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*cc France: Oct 79:
Anglo-French Relations
Master Set*

RECORD OF PLENARY DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE FRENCH REPUBLIC, PRESIDENT MITTERRAND, AT NO. 10 DOWNING STREET, ON FRIDAY 11 SEPTEMBER 1981

Present

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| Prime Minister | President Mitterrand |
| Foreign and Commonwealth Secretary | M. Cheysson |
| Chancellor of the Exchequer | M. Fiterman |
| Secretary of State for Industry | M. Chevènement |
| Lord Privy Seal | M. Chandernagor |
| Secretary of State for Trade | M. Delors |
| Secretary of State for Transport | M. Dreyfus |
| Secretary of State for Energy | M. Bérégovoy, Secretary-General, Elysée |
| Parliamentary Under Secretary of State for Education and Science | His Excellency M. de Margerie, French Ambassador |
| Minister of State, Department of Industry | M. Attali, Special Counsellor, Economic Affairs, Elysée |
| Parliamentary Under Secretary of State for Industry | M. Pontillon, Senator, Prime Minister's Representative |
| Sir R. Armstrong | M. Vauzelle, Spokesman, Elysée |
| Sir M. Palliser | M. Vedrine, Counsellor, Foreign Affairs, Elysée |
| Sir K. Couzens | M. Sautter, Counsellor, Economic Affairs, Elysée |
| Sir P. Carey | M. Paye, Economic Director, Quai d'Orsay |
| Sir P. Baldwin | M. Haberer, Director of the Treasury |
| Sir R. Hibbert | M. Freyche, Director of External Economic Relations |
| Miss M. Lackey | M. Achard, Secretary-General of the SGCI (European Cooperation) |
| Mr. J.L. Bullard | M. Dupont, Acting Political Director, Quai d'Orsay |
| Mr. M. Franklin | M. Grenier, French Embassy |
| Mr. C. Whitmore | |
| Mr. B. Ingham | |
| Mr. M.O'D.B. Alexander | |
| Mr. D. Gladstone | |

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General

Welcoming President Mitterrand, the Prime Minister said that their talks had taken place in a very constructive atmosphere. Both she and the President wished to foster even better Anglo-French relations. They had discussed a wide range of subjects including Community problems. In the latter context, they had agreed to concentrate on trying to solve the big problems - restructuring, the CAP (which was to be considered in November and before which time considerable study would be needed), and the Multifibre Arrangement, Japan. They had also discussed third world problems and Cancun. On East/West relations they had an agreed approach and discussion had been relatively short. President Mitterrand had been very forthcoming and had put forward concrete proposals reflecting his clear desire for close UK/French collaboration.

President Mitterrand expressed his pleasure at meeting in this historic setting. Starting with European Community affairs, he said that he and the Prime Minister held different points of view on many aspects, but they had agreed that we must face up to the problems. It was said that the United Kingdom wanted new Community rules: this chimed in to some extent with his own thinking. The Community as a whole and the CAP in particular needed a full examination. France and the UK might not agree on the things to discuss - nor share the same objectives - but it would suit him well enough if joint studies were to be put in hand on Community problems in general and on the CAP in relation to other areas of Community activity. He did not like treating the budgetary question as a mere accounting exercise: it was indispensable to view it in a wider Community context.

As to the CAP, President Mitterrand said that France stood by the traditional rules: financial solidarity, Community preference and the unity of the market. But they could not allow situations to arise which placed constraints on their allies. If the FRG had

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a problem with surpluses, the UK with the budget, or, conceivably, France with agriculture, and it was not dealt with, an intolerable situation would be created and the Community would not survive. As it was, the Community brought great benefits both to France and to the UK. In regard to surpluses, it was said that France gained too much from the present system and put in too little. This was not his view, but if such differences of outlook were not resolved, the Community would split. Solutions which imposed over-large burdens on any one country or which breached the 1% VAT ceiling had to be avoided. He agreed that something must be done about surpluses, particularly that of milk. Then there was the problem of disruption of Community markets through disorderly movements of goods within it and imports of goods from without. The latter process could lead to domination of the Community by Japanese imports. There were also potential problems with the US which ought to be discussed one day. He instanced soya. He wondered whether it was sensible for the Community to absorb cereals and meat from abroad to an extent which distorted internal competition. All these things needed to be discussed, as did the problems of the textile industries.

