

CONFIDENTIAL



LH AFJ
Geoff P. Coad

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

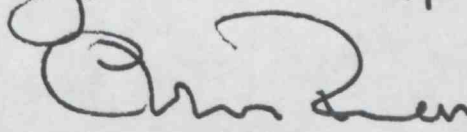
1 March 1990

Dear Martin,

TRADE AND INDUSTRY SECRETARY'S VISIT
TO PARIS

The Prime Minister has seen Paris telegram no. 247 reporting the Trade and Industry Secretary's discussions in Paris. She is most disturbed to learn of the line being taken by the French Government on Japanese cars, and has commented that we cannot let them get away with that.

I am copying this letter to John Gieve (HM Treasury), Richard Gozney (Foreign and Commonwealth Office) and Sonia Phippard (Cabinet Office).

Yours sincerely,

Charles Powell

Martin Stanley Esq
Department of Trade and Industry

CONFIDENTIAL

SL

CONFIDENTIAL

FM PARIS

TO IMMEDIATE FCO

TELNO 247

OF 271821Z FEBRUARY 90

INFO ROUTINE UKREP BRUSSELS, BONN, WASHINGTON, TOKYO

INFO SAVING OTHER EC POSTS, UKMIS GENEVA

*More or less
total protectionism
from the French.**CB
20/2**We cannot let them get
away with that not*

(FRAME EXTERNAL)

VISIT TO PARIS BY SECRETARY OF STATE FOR TRADE AND INDUSTRY,
26-27 FEBRUARY 1990

SUMMARY

1. USEFUL DISCUSSIONS WITH FAUROUX, MME CRESSON AND BEREGOVY. MR RIDLEY PRESSED THE UK CASE ON JAPANESE CAR IMPORTS INTO THE EC: NO GIVE ON THE FRENCH SIDE. FRENCH POSITION CLOSER TO OUR OWN ON GATT TEXTILES, EC COMPETITION POLICY, AND ECONOMIC CONSEQUENCES OF GERMAN UNIFICATION, THOUGH MR RIDLEY ARGUED THAT THE CONSEQUENCES OF THE LATTER FOR THE DM AND ERM WEAKENED RATHER THAN STRENGTHENED THE CASE FOR STERLING JOINING THE MECHANISM. MR RIDLEY PUT ACROSS OUR VIEW ON FINANCIAL SERVICES ISSUES AND LOBBIED ON BEHALF OF THE BRITISH LAWYERS IN PARIS AND ON LONDON AS THE SITE OF THE EBRD.

DETAIL

2. MR RIDLEY WAS IN PARIS ON 27 FEBRUARY FOR TALKS WITH THE FRENCH MINISTERS FOR INDUSTRY (FAUROUX), EC AFFAIRS (MME CRESSON) AND FINANCE (BEREGOVY), AND FOR LUNCH WITH A SELECTION OF FRENCH BUSINESSMEN. A FULL RECORD WILL BE PREPARED IN LONDON. THE MAIN POINTS ARISING WERE AS FOLLOWS.

JAPANESE CARS

3. MR RIDLEY ARGUED THAT ANY TRANSITIONAL PERIOD SHOULD BE AS SHORT AS POSSIBLE, THAT IT WOULD BE QUITE WRONG, IN TERMS OF LAW, PRINCIPLE AND PRAGMATIC SELF-INTEREST TO COUNT CARS PRODUCED BY JAPANESE-OWNED PLANTS IN THE EC AGAINST NATIONAL QUOTAS, AND THAT THE COSTS OF PROTECTIONISM WERE HIGH. NEITHER FAUROUX NOR MME CRESSON GAVE ANY GROUND. THEY ARGUED THAT THE FRENCH INDUSTRY WOULD GO UNDER WITHOUT A LONG PERIOD OF TRANSITIONAL PROTECTION, INCLUDING FROM TRANSPLANTS, AND THAT THEY WERE NOT READY TO BECOME AS DEPENDENT ON THE JAPANESE IN THIS SECTOR AS WE WERE. MME CRESSON

