: the reality was that the Community was tied to Germany. That was particularly true in the monetary field where the DM ruled supreme. Monsieur Giscard said that he was beginning to doubt whether the ERM was still the best instrument: the situation had changed since its creation. The DM had not been so powerful then. But he still did not see how the Prime Minister's view of a 'dispersed' Europe could keep Germany in check. If the Community halted at its present stage of development, that would ensure its domination by Germany. The Americans and Japanese would be interested only in the DM. Trade negotiations would centre on Germany rather than anyone else. Indeed, Europe would equal Germany. Within a tighter European Community, Britain and France together would still be stronger than Germany.

The Prime Minister said she found this hard to reconcile with the thesis in the joint article by Monsieur Giscard and Helmut Schmidt, which was predicated on Franco-German co-operation. The fact was the European Community was no longer the same as it had been when Monsieur Giscard and Helmut Schmidt were in office. Germany was now the dominant partner in that relationship. There were also constant attempts to enlarge the power of the Commission. The time had come to put a stop to that. The power of initiative which the Commission enjoyed had been appropriate at the time of the Community's foundation but was no longer necessary. Monsieur Giscard said that his purpose in creating the European Council in 1975 had been precisely to avoid concentrating too much power in the Commission. It was a great pity that Britain and others had reduced the number of times that the European Council met.

The Prime Minister said the immediate problem confronting us was to make Germany discuss the consequences for the rest of Europe of unification. The decision to establish the Four plus Two Group had been a step forward. Genscher seemed to understand the need to reassure others better than Kohl. There were very real concerns among other European countries about Germany's behaviour, particularly the way in which Bonn was trying to dragoon the GDR into unification. She had found the Polish Prime Minister very agitated. Monsieur Giscard commented that he was quite right to be worried. Within a very few years a united Germany would want to move back the Polish border, which would run only 50 kms from Berlin.

Monsieur Giscard asked what the Prime Minister would be proposing at the special meeting of the European Council in Dublin. the Prime Minister said the first priority must be to get the consequences of unification for defence and for borders in Europe worked out. This would be done in the Four plus Two Group, although others would have to be consulted.

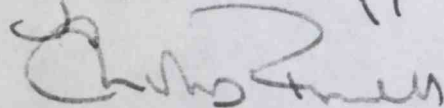
She fully supported Poland's wish to have its border confirmed by a treaty. The task of the Dublin meeting would be to negotiate the terms on which East Germany would be absorbed into the European Community. It was likely to be a difficult discussion.

Monsieur Giscard said that he found it hard to believe that unification could take place without there being an election covering Germany as a whole. In his view, Chancellor Kohl would be defeated in that and we would be faced with a Socialist Germany. The Prime Minister thought that a gloomy prospect.

Monsieur Giscard continued that Britain's position in all this was a key one. France would prefer a federal Europe, but did not wish to be left alone with Germany in such a structure. It was only feasible with Britain's participation. France needed to know Britain's ultimate position. What progress did the Prime Minister envisage in Europe? The Prime Minister said she was not at all surprised to hear that Monsieur Giscard did not relish the prospect of a federal Europe in which Germany was dominant. She thought the Community should continue to develop on its present course but without further centralisation of power. We would not accept Delors Stages II and III. Britain was pledged to join the ERM, but she was glad we were not in it at the moment. Monsieur Giscard said that if matters just went on as at present, the DM would become even more dominant. If there was a central bank, the DM would still be important but would be only one among many. He had come to the conclusion that the worst system was a fixed exchange rate based on a strong but under-valued DM. Rather than Delors' structure, it might be better to envisage a tighter association of Community central banks.

The Prime Minister said that we had entered the last decade of the century with high hopes. But fresh worries were piling up fast. Monsieur Giscard said that he had been impressed by the Prime Minister's remarks and found himself reluctantly agreeing with some of them. He asked whether the Prime Minister had talked equally frankly to President Mitterrand. The Prime Minister said that she had indeed discussed these matters with him. She had found him very concerned about German unification.

I am copying this letter on a personal basis to John Gieve (Treasury) and to Sir Robin Butler.

Yours sincerely,

CHARLES POWELL

J S Wall Esq
Foreign and Commonwealth Office