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PM/86/021

PRIME MINISTER

CCP
26/4

Your Meeting with M. Chirac: European Community

1. Your meeting on Saturday will afford an important opportunity to see how far it is possible to continue with the reconstructed French Government the process (which has made some headway with President Mitterrand and his Ministers) of developing a common approach to Community problems - particularly during our Presidency.
2. When M. Chirac and his colleagues took office, French officials advised them that it was in French interests to continue the cooperation we have been able to establish over the past two or three years. In particular they advised/against any attempt to call in question the Fontainebleau agreement (which was criticised by Chirac at the time). When I saw the new French Foreign Minister at Chevening last week, Raimond seemed disposed to work with us. This is going to be essential to the management of the enlarged Community, and to the whole business of "getting Europe's act together" about which you were speaking last night.
3. Chirac is concerned that both he and Mitterrand should be able to attend meetings of the European Council. We can agree to this. Chirac saw Chancellor Kohl in Bonn on 17 April. The meeting is said by the Germans to have been friendly in tone, but there were divergences over agriculture.

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4. A good starting point for your talk with Chirac would be his plans for privatisation. He should also share our view about the key role in job creation we see for "small and medium sized enterprises", in the Community jargon. During our Presidency we shall be wanting to make progress towards the completion of a genuine common market (freedom of establishment has now been achieved for virtually all the professions), to follow up the work which has been set in hand on deregulation and to put forward some ideas, which we shall be putting to the French, to promote labour market flexibility. All this should be in line with the free market philosophy of Chirac and his colleagues.

5. We shall have to work closely with the French to deal with the problems that are going to arise. On the CAP there will be differences, but you may find more common ground in some areas than in the past. You will, of course, find Chirac determined to defend the CAP - in the sense of needing to look after the interests of French farmers in the run up to the Presidential elections. The French are however beginning to develop some ideas of their own about reform, and there is increasing acceptance of our arguments that the policy is going to have to be adapted if it is to be preserved. The French are efficient cereals producers and it is not in their interests to permit the need to accommodate small German farmers to distort the whole policy and render it increasingly non-viable.

6. You will want to emphasise that we too have to look after the interests of our farmers. For that reason, we all need to have an effective agriculture policy - and a common one too, if by that you mean one that enables Europe

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to avoid a damaging competition in national subsidies. We have to check the growth of agricultural spending. But we cannot hope to get rid of it altogether, if we are to have any chance of re-election in either country.

7. The question is how to put to the best use the very substantial resources we shall have to continue to devote to agriculture. To be obliged to devote half the total Community budget to the costs of storage and disposal of surpluses is not the most efficient way of channelling aid to farmers. We both recognise the difficulties of change and that it can only be achieved gradually. But we have to deal with the basic problem of over-production due to increased productivity and the fact that countries like India and China are now net exporters of food. The French are interested in our ideas for set-aside schemes to take land out of production. It would be useful if you could get Chirac's agreement that officials should meet to discuss ways to ensure that agricultural expenditure is better directed and channelled in ways of real benefit to the farming community. It will be no less important - and no less a concern of Chirac's - to get the growth of expenditure on Mediterranean products under control.

8. On the budget you can welcome the fact that we are working closely with the French on the Council's case against the Parliament. Despite the pressures exerted by the 25% fall of the dollar against the ecu and the EMS realignment, expenditure has still got to be contained within the available resources. Despite their performance in the Agriculture Council, we have pushed the Germans

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into taking the same line. Chirac having been advised against questioning Fontainebleau, we should rest on the precise terms of that agreement ("the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures"). The French are proposing talks between officials about future budget problems, including ways to contain the growth of the structural funds and to scale down the Commission's ambitions for spending on research and development. The French will be concerned to ensure that the Germans do not secure an eventual correction of their budgetary contribution, ie they cannot have both Kiechle and a budgetary correction. This is a shared interest and we shall need to build on it later on.

9. On EC/US trade relations we are agreed that the United States cannot claim compensation for the effects of enlargement on some of their agricultural exports without taking account of the benefits they will get from the reduction in Spanish and Portuguese external industrial tariffs. We have to maintain a firm position on the substance, while getting on rapidly with the discussions now engaged in the GATT and continuing to remind the Americans that it is in fact ourselves, the French and Germans who have to bear the main costs of enlargement, and not the United States.

10. I do not suggest that you raise New Zealand; but Chirac may do so. There is no advantage to us in acting as mediators. We want France and New Zealand, who as Chirac said in the French Parliament are former comrades in arms, to sort out their current problems on their own.

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The New Zealanders appear ready to transfer the two French agents to French territory, but are insisting that they must remain in detention. We want this to be sorted out before the negotiations on access next year for New Zealand butter. We have assured the New Zealanders that despite opposition from our own producer interests, we will support them; but unanimity is required in the Council to establish the new quotas.

11. It may be that Chirac will give a sharper edge to some of these points. But there seems to be a desire in other sections of the French administration to try to concert efforts to manage these problems. We need to know if this disposition is shared by Chirac, and to encourage it so far as possible - so as to secure a firm basis on which to carry forward discussions with the French.

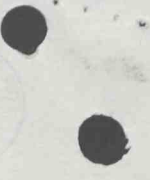
12. I am sending copies of this minute to Nigel Lawson, Michael Jopling and Paul Channon.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign & Commonwealth Office
25 April 1986

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DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Secretary of State

Reference S15ACI

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Prime Minister

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Chirac

Copies to:

PRIVACY MARKING

SUBJECT:

YOUR MEETING WITH M. CHIRAC: EUROPEAN COMMUNITY

.....In Confidence

CAVEAT.....

1. Your meeting on Saturday will afford an important opportunity to see if it is possible to reach a measure of agreement with the new French Government on the handling of problems in the Community during our Presidency and beyond.

2. When they took office, French officials advised M. Chirac and his Ministers that it was in French interests to continue the cooperation we have been able to establish over the past two or three years. In particular they advised against any attempt to call in question the Fontainebleau agreement (which was criticised by Chirac at the time). When I saw the new French Foreign Minister at Chevening last week, Raimond seemed disposed to work with us. This is going to be essential to the management of the problems of the enlarged Community.

Enclosures—flag(s).....

3. Chirac is concerned that both he and Mitterrand should be able to attend meetings of the European Council. We can agree to this. Chirac saw Chancellor Kohl in Bonn on 17 April. The meeting is said by the Germans to have been friendly in tone, but there were divergences over agriculture.

4. You will wish to ask Chirac about his plans for privatisation, and to emphasize the key role in job creation we see for SMEs. During our Presidency we shall be wanting to make progress towards the completion of a genuine common market (freedom of establishment has now been achieved for virtually all the professions), to follow up the work which has been set in hand on deregulation and to put forward some ideas, which we shall be putting to the French, to promote labour market flexibility.^{5.} We shall have to work closely with the French to deal with the problems that are going to arise.

5. On the CAP there will be differences, but you may find more common ground in some areas than in the past. You will, of course, find Chirac determined to defend the CAP and to look after the interests of French farmers in the run up to the Presidential elections. The French, however, are beginning to develop some ideas of their own about reform and there is increasing acceptance of our arguments that the policy is going to have to be adapted if it is to be preserved. The French are efficient cereals producers and it is not in their interests to

permit the need to accommodate small German farmers to distort the whole policy and render it increasingly non-viable.

6. You will want to emphasize this point, and that we too have to look after the interests of our farmers. The question is how to put to best use the very substantial resources we shall have to continue to devote to our agriculture. To be obliged to devote half the total Community budget to the costs of storage and disposal of surpluses is not the most efficient way of channelling aid to farmers. We both recognise the difficulties of change and that it can only be achieved gradually. But we have to deal with the basic problem of over-production due to increased productivity and the fact that countries like India and China are now net exporters of food. The French are interested in our ideas for set aside schemes to take land out of production. It would be useful if you could get Chirac's agreement that officials should meet to discuss ways to ensure that agricultural expenditure is better directed and channelled in ways of real benefit to the farming community. It will be no less important - and no less a concern of Chirac's - to get the growth of expenditure on Mediterranean products under control.

7. On the budget you will wish to welcome the fact that we are working closely with the French on the Council's case against the Parliament. Despite the pressures

exerted by the twenty-five per cent fall of the dollar against the ecu and the EMS realignment, you will wish to make clear that expenditure has got to be contained within the available resources. Despite their performance in the Agriculture Council, we have pushed the Germans into taking the same line. Chirac having been advised against questioning Fontainebleau, we should rest on the precise terms of that agreement ("the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures"). The French are proposing talks between officials about future budget problems, including ways to contain the growth of the structural funds and to scale down the Commission's ambitions for spending on research and development. The French will be concerned to ensure that the Germans do not secure an eventual correction of their budgetary contribution ie they cannot have both Kiechle and a budgetary correction. This is a shared interest and we shall need to build on it later on.

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remind the Americans that it is in fact ourselves, the French and Germans who have to bear the main costs of enlargement, and not the United States.

9. I do not suggest that you raise New Zealand; but Chirac may do so. There is no advantage to us in acting as mediators. We want France and New Zealand to sort their current problems out, as Chirac said in the French Parliament, as former comrades in arms. The New Zealanders appear ready to transfer the two French agents to French territory, but are insisting that they must remain in detention. We want this to be sorted out before the negotiations on access next year for New Zealand butter. We have assured the New Zealanders that despite opposition from our own producer interests, we will support them; but unanimity is required in the Council to establish the new quotas.

10. It may be that Chirac will give a sharper edge to some of these points. But there seems to be a desire in other sections of the French administration to try to concert efforts to manage these problems. We need to know if this disposition is shared by Chirac and whether there is a firm basis on which to carry forward discussions with the French.

11. I am sending copies of the minute to the Chancellor of the Exchequer, the Minister of Agriculture and the Secretary of State for Trade and Industry.

[Not consistent with your promise to go on fighting for NZ]