SUGGESTED THAT A DISTINCTION BETWEEN US AND JAPANESE TRANSPLANTS WAS JUSTIFIED BY DIFFERENCES IN STRATEGY: THE US COMPANIES HAD NEVER SET OUT TO CRUSH ALL OPPOSITION. SHE SAID CARLA HILLS HAD URGED HER TO AVOID MAKING THE MISTAKE THE AMERICANS HAD MADE IN OPENING THEIR MARKET TO THE JAPANESE. SHE INTENDED TO ENSURE THIS ADVICE WAS FOLLOWED: THE FRENCH WOULD CLOSE THEIR BORDERS TO PARALLEL IMPORTS IF NECESSARY. SHE DOUBTED WHETHER FORMAL AGREEMENT ON A MANDATE FOR THE COMMISSION WAS NECESSARY. SHE WOULD PREFER TO SEE ANDRIESSEN NEGOTIATING WITHIN A FAIRLY GENERAL FRAMEWORK AND REPORTING BACK TO THE COUNCIL FROM TIME TO TIME. IN THE CASE OF BOTH MEETINGS, HOWEVER, THE CONCLUSION WAS THAT THE CENTRAL SUBJECT FOR DEBATE WAS NOT THE ULTIMATE DESTINATION BUT THE DURATION OF THE TRANSITIONAL PERIOD (LARGE THOUGH THE GAP BETWEEN US WAS).

GATT URUGUAY ROUND

4. MR RIDLEY PRESSED THE CASE FOR PROGRESS IN THE AGRICULTURAL AND TEXTILES SECTORS. NEITHER FAUROUX NOR MME CRESSON REJECTED THE ARGUMENT THAT A PHASING OUT OF THE MULTI FIBRE AGREEMENT WAS NECESSARY AND DESIREABLE. FAUROUX IMPLIED HE WAS READY TO TELL FRENCH TEXTILES PRODUCERS THAT THE CONSEQUENCES WOULD HAVE TO BE FACED. IT WAS CLEAR THIS SECTOR WAS MUCH LESS SENSITIVE IN FRENCH EYES THAN THE VEHICLES SECTOR. BEREGOVY, WHO WAS ENCOURAGINGLY FAMILIAR WITH THE DOSSIER, SAID THAT OF THE MAJOR OUTSTANDING ISSUES, TEXTILES AND SERVICES WOULD BE SETTLED AFTER NEGOTIATION. THE REAL DIFFICULTY WOULD BE WITH THE AMERICANS OVER AGRICULTURE. THEY CONSTANTLY REPEATED THAT SUBSIDIES MUST BE ELIMINATED. THE FRENCH ON THE OTHER HAND WERE STRONGLY ATTACHED TO THE CAP. BEREGOVY CONCLUDED THAT THE ISSUE WOULD HAVE TO BE RESOLVED AT HEAD OF GOVERNMENT LEVEL.

COMPETITION POLICY

5. MR RIDLEY PRESSED FOR A LEVELLING OF THE PLAYING FIELD ON STATE AIDS AND TAKEOVERS, AND POINTED OUT THE INJUSTICE OF FRENCH PUBLIC SECTOR COMPANIES BEING ABLE TO ACQUIRE COMPANIES OVERSEAS WHILE THEMSELVES REMAINING IMMUNE TO TAKEOVERS. FAUROUX ASSURED HIM THE FRENCH WERE NO LONGER IN THE BUSINESS OF LAVISHING SUBSIDIES ON FRENCH INDUSTRY. THEY WISHED FOR POLITICAL REASONS TO MAINTAIN AN INDUSTRIAL PUBLIC SECTOR: BUT THE RENAULT-VOLVO DEAL HAD SHOWN THAT THEY WERE READY TO SEE FOREIGN COMPANIES ACQUIRE MINORITY STAKES IN FRENCH PUBLIC SECTOR COMPANIES. IF A BRITISH COMPANY SOUGHT TO ACQUIRE SUCH A STAKE, THE CASE WOULD BE CONSIDERED ON ITS INDUSTRIAL MERITS.

GERMAN UNIFICATION

6. FAUROUX AND MME CRESSON AGREED WITH MR RIDLEY THAT THE GERMANS SHOULD BEAR THE COSTS OF THE ECONOMIC DEVELOPMENT OF THE GDR LANDER, THOUGH MME CRESSON WAS READY TO SEE SOME EC INVESTMENT IN INFRASTRUCTURE PROJECTS (TRAINS, TELECOMMUNICATIONS, ENERGY SUPPLY LINES) THAT WOULD ALSO BENEFIT THE EAST EUROPEAN COUNTRIES BECAUSE THAT IN TURN WOULD HELP OPEN UP THE MARKETS TO FRENCH AND OTHER SUPPLIERS. FAUROUX ALSO AGREED THAT UNIFICATION WOULD CREATE INFLATIONARY PRESSURES IN THE FRG AND PUT THE ERM UNDER PRESSURE.