President Mitterrand said that the Community must harmonise its approach to Japanese competition. If each member tried to go it alone, the Japanese would invade the Community. The latter was hampered by its own mechanics. The Western belief in free trade meant that private firms were left to draw up their own agreements and the Japanese were often too clever for them. In the process whole areas of European industry could be ruined.

On fish, President Mitterrand said that there had been no detailed discussions. The French were sticking to their previous commitments but were willing to discuss the subject.

Turning to international affairs, President Mitterrand confirmed what the Prime Minister had said about East/West relations. As regards arms control, it was necessary to define the exact point where rearmament ended and arms control negotiations began. One

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could not pursue arms for arms' sake indefinitely, otherwise the balance of armed forces would be the only point of contact between East and West. On the other hand, one could not negotiate from a position of inferiority. On all these points he and the Prime Minister were on the same wave-length.

President Mitterrand said that he and the Prime Minister had had a positive discussion on the third world and Cancun. The West should not promise what we could not delivery. Nor should we give in to third world demands. However, we should show ourselves open to the needs of the third world. The latter would not ask western permission to speak at Cancun: they would say what they wanted to say about global negotiations and we should listen. We should be prepared to offer something more positive than hitherto in certain precise areas; for example, more aid to the LLDC's (an area where the UK was ahead of her Community partners) and energy policy. On the latter, President Mitterrand was prepared to envisage an energy affiliate of the World Bank or any other procedure that would meet third world concerns.

President Mitterrand said that there had been a very positive discussion of bilateral collaboration, with emphasis on early progress. There was an awakening of interest in the relationship. The separate conversations between Ministers had thrown up a number of useful points to be pursued. For example, in scientific research the UK occupied a leading position which had in the past been much envied by France. But the latter had had her successes too and in a number of carefully chosen fields we could now collaborate to mutual benefit and give added impetus to the European relance.

In conclusion, President Mitterrand said that clarity of thought led to clarity of expression. The Prime Minister had no need to fear comparisons on this score and this had greatly helped their conversations.

The Prime Minister then invited Ministers to report on their separate discussions, beginning with foreign affairs.

/ Foreign Affairs

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Foreign Affairs

Lord Carrington said that notwithstanding their frequent meetings on international and Community questions, he and M. Cheysson had agreed that it was useful for the Foreign Ministers to meet from time to time to take stock of bilateral relations. He and M. Cheysson had had a preliminary conversation about this in Paris on 28 May and the two Foreign Ministries had each done some work since then. In this connection, they had confirmed their intention to meet formally once a year, roughly halfway between the annual Summits, starting in the Spring of 1982. They hoped that the results of the present Summit would be such as to lead to future meetings, more frequent and more regular than in the past, between their colleagues round the table and other Ministers not present.

Lord Carrington said that he had informed M. Cheysson that the British side would shortly be making proposals for a step forward in exchanges of civil servants, moving on from the exchanges of trainees, of which we now had 10 years experience, to attachments of officials for periods of several months in both directions. As regards cultural cooperation, senior officials were due to meet at the end of the year. Meanwhile, the two sides would investigate possible solutions to three problems raised by M. Cheysson:

- a) the rates charged on premises of French cultural institutes in Britain;
- b) the imbalance in student numbers and student fees between French and British universities;
- c) how to promote youth exchanges.

International questions discussed included Southern Africa, especially the future activity of the Contact Group of Five on Namibia, and the prospects for progress in the autumn towards implementation of the UN plan. It had been agreed that specialist officials should meet to discuss arms control, disarmament and non-proliferation matters. On the Middle East, M. Cheysson had

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given an account of his recent talks with the Arab leaders, including Prince Fahd. There had been discussion of the Lebanon. Finally, there had been a personal discussion between him and M. Cheysson about Poland.

Lord Carrington said that Community questions were discussed separately between M. Chandernagor and the Lord Privy Seal but that M. Cheysson had given him a preliminary outline of French ideas for the relance and the Community.

M. Cheysson said that he could confirm what Lord Carrington had said about their discussions. He was pleased that Lord Carrington had agreed to study the three questions which he had raised, including the rating of French cultural institutes in the United Kingdom. The French had no desire to close down these establishments and he hoped that a satisfactory solution could be found. He had nothing to add to what had been said about foreign policy issues.

The Prime Minister invited Sir. G. Howe to report on his discussions with M. Delors.

