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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 July 1987

Dear Tony,

PRIME MINISTER'S MEETING WITH M. CHIRAC:  
EUROPEAN COMMUNITY ISSUES

This letter deals with the discussion between the Prime Minister and M. Chirac about the European Community, which took place following the ceremony to mark the exchange of instruments of ratification of the Channel Tunnel Treaty in Paris today. M. Chirac was accompanied by the French Ambassador in London and M. Bujon. HM Ambassador in Paris was also present. I have written separately about Iran/Iraq.

The Prime Minister said that the European Council in December would not be an easy meeting. She was aware that there were particular problems for France, with the approach of the Presidential elections. She did not wish to add to these. It might in the end prove more realistic to try to postpone difficult decisions until after the elections. But she drew some comfort from the fact that Britain, France and Germany had a common interest, as the three contributors to the Community, in restraining expenditure. Indeed that interest was probably shared more strongly by Britain and France than by Germany. Germany was always in the end prepared to pay more to the Community, because of the enormous advantages which she derived. Germany was also responsible for dragging up agricultural prices to unnecessarily high levels. When it came to the European Council in Copenhagen, the United Kingdom would insist upon binding and effective financial discipline and the introduction of stabilisers for agricultural products in surplus, before there could be any consideration of additional own resources. Recently the Community had shown itself able to take tough decisions on milk and beef which had significantly reduced the budgetary costs of these regimes. Similar restraint was now needed in other areas such as cereals and rape-seed, using guarantee thresholds or other mechanisms.

M. Chirac said that he was grateful for the United Kingdom's help over MCAs at the Brussels European Council. He also appreciated the Prime Minister's wish to avoid complicating the French elections (he did not respond to the suggestion that difficult decisions might be postponed until after them). However, he did not see how the Community could meet its commitments under the Treaty to finance the CAP unless there was agreement to an oils and fats tax. The

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southern member states would never accept a guarantee threshold or other constraints on the production of olive oil, and would always muster a blocking minority. The cost of the olive oil regime would multiply threefold over the next few years. The Accession Treaty had been deficient in failing to impose constraints on production. An oils and fats tax was now the only answer. There was widespread misunderstanding about such a tax. The anglophone third world countries failed to understand that a tax would restrain Community production and therefore offer the best prospect of maintaining their exports. In the absence of a tax their export prospects would deteriorate sharply.

The Prime Minister said that she was reluctant to go through once again all the arguments against an oils and fats tax. But the notion that a tax which reduced consumption would necessarily reduce Community production defied experience. There was no doubt that the developing countries and the United States were strongly opposed to it. The Community had been able to restrain spending on other commodities without imposing a tax. In any event, there was no question of our agreeing to impose a tax on consumers. The right way to get down production was to introduce guarantee thresholds or other stabilisers.

M. Chirac started to bluster. There was no chance of achieving voluntary cuts in the production of oils. The Prime Minister's answer that there would then be no additional funds was in direct contravention of the Treaty. CAP spending was obligatory expenditure and commitments must be met. Perhaps it would be necessary to eliminate all non-obligatory expenditure. Or renegotiate the Accession Treaty. The United Kingdom was seeking to undermine the basic mechanisms of the CAP. France could never accept this. The oils and fats tax was the major difference between France and the United Kingdom. It should be possible to find common ground in other areas. For instance, France wanted to see a reduction in cereals prices.

The Prime Minister said that the logic of M. Chirac's position was that expenditure should determine income and that the CAP should offer farmers open-ended guarantees. That was absurd. There was a clear way through the difficulties and that was to introduce stabilisers which would contain the costs of individual commodities. It must be made clear to the southern member states that there would be no additional resources until there was binding financial discipline. It was not a question of undermining the mechanisms of the CAP. Our aim was to eliminate surpluses. The Community could not continue on its present prodigal course. She and M. Chirac could argue all day but she would not agree to an oils and fats tax.

I am copying this letter to Alex Allan (HM Treasury), Shirley Stagg (MAFF) and Trevor Woolley (Cabinet Office).