7. THIS AND RELATED SUBJECTS WERE COVERED AT GREATER LENGTH WITH BEREGOVY. ON EASTERN EUROPE MR RIDLEY AND BEREGOVY AGREED ON THE IMPORTANCE OF HELPING FLEDGLING DEMOCRACIES THROUGH A DIFFICULT PERIOD OF ECONOMIC REFORM, MR RIDLEY STRESSING THE NEED IN PARTICULAR FOR PRIVATE INVESTMENT. ON GERMANY, BEREGOVY SAID UNIFICATION WAS INEVITABLE, BUT MUST TAKE PLACE WITHIN THE CONTEXT OF THE ALLIANCE AND THE COMMUNITY. THE 2 + 4 FORMULA AGREED AT OTTAWA WAS SENSIBLE. BUT THE PROCESS WOULD TAKE TIME. ECONOMIC AND MONETARY UNION ON THE OTHER HAND COULD HAPPEN MORE QUICKLY. THE FRG HAD A STRONG INTEREST IN PUTTING ORDER BACK INTO THE EAST GERMAN ECONOMY AND STOPPING THE FLIGHT TO THE WEST. THERE WOULD BE DIFFICULTIES NOTABLY OVER THE DM/OM CONVERSION RATE, AND THERE COULD BE A BOOST TO INFLATION IN WEST GERMANY, WITH HIGHER INTEREST RATES. CLOSER ECONOMIC AND MONETARY COOPERATION WAS NEEDED TO AVOID THIS EFFECT SPILLING OVER INTO OTHER EUROPEAN ECONOMIES, INCLUDING BRITAIN AND FRANCE. STERLING'S PARTICIPATION IN THE ERM WOULD BE AN IMPORTANT ASPECT OF THIS.

8. MR RIDLEY SAID HE AGREED WITH NEARLY ALL THIS ANALYSIS, BUT THOUGHT THAT BEREGOVY UNDERESTIMATED THE TURBULENT SHORT TERM EFFECT ON THE WEST GERMAN ECONOMY OF GERMAN ECONOMIC AND MONETARY UNION, PARTICULARLY IF THE COSTS WERE MET BY MONETARY EXPANSION RATHER THAN TAXATION. HE FAVOURED DISCUSSION AND COOPERATION TO LIMIT THE EFFECT OF THIS ON OUR ECONOMIES. BUT HE DREW THE OPPOSITE CONCLUSION FROM BEREGOVY ABOUT STERLING AND THE ERM. TURBULENCE IN GERMANY WOULD WEAKEN THE ERM AND IN TURN WEAKEN NOT STRENGTHEN THE CASE FOR STERLING JOINING.

BRITISH LAWYERS IN PARIS

9. MR RIDLEY STRESSED TO MME CRESSON HIS CONCERN THAT A REFORM OF THE FRENCH LEGAL PROFESSION UNDER CONSIDERATION WOULD IMPOSE

UNWARRANTED RESTRICTIONS ON BRITISH LAWYERS PRACTISING IN PARIS. MME CRESSON SAID SHE ENTIRELY AGREED AND THAT SHE HAD URGED THE FRENCH JUSTICE MINISTER TO MODIFY THE OFFENDING PROVISIONS. HE WAS UNDER PRESSURE FROM THE FRENCH PROFESSION WHO WERE RELUCTANT TO MAKE THE EFFORT TO COMPETE WITH BRITISH LAWYERS, BUT SHE SAW GROUNDS FOR OPTIMISM ABOUT THE OUTCOME. (I HAD ALREADY ARRANGED TO CALL ON ARPAILLANGE ON 5 MARCH AND SHALL FOLLOW UP MR RIDLEY'S APPROACH).

EBRD SITE

10. MR RIDLEY LOBBIED BEREGOVY ON LONDON AS THE SITE FOR THE EBRD. BEREGOVY SAID THE FRENCH WERE NOT BIDDING FOR THE SITE AND HAD NO OBJECTION IN PRINCIPLE TO LONDON, THOUGH THERE WERE OTHER CANDIDATES. THEY HOPED THE PRESIDENT MIGHT BE FRENCH.

FCO PLEASE PASS PS/SECRETARY OF STATE, MR ROBERTS, MR THORNTON (IEP), MR JOHNSON (EEP), MR BOWEN (CVM) IN THE DTI, MR EVANS, MR R I G ALLEN IN HM TREASURY, MR WHITE IN THE LORD CHANCELLOR'S DEPARTMENT, MR KERR, MR ARTHUR, MR JONES-PARRY IN THE FCO.

FERGUSON

FCO PLEASE PASS SAVINGS ATHENS, BRUSSELS EMBASSY, COPENHAGEN, DUBLIN, LISBON, LUXEMBOURG, MADRID, ROME, THE HAGUE
YYYY

DISTRIBUTION

232

MAIN 222

.FRAME EXTERNAL

ECD (E)

ADDITIONAL 1

FRAME

SAVING 9

ATHENS
BRUSSELS
COPENHAGEN
DUBLIN
LISBON

LUXEMBOURG
MADRID
ROME
THE HAGUE

PAGE 4
CONFIDENTIAL

NNNN