Sir G. Howe said that he had had a full discussion of national economies with M. Delors. The latter had explained the new French policies and given reassurances about the nationalisation of the banks. Problems had arisen in this area but could be resolved. M. Delors' department would consult the Treasury about these. They had discussed the problems of interest rates and exchange rates and their continuing instability. They had agreed that we should approach the United States in a quiet way and show understanding.

Turning to Community issues, Sir G. Howe said that the French understood the UK position on the EMS. They had discussed the implications of the move to the next institutional stage. M. Delors had expressed certain anxieties in the context of the relance. On the CAP, M. Delors had set out his personal views, as he had on the question of reforming the budget. He had been left in no doubt about the importance the UK attached to the implementation of the

/ 30 May Mandate

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30 May Mandate within the timetable foreseen. The French accepted that progress on the mandate was a precondition for progress in other areas in the context of the relance. On trade, they had agreed to keep in step on export credit consensus rates: they had also agreed that the minimum rate should be raised by 2%. It would be important to effect an agreement with the Japanese to ensure that they adopted a correct attitude to the consensus. M. Delors had said that from 1 October the French would raise their rate of interest for the USSR by three quarters of a per cent and that from then on Franco/Soviet agreements would make provision for future changes in the consensus rate.

On insurance, Sir G. Howe said that M. Delors had agreed to hold discussions: he understood UK concerns. He for his part understood the French taxation problem and had agreed to look urgently at alternative taxation solutions.

On international economic affairs, Sir G. Howe said that he and M. Delors had agreed that an energy affiliate could serve a useful purpose by mobilising OPEC resources and indirectly benefiting our two economies. They recognised that the US had a different view and that discussions with the Americans would be needed in due course. In the meantime they would give thought to an initiative by the Community.

Sir G. Howe said that M. Delors had been anxious for the UK to agree to accept the target figure of 0.15% of GNP for aid to LLDC's. He had explained the UK's reservations, which M. Delors understood. However, he was now in a position to say that the UK would accept the target and would agree to the Community doing so at the LLDC Conference in Paris. He and M. Delors had agreed that further consideration should be given to the position of India and Pakistan.

M. Delors said he had two comments on Sir G. Howe's presentation. Discussion of consensus rates had now reached the political level. A solution had been found, but it would be necessary to exercise caution in applying the new consensus. There would continue to be

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problems with big projects. As regards insurance, a real deepening of the Community would require the harmonisation of fiscal policies too.

Turning to the relance, M. Delors said that the French were most concerned to establish a common external financial policy especially vis-a-vis the Japanese. The Community must speak with one voice. The same went for the Multifibre Arrangement. As regards the proposed initiative vis-a-vis the third world, this could not be easily discussed publicly and he stressed the importance of Anglo-French cooperation in financial and monetary affairs.

Industry

Sir K. Joseph said that he and M. Dreyfus had agreed to stimulate the modernisation of old industries, especially textiles. M. Dreyfus had been a firm ally over steel. They would encourage French and British businessmen to meet more often. Despite M. Dreyfus's scepticism, they had agreed that both governments should encourage the Japanese to open up their markets. The UK still believed in voluntary agreements vis-a-vis the Japanese. M. Dreyfus wanted a 'breathing space' and there might be proposals from the French side covering motors and machine tools. As regards inward investment, M. Dreyfus was open to proposals for foreign participation but insisted that this must lead to genuine Community manufacture, not just the import of foreign technology.

M. Dreyfus confirmed that the French would like to give some of their industries a respite from the Japanese trade offensives. On the bilateral front, he had proposed that there should be intensified cooperation in space, nuclear energy and electronics. He had asked about Japanese investment in the UK. It had been agreed that there should be frequent contacts at both industrial and government level with the accent on concrete follow up.

On the energy front, France wanted to discuss nuclear power plans and wished in particular for cooperation over fast breeder

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reactors. The french were very interested in UK expertise in gasification of coal.

Transport

Mr. Fowler said that there had been a useful discussion of the Channel link. He had said that the British government were in favour if the French were. They had looked at the feasibility of eight schemes. M. Fiterman had said that the French government approach was positive in principle. Experts and officials were to meet in a month and proceed with a study which would take account of all other interests. It was also agreed that British and French officials would meet to discuss European transport problems in advance of the December Council.

M. Fiterman agreed with all Mr. Fowler had said. It had been agreed that each side should take greater account of each other's interests. He had welcomed the British desire for joint studies of the Channel link. These should be undertaken without delay. It was understood that the British side wished the project to be financed privately while on the French side it would be public. But this should present no obstacle.

Turning to aviation matters, M. Fiterman said he had had a positive discussion with Mr. Marshall. It had been agreed to pursue studies on the Air-bus. They would ask industrialists to examine the best engine for the aircraft. He had accepted an invitation to visit London on 29 October to survey cooperation in this area. They would then discuss the problems of Concorde on which both sides were determined to proceed together.

Mr. Tebbit said that they had agreed an agenda for the Concorde discussions on 29 October. On the new Air-bus project they awaited proposals from industry. The aim was profitable collaboration on both aircraft and engines.

/ Energy

Energy

Mr. Howell said that he had discussed all aspects of civil nuclear power, coal exploration, renewable energy resources and energy conservation with M. Chevènement and M. Dreyfus. He had confirmed the British commitment to an expanded nuclear programme. There would now be expert and official contacts leading up to a ministerial meeting before the end of the year. M. Dreyfus had outlined French plans for a Community energy initiative.

Research and Space

Mr. MacFarlane said that he had agreed with M. Chevènement that there should be meetings between members of Research Councils on both sides. Collaboration so far had been very successful. He instanced Grenoble and CERN.

M. Chevènement said that there was great potential for cooperation between the two countries in research. Liaison had been too loose in the past. There would now be a meeting between leaders of research institutes and meetings at political and expert level on nuclear energy. There had also been discussion of the development of European launchers and the possibilities in the field of military observation satellites. Efforts would now be made to harmonise the separate Franco-German and ESA satellite projects.

Mr. Marshall confirmed that there would now be bilateral discussions about space at official and ministerial level. The problems of the European Space Agency would be sorted out with a view to exploitation of third markets. The two sides would build on the present understanding.

/At this point the Prime Minister and President Mitterrand left to attend the joint press conference/.

Community

Sir I. Gilmour said that he and M. Chandernagor had held a comprehensive exchange of views on a full range of Community issues,

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especially the 30 May Mandate, enlargement and the Common Fisheries Policy. M. Chandernagor had told him of the President's intention to make wide-ranging proposals for the future development of the European Community. The British Government would welcome the opportunity for discussing these in due course. They had agreed that it was important for the future of Europe as a whole that the discussions on the Mandate should be brought to a successful conclusion. Each side had explained their general approach particularly on the Common Agricultural Policy and the effects of the Community budget. It was clear that there were differences to be resolved if decisions on the matters covered by the Commission's report were to be reached at the November European Council. They had agreed on the necessity for work to proceed urgently in the Mandate group with suitable political guidance and that it would be important to keep in close touch during these discussions. There would be regular informal bilateral contacts at official and ministerial level for this purpose.

On enlargement, both sides had reaffirmed their commitment to Spanish and Portuguese accession. They had agreed that application by Spain of VAT on accession was essential. The possibility of resolving differences on tactics over the Spanish Customs Union Declaration/VAT issue should be explored urgently.

On the Common Fisheries Policy, they had welcomed the agreement on bilateral meetings at official and ministerial level before the Council, and agreed on the need to work constructively for progress at the Fisheries Council on 29 September.

M. Chandernagor raised the change in the UK veterinary regime on poultry. The British side had explained the animal health reasons, and said they would be replying to the Commission's letter.

M. Chandernagor said that French ideas for a relance of the Community would be realistic and would build on proposals already made by the Commission and by partners. Given the difficult financial situation of Member States it was necessary to find ways of moving the

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Community forward at as low a cost as possible. France would strongly prefer all 10 countries to move forward together, but in some areas it might only be possible for two or three to do so. On the 30 May Mandate, he thought that the negotiations should be dealt with at the highest possible level by Ministers who had a margin of negotiating manoeuvre. On the CAP he agreed that ways should be found of insuring greater flexibility and of avoiding surpluses. Progress must be made, and measures taken which did not reduce any further the total number of agricultural workers. On enlargement, there was only one problem: France could not accept that the Acquis Communautaire should be re-negotiated. Spain had to apply VAT. This was a tactical problem and in his discussions with the LPS a potential way round the difficulty had been identified which would enable France to agree to move forward on customs union. He concluded by expressing the hope that the problems that had arisen over poultry imports would be quickly resolved since UK decisions were causing France serious difficulties.

Summing up, Lord Carrington said that many Ministers had referred to courtship and marriage. It was now necessary to beget children and he hoped for some move in that direction by the time of the next Anglo-French Summit.

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