*Yours sincerely*  
C.D. POWELL

A.C. Galsworthy, Esq., CMG,  
Foreign and Commonwealth Office.



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*From the Private Secretary*

29 July 1987

*Dear Tony,*

PRIME MINISTER'S MEETING WITH M. CHIRAC  
IRAN/IRAQ

Following the ceremony marking the exchange of instruments of ratification of the Channel Tunnel Treaty in Paris today and the official lunch, the Prime Minister had a talk with the French Prime Minister. M. Chirac was accompanied by the French Ambassador in London and M. Bujon. HM Ambassador in Paris was also present.

The talk covered two main subjects: Iran/Iraq and the situation in the Gulf, and the prospects for the European Council in Copenhagen in December. This letter deals with Iran/Iraq. I am writing separately about European Community issues.

M. Chirac referred to the French government's decision to despatch a naval force to the Indian Ocean. The force would not enter the Gulf but remain on call just outside, in case it was required. Its main function would be to provide air cover for the two French warships in the Gulf. He had made clear publicly that despatch of the force did not signal any aggressive intent, and that no specific military operations were planned. Nor would French naval forces be used to escort tankers in the Gulf. The United States would like a joint force with France and the United Kingdom. France was prepared to agree to contacts and coordination with American naval units but not to a joint command.

The Prime Minister described the role played by the Armilla Patrol (it appeared to be news to M. Chirac that our ships actually operated in the Gulf) and asked whether France intended to send minesweepers. M. Chirac replied that France did not want to become directly involved in minesweeping operations but might agree to sell the Americans a minesweeper. This would be discussed between M. Giraud and Mr. Weinberger in Washington on 30 July.

In discussion of the way in which the situation in the Gulf might develop, M. Chirac thought it likely that the Iranians would undertake further mining or other attacks on

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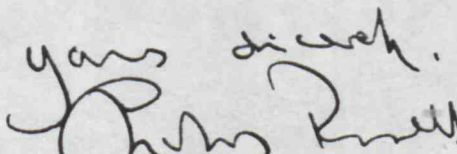


shipping. The Iranian regime was unstable and unpredictable. The Prime Minister said that the Americans would probably then retaliate and it was hard to say that they would be wrong. We should urge them to consult on the nature and scope of any retaliation. But it would probably be right in such circumstances for other Western governments to speak up in support of the United States, while avoiding direct involvement. An even more difficult situation would arise if British or French ships were attacked. The two governments should keep in close touch on these problems throughout the coming weeks.

The Prime Minister asked how M. Chirac assessed the chances of dissuading Iraq from further attacks on shipping. The Iraqis were likely to argue that a moratorium would deprive them of their most effective means of hitting back at Iran if the latter continued the war in defiance of the UN Security Council. M. Chirac said that he had discussed this with the Iraqi Foreign Minister the previous day. Tariq Aziz had said firmly that Iraq could not be expected to renounce this option. A suspension of Iraqi air attacks while Iran ignored the ceasefire on other fronts would in practice be a great victory for the Iranians.

The Prime Minister said that she feared the Security Council resolution would have little practical effect, although Iran had not yet formally rejected it, and we must clearly support the efforts of the United Nations Secretary-General. If these failed we should move to an arms embargo. There seemed no other practical options, other than to continue our national efforts to protect our shipping. M. Chirac thought that one should not discount the psychological pressure on Iran which the Security Council resolution imposed. We should try to maintain this pressure. But the fact was that Iran was selling oil in excess of its OPEC quota and at discounted prices - indeed it was now France's third largest supplier - and had no difficulty in financing its arms purchases and thus its ability to continue the war. He had discussed the prospects for an arms embargo with Tariq Aziz. The latter had been quite optimistic about Soviet readiness to envisage such an embargo but much more dubious about the Chinese. M. Chirac went on to express great irritation with the activities of Herr Genscher. His shameless courting of the Iranians had allowed the latter to claim that they had driven a wedge between Germany and the other Western allies. This only made them even more difficult to deal with.

I am copying this letter to John Howe (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,  
  
C.D. POWELL

A.C. Galsworthy, Esq., CMG,  
Foreign and Commonwealth